

# **The Integration of the Republic of Albania in the European Union Economy; The Case of the Banking System of Albania**

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Bachelor Thesis for Obtaining the Degree

Bachelor of Science in

International Management

Submitted to MBA. David Osho

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## **Affidavit**

I hereby affirm that this Bachelor's Thesis represents my own written work and that I have used no sources and aids other than those indicated. All passages quoted from publications or paraphrased from these sources are properly cited and attributed.

The thesis was not submitted in the same or in a substantially similar version, not even partially, to another examination board and was not published elsewhere.

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## **Abstract**

This thesis will concentrate its focus on the integration of the Republic of Albania in the European Union economy and its development since the fall of the left-wing regime in the early 1990s. More specifically this study will focus on the banking system of Albania and how this sector is working towards a future integration in the European Union. It will also make use of the Central Bank of Albania, its attitude and support, implemented policies and improvements towards acceptance in the EU. This thesis will investigate the literature surrounding this topic and the implemented policies and regulations in the banking system, which are meant to help with the integration process. The aim of this research is to determine how well is the banking system and the Central Bank of Albania working towards integration in the European Union economy. The way to achieve results and to provide a correct answer to this question was done through interviews. This study follows the qualitative approach, which translates to the researcher conducting interviews with experts and employees on the field. A total of 12 interviews, with some of the most devoted and well-informed professionals, who are employed in the banking system, were run. After a careful examination process of the data, the researcher provides the results and findings of this study.

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## List of Abbreviations

ACB- Agriculture Commercial Bank

BOA- Bank of Albania

EC- European Commission

EEC- European Economic Community

EU- European Union

IMF- International Monetary Fund

NCB- National Commercial Bank

SAA- Stabilization and Association Agreements

SAP- Stabilization and Association Process

SB- Saving Bank

SRNF – Standardet Nderkombetare te Raportimit Financiar

T-bills- Treasury Bills

TEU- Treaty on European Union

# 1 Introduction

## 1.1 Problem Statement

Extensive research on transitioning countries such as those of Eastern Europe has pinpointed the promise of future membership in the European Union, as the most influential tool that the EU could use to urge Eastern European countries to carry out massive economic and political amendments (Smith, 1997). The Western Balkans (Albania, Bosnia and Herzegovina, Croatia, Serbia, Montenegro, and North Macedonia) are working significantly hard and showing impressive progress in the process of Stabilization and Association (Shtupi and Vasjari, 2013). Stability, socio-economic improvements, institutional advancements, and democratic elections are key elements that help the steady approach towards European Union (Shtupi and Vasjari, 2013). The growth of political and financial stability in the Republic of Albania is identified as a crucial development that empowers Albania to create a closer connection with the European Union (Shtupi and Vasjari, 2013). Crises in the Southeast of Europe (especially the Kosovo crisis in 1999) were some of the key factors that impacted the approach of the European Union towards the Balkan region and inspired the Union to increase its efforts and boost stabilization and democracy in the area (Hoffmann, 2005). Even though, theoretically, the European Union started working to improve the region in 1996, when they initiated the stabilization of the Western Balkans, only three years later in 1999 the EU started to seriously commit to the integration of these countries in the EU and promising them a possibility of receiving membership in the future once they prove their readiness (Hoffmann, 2005). This research does not only look at the integration of Albania in the EU as a whole, but it also focuses on the banking system and the Central Bank of Albania and it continues to show how this institution has worked since the 1990s, when the xenophobic communist regime came to an end. By putting focus on the banking system, the study will show its evolution

throughout the years of democratic rule and what the banking system of Albania has done so far to resemble other democratic European banking systems.

Firstly, it is important to start with the evolution of the banking system in Albania which went through a deep level of revolution and change, showcasing massive development from 1992 until recently (Tushaj, 2010). The banking system in Albania is still to this day the leading and most established sector of the financial market and the role it plays in the economy is irreplaceable, but it is quite influenced and not fully isolated from the political environment in the country (Tushaj, 2010). Before the 1990s the banking segment in the Communist Republic of Albania was only a mono bank and the only official method made available to citizens for their savings or investment opportunities at the time of the socialist economic system, were bank deposits (Teta, 2018). Central planning organizations were the foundations of investment and production decisions at the time and the only form of external funding was credit provided exclusively by these central organizations (Tushaj, 2010). The only existing bank used to be the “State Bank of Albania” and it lacked most of the functions that today’s banks have, such as the allocation of credit decisions and evaluation of risk (Teta, 2018). All functions that central and commercial banks have, were fulfilled only by the “State Bank of Albania” (Teta, 2018). Even though it lacked many functions that are present in today’s banking system it was still a central bank with responsibilities such as issuing currency, assisting state-owned establishments when they needed services for instance credit or money deposits, and lastly supervising the monetary policy (Tushaj, 2010). What could be considered as the first crucial step in the reorganization of the banking system in Albania is the implementation of a “two-tier banking system” (Tushaj, 2010). The law of the “Bank of Albania” which was passed by the Albanian parliament in April 1992 was the regulation that made the existence of a two-tier banking system possible (Teta, 2018). This law



established a wide-ranging autonomy for the Bank of Albania, which would be given all the functions that European Central Banks had at the time (Tushaj, 2010). BOA was now in charge of all traditional roles that Central Banks of democratic states have such as overseeing the monetary policy, supervising credit, dealing with exchange rates and emission, while the newly created commercial banks were assigned with transactions of credit allocations and accepting deposits from businesses or just individuals (Tushaj, 2010).

As a result, the endorsement of a newly created legal framework of the banking system during 1992 is the historical turning point for the modern banking system (Tushaj, 2010). This point in time would mark the start of a new banking system and the celebration of the Bank of Albania as a true central bank with all its corresponding functions, along with the existence of three state-run banks; the additional banks owned by the state would be the "Saving Bank" (SB), "National Commercial Bank" (NCB) and "Agriculture Commercial Bank" (ACB) (Tushaj, 2010). What would now be decades after the start of the transition process, the financial sector of Albania is labeled as a financial sector that is mostly dominated by the banking sector (Tushaj, 2010). Albania has proved to be successful in the direction of inflation targeting and this can be noticed by the improvement of the transmission mechanism and fixed inflation expectations (Teta, 2018). If transmission mechanisms are improved the efficacy of the monetary policy will also increase, while the fixed inflation expectations generate more elasticity towards impartial monetary policy (Teta, 2018). The favored route to bringing Albania and the European Union together would be the targeting of inflation and autonomous/impartial monetary policy (Teta, 2018). Nevertheless, there are still issues standing in the way that will need to be resolved and examined in the future, for instance, what part will the exchange rate play in relation to inflation targeting or if the central bank of Albania will be allowed to make

use of the foreign exchange rates as an intervention measure to influence liquidity requirements in the economy (Teta, 2018).

## **1.2 The Purpose of this Study**

The purpose of this study is to examine the integration of the Republic of Albania in the European Union economy, more specifically the integration of the banking system in the EU. The research aims to give a detailed explanation of integration in the EU and how the banking system is reacting towards it. The integration process in Albania started during the early 1990s and thirty years later the country is still working to fulfil all the requirements of the Union so as to receive full membership in the EU. The study will examine the evolution of the Republic of Albania and all the changes it went through in preparation for establishing closer relations to the EU. This thesis will closely explore the banking sector, and consequently the Central Bank of Albania and analyse their development during the past decades of democracy. It will demonstrate that the Republic of Albania and its banking system have shown impressive progress and high levels of effort to improve the economy and embrace changes in regulations, laws, and policies. Not only will this research identify the main steps, regulations and policies implemented but it will also investigate the willingness of the banking sector to become part of the European Union in the future.

This research will utilize the perspective and experience of employees in the banking sector of Albania through interviews. The interviews will be conducted with employees of different levels of management and experience in the banking sector. The use of these interviews will provide a better understanding of the attitude that the banking system has towards EU integration and discover how accepting would this system be regarding change if Albania receives full membership in the near future. Interviews will also reveal the support that the Central Bank of Albania is offering to the banking system. The study will uncover the true level of readiness to get in

the EU and advise on what the next steps should be. Last but not least, it should help the government of the Republic of Albania to distinguish the issues related to the integration of the banking system in the European Union economy.

### **1.3 Research Objectives**

Conducting this research is of high importance as it investigates an issue of top priority for the Republic of Albania. This study carefully analyses the case of integration in the European Union and will help the government of Albania to possess a better understanding of the problem at hand. This research explores the banking system of the Albanian Republic, its steps, and policies regarding integration in the European Union. The goals of this study are to find out if this system is working towards a future membership in the EU and if the system is willing to accept change upon being integrated in the European Union. This study will make it possible for the government of Albania to look at what attitude the banking system employs and how is it working so far.

The main research objectives of high importance to this research are as follows:

- Identifying the steps and policies that the banking system of Albania is implementing with regards to integration in the European Union economy.
- Examining the willingness of the banking system of Albania, to become a member of the European Union.
- To discover the attitude that this system has towards EU integration and how receptive the system is regarding change.

### **1.4 Research Questions**

The aim of this research is to understand how Albania, more specifically how its banking system and consequently the Central Bank of Albania are working

towards a future integration in the European Union. The goal of this study is look at the steps, regulations, and policies that the banking system of Albania is implementing, in order to gain membership in the Union. The study investigates the attitude that this system has towards European Union and its willingness to accept change and integration.

The main research question is as follows:

- How is the banking system of Albania working towards a future European Union integration and membership?

The subsidiary research question is as follows:

- What steps, regulations, and policies are the banking system and consequently the Central Bank of Albania implementing to achieve membership in the EU?

## **1.5 Structure of the Thesis**

This research will be divided into several main sections which will then be divided into smaller subsections. The thesis will start off with the introduction which is made of five subsections. The introduction will provide a general overview of the topic and a clear definition of the problem of this study. The first section will also give the reason as to why this study is being conducted and the purpose of it. The purpose of the study will then be followed by clearly defined research objectives that will be met by the end of the study. In this section, the researcher will also present the research questions of this topic (main research question and subsidiary research question). This section will come to an end after providing the reader with a detailed explanation of the thesis structure.

The second section proceeds with the literature review, which will be divided into subsections, that contribute by providing this study with relevant and critical evaluation related to the investigation of the research problem. After

performing extensive research on the topic of European Union, integration in the EU, integration of Albania and the banking system of Albania, it was decided that the literature review section will be divided as follows; “The European Union” where the researcher will give a definition of what this union is and what its main components are, “Eastern Enlargement in the EU” where the inclusion of eastern countries in the union will be observed, “Integration in the EU” where the literature will look into how this process works and what is meant by integration in the EU, “Central Banks” where the literature will explain the main notions surrounding central banks, their functions and duties, how they operate, how they are organized and their respective mechanisms, “The Banking System and Central Bank of Albania” where the reader will be introduced to literature regarding the Central Bank of Albania and the banking system of Albania, their functions, their operations and most importantly the evolution of the system since communism ended until today, and lastly “Integration Policies in Albania” where the policies and regulations towards integration will be listed, while also focusing on the integration of the banking system and the Central Bank of Albania.

Following the literature review section, the research continues with the methodology section, which will provide with an overview of the type of research design and methods used for this study. The methodology section will define and explain the qualitative approach that was employed during this research. Here the researcher will present their method of gathering data and the type of data that was utilized in this thesis. Since the researcher made use of the qualitative approach, interviews with experts in the field of the banking system in Albania will be conducted. Consequently, the methodology section will also include a subsection where the structure of these interviews, what will they consist of and the questions being asked to the people participating in this interviewing process will be explained.

Following the methodology section, the study will also include a data analysis and interpretation section. In this section of the thesis, the results from the interviews conducted will be carefully examined by the researcher and later will be interpreted. After the whole process of data analysis, the study will resume discussing its findings. Unlike, in quantitative research where the researcher tests the hypotheses of a study, here the researcher will investigate the interviews and the results which will be expressed in the forms of clear statements. Then there will also be a conclusion part where the whole process of this research will be summarized. Lastly, the final section will consist of limitations, recommendations, and implications. The researcher will briefly mention the limitations surrounding this field of study, its recommendations for future research on the topic, and outline the implications of this research.

## **2 Literature Review**

### **2.1 The European Union**

Throughout the whole history of the European Union, the first time that the concept of a union was officially used, was when the signatory states expressed their willpower to create close relationships amongst the citizens of Europe during the 1957 Rome Treaty where the EEC (European Economic Community) was established (Fabbrini, 2015). In the 1992 Maastricht Treaty or Treaty on European Union (TEU), where these signatory states reasserted their declaration “to continue the process of creating an ever-closer union among the peoples of Europe”, the concept of union was strengthened even further (Fabbrini, 2015). The history of Western European integration poses several examples of disunity, posturing, and tense negotiations. Yet the development and obvious popularity of the common currency – the euro – seems to have disregarded the view, not unprecedented in previous publications, that the EU is 'mere' a customs union or an intergovernmental

organization (Böröcz, 2015). The image of the European Union as a single entity and unified state is dominating the literature, despite of the continuing appeal of observations that the member states of the European Union manage to successfully defend their respective positions as the masters of their own economy and that the European Union remains to be portrayed by a dualism between multinational “European law” and intergovernmental European policymaking (Scharpf, 1998). It is often observed that statehood is undoubtedly the most logical possible outcome of political integration in Western Europe (Schmitter, 1996). There is still a handful of disagreements between experts on the field about the kind of state that EU is or what kind of state it could be such as federal-supranational or confederate-intergovernmental, unified-single-layer or multi-level, centralized or decentralized (Böröcz, 2015). There are also disagreements whether the EU stands for a meaningful unit of analysis at all (Stone-Sweet and Sandholtz, 1998). The implicit tendency to looking at the EU through the looking glass of the West European state is revealed through the conceptual tools and the emphases in the literature of the European Union (Böröcz, 2015). This is explained by a universal trend in the European Union literature that disregards the external characteristics of the EU’s structural features and its behavior, which might aid to bring the specificity of the EU as a geopolitical entity to light (Böröcz, 2015). At first sight, the state analogy seems to be quite reasonable for several reasons that define the European Union, what it stands for and what it means.

The European Union holds periodical elections, and it has a European Parliament which regularly issues laws and different regulations, all of which commonly the domain of the state (Böröcz, 2015). Looking at it from a Weberian viewpoint The EU has a strong bureaucracy and carefully constructed institutional narratives such as trade, competition, and finance which are frequently referred to as the official policies of the European Union (Böröcz, 2015). The *Acquis Communautaire*, the formidable output in legal

materials, is obeyed both within the EU and outside it. The Directorates-General, which are the organizational mechanisms of the Commission, are allocated tasks that show the strong similarities with the ministries of the governments of any modern state (Böröcz, 2015). The Commission's 10<sup>th</sup> president, Romano Prodi has frequently emphasized this analogy by labeling the Commission as the EU's government (Böröcz, 2015). The EU has a European Council, serving a collective presidency, it has a Court of Justice and a Central Bank which has been safeguarding the stability of a common currency, the euro (Böröcz, 2015). Provisions for expelling member states out of the union do not exist, and the question of suspension only came up in the "eastern enlargement" context in the Amsterdam Summit of 1997 (Böröcz, 2015). The EU also produced a legal document, which was known as "the Constitution", which did not receive ratification and came to be rejected by the member states, three years after the release of its draft (Böröcz, 2015). The EU supports embassies abroad, periodically signs treaties with states and most importantly the EU dominates a significant geopolitical weight, which is exhibited in its capabilities to both impact its direct environment and delegate its power to the outside world, and this is only observed in a minority of actors on the world, all of which are states (Böröcz, 2015). Taking all these qualities into consideration, the European Union can be clearly defined as a type of public authority that in some crucial respects resembles a state (Böröcz, 2015).

Nevertheless, the fact that the European Union does not have an executive apparatus, is a key element of the organization of the EU that makes a fundamental difference between the EU and a traditionally defined state (Böröcz and Sarkar, 2005). The Commission is often described as the government of the European Union, but this is purely a metaphor since the "Directorates General" is the highest level of executive machinery that the EU possesses (Böröcz and Sarkar, 2005). As Max Weber once defined it, an organization that holds a monopoly when it comes to the use of authorized



violence within a certain territory is classified as a state (Böröcz and Sarkar, 2005). In comparison to this definition of what a state is, the European Union does not hold such a monopoly when it comes to the authorized use of violence (Böröcz and Sarkar, 2005). Except for the Rapid Reaction Force, the EU basically has no resources of coercion of its own (Böröcz and Sarkar, 2005). It was made obvious that the Union has no expulsion provisions and no recognized measures for penalizing and educating the member states for alleged misconduct (Böröcz and Sarkar, 2005). This was made clear in 2000 during a political draw in Austria initiated by the accession to power of an ultraright wing coalition government, which was deemed as an undemocratic move and considered politically improper by the other European governments of the Union (Böröcz and Sarkar, 2005). Therefore, the EU has a deficiency regarding acting as an autonomous actor inside of its own sphere of jurisdiction or beyond it (Böröcz and Sarkar, 2005). Based on this point of view where the absence of administrative capabilities is highly notable, the European Union does not possess the ability to qualify as a state when compared to the traditional classifications of what a state is (Böröcz and Sarkar, 2005). One might oppose this view and claim that there many examples of post-colonial states or post-socialist states in the third world executive systems that have been constantly challenged by numerous political and financial disasters so much that their functions as adequate states have failed (Böröcz and Sarkar, 2005). Nonetheless, the European Union is not part of such a case that has a weakened capacity as a state and whose executive system has been demolished or is helpless when faced with outside forces (Böröcz and Sarkar, 2005). What makes the European Union stand out as a single unit, is the fact that it has not established any executive apparatus and it still functions extremely efficiently and it carries a significant amount of power worldwide (Böröcz and Sarkar, 2005).

## 2.2 Eastern Enlargement in the EU

The project of “eastern enlargement”, through which the European Union legal authority is incorporated into the states that are positioned in the eastern and southeastern borders of the EU, is a distinguishing mechanism of the Union (Böröcz, 2015). The rearrangement and application of the European Union’s Acquis, which has been used as an evaluation tool for candidate states, is a key prerequisite when applying for full membership in the EU (Kovács and Kabachnik, 2001). In exchange for getting secondary membership in the EU, which is commonly known to be an asymmetrical benefit for the EU, economically and geopolitically, and in exchange for a vague promise of getting full membership in the unexpected future, the candidate states agreed with and recognized the obligation of direct legal authority and the associated relinquishment of sovereignty to a foreign authority (Kovács, 2001). Recognizing the difference between “eastern enlargement” and “accession” is highly essential, since accession leads to the final step where the applicant state becomes an official member of the European Union and therefore it is awarded a proper number of seats in all corresponding organs of the EU, such as the EU Parliament, the EU Commission, the EU Council and many more (Böröcz and Sarkar, 2005). “Eastern Enlargement” on the other hand, does not promise accession in the EU, which can easily be witnessed in the states of Turkey, Romania, and Bulgaria, whose societies were given an invitation to join the “eastern enlargement” project along with ten other candidate states during the 1990s but they were banned from accession in 2004 (Böröcz and Sarkar, 2005).

In contrast to accession, full inclusion entails that all citizens of the member states have equal union rights. It is crucial to mention that receiving official accession is not equal to receiving full inclusion; the unwillingness of the current members of the EU to share their economy with the Eastern European labor force has led to the decision that the citizens of Eastern European countries that were granted official accession in 2004 can have

access to full rights (working rights, settlement rights, and free movement rights) that come with the EU citizenship, only after seven years since receiving accession (Böröcz and Sarkar, 2005). On the other hand, when current member states need access to applicant countries in the Eastern perimeter, restrictions such as those that eastern countries have when seeking entry into the EU do not exist; the only limitations that EU members have on Eastern European countries are when they seek to buy land for agricultural use by agribusinesses located in the EU (Böröcz and Sarkar, 2005). Given that, enactment of the Acquis is a prerequisite when seeking to become a valid candidate in “Eastern Enlargement”; applicant states are put under great pressure because of being obliged to accept every substantial responsibility related to full membership such as keeping open borders for the EU states but at the same time having no rights of full membership (Böröcz and Sarkar, 2005). The EU offers several development funds, financial assistance, and funds for infrastructural purposes for those in desperate need, all of which reach significant-high amounts when compared to the due payments that come when receiving membership; applicant states escape these due payments until the accession stage (Böröcz and Sarkar, 2005). The longer the time between becoming part of the “Eastern Enlargement” project and achievement of complete accession, the more probable it is that the associated ‘interim’ imbalances will become inherent to the arrangements of these societies itself, especially when taking into consideration that these disparities are what symbolize the history of capitalism in Eastern European Countries (Böröcz and Sarkar, 2005).

### **2.3 Integration in the EU**

The integration in the EU project serves as a barricade whose task is to protect the member states against the destructive effects of globalization (Rumford, 2012). The nation-states that feel endangered by the economic forces of globalization, global flows, global movements, and the inescapable loss of sovereignty that globalization is believed to entail, look at integration

as the solution to this issue, even though the European solution encompasses a pooling of sovereignty rather than total loss (Rumford, 2012). Portraying globalization as a threat, echoes with the portrayal of Europe as a fortress or with the concept of “Schengenland” and the expected benefits of controlling migration to Europe (Rumford, 2012). Moreover, the European Union delivers chances and options to middle power European states, so that they are able to protect parochialism at the global stage through EU-led assemblies and multilateral interactions between organizations (Rumford, 2012). European integration provides all members participating, the strength to effectively survive the global forces and the ability to reinforce the nation-state (Rumford, 2012). In the 1960s, when neofunctionalists examined European integration, they looked at it from the perspective of a probable transformation of the international structure (Kohler-Koch and Eising, 1999). The fear that an institutionalization of collaboration in Europe could cause a long-lasting disappearance of the security dilemma and a constant change of the logic behind international politics with regard to peaceful and efficient problem solving, is the main concern of the early integration theory (Kohler-Koch and Eising, 1999). It should also be noted that this concern with the early integration theory has never been an only analytical concern but has always comprised normative concerns as well (Kohler-Koch and Eising, 1999). This is mainly accurate for the time when “regional integration” was openly advertised not just as a political theory but also as a vision for the equilibrium of the international system which is deeply against realist theories and political designs of balance-of-power politics (Kohler-Koch and Eising, 1999). The European integration process is spreading all over Europe and the incorporation of several countries makes it a rather complicated and long process, mostly because it involves progressively contrasting rates of economic development (Dangerfield, 2007). Several provisions have been made with the intention of admitting Western Balkan countries in the EU in the near future, which will consolidate the position of the European Union as a celebration of Europe itself (Dangerfield, 2007). The first few years after the

fall of most communist regimes of Europe, it was assumed that all these countries would experience a transitional process that would introduce them to a steady and democratic government and constitution (Cameron, 2007).

## **2.4 The Functions and Evolution of Central Banks**

There has been a considerable amount of reconsidering the functions of central banks and how they should operate during the current years (Mishkin, 2000). Reconsidering their functions and the way they should operate has caused significant changes and many governments worldwide have experienced the positive effects of these changes, such as low inflation rates during a period when their respective economies are going through massive economic developments (Mishkin, 2000). Recent literature and theoretical framework state that there is a total of seven principles that central banks utilize as a benchmark when aiming to accomplish their objectives and those would be as follows: price stability which delivers considerable benefits, fiscal policy supporting monetary policies, dodging time inconsistency is key, monetary policy should always look forward, accountability as a fundament in democratic societies, output and the fluctuations of price should be one of the main concerns of monetary policy, and last but not least financial instability has always led to some of the most concerning economic declines (Mishkin, 2000).

Just like any other institution central banks have clear objectives and functions as well, the three key ones would be: maintaining price stability, which is subject to the current monetary regime (for example a fixed exchange rate, the gold standard, or an inflation target), having sustainable financial stability and nurturing financial growth, and lastly supporting the state in times of crisis by providing financial means and restraining it from exploiting the financial resources of the state (Goodhart, 2010). This means to prevent the state's governments and financial organs from misusing the inflation tax but in the future (depending on whether a bank tax is introduced

or not) it might mean restricting them from exploiting the bank tax as well (Goodhart, 2010). These objectives are balanced with each other and manage to keep an equilibrium, but this balance is not fixed, and it tends to change over time, shifting from one objective to the other (Goodhart, 2010). Supporting the state with financial means is far more present and noticeable during times of war. A majority of central banks were created with the purpose of financing the war in their corresponding countries with the most notable ones being the Central Bank of England and the Central Bank of France (Goodhart, 2010). In current times, when wars are not so common as they used to be, the balance is shifting between the monetary policy of the central bank and the financial stability of the bank (Goodhart, 2010). There are three main epochs with great importance to the history and evolution of central banks with short periods of confusion in between them (Goodhart, 2010). These periods would be the Victorian era starting in the 1840s and ending in 1914; the years of government control starting in the 1930s and ending in the 1960s; and the periods of market triumphs starting in the 1980s and ending in 2007 (Goodhart, 2010). The period in between, from 1914 until 1933 was a period of hiatus because of World War 1 and included a non-successful effort to relaunch the gold standard (Eichengreen, 1992). During the 1970s there was another period of confusion caused by the submissiveness of monetary policies with regards to government control and with respect to the implementation of a free market with the central banks supporting a scheme of inflation targeting (Goodhart, 2010). The first period (the Victorian epoch) and the third period (between 1980 and 2007) can be illustrated by immensely effective monetary regimens such as the gold standard and inflation targeting, by dependence on the mechanisms of the market and the independence of central banks (Goodhart, 2010). When World War 1 came to an end, it was followed by the depression of 1929-1933; the deflation during these years preceded obedient central banks, dominating governments and direct rules and regulations (Goodhart, 2010). Before 2007, it looked like central banks had achieved perfect supervision of

monetary policy. The central bank would be given independence when operating with interest rates and was free to change it with respect to accomplishing an inflation target which was later assigned numerical terms by the current democratic government (Goodhart, 2010).

Nowadays, it is identified that using this type of procedure to attain price stability does not necessarily lead to financial stability as well (Goodhart, 2010). This leads experts to ask whether this procedure which delegates the central bank with the power to set the interest in accordance with inflation targets, should be dramatically changed or not (Goodhart, 2010). The suggestion to this question would be the development of an extra set of tools with the goal of sustaining financial stability (Goodhart, 2010). While an innovative set of macroprudential tools such as liquidity, capital, and leverage ratio might be assigned to the systemic stabilizer, the orthodox focus of stabilization has been the capacity that the central bank must lend and therefore to generate liquidity to an individual bank which would be the last alternative as a lender or to the whole marketplace by open market operations (OMOs) (Goodhart, 2010). If managing liquidity continued to be the only jurisdiction of the central bank and constructing a split authority to deal with financial stability without having any control over managing liquidity, would lead to immense obstacles (Goodhart, 2010). It is highly crucial that the authority dealing with the financial stability must have control over the management of liquidity as well; this indicates that this separate authority dealing with financial stability would also have control over the balance sheets of the central banks (Goodhart, 2010). Only then would this authority be called a central bank. A central bank does not provide capital, it only offers liquidity (Goodhart, 2010). When a bank is collapsing, and liquidation is out of the picture and the market does not offer more capital the last choice would be turning to taxpayer funding (Goodhart, 2010). Therefore, the politicians, as spokespeople for taxpayers should always maintain the leader role, showcase interest in resolution procedures,

processes, and be concerned with precautionary measures that the central bank as an administrator of the system may put in place (Goodhart, 2010).

## **2.5 The Banking System of Albania and Central Bank of Albania**

The vigorous environment of Albania as a transitioning country in the development stage is reflected by its evolution of the monetary policy structure (Teta, 2018). The main goal of the Bank of Albania has always been price stability and the operation of a flexible exchange rate (Teta, 2018). BOA has initially embraced a monetary targeting regimen, accompanied by “International Monetary Fund” which is a type of stabilization plan; nevertheless, the monetary regimen in Albania has constantly progressed and changed (Teta, 2018). The certifications of “fiscal discipline” and “the consolidation of rapid budget” were done by the International Monetary Fund (Teta, 2018). This certification along with other organizational modifications made it possible for the sensible monetary policy to reduce the inflation of the economy in the 1990s (Teta, 2018). The transmission mechanism on the rapport between monetary and prices became unpredictable because of the rather quick growth of the economy and development of financial markets (Teta, 2018). The growth of money started to become more untrustworthy by the day as it was not considered to be a good indication for the intermediate development of price (Teta, 2018). This would later lead to drastic changes in the strategies used by BOA in monetary policies (Teta, 2018). Some major changes in relation to this would be the modification of BOA’s monetary policy by expanding the scope of available information, BOA started to constantly filter the monetary processes and started to regularly enhance transparency levels and boost communication (Teta, 2018). BOA has begun to reach its goals regarding the mission of price and stability due to the above-mentioned revolution in transparency of information and free communication (Teta, 2018).



The banking system of Albania has drastically altered its market structure during its evolution; throughout the 1990s the Republic of Albania went through deregulating processes, the entrance of foreign commercial banks, and an increase in competition and strengthening amongst the banking system (Teta, 2018). Its evolution after communism and through democracy can be expressed in three respective epochs of time. The first evolution period started in 1992 and came to an end around 1997. In the mentioned epoch, the banking sector was interconnected with numerous limitations and progressive advances, although quite delicate; the foundation of the two-tier banking system proved to be the circuital evolution (Tushaj, 2010).

The law passed by the parliament through the Bank of Albania in April 1992 was pivotal in order to make the transformation possible (Tushaj, 2010). A comprehensive autonomy for the Bank of Albania was achieved, from an independent point of view, by the law in 1992 and (Tushaj, 2010, p.8) stated that *“The new legal framework acclaimed Bank of Albania as a central bank as the existence of three state-owned banks; Saving Bank (SB), National Commercial Bank (NCB) and Agriculture Commercial Bank (ACB).”* The banks which are positioned on the second level have adopted the activities of the former bank, which were two banks and one saving-insurance institute (Tushaj, 2010). However, the extent to which financial intermediation could be achieved was limited; private banks have been restricted in number, simply 4, and having no interest to attain deposits in leks, on the other hand, state banks which were dominant, having approximately 90% in the deposit market, have been restricted to carry out only certain functions of financial intermediaries (Tushaj, 2010). The manifestation of low-level mediation, as well as low level of payment’s system, is considered to be the lowest level of crediting to the economy, solely for state enterprises, for instance, at the end of 1996, the realization of payment for transaction across accounts in various branches of the same bank, on average 5-6 were necessary, although transactions amongst different banks needed more than 15 days in order to

be completed (Tushaj, 2010). Consequently, the levels of money outside of bank reached a tremendously high point and between 1992 and 1996, the number of banks was growing up to 3 and 6 respectively (Tushaj, 2010).

After the crisis, which occurred in 1997, the banking system in Albania went through major changes and there was an abundance of new happenings such as liquidation activities, reorganizing, privatization processes, and acquisition events in particular banks (Teta, 2018). The second phase started exactly in 1997 and culminated in 2002. The second phase can also be labelled as the privatization phase of the banking system of Albania. The privatization of the banking system implies the role that the state has in existent banks is weakened, new private banks being created, as well as growing competition (Tushaj, 2010). However, a contributing factor intending to reorganize the privatization, is the privatization of state-owned banks as well (Tushaj, 2010). Saving Bank, the last state-owned bank, was still the most dominant one in the market in 2002, after 10 years of privatization of the Albanian Banking sector (Bank of Albania, 2003). In its annual report (Bank of Albania, 2003) acknowledged that *„Saving Bank was dominant in the overall performance of the Albanian banking system, network extension, deposit market, and T-bills market. Some of the main indicators of the SB in that period were: Territorial expansion with over 200 branches and agencies, About 60% of total deposit of banking system, About 75% of T- bills market, Over 70 % of the retiree payments Market concentration in banking sector: Evidence from Albania 9, Over 90 % of the payments volume for state budget accounts, The total of assets was 170 billion leks (1€ = 143 leks). “*

The destruction that was caused by the financial crisis of 1997, triggered by pyramid schemes await to solve the dilemma of liquidation, reconstruction, or privatization for the state-owned capital banks (Tushaj, 2010). The Agricultural Commercial Bank has gone into liquidation and a portion of its assets was spread amongst other banks in state ownership, whereas bad

loans have been transferred to the Agency of Credit Restructuring (Bank of Albania, 2003). The other bank in state ownership National Commercial Bank was privatized as well, following a long discussion whether to be liquidated or privatized (Tushaj, 2010). A first sign of the inadequate restructured system was shown with the inefficiency of these banks in state ownership, therefore, the Saving Bank, before its privatization has undergone a process of structuring (Tushaj, 2010). The dominance of state banks has been reduced in the market following the restructurings on the financial sector which has noted noteworthy progress linked to the privatization of these banks in state ownership (Tushaj, 2010). The annual report of (Bank of Albania, 2003) confirmed that *“In 1997-2002, the composition of the banking sector was formatted according to ownership and presents as following: state-owned bank, Albanian Savings Bank, joint -venture bank, private banks.”* By increasing assets, financial intermediation, and quality of banking services, the banking activity extended to the growth of banks in the market; a trend that proved to be positive was the improvement of the credits’ market as a stable growth of loaning to the private sector (Tushaj, 2010). It was linked to the decrease of ‘poor’ credits to total credits which amounted to 6.4% in September 2002, in comparison to the 32.7% which was achieved in 1993 (Bank of Albania, 2003). This particular phase was interconnected with the market entry of numerous private banks, more specifically, foreign private banks (Tushaj, 2010). As a result, the number of banks in the second tier accumulated to 14 in total, or two more times higher than at the end of 1996 (Tushaj, 2010).

Successive to the second phase, the banking sector of Albania evolves into the third stage, which will also be the last one discussed here. The third stage is characterized by the privatization of this sector altogether. Having National Commercial Bank privatized in the year 1999, Savings Bank became the last representative of state-owned banks (Tushaj, 2010). Private banks, which had raised their market shares quite high, having involved higher amounts of risk

and profitable assets, turned into the main competitors of SB, which keeps dominating the deposit market (Tushaj, 2010). Against the biggest banks in the system come private banks, which enhanced competition in the 3 sources: First being the Bank of Albania, which has significantly contributed to an increase in the range and overall rise and quality of financial services in the country (Tushaj, 2010). In the time period of 4 years, since 2003, the composition of the banking sector was set up according to asset share owned by banks in percentage, therefore, three main peer groups were provided: Banks that have less than 2 % of assets volume; Banks that have less more than 2 % of assets volume but less than 7%; Banks that have more than 7 % of assets volume (Bank of Albania, 2009). In that time period the state's largest bank, Savings Bank, gained its privatization and later got sold to a large international bank known as Raiffeisen International (Bank of Albania, 2009). This transaction succeeded in revolving the banking sector altogether into private ownership; as a consequence, this had straight effects on the banking competition (Tushaj, 2010).

Conversely, the privatization of the Savings Bank overlapped with the new law that has been brought out, Law no. 9121 "On protection of competition", which does not avert the tenure of a dominant position, nonetheless, to exploit this dominant position (Bank of Albania, 2009). At the time, three new banks have entered the banking system: Credins Bank, People's Bank, and Union Bank with Albanian ownership. Consequently, these banks have condensed the foreign shareholders into the banking system which is being dominated by them to this day (Tushaj, 2010). The market has developed into a monopolistic market over the years, having been an oligopolistic one to begin with and throughout 2007 the banking sector of Albania has been linked with numerous unions of foreign banks (Tushaj, 2010). Something that has had the most impact on market concentration and that has threatened domestic capital ownership has got to be these developments. The Albanian banking system is well known for their continued increased trend, regarding

the numbers of banks as well as the expansion of banking activities, in recent time span; these trends have been followed by an increase of lending activity, development, and growth of the range of products offered by banks (Tushaj, 2010). On the banking market, there were 17 second-level banks since the end of 2007 (Bank of Albania, 2009).

The most significant organizational developments of the Albanian banking system would be the increase in the number of banks operating in Albania, the reorganization and privatization of banks under state ownership, the creation of domestic capital banks, and the penetration of influential foreign banks by attaining existing banks (Teta, 2018). All of these developments have transformed the sector of banking by making it a dynamic one; efforts are increasing day by day, therefore improving the positioning of banks in the marketplace (Teta, 2018).

In the course of its initial twenty years of life, the monetary policy of the Bank of Albania has continually made efforts to adjust to an evolving lawful, monetary, and financial climate (Teta, 2018). The framework used by BOA has developed from a monetary focused regime to an inflation focused one (Teta, 2018). The operational structure has embraced the best methods used by banks internationally and the institutional techniques and communication methods have progressed substantially (Teta, 2018). BOA has a commendable record in conveying price stability and smoothing financial unpredictability in the country (Teta, 2018). Its impressive adaptability in monetary policy clarifies the achievement in conveying price stability for the economy of Albania (Teta, 2018). BOA confronted a few difficulties in its third decade of life that incorporate: a superior comprehension of the duties and limitations of the monetary policy points in a small but open economy such as that of Albania, a quickly advancing transmission mechanism, and growing better coordination means and instruments with macroprudential and fiscal policy (Teta, 2018). Even though these challenges are difficult to deal with

institutional flexibility can act as a significant lesson for the future (Teta, 2018).

## **2.6 EU Integration policies in Albania**

During the 1990s the Albanian Republic got out of a 46-year xenophobic Communist regime and a multiparty democracy system that never existed before was finally established (Shtupi and Vasjari, 2013). Transitioning from a communist regime to a multiparty democracy government has demonstrated major obstacles as noticed in the challenges that successive governments have been forced to deal with, challenges such as high levels of unemployment, high rates of corruption, and rundown infrastructure (Shtupi and Vasjari, 2013). Albania aspires to get full membership in the EU, but it should be noted that during the communism period Albania did not have any type of relation or agreement with the European Community or the EU as it was fully isolated (Shtupi and Vasjari, 2013). The Integration process is a two lateral process rather than one lateral and requires participation and obligations of the main institutions in the European Union and of the member states (Shtupi and Vasjari, 2013).

The transformation of the Republic of Albania has been supported by the European Union since 1991 when Albania was integrated into the PHARE assistance by the Union (Hoffmann, 2005). A Trade and Cooperation Agreement was concluded between the Republic of Albania and the European Commission (EC) in December 1992 (Hoffmann, 2005). To pursue the political dialogue between the Albanian government and the EU, a Joint Committee has been set up, which deals with all bilateral issues (Hoffmann, 2005). The relations between these two parties have strengthened even further with the EU regional approach toward the Western Balkans (Hoffmann, 2005). In December 1996, the Royaumont Process was launched, which was considered the first regional initiative from the EU and its aim was the support of the Dayton Peace Agreements (agreements that focus on

boosting regional projects) and the enhancement of collaboration between the Western Balkans at different levels of cooperation (regional or subregional level) (The European Commission 1996: 1). The Western Balkan countries that were presented with the perspective of the Royaumont-Process were soon not interested in it, since this perspective was not adjusted to the specific needs of each Western Balkan country and did not provide them with an apparent viewpoint of European Integration (Ehrhart 1999). In response to this, the Regional Approach was established by the EU during 1997 (Hoffmann, 2005). The Regional Approach has a couple of similarities with the Royaumont-Process, such as supporting the “Dayton Peace Agreements”, increasing political stability, and boosting economic growth; as for their differences between the two, the Regional Approach was built with clearly defined political and economic conditions with regards to the progress of mutual relations with the five corresponding countries of the Western Balkan region (EU General Affairs Council Conclusions of 29 April 1997). It was conditionally established that the Regional Approach values the main principles of democracy, the rule of law, protecting all minorities, respecting the market economy reforms, supporting cooperation in the region, and respecting human rights as well (Hoffmann, 2005). In 1999 it was admitted by the EC that the reaction of the Western Balkans towards the incentives which the Regional Approach provided them with, was not optimistic and positive (European Commission 1999: 3).

The crisis between Kosovo and Serbia in 1999 heavily impacted the strategy of the European Union towards the Western Balkan region, especially the strategy towards the Republic of Albania (Hoffmann, 2005). In response to the Kosovo crisis which caused major instability inside the region, the European Commission had to react and came up with the Stabilisation and Association Process (SAP) as a framework for the improvement of bilateral relations between the EU and the Western Balkan region (Hoffmann, 2005). The SAP has acknowledged that the main motivation for reform in the

Western Balkan region is providing each country with a reliable prospect of receiving membership in the EU; this proves that the Stabilization and Association Process has an elaborate vision with respect to the development of the Western Balkan region (Hoffmann, 2005). A main component of the Stabilization and Association Process is the development of Stabilization and Association Agreements (SAA) (Hoffman, 2005). The Stabilization and Association Agreements are supposed to be recognized the moment that specific political and economic conditions are encountered (Hoffman, 2005). The SAA has several objectives such as a consolidated democracy in the Western Balkan region, the rule of law, economic growth, and cooperation in the region (European Commission, 2001: 3). One of the main goals of the SAP is the establishment of a “Free Trade Area” between the European Union and every single country in the Western Balkan area (European Commission, 2001: 23). The Stabilization Association Agreements will aid the EU to reach its objectives in the Western Balkan in three ways (Hoffmann, 2005). Firstly, the SAA will help the Western Balkan countries to meet the EU standards, secondly, it will raise awareness towards fundamental democratic principles such as minority rights and human rights, lastly, it incorporates the basic elements which are of great importance for the EU single market such as competition assistance, intellectual property rights an many more (Hoffmann, 2005).

### **3 Methodology**

#### **3.1 Research design and Qualitative methods**

The researcher of this study will be guided by a post-positivist worldview. Researchers that employ a post-positivist worldview believe that a complete and clear understanding of the issue at hand can be achieved with the utilization of experiment and observation (Ryan, 2006). Applying the post-positivist worldview guides the researcher to assume that proper social



research will adhere to the style of natural sciences and will consequently lead to the foundations of social trends or psychological ones (Ryan, 2006). It is often accentuated by researchers that the primary interest of the positivist view are individuals and their ``life-worlds'', which would be spontaneously evolving languages and concentrating on the values that participants allocate to their experience (Lune and Berg, 2017). Part of life-worlds are personal qualities linked with the lives of participating individuals such as empathy, their motivations, emotional aspects, or symbols and what they stand for (Lune and Berg, 2017). All the above-mentioned components can be representative of their behaviours, habits, schedules, life experiences, and numerous other circumstances that alter these usual habits or natural situations (Lune and Berg, 2017).

No matter what their approach or worldview is, all qualitative researchers are confronted with ethical issues along the process of collecting data, when analyzing it and when distributing qualitative reports (Creswell and Poth, 2016). Research ethics should be carefully considered since they are defined by the values and principles that determine how the relationship concerning two parties (the researcher and the participants in the research) is going to be treated and held; these rules and values which define the ethics of the research can be of binding nature or consensual one (Flick, 2004).

The research design of this thesis will be the qualitative approach. Quality itself represents the essence and tone of a certain idea or matter; it answers questions such as how, when, where, and why, all in relation to the idea or matter that is being researched (Lune and Berg, 2017). Therefore, qualitative research implies the meaning, explanation, traits, qualities, symbols, and images of certain matters being studied in the research (Lune and Berg, 2017). The qualitative approach seems not so complicated on the surface, but it is becoming more and more complex as the years go by, and most of the literature written on qualitative research does not provide the reader with a

precise definition of the notion (Morse and Richards, 2002). The fundamentals of this type of research are assumptions, the utilization of theoretical lenses, and the study of research topics by making inquiries about the meaning that research groups or simply individuals assign to a social issue (Creswell and Poth, 2016). To examine the topic that is being researched qualitative research makes use of evolving approaches when examining; the data of the study is gathered in a natural environment that is vulnerable to the individuals being studied, the analysis of data is inductive and designs or patterns are established (Creswell and Poth, 2016). If using the qualitative approach during a study, when it comes to writing the final report the opinions of those who participated in the study should be clearly voiced, there should also be a detailed explanation and examination of the problem, extensive literature, and lastly, a call for action (Creswell and Poth, 2016). In life humans are reminded of certain moments and events in their life just by smelling a specific scent when listening to a song, or just by looking at a certain colour; all these moments that humans recall tend to trigger certain feelings and emotions based on their quality, not quantity (Lune and Berg, 2017).

The strategies of qualitative research have precisely this goal, to quickly trigger these almost forgotten memories (Lune and Berg, 2017). Qualities are the main source of values or meanings that we assign to specific matters or items (Lune and Berg, 2017). Qualitative researchers are obliged to be way more accurate than quantitative researchers, more cautious when defining terms and notions or dealing with particular processes and write far more extensively than most researchers (Lune and Berg, 2017). The reason behind this would be future research on the same topic; qualitative researchers have to perform their study in such way so that when other researchers work on the same topic and examine the same issues, their results do not differ massively from each other (Lune and Berg, 2017). Therefore, qualitative research needs to remain valid and not overthrown by another research on

the same topic (Lune and Berg, 2017). The process of conducting this type of research is quite lengthy and challenging, with vague data, strict analysis constraints, and not many opportunities for inaccuracies (Lune and Berg, 2017).

The most challenging aspects of conducting interviews are the procedures related to the process (Creswell and Poth, 2016). The interviewees might showcase unpredicted actions that can confuse the interviewer during the process; the capabilities of the interviewer are also of high importance since the researcher will be dealing with transcriptions of interviews, phrasing the right questions so that they can get useful output, dealing with delicate and complex matters and providing instructions to the interviewee (Creswell and Poth, 2016). Interviews are quite demanding, especially for researchers that have not been involved in such activities before and choose to do research on complicated topics such as phenomenology and grounded theory (Creswell and Poth, 2016). The equipment used is another difficulty while interviewing that needs setting up before the interview starts; the equipment used are recorders or transcribers (Creswell and Poth, 2016). A great number of researchers that lack experience are overwhelmed by the struggles of the interview process, and the time-consuming process of transcribing the recordings (Creswell and Poth, 2016). The process of asking suitable questions and expecting the interviewees to give useful answers to these questions, asks for patience and expertise from the researcher (Creswell and Poth, 2016). Significant amount of literature on interviews underlines the prominence of the relationship between the two participating parties in the interview process (the interviewer and the interviewee) (Creswell and Poth, 2016). The identity of the participants in the interviews is protected and they are kept anonymous, by using numbers instead of names when referring to them (Creswell and Poth, 2016). The qualitative researcher lets the participants in the study know that they are partaking in research, describes to them the aim of the research, and does not deceive the participant about

the kind of study they are becoming part of (Creswell and Poth, 2016). In other words, the process of interviewing can be described as a conversation with an objective (Lune and Berg, 2017). This objective would be the collection of information that comes from the interviewer asking the questions and the participant delivering answers (Lune and Berg, 2017).

### **3.2 Data Collection**

A mixture of secondary and primary data is used for this study. The secondary data will be gathered from Google Scholar, Research Gate, Modul University Vienna library, National Library of Albania, and other online databases. Because of the topic content, the use of numerical and statistical data obtained by institutions, authorities, and government organizations is crucial to the study. The official European Union website and the official websites of the government of Albania were utilized during this study in order to get possession of up to date and reliable information on the research problem. The primary data of this study will be collected through interviews. The researcher will interview individuals who operate in the banking system and integration sector in Albania. Due to the current COVID-19 implications and the inability to schedule face to face interviews, they will all be conducted online. Most of the interviews will be in Albanian, which is the native language of the researcher, and will then be translated to English. The reason as to why these interviews will mostly be in Albanian is because of the lack of English skills of some interviewees and in order to get better results and more accurate responses.

### **3.3 Interview Development**

The goal of conducting these interviews is to better understand how the banking system in Albania is working towards integration in the EU economy. The interview consists of 11 open-ended questions to obtain a better insight on the topic. The first question asks the interviewee for consent to record them and if they prefer it or not. The next two questions are about the

professional experience and educational background of the participant and should only be asked if the researcher could not find them out before. The next question asks “When the transformation of the banking system of Albania in the free-market economy started?”. It is followed by a sub-question stated as follows: “What would you define as the turning point for the creation of the current banking system in Albania?”. The main question and its sub-question seek to discover the start of the transformation and integration of the banking system in Albania after the communist regime ended and Albania became a free market economy. The following question is phrased: “What would you identify as the key policies and regulations implemented by the banking system to resemble the banks of the EU?”. This question directly answers one of the research questions and provides the interviewer with information on the main policies and regulations of the banking system, what these policies are, and what have they brought to the system. Through this question, the researcher can find out if Albania has done enough work through the implementation of regulations or there is still an urgent need for new ones. The next question asks “How well do they think is Albania working towards integration in the EU?”. Through these questions, the participants will be able to let the researcher know if Albania is actually working well towards EU integration or not. By expressing their honest opinion, the participants will provide will information regarding the work of Albania in regard to the banking system. The question: “If Albania is granted full membership in the EU, how challenging would it be for the banking system to adapt to change?” examines the challenges that the banking system will be going to face in the future if Albania receives full membership. Through this question the researcher can identify the weak points of the banking sector; by identifying the weaknesses of this sector it will be easier to tackle them. This question is followed by a sub-question which is formulated as follows: “How willing would you say that the banking system is to become part of the European Union?”. The sub-question analyses the issue by taking into consideration the willingness of the banking

system to become part of the EU. This way it is made known if the sector is fully willing to get into the EU or they are not entirely prepared and ready to become a part of it.

The question, “Based on your experience, how supportive and involved would you say that BOA (Bank of Albania) has been in the improvement and integration of the banking system?”, investigates the most important organ of the banking system in Albania, which is BOA. The Bank of Albania has autonomy, and it makes the most important decisions for the banking sector. Feeling supported by BOA is crucial since it is the leader of the system and should always be involved in banking matters. This question will help the researcher find out if there is any lack of support from BOA’s side and if the system feels like there is more that BOA can do. The next question studies the attitude of the banking sector towards the EU and it is phrased as follows: “Do you think that the integration process is welcomed amongst the banking sector as a whole?”. The interviewees will voice their opinion regarding integration and uncover how the banking system really feels about being integrated into the EU. Coming next, the researcher asks the participant “What should be the next step that the banking sector should take to get closer to the EU?”. Participants will help this research by suggesting the next steps that should be taken by the banking system of Albania to create closer relationships with the EU. Through this question, this study can expose valuable ideas and opinions by exploring different viewpoints.

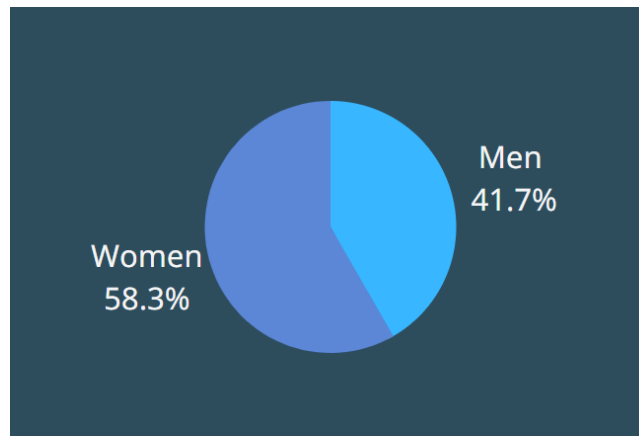
The subsequent question is articulated as: “Are other EU countries willing to help provide banking knowledge and infrastructure to help with the integration of the Albanian banking system and the EU?”. This question is crucial to this research as it investigates the support of the EU towards Albania. Albania has been working for thirty years now to get in the EU, but it is also important to know that the EU is working alongside it. Through this question, the researcher will find out if the banking system feels backed

enough by the EU and if the EU is a useful guide along the journey of integration. The second to last question asks: “ In your opinion, do you think the type of market economy Albania has would work perfectly in an integrated EU system? If yes, why, and if no why not? “. Here, the interviewer asks for the participants’ opinions in relation to the type of market economy that Albania currently has. Knowing if this economy flatters a banking system integrated into the EU is of great importance to this study. The final question: “ Lastly, is Albania willing to adopt the Euro or would the banking system be best served keeping the Albanian currency? “, looks into the currency issue. The change of currency (abandoning the national currency and adopting the EUR) has been an issue for many current members of the EU when they first received membership. Member states are not obligated to switch to the EUR and some of them still use their national currency. No matter what decision Albania will make it will definitely be an important one. This question will provide the study with some insight on this issue. There were also questions that were raised during the interview but the above-mentioned questions are the official and main interview questions.

#### **4 Data Analysis and Interpretation**

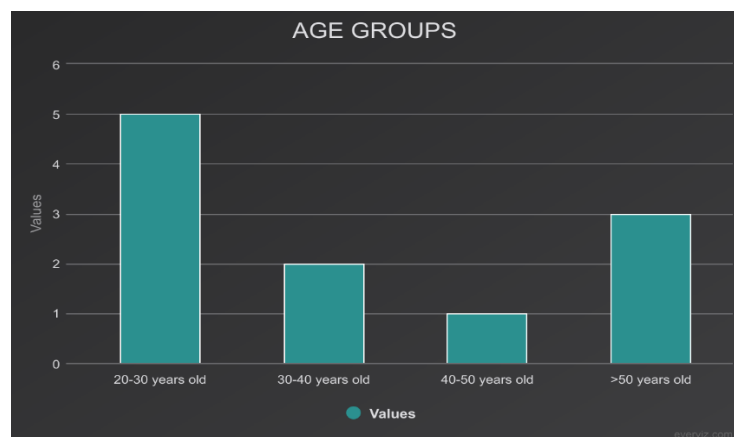
A total of 12 interviews were conducted with members of the banking and integration sector of Albania. The sample was broad, and it included participants of different genders, age, education levels and experience levels.

Out of 12 interviewees, 7 of them identified themselves as women and 5 of them identified themselves as men. The graph below shows the respective percentage for both groups.



*Figure 1 – Gender Pie Chart*

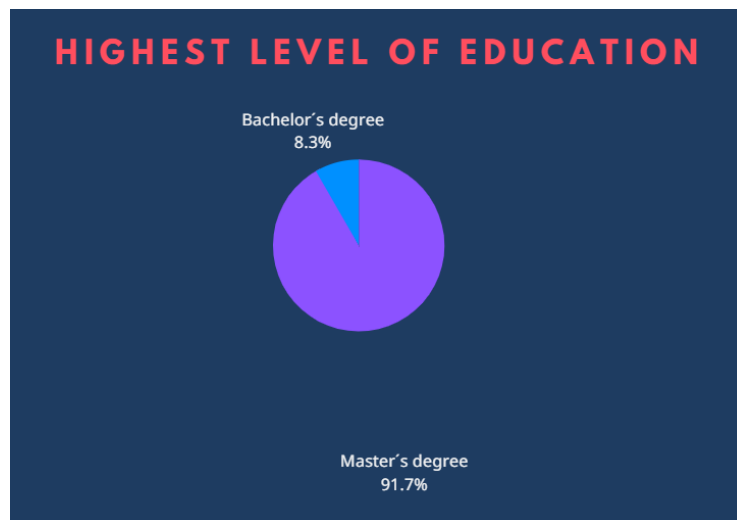
The researcher managed to interview people from all age groups that operate in the banking and integration sector. The histogram below, provides a visual representation of all age groups participating in this study. Five of the participants were between the ages of 20 and 30, two of them were between the ages of 30 and 40, only one of them was between the ages 40 and 50, and three of them were older than 50.



*Figure 2 – Age Group Histogram*

Eleven out of twelve participants had obtained a Master’s degree and only one participant had a Bachelor’s degree as their highest level of education.





*Figure 3 – Highest level of education pie chart*

All participants have different levels of experience in the banking and integration system. The researcher approached individuals that have been in the system since the transition started but also individuals that have recently joined the system. This way the study is not biased, and different viewpoints are observed. The graph below is a visual representation of participants' experience. Out of twelve participants in the study two of them have been in the system for less than five years. Three of the participants have been in the system for 5 to 10 years. Two of them have 10 to 20 years of experience in the system. And five of the participants have been in the system for longer than 20 years. The diverse experience levels enabled the researcher to gather more data and different opinions on the matter.

Level of experience in the banking and integration system

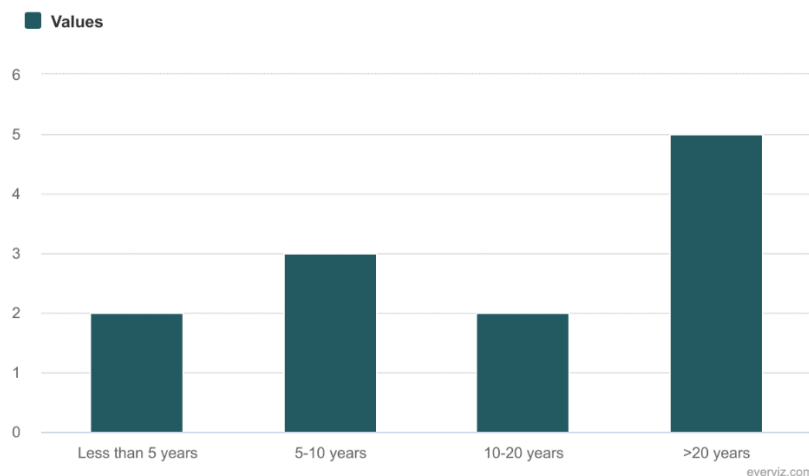


Figure 4 – Level of experience in the banking and integration system

The first question that was asked during the interview process was “Based on your banking experience, when would you say that the transformation of the banking system of Albania in the free-market economy started? What would you define as the turning point for the creation of the current banking system in Albania?”. After a careful analysis of all twelve interviews, it was noticed that the majority of participants of this research identified the 1990s as the starting point of the transformation of the banking system of Albania in the free market economy.

*“In my opinion the transformation begun in the 90’s with the changes in the banking legal system, the establishment of an independent central bank, the division of the commercial activity of the central bank from its proper functions, and when the first private capital commercial banks started operating in the Albanian market.” (Male Interview 2)*

*“I would say that this transformation started on the year 1992 with the ending of the communist regime.” (Female, Interview 4)*

*“So, since the beginning of the free market economy in Albania in the 1990s, the banking system became involved in a series of reforms and change which*

*were directly connected to the integration process of Albania into the EU. ”  
(Male, Interview 5)*

*“The transformation of the banking system started in the 1990s which is known as the transition phase of Albania. The Republic of Albania left the communist regime and became a free market economy. ” (Female, Interview 8)*

Only one of the participants did not comment on the 1990s. He stated: *“In my opinion, the transformation started in 2004 or around that time. ” (Male, Interview 6)*

Regarding the turning point for the creation of the current banking system, participants had different opinions and they identified different events. Some of the most often mentioned ones were as follows:

*“Privatization of the state bank (by commercial banks), the entry of foreign capital in the Albanian banking market, and diversification of the activity of the commercial banks in terms of products offered to their customers. ”  
(Male, Interview 1)*

*“The first turning point was the establishment of the two-tier banking system in Albania in 1992 by approving the law “On the Bank of Albania,” and the Law “On the Banking System in Albania.” (Male, Interview 2)*

*“The second turning point was the privatization of the state-owned banks and the entrance in the Albanian market of the foreign capital banks, especially from EU, like Raiffeisen Bank, Intesa San Paolo etc.” (Male, Interview 2)*

*“The transformation of the banking system, from a state-owned unified system to the one we currently have was caused by the privatization of the banking system. The first step of this transformation is the licensing of private banks with foreign capital. ” (Male, Interview 5)*

*“ The turning point would be the entry of foreign banks which brought along foreign capital in Albania. The existence of a private banking system influenced the creation of our current banking system. ” (Female, Interview 9)*

*Two of the participants expressed completely different opinion from the above-mentioned ones. One of them mentioned the creation of BOA as the main turning point and the other participant mentioned the 1997 crisis. Not many people bring up the 1997 crisis as a turning point when discussing the transformation of the banking system in Albania.*

*“The turning point would be the creation of the Bank of Albania during the transition phase on 22 April 1992. Even though the law for the establishment of BOA was passed in 1992, it was reviewed several times after its implementation. Each review brought the Albanian banking system closer to the EU. ” (Female, Interview 6)*

*“The turning point for me is the crisis of 1997. The pyramid schemes which deceived a large percentage of the Albanian population were a call for action. After the 1997 crisis our system started to fully transform into the one, we currently have. ” (Female, Interview 10)*

*The second question of the interview “What would you identify as the key policies and regulations implemented by the banking system to resemble the banks of the EU?” received diverse answers. Several participants of this study have expressed their concerns regarding money laundering, terrorism acts, illegal activities, and how the system should supervise payments. When asked about the key policies a significant number of them valued payment regulations and money laundering regulations.*

*“ I would identify two main regulations as the most notable ones. The first would be “Implementations of Basel regulations” and the second would be “Application of the SRNF”. ” (Male, Interview 1)*

*“Applying different regulations in order to support the fight against money laundering and terrorist financing. ” (Female, Interview 4)*

*“The first one is the payment unification between the banking system in Albania and other banking system in the EU. The second one would be the supervision of these payments, in accordance with EU regulations. ” (Male, Interview 5)*

*“To this day, money laundering is a current issue that banks are trying to take down and I think that all regulations established to solve this issue are the key policies of this sector. ” (Female, Interview 8)*

*“I would say that all payment related regulations have helped the system to resemble the European one. ” (Female, Interview 9)*

*“Based on my banking experience some of the major challenges that we had to face were money laundering acts. I believe that every single regulation regarding the fight of money laundering acts is a key policy for our system. ” (Female, Interview 10)*

Two of the participants mentioned the newest regulation, which is the Resolution Fund implemented by BOA. This regulation is one of the most innovative regulations implemented by BOA, but since it is relatively new not many people refer to it when it comes to the key policies and regulations. The following two interviewees expressed the following:

*“ I would like to mention the Resolution Fund, established in 2018 by the Bank of Albania. ” (Female, Interview 11)*

*“The Resolution Fund regulation in 2018, is a gigantic move by BOA which will take us closer to the EU banking system. ” (Female, Interview 12)*

When asked about the work of the banking system towards integration in the EU all twelve participants responded positively.

*“I should mention that Albania has improved significantly with regards to EU integration. Our people have lived in another system for a long time, where they had different values, rules, and aspirations. Even though the change to another economy has been drastic Albania is handling the integration process quite professionally. ” (Female, Interview 7)*

*“Taking into consideration how different the banking system of Albania used to be and the change it has gone through, I must admit that it is working at a fast pace. ” (Female, Interview 8)*

*“I might be biased because I am part of the system and I have a positive attitude towards it. But I sincerely think that the banking sector has been the most hard-working sector of Albania. ” (Female, Interview 11)*

One of the participants even mentioned the advantages that Albania possesses which have helped the system to work better than other systems in the country. He stated: *“ The banking system in Albania has a few advantages. The main one is the presence of foreign capital. Two years ago, 70% to 80% of the capital in the banking system was foreign capital. Mostly Austrian capital because of Raiffeisen Bank, Greek capital, Turkish Capital, and Hungarian capital. ” (Male, Interview 5)*

When asked about the challenges that the banking system of Albania will face with regards to adapting to change, the majority of them were convinced that it will not be a major issue and they had faith in the system.

*“The banking system is for sure the closest system in Albania to EU standards, it can adopt and change accordingly very quickly. Not all the banks will be*

*able to cope with EUR standards, but it should be mentioned that already 50% of the banks are EU country capital and part of EU bank association. '' (Male, Interview 3)*

*''I think that a big part of the adaptations is already made as most of the banking system in Albania is already part of European groups. '' (Female, Interview 4)*

*''Taking into consideration that a majority of banks that operate in Albania are subsidiaries of important European banks, the adaptation to change will not be too problematic. '' (Male, Interview 6)*

Even though most of them, were not worried about adopting to change some of the main challenges identified were the digitalization process and the fight against the informal sector.

*''The most challenging aspect of the EU membership will be the fight against the informal sector. '' (Female, Interview 4)*

*''The most challenging aspect of it would be digital banking/digitalization of the banking system. '' (Male, Interview 1)*

The question regarding willingness of the banking system of Albania to get become part of the EU, generated positive answers only. Every interviewee felt that the system is ready and anticipating a future membership in the EU.

*''I think Albania is fully ready. We are ready to implement European technology and benefit from it. Our human resources departments are also looking forward to this change. '' (Male, Interview 6)*

*''All second level banks and the central Bank of Albania work continuously towards integration. I do not think willingness is an issue here since this system has been working under the influence of European banks for years now. '' (Female, Interview 8)*

*“I believe that the sector is quite willing to become part of the EU.” (Female, Interview 10)*

The researcher noticed that a few of the participants started to comment on the foreign capital when asked about the willingness of the system. Not all of them voiced the same opinion when asked about it. The researcher dug deeper by asking them how they felt about the presence of foreign currency and the response was as follows:

*“I look at it as a good indicator for the future of the system. It will be much easier to adapt if we change our currency as well.” (Female, Interview 10)*

*“I do not think it is serious issue, but it would be better if there was a single unified currency, which is also a goal for Albania if we get membership in the EU.” (Male, Interview 5)*

The researcher also asked about the central bank of Albania and how supportive it was during the integration process of the banking system. There were mostly positive responses but what stood out was the negative response of one participant. This participant stated that BOA had failed to support and improve the system which led to damages in the banking system.

*“I believe that BOA has failed to keep the needed pace for the expansion of the banking system. It has failed to facilitate the interactions of the internal market in Foreign Currency. It has allowed the free circulation of all currencies because of its policies. Recently it has gone even further by allowing the entry of non-clear origin capital in the banking system. The result is the reduction of the EU Capital in favour of local and non-EU capital.” (Male, Interview 3)*

When asked if they expect other EU countries to provide the banking system of Albania with knowledge and infrastructure, upon receiving membership in the EU, all participants unanimously answered yes. The majority also brought up that the EU countries are already providing this because of the presence



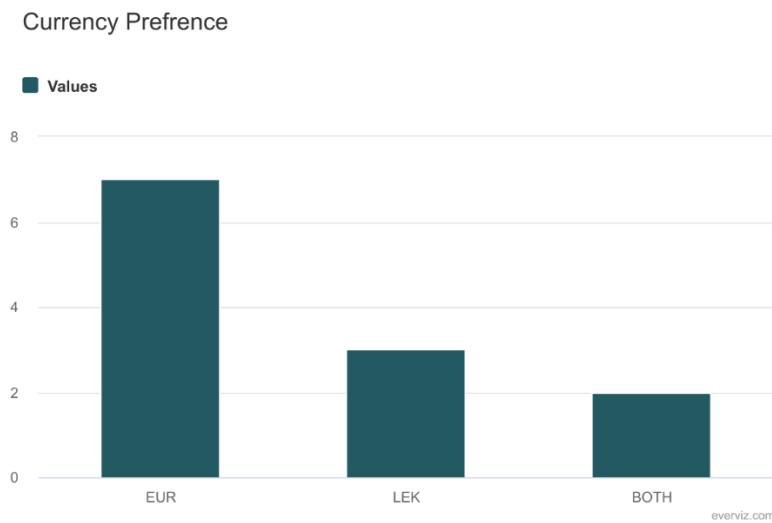
of foreign European banks and foreign capital in the Albanian banking system.

*“EU countries have already provided us with enough knowledge since their banks operate in our market and I believe they will continue to do so in the future.” (Female, Interview 4)*

*“We expect them to be willing to provide us with guidance. EU members have always supported new members, especially their banking and financial sectors. We expect them to do the same with Albania’s banking sector.” (Female, Interview 11)*

*“EU financial structures and EU banking structures have always showcased serious involvement, through meetings, workshops, procedures. They will definitely continue to do so in the future.” (Male, Interview 5)*

The last question that the researcher posed, was regarding the change of currency. Participants were asked: *“Do you think that Albania is willing to adopt the Euro or would the banking system be best served keeping the Albanian currency?”*. There were mixed opinions, and the participants were divided in three groups. The first group being those who prefer the EUR currency, the second group being those who prefer keeping the national currency LEK, and the third group being those who suggest the use of both currencies. The graph below visually represents the preference of all participants of this study.



*Figure 5 – Participants’ currency preference*

The graph indicates that seven of the participants prefer adopting the EUR currency, three of them prefer keeping the current currency LEK, and two of them suggest keeping both currencies until the system is ready to fully adopt the EUR.

Some notable comments on currency preference were:

*“Our currency is not fully unified and regulated in the market yet and the entry of another currency can be even more confusing and regulating. I suggest keeping our currency for a few years until we are fully stabilized.” (Female, Interview 12)*

*“I think this is a macro policy and Albania will be free to choose. We will see in the future, but I do not think that having two currencies would be a bad idea. Many European countries operate this way. In the case of Albania, the presence of our local currency favours our businesses.” (Male, Interview 5)*

*“I think that we are fully willing to accept the Euro currency. BOA has been preparing the system towards this change for years now.” (Female, Interview 4)*

## 5 Discussion of Findings

In this section all the above findings will be reviewed and discussed. The majority of participants identified the 1990s as the starting point of the transformation of the banking system of Albania in the free market economy. Several turning points were brought during the interviewing process. A few of the most notable ones would be the creation of a central bank in Albania (BOA), the privatization process of the banking system, the entry of foreign capital and entry of foreign European banks in the Albanian market. Regarding the key policies and regulations, “The law of 1992”, “Anti money laundering and anti-terrorism regulations”, “Payment Processes Regulations” and “Digitalization regulations” came up the most. The work of the banking system of Albania towards integration in the EU was praised by every participant of this study. The banking sector was identified as the leading financial sector in regard to EU integration.

Participants voiced that the banking system of Albania is highly adaptable to change, so when the time comes and Albania receives membership into the EU, the banking system will showcase flexibility and acceptance. They added that some of the major changes have already been made, so not much change is expected to come. Two of the main challenges that were revealed are “digitalization of payment processes” and “fighting illegal activities”. According to this study the banking sector is fully willing to become part of the European Union and has been preparing for years.

The support and involvement that BOA has provided to the banking system of Albania was another topic discussed in the interview process. The majority of participants applauded the Bank of Albania by referring to it as the leader of the banking system, the regulator of the sector, and the guider towards improvement and integration. There were individuals that expected more from BOA but still had a positive reaction when asked about BOA’s support in the sector. One of the participants, which was also one of the most

experienced participants (based on years of experience in the system), voiced great disappointment. According to him, BOA has failed several times to fulfill its duties and has constantly shown lack of ability to regulate the system in accordance with EU standards.

It was unanimously agreed upon, that the banking sector is by far the most welcoming sector in Albania when it comes to the topic of integration in the EU. When asked about the next steps that the system should take to get closer to the EU, participants gave diverse responses. One frequent suggestion is the digitalization of functions such as electronic payments or distance banking functions. It was acknowledged that participants felt left behind when comparing the digitalization of the Albanian banking system to the digitalization scale of European banks. Another notable one is supervision of payments in order to fight illegal activities, money laundering and terrorism acts. Others expected BOA to take a step and prepare for future acceptance into the EU. Changes in the legal framework is another suggestion that the participants of this study were concerned with.

It is concluded that the banking sector of Albania feels supported by other EU countries. This banking system expects current EU member to provide it with knowledge and infrastructure since it has already been helping for years now. The presence of foreign European banks and foreign capital in the Albanian market has been a great influence towards the integration process. The operation of these European banks in Albania has already integrated a high percentage of the banking system by implanting EU standards in the banking sector of Albania. The presence of a free market economy in Albania is another advantage for the banking system; this way the banking system of Albania would work perfectly in an integrated EU system. The last finding that was uncovered through the interview process, is the preference of currency. The majority felt willing to adopt the EUR currency, while the minority felt safer if maintaining the national currency LEK. The argument behind keeping

the national currency is that Albania would take a long time to adapt to a new currency and it would not be stabilized in time. There were also participants that suggested keeping both currencies since Albania already has a large presence of foreign currencies in the market.

## 6 Conclusion

The aim of this thesis was to examine the integration of the Republic of Albania in the European Union economy, more specifically the integration of the banking system in the EU. The researcher made use of the extensive written literature on this topic and used the qualitative approach by maintaining a post-positivist view. Data was collected through interviews with members of the banking and integration sector of Albania. This study clearly defined three main objectives in its first section. The first one was to identify the steps and policies that the banking system of Albania has implemented with regards to integration in the European Union economy. The second one was to examine the willingness of the banking system of Albania, to become a member of the European Union. The last one was to discover the attitude that this system has towards EU integration and how acceptable the system is regarding change. After all the data was gathered analyzed the researcher was able to fulfill all the above-mentioned objectives. The main steps, policies, and regulations such as “The Resolution Fund”, “Anti Money Laundering acts”, “The law of 1992 for the Creation of the Central Bank”, “The Privatization Regulations”, “Anti-terrorism Regulations” and many more were identified.

Through the use of interviews and the perspectives of individuals, this study managed to examine the willingness of the banking system to become a member of the EU economy. This research took into consideration different viewpoints, by examining participants from different management levels, different age groups, genders, and level of education. The opinions on

willingness regarding the banking sector were unanimous and every participant indicated that all stakeholders of the banking system are looking forward to becoming integrated in the EU banking system.

When looking into how welcoming and acceptive the banking system is towards change participants had faith that Albania would welcome any change that the EU banking system might decide to introduce. The research looked into past change and investigated the attitude that the system had towards it. It was uncovered that the banking system had always reacted positively to change and managed to keep up every time. It should also be mentioned that the Republic of Albania has gone through significant amounts of alternations, advancements, and upgrades in the past three decades. Its sectors have also advanced alongside it. The banking sector has always stood out for its ability to change at a fast pace and be eager to change. It is acknowledged that out of all the existing financial systems in Albania, the banking system is the most advanced and hardworking sector towards EU integration.

The fulfillment of these objectives provided answers to the research questions of this study. The first research question was: "How is the banking system of Albania working towards a future European Union integration and membership?". All the obtained data through secondary and primary sources was adequate and able to answer this question. The researcher managed to make a detailed analysis of the integration of the banking system of Albania into the EU. As presented in the literature section the work of the banking system has been impressively good. The data gathered from the interviews also proves the massive work of the banking system. The second research question was phrased as follows: "What steps, regulations, and policies are the banking system and consequently the Central Bank of Albania implementing to achieve membership in the EU?". As already mentioned before the banking system of Albania, with the support and approval of BOA

has regularly issued innovative regulations, laws and policies that benefit the EU integration process of the system.

## **7 Limitations, Recommendations, and Implications**

### **7.1 Limitations**

There was a considerable number of limitations that were discovered during this research thesis. Some of these limitations were expected before even starting with the research while some others were uncovered along the way. The researcher of this thesis followed the qualitative approach, which means that the data for this study would be gathered through interviews with experts of the banking sector. From the first moment that this approach was chosen it was notable that there would be challenges regarding these interviews.

A maximum of 12 interviews were conducted and even though the researcher tried to make the sample as inclusive as possible by opting for people of different ages, genders and position in the banking sector, the sample is still considered rather small which makes it challenging to generalize the results to the whole sector of the banking system. The sample of this research delivers a better understanding of the topic, answers the research questions, and helps reaching the main objectives of the study. By conducting these interviews, the researcher was able to analyze the integration of the banking system of Albania into the European Union economy, the readiness and willingness of the system to receive full membership in the EU and the attitude that this sector has towards EU integration. Through this approach the researcher examines the steps, laws and regulations implemented and how supportive the Central Bank of Albania has been with respect to the banking system being integrated in the

EU. The results are gathered by not only interviewing employees from the second level banks but also by interviewing employees of the Central Bank of Albania (BOA). Even though the researcher tried making the sample as broad as possible, the banking sector of Albania is quite wide, and 15 interviews cannot help the study to fully comprehend the attitude of the banking system of Albania altogether.

The real struggle with the interviews was finding the right people to interview. The researcher reached more than 30 employees in the banking sector of Albania and most of them did not agree to take part on the research as they believed that the information required from them was not part of the expertise. Most people felt that the research topic was too narrow and being educated on the evolution of the banking system and the EU policies that have been implemented were not part of their duties inside the bank. This limited the researcher and the inclusion of employees from the Central Bank or from higher level management positions became a must.

Time constraints were also an issue when conducting interviews as most people were not so flexible and some of the interviewees changed their time slot due to other obligations. The language of the interviews was also quite a struggle that needs to be considered when conducting interviews in Albania as most people have difficulties or do not feel as comfortable having interviews in foreign languages as they would having them in Albanian. The researcher being a native Albanian speaker had to translate most interviews from Albanian to English which caused delays in the process. The employees from the Central Bank did not accept to be recorded since most information coming out from the Central Bank is confidential and they did not feel comfortable to have their interview on tape.

The researcher tried to avoid biases during this study they were still present. Firstly, the employees of the Central Bank of Albania had a positive attitude towards BOA and its work. While the other participants expressed more



critical opinions about the central bank, BOA employees had the tendency to be more positive and support the work of the central bank in the banking system. Another bias would be the opinions that participants had on the banking system altogether. Almost all interviewees identified the banking sector in Albania as the most developed, integrated, and advanced sector. The majority believes that the banking sector is the most prepared sector to become part of the EU in the Albanian economy. A way to tackle these biases would be increasing the sample size and conducting a survey. The survey could reach more people in the banking system and therefore can be less biased. Another solution would be conducting a survey for people that are not related to the sector such as the public or customers. This way the researcher can find out how the people feel about the banking system's work. The results would be more inclusive and there would be negative opinions as.

Another notable challenge that was discovered along the way is the lack of research on the field. Even though Albania is quite engaged with integration in the EU there was a scarcity of research in relation to the integration of the banking system in the EU. The Bank of Albania obtained a large amount of information but most of it was not up to date and was written in Albanian language. The information related to the integration of Albania altogether was quite abundant but when the research went deeper into the banking sector the research became quite a struggle.

## **7.2 Recommendations for Future Research**

The integration process of the Western Balkan countries is a complicated topic that has caused heated discussions not only inside the region but also amongst the EU member states. In the case of the Republic of Albania the transition and transformation process has been going on for three full decades and will probably continue for many more years. Since this issue is so complex when looking at the integration of the banking system in the

European Union economy, the researcher should not only look at how the banking sector is working towards EU integration, but they should look at the integration of Albania altogether. There are several laws and policies that even though not directly related to the banking system, still influence the system indirectly. When doing research on this topic the researcher must go deep into the literature written on the banking system of Albania and pay close attention to the theoretical framework. There is not much up to date literature on the evolution of the banking system and using the website of BOA (Bank of Albania) is highly suggested for further research. It was noted that the attitude of the banking sector and its stakeholders towards receiving future membership in the EU is crucial and should be carefully examined to achieve a better understanding of the integration process. Looking at the willingness of the banking sector by utilizing the perspectives of experts on the field proved to be essential during this research, but the researcher acknowledges that the attitude of people outside the system would be quite beneficial to this topic. It is suggested to make use of a survey which would help the researcher to find out how other people feel about the integration of the banking system.

### **7.3 Implications**

This research paper focuses on the region of the Republic of Albania. It analyzes the integration process of this region into the EU by concentrating on the banking system of Albania. All second level banks of Albania can benefit from this research paper. This study carefully examines current issues of the banking system. Another benefiter could be the Bank of Albania. This research paper could be published on the website of BOA (Bank of Albania). Every year the Bank of Albania hosts a competition where students, who have finished their studies, can participate. At the end of the competition the Governor of BOA, picks the top three research papers, written only by students and they are published on their official website. The researcher of

this paper intends to participate on this competition since the topic of this study is of great importance to the banking community.

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Used for graphs: <https://app.everviz.com/create>

## Appendices

### Appendix 1

#### Interviews

A= Author

P= Participant

#### Interview 1- Male

A: Can you please tell me a bit about your educational background?

*P1: I have received an education in the Finance sector, and I finished my studies at the Agriculture University of Tirana.*

A: What's your professional experience?

*P1: I have worked in the banking system more specifically in commercial banks, for more than 20 years now. Since 2015 I am working at the Bank of Albania, the Central Bank. I currently hold the position of head of Issue Department.*

A: Based on your information, when would you say that the transformation of the banking system of Albania in the free-market economy started? What would you define as the turning point for the creation of the current banking system in Albania?

*P1: That would be the moment that our economy changed from the centralized economy to free market economy and the banking system changed the orientation from the state banking system to private system. I must mention at least a few turning points which based on my experience are the most important ones. The evolution of the banking sector in Albania is so wide that you cannot only choose one. The main points that we can identify are:*

➤ *The division of the banking system in two levels:*

- *First level, Central Bank of Albania*

- *Second level, Commercial banks*
  - *Approving new laws and regulations for the activity of the Central Bank and the commercial banks and their administration*
  - *Privatization of the state bank (by commercial banks)*
  - *The entry of foreign capital in the Albanian banking market*
  - *Diversification of the activity of the commercial banks in terms of products offered to their customers.*

A: What would you identify as the key policies and regulations implemented by the banking system to resemble the banks of the EU?

*P1: I would identify two main regulations as the most notable ones. The first would be "Implementations of Basel regulations" and the second would be "Application of the SRNF".*

A: How well would you say is the banking system in Albania working towards integration in the EU?

*P1: In my opinion the banking sector in Albania has worked quite well regarding EU integration. I have to say that the work so far has been of very high quality. If I had to use only two words, I would say very good.*

A: If Albania is granted full membership in the EU, how challenging would it be for the banking system to adapt to change? How willing would you say that the banking system is to become part of the European Union?

*P1: The banking system of Albania would face difficulties if granted full membership in the EU because then it would have to improve the whole activity of banking system. The most challenging aspect of it would be digital banking/digitalization of the banking system. I think that the banking system in Albania is ready to be part of the European System (some of the biggest banks in Albania are subsidiaries of European Union countries, Raiffeisen Bank, Intesa Sanpaolo, OTP and Procredit).*



A: Based on your experience, how supportive and involved would say that BOA (Bank of Albania) has been in the improvement and integration of the banking system?

*P1: Bank of Albania has been the leader of this process in terms of adaptation of the regulation framework, supervision etc. I can say this with great assurance since I hold a position in the Central Bank of Albania, and I have been closely monitoring the work of BOA in the banking system.*

A: Do you think that the integration process is welcomed amongst the banking sector as a whole?

*P1: Based on my experience in the system and taking into considering the amount of time that I have been part of the banking sector and witnessed the whole evolution first-hand, I think yes, the integration process is quite welcomed amongst the banking system.*

A: What should be the next step that the banking sector should take to get closer to the EU?

*P1: I believe the next step and the right way to go is the increase of digitalization.*

A: Are other EU countries willing to help provide banking knowledge and infrastructure to help with the integration of the Albanian banking system and the EU?

*P1: As I mentioned before, a significant number of banks operating in Albania are subsidiaries of other EU countries. We expect other EU countries to be supportive towards us when the time comes.*

A: In your opinion, do you think the type of market economy Albania has would work perfectly in an integrated EU system? If yes, why and if no why not?

*P1: Albania has a free market economy just like most countries in Europe. The economy model that Albania has, is exactly the type of market that EU asks for. Certain sectors of the economy might face difficulties when integrated in the EU, but the banking sector will succeed.*

A: Lastly, is Albania willing to adopt the Euro or would the banking system be best served keeping the Albanian currency?

*P1: In case that we get membership in the EU, Albania would be fully willing to accept the Euro and that would be the most logical decision.*

## **Interview 2 - Male**

A: What's your educational background?

*P2: I have a university degree on finance and banking.*

A: What's your professional experience?

*P2: I have worked in the Public Administration Institution for 7 years and in the Central Bank of Albania for 14 years, where I am currently working.*

A: Based on your information, when would you say that the transformation of the banking system of Albania in the free-market economy started? What would you define as the turning point for the creation of the current banking system in Albania?

*P2: In my opinion the transformation begun in the 90's with the changes in the banking legal system, the establishment of an independent central bank, the division of the commercial activity of the central bank from its proper functions, and when the first private capital commercial banks started operating in the Albanian market. This period was characterised by the development of the banking network, the increase of banks and market share for each bank, state owned bank privatization etc.*

*I would identify two turning points for the banking system. The first turning point was the establishment of the two-tier banking system in Albania in 1992 by approving the law "On the Bank of Albania," and the Law "On the Banking System in Albania." The State Bank of Albania became the Bank of Albania and was given all the functions that a central bank has by western standards. The commercial activity was created, and commercial banks were officially allowed to exercise their functions*

*as commercial banks, accepting deposits from, and providing loans to both individuals and companies.*

*The second turning point was the privatization of the state-owned banks and the entrance in the Albanian market of the foreign capital banks, especially from EU, like Raiffeisen Bank, Intesa San Paolo etc.*

A: What would you identify as the key policies and regulations implemented by the banking system to resemble the banks of the EU?

*P2: According to the Law "On the Bank of Albania" and the Law "On banks in the Republic of Albania", the Bank of Albania may issue sub-legal acts in the form of regulations, guidelines, decisions, and orders, to be implemented by all banks and other institutions licensed by the Bank of Albania.*

*The set of the sublegal acts constitutes the regulatory framework of supervision, which limits the risk taken by banks and other institutions licensed by the Bank of Albania in the course of their activity. Basel Committee Documents, as well as European Union Directives, Regulations and the Guidelines serve as the main guideline for compiling this regulatory framework. Regulatory acts approved are licensing, supervisory and general regulatory acts.*

*Some of the key policies or regulations that I consider to be the key ones are:*

*Strict by law criteria on banks licensing, especially on capital requirements, quality of the bank shareholders and quality of the administrators. Approving a set of regulations in line with Basel requirement like minimum regulatory capital requirement for credit, market and operational risk, credit risk assessment, on consumer credit, on anti-money laundering, on bank resolution etc. The creation by law in 2002 of the Deposit insurance agency is also a key point. The main objective of this institution is to insure and back up deposits, contributing to the stability of the financial system in the country.*

A: How well would you say is the banking system in Albania working towards integration in the EU?

*P2: I would rate the work of the banking system excellent and I would say far better than the performance of other sectors in the country.*

A: I was also interested to know that if Albania is granted full membership in the EU, how challenging would it be for the banking system to adapt to change? How willing would you say that the banking system is to become part of the European Union?

*P2: It will be challenging but at the same time the experience of the EU banks that are present in the county will be very helpful. They already are applying consolidated supervision indicators by their mother banks. The most challenging aspect I think might be dealing with new and more complicated financial products. In my opinion the Albanian banking system would like to be part of the EU as a general ambition of the entire country itself.*

A: Based on your experience, how supportive and involved would say that BOA (Bank of Albania) has been in the improvement and integration of the banking system?

*P2: In my opinion BOA has played an active and leading role in the improvement and integration of the banking system. The set of the regulatory sublegal acts approved by BOA follow the principles laid down in the Basel Committee Documents, as well as in the European Union Directives, Regulations, and the Guidelines.*

A: Do you think that the integration process is welcomed amongst the banking sector as a whole?

*P2: Yes, I think it is welcomed and the banking sector is anticipating it.*

A: What should be the next step that the banking sector should take to get closer to the EU?

*P2: They should increase the use of electronic payments and home or distance banking functions.*

A: Are other EU countries willing to help provide banking knowledge and infrastructure to help with the integration of the Albanian banking system and the EU?

*P2: The presence of the EU in the Albanian banking system is quite wide and other EU member states that operate in Albania are already providing us with help.*

A: In your opinion, do you think the type of market economy Albania has would work perfectly in an integrated EU system? If yes, why and if no why not?

P2: There will be changes that our economy will need to adapt to but other than that I believe that it will function perfectly.

A: Lastly, is Albania willing to adopt the Euro or would the banking system be best served keeping the Albanian currency?

P2: BOA has been working hard to become ready for the entry of a new currency such as the EUR. The banking system of Albania can benefit greatly from adopting the EUR currency.

### **Interview 3 – Male**

A: What's your educational background?

*P3: I have graduated with a Msc. in Economics.*

A: Can you tell me a bit about your professional experience?

*P3: I have started my career as a financial economist in a limited company and since 1995 I am working in the banking system.*

A: Based on your banking experience, when would you say that the transformation of the banking system of Albania in the free-market economy started? What would you define as the turning point for the creation of the current banking system in Albania?

*P3: The transformation has started with the Rural Commercial Bank mostly and at some point, with the National Commercial Bank. The first EU project and other donor projects were channelized through Rural Commercial Bank because despite being state owned bank, it had in place more acceptable operations procedures by the donors. Despite that, it was obvious that the system was not able to cope up with business climate change. In year 1993 a joint venture bank was opened with 50% of*

*it being state owned and the remaining 50% owned by Banka Di Roma Italy. I believe the real change on the market has started in year 1996 when EU banks, with private capital, entered the market. The first moves from Greek Capitals were then followed from year 1998-2001 by opening of money other banks EU and non-EU capitals.*

A: What would you identify as the key policies and regulations implemented by the banking system to resemble the banks of the EU?

*P3: All I can say here is that there are not much policies, or regulations left that the banking system needs to implement. The banking system is not only resembling, but it is like the EU system already.*

A: How well would you say is the banking system in Albania working towards integration in the EU?

*P3: If the banking system in Albania is missing a few of the EU standards is mostly due to the disability of the regulator to fully adopt those standards not the fault of the banking system.*

A: If Albania is granted full membership in the EU, how challenging would it be for the banking system to adapt to change? How willing would you say that the banking system is to become part of the European Union?

*P3: The banking system is for sure the closest system in Albania to EU standards, it can adopt and change accordingly very quickly. Not all the banks will be able to cope with EUR standards, but it should be mentioned that already 50% of the banks are EU country capital and part of EU bank association.*

A: Based on your experience, how supportive and involved would you say that BOA (Bank of Albania) has been in the improvement and integration of the banking system?

*P3: I believe that BOA has failed to keep the needed pace for the expansion of the banking system. It has failed to facilitate the interactions of the internal market in Foreign Currency. It has allowed the free circulation of all currencies because of its policies. Recently it has gone even further by allowing the entry of non-clear origin*

*capital in the banking system. The result is the reduction of the EU Capital in favour of local and non-EU capital.*

A: Do you think that the integration process is welcomed amongst the banking sector as a whole?

*P3: To be honest I am not very sure about this question. I would like to say yes but I do not think that every entity of the banking sector will be welcoming towards EU integration.*

A: What should be the next step that the banking sector should take to get closer to the EU?

*P3: It is not the banking system that should take a step it is the regulator who should, and the banking system will follow suite. Most of the banks here are expecting such move from BOA.*

A: Are other EU countries willing to help provide banking knowledge and infrastructure to help with the integration of the Albanian banking system and the EU?

*P3: In the last 15 years the banking system in Albania has been dominated by EU banks and despite of the fact that some of them left, 50 % of the banks are still EU although if the market share is taken into consideration it might be less than that.*

A: In your opinion, do you think the type of market economy Albania has would work perfectly in an integrated EU system? If yes, why and if not why not?

*P3: The banking system for sure is quite EU standardized despite of regulator incapacity and lack of will to lead such development. The globalisation and technology developments are affecting the way of doing business in all the world and inside the banking system too. Banks have already gotten these signals and are investing on technology and trying to be on top of such developments.*

A: Lastly, is Albania willing to adopt the Euro or would the banking system be best served keeping the Albanian currency?

*P3: We will join EUR for sure at some point in time either 5,10 or 15 years. All currencies circulate freely here. BOA has failed to favour the local currency use which should have been her main duty. Entering in the EU will be easy for the Albanian Citizens as they are familiar with EUR, but the rest of the economy will not be comparable at any point with EU. Actually, we already have 50% of the transaction volume, deposits and loans in EUR currency and whatever BOA decides to do, it will for sure, only affect 50% of the economy.*

#### **Interview 4 – Female**

A: What's your educational background?

*P4: I have a Finance-Accounting Bachelor's degree from the Economic Faculty, University of Tirana. I also have an Accounting Master's Degree also from the Economic Faculty, University of Tirana.*

A: What's your professional experience?

*P4: From 2008 to 2016 I have worked in a commercial bank (4 years in the accounting sector and 4 years in the Retail Department). From 2016 and ongoing I am working at the Bank of Albania as Head of the Cash Processing Sector.*

A: Based on your information, when would you say that the transformation of the banking system of Albania in the free-market economy started? What would you define as the turning point for the creation of the current banking system in Albania?

*P4: I would say that this transformation started on the year 1992 with the ending of the communist regime. On that time the banks operating in the system were still owned by the state but from the year 1993 different private commercial banks received their license to operate in the Albanian market.*

*The turning point was in 2004 when the Saving Bank (the biggest bank in Albania) owned by the government was sold. After that purchase, another commercial bank (Banka Italo-Shqiptare) was sold to a big international group leading to a consolidation of the banking system.*



A: What would you identify as the key policies and regulations implemented by the banking system to resemble the banks of the EU?

*P4: On my opinion the key policies are the regulations approved regarding the lending process. These measurements are important in order to keep a low number of the non-performing loans.*

*Applying different regulations in order to support the fight against money laundering and terrorist financing.*

A: How well would you say is the banking system in Albania working towards integration in the EU?

*P4: As most of the commercial banks operating in Albania are part of foreign groups mainly from Europe so they are "obligated" to walk in the same line as the group when it comes to regulations and policies. Therefore, I believe the system is working extremely well so far.*

A: If Albania is granted full membership in the EU, how challenging would it be for the banking system to adapt to change? How willing would you say that the banking system is to become part of the European Union?

*P4: I think that a big part of the adaptations is already made as most of the banking system in Albania is already part of European groups. The most challenging aspect of the EU membership will be the fight against the informal sector. As all banks serve most to the SME sector and even some smaller banks are focus only on SME lending so maybe this adaptation can take some time. I can say that the banking system is fully willing to become part of the EU.*

A: Based on your experience, how supportive and involved would say that BOA (Bank of Albania) has been in the improvement and integration of the banking system?

*P4: BOA is very supportive and involved in issuing regulations and instructions in order to bring the Albanian banking system on European levels.*

A: Do you think that the integration process is welcomed amongst the banking sector as a whole?

*P4: I think the whole banking system and all its participants are welcoming towards EU integration.*

A: What should be the next step that the banking sector should take to get closer to the EU?

*P4: Those would be steps towards developing the financial market and increase the financial intermediation.*

A: Are other EU countries willing to help provide banking knowledge and infrastructure to help with the integration of the Albanian banking system and the EU?

*P4: EU countries have already provided us with enough knowledge since their banks operate in our market and I believe they will continue to do so in the future.*

A: In your opinion, do you think the type of market economy Albania has would work perfectly in an integrated EU system? If yes, why and if no why not?

*P4: I cannot give a broad answer. Regarding the banking system I can say yes, but for the other sectors of the economy I am not sure if they work well in an integrated system.*

A: Lastly, is Albania willing to adopt the Euro or would the banking system be best served keeping the Albanian currency?

*P4: I think that we are fully willing to accept the Euro currency. BOA is preparing the system towards this change for years now.*

#### **Interview 5 – Male**

A: Regarding your educational background I already found out from your LinkedIn profile that you have received an education at the University of Tirana, Economics Faculty and as for your professional experience I also found out from your profile that you have been working for more than 20 years in the banking system and you

currently hold the position of a bank manager at OTP bank (Hungarian bank part of the EU operating in Albania for less than two years).

A: So, the first question that I was interested to know your opinion on, is that based on your banking experience, when would you say that the transformation of the banking system of Albania in the free-market economy started?

*P5: So, since the beginning of the free market economy in Albania in the 1990s, the banking system became involved in a series of reforms and change which were directly connected to the integration process of Albania into the EU. This means that the banking system itself, which at the time used to be fully state-owned, had a few obligations which grew at the same pace with the economic developments at the time. The system was obligated to fulfil and apply these regulations which came from the World Central Bank, the International Monetary Fund or other EU institutions.*

A: I would also like to ask what would you define as the turning point for the creation of the current banking system in Albania?

*P5: I want to highlight a very important key point here. The transformation of the banking system, from a state-owned unified system to the one we currently have was caused by the privatization of the banking system. The first step of this transformation is the licensing of private banks with foreign capital. The first one was the "Italo-Shqiptare" bank and later it was the "Piraeus Group Bank". So, the turning point would be the entry of foreign capital banks and the privatization of state-owned banks.*

A: Now I would like to know what do you identify as the key policies or regulations that are implemented by the banking system to resemble the banks of the EU?

*P5: There are quite a few but I can two or three main points regarding this issue. The first one is the payment unification between the banking system in Albania and other banking system in the EU. The second one would be the supervision of these payments, in accordance with EU regulations. These supervision policies are related to income declaration or money laundering issues. Basically, money laundering regulations.*

A: The next question that I would like to ask you is how well would you say the banking system in Albania is working towards integration in the EU?

*P5: the banking system in Albania has a few advantages. The main one is the presence of foreign capital. Two years ago, 70% to 80% of the capital in the banking system was foreign capital. Mostly Austrian capital because of Raiffeisen Bank, Greek capital, Turkish Capital, and Hungarian capital. Since shareholders and their capital mostly come from EU member states, these subsidiaries of EU banks operate based on EU regulations and not Albanian ones. For example, OTP Bank operates based on the regulations of its Group that is located in Hungary, which is an EU member state. So, you can say that because of capital origin we have a connection to EU banks already.*

A: So, do you consider the foreign origin of this capital to be a good indicator for the integration process?

*P5: Undoubtedly yes, because this way we can adapt to their banking culture which is far older than ours. We should keep in mind that we are talking about the private banking system, which operates accordingly to EU regulations and other international regulations.*

A: If Albania is granted full membership in the EU, how challenging would it be for the banking system to adapt to change?

*P5: I believe that full membership would not be a problem at all. In my opinion, banks are almost adapted to the EU regulations. These EU regulations are already implemented by our central bank and are being used in our banking system already. There will be new rules of course which will ask for the Albanian banking system to change its mentality and adopt them.*

A: How willing would you say that the banking system is to become part of the European Union?

*P5: I can say that it ready to accept EU. The only obstacles that come to mind would be the presence of several currencies that operate in our market, since the unification of a single currency has not happened yet.*

A: You think that the presence of several currencies in Albania is a real issue for the market dynamics?

*P5: I do not think it is serious issue, but it would be better if there was a single unified currency, which is also a goal for Albania if we get membership in the EU.*

A: I would also like to ask, based on your experience, how supportive and involved would you say that BOA (Bank of Albania) has been in the improvement and integration of the banking system?

*P5: BOA is the regulator of the banking system in Albania. Boa decides and issues all regulations, procedures, and conditions that second level banks should comply with. From what I know all these regulations that BOA constantly issues are in accordance with other EU central banks. BOA also receives and follows the suggestions that come from the EU, the International Monetary Fund, and the World Bank. To conclude, BOA has been highly effective as the regulator of second level banks in Albania.*

A: Do you think that the integration process is welcomed amongst the banking sector as a whole?

*P5: I can say it is fully welcomed because the unification and integration of the sector accordingly to the EU standards would bring benefits and developments. The payment costs would drop, customers would also benefit from faster payments, the use of EU criteria in the system and motivation from EU competition, would all bring improvements for the system.*

A: I would also like to know, what would you suggest as the next step that the banking sector should take to get closer to the EU?

*P5: Being more concerned with money laundering issues and terrorism issues, which are also regulated by BOA. The process of digitalization is the most important step in my opinion, even more important than money laundering issues now. If we compare our digitalization levels to the European levels, we are far behind.*

A: I wanted to ask something about what you just mentioned. Do you think that the right steps have been taken so far regarding digitalization?

*P5: Absolutely yes. Digitalization processes are implemented by the Bank Groups which are EU Banking groups. The work has been quite impressive, and the system is still working on it. During COVID-19 the work has been even more extensive and digitalized.*

A: Now I would like to ask about other EU countries. Are other EU countries willing to help provide banking knowledge and infrastructure to help with the integration of the Albanian banking system and the EU?

*P5: EU financial structures and EU banking structures have always showcased serious involvement, through meetings, workshops, procedures. They will definitely continue to do so in the future.*

A: I would like you to comment on the presence of foreign banks in the Albanian market. Do you think their presence has been a sort of guidance for the banking system of Albania?

*P5: Definitely yes. Their presence has been a helping hand not only because of their foreign capital but also because of their culture, image, mentality philosophy, workplace culture and product positioning.*

A: In your opinion, do you think the type of market economy Albania has would work perfectly in an integrated EU system. If yes, why and if no why not?

*P5: I think it would work much better than it already is, because the integration in the EU economy means that our banking system will fully adapt to EU regulations. Adapting to the EU integrated system will positively impact our banking sector.*

A: Moving on to the last question. Do you think that Albania is willing to adopt the Euro or would the banking system be best served keeping the Albanian currency?

*P5: I think this is a macro policy, where Albania will be free to choose. We will see in the future, but I do not think that having two currencies would be a bad idea. Many European countries operate this way. In the case of Albania, the presence of our local currency favours our businesses.*

A: So, you agree more with the local currency?

*P5: For now, yes.*

### **Interview 6 – Male**

A: I found out from your LinkedIn profile that you have a bachelor's degree and a master's degree in finance. Am I right?

P6: Yes, from the University of Tirana.

A: What about your professional experience?

*P6: I have worked in the banking system for almost 20 years now. I have held the position of a loan analyst for 3 years and branch manager for 16 years.*

A: Based on your banking experience, when would you say that the transformation of the banking system of Albania in the free-market economy started?

*P6: In my opinion, the transformation started in 2004 or around that time.*

A: To add to that what would you define as the turning point for the creation of the current banking system in Albania?

*P6: The turning point was the privatization of state-owned banks by turning them into private second level banks. The privatization of the banking system led to the entry of powerful European banks in the market, such as ``Intesa San Paolo Bank`` and ``Societe Generale``.*

A: What would you identify as the key policies and regulations implemented by the banking system to resemble the banks of the EU?

P6: I cannot name just one. I can simply say all the regulations implemented by the Bank of Albania, which is also known as the regulator of the banking system of Albania.

A: Can you comment a bit on how well the banking system in Albania is working towards integration in the EU?

*P6: the work of our banking system is evolving but it is still an average level work.*

A: Can I ask why do you think that?

*P6: There is so much more that our banking system can do. Digitalization is a clear example of this. While European countries are moving relatively quickly in the right direction, the banking system of Albania is still trying to adapt to online banking platforms.*

A: Do you think that if Albania is granted full membership in the EU, how challenging would it be for the banking system to adapt to change?

*P6: Taking into consideration that a majority of banks that operate in Albania are subsidiaries of important European banks, the adaptation to change will not be too problematic.*

A: How willing would you say that the banking system is to become part of the European Union?

*P6: I think Albania is fully ready. We are ready to implement European technology and benefit from it. Our human resources departments are also looking forward to this change.*

A: Based on your experience, how supportive and involved would you say that BOA (Bank of Albania) has been in the improvement and integration of the banking system?

*P6: I do not have many comments to make here. BOA has always provided the banking system with support and involvement in the integration process through its policies and innovative projects.*

A: Do you think that the integration process is welcomed amongst the banking sector as a whole?

*P6: I think so because the integration process brings stability to the system.*

A: What do you think should be the next step that the banking sector should take to get closer to the EU?



*P6: the next step should be regulation in the legal aspect. If we make changes to our legal framework, we will be more prepared when the time to become an EU member state finally comes.*

A: Do you believe that other EU countries are willing to help provide banking knowledge and infrastructure to help with the integration of the Albanian banking system and the EU?

*P6: As I mentioned before, since some of the main European banks are already operating in Albania, I believe that EU would be willing to guide us through the process.*

A: In your opinion, do you think the type of market economy Albania has would work perfectly in an integrated EU system. If yes, why and if no why not?

*P6: I cannot say for sure but Albania's long experience in the free-market economy will be beneficial in an integrated EU system.*

A: Lastly, is Albania willing to adopt the Euro or would the banking system be best served keeping the Albanian currency?

P6: To be fully honest, the banking system will function much better if we decide to keep the Albanian currency LEK.

#### **Interview 7 – Female**

A: Can you please tell me a bit about your educational background?

*P7: I have done my Bachelor's degree on Finance and my master's degree on "International Relations and Diplomacy".*

A: What about your professional experience?

*P7: I have worked in the banking system for 8 years as a financial analyst. I currently hold the position of head of finance at the "Centre of publications and research on the Arbereshe community".*

A: Based on your banking experience, when would you say that the transformation of the banking system of Albania in the free-market economy started?

*P7: The transformation of Albania has started quite late in comparison to other countries in the region and it has had a fair number of fluctuations during the transition process that has been going on for three decades.*

A: According to you what would be the turning point for the creation of the current banking system in Albania?

*P7: The turning point would be the creation of the Bank of Albania during the transition phase on 22 April 1992. Even though the law for the establishment of BOA was passed in 1992, it was reviewed several times after its implementation. Each review brought the Albanian banking system closer to the EU.*

A: What would you identify as the key policies and regulations implemented by the banking system to resemble the banks of the EU?

*P7: The current improvements in legislation, upgrades in the regulatory framework, renovations of capital market functions, and the increase of financial intermediates, have created a diversified structure of the banking system of Albania. The consolidation of the private banking sector has also increased the need for more financial tools, which consequently have led to a sophisticated banking sector.*

A: Do you think that these processes will ask for a restructuring of Albania's financial system?

*P7: A restructuring of our banking and financial system is expected to happen, but EU standards and practises should be taken into consideration when making changes to the system. Following the practices of the EU and directives of the EC is vital to our integration process.*

A: How well would you say is the banking system in Albania working towards integration in the EU?

*P7: I should mention that Albania has improved significantly with regards to EU integration. Our people have lived in another system for a long time, where they had*

*different values, rules, and aspirations. Even though the change to another economy has been drastic Albania is handling the integration process quite professionally. In my opinion the banking system has worked relatively well with respect to the monetary and economic policy. The monetary policy has been accommodating the domestic demand and dealt perfectly with inflation.*

A: If Albania is granted full membership in the EU, how challenging would it be for the banking system to adapt to change?

*P7: So, commercial banks in Albania are in constant development and continuous adjustment. The Albanian banking system achieves this by looking at the reports which come from the European Union and it adapts them to its own system. I mentioned this because it helps us understand that Albania is constantly adapting to international change and is already making advanced preparations. Because of these preparations the challenges that full membership might bring will be easier to deal with.*

A: How willing would you say that the banking system is to become part of the European Union?

*P7: I would like to answer this question by mentioning an example of what second level banks in Albania do to stay up to date with the EU. Just like any other bank, second level banks in Albania compile periodical written reports. They have been inspired by EU standards and have embraced EU methods. So, every year when time comes, these reports need to send to BOA. Second level banks have adapted an entirely new system to send in their reports. Everything is done electronically now by making use of the Electronic Report Regulator System. I used this example to better explain their willingness and I believe it is noticeable that they are anticipating change.*

A: Based on your experience, how supportive and involved would you say that BOA (Bank of Albania) has been in the improvement and integration of the banking system?

*P7: It should be highlighted that the Albanian government has labelled BOA as a decent regulator of the banking system. Not only has BOA shown support but it has*

*been a constant advisor. It has enough experience and ambition to lead the Albanian banking sector. It has inspired collaborations between the banking system and EU while also increasing economic development in the region.*

A: Do you think that the integration process is welcomed amongst the banking sector as a whole?

*P7: As I already mentioned, the banking system of Albania will welcome the EU immediately. not only the banking system but every financial sector in Albania.*

A: What should be the next step that the banking sector should take to get closer to the EU?

*P7: I would advise BOA to accelerate its steps towards the creation of a new legislation and to introduce products that are not present in the Albanian banking market. This way the banking sector will avoid future failure if it gets integrated in a much more advanced market.*

A: Are other EU countries willing to help provide banking knowledge and infrastructure to help with the integration of the Albanian banking system and the EU?

*P7: All current member states are in constant collaboration with countries that seek integration into the EU. History has proved that every new member of the EU family is supported, not only its banking system but every other sector of the economy. We also expect Albania to receive considerable help and support.*

A: In your opinion, do you think the type of market economy Albania has would work perfectly in an integrated EU system. If yes, why and if no why not?

*P7: The transition process of Albania has been much more complex than expected. The informal economy of Albania and illegal activities have grown at a rapid rate. Transforming the informal economy of a country into a formal one asks for an increase in social services, development of a plan and fighting fiscal evasion. Even though Albania might have a free-market economy it still has to tackle some obstacles.*

A: Lastly, is Albania willing to adopt the Euro or would the banking system be best served keeping the Albanian currency?

*P7: For a country to be fully Europeanised it means that the country should give up its local currency and embrace the new EUR currency. There are plenty of countries that still use their own currency, but I think that Albania will benefit from using a strong currency such as EUR. I fully support abandoning our national currency LEK and obtaining the EUR, which plays a vital role in international transactions.*

### **Interview 8 – Female**

A: I saw that you have finished your studies at the University of Tirana with a degree on Business Informatics, am I right?

*P8: Yes, I have a bachelor's degree from the University of Tirana and I have been working on the business and integration field for about 4 years now. I am currently employed at the Ministry of Diaspora where we deal with the integration of Albanian people all around the world.*

A: Based on your experience, when would you say that the transformation of the banking system of Albania in the free-market economy started?

*P8: The transformation of the banking system started in the 1990s which is known as the transition phase of Albania. The Republic of Albania left the communist regime and became a free market economy. This transition led to changes in all sectors especially the banking sector.*

A: What would you define as the turning point for the creation of the current banking system in Albania?

*P8: Based on my knowledge, I would say the privatization of the banking sector and the entry of foreign banks in the market is to this day a pivotal change.*

A: What would you identify as the key policies and regulations implemented by the banking system to resemble the banks of the EU?

*P8: Many people have different opinions regarding regulations and laws implemented. But we should recall that after Albania became a democratic country one of the major issues for the banking sector was money laundering. To this day, money laundering is a current issue that banks are trying to take down and I think that all regulations established to solve this issue are the key policies of this sector. Even EU has expressed concern on this issue and has closely monitored how the banking system is reacting against it.*

A: How well would you say is the banking system in Albania working towards integration in the EU?

*P8: Taking into consideration how different the banking system of Albania used to be and the change it has gone through, I must admit that it is working at a fast pace.*

A: If Albania is granted full membership in the EU, how challenging would it be for the banking system to adapt to change?

*P8: The banking sector is by far the most developed one in Albania. All sectors will struggle to adapt to change but in comparison to others I think that the banking sector will be the one who will accept change the fastest.*

A: How willing would you say that the banking system is to become part of the European Union?

*P8: All second level banks and the central Bank of Albania work continuously towards integration. I do not think willingness is an issue here since this system has been working under the influence of European banks for years now.*

A: Based on your experience, how supportive and involved would you say that BOA (Bank of Albania) has been in the improvement and integration of the banking system?

*P8: BOA has been a leader in the integration process of the banking system. It is regularly keeping up with the EU standards and guiding the system towards innovation, development, and improvement.*

A: Do you think that the integration process is welcomed amongst the banking sector as a whole?

*P8: The majority of stakeholders is quite welcoming in the direction of integration. Bank customers would be the ones that would benefit the most in my opinion. The processes would be much shorter, there would be less bureaucracy and lower payment costs.*

A: What should be the next step that the banking sector should take to get closer to the EU?

*P8: I suggest that the banking sector creates a strategy to prepare itself upon acceptance in the EU. Following the steps of successful countries that have managed to receive membership in the EU would be a safe step to take.*

A: Are other EU countries willing to help provide banking knowledge and infrastructure to help with the integration of the Albanian banking system and the EU?

*P8: Well, if we have a look at other countries that have been accepted in the EU during the past two decades, we can observe how supportive EU members have been. EU has proved to be a caring leader that is concerned with the wellbeing of its members by guiding them in the right direction. They are already offering banking knowledge and will surely continue to do so.*

A: In your opinion, do you think the type of market economy Albania has would work perfectly in an integrated EU system. If yes, why and if no why not?

*P8: The type of market economy that we currently have is inspired by European Union standards so I do not see a reason as to why it would not work in an integrated EU system.*

A: Lastly, is Albania willing to adopt the Euro or would the banking system be best served keeping the Albanian currency?

P8: Unification of a single currency has been a problem in our market for many years. Adopting the EUR, which is a strong, unified, and successful currency will probably resolve this issue.

#### **Interview 9 – Female**

A: I saw from your LinkedIn profile that you have received a bachelor's degree from the University of Tirana in Business Administration and Management and a master's degree in Management Information Systems, but I could not find much information about your professional background. Can you tell me a bit about it?

*P9: I have worked for three in years in a second level bank and I have been part of the integration sector. Currently I started my own private business.*

A: Perfect, then based on your banking experience, when would you say that the transformation of the banking system of Albania in the free-market economy started?

*P9: I think that everyone from my generation will consider the 1990s as the start of the banking system transformation. More specifically 1992 when the law for the creation of the central Bank of Albania was issued.*



A: What would you define as the turning point for the creation of the current banking system in Albania?

*P9: The turning point would be the entry of foreign banks which brought along foreign capital in Albania. The existence of a private banking system influenced the creation of our current banking system.*

A: What would you identify as the key policies and regulations implemented by the banking system to resemble the banks of the EU?

*P9: I would say that all payment related regulations have helped the system to resemble the European one. Not many years ago our banking system was not familiar with contactless payment and most people would refuse to make use of online banking. This is also due to the mentality, culture of the country, and lack of trust in technology. All the regulations regarding payment processes have increased awareness by making customers more familiar with the idea.*

A: How well would you say is the banking system in Albania working towards integration in the EU?

*P9: I can say relatively well. The banking system here is quite standardized accordingly to European methods. The work has been of high quality, but we have to keep in mind that the presence of EU bank groups in Albania has made our work much easier.*

A: If Albania is granted full membership in the EU, how challenging would it be for the banking system to adapt to change?

*P9: Our banking system has already proved that it can react well to change. It might be challenging at first because we do not match the levels of European bank digitalization, but I think the system will adapt fast.*

A: How willing would you say that the banking system is to become part of the European Union?

*P9: Becoming part of the EU has been Albania's ambition for more than two decades. Not only the banking sector, but every sector will be willing to become part of the EU.*

A: Based on your experience, how supportive and involved would you say that BOA (Bank of Albania) has been in the improvement and integration of the banking system?

*P9: BOA is an autonomous entity and is also the regulator of the banking system. Just because it has fulfilled most of its obligations it does not mean that it has done its maximum to support the system. There are several cases when BOA has failed to carry out its regulations.*

A: Can you please mention one of these failures?

*P9: To this day our currency is still not unified and there is free circulation of foreign currencies in the Albanian market.*

A: Do you think that the integration process is welcomed amongst the banking sector as a whole?

*P9: Many sectors in Albania have a mentality that the EU will exploit their resources and take advantage of our cheap labour force. The banking system is by far the most welcoming one. They are constantly making improvements in their functions to prepare for future membership.*

A: What should be the next step that the banking sector should take to get closer to the EU?

*P9: The increase of digitalization 100%. We need to be prepared to match EU banks when the time comes.*

A: Are other EU countries willing to help provide banking knowledge and infrastructure to help with the integration of the Albanian banking system and the EU?

*P9: Yes, they are, and we can already see how they are helping us. European banks have been present for more than 20 years and are regularly introducing the Albanian banking system to new infrastructure.*

A: In your opinion, do you think the type of market economy Albania has would work perfectly in an integrated EU system? If yes, why and if no why not?

P9: I do not see a reason as to why would a free market economy not work well in an integrated EU system.

A: Lastly, is Albania willing to adopt the Euro or would the banking system be best served keeping the Albanian currency?

*P9: I think that we should stick to our national currency for the first few years. The process of unifying the EUR in Albania would be too lengthy and this would have a negative effect on businesses.*

### **Interview 10 – Female**

A: Can you please tell me a bit about your professional and educational background?

P10: I have finished my Master studies at the University of Tirana with a degree on Banking. I am currently working at a second level bank as a financial analyst and I have been part of the banking system for 5 years.

A: Based on your banking experience, when would you say that the transformation of the banking system of Albania in the free-market economy started?

*P10: The transformation started between 1997 to 2002, during the privatization phase. Some of the most major changes happened throughout these years such as liquidation processes and acquisition activities.*

A: What would you define as the turning point for the creation of the current banking system in Albania?

*P10: the turning point for me is the crisis of 1997. The pyramid schemes which deceived a large percentage of the Albanian population were a call for action. After the 1997 crisis our system started to fully transform into the one, we currently have.*

A: What would you identify as the key policies and regulations implemented by the banking system to resemble the banks of the EU?

*P10: Based on my banking experience some of the major challenges that we had to face were money laundering acts. I believe that every single regulation regarding the fight of money laundering acts is a key policy for our system.*

A: How well would you say is the banking system in Albania working towards integration in the EU?

*P10: The banking system in Albania is the most regulated financial sector. This system has shown the most improvements and the most advancements. The banking sector has embraced most EU standards than any other sector in the country.*

A: If Albania is granted full membership in the EU, how challenging would it be for the banking system to adapt to change? How willing would you say that the banking system is to become part of the European Union?

*P10: The system has already adapted to change which has been brought to us by European banks that operate in our country such as Raiffeisen Bank, OTP Bank, and many other Greek banks. It would not be that challenging since we*

*already have European presence on the market. I believe that the sector is quite willing to become part of the EU.*

A: Based on your experience, how supportive and involved would you say that BOA (Bank of Albania) has been in the improvement and integration of the banking system?

*P10: As the regulator of the banking system BOA has completed most of its obligations and has guided the system towards integration for three decades.*

A: Do you think that the integration process is welcomed amongst the banking sector as a whole?

*P10: Currently we have almost 85% of foreign capital in our banking system. This percentage is extremely high when compared to 10 or 20 years ago. I believe that the whole system is looking forward to membership in the EU.*

A: Do you consider 85% foreign capital to be a good thing?

*P10: I look at it as a good indicator for the future of the system. It will be much easier to adapt if we change our currency as well.*

A: What should be the next step that the banking sector should take to get closer to the EU?

*P10: Increase the supervision of payment processes. This way our banks will have fewer illegal activities, less money laundering acts, and less terrorism acts.*

A: Are other EU countries willing to help provide banking knowledge and infrastructure to help with the integration of the Albanian banking system and the EU?

*P10: Other EU countries are already helping us with their knowledge and experience since they are present in the banking system through subsidiaries of European banks.*

A: In your opinion, do you think the type of market economy Albania has would work perfectly in an integrated EU system. If yes, why and if no why not?

*P10: Yes, I believe Albania has improved enough so it would work quite well in an integrated EU system.*

A: Lastly, is Albania willing to adopt the Euro or would the banking system be best served keeping the Albanian currency?

*P10: The EUR is a much stronger and unified currency than LEK. Adopting the Euro would be the right step towards full integration. In order to become a full member, it makes sense to adopt the currency of the Union. Even if the system does not adopt the Euro at the beginning, they eventually will.*

### **Interview 11 – Female**

A: Can you please tell me a bit about your professional and educational background?

P11: I have a Master's degree in Business Administration and I have been working in the banking system for 7 years. I hold the position of financial advisor.

A: Based on your banking experience, when would you say that the transformation of the banking system of Albania in the free-market economy started?

*P11: Just like any other sector in Albania, the banking sector started its transformation in the early 1990s. Albania switched from a communist*

*centralized economy to a democratic decentralized one. During this time The banking sector started to change rapidly.*

A: What would you define as the turning point for the creation of the current banking system in Albania?

*P11: The current banking system in Albania is made of a central bank and 17 second level banks. Before, democracy there were no private or foreign banks in Albania. Today they possess the majority of banking capital. What brought us to this stage is definitely the privatization of the banking system and entrance of foreign commercial banks.*

A: What would you identify as the key policies and regulations implemented by the banking system to resemble the banks of the EU?

*P11: I would like to mention the Resolution Fund, established in 2018 by the Bank of Albania. When banks in the country are facing financial difficulties BOA steps in with the right tools to save them from failure. The Resolution Fund is well known in European Union's banking union. This would be the newest and most significant one if we are talking about resemblance to the EU.*

A: How well would you say is the banking system in Albania working towards integration in the EU?

*P11: I might be biased because I am part of the system and I have a positive attitude towards it. But I sincerely think that the banking sector has been the most hard-working sector of Albania.*

A: If Albania is granted full membership in the EU, how challenging would it be for the banking system to adapt to change? How willing would you say that the banking system is to become part of the European Union?

*P11: I think there will be a lot of challenges not only for the banking system but every other financial institution or sector. New beginnings are always challenging and countries such as Albania have this mentality that reacts slow to change. Our society feels threatened when changes are made but over time the banking system will adapt fully.*

A: Based on your experience, how supportive and involved would you say that BOA (Bank of Albania) has been in the improvement and integration of the banking system?

*P11: BOA's role has been crucial in the integration policies. After all, BOA is the regulator, so that means that every single approval in the system needs to be from BOA. BOA is supporting the banking system by introducing innovative products and regulations periodically.*

A: Do you think that the integration process is welcomed amongst the banking sector as a whole?

*P11: Yes, in my opinion the banking sector has always been welcoming towards integration. They have welcomed every EU standard and reacted positively to EU inspired regulations.*

A: What should be the next step that the banking sector should take to get closer to the EU?

*P11: Banks should invest more in digitalization. EU countries are far more advanced than our country when it comes to digitalization procedures.*

A: Are other EU countries willing to help provide banking knowledge and infrastructure to help with the integration of the Albanian banking system and the EU?



*P11: We expect them to be willing to provide us with guidance. EU members have always supported new members, especially their banking and financial sectors. We expect them to do the same with Albania's banking sector.*

*A: Lastly, is Albania willing to adopt the Euro or would the banking system be best served keeping the Albanian currency?*

*P11: There are many countries that keep both currencies so I suggest doing that.*

### **Interview 12 – Female**

*A: Can you please tell me a bit about your professional and educational background?*

*P12: Yes, of course. I have finished my studies at the University of Tirana, and I gave a Master's degree on Business Informatics. I have been part of the banking system for almost 8 years.*

*A: Based on your banking experience, when would you say that the transformation of the banking system of Albania in the free-market economy started?*

*P12: The transformation started in 1992 with the creation of the Bank of Albania. Since then, there has been a series of important events, but the establishment of a central bank is by far the most significant one.*

*A: What would you define as the turning point for the creation of the current banking system in Albania?*

*P12: after the creation of the central bank which I think is the main turning point I can mention the privatization of the banking sector.*

*A: What would you identify as the key policies and regulations implemented by the banking system to resemble the banks of the EU?*

*P12: The latest one for sure. The resolution fund regulation in 2018, is a gigantic move by BOA which will take us closer to the EU banking system.*

A: How well would you say is the banking system in Albania working towards integration in the EU?

*P12: There is always room for improvement but when I compare the system to when I first started there have been so many crucial changes. I think that the banking sector is the most dedicated sector when it comes to integration.*

A: If Albania is granted full membership in the EU, how challenging would it be for the banking system to adapt to change? How willing would you say that the banking system is to become part of the European Union?

*P12: It will be challenging to adapt to changes in the system because private second level banks have existed for less than 30 years in our country, while European banks have been operating for hundreds of years.*

A: Based on your experience, how supportive and involved would you say that BOA (Bank of Albania) has been in the improvement and integration of the banking system?

*P12: Not only has BOA been supportive but it is the main influencer towards improvement and integration. I do not have many comments about this because I think our central bank resembles European central banks almost identically.*

A: Do you think that the integration process is welcomed amongst the banking sector as a whole?

*P12: I think that the banking system of Albania will be the first to embrace this change and welcome the European banking system.*

A: What should be the next step that the banking sector should take to get closer to the EU?

*P12: Digitalization of functions and maybe supervision of payments.*

A: Are other EU countries willing to help provide banking knowledge and infrastructure to help with the integration of the Albanian banking system and the EU?

*P12: They have been providing us with knowledge for many years now because of the foreign presence in the banking system and I believe they will continue to support us.*

A: In your opinion, do you think the type of market economy Albania has would work perfectly in an integrated EU system? If yes, why and if no why not?

*P12: Our market economy has evolved immensely. This evolution has mostly been influenced by current EU members and their market economy. Therefore, I see no problems.*

A: Lastly, is Albania willing to adopt the Euro or would the banking system be best served keeping the Albanian currency?

*P12: Our currency is not fully unified and regulated in the market yet and the entry of another currency can be even more confusing and regulating. I suggest keeping our currency for a few years until we are fully stabilized.*