Bad loans and their influence in the Albanian Economy

Filloreta Madani

PhD in Finance, Lecturer in Accounting and Finance

University of Vlora "Ismail Qemali"

fcenolli@yahoo.com

Oltiana Muharremi

Lecturer in Accounting and Finance, PhD student,

University of Vlora "Ismail Qemali"

olta.muharremi@gmail.com

Erald Pelari

Lecturer in Finance

University of Vlora "Ismail Qemali"

epelari@gmail.com

Abstract

The Albanian Banking System has gone through significant changes in its development performance. This progress presents numerous difficulties and challenges which help to further consolidate the system. Currently in the Albanian banking sector there are 16 operating commercial banks, five banks have been in operation since 1997.This tripling of the number of banks in operation shows the expansion this sector has had over the years, the development of which is associated with numerous problems and challenges.One of the problems facing the banking system is bad loans, whose treatment has taken a great importance in recent years, especially in the period after the global financial crisis. Albania is also affected by the financial crises, so this study has special importance for its banking system. The purpose of this paper is to become acquainted in detail with the problem of bad loans, the factors that cause it and the economical consequences.Factors affecting the determination of bad loans come not only from macroeconomic indicators, which are seen as exogenous factors that include the banking industry as well. On the other hand, the distinguishing features of the banking sector and the selection policies of each bank in response to their efforts to maximize the efficiency and improvements in risk management are expected to show a great influence on the development of bad loans. Throughout this paper we will take a good look in the banking system, in its lending activity in recent years and the performance of bad loans in Albania from 2003-2012. Then, we will provide a comparative study with Eastern European countries associated with the phenomenon of bad loans.Based on the data collected, we will ponder an econometric study, which expresses the impact of credit approvals and bad credit in the Albanian economy. We will finally draw conclusions and to give recommendations.

Keywords: banking system, bad loans, financial crises, Albanian economy

Introduction

The basic function of the banking system is the channeling of savings or free cash surplus units towards deficient entities. Bank credits constitute one of the most potential sources of financing economic activities of enterprises, while banks serve as the instrument that enable the flow of funds in the economy. Other financial intermediaries have not been able to play their role in Albanian fragile economy.

On the other hand the malfunctioning of Tirana Stock Exchanges reduces alternatives for fund raising ventures, as the capital market and debt instruments market, for example.

In transition economies, such as the Albanian economy, the combination of poor heritage with numerous structural problems makes it really hard the functioning efficiently of financial intermediaries, leaving more space for businesses to be financed in riskier ways, such as borrowing in the informal economy market. Moreover, the low level of recognition, structural distortions and the lack of confidence, make our country a market devoid of operating capitals and securities. By this filing, it is clearly evidenced that the financing channel through bank credit economy takes a special importance and therefore the role and responsibilities that policymakers, bankers, business people should undertake, are numerous.

Albanian Banking System is associated with significant changes in the performance of its developments. It also presents difficulties and challenges that help to further consolidate the system.

Chapter 1 Developments in Albania's banking system and its features

The performance of Albanian banking system can be divided into four periods:

1.The period from 1946-1990; 2.The period from 1991-1996; 3.The period from 1997-2003 and 4.The period from 2003 up until today.

All periods of banking system development largely reflect the prevailing economic, political and social situations in Albania.

The period from 1946-1990:

Our banking system during socialism was a fully centralized system until 1997. Till 1976 this system consisted of a single bank, The State Bank of Albania, which served at the same time as the monetary authority and as a credit to the economy. Its role as a financial intermediaries was quite limited because the distribution of loans was led by a centralized plan. The Bank served merely as a transactions registration institution among manufacturing enterprises. Apart from the State Bank of Albania,the General Directorate of Cash Savings and Insurance functioned to conduct population collecting savings and deal with property insurance, mainly that cooperative. In 1977 the Agricultural Bank was established as a separate bank,as a section of the State Bank of Albania. This bank bid for funds to cover the agricultural sector. In 1990, the Department of Foreign Relations of the Albanian State Bank served as the basis for the establishment of the Albanian Commercial Bank which performed the function of financing and promotion of exports and payments.

The period from 1991-1996:

As a part of an economic reform started in 1992, the reform of the banking system began as an institutional reform with a change of the legal provisions. The Assembly, in April 1992, adopted the Law "For the Bank of Albania" and the law "For the banking system in the Republic of Albania". These laws over the banking system transformed a one-level banking system into a two-tiered one. The basis of these laws opened a new window in the licensing process of new private banks and banking regulations from the central bank. The Bank of Albania was established as the country's central bank, while the other three state-owned banks: The Savings Bank,The National Commercial Bank and The Agricultural Commercial Bank, constituted the second level of the banking system. The Savings Bank was the successor of The Savings Institute. The National Commercial Bank was a merger of the domestic trade activity of the Albanian State Bank with the Albanian Commercial Bank. Again, there were two joint-venture banks licensed in 1992.

The problems of the banking system during this period:

-The level of financial intermediation was limited. The State-owned banks that dominated the market with about 90% of the deposit performed limited functions of financial intermediaries, while new private banks were limited in number, too slow or unwilling to attract deposits by focusing primarily on trade credit . The level of credit to the economy was very low. Banks operating in Albania at that time were carrying high levels of cash and they began to see short-term investments in government securities, as a better form and a more secure investment. The denial of credit was due to uncertainties in the implementation of Contracts, a lack of information about potential borrowers, but also a difficult macroeconomic situation prevailing in those years.

- Bad loans and increased loss was due to the lack of a proper regulatory and supervisory framework. The early years of transition were accompanied by a decline in economic activity due to the weakness of state enterprises, especially in the old technology industry branches and falling demand, branches representing important customers of state banks. Unturned loans were increased from 14% of the credit stock in 1993 to 60% in 1997)

- The lack of a banking experience for the activities of a market economy was a negative factor. Many bank executives had no international experience and came from other branches of government institutions, even by inexperienced financial sectors.

The period from 1997-2003

-The macroeconomic stability faced improvements during this period, after the pyramid crisis of 1996-1997. Financial sector reforms marked significant progress in that period. They were related to the privatization of state banks and the entry of new private banks, which have contributed to the deepening of financial intermediation and enhancing the quality of banking services. In 1997, another bank was licensed totally foreign-owned:The International Commercial Bank, while in 1998 it was licensed the American Bank of Albania and Tirana's branch of Alpha Bank Credit.

In 1999, three other banks began their activities:First Investment Bank, The Commercial Bank of Greece and Pro Credit Bank (Fefad), while in 2002 it was licensed The Credit Bank of Albania. In the first half of the 2000, banking market players gradually exchanged their investments without risk (to confirm their position risk-averse), with a massive credit. With these new investments of foreign banks and the privatization of state banks, competition increased and banks started to 'fight' in order to increase market share in loans and deposits. Consequently, competition in the credit market appeared mainly in shifting investments from government securities to loans to their customers, thus increasing the very rapid pace of loan portfolio. All this 'greed' to gain market share, was associated with underestimation of credit risk, easing of lending standards and overestimating the capacity of their clients to pay. Subsequently, the Albanian banking system came under the pressure of a global crisis and the lending rate changed, making banks more conservative in approving loans and borrowers more uncertain about their ability to pay.

The Banking market presented significant developments during 2003, supported by a favorable macroeconomic environment. The entry of two new banks and the privatization of the Savings Bank from an Investor in Central and Eastern Europe, led to increased productivity and competitiveness in the system.

The Intermediary role of the Albanian banking sector became more apparent after 2004. Some of the features that accompanied the economic and financial development, especially in the years 2004-2008 were:

rates relatively high and stable economic growth, low inflation and mainly within the limits set by the monetary authority, the high level of capitalization of banks, lending primarily in foreign currencies, extension of credit to borrowers individuals (especially for mortgage loans since the demand for this type of loan rose significantly) but without reaching levels lending to businesses, relatively high rates of interest on loans, low level of non-performing loans, a satisfactory rate of return on equity and assets of the banking system, etc..

The year 2005 was characterized by the continuation of the dynamic development of the banking system in Albania. This dynamic, in terms of licensing of banks and other financial institutions, reflected in applications for new banking licenses in sales and changes in the structure of banks' shareholders and a strong expansion of the network of different banks in different territories of the country.

During 2006, the banking system underwent significant quantitative and qualitative developments. At the end of the year, the banking sector consisted of 17 banks, of which three were entirely of Albanian capital.

In February, it was given preliminary approval for a license to the First Investment Bank which was a subsidiary of First Investment Bank,of Bulgaria.

During 2008, the number of banks in the banking system was reduced to 16 from 17, which was a year ago. The process of merging of the two banks:San Paolo IMI and Intesa Bank, through absorption, brought the banking group Intesa Sanpaolo. This development was due to the merger Italian Albanian bank in the American Bank of Albania, with their main shareholder Intesa Sanpaolo and financial effects of the merger started on 1st January 2008.

Nowadays the banking sector and the financial system operate in a challenging environment characterized by a slowdown in domestic economic growth and external financial incentives decline,a slowdown in public investment and private consumption, lending rates in the banking sector and further decrease of its quality, as well as dictated changes in the international market.However, in these conditions, the banking sector is generating profit and capitalization indicators of banking liquidity stood in considerable positive levels.The direct indication of market'risks on the bank sector is moderated,but the non-direct indication stemming from exposure to individuals and businesses is significant, suggesting the need for careful monitoring of the sector's credit bank quality .The decline of loans'quality represents the main concern

for the sustainability of financial indicators of the banking sector. In the situation where the developments in the internal and external economic environment do not support a sustainable improvement of expectations for economic operators, improving credit can not come in the right way and move fast enough from the bank activity itself. The normal financial level in the intermediation sector in Albania, calculated as the ratio of financial system assets to gross domestic product (GDP) was estimated at 92.8% at the end of 2012, 89.5% at the end of 2011.The banking sector remains the main segment of financial intermediation, whose assets represent about 93.9% of total financial system assets in the whole. In the banking sector, a major contributor to the performance of assets is the lending activity, although it has been declining due to lower economic growth and prudent behavior of banks in the allocation of credit funding. In the financing of the banking activity has totally contributed the depositing activity. This is regarded as a positive development, which affects the stability of the liquidity situation in the banking sector. On the other hand, this development highlights the need for continued preservation of public confidence in the banking sector.

Chapter 2 The performance of bad loans in Albania

The main threat to stability and development of the banking system today are troubled credits. The financial and economic crisis that the global economy is facing today has created a climate not conducive to the economic development, and the development of the banking system. The number of bad loans has increased since the beginning of the recent financial crisis. Despite the efforts some commercial banks are making together with the Central Bank of Albania, bad loans are still in trouble.

To have a clearer view of the problem Table 2.1 compares our banking system with the banking systems of several other countries. We note that this indicator has improved over the years 2003, 2004 and 2005. But after 2008 onwards, this indicator has deteriorated steadily in 2012, reaching a 14.4% of value. If you carefully look at the table, we note that in Albania, this indicator has a higher value compared to those of other countries. Even some countries of our region such as: Bosnia and Herzegovina, Croatia, Montenegro, Macedonia and Greece have the smallest percentage of the index compared to Albania.

The quality of the loan portfolio in the banking system was very high until 2007. Levels of bad loans began to have a higher level since 2008. So, the level of bad loans reached 3.4% by the end of 2007 and 18.8 % in late 2011. However, more than half of the banks in the banking system believe that the level of bad loans is higher than reported.

According to sources of the Bank of Albania, the amount of loans granted, of which the banks have no hope these loans to be paid off, has reached the sum of 310 million Euros at the end of 2012, it was around 220 million Euros at the end of 2011, amounting to one third of total loans problems. Compared to the end of 2011, problematic loans have increased nearly 4 percentage points, slowing down the pace of growth, they raised with 5.3% compared to the end of 2010. Problematic loans reached the maximum level in November 2012 with 23%.

Figure 2.1 shows the level of bad loans for the period 2003-2012. Albania as a country in transition has had a fluctuation in the performance of loans over the years. In the last decade, there is an upward trend in the share of bad loans to total loans, primarily due to the factors mentioned above. As it can be seen from the graph, the lowest level of bad loans was achieved in 2005, while the highest level in 2012.

Bad loans belong mostly to business loans, which reflect on the one hand -the general economic difficulties, and on the other hand- the poor quality of businesses, financed by banks during the credit boom years, the period 2004 - 2008.

In this perspective, we can say that the Albanian banking system should be very careful with problematic loans, especially in periods of crisis which favors the increasing of bad loans.

In fact at the end of 2012, loans to the economy reached the sum of 554.7 billion (leke), marking an increase of 2.4% on an annual basis, or 12.8 billion (leke). The increase of the loans in 2012, in absolute terms, turns to be about 6 times lower than a year ago. The annual growth rates of loans 2012 were the lowest of the decade as shown in Figure 2.2. The main reason for low rates of credit growth has been the increasing of problematic loans. This has made banks focus on managing existing portfolios and be more selective in new lending.

Terms "problematic loans and credit outstanding" show the banking system's exposure to credit risk. At the same time low and declining values of this ratio indicate a limited exposure to this risk.

In Figure 2.3, the share of loans is presented by categories. As it can be seen from the figure, the share or standard of credit quality,has generally had the same trend, that of growth for the period 2003 - 2007, while since 2008 a decrease began with the highest level of decline in 2011 .

Taking into consideration problematic loans, (doubtful loans, substandard), they have had an upward trend, especially after 2008 onwards. The growth of this category of loans was due to the global financial crisis of 2008 which had its impact in Albania.

The Increasing of bad loans is a real problem, because it is a premise for lost credit growth.

Lending related to sectors of the economy

The sectors of the economy have played a different role in lending over the years. Credit growth is associated with increased non-performing loans as a result of bad credit.

 Table 2.2 shows the level of lending by the main branches of the economy and the level of non-performing loans / loans outstanding for 2010 and 2011. As it can be seen, the business occupies the largest share of lending, with the highest level of credit concerning trade, repair of vehicles and household items, followed by the construction sector and manufacturing industry. While lending to individuals has also increased over the years, but the trend has not increased so much compared to lending for business growth.

According to a report by the Bank of Albania, by the end of 2010, from the total loans received, the construction sector is the most problematic. The level of nonperforming loans of this sector is 19.8%, while the lending value of the sector is 13.9% of the total. The list of problematic sectors is followed by the manufacturing industry with 15.2%, while trade, repair of vehicles and household items is measured to 13.8%.

Parts of other sectors having bad loans are: hotels and restaurants along with telecommunications, which have high levels of nonperforming loans within the sector, but from the total portfolio, the role they play is low.

It is noted that the loans taken by businesses at the end of 2011, represent 73.5% of the total loan portfolio and 26.5% loans taken from individuals. The economic problems these sectors faced, reflected in the increase of bad loans. From the table, it is clear that the indicator "loans compared to outstanding loans" increased in 2011 compared with the previous years. For businesses, this figure amounts to 20.8% at the end of 2011, and 15.7% for individuals.

Chapter 3 Statistical analysis of indicators that have an impact on bad loans.

Banks identify key factors that have led to the rapid growth of bad loans for both businesses and individuals. Some of these factors are: The economic crisis, businesses failed liquidity, flow reducing of migrants because of an income reduction as a result of layoffs for individuals. Job loss, the reduction of wages and the reduction of hours of work are the main factors that have forced the banks to increase non-performing loans in the category of individuals. Another reason influencing a growth of bad loans is related to the decline of remittances. Local currency devaluation (which automatically increased installments for all those who had borrowed in Euros , but had incomes in Leke) is identified as a factor by banks, but not the primary factor influencing this rapid growth of bad loans.

The factors affecting the determination of bad loans do not come only from macroeconomic indicators, which are seen as exogenous factors that include the banking industry. The empirical framework takes into account an analysis of the impact of general microeconomic factors which are not analyzed in this study, but have a significant impact on bad loans. All distinctive features of the banking sector and the policy choice all banks undertake in response to their efforts to maximize the efficiency and make improvements in risk management, are expected to have a great influence on the development of bad loans.

Berger and De Young (1997) studied the causal relationship between credit quality, efficiency and equity of the bank payment, using a number of commercial banks for the period (1985-1994). They tested four hypotheses that showed a causal link between these variables:

The hypothesis "bad luck": the Bank increases bad debt losses as well spend more resources on the collection of non-performing loans. This Increase in non-performing loans in the banking industry can be due to external events, such as adverse situations in economic activities.

The hypothesis "bad management": A low cost efficiency/ payment is positively associated with the growth of bad loans.

The hypothesis "skimping": Banks that do not have high credit quality appear to be more cost-efficient, yet ,they will have a "bloom" of bad loans in the long run.

The moral hazard: A low capitalization of banks leads to an increase in bad loans.

Berger and DeYoung, found support for both hypotheses before making a mutual causal relationship between cost efficiency and bad loans. (a negative relationship).

Podpiera and Weill (2008), studied the relationship between cost efficiency and bad loans in the context of the Czech banking industry for the period 1994-2005. They concluded that there is strong evidence in favor of the hypothesis "bad management" and suggest that regulatory authorities in developing economies should focus on performance management, in order to increase the stability of the financial system (by reducing the level of bad credit).

Salas & Saurina (2002), combined macroeconomic and microeconomic variables as regressive explanatory variables of bad loans in a study for commercial and savings Spanish banks, (1985 -1997). They found the effect size, which means that larger banks have less bad credit. Then the next hypothesis can be formulated: "The Banks size is negatively associated with bad loans."

The hypothesis of "pro-cyclical credit policy": Banks adopt a liberal credit policy, (Ryan 1994), during the boom cycle, and a strict policy during the period of concentration.

It should be emphasized that it is expected that the importance of various factors (such as macroeconomic and bank-specific) will vary according to different types of loans.

Factors affecting the growth of non-performing loans in Albania:

The economic crisis

- According to banks, the economic crisis is an external factor that has the most significant impact on increasing the level of bad loans. The consequences of the economic crisis are at the top of the list, which contributed to the reduction of sales to businesses and increased liquidity problems, which gave the chain effect throughout the economy. This situation not favorable to businesses brought non- performing loans towards Banks and it was transferred to individuals.

Problems with property titles

-Often the borrowing entities, put loan properties as a guarantee which in many cases are not legalized. This leads to increasing loan problems, as it creates difficulties in collateral repossessing.

The decline of remittances:

-Due to the global crisis, remittances in the country of origin have fallen sharply. Remittances constitute an important source of income for many Albanian families. They also affect the level of growth consumption and poverty reduction. Consequently, their decline has increased the possibility of non-payment of loans taken from Albanian individuals.

Unreliable income-documents:

-Often different entities commit forgery of documents which are proving their income to obtain loans from these institutions, but given that these documents are not in fact real and subjects have not really options to re-pay loans, it brings their inability to pay and thus increases the level of bad loans.

Low quality of financial reporting/planning:

- Taking into account the poor planning/reporting of financial customers, banks are in the position of making decisions with poor data quality. This results in a poor assessment of the potential of the business or financial situation at the time of loan approval. The recent bad loans highlighted the important link between low quality of reporting and business planning in Albanian and this created difficulty for banks in deciding on credit quality.

The relatively high rate of unemployment:

-Considering that unemployment is increasing, unemployed individuals do not have the economic means to pay and so logically the level of bad loans increases.

Overloading with loans:

-Specific subjects receive many credits from different institutions and thus increase in parallel financing inability to pay, subsequently bad loans increase.

The slowdown in the construction sector:

-From the group of business loans, construction's loans are the most problematic. Due to economic crisis, the sector suffered an immediate decline, having sales and liquidity problems, which led to problems with payment of loans.

Taking into account the above macroeconomic factors we tried to analyze the extent of their impact on nonperforming loans with the help of SPSS model.

By analyzing the data on table 3.1, the measurement of the impact of macroeconomic factors will be as it follows:

Regression Model	Independent Variables	Depended Variables	Standardized β	Sig.	Adjusted R2	F Value	Model Sig.
1	Bad Loans/ Total Loans	Total assets of banks /GDP (%)	1.312	.006	.959	53.355	0.000
		Total loans/GDP (%)	-1.551	.004			
		Credit depth of information index	.463	.024			
		Unemployment, total (% of total labor force)	.744	.003			

BL/TL (Bad Loans / Total Loans) - variable that represents the ratio of bad loans to total loans-the dependent variable;

TA/GDP (Total Assets of Banks / GDP) - a variable that represents the percentage of total bank assets to gross domestic product, influential variable;

CDIX (Credit depth of information index) - represents the depth of credit information index, influencing variables.

U (Unemployment) – the influencing variable that represents the rate of unemployment; the model results important (F = 53,355),

Individual connections statistically result significant, the model built has an explanation of 95.9%, free from autocorrelation, d = 2.080 =2, the multicollinearity concern (VIFi <10), with a normal waste.

From the model we let out indicators such as loan interest, the spread (the lending rate - deposit rate) (%), Remittances / GDP which resulted insignificant from the model built. As expected, from the theoretical studies, the indicator "Total Assets of Banks / GDP" is important and its growth will contribute significantly to the increasing of level of bad loans. Unlike the theoretical implications, the indicator "Total loans / GDP", affects negatively the level of problematic loans.

We think that one of the main reasons of this negative impact is that in the recent years banks have been more selective and let's say they have had "the luxury" to make loans of very high quality in this period with low rhythm of lending by them and a high demand from entities that want to give loans. On the other hand second-tier banks lend to the state, where there is no risk of default. The indicator "Credit depth of information index" from 2008 up to now is quite high, at level 5, it should influence the reduction of non-performing loans. The theoretical conclusions of this indicator can not be proved, and we think we should find the reasons in the negative effects of the crisis and the years after it, because our data began at this period, they were 0 before it. The positive impact of indicators "Total unemployment, (% of Total Labor Force)", is consistent with our theoretical conclusions. The increasing of unemployment would lead to reduction of income as a result in a reduction of paying loans from individuals. If you continue the analysis, the reduction of individuals 'income will negatively

impact on business activity, in lowering their income and consequently in the reduction of their ability to pay the loans. (If borrowers are members of the banking system)

Recommendations

- Banks in Albania should develop and implement appropriate policies and strategies and explicit about their performance in a medium and long term. The Bank of Albania, as the central banking institution in the country should play a more active role in creating a suitable climate. At the same time, this institution has the duty to examine the most real reasons of the problems associated with banks bad loans.

- Bank policies should avoid rigid strict practices and implement more dynamic practices, suitable and in function of the economy conditions. Banking supervision must make sure the realization of such action. It is easy for the banks to avoid a loss today, all losses are charged to the client, but this fact, directly or indirectly, influences the banking system and the economy in the near future. It should be mentioned the failure or bad loans taken by businesses, but in this case, the bank should help the business to come out from this problem.

- Banks may also use the information received from the Credit Registry to prevent bad loans. A Credit Registry is a database containing demographic information on the real financial situation of people applying for a loan at a bank, at a branch of a foreign bank licensed by the Bank of Albania or other lending institutions. The main purpose of the Credit Registry is to assist in the performance of safe lending transactions through the availability of information on borrowers, as well as promoting the efficiency and safety of the lending process.

- Care should be taken in granting loans. This does not mean that banks should restrain lending, because in the future it would damage the banking system because the market will suffer a lack of liquidity. If banks are especially cautious in granting loans, then there is a high probability for them to have in the future a qualitative loan portfolio. On the other hand, banks must manage very carefully the current loan portfolio. This means restructuring problematic loans, giving new opportunities to businesses, because helping these businesses after the bankruptcy would not be useful for the bank . Moreover, it is seen as a priority providing necessary assistance to businesses which are in financial difficulty.

- Banks must be able to recognize and better understand the borrower's financial situation by identifying and avoiding the abusers. Visits to businesses applying for loans should not be "routine and formal visits", but properly investigating to understand in depth about these businesses.

- Recommendations may include the restructuring of non-performing loans and their extension in time, in cases where it is analyzed that the borrower is deemed to be in temporary difficulties and to their execution or cleaning them off. This whole process should be guided and monitored simultaneously by the Bank of Albania.

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Tables

Table 2.1 Bad loans compared to total loans

Country 2011	2003	2004	2005	2006	2007	2008	2009	2010
Albania	4.6	4.2	2.3	3.1	3.4	6.6	10.5	13.9
								14.4
Argentina 1.5	17.7	10.7	5.2	3.4	2.7	2.7	3.0	1.8
Australia 2.2	0.3	0.2	0.2	0.6	0.6	1.3	2.0	2.2
Austria 2.7	3.0	2.7	2.6	2.7	2.2	1.9	2.3	2.8
Belarus 3.1	3.7	2.8	3.1	2.8	1.9	1.7	4.2	3.5
Belgium 2.8		2.6	2.3	2.0	1.3	1.2	1.7	3.1
Bosnia &Herzeg. 11.7	8.4	6.1	5.3	4.0	3.0	3.1	5.9	11.4
Brazil 3.2	4.1	2.9	3.5	3.5	3.0	3.1	4.2	3.1
Bulgaria 13.5	3.2	2.0	2.2	2.2	2.1	2.5	6.4	11.9
Canada 1.1	1.2	0.7	0.5	0.4	0.4	0.8	1.3	1.2
China 1.1	20.4	13.2	8.6	7.1	6.2	2.4	1.6	1.1
Croatia 11.5	8.9	7.5	6.2	5.2	4.8	4.9	7.8	11.2
Czech 5.6	4.9	4.0	3.9	3.6	2.7	3.2	5.2	6.2
Finland 0.5	0.5	0.4	0.3	0.2	0.3	0.4	0.6	0.6
France 2.7	4.8	4.2	3.5	3.0	2.7	2.8	3.6	4.2

Germany 3.3			5.2	4.9	4.0	3.4	2.7	2.9
Greece 11.5	7.0	7.0	6.3	5.4	4.5	5.0	7.7	10.4
Hungary 10.4	2.6	2.7	2.3	2.6	2.3	3.0	6.7	9.7
Italy 7.8		6.7	6.6	5.3	4.9	4.6	4.9	7.0
Luxembourg 0.3	0.5	0.3	0.2	0.1	0.4	0.6	0.7	0.2
Macedonia, 9.1	22.4	17.0	15.0	11.2	7.5	6.7	8.9	9.0
Montenegro	5.2	5.3	2.9	3.2	7.2	13.5	21.0	3.2
Netherlands	2.0	1.5	1.2	1.7	3.2	2.8	2.7	
Slovak 5.8	3.7	2.6	5.0	3.2	2.5	2.5	5.3	5.8
Slovenia	3.7	3.0	2.5	2.5	1.8	1.8	2.3	3.6
Spain	1.0	0.8	0.8	0.7	0.9	2.8	4.1	4.6
United.K	2.5	1.9	1.0	0.9	0.9	1.6	3.5	4.0
United.S 4.7	1.1	0.8	0.7	0.8	1.4	3.0	5.4	4.9

Source: World Bank 2012

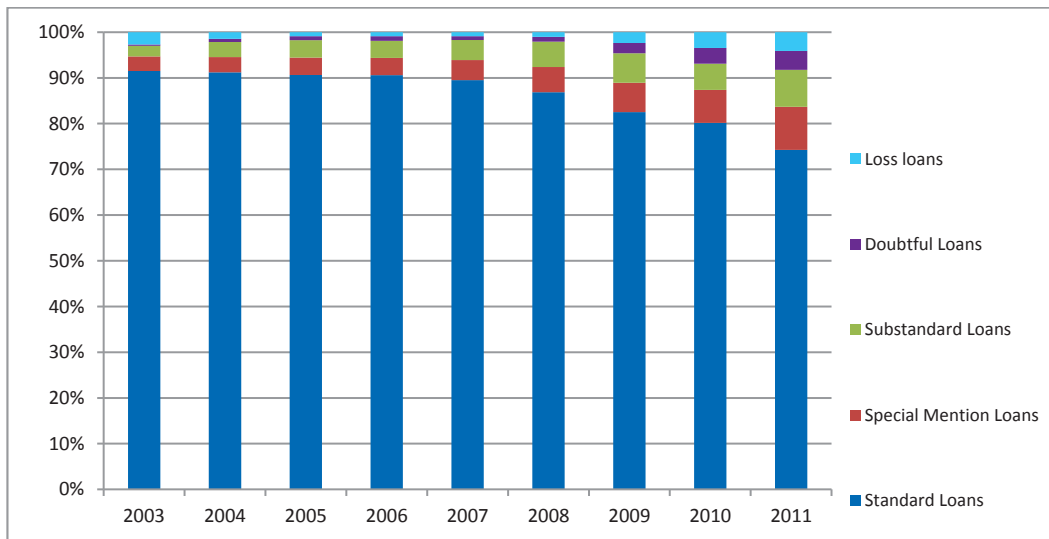Figure 2.1. The influence of bad loans over total loans% (2003 – 2012)
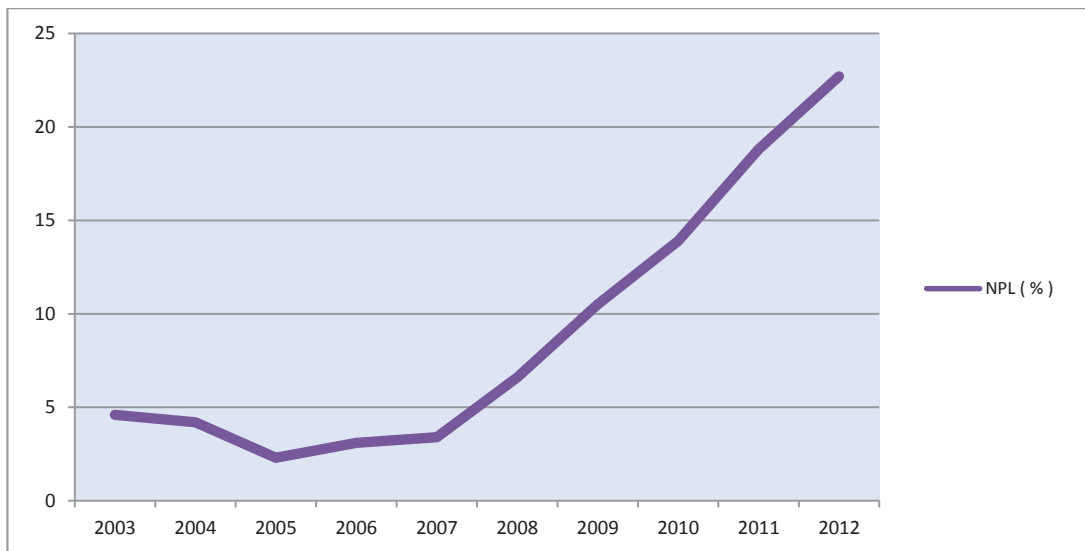
Source: World Bank 2012

Figure 2.2. The annual growth rates of loans

Source: Bank of Albania, Monitor Magazine

Figura 2.3. Share of loans by category (as% of total outstanding loans

Source: Bank of Albania

Tabela 2.2 . The importance of loans according to categories

Description	In % 2008	In % 2009	In % 2010	In % 2011	Bad Loans/Total Loans 2010	Bad Loans/Total Loans

Businesses	65.4	67.6	69.9	73.5	15.1	20.8
Agriculture, hunting and forestry, fishing	0.7	0.7	0.8	1.0	23.4	13.6
Extractive industry	1.5	1.6	1.4	1.2	13.7	12.9
Processing industry	9.2	9.8	10.0	10.8	15.2	21.3
Education	0.6	0.8	0.8	0.8	12.1	3.9
Hotels and restaurants	3.3	3.2	3.0	3.0	22.7	45.3
Transportation, storage and telecommunication	1.5	1.7	2.3	2.3	23.0	15.2
Construction	14.3	13.8	13.9	13.3	19.8	29.6
Trade, repair of vehicles and household appliances	21.5	22.7	24.1	24.5	13.8	21.3
Households	34.6	32.4	30.1	26.5	11.8	15.7
Other	12.8	13.3	13.6	16.6		
Total	100	100	100	100		

Source: Bank of Albania

Tabela 3.1 The Indicators

Vitet	Bad Loans/Total Loans	Total assets of banks /GDP (%)	Total loans/GDP (%)	The change of loans given in years (%)	Credit depth of information index	Interest Loan	Spread (Lending rate - deposit rate) (%).	Remittances/GDP	Unemployment, total (% of total labor force)
2002		54.5	6.3		0	15.3	6.77	15	12.60
2003	4.6	53.8	7.3	31.2	0	14.27	5.9	14	12.60
2004	2.3	56.8	9.3	37.9	0	11.76	5.15	13	12.60
2005	3.1	60.9	15.7	73.1	0	13.08	7.99	12.2	12.50
2006	3.4	70.8	22.4	56.5	0	12.94	7.71	13	12.40
2007	3.4	70.8	30.2	50.1	0	14.1	8.44	12	13.50
2008	6.6	76.8	36.5	34.8	5	13.02	6.22	9	13.00

2009	10.5	77.5	39.3	11.1	5	12.66	5.89	9	13.80
2010	13.9	81	40.1	9.7	5	12.82	5.89	8	14.20
2011	18.8	86.1	40	12.2	5	12.43	9.82	7	14.30
2012	22.7	87.9	42.7	2.4	5	12.93	9.82	7	14.70

Source: Bank of Albania, World Bank, INSTAT