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## EVOLUTION OF BANKING SYSTEM IN ALBANIA

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Abstract:

The following article presents banking system in Albania in different aspects. The aim of this paper is to reveal the evolution of the banking system by highlighting the key points of this evolution and showing the major changes Albanian banking system witnessed in different periods. Part of this papers purpose is also the analyses of banking system by using concrete numbers to help the reader understand where does the banking system in Albania stand nowadays. The first part includes basic elements of Albanian banking system, its structure, functions, supervision and legal aspects. The second chapter is based on the evolution of the banking system by revealing chronologically the phases that this system went through before being able to operate in a freeway.

To illustrate the situation where the Albanian banking system actually is and how this system operates there are placed graphics and tables prepared based on data from Bank of Albania, The Institute of Statistics and Ministry of Finance. The analysis is made referring a time period of five years, from 2010 to 2014. The results show that from year to year the economic situation is improved, but it still operates under the possible capacity. From the post-communist period to the actual year (2015) the number of banks has increased from three to sixteen banks indicating progress in banking system development. An obvious fact that shows the continual progress is the improvement of the central bank in every upcoming year from 2010 to 2014. Assets and liabilities increase each year of the given period reflecting an expansion of banks activity and its development.

Key words: banking system, evolution, financial activity, Albania.

JEL Class: E4, E5, P00.

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## INTRODUCTION

Banking system is a structural system of establishments which offer financial services in a particular region. The classic functions of a banking system include [<http://www.businessdictionary.com/definition/banking-system.html>]:

- commercial banks – take deposits and make loans,
- investment banks – take care of capital market issues and trading,
- national central bank – deals with managing of currency and sets the monetary policy.

The first time that a bank operated in Albania was the time when Albania was under the rule of the Ottoman Empire (1863–1912). The bank was called the Ottoman Imperial Bank. It was established on February 4, 1863 and operated in 4 cities: Shkodra, Janina, Skopje and Manastir which at that time were the biggest and strongest cities in Albania. The bank operated with British and French capital. Only in 1888 a bank with Turkish capital came to life, it was called the Turkish Agrarian bank, and by the name of the bank you can understand that it was connected with agriculture, which at the time was the main source of money. Under the operation of the two banks mentioned above existed foreign currencies, but not an Albanian one. Despite the fact that there was missing a real Albanian bank the idea was hidden in scholars minds, however there would be a long time since the ideas become a reality. Meantime Italy showed interest in opening banks in Albania, and so Italian banks spread in different cities [Bushati 2008: 4].

On 28 November, 1912 a new era begins for Albania, it finally declares its independence. The interest of Albanian citizens for an Albanian banking system and an unified currency kept growing until their dream came true on October 4, 1913. Albania finally had its own central bank. For the bank to exist it was signed an agreement between the Albanian Government represented by the prime minister Ismail Qemali and Wiener Bank Verein represented by Carol Pitner and Oscar Pollack which acted on the behalf of the Austrian-Hungarian banks, and Banca Commerciale Italiana represented by Pietro Fenolio and Guido Ansbahe which acted on behalf of Italian banks. The central bank would have a capital of 10 million corona. It was the only entity which could print money and it had to have a deposit of gold which would cover 1/3 of the amount of money in circulation. Unfortunately the banking system failed very fast not because its inefficiency but because of

political reasons and the First World War. This was actually the first phase in the creating of a banking system in Albania. Other fazes that come after the Ottoman Empire will also be discussed wider later on while explaining the changes in banking sector during the historical changes [[http://www.bankofalbania.org/web/A\\_brief\\_history\\_of\\_the\\_Bank\\_of\\_Albania\\_5338\\_2.php](http://www.bankofalbania.org/web/A_brief_history_of_the_Bank_of_Albania_5338_2.php)].

## 1. BASIC ELEMENTS OF BANKING SYSTEM IN ALBANIA, SUPERVISION AND LEGAL ASPECTS

The banking system in organized economies which operates under free market principles is divided into two levels. The dividing is made to identify various functions performed by central bank and banks of the second level. The fact that the central bank is in the first level and the commercial banks in the second level does not show the importance of these institutions.

In the first level is the central bank of the Republic of Albania, Bank of Albania which is a constitutional institution and in a broader perspective performs governmental functions.

In the second level remain commercial banks. These banks are pure financial intermediaries, raised in the form of joint stock company and aim to provide profits for their owners [Cani 2004: 6–7].

Since the banking system in Albania is made from a two-tier structure the Law is divided in two subdivisions.

The central bank operates under the Law „On the Bank of Albania” and the banking system under the Law „On banks in Republic of Albania”. The Law „On the Bank of Albania” incorporates clauses concerning the activities of the central bank. The Law „On banks in Republic of Albania” includes the main principles of the activities exerted by banks in the Republic of Albania [Statut... 2006: no 9662]. It includes the most important regulations of supervision and licensing in the banking system in Albanian territory [[http://www.bankofalba-nia.org/web/Laws\\_Legal\\_Framework\\_46\\_2.php](http://www.bankofalba-nia.org/web/Laws_Legal_Framework_46_2.php)].

According to the Law the bank of Albania is an independent institution and it operates basing on Law no 8269 dated 23 December, 1997 „On the Bank of Albania”, article 161 of the Constitution of the Republic of Albania. Its activities must be in compliance with the regulations provided by the supervisory council [Statut...1997: no 8269, art. 161].

With the competences given by the Law the Bank of Albania has the right to formulate and apply the monetary policy of Albania with the ultimate target of reaching and keeping price stability [Cani 2002: 1–3].

The Bank of Albania, with the monetary and supervisory power executes the next functions [[http://www.bankofalbania.org/web/A\\_brief\\_history\\_of\\_the\\_Bank\\_of\\_Albania\\_5338\\_2.php](http://www.bankofalbania.org/web/A_brief_history_of_the_Bank_of_Albania_5338_2.php)]:

- has the authority to issue and circulate the national currency,
- maintains and manages the foreign reserves of Albania,
- takes care of the exchange rate policy,
- gives or reverses a license for practicing banking activity and also supervises this kind of activity to maintain stability,
- does the role of a mother bank, meaning that serves as a bank of banks,
- cooperates with the Government of Albania, it does the role of a banker and an advisor for the state of Albania,
- it encourages a normal functioning of the payment system.

With the adoption of the Law „On banks in Republic of Albania” and „On banks in Republic of Albania” in 1992 came also the Banking Supervision Department which was created to execute supervision functions on the second level banks, it also had to make the regulatory framework [Andoni 2013: 38–39].

The duty of Banking Supervision is to encourage stability of the Albanian banking system, to preserve the interests of depositors, to show transparency, to make sure that in the eyes of investors and depositors the banking system is a confident background, a place where client can easily put their money.

Banking Supervision Department must promote assurance by [[http://www.bankofalbania.org/web/Banking\\_Supervision\\_49\\_2.php](http://www.bankofalbania.org/web/Banking_Supervision_49_2.php)]:

- Carefully operating with the licensing process, because by giving the approval of licensing it brings to the Albanian banking market a new bank and if it does not work in a proper way it affects the whole banking system.

- Supervising the banks that already operate in banking market. They must work according to law and regulation in the way that they will not cause trouble and will not harm the existing system.

- Insuring that minor problems noticed in certain banks will be quickly solved and not make a threat for depositors or the whole system.

In order to fulfill its duty, Banking Supervision Department has to be vigilant in what happens in the banking market, not only in Albanian banking market but also abroad to make sure it works in alignment with other banking systems in Europe and wider [[http://www.bankofalbania.org/web/Banking\\_Supervision\\_49\\_2.php](http://www.bankofalbania.org/web/Banking_Supervision_49_2.php)].

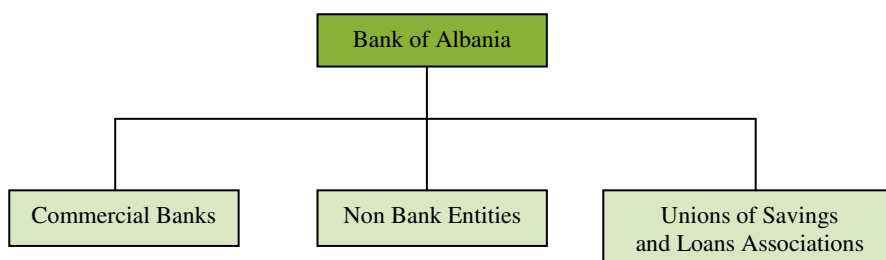
The central bank and its functions, was also mentioned the way of supervising bank activities but another part of the banking system are the banks of the second level. With the big economic problems Albania had, in 1992 existed only three banks owned by the state, but now in 2015 there are sixteen commercial banks in total [Çekrezi 2015: 5].

From these sixteen commercial banks fifteen of them are made of foreign capital or partially foreign capital and they offer products on equal footing with developed countries [Krimidha and Kristo 2014: 4]. The capital is divided in 92.38% foreign capital and 7.17% internal capital in 2015. This separation

of the capital provides the understanding that Albanian banking system is a good sector for investors abroad to invest in the financial sector.

This sector is mainly made by banking groups and nonbank financial companies, financial institutions and individuals. Banking system in Albania is always seeking to achieve the same standards as developed countries and it is concentrated in lending, for example SME (small and medium-sized enterprises) lending, retail lending, corporate lending [Shingjergji 2012: 84].

Institutions that help people with different money transactions and other financial activities are divided in the following way and a short list of the most important of these institutions is reflected also below [[http://www.bankofalbania.org/web/Commercial\\_Bank\\_Register\\_50\\_2.php](http://www.bankofalbania.org/web/Commercial_Bank_Register_50_2.php)]:



Graph 1. Structure of banking in Albania

Source: own elaboration based on data from: [http://www.bankofalbania.org/web/Commercial\\_Bank\\_Register\\_50\\_2.php](http://www.bankofalbania.org/web/Commercial_Bank_Register_50_2.php).

**Commercial Banks:** Raiffeisen Bank S.A., United Bank of Albania S.A., Veneto Banka S.A., National Commercial Bank S.A., Tirana Bank S.A., NBG Bank Albania S.A., International Commercial Bank S.A., Alpha Bank – Albania S.A., Intesa Sanpaolo Bank Albania S.A., Procredit Bank S.A., Crédit Agricole Bank (Albania) S.A., Credit Bank of Albania S.A., Credins Bank S.A., Banka Société Générale Albania S.A., Union Bank S.A., First Investment Bank, Albania S.A.

**Non Bank Entities:** Unin Financiar Tirane LLC, Albanian Post S.A., Credins Leasing S.A., Ak-Invest S.A., NOA S.A., Fondi Besa S.A., Final S.A., Raiffeisen Leasing S.A., Tirana Leasing S.A., Leandslease S.A., Albania Leasing S.A. etc.

**Unions of Savings and Loans:** Savings and Loan Association „INBLEG” Tirana, Savings and Loan Association „PERLAT” Durres, Savings and Loan Association „ALB-PROGRES” Elbasan Savings and Loan Association „JUBE” Durres.

## 2. EVOLUTION OF ALBANIAN BANKING SYSTEM

Banking System in Albania has had many changes in different historical moments. Below will be listed the most important phases in which banking system in Albania went through.

The first phase coincides with the genesis of Albanian Banking System which was mentioned above, it talked about banking system during the ottoman occupation. Next in line we have the phases articulated below.

### 2.1. The Albanian banking system (1913–1925)

In 1913 just like mentioned before Albania had its own central bank for a while. The beginning of the First World War brought changes in finance. Powerful banks like Wiener Bank Verein, Pester Bank and Ungarische Bank operated at that time in Albania. The existing of these banks marked a great improvement in Albanian economic system and brought a new innovation never used before in Albania. In 1920 the first government bond was emitted, with a maturity of 3 years and a value of a 2 million Gold Francs. It was allowed to be emitted a limited number of notes [Shingjergji 2012: 79–80].

After the war the leaders started thinking about a central bank again, but the capital was under the control of private creditors. There was a lot of discussions with foreign governments about the opening of a central bank but the effort failed, because Italy did not accept the proposition of opening the bank with 50% foreign capital and 50% Albanian capital.

Many scholars preferred a national bank which would operate by using only Albanian capital, but having in mind that were the foreign banks which operated in Albanian territory longer than a national bank, the influence was inevitable [Bushati 2008: 7].

### 2.2. Albanian banking system during the time Ahmet Zogu ruled (1925–1939)

In 1925, when the head of the Albanian State Ahmet Zogu (King of Albania) came back, the competition for obtaining economic concessions including bank concession, brought new developments. British, Italian, French, Yugoslavian and Greek capital made intense effort in this direction. Ahmet Zogu and his government announced that the granting of concessions would be considered in the base of financial aid these countries would give to Albania. Government activity showed that Zog and his Government were oriented in an western direction especially Italy [Fishta et al. 2003: 18–25]. British government was the first who wanted to take control of economic concessions, they offered help to build the banking system with the condition that the British capital would have advantage in trade and economy.

Italy heard the news and showed interest, so started a competition between Italian and British government. The British government retreated and so Italian banks got the concessions. After this event there was an agreement between Italy and Albania on 11 March 1925, and included the regulations upon which the bank system would work [Bushati 2008: 8–9].

The most important thing this time was the unified currency called Albanian Gold Franck. One Gold Franck equaled 100 cents. Even with the new gold currency the bank had problems up to 1936, because people were not giving up from their silver coins as a means of exchange. It was only in this year that Albania had only one currency in circulation [[http://www.bankofalbania.org/web/A\\_brief\\_history\\_of\\_the\\_Bank\\_of\\_Albania\\_5338\\_2.php](http://www.bankofalbania.org/web/A_brief_history_of_the_Bank_of_Albania_5338_2.php)].

In the period from 1926 to 1936 National Bank of Albania spread its branches in the strategic economic key points of the territory. By the year 1939 foreign banks had entered in Albanian economy, banks such as Serb-Albanian bank, followed by, Bank of Athens, Anglo Albanian Bank Ltd, and Export Bank. Up to this moment NBA was the leader, but when in Tirana was established the Agrarian Bank followed by the Bank of Naples which permitted the facilitation of major transactions and had autonomy at that field, the competition increased [Gallagher 2001: 93–95].

### 2.3. Albanian banking system during World War II (1939–1944)

A new period for banking system in Albania starts in 1939 with the World War 2. During the time of war Albania was under occupation first from Italy and later from Germany what logically caused transformations and changes in economy.

First, under the Italian occupation there was a hard competition between banking groups which aimed the controlling of Banking Market in Albania. One of the most powerful banks operating in Albania was the Bank of Naples – Albania which had a lot of clients and had expanded remarkably and it had also power on other banks, it forced some of them to close and others not to enter in market. It became stronger because of the acquisition of the Agrarian Bank, this move made the Bank of Naples – Albania create a monopoly in agrarian market. On the other side the National Bank of Albania was in Italy's hands which used it to financially support its military.

The competition continued between the Bank of Naples and National Bank of Albania, in 1942 they had respectively 18 and 13 branches. The competition ended in 1943 when Italy retires from Balkans territory. After Italian occupation in Albanian banking system was a total crisis, because Italy destroyed the economy after leaving by taking down banks. The only bank left which was still operating in limited editions was the Albanian National Bank.



The new occupation namely German occupation started financing its military by taking loans from Albania National Banks, but the problems had not reached an end as the German Government took all the Albanian treasure from the bank leaving behind a total chaos. In 1944 while the retreating of German troops had started the branches of Albanian National Bank were stolen by widening the bad economic situation [Elsie 2010: 31].

#### **2.4. Albanian banking system and the communist regime (1944–1991)**

This phase is considered as one the most difficult historical periods for Albania. After several wars the idea of a centralized economy was attractive in the eyes of Albanian people. With the consent of people the communist party led by Enver Hoxha took the power to lead Albania. Every private property was centralized meaning that belonged to the state. The economy was now in a new system never known before in Albania. The state was now trying to do everything by itself. The export of metals and gemstones was not allowed anymore, enriching so the country.

The only bank still operating in Albania was the National Bank which was under the Italian control. The communist party froze all the foreign investments and made them property of Albania, it also managed to take the National Bank from Italian hands and gave to it a new name: the Bank of the State of Albania.

After making the making the bank the state property there was released a new currency in 1945 which caused confusion in economy, because of the circulating in market the old currency and the new currency. This situation led to a monetary reform. Five old franks would be exchanged to one new Franck to make so the old currency to exit the market.

Two years later in 1947 the Bank of State a new reform was made in banking sector. A new currency came to the market, a currency that continues to this day to operate. The currency is named Lek and at that time banknotes were 10, 50, 100, 500, 1000 lek.

Coins were 0.50, 1, 2, 5 Lek. After putting this currency in life, in a short time other currencies disappeared.

In 1946 Albania had good relationships with Yugoslavia and so was created a new bank centered in Belgrade with a branch in Tirana, which was shared in 50% between two states. It gave to Albania many profits unlike Yugoslavia.

The power of the Bank of State was getting bigger as time passed, it controlled the budget of the state and financial transactions. It became a very important tool in running a centralized country. To be more controlling the communist party opens a new small bank called Savings Bank for Albanian citizens, because the Bank of State was more concentrated in governments business.



The party had created a new system named Cooperative where all people had to contribute in agriculture of the country by working in shifts. A new bank was created to manage the profits of this system called the Agrarian Bank. In the eyes of people this bank was not connected to the Bank of State but the truth was different. The banks were very connected and helped the communist party to control everything. To the year 1992 the Bank of State was used by the communist leader the same the central bank was used by Germany during the Second World War. The Germans used it to finance their military and the Albanian communist party used it to create a controlled society.

Letting out all negative things the system did to Albania this was the first time when banks had a totally Albanian capital and no interference of foreigners [Coleman 2015: 7–8].

### 2.5. Albanian banking system in the free market economy

Communism that ruled in 90's using the policy of isolation created a continues blizzard in economic and society development for more than 40 years. After communism the entering to a normal world for other countries of Europe but not for Albania would bring a lot of transition and instability for the economy and society [Barone and Porrini 2010: 59].

For a banking system to be productive it should be able to have a convenient payment system and credit allocation. This counts for all Eastern European countries which left behind the period from controlled economy to free market economy, they had built a proper banking system [Coletti 2005: 139].

Democracy was a completely a new and unknown phase for Albania. A rebuilding of financial system was imperative. Numerous reforms were made in banking system to help it go towards privatization and asking help from foreign banks with a developed system [Barone and Porrini 2010: 59].

Despite the right steps towards developing of banking system and economy, political problems caused disturbance and 1997 Albania faced a big crises because of the pyramidal investments when inflation achieved values up to 40%, civil war started and most of bank branches were burnt [Economic overview, (e-zasoby): 69].

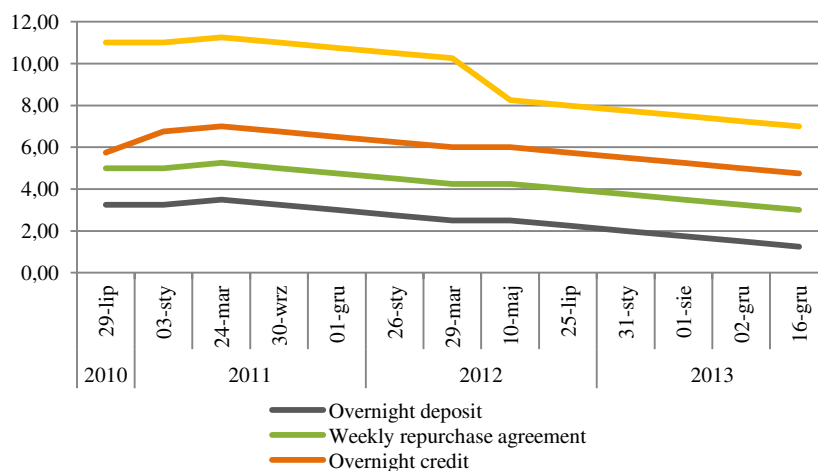
To normalize the situation necessary was a policy to achieve a stabilization in the area of finances. New reforms were made in the legal system and the system of finances. The surveillance and control over economy and especially over banking system was increased and played a considerable role in economic developing of Albania. One of the first actions taken towards improvement was making the existence of Bank of Albania official and known by other countries [Barone and Porrini 2010: 61].

This period was the worst one for banking system in Albania because people pushed of their great lots from pyramidal firms destroyed and burnt most of the financial institutions and especially attacked banks.

However since then Albanian banking system seems to be going in the right path. One of the major factors that helped in developing the banking system is the influence of foreign banks. The operation of these banks in Albanian territory has stimulated the growth of competition and as a result banks expanded their activities and network by bringing new products, by improving their services and by tending more to its clients [Kristo and Gruda 2010: 285].

### 3. FINANCIAL ACTIVITIES OF THE BANK OF ALBANIA IN 2010–2014

To understand more about how the banking system in Albania works, the next analysis will help. The analysis contains financial activities of the Bank of Albania and it will show us what happens during the given period with the central bank. Does the financial activity of the central bank improve during the five year period? Does it work on its full potential?



Graph 2. Bank of Albania interest rates (in %)

Source: own elaboration based on data from Ministry of Finance [www.financa.gov.al](http://www.financa.gov.al).

The graph reflects the change of key interest rates based on the decisions of monetary policy for interest rates. The key interest rates analyzed are Overnight deposit, Weekly repurchase agreement, Overnight credit and Liquidity supporting loan. All interest rates have a growing tendency from July 2010 to March 2011, and then they decreased to 2013. Highest level of percentage has

the Liquidity supporting loan (11%), followed by Overnight credit (5,75%), Weekly repurchase agreement (5%) and Overnight deposit (3,25%). The change from period to period during the year is mainly  $-0,25\%$  for each interest rate.

Table 1. Balance sheet of the Bank of Albania from 2010 to 2014 (in millions of ALL)

In millions of Lek (ALL)	2010	2011	2012	2013	2014
<b>ASSETS</b>					
Assets denominated in foreign currencies					
Gold and precious metals	10,155	11,724	12,196	8,474	9,569
Accounts with the International Monetary Fund	15,751	15,828	18,644	20,22	21,792
Deposits with non-resident banks	31,637	28,604	27,286	21,661	30,003
Available for sale investment securities	203,336	206,549	216,279	230,588	242,419
Held for trading investments	12,566	13,17	13,034	12,591	14,378
Other foreign assets	1,183	601	703	577	779
Total assets denominated in foreign currencies	274,628	276,476	288,142	294,111	318,94
Domestic assets					
Gold and precious metals	4,926	5,577	5,805	4,021	4,483
Loans to resident banks	12,52	25,485	21,8	21,502	25,548
Available for-sale investment securities	63,63	63,616	63,619	63,92	63,948
Balances with the Albanian Government	–	–	–	–	7,398
Other domestic assets	9,229	9,639	11,212	12,388	13,009
Total domestic assets	90,32	104,317	102,436	101,831	114,386
Total assets	364,948	380,793	390,578	395,942	433,326
<b>LIABILITIES</b>					
Liabilities denominated in foreign currencies					
Due to the International Monetary Fund	20,516	19,55	20,195	18,633	25,33
Due to non-resident financial institutions	1,256	1,243	1,252	1,256	1,255
Other foreign liabilities	–	–	131	–	230
Total liabilities denominated in foreign currencies	21,772	20,793	21,578	19,889	26,815
Domestic liabilities					
Currency in circulation	202,359	202,88	200,872	207,766	226,407
Due to resident banks	80,815	88,57	97,054	100,031	106,311
Due to the Albanian Government	11,6	11,863	16,025	23,779	17,578
Other domestic liabilities	1,279	1,189	1,686	1,546	1,826
Total domestic liabilities	296,053	304,502	315,637	333,122	352,122
<b>CAPITAL AND RESERVES</b>					
Capital	2,5	2,5	2,5	2,5	2,5
Legal reserve	11,697	12,5	12,5	12,5	12,5
Revaluation reserves	15,31	22,922	20,826	10,421	21,93
Property revaluation reserve	1,868	1,828	1,789	1,75	1,711
Other reserves	15,748	15,748	15,748	15,76	15,748
Total capital and reserves	47,123	55,498	53,363	42,931	54,389

Source: own elaboration based on data from Bank of Albania 2010–2014 (*Annual Report*), [www.bankofalbania.org](http://www.bankofalbania.org).

The balance sheet set above contains data from 2010 to 2014, it is possible to watch the differences of the most important positions which determine the financial standing of the bank during this years (see table 1).

Assets take values that vary from 364,948 million ALL to 433,326 million ALL during the period 2010–2014. It has been a rise of 68,378 million ALL in five years. The value of total assets is a composition of assets denominated in foreign currencies and domestic assets and the bigger values are represented by the assets dominated in foreign currencies, showing so the strength of foreign currency effect in Albanian market. On the other hand we can see that liabilities kept growing year by year during the period which does not necessarily represent a bad occurrence. The proportion between assets and liabilities has values of 2 to 1 which shows a good value of liquidity.

Table 2. Key economic indicators in evaluation of economic situation of Albania

	2010	2011	2012	2013	2014
Real GDP growth (%)	3.75	3.17	1.00	1.45	1.45
GDP (in ALL million)	1,239,645	1,300,624	1,335,488	1,364,781	lack of data
Number of employed (in thousand)	895.7	948.0	962.4	926.6	947.0
Unemployment rate	13.8	13.1	12.8	13.4	12.9
Budget revenues (as a % of GDP)	26.2	25.4	24.7	24	25.9
Budget expenditure (as a % of GDP)	29.3	28.9	28.2	28.9	31
Budget balance	-3.1	-3.5	-3.4	-4.9	-5.1
Import of goods (as a % of GDP)	36.2	39.4	36.7	35.7	36.6
Export of goods (as a % of GDP)	13	15.2	15.9	18.2	18.6
International reserve (in EUR million)	1.904	1.912	1.972	2.015	2.192
Lending to the private sector (annual growth)	10.1	10.4	1.4	-1.4	2.0
Exchange rate ALL/USD	103.9	100.8	108.2	105.7	105.5
Exchange rate ALL/EUR	137.8	140.3	139	140.3	140.0

Source: own elaboration based on data from Bank of Albania 2010–2014 (*Annual Report*), [www.bankofalbania.org](http://www.bankofalbania.org).

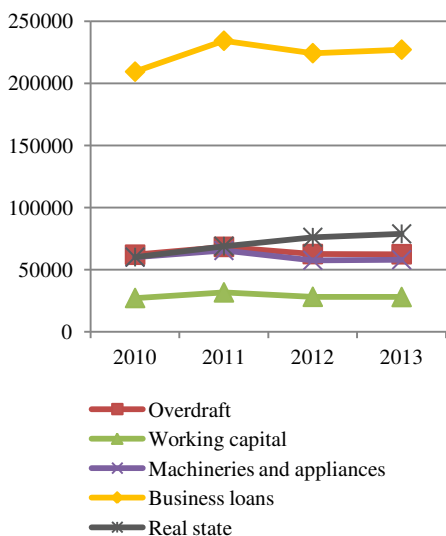
In general the selected economic figures indicate improvement of economy, but we still should keep in mind that economy in Albania operates under the possible capacity. In the last two years the real GDP is constant and it is between the values 3,75% and 1,00% which characterize the previous years. The healthy rate of GDP is more than 2% and less than 4%, showing that

the year with the best GDP rate was 2011. Next the GDP rate got worst, but it helped in reducing inflation.

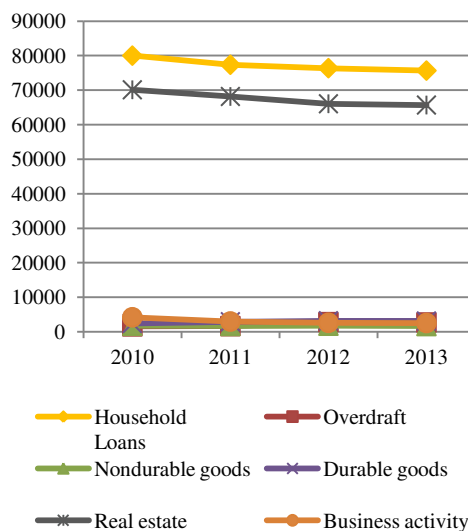
The number of employed people and unemployment rate seem to not be changing a lot from year to year during the analyzed period. The unemployed rate should have values between 2% and 13% and the values showed in the table are bigger than 13% or very close to 13%, showing so a bad condition of employment.

Now if we analyze budget revenues compared to budget expenditure, each year the gap between them rose. Each year the expenditures were higher than revenues. The budget balance varies from  $-3,1\%$  to  $-5,1\%$ .

A comparison between import and export shows that the level of export rose from 13% to 18,6%, but it is definitely much more lower than import. Import has values between 35,7% and 39,4%. The highest peak was 2011 and the lowest value in 2013.



Graph 3. Business loans by purpose (EUR in thousand)



Graph 4. Household loans by purpose (EUR in thousand)

Source: own elaboration based on data from INSTAT [instat.gov.al](http://instat.gov.al).

Loans make one of the most important source of money for businesses and individuals. Businesses and individuals use loans to fulfill their purposes. The most commune purposes for which loans are used are reflected in the graphs above. Loans used for real estate are the highest compared to other purposes and their highest value is in 2013 with a value of 78800 thousand EUR indicating

that is the most common purpose why business need money. They invest more in real estate than any other field mentioned in the table. The lowest values are represented by working capital, it varies from 27174 thousand EUR to thousand EUR. Business loans in total have respectively for each year the following values: 209347, 234203, 224224, 227063 thousand EUR from 2010 to 2013. As we see the highest interest showed by the businesses was in 2011 and less interest to loan money for aforementioned purposes was in was in 2010. Except business loans, loans for individuals otherwise „household loans” are very important. These kind of loans are used for purposes like real estate, durable goods, nondurable goods, business activities and overdraft. The same phenomenon as before appears also here. People are interested to invest in real estate. This is the most common purpose people need loans, although the interest seems to fade from year to year. As we can read from the graph the amount of loan is smaller from 2010 to 2013. Less loans are used for nondurable goods. The values are between 1646 and 1761 thousand EUR. Household loans in general have a tendency to decrease from 2010 to 2013 and this happened because banks tightened the conditions of credit. People had to meet the requests of banks in order to apply for credit. The value of household loans varies from 80001 to 75665 thousand EUR.

## CONCLUSIONS

Albania is a country which has gone through a lot of radical changes thanks to numerous invasions. These changes had also impact on banking system. Such system did not exist until the Ottoman empire occupied Albania. Even if it was an invasion it helped in developing an actual economy with banks and rules that were unknown in previous times.

The invasion continued by other countries as Italy and Germany. During this time Albanian banks operated with foreign capital like Italian, German, French and British, but only in small quantities with Albanian capital. There were numerous attempts to operate under domestic capital but it was not possible, because Albania at the time was weak and never had time to recover from the occupations.

A dark period for the banking system was also the regime communist period. Now the state was independent and could operate by its own, because there were no invasions but what happened was a total isolation including the isolation from foreign invest. The leaders wanted a total independence and they had no desire to cooperate with the world, which led to a grief of economy. Everything was centralized and controlled by the state. After communism the failure continued with democracy. People were totally unprepared how to behave in a free economy and banking system suffered until the pyramidal schemes were over.

Now banks have European standards and operate under the proper laws, they respect consummators and institutions and meet their needs. Banking system in Albania is a two-tier system meaning it has two levels, the central bank in the first one and the commercial banks and operate respectively under the Law „On the Bank of Albania” and „On banks in Republic of Albania”. The system is supervised by the supervisory council. The capital is divided in 92.38% foreign capital and 7.17% internal capital, which shows clearly that the foreign capital dominates and there is the need to add more domestic capital.

Based on the analysis in the last chapter the situation in banking system is not in very bad conditions but there is possible to make improvements. There is a need to reduce unemployment which is about 13% and should be lower. The revenues should be higher, because their level compared to expenditures during the 5 year period they are always lower. Some changes need to happen with import and export, import can be reduced and export raised, because import is about 20% higher than export in each year reflected in the table.

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## SYSTEM BANKOWY W ALBANI

Niniejszy artykuł prezentuje system bankowy w Albanii pod względem różnych aspektów. Celem pracy jest zbadanie ewolucji systemu bankowego poprzez podkreślenie kluczowych elementów tej ewolucji oraz pokazanie głównych zmian w albańskim systemie bankowych na przełomie różnych okresów. Dla zobrazowania sytuacji systemu bankowego w Albanii zostały przedstawione tabele i wykresy, opracowane na podstawie danych z Banku w Albanii oraz Instytutu Statystyki i Ministerstwa Finansów.

**Słowa kluczowe:** system bankowy, ewolucja, działalność finansowa, Albania.