

SAFEGUARDING THE BANKING SYSTEM AGAINST RISKS

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ABSTRACT

This paper evaluates the procyclical relations that have emerged in the Albanian economy and the correlation with the Albanian banking sector. Based on the analysis of correlation coefficients and data since 2002, the results show that there is a strong causal two-way correlation between economic growth and credit standing, where the slowdown in the expansion of the deposit base has mitigated the effect from the procyclical deceleration of credit. The assessment of the linear correlation between economic growth as an independent variable and ‘capital buffers’ above the minimum regulatory capital (as a dependent variable) shows that, although the positive coefficient shows a positive procyclical relation between the two indicators, where the acceleration of the economy is reflected in a higher level of capital addition, it remains weak and statistically insignificant.

JEL Codes: C31, D53, D62, D81

KEYWORDS: Procyclicality, Countercyclical Capital Buffer, Linear Correlation, Credit Growth, Macro Prudential Policy

Article History

Received: -08 Sep2018 | Revised: 17 Sep 2018 | Accepted: 22 Sep 2018
