

Comparison between Macedonian and Albanian Retail Banking Sector

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Abstract Consolidation of the banking sector, as well as the presence of well recognized banking brand in Macedonian and Albanian banking system brought a tremendous change in retail banking market and redesigned the relationship between banks and clients. This trend accompanied with an aggressive strategy that initially caused the growth of the deposit base and then followed by aggressive retail banking strategy that caused the restructuring of retail cover market. This qualitative study uses second hand data obtained by national banks of both countries in order to depict the scope and penetration of retail secured and unsecured loans as well as the deposits and their distribution to Macedonian and Albanian retail banking market. Moreover the key economic characteristics and indicators and Herfindahl index and CR5 are analyzed in order to measure the key banking performance. Since the retail banking plays a crucial role in both countries, analyzing the similarities and differences of distributed secured and unsecured loans in one side, the deposit base and credit portfolio quality are the main precondition the show the performance and retail banking indicators of both countries.

Key words Retail banking, retail credit, retail deposits

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1. Introduction

It is well known that commercial banks especially retail banking plays a crucial role in any national economy. The role of financial intermediation in the real economy is crucial for economic growth and prosperity. Financial intermediaries represent financial institutions through which savers can indirectly provide funds to borrowers.¹

The correlation between distributed retail secured and unsecured retail loans in one side and the role of deposits base in other side are directly linked to aggregate consumption which is the main GDP component in any economy. Therefore, analyzing the differences and similarities between Macedonian and Albanian banking system respectively retail segment is the main goal of this research.

Retail banking is very broad concept in nature. It expresses the dealing of commercial banks with individual consumers both in assets and liabilities. By the definition, retail banking represents "typical mass-market banking in which individual consumer use local branches of large commercial banks. Services offered include savings and checking accounts, mortgages, personal loans, debit/credit cards and certificate of deposits (CD)².

Consumers in different position in terms of monthly income versus monthly expenses have different structure and consumption behavior. It is well known that coverage ratio represent the ground not only to economist to analyze the welfare of the households as fundamental economic units in any real economy, but also alter the commercial banks to review projections with demand and supply of credit products.

¹ Mankiw N.G., *Economics*, South – Western CENGAGE learning, 2nd edition, p. 553

² <http://www.scribd.com/doc/48511883/retail-banking>, p. 8

2. Comparative Indicators of key economic figures in the republic of Macedonia and Republic of Albania

Before we looking at the Macedonian and Albanian retail banking segment in an attempt to understand and compare the retail market, the outlook of key economic figures in both countries are robust tool to analyse the background of supply and demand of retail banking products.

Key economic and financial indicators are statistics that shows the snapshot and conditions of general economy in any country. Therefore, figures represent in table that cover boom and boost period (2006-2011) in both countries shows the general economic performances and the economic level of both countries.

Table 1. Albanian main Economic Characteristics and Indicators

Key economic figures	2006	2007	2008	2009	2010	2011
GDP (EUR bn-nominal)	7.2	7.8	8.9	9.1	9.3	9.6
GDP growth (%yoy)	5.4	6	7.9	3.3	3.9	2.6
GDP per capita	2,286	2,461	2,808	2,736	2,906	3,429
Industrial Output (%yoy)	5	4.5	4.5	1	3	3
Unemployment rate (avg, %)	13.9	13.2	12	13.2	13.5	13.25
Budget balance, ALLbn	-29.4	-34.1	-60.3	-79.5	-88.1	-46.8
Gen, budget balance (% of GDP)	-3.3	-3.5	-5.5	-6.9	-7.2	-3.5
Inflation rate (%yoy)	2.5	3.1	2.2	3.5	3.2	1.7
Central Bank policy rate, %	5.5	6.25	6	5.25	5	4.75
Current account, EURbn	-0.5	-0.8	-1.3	-1.4	-1.2	-1.1
Current account % of GDP	-6.6	-10.4	-15.1	-15.2	-13.8	-11.5
Total External Debt, EURmn	1,232.30	1,295.20	1,488.90	1,480.80	1,328.70	2,068
Gross external debt (% of GDP)	17.2	16.47	17.2	17	17	21.54
Goods exports EURbn	0.6	0.8	0.9	0.7	1.2	1.4
Goods imports EURbn	2.3	2.8	3.3	3	3.5	3.9
FDI percentage of GDP		6	6.7	6.5	6.4	6.1
Official FX reserves EURbn	1.3	1.5	1.7	1.7	2	2.1
ALL/EUR, avg	123.07	123.61	122.77	134.92	137.76	140.34

Source: National Bank of Albania

Table 2. Macedonian main Economic Characteristics and Indicator

Main Economic Features & Indicators of The republic of Macedonia	2006	2007	2008	2009	2010	2011
GDP real growth rate	5.7	6.1	5	-0.9	2.9	2.8
Inflation (end of period, on annual base, in %)	6.4	6.1	4.1	-1.6	3	2.8
Retail Price Index (end of period, on annual base, in %)	5.4	6.4	2.8	-0.9	3.7	3.1
Unemployment Rate (in %)	34.9	34.9	33.8	32.2	32	31.4
Budget Deficit (Central budget and funds budget balances as % of GDP)	0.5	0.6	-0.9	-2.7	-2.4	-2.5
Money supply M1 (annual growth rates)		30.7	14.5	-3.5	9.8	6.9
Money supply M2 denar (annual growth rates)	31.7	41.1	0.8	-5.5	10.9	10.1
Money supply M4	25	29.3	11.2	6	12.2	9.7
Bank and savings houses credits to the private sector (annual growth rates)	30.5	39.2	34.4	3.5	7.1	8.5
Weighted interest rates on total extended denar credits	11.3	10.2	9.7	10.1	9.5	8.9
Weighted interest rates on total	4.7	4.9	5.9	7.1	7.1	5.9

Main Economic Features & Indicators of The republic of Macedonia	2006	2007	2008	2009	2010	2011
accepted denar deposits						
Average exchange rate MKD/EUR	61.19	61.18	61.27	61.51	61.53	61.55
Average exchange rate MKD/USD	48.79	44.72	41.86	44.08	46.46	44.23
Exports f.o.b (in million of USD)	2,410.73	3,391.53	3,983.32	2,702.33	3,345.00	4,428.90
Exports f.o.b (in million of EUR)	1,914.00	2,472.20	2,692.60	1,932.62	2,530.10	3,178.90
Imports f.o.b. (in million of USD)	3,671.25	5,030.00	6,573.20	4,871.00	5,264.00	6,759.40
Imports f.o.b. (in million of EUR)	2,915.50	3,653.20	4,455.10	3,492.20	3,977.90	4,860.60
Trade balance f.o.b (in million of USD)	-1,260.50	-1,638.50	-2,589.90	-2,168.80	-1,918.90	-2,330.50
Trade balance f.o.b. (in million of EUR)	-1,001.50	-1,181.00	-1,762.50	-1,559.60	-1,447.80	-1,681.80
Current account balance (as % of GDP)	-0.60	-7.10	-12.80	-6.80	-2.00	-3.00
Foreign direct investments in Republic of Macedonia (in million of USD)	424.20	699.10	587.00	197.10	211.00	463.30
Foreign direct investments in Republic of Macedonia (as % of GDP)	6.5	8.6	6	2.1	2.3	4.4
Foreign direct investments in Republic of Macedonia (in million of EUR)	344.8	506	399.9	145	160	336.8
Foreign direct investments in Republic of Macedonia (as % of GDP)	6.6	8.5	6	2.2	2.3	4.5
Gross foreign reserves (stock, end of period in million of USD)	1,865.80	2,239.60	2,107.60	2,290.50	2,276.90	2,676.90
Import coverage (gross foreign reserves in USD/import)/ month	5.3	4.6	3.3	4.8	4.5	4.1
Gross foreign reserves (stock, end of period in million of EUR)	1,416.70	1,524.40	1,494.90	1,597.50	1,714.50	2,068.90
Import coverage (gross foreign reserves in EUR/import)	5	4.3	3.5	4.7	4.5	4.5
Gross external debt (as % of GDP) USD	50.3	51.1	47.4	58.2	58.3	59.9
Gross external debt (as % of GDP) EUR	47.9	47.6	49.2	56.4	58.2	64.6

Source: National Bank of Macedonia

3. The main Characteristics of Macedonian and Albanian Banking System

Comparison of banking system of countries that have almost same economic volume is carries out in parallel to highlight the main similarities and differences between them. The aim of comparison is to provide information related to banking sector and how the sector have evolved in last decades.

- **Universal Banking** - Types of Banking that combines the characteristic of both commercial and investment Banking

- **Dominant Sector within the financial System** – The commercial banks dominate the Albanian financial system with more than 95.5%, whilst the commercial banks manage more than 92% of the Macedonian financial system

- **Mainly Foreign Owned** - the commercial banking structure in the republic of Macedonia mainly foreign owned. 12 out of 17 banks are foreign capital. While, the commercial banks in the republic of Albania represent almost the same structure, where 14 out of 16 banks are foreign owned.

- **Presence of well recognized banking Brands** – The Macedonian banking structure mainly is dominated by regional banking brands NLB, NBG etc with exception of Societe Generale.

The Albanian banking landscape is dominated with more worldwide recognized banking brands as Raiffeisen, Societe Generale, Credit Agricole, Intensa san Paulo, American Bank and some regional recognized banking brand.

- **Over domination of banking system by three banks** – Even though the market structure of the Macedonia banking sector is structured as perfect competition, three large banks dominate the credit market with 67.6% of credits and 70.3% of deposits.

The Albanian banking sector is lead by three main banks that control 58.5% of credits and 60.5% of deposits.

Table 3.

	Number of banks	Number of citizens per credit institution	Number of employees in credit institution	Herfindahl index of credit institution ³	CR5 (assets) of credit institution ⁴
Macedonia	17	413	6,011	1,524	76.6%
Albania	16	529	6,384	1,400	72.0%

4. Credits Distributed to Economy

In the last decades the banking industry in the transition countries especially in Macedonia and Albania has shown a rapid change. The continuous regulation of the deregulated banking sector has opened the way to the commercial banks to apply proactive strategy and to reimburse the optimism which was lost during the period of transition. The highly increased competition in last year's in this industry, at the same time the pressure of the foreign and domestic stockholders that applies to the banks management, has mobilized the banking sector to be a more vigilant and flexible in order to achieve a stated goal. For this reason, the strategies of commercial banks seem to be the main tool to fulfill the projected targets and to survive in volatile economy and competitive environment.

This dynamic of change that began in the middle of the past decade continued with rapid growth until the appearance of the global financial crisis, to slow down thereafter and continue with a moderate growth pace. This period of rapid growth of the so-called "boom" period by commercial banks, restructured lending markets and increased indebtedness of enterprises and citizens. In the meantime, the rapid indebtedness period of the citizens followed by economic instability so-called "BUST" period that caused serious problems and consequences on the quality of credit portfolio as well as in personal finances of clients.

Table 4.

Macedonia	2006	2007	2008	2009	2010	2011
Credit to economy (m EUR)	1,460	2,030	2,730	2,824	3,033	3,291
In % to total assets	76.56	55.58%	66.69%	64.68%	61.09%	61.11%
Credit/Deposits ratio	72.93%	80.94%	106.89%	92.47%	87.48%	86.45%
Albania	2006	2007	2008	2009	2010	2011
Credit to economy (m EUR)	1,553	2,401	3,136	3,124	3,405	3,822
In % of GDP	31.3	30.78%	35.24%	34.33%	36.61%	39.81%
In % to total assets	31.3	39.36%	46.88%	48.63%	47.70%	47.40%
Credit/Deposits ratio	37.41%	48.51%	62.63%	62.08%	57.85%	57.47%

4.1. Deposit Base

In the last decade total deposits has consistently followed a rising trend, even after the global financial crisis of the year 2007 -2009 the deposits base in commercial banking in both countries remain stable As we can seen from table below both countries shows increasing trend in deposits base. However, the Albanian banking system compare to Macedonia has more deposits potential for lending activities.

Table 5.

Macedonia	2006	2007	2008	2009	2010	2011
Total deposits (mio EUR)	2,002	2,508	2,554	3,054	3,467	3,807
In % of GDP	35.58%	45.40%	46.23%	49.03%	52.11%	53.78%
Retail deposits (mio EUR)	1,141	1,454	1,506	2,015	2,392	2,702
In % of GDP	21.98%	26.32%	27.26%	30.29%	35.95%	38.10%

³ * A Member State's Herfindahl index is calculated as the sum of the squares of all the credit institutions' market shares in terms of total assets, European Central Bank Euro System

⁴ *The CR5 of a Member State is the percentage share of the five largest credit institutions, ranked according to assets, in the sum of the assets of all the credit institutions in that particular Member State. European Central Bank Euro System

ALBANIA	2006	2007	2008	2009	2010	2011
Total deposits (mio EUR)	4,151	4,949	5,007	5,032	5,886	6,651
In % of GDP	57%	63.45%	56.26%	55.30%	63.29%	69.28%
Retail deposits (mio EUR)	3,343	3,985	4,276	4,296	4,987	5,743
In % of GDP	46.1	51.09%	48.04%	47.21%	53.62%	59.82%

4.2. Total Credits Distributed

Table 6.

Macedonia	2006	2007	2008	2009	2010	2011
Corporate loans (m EUR)	972	1,265	1,679	1,754	1,908	2,071
Retail loans (m EUR)	488	765	1,051	1,070	1,125	1,220
Total Credits	1,460	2,030	2,730	2,824	3,033	3,291
Albania	2006	2007	2008	2009	2010	2011
Corporate loans (mio EUR)	1,040	1,549	2,048	2,214	2,473	2,803
Retail loans (mio EUR)	513	853	1,088	1,047	1,065	1,019
Total Credits	1,553	2,402	3,136	3,261	3,538	3,822

5. Key Financial indicators of banking Industry

Key financial ratios can shed light on how a banks, in this particular research how banking system of both countries earns its money. As we can see from the table below there are some similarities and differences between countries.

5.1. Credit Quality

Table 7.

Macedonia	2006	2007	2008	2009	2010	2011
Standard loans in %	87.30%	90.70%	93.20%	91.40%	90.25%	90.75%
Past due loans in %	12.72%	9.22%	6.80%	8.55%	9.75%	9.25%
Albania	2006	2007	2008	2009	2010	2011
Standard loans in %	97.00%	96.00%	93.00%	89.00%	86.00%	81.20%
Past due loans in %	3.00%	4.00%	7.00%	11.00%	14.00%	18.80%

5.2. Capital Adequacy Ratio

Table 8.

	2006	2007	2008	2009	2010	2011
Capital adequacy Ratio %						
Albania	18.1	17.1	17.2	16.17	15.38	15.6
Macedonia	18.3	17.0	16.2	16.4	16.1	16.8

5.3. Profitability of Commercial Banking

Table 9.

In million EUR	2006	2007	2008	2009	2010	2011
Albania	59.8	86.7	59.3	25.69	48.39	5.1
Macedonia	45.5	59.3	55.4	27.2	37.50	19.20

5.4. ROA and ROE

Table 10.

Profitability - Macedonia	2006	2007	2008	2009	2010	2011
RoA	1.8	1.8	1.4	0.6	0.8	0.4
RoE (IFRS)	12.3	15.0	12.5	5.6	7.3	3.4

Profitability - Albania	2006	2007	2008	2009	2010	2011
RoA	1.36	1.6	0.91	0.42	0.72	0.1
RoE (IFRS)	20.2	20.7	11.3	4.6	7.6	0.8

6. Comparison of Macedonian to Albanian Retail banking Structure

The data obtained from National Bank of Macedonia and National Bank of Albania provides a comprehensive approach in order to compare and analyze Macedonian and Albanian retail banking structure. Each important aspects of each market are explored in order to find out the potentials as well as strategies applied by commercial banks in both countries.

6.1. Retail Deposits

Table 11.

Retail deposits (mill EUR)	2006	2007	2008	2009	2010	2011
Macedonia	1,141	1,454	1,506	2,015	2,392	2,702
Albania	3,343	3,985	4,276	4,296	4,987	5,743

Retail deposits as the main source (cheapest) plays tremendous role in commercial banking in both countries. The data shows that the retail deposits in both banking system shows upstream curve However, the Albanian retail deposits structure compare to Macedonia shows advantage of 3 billion euro in the total value

6.2. Retail Banking Product Structure

Table 12.

Real estate loans	Consumer loans	Overdrafts	Credit cards	Car loans
300,799.45	541,750.31	153,651.97	345,905.82	54,160
21.54%	38.80%	11.00%	24.77%	3.88%
Real Estate Loans	Consumer Loans	Overdrafts	Business Activity Loans	
723,313	189,844	52,844	88,203	
68.61%	18.01%	5.01%	8.37%	

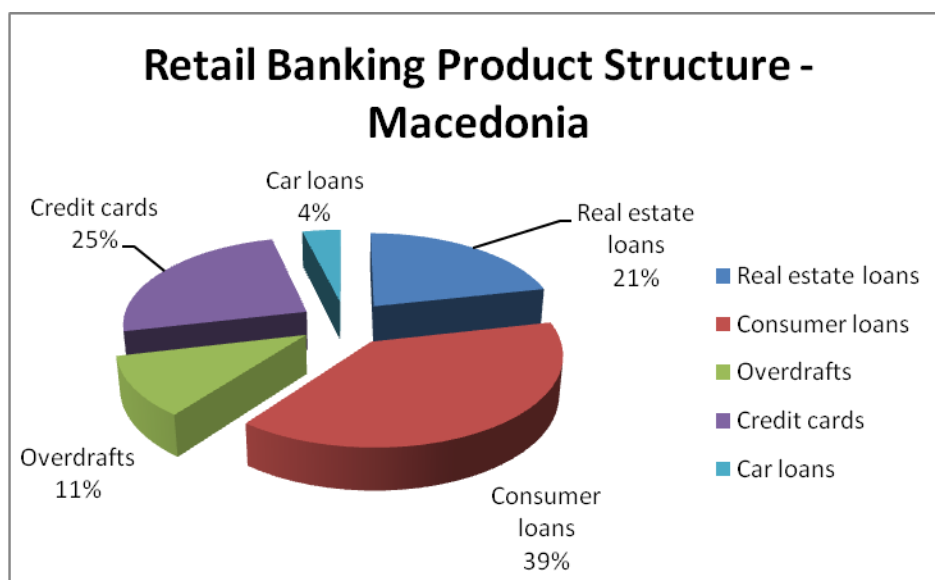


Figure 1.

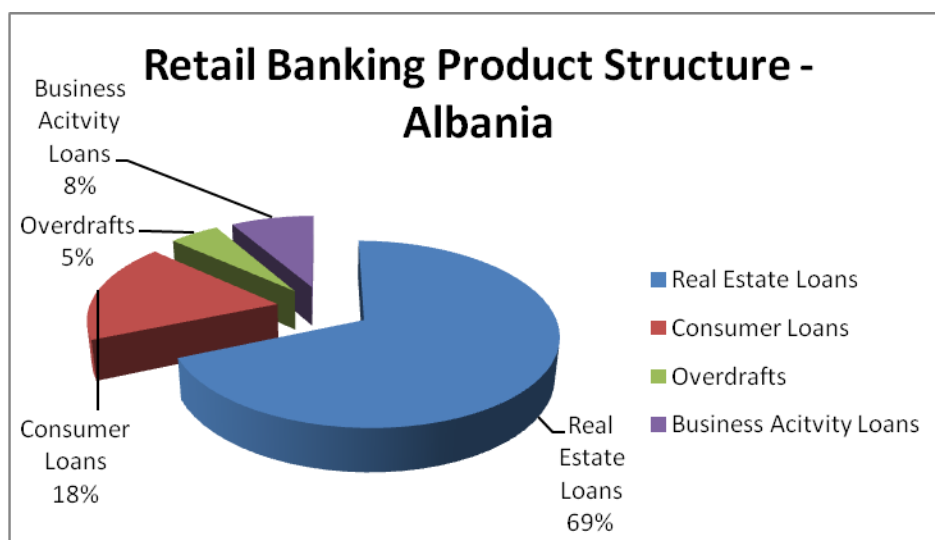


Figure 2.

As we can see from the table Macedonia retail banking market structure is over dominated by unsecured retail loans where the ratio between secured and unsecured retail loans 25/75. While, Albanian Retail markets is over dominated by secured loans where ratio between secured and unsecured loans is 69/31. This data shows that commercial banks in Macedonia are exposed more in credit risk as result of high percentage of unsecured loans in total portfolio.

Table 13. Retail Credit to Retail Deposits

	Macedonia	Albania
Retail Credit/ Retail Deposit Ratio	51.66%	18.35%

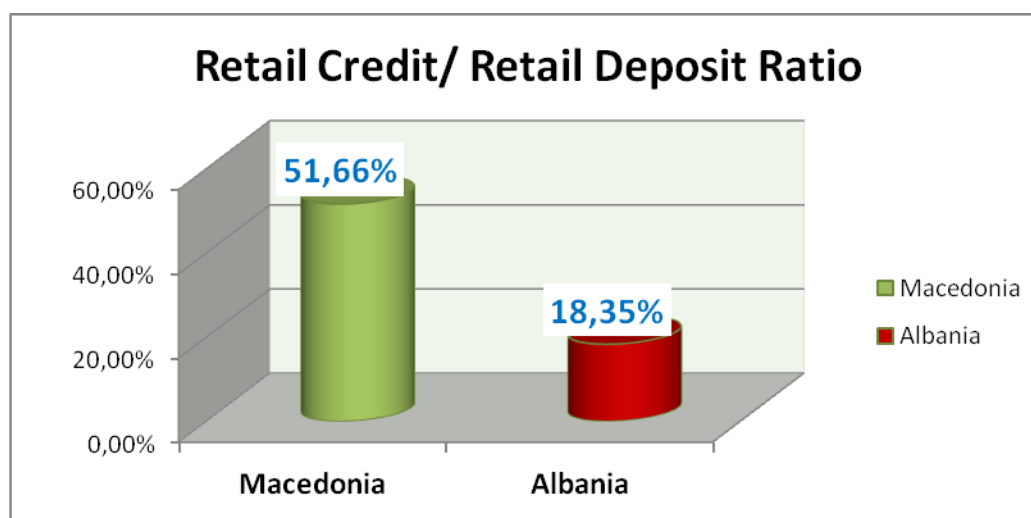


Figure 3.

Even though the retail credit to retail deposit ratio is not a significant indicator to measure deposits usages in term of retail banking since retail deposits as predominate source of entire deposits also is the main source of corporate lending. This ratio is key indicator to percept and to understand the general strategies of commercial banks in term of lending. As we can see from data retail banking segment in Macedonia behaves more aggressively compare to Albania in the retail market place.

The presence of well recognized banking brands and licensing of commercial banks to issue global card brands gave a remarkable power in development in cards market in both countries. Moreover, the last passed law for electronic payments spurred the usage of cards and caused a numerous innovation in the commercial networking. Debit cards as well as well as credit cards an essential cotemporary retail product with multidimensional functions plays a crucial role in nowadays business world. According to recent data from NBRM number of cards issued by commercial banks has exceed 1.103.636 which indicates that the Macedonian card market is achieved saturation phase at the same time the electronic payments system as a result of issued card have made a huge progress. The data from NBoA shows that number of cards issued by commercial banks in Albania achieved 687.597. The total number of issued cards shows that Albanian Credit market is in growth stage, which means there are a room and potential market for accelerated growth.

If we analyze the credit card structure there is a huge difference between Macedonia and Albanian retail banking structure. The Macedonian credit card market is in saturation phase where commercial bank with UP sell strategy tries to increase the market growth. While, based upon the figures it seems that Albanian commercial banks did not push the credit card markets even though there are a tremendous opportunities in this segment.

Table 14. Credit Card Structure

	Macedonia	Albania
Debit Cards	1,103,636.00	687,597
Credit cards	287,389	31,391
Total	1,391,025.00	718,988

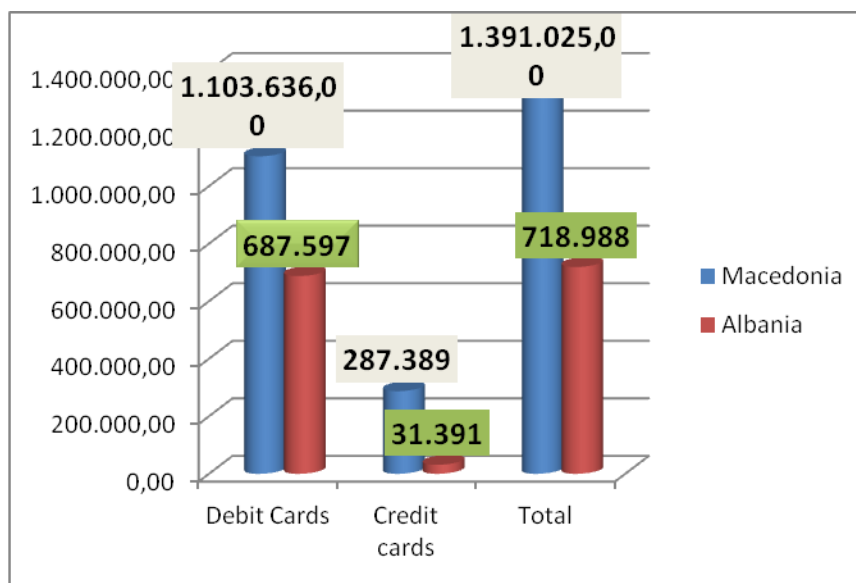


Figure 4.

7. Conclusion

At a time when the standard of living of the citizens is endangered because of the deepening economic crisis, the data shows that Macedonian citizens borrowing more unsecured retail loans. If total citizens borrowing achieve almost 1.3 billion euro, almost 40 percent off total structure of retail portfolio belongs to consumer loans. Moreover, the credit cards portfolio at the end of may 20012 reached to 200 million Euro which is second predominant required and predominate weight in entire retail structure if to this adds portfolio of 77 million in overdrafts it is clear that two third of the Macedonian retail structure is consisted from unsecured loans. This data show that citizens of Macedonia had borrowed from banks in order to fulfill the general needs respectively purchasing durable and non durable goods as well as to pay the current bills.

Unlike Macedonia Albanian retail banking structure shows opposite direction, where secured loans mainly housing loans over dominated the Albanian retail banking structure. The structure ratio 69/31 is a

robots indicator that show that Albanian commercial banking strategy is more collateral oriented. Moreover, the Albanian unsecured retail market is in untapped or in early growth stage, which means that commercial banks in Albania has huge potentials for more penetration in unsecure loans especially credit cards market.

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