

## The role of government policies in the reorganization of the banking financial system, to balance the destabilizing effects post Covid-19

Will taking financial risk in a favorable macroeconomic environment heal financial wounds?

**PhD (C.) Brikena Sulejmani Mocka**

*“Ismail Qemali Vlora University” Accounting Department*

### Abstract

The study included eight banks that operate their activity in Albania and the analysis included a period of time from 2016-2020. The specific banking factors that have been used in this study include variables such as capital adequacy, the number of employees, total assets as well as loans granted. Among the intermediation function, the financial performance of banks has critical impacts on the economic growth of countries. Since intermediation plays a vital role in the efficient allocation of resources of countries and in addition to allocating resources, good performance of banks rewards shareholders with sufficient return on their investment. It also encourages additional investment and brings economic growth.

Therefore, a poor bank financial performance can lead to bank failure and crises, which have negative consequences on economic growth. This is why governments regulate the banking sector through their central banks to promote a sound banking system and avoid banking crises and protect depositors and the economy as a whole. Governments increased their spending to stimulate demand and support employment throughout the economy; guaranteed deposits and bank bonds to shore up confidence in financial firms; and purchased ownership stakes in some banks and other financial firms to prevent bankruptcies that could have exacerbated the panic in financial markets.

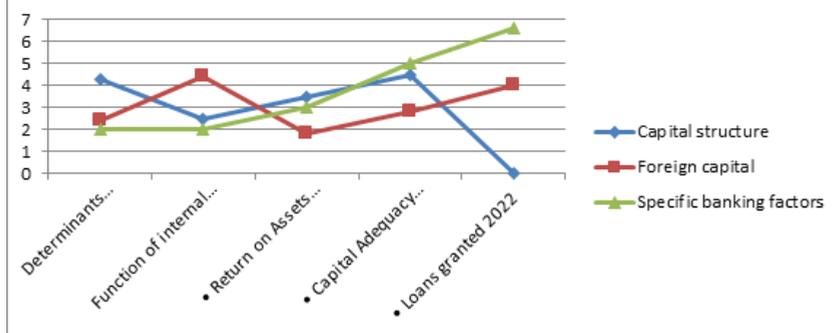
**Keywords:** Exports, managerial and financial performance, financial markets, collapse on GDP, critical impacts, economic growth and investors.

### 1. Introduction

Investors began pulling their money out of banks and investment funds around the world as they did not know who might be next to fail and how exposed each institution was to subprime and other distressed loans. Consequently, financial markets became dysfunctional as everyone tried to sell at the same time and many institutions wanting new financing<sup>1</sup> could not obtain it. Businesses also became much less willing to invest and households less willing to spend as confidence collapsed. In the years leading up to the GFC, economic conditions in the United States and other countries were favorable. Economic growth was strong and stable, and rates of inflation, unemployment and interest were relatively low. In this environment, house prices grew strongly.

<sup>1</sup> Nanette D, JERM Journal 2021, vol 2, p 142.

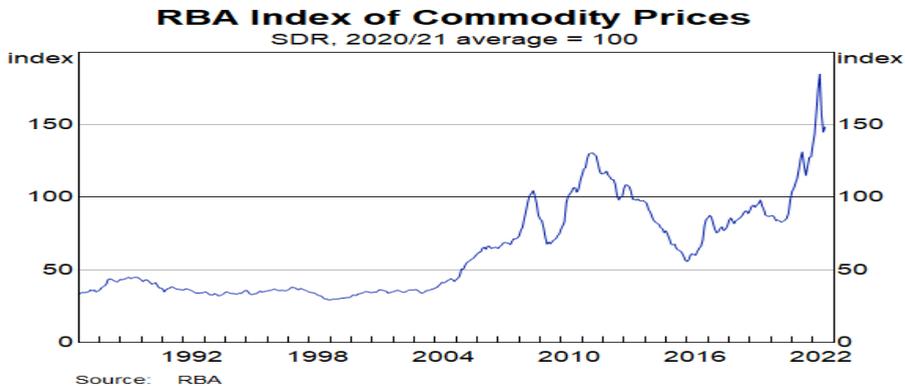
Expectations that house prices would continue to raise led households, in the United States especially, to borrow imprudently to purchase and build houses. A similar expectation on house prices also led property developers and households in European countries (such as Iceland, Ireland, Spain and some countries in Eastern Europe) to borrow excessively. Many of the mortgage loans, especially in the United States, were



for amounts close to (or even above) the purchase price of a house.

Graph1, Source: March 2013 issue of the Bulletin and [‘Weights for the Index of Commodity Prices’](#) (April 2022).

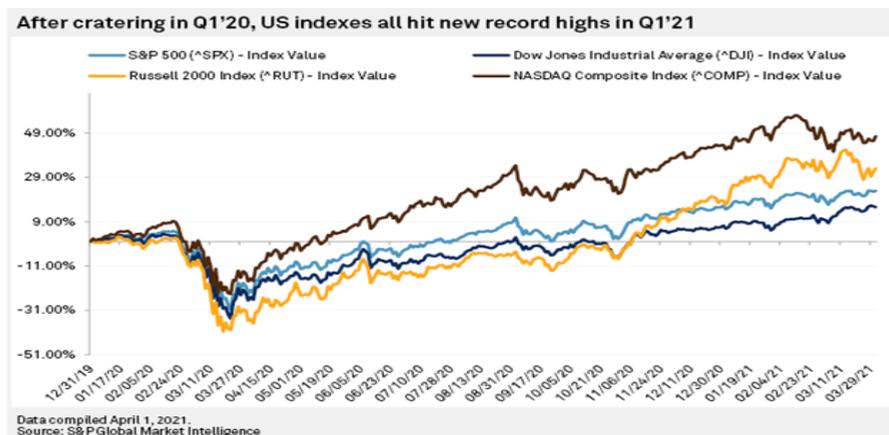
<sup>2</sup>Over the past year, the index has increased by 21.7 per cent in SDR terms, led by higher LNG, coking coal and thermal coal prices. The index has increased by 18.1 per cent in Australian dollar terms. Details are in the attached table and graph.



Graph 2: Source: March 2013 issue of the Bulletin and [‘Weights for the Index of Commodity Prices’](#) (April 2022).

<sup>2</sup> [Ga.gov.au/statistics/frequency/commodity-prices/2022/icp-0822.html](http://Ga.gov.au/statistics/frequency/commodity-prices/2022/icp-0822.html) For further details regarding the construction of the index, please refer to [‘Changes to the RBA Index of Commodity Prices: 2013](#) < in the March 2013 issue of the Bulletin and [‘Weights for the Index of Commodity Prices’](#) (April 2022).

Markets are reaching new highs on economic recovery in the U.S. and across the world<sup>3</sup>. Government stimulus efforts are bolstering global economies and the prospects for reopening from lockdowns has consumers ready to unleash pent-up demand. A new wave<sup>4</sup> of retail traders – spurred in part by direct government payments – is also helping markets climb. Still, whether the spurt of activity has created a bubble that could pop later is a key question in the minds of investors.



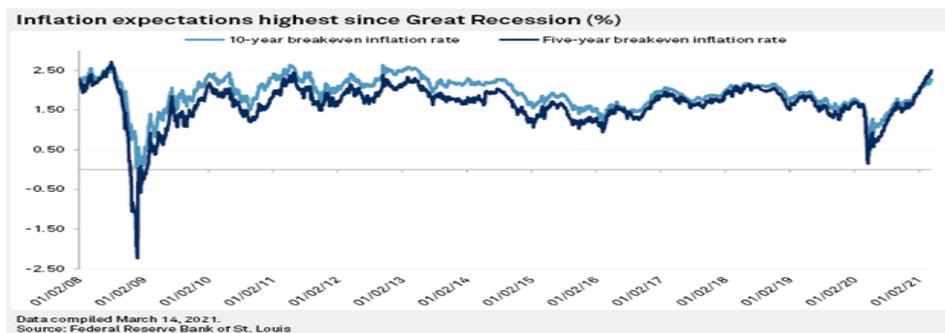
*Analyze:* A large share of such risky borrowing was done by investors seeking to make short-term profits by ‘flipping’ houses and by ‘subprime’ borrowers (who have higher default risks, mainly because their income and wealth are relatively low and/or they have missed loan repayments in the past).

Banks and other lenders were willing to make increasingly large volumes of risky loans for a range of reasons:

- Competition increased between individual lenders to extend ever-larger amounts of housing loans that, because of the good economic environment, seemed to be very profitable at the time.
- Inflation remains a central indication for the economy, affection a range of concerns from consumer prices, wages and how central banks will continue to respond to the crisis.
- A central question on the minds of many is what happens when that support dries up and will the current momentum in the economy be able to sustain itself beyond that point.

<sup>3</sup> Preliminary estimates for August indicate that the index increased by 2.5 per cent (on a monthly average basis) in SDR terms, after decreasing by 7.7 per cent in July (revised). The rural sub-index decreased in the month, while the non-rural and base metals sub-indices increased. In Australian dollar terms, the index increased by 0.8 per cent in August.

<sup>4</sup> PGMI Data 2020, index, PGMI Data index 2021.



a) *Analysis:* Many lenders providing housing loans did not closely assess borrowers' abilities to make loan repayments. This also reflected the widespread presumption that favorable conditions would continue.

When considering the market share of loans between banks and non-bank financial institutions, it is observed that the vast majority consists of loans bank (95%) while the non-bank loan is 5% of the total loan.<sup>5</sup> According to 2016 data, 96.5% of total loans (where total loans means the amount of bank loans and NBFIs) are given by the banking system and the rest, about 3.5% from NBFIs. While in 2017, a decrease in bank loans and an increase in non-bank loans by 0.4 percentage points. Also, in 2018, the weight of bank loans decreases<sup>6</sup> and the non-bank part increases in percentage by 1.1 points. Additionally, lenders had little incentive to take care in their lending decisions because they did not expect to bear any losses. Instead, they sold large amounts of loans to investors<sup>7</sup>, usually in the form of loan packages called 'mortgage-backed securities' (MBS), which consisted of thousands of individual mortgage loans of varying quality.

## 2. Data Analysis

This study, by its very nature, has focused on descriptive analysis. The most basic statistical analysis is descriptive analysis. Through this analysis we make the initial transformation of the data, in order to describe the basic characteristics such as: central tendency, distribution and densities. One of the most effective ways of presenting information, especially numerical ones, is to construct and present the data obtained through graphs. This study, by its very nature, is focused on descriptive analysis. Descriptive analyzes focus on measuring, estimating values, quantities, and distributing the characteristics of the variables taken into the study. Descriptive analysis is advisable to be used for processing data of measurements and observations performed in order to assess the manner and / or extent of reaction and / or dependence of an economic indicator, economic phenomenon, and consumer behavior.

*Below is the data analysis of the distributed questionnaires.*

During the years 2016-2018, the number of financial, non-banking institutions

<sup>5</sup> Albanian bank loans, JERM Study IDRA 2021, p12.

<sup>6</sup> NBFIs Data Analyze 2016,2017,2018, p12,17.

<sup>7</sup> NBFIs Data Analyze 2016,2017,2018, p 18.

has changed; in 2016 there were 28 such institutions, while in 2017 licensed three institutions (Agro & Social Fund, Rea Financial Services) with a total of 31 and in 2018 the license of M-Pesa was revoked with their request by making the current NBF number 30.

According to official data, banks make up 96.9% of the assets in the system total banking while non-banking financial institutions occupy 3.1% of total assets. The share capital<sup>8</sup> of the banking system reached the value of ALL 164.34 billion, with an increase of about ALL 10.1 billion. The capital structure continues to be dominated by foreign capital, which, at the end of 2020, represents about 76.04% of the paid-up capital of the banking system, with a decrease of about 1.12 percentage points compared to the end of 2019. In our country, the state which dominates the most is Turkey, which in the capital structure constitutes a percentage of 27%, and then the banking system with Albanian capital dominates with 23%, in third place is Austrian capital with 20% and after it comes Italian capital.

In total, the most important source of income families, based on the results of the survey, is salary earned working in the private sector (41%).<sup>9</sup> This is followed by pension income (33%) and from income from private enterprise, crafts and agricultural products (26%). The lowest incomes earned are income from properties and grants e the study. Furthermore, from urbanization, the source of income in urban areas it is mainly salary from institutions<sup>10</sup> private (52%) and in rural areas, the most resources important sources of income are entrepreneurship, crafts and agricultural products (42%). Additionally, income from entrepreneurship, crafting and agriculture are a more important source of it income in the North region than in other regions.

	ASSET	LOAN	ROA	CAR	NO OF EMPLOYEES
<b>Count</b>	40	40	40	40	40
<b>Masure</b>	1.36E+08	46563550	0.497675	17.7295	589.925
<b>Standard</b>	1.26E+08	35573900	1.314768	3.40502	407.061224
<b>Min</b>	18795210	7049405	-2.5	12.32	111
<b>0.25</b>	40073040	22156260	0.01925	15.4325	359.25
<b>0.5</b>	77070610	32233300	0.8	17.55	429
<b>0.75</b>	1.97E+08	59950200	1.4925	19	732.25
<b>Max</b>	4.25E+08	1.31E+08	2.2	29.6	1363

*Analysis:* Assets have an average value of 136,000,000 and values range from a minimum of 18,795,210 to a maximum value of 425,000,000 and with a standard deviation of 126,000,000. Loans have an average value of 46,563,550 and its value fluctuates from a minimum value of 7049405 to a maximum value of 131,000,000 and

<sup>8</sup> Dhima, Adrian, 2003, *The reform of public sector in Albania*, The Institute for Legal and Public Publications, Albania MOE. p 6.

<sup>9</sup> UNICEF report 2007, 2009, 2010 Albanian development strategy. Albanais Finance Incomes 2009, pg 10.

<sup>10</sup> NBFIs Data Analyze 2016,2017,2018, p 56.

with a deviation of standard 35,573,900. ROA has an average percentage of 49.76% and fluctuates from -2.5% to 2.2%. The capital adequacy rate has an average value of 17.72%, with volatility from 12.32% to 29.6% and with a standard deviation of 3.40502.

Although Turkish capital dominates the entire system, it is the one that has had the greatest development in terms of the time progress of the capital structure by origin.

b) This study aimed to identify the main specific banking factors that can affect the profitability of Albanian banks and to find out to what extent these determinants exerted influence on profitability.

c) Bank profitability is usually expressed as a function of internal and external determinants. Internal determinants are related to factors that originate from bank accounts and therefore can be called micro or bank specific determinants of profitability.

d) External determinants are variables that are not related to bank management, but reflect the economic environment and legal that affects the operation and work of financial institutions.

In this study, the annual data starting from 2016 to 2020 were used. In our study, only some internal factors of the banking sector, which are:

- Return on Assettes (ROA)
- Capital Adéquat Ratio (CAR)
- Total assettes
- Number of employes
- Laon gante

Only ROA is selected as a dependent variable and shows how profitable a bank is for its assets, while all other variables considered are considered independent variables.

1. *Descriptive statistic data:* Regarding the number of assets of the banks under review, the largest number of them is contained by BKT, which throughout the years has maintained almost the same level and leads the classification. The second bank is Raiffeisen Bank, which in 2016 had a larger number of assets, but until 2020 and because it suffered a slight decrease, it kept almost the same level of assets.

And the third bank ranked for the largest number of assets is Intesa San Paolo Bank, which from 2016 to 2020 has only experienced an increase in the number of assets. The two banks that are ranked last in the classification for the number of assets is Pro-Credit Bank, which has kept the level of assets at low and almost constant values from 2016 to 2020. At the bottom of the classification as a bank with fewer assets is Fi-Bank, which from year to year has experienced a slight increase in the number of assets and why not at the same levels as other banks.

2. *Classification of ROA* - At the top of the classification for the highest ROA of all banks is BKT, which has had high ROA every year from 2016 to 2020. Fi-Bank is ranked behind it, which has experienced decreases and increases in ROA throughout the reviewed period, but still maintained high levels of ROA compared to other banks. Next is Raiffeisen Bank, which had a high ROA level and why in 2020 ROA has suffered a decline compared to other years. As for the lowest ROA, Alpha Bank is classified, for the first 3 years it had a negative ROA, which then started to increase to positive values, but as a bank with the lowest ROA is Pro-Credit Bank, which has

had it for the last 4 years only negative ROA.

3. *Classification of the number of employees* - Raiffeisen Bank has the largest number of employees from the banks included in the study with 1324 employees. Raiffeisen had the largest number of employees over the years in 2016, which decreased until 2019, but increased again in 2020. After it is ranked BKT with 940 employees, and with a variability that has been falling since 2016 to 2020. And the third in the classification is Intesa San Paolo Bank, which is characterized by an increase from year to year and in 2019 had the biggest. At the end of 2020, there were 657 employees. While the fewest employees are classified as Fi-Bank, which over the years is expanding its staff, and at the end is Pro-Credit Bank with 121 employees.

4. *Classification Of Loans* - For the periods taken into consideration, BKT is the bank with the highest level compared to all other banks and why from 2016 to 2020 this value has been decreasing. The second bank in the classification is Raiffeisen Bank, which has maintained almost the same level of lenders over the years. Also, Intesa San Paolo Bank is classified third and it has had almost the same levels, where in recent years it has also experienced slight increases in terms of lending. At the bottom of the classification are Pro-Credit Bank, which has had almost the same level during the period of also examined Fi-Bank which is the bank with the lowest level of lending among all other banks and why from 2016 to 2020 there is only an increase in loans granted.

### 3. Regression analysis

From the regression analysis, our model was statistically significant:

- This is because the Fisher value of the observed model with 15 and 24 degrees of freedom is 9.963, i.e. greater than the Fisher critical value which is 1.938.
- Also, the p-value of our model is 0.000, which is less than the critical value with  $\alpha=0.05$ , and this shows that our model is statistically significant.

From the analysis of the regression results, the econometric model was built that explains the dependent variable, which is presented in the following form:

$R^2$

(Coefficient of determination) marks the number 0.862 or more simply 86.2%, it shows that the variables we took in the study explain the regression model to the extent of 86.2% the variability of the dependent variable. This figure is satisfactory since, to be realistic, the study did not take into account many other internal and external factors that could affect the profitability of Albanian commercial banks. So we come to the conclusion that this value indicates a relatively high explain ability of the variables that we obtained in our study and that are quite representative in our study

*Stresses in the financial system during post covid-19*

Stresses in the financial system first emerged clearly around mid 2007. Some lenders<sup>11</sup> and investors began to incur large losses because many of the houses they repossessed after the borrowers missed repayments could only be sold at prices below the loan balance. The investors became less willing to purchase monetary products and were

<sup>11</sup> Raiffeisen Bank Albania: Raporti vjetor 2016 – 2020; <https://www.raiffeisen.al/alb/about/pages/raportet-vjetore>.

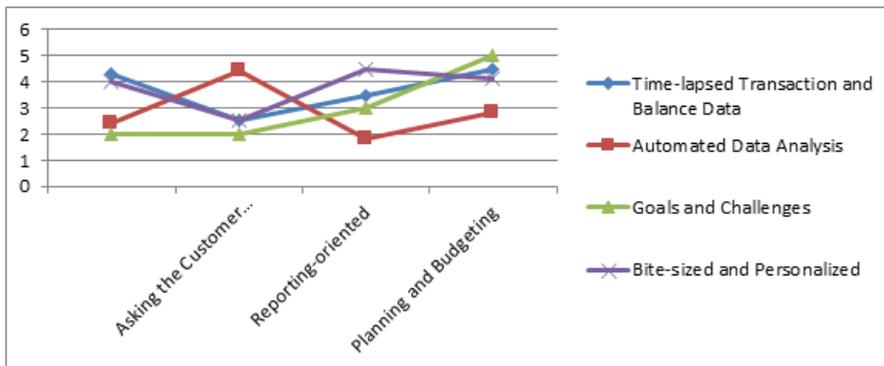
actively trying to sell their holdings. As a result, monetary prices declined, which reduced the value of monetary and thus the net worth of monetary investors. In turn, investors who had purchased monetary with short-term loans found it much more difficult to roll over these loans, which further exacerbated MBS selling and declines in MBS prices.

In response to the crisis, regulators strengthened their oversight of banks and other financial institutions. Among many new global regulations, banks must now assess more closely the risk of the loans they are providing and use more resilient funding sources. For example, banks must now operate with lower leverage and can't use as many short-term loans to fund the loans that they make to their customers. Regulators are also more vigilant about the ways in which risks can spread throughout the financial system, and require actions to prevent the spreading of risks.

Among the independent variables examined, based on the t statistic for the relationship between them, those that have a positive relationship with ROA are: Assets, Number of employees, BKT Bank, FiBank Bank, Intesa San Paolo Bank, Raiffeisen Bank, Tirana Bank, Union Bank. While the variables that have a negative relationship are: Loans, CAR (capital adequacy ratio), ProCredit Bank.

The most important variables of the model are two: CAR, BANKA FIB, UNION BANK; this is because their p-value is less than 0.05. The probability of CAR is 0.008, so less than 0.05 and the probability of FiBank is 0.013, also less than 0.05.

After a wave of bank faults and a spike in the likelihood and frequency of defaults, the hits to corporate credit in 2020 are receding.



*Graph 4: Paints a picture based on a time-lapsed snapshot that doesn't always include recent transactions. Investors who purchased MBS products mistakenly thought that they were buying a very low risk asset: even if some mortgage loans in the package were not repaid, it was assumed that most loans would continue to be repaid.*

Bankruptcies are slowing and a variety of factors from a recovering economy to government support mean companies are less likely to default than they were during the height of the crisis. Corporations are starting to see their credit recover as the number of rising stars pulled into investment-grade ratings from high-yield are growing, and downgrades into junk territory are falling.

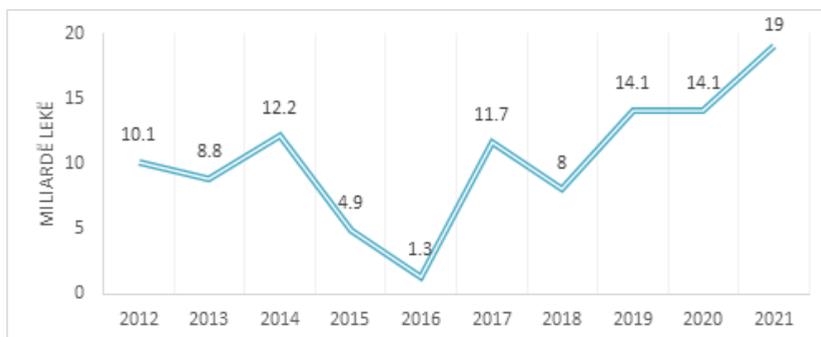
Reliable cash-flow forecasts allow users to anticipate issues and opportunities and

take early action. Enhances a familiar experience and increases engagement with the bank app, proactively preempts information to the user, resulting in higher engagement and usage.

Offers actionable recommendations and automated money management that take away the guesswork. Helps users act on an immediate goal that is within their reach - like spending less on restaurants so they can save for a vacation - setting them up for success rather than failure. With relevant and bite-sized inside and advice, individuals can take actions tailored to their own personal financial situation.

*Policy-makers:*

- a. To make a more complete assessment of the situation and problems faced by the development of small business as a whole.
- b. To suggest some actions that should be taken for the sustainable development of the most important sectors in the development of the country.
- c. To evaluate data on current sources of financing, used by small business entrepreneurs and access to credit.
- d. To serve as a basis to further give some suggestions for taking the necessary actions for the sustainable development of this sector, as well as to increase the level of welfare.



*Graph5: Additionally, banks and some investors increasingly borrowed money for very short periods, including overnight, to purchase assets that could not be sold quickly. Consequently, they became increasingly reliant on lenders – which included other banks – extending new loans as existing short-term loans were repaid.*

The bank with the highest value of profits remains<sup>12</sup> BKT for a total value of almost 7.9 billion lek, an increase of 27% compared to the previous year, followed by Raiffeisen Bank with a net profit of 3.4 billion lek , 132% more compared to the previous year. Other banks that have scoured a profit according to the limit of one billion lek are OTP Albania, with 1.9 billion lek (annual increase of 26%), followed by the American Investment Bank with ALL 1.45 billion ( With an annual increase of 14%) and Credins Bank with ALL 1.2 billion (with an annual increase of 8%). Other banks have reported lower results, but in general most of them have shown an increase compared to last

<sup>12</sup> Ministria e Financave dhe Ekonomisë: Treguesit Makroekonomik 2016-2020;<https://www.financa.gov.al/treguesit-makroekonomik-ne-vite-2/>.

year. People in Albania find it difficult to work with banks, but they still don't use it the full potential of loans from non-bank financial institutions.

## Conclusions

More financial inclusion is needed and non-Bank Financial Institutions are the right option for all those who cannot be financed. Most of the respondents do not know the benefits of services from Financial Institutions. Bank and needs more Financial Education, especially in new developments in the market. Empowering marginalized groups to have more access to information about their options how they can be financed by non-Bank Financial Institutions. Empowerment is necessary especially in the following groups: 18-34, rural areas and women.

From the analysis of the questionnaire data carried out in this scientific paper, we have reached the following findings: Albania is a former communist country whose economic transition has been going on for about 30 years.

- a. The national economy, despite its difficulties and fragility, is being developed by entrepreneurial initiatives.
- b. In many cases with personal financing sources, borrowed from families or relatives, but in the overwhelming majority from banking and financial institutions of the country.
- c. Business activities achieved a significant increase in 2017-2018, but the Covid- 19 situation found them unprepared.
- d. Many enterprises were closed as shown in the analysis of the questionnaires, many others applied for layoffs, losing staff or significantly reducing salaries.
- e. In our findings, 23.9% of business activities were submitted to the credit system, to use these monetary means, to avoid bankruptcy, to continue paying staff, as they did not want to remove qualified staff from work.

If people really understand how financial systems work at a young age, or even older late in life - if they have made poor decisions but learn how to go back and fix them them and start planning for the future - they can take the steps to lead a better life good for themselves. Financial Education is important because it teaches people how to be efficient with their finances.

Only through Financial Education can we eradicate the fear of taking a loan to improve different aspects of life and understand how to manage them properly. In this regard, we encourage all the main actors and influencers of this issue such as the Ministry of Finance. The Bank of Albania and the Ministry of Education to unite and start taking concrete steps in the implementation of educational projects at a national level. We are aware of current programs that do take place in Albania, but we want to advocate a more practical and unified approach to this topic.

## References

- Andrew & Ross 1980: Adopt the new philosophy, The Putnam Publishing Group, ISBN: 039955000-3, p34.
- Bradler A, & Sediss W, 1989, Analysis of covariance structures, The report Company and

HMR training, Ontario, Kingston, p 40.

Dhima, Adrian, 2003, The reform of public sector in Albania, The Institute for Legal and Public Publications, Albania MOE. p 6.

Bass, B.M. (1990). Handbook of leadership New York: Free Press. pp 5.

Dhima, Adrian, 2003, The reform of public sector in Albania, The Institute for Legal and Public Publications, Albania MOE. p 16,21.

ProCredit Bank: Raporti vjetor 2016 – 2020; <https://www.procreditbank.com.al/shq/rrethesh/informacioni-ligjor/raportet-vjetore/>

Raiffeisen Bank Albania: Raporti vjetor 2016 – 2020; <https://www.raiffeisen.al/alb/about/pages/raportet-vjetore>

Tirana Bank: Raporti vjetor 2016 – 2020; <https://www.tiranabank.al/c/7/publikime>

Union Bank: Raporti vjetor 2016 – 2020; <https://www.unionbank.al/raporte-vjetore/>

Ministria e Financave dhe Ekonomisë: Treguesit Makroekonomik 2016 2020 <https://www.financa.gov.al/treguesit-makroekonomik-ne-vite-2/>