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# Non-Performing Loans in the Albanian Banking Sector During the Global Financial Crisis: A Client Group Analysis

**Turan Şan**

University of Tirana – Institute of European Studies

turansan2001@gmail.com

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## Abstract

The increase in Non-Performing Loans (NPLs) within the Albanian banking sector posed a significant challenge during the recent global economic crisis. This study investigates the specific drivers behind this issue and explores potential resolutions through an analysis of bank loans categorized by borrower groups. Given that the overall rise in business loans was largely attributed to loans extended to large enterprises, this segment forms the primary focus of the research. Based on a survey of bankers, key factors contributing to NPL growth include: financing unrealistic projects, borrowers' lack of robust corporate structures, lending decisions influenced by external factors or corruption, adverse impacts of certain government policies, intermittent unfair competition in specific sectors, declining commodity prices, and flawed external audits. A substantial majority (86%) of respondents identified more thorough client analysis, elimination of external influences and corruption in lending, government measures against unfair competition, improved corporate governance in borrowing entities, and more reliable external audits as effective remedies. However, 71% of bankers viewed the situation as typical given Albania's prevailing conditions. The study recommends that comprehensive and objective client assessments by banks, enhanced institutionalization and reliable external auditing for businesses, precise and timely government interventions against unfair competition, and the introduction of innovative financing methods will significantly mitigate the NPL problem.

**Keywords:** Non-Performing Loans (NPLs), Albanian Banking Sector, Financial Crisis, Business Loans, Corporate Governance, Credit Risk Management

## Introduction

The amount of Non-performing loans (NPLs) in the Albanian banking sector has increased considerably with almost continual movements commencing from 2008, the year when the last global economic crisis started to become more effective with covering almost all the countries in the world. As it started in the USA financial market, it affected more the origin country and the regions/countries those have more internationally related and improved financial markets such as Western Europe. Although Albania, as a developing country in transition period, is not in the category of that countries, she has been affected more than what it could be normally. The main reason of this result is that Albania has very strong economic and social relations with Italy and Greece which have had big economic downturn in this period. The total number of Albanian emigrants in the world is about 1.4 million of which 70-75 percent live in Italy and Greece (http://www.punetejashtme.gov.al accessed on 18.02.2017). On the other hand, the number of Albanians who live in the country is 2.876.591 in January 2017(http://www.instat.gov.al accessed on 25.02.2017.)By looking at these figures, it is possible to estimate the importance of remittances in the country's economy.

Albania has an underdeveloped financial system. Financial capital and stock market do not exist. The dominant in the system is the commercial banks which buy treasury bills issued by Bank of Albania with their funds not given as loan since there is no other alternative instrument in the domestic market. Albanian financial market is isolated from foreign markets (Garo and Nikolla, 2015). Moreover, Albania is a net importer country. In the period of 2000-2016, the maximum rate of export/import is 47.6 percent in 2013(http://www.instat.gov.al accessed on 25.02.2017). The countries with trade deficit usually decrease it in economic crisis periods by benefiting from discounts in prices of some goods. These two economic phenomena normally are not positive things, but would have prevented from being affected deeply by the crisis unless some contradictory factors existed. However, the country has been affected seriously. The factor which has made the crisis more severe is the huge decrease in remittances, i.e., from 951.7 million Euros in 2007 to 592.9 million Euros in 2015 (https://www.bankofalbania.org/ accessed on 01.05.2017).The general effects of the crisis together with that of the country specific factor have created liquidity problem which have led to considerable decreases in demand for goods and services. Lower demand has caused less import/production which has raised the unemployment rate from 13.5 percent as at end-2007 to 18 percent as at end-2014 (http://www.instat.gov.al accessed on 25.02.2017).The economic downturn has deteriorated the financial figures of business entities and individuals' incomes who are the major borrowers of the commercial banks. The borrowers have started to pay their debts with delay or even no payment at all. The banks, as a reaction to these negative developments, have become stricter in making new loans, especially to business entities. Both factors have led NPLs level to rise considerably

with reaching its highest level of 23.5 percent as at end -2013. Apart from the above mentioned factors, the following elements have also caused NPLs to reach such high ratios. In the pre-crisis period, the banks aimed at having a boom in lending activity by giving aggressive targets to their sales units and they generally achieved this aim[1], but usually without making enough investigation about the potential clients and analyzing their financial situation, business/investment plans deeply. By the way, there was no credit registry system, which allows banks to see historical and current credit exposure of physical/juridical persons in all the financial institutions, till 2008. Besides that, in some cases, the banks are forced to give credit to improper enterprises or finance investment projects/existing activities at higher than the generally accepted levels because of pressure by influential people or corrupted relations. Another bank specific factor is mismanagement of credit risk, i.e., weak monitoring till repayment of credit becomes a serious problem, not doing or doing late the necessary arrangements (payment rescheduling, restructuring of loan, capitalization of debt in delay, etc.) for hopeful clients. Borrowers related factors have been effective in this phenomenon too. According to the legislation in Albania, financial statements of all joint-stock companies (Sha in Albanian) and also of limited companies (shpk in Albanian), those fulfill two out of three of the conditions, i.e., yearly turnover ≥ 30 million Albanian LEK (ALL), average number of workers during the year ≥30, value of total assets ≥ 40 million ALL in the subject year, have to be audited by a certified accountant or an audit company (http://www.ieka.al,, accessed on 24.02.2017). However, some of the certified auditors are not reliable–something normal in a society existing intensive corruption- and thus lead the banks to get wrong/exaggerated information about the business entities. Unrealistic business/investment plans and misusage of credits are the other factors which create bad loans. By the way, the banks took some measures to prevent from using of credits for the unintended purposes when NPLs started to become a real problem. In Albania, there are 24.554 juridical persons of which only 911 are established in the form of joint-stock company as at end-2015 (http://www.instat.gov.al accessed on 25.02.2017). This shows that there is no –even in documents- corporate structure in most of the business entities that usually leads to make wrong decisions and thus play role in NPLs rise. Meanwhile, some government decisions/applications and improper governance also made negative effect on repayment of bank credits. In some periods, the government made payments to contractors/sellers (especially in the energy sector) with big delays. Within the framework of the improving regulations in some sectors such as education, activity licenses of some companies were cancelled which led them to go bankruptcy. Moreover, corruption and insufficiency in control mechanism by state officers -especially in foreign trade transactions- and some changes in custom tariffs have enabled to create advantage for importers over

[1] For example, the growth rate in the loans to private enterprises in 2007 and 2008 became 48.7 percent and 32.1 percent respectively. (https://www.bankofalbania.org/ accessed on 01.05.2017).

producers or vice versa which have created unfair competition from time to time and thus have resulted in getting worse for some companies. Meanwhile, deficiencies in and slow working of the judicial system have created huge barriers and big delays in collateral enforcement. Meantime, primary commodities' prices in the international markets have decreased considerably in general, another factor of this situation as minerals and crude oil are major in Albania's export.

In this study, first of all, it is aimed to identify NPLs levels in the credit client categories separately -firstly as business/retail and then business loans in subgroups- in order to see in details how such huge increases in NPLs have occurred during the examined period. After that, it is focused on loans to large businesses. Because, the loans given to this client group has been making up the major part of business credits which have contributed more to NPLs rise than retails loans. In this case, it is also possible to say that identifying and understanding the factors which affect large entities directly and more than the other borrower groups help us see the country specific reasons behind this huge NPLs increase and bring some concrete suggestions for resolution of this crucial problem.

## Literature Review

The study, Non–Performing Loans in the Albanian Banking System–Seeing Beyond the Waves-Deloitte Albania, was made to understand the loan quality in the banking system and the actions to improve it. Besides getting information from Bank of Albania and Albanian Association of Banks, a survey was done by getting response from bankers in 15 banks who deal with NPLs. The findings are:1-The prime reason of huge increases in NPLs level is the economic crisis.2-A big part of NPLs is in the construction sector and credits over 200.000 EURO (it reaches the highest ration in loans bigger than one million EURO meaning that larger loans are the most likely to create bad loans.)3-Most bankers believe that real NPLs level is higher than the declared one.4-High lending target is the key internal factor which makes effect on NPLs rise.5-The banks are more careful in making new loans, especially to the more risky industries.6-Poor financial data and planning also lead to NPLs increase. According to the survey results, the banks give more attention to loan monitoring while reducing lending to certain sectors and developing their risk management process, but only seven percent of the respondents see "giving less credit to some sectors" as a remedy to NPLs problem (Ziu et al., 2013).In the article, Loan Management and Its Role in the Lending Process, it is stated that business loans are used by a limited number of companies in a banking system where generally, the quality of credit staff is low and the role of risk management in making credit decisions is small. There is also no portfolio diversification as most of the business loans are given to construction/real estate and trade sectors. The effects of the following factors on NPLs were tested by using some macroeconomic and the commercial banks' data: real GDP growth, strong lending policy, clear separation

between sales and risk management departments, voting right of risk authority, change of credit portfolio level, flexibility in negotiations when dealing with bad loans and number of days that a bad loan goes for monitoring. It was determined that NPLs level has a positive correlation with real GDP growth, strong lending policy, voting right of risk unit in making loans, flexibility in negotiations and change of portfolio level while the others do not have significant effect on NPLs amount (Nazaj and Meka, 2014). Sofika Nazaj analyzed loan making approaches and practices in the last decade by using the banking sector data in her conference paper named, Adverse Effects of Banking Competition in Albania. It was determined that funds surplus in the local market before the economic crisis made the commercial banks very aggressive in lending and thus they financed risky projects in an unconsolidated business environment. The consequences of these mistakes in an economic crisis period have become very heavy which have resulted in huge NPLs levels (Nazaj, 2013).

The research study, Macroeconomic and Bank-Specific Determinants of Non-Performing Loans in Greece: A comparative Study of Mortgage, Business and Consumer Loan Portfolios, was made to identify the determinants of NPLs for the three loan categories separately. The data used includes the figures of nine commercial banks from 2003Q1 to 2009Q3. The results show that NPLs in the Greek banking system can be explained mainly by real GDP growth rate, unemployment rate, loan interest rates, public debt and management quality. However, the quantitative effect of the factors changes according to credit type. Consumer loans are very sensitive to lending interest rate, business loans to real GDP growth while mortgage loans are the least affected by macroeconomic conditions (Louzis et al., 2012). In the research paper named Macroeconomic and Institutional Determinants of Non-performing Loans, macroeconomic and institutional determinants of NPLs rise in some Central, Eastern and Southeastern European countries in 2006-2013 term was examined. Country specific macroeconomic and financial indicators as well as institutional variables were used as independent variables. It was found that NPLs level has a negative relation with GDP growth while in a positive relationship with loan amount in foreign currencies and foreign exchange rates showing that the more credit exposure in foreign currencies, the higher bad loans ratio ,especially when local currency losses value against the hard ones. Inflation rate is not statistically significant. Among the institutional variables, only financial markets development level is statistically significant meaning that NPLs level is lower in the countries with more improved financial markets (Tanasković and Jandrić, 2015). In the research article, The Drivers Behind Household and Corporate Non-Performing Loans Ratio: The Case of Croatia, the relation between NPLs and Croatia's macroeconomic performance from 2001Q4 to 2014Q1 was analyzed by separating the loans as household or corporate in order to see the similarities and differences between them. The results of the study which was made by using secondary data are:1-NPLs level for both categories are strongly affected by economic cycles which was proved by using

real GDP and industrial production index as independent variables.2-There is a significant positive relation between corporate bad loans amount and unemployment rate.3-The relation between credit interest rates and NPLs ratio is positive in the long run, but negative in the short run for both categories (Zivković et al, 2015).

Non Performing loans in Commercial Banks: A Case of CBZ Bank Limited in Zimbabwe was prepared to find out the causes of NPLs increase in the period of 2009- 2011. The data were collected by interviews and questionnaires. The Findings indicate that the upward trend in bad loans commenced in 2009 when the multicurrency system was adopted. The external factors, namely natural disasters, government policies and integrity of borrowers played important role in NPLs rise while the influence of the internal factors such as wrong credit policy, poor financial analysis, weak monitoring, mistakes in risk management and insider credits remained at low levels. The majority of bad loans occurred in agriculture and manufacturing sectors due to unfavorable climate conditions and imported products with cheaper prices. This situation normally deteriorated liquidity and profitability of the bank (Mabvure et al., 2012). In the research paper, Management of Non Performing Loans (NPLs) of Banks in Bangladesh - An Evaluative Study, magnitude of NPLs was discussed with investigating into its different reasons. Primary data, which was obtained from 30 managers of the 10 largest banks through questionnaire, and secondary data were used. Political influence was perceived as the most significant external factor of bad loans coming before the national economic downturn. Not giving some important information at evaluation period and misusage of credit are the major borrower related elements of and lack of aggressive credit collection procedure and poor credit risk management are the most important bank related elements of NPLs. The other substantial factors are quick credit approval due to pressure and also high interest rates. Some improvements in assessment of new credit requests have been done through better client analysis and information sharing among the banks (Hasan et al., 2013).The study named The Determinants of Non-Performing Loans in the 'MINT' Economies was made for determining the major factors of NPLs in Mexico, Indonesia, Nigeria and Turkey. The period of 1998- 2014 was analyzed by using secondary data and the following common results were obtained for all the countries. Capital adequacy ratio, return on assets, liquidity ratio and total bank credit amount are the main bank specific elements of bad loans. NPLs is in a significant negative relationship with capital adequacy ratio, return on assets and liquidity ratio while in a very significant positive relationship with credit interest rates, money supply growth, nominal exchange rate and total bank credit amount. It was also determined that corruption has a very strong positive relationship with NPLs (Morakinyo and Sibanda, 2016).

## Methodology

In this study, primary and secondary data are used. Primary data were collected by getting response to a questionnaire from the representatives (35 bankers) of all the commercial banks in Albania, who work at managerial positions in the divisions of business credits evaluation/allocation, credit risk/bad loans collection or are managers of big branches. Although it was required to put the given factors in order by using Likert Scale Method in the first two questions, the respondents also had the possibility of specifying other factors which do not exist in the questionnaire and of writing down their opinions if not agreed with the statement in "yes" or "no" questions (appendix 1). Secondary data were obtained from the annual reports of and semi–annual financial stability reports of Bank of Albania. The examined period starts with 2007 as it was the last year before the global economic crisis started to show its effects in Europe. By this way, it can be seen how these figures were before the crisis and to what extent they have changed during this period.

## Data Processing and Findings

As it is seen in the below table, distribution of the bank credits between business enterprises and households has shown some fluctuations, but has changed in favor of business loans in this period (table 1).

Table 1: Distribution of the Bank Loans (in Percentage)

| Loan Type/ Year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Business | 64.2 | 64 | 75.7 | 69.9 | 73.7 | 74.1 | 69 | 67 | 73.4 | 71.9 |
| Retail | 35.8 | 36 | 24.3 | 30.1 | 26.3 | 25.9 | 31 | 33 | 26.6 | 28.1 |

Source: Annual Reports of and Financial Stability Reports of Bank of Albania (2007 – 2016)

In the table below, NPLs levels in business and retails loans are shown separately. As it is seen, they were very near each other before the global economic crisis started to show its effects in Albania and both have increased considerably with continual movements from 2008 to 2012. However, the difference between these two ratios have widened as the increase in business loans have become considerably higher than that in retail loans. Meanwhile, starting from 2013, NPLs ratio of retail loans have shown continual decreases while it continued to increase in 2013 too and then has made ups and downs on business side and also in total loans since a big part of the lending is for business enterprises. A notable decrease in NPLs level occurred in 2015 when the write off process started by the new regulations (table 2). The banks are obliged to monitor the credits, which have been recorded in lost category for more than three years, out of their balance sheets. The amount of written off loans in 2015

is 26.6 billion ALL of which about 21 billion ALL is business loans. In this period, the amounts of total and business bad loans decreased by 29.5 billion ALL and 19.1 billion ALL respectively which shows that the quite big part of improvement in NPLs ratio was due to the write off process and the positive change was only on retail side as the situation in business loans even worsened little. In 2016, although 12.6 billion ALL write off was done, the amount of bad loans increased by 3 billion ALL, which shows that a change for the worse in credits continued though the improvement in retail credits (https://www.bankofalbania.org/ accessed on 01.05.2017). Meantime, the relation between NPLs ratio and real GDP growth rate (the main sign of economy) have not been in the way it should be normally in most part of the period when the business loans and total loans are taken into consideration. This indicates that there are also some other factors -except economic downturn- behind the huge increase of NPLs rates in the business loans and total loans (table 2).

Table 2: NPLs Levels of the Loan Categories & Real GDP Growth Rate (in Percentage)

| Indicator/ Year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| NPLs | 3.4 | 6.6 | 10.5 | 13.9 | 18.8 | 22.5 | 23.5 | 22.8 | 18.2 | 18.3 |
| NPLs(Business Loans) | 3.6 | 7.6 | 12.3 | 15.5 | 20 | 24.5 | 26 | 25.1 | 20.1 | 21.4 |
| NPLs (Retail Loans) | 3 | 5.5 | 8.2 | 11.8 | 15.3 | 16.9 | 16.2 | 16.1 | 12.9 | 10 |
| Real GDP Growth | 6 | 7.5 | 3.7 | 3.75 | 3.17 | 1 | 1.45 | 1.45 | 2.61 | 3.45 |

Source: Annual Reports of and Financial Stability Reports of Bank of Albania (2007-2016)

Meanwhile, the chronic problem in repayment of loans caused Albania to be in the seventh place in the highest NPLs level ranking among the countries for which information obtained (http://data.worldbank.org, accessed on 01.05.2017).

In this research, it is aimed to analyze the repayment problem in business loans since the trouble is mostly there. But, before that, it is necessary to see the composition of them in order to better determine the most problematic category and focus on that part. In the examined period, credit to large enterprises has always had the biggest portion among the categories and moreover, its share has increased considerably with reaching its peak of 63.8 percent as at end-2015 (table 3).

Table 3: Distribution of Business Loans (in Percentage)

| Loan Category/Year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Small Enterprises | 31.4 | 26.5 | 21.1 | 18.9 | 20.1 | 17.3 | 17.0 | 18.9 | 18.4 | 22.3 |
| Medium Enterprises | 27.5 | 26.2 | 26.1 | 21.6 | 20.0 | 19.0 | 20.6 | 19.4 | 17.8 | 21.3 |
| Large Enterprises | 41.1 | 47.3 | 52.7 | 59.5 | 59.9 | 63.7 | 62.4 | 61.7 | 63.8 | 56.4 |

Source: Annual Reports of and Financial Stability Reports of Bank of Albania (2007-2016)

The questionnaire was realized with the purpose of putting in rank the possible specific factors of having very high NPLs levels in loans to large enterprises and the remedies for the resolution as well as of getting known the factors which do not exist in the questionnaire and the respondents' opinions about this issue (appendix 1). The answers for the first two questions were ranked by using weighted grade method in order to show fairly the respondents' evaluation. The factor which make the most effect on NPLs rise , financing unrealistic investment projects (191 points), is followed in order by: lack of corporate structure in companies (168 points), giving credit to improper enterprises or excessive lending (162 points), government decisions' negative effects on some ongoing activities (148 points), unfair competition in some businesses (138 points) and the last two namely, drastic decreases in primary commodities' prices in the international markets (87 points ) and audit by unreliable external controllers (86 points). The factors which do not exist in the questionnaire, but were specified by the respondents are 1-Aggressive lending targets by two respondents.2-Lack of modern managing style and qualified staff by one respondent.3-Change of the destination of investment funds by one respondent. 4-Lack of stock exchange market and concentration of investments in certain fields by one respondent. According to the respondents, a deep and comprehensive analysis of potential borrower's current situation and business/investment plan (153 points) comes first among the factors which lead to considerable decrease in bad loans amount. The other factors in order are: elimination of external factors' power and corruption in decision making process (109 points), necessary measures by the government to prevent unfair competition (97 points), establishment of corporate structure in borrower enterprises (91 points) and external audit by reliable controllers (75 points). Six respondents specified some other factors as follows:1-Better coordination between the commercial banks and the state institutions.2-A specific and tailor made investigation about potential borrower so as to identify the unseen dynamics, influencers and motivators which affect borrower's performance and the other is payment in time by the government for the public works done by the contractors.3-Debt settlement in bankruptcy/bailiff execution cases to prevent from facing with low execution values and the other is to get credit from the banks where

the borrower has no or little loan. 4-Improvement in the legal execution processes. 5-Advancement in the government's fiscal policy. 6- Reducing informal economy so as to have more reliable financial reports. Another result shows that 30 respondents out of 35 agree with the proposed opinion that the factors mentioned in the second question as remedy cause considerable decreases in NPLs level. One of the "yes" said respondents thinks that these factors make positive effect on new loans, not on the existing ones while one respondent who said "no " expressed that only the application of the new bankruptcy law adopted can decrease NPLs amount. According to the answers given to the last question, 25 respondents out of 35 think that this situation is normal for a developing transit economy in an economic crisis period. Five among the respondents who said "this is something special for Albania" stated the followings as country specific factors which caused very high NPLs levels:1-In a fragile economy, the banks made wrong decisions with inexperienced staff under political interferences and corruption which led to failure and also restructuring or liquidation of bad loans is very difficult due to weak institutions and inefficient judicial system.2-The major players in the banking sector chose large companies as preferable group for lending in order to reach their targets easily and with the thought that big companies were more stable and better structured than the others, but they did not do proper due diligence about them.3-The crisis have hit the large companies more than the other borrowers as most of them lack the required management style for them. 4-Aggressive loan targets in a non-established economy.

## Conclusion

NPLs ratio in Albania has shown huge and almost continual increases since 2008, the year when the last global economic crisis started to affect Europe. Although its effect has become more in the developed countries which have improved financial markets, Albania, as a developing country, has been affected deeply due to her very strong economic and social relations with Italy and Greece which have had big economic downturn in this period. The country's underdeveloped and isolated financial market and also being a net importer were important factors to mitigate the negative effects of the crisis, but the big decrease in remittances, i.e., from 951.7 million Euros in 2007 to 592.9 million Euros in 2015. The crisis started with lack of liquidity which has deteriorated the other macroeconomic indicators and thus the borrowers have had difficulties in loan repayments. The commercial banks have reacted to the rise in bad loans by making less new loans, especially to business entities. Besides that, the following elements, which make more effect on business loans, have led NPLs ratio to increase considerably and almost continually with reaching about one fourth of the total credits in the banking system. Firstly, some important mistakes have been made by the banks in lending processes due to inexperienced staff, corrupted relations, influence of powerful people, aggressive lending targets, lack of credit registry system (till 2008) and improper risk management. Secondly, deficiencies in external audit, lack of corporate structure, exaggerated business/investment plans and misusage of

loans have played role as borrower related factors. Thirdly, some government applications such as late payment to contractors, new regulations in certain sectors and deficiencies/delays in governance have made negative impact on some companies' activities. Fourthly, slow and ineffective working of the legal system and fifthly, considerable decreases in primary commodities' prices in the international markets are the other factors of this undesirable situation.

In the examined term, the changes in real GDP growth rate usually have not been enough in explaining the huge increases in NPLs level indicating the existence of some other factors except deterioration in the economy. The portion of business loans in total loans has increased and also the share of loans to large enterprises in business loans have risen considerably while NPLs ratio has shown huge and almost continual rises. These parallel changes in considerable amounts mean that large enterprises have made much more effect on NPLs increase than the other borrower groups. According to the responses by 35 bankers to the questionnaire about NPLs in loans to large enterprises, the main factors which cause NPLs are: to finance unrealistic investment projects ,lack of corporate structure in borrowers, to give credit to improper enterprises or excessive lending, the effect of some government decisions/applications on ongoing activities, unfair competition in some businesses from time to time, decreases in primary commodities' prices and audit by unreliable external controllers while the major remedies are (by 86 percent of them): a detailed analysis of potential clients, elimination of external factors' power and corruption in decision making process, necessary measures by the government to prevent unfair competition in time, establishment of corporate structure in borrowers and external audit by reliable controllers. According to 71 percent of the respondents, this situation is normal for Albania under the existing conditions of the country.

The general trend of NPLs ratio has been downward since 2014, thanks to retail loans and mostly the changes in write off regulation in 2015. The real decrease has become in a very small rate as the situation in business loans, which has a quite big portion in total credits, has even worsened little in this period. For this reason, NPLs level is still very high and takes place on agenda as one of the most important problems of Albania. Positive change in macroeconomic parameters which is not expected in the short run, general measures/actions by the banks/related state institutions surely lead to some decrease in bad loans amount, but to make a considerable decrease and bring a permanent resolution will be possible only by lowering NPLs rate in business loans, especially in credits to large enterprises. The suggestions for realizing it are:1-The banks have to improve their lending management, especially by paying attention to elimination of external factors' influences and corrupted relations as well as better analyzing of potential borrowers.2-Establishment of corporate structure in borrowers is needed for better management and more precise investment plans.3-External audit has to be done more seriously and correctly and thus the banks will have more reliable financial information about their credit clients.4-The government

should take the necessary measures to prevent unfair competition without delaying which occurs in some sectors from time to time and also support the producers/exporters. 5-Improvements in the financial system such as launching stock exchange market and private sector bonds are necessary to create alternative financing methods for large enterprises.

**Appendix a: Questionnaire**

Having very high levels of Non – Performing loans (NPLs) in the Albanian banking system (18.3 percent as at end- 2016) is currently one of the main issues of the country. NPLs amount has increased considerably with almost continual movements starting from 2008. Meanwhile, in the period of 2008- 2016, the share of business loans in total loans have increased from 64.2 percent to 71.9 percent and also the portion of loans to large enterprises in business loans have risen from 41.1 percent to 56.4 percent. These changes in the same direction indicate that the effect of lending to big companies on NPLs rise has been much more than that of the lending to the other groups.

1- Please rank the factors below according to their influence on NPLs rise in credits to large enterprises (1 shows the biggest effect).

- External audit by an unreliable company
- Giving credit to an improper enterprise or financing an investment project/existing activity at higher than the generally accepted levels because of pressure by influential people or corrupted relations
- Financing an unrealistic investment project
- Unfair competition
- Lack of corporate structure in borrower enterprises which usually leads to make wrong decision
- Government decisions/applications and payments with delay which make negative effect on an ongoing activity
- Drastic decreases in primary commodities' prices in the international markets
- Specify if any other……..

2- Please rank the factors below according to their possible effect on NPLs decrease in credits to large enterprises (1 shows the biggest effect).
- External audit by a reliable company
- Elimination of external factors' power and corruption in decision making process
- Analysis of investment projects deeply and comprehensively by bankers
- Necessary measures by the government to prevent unfair competition
- Establishment of corporate structure in borrower enterprises
- Specify if any other……..

3- Do you think that the factors mentioned in the second question lead to considerable decreases in NPLs level excluding the possible effects of economic recovery and the

other regulations/measures by the government/the banks? If "no", please explain shortly why?
4-Business loans, whose big part given to large entities, has a considerably higher NPLs ratio than retail loans. This situation is
a) A normal result for a developing transit economy in an economic crisis period.
b) Something specific for Albania.
If you think it is specific, please write down your opinion shortly.

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