

COMPETITION, EFFICIENCY AND STABILITY IN ALBANIAN BANKING SYSTEM

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Abstract

Competition policy in the banking sector is complicated by the necessity of maintaining financial stability. Greater competition may be good for (static) efficiency, but bad for financial stability. The issues regarding banking competition and its effects are of particular interest in transition countries, as bank credit there is by far the largest source of external finance for companies. This paper investigates the interrelationships among bank competition, efficiency and stability in Albania banking system and it compare with other transition countries. Initially Albania had an increase in banking competition where the level of efficiency also has been growing and stability indicators have been generally good, but further intensifying competition has been associated with increased fragility of the banking system and reduced the level of efficiency. In the case of Albania the margin net interest as an efficiency indicator reacts negatively against the increase of non-performing loans degree. So, their levels and dynamics should be constantly supervised by policy-makers, assessing their implications and preparing the necessary measures.

Keywords: Banking competition, bank efficiency, financial stability.