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AN ANALYSIS OF ALBANIA'S BANKING SECTOR: CURRENT TRENDS AND FUTURE PROSPECTS[2]

The purpose of this research is to explore and summarize aspects of the current state and development trends in Albania's banking sector. The analysis shows that the banking system dominates the country's financial landscape, while the securities market remains nascent. Adverse inflationary dynamics are also observed. The research demonstrates dependencies between key banking indicators like non-performing loans, capital adequacy ratio and money supply on economic factors. The prospects for Albania's banking sector are challenged by the volatile global economy, however promoting lending, improving asset quality and supporting businesses can help establish stability. Expanding the securities market can also assist banking sector growth. The practical significance is that the identified trends and relationships can inform policy decisions to facilitate robust banking sector performance.
Keywords: banking systems; loan portfolio; securities; assets; stock market
JEL: E5; G1; G21

1. Introduction

With the design of economic relations, the development of the financial market plays a significant role in the functioning of the country. In the course of exploring the specific features of the Albanian financial market, it is important to establish the essence and origin of the definition of "financial market", as this term is a multifaceted concept that requires more detailed research and personification. P. A. Petare et al. explain that the financial market is a set of economic relations based on the interaction of various activities, such as investment banking, securities trading, asset management, insurance and financial advisory services (Petare et al., 2023). R. Chami et al. consider the financial market as the main tool for ensuring the conditions necessary for innovation in technological and economic sectors (Chami et al., 2009). The researchers explain that over time, the development of the financial market is a derivative aspect of economic expansion, which establishes wealth and opportunities, which, in turn, provides a foundation for the expansion and further development of the country's financial system. Thus, it is advisable to understand the

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financial market as a set of economic relations based on the purchase and sale of financial instruments for financial and production activities.

As for Albania, the financial market is expanding, accompanied by the transformation of the country from one of the poorest in the world to an upper-middle-income country (Musabelliu, 2023; Proskurnina, Kähler, Cervantes-Martínez, 2020). A. Fullani (2022) examined the current state of the financial market and its prospects in Albania. The researcher explains that establishing a developed financial market is a significant support for monetary policy and other economic policies. Notably, the author emphasises that inflation fluctuations in the country are a significant problem, although there are positive rapid changes in its dynamics. The scientist believes that the measurement of inflation can be improved by clarifying prices and the weight of different groups in the basket of goods and services offered to the consumer. For example, a product has not yet been included in the basket, and fluctuations in its price are difficult to justify. However, the consumer price index was taken for granted and was not subject to the influence of the Albanian central bank. M. Musabelliu (2023) examined the specifics of political influence on the Albanian financial market. The researcher explains that Albanian politics in early 2023 is more unstable than ever. At this time, the political past is meeting the present with a bang and challenging the future with its dramatic changes. Therewith, the ruling party has all the advantages of power in 2023, and the opposition is almost focused on its self-destruction. However, both parties are running with all the political and financial power at their disposal. The researcher explains that dramatic changes in the country's political course are expected, which in turn will have an adverse impact on the financial market. M. Musabelliu (2023), in his next research, found that the Albanian economy will not face major difficulties in the current period on paper and numbers. However, the author added that it is essential to consider the factors that will contribute to the overestimation of indicators (elections, PPP investments, construction, etc.). The researcher explains that for ordinary citizens, 2023 will be a year of financial insecurity and the struggle for a stable financial situation. The researcher predicts that the main adverse trend will be in the inflation rate in Albania. Accordingly, for a developing country, a high level of inflation growth will mean regression and decline in real economic terms for the country's citizens.

According to the results of 2022, Albania has seen positive trends in the development of trade, exports, employment and Gross Domestic Product (GDP) per capita growth. Therewith, the country's inflation rate rose to 8.3%, which was accompanied by an increase in the discount rate to 2.75%. In 2023, against the backdrop of deteriorating global financial conditions, real exports, consumption, and investment are expected to grow at a slower pace than before the pandemic. Further increases in food and energy prices are considered to be a key risk to growth, as they could affect real disposable income, slow poverty reduction, and increase the tax burden. It is clear that such a small open economy of Albania is quite vulnerable to external shocks and may have a significant impact on the state of the country's financial market (The World Bank, 2023).

Accordingly, the main purpose of the research is to summarise the specific features of the current state and development of the Albanian financial market, and to determine further prospects for its development, considering the impact of economic factors.

2. Materials and Methods

The theory and methodology of the research are based on the main expert studies on the financial market. The following methods were used in the research. The method of deduction, which allows moving from a general to a specific concept, was used to establish the specifics of the meaning of the category "financial market", to determine the essence of the financial market structure, and to establish its main determinants.

The method of analysis, which allows highlighting the specific features of the dynamics of indicators, was used to determine the specifics of the economic situation in Albania during 2018-2022. The systematization method, which helps to separate data, was used to systematize the indicators of GDP in terms of the US dollar as of 01/01/2019, 01/01/2023, GDP per capita, inflation, GDP deflator, consumer price index, imports and exports of goods and services, central government debt, poverty ratio at the national poverty line, and the overall unemployment rate. This method was used to explore the Albanian financial market and consider indicators of money supply, broad money growth, bank capital to assets ratio, non-performing loans of banks to total loans, domestic loans granted by the financial sector and loans granted to the private sector, deposit interest rate, lending interest rate, number of commercial bank branches (per 100,000 adults), market capitalization of listed domestic companies, and the total number of traded shares.

Econometric modelling was used to establish the relationship between financial market indicators (dependent variables) and economic factors (independent variables). Specifically, multivariate linear regression was utilized. This enabled quantification of the correlation and determination coefficients to assess the strength of associations. Fifteen single factor models were developed with non-performing loans, capital adequacy ratio, and money supply as the outcome variables. The economic determinants were GDP per capita, exports, consumer prices, government debt and poverty rate. Regression analysis provided valuable insights into how changes in the macroeconomic environment influence the banking system and wider financial market. The statistical approach also facilitated evidence-based forecasting of future trends.

Using the method of mathematical modeling, which allows establishing the specifics of the relationship between indicators or phenomena, the regression equations of the dependence of financial market indicators on the economic status of Albania have been developed. In addition, the correlation coefficients were determined, based on which the density of the connection between the resultant indicators and the factor indicators was established. In this case, the indicators of non-performing loans of banks to total loans, the ratio of bank capital to assets, and money supply were the outcome indicators, and the determinants of the economic state of the country were identified as factor indicators. Accordingly, a total of fifteen one-factor models were developed in the research, divided into three sections according to the outcome variable. The factors of influence in these regression models were GDP per capita, exports of goods and services, the consumer price index, central government debt, and the poverty ratio at the national poverty line. This method was used to determine the coefficient of determination, which allows for establishing the percentage dependence of the dynamics of the resultant indicator on the change in the factor indicator.

Using the method of induction, which allows proceeding from a specific concept to a general one, based on a preliminary analysis of the state of the financial market of Albania and determining the specific features of its dependence on the economic situation of the country, the prospects for the development of the financial market of Albania through the expansion of the stock market were determined. This method helped to identify the main benefits of stock market expansion in the Albanian financial market. The research on the prospects for the development of the Albanian financial market was based on the World Bank's data on the indicators of economic development, the banking system, the country's loan portfolio, bank capital sufficiency, and the monetary and securities markets.

3. Results

After gaining independence in the early 20th century, Albania was one of the most backward countries in Europe and did not change until the beginning of the 21st century (Fullani, 2022). At that time, the country's population was considered the poorest. Nevertheless, Albania managed to withstand the adverse effects of the global economic crisis of 2008 and subsequently transformed from one of the poorest countries in the world to an upper-middle-income country. Nowadays, according to the expert G. Sejko (2022), Albania will face difficulties in 2023, and the only indicators that will have a significant increase in the poverty rate are external developments such as the war in Ukraine, sanctions, environmental transition, protectionist policies, and inflationary pressures will have a significant impact on Albania. After all, the Albanian economy has been constantly experiencing a significant number of shocks, and if the factors of existing fundamental economic problems are added to this, an economic catastrophe in the country can be foreseen. Since the entire world is currently experiencing an unstable period of economic, geopolitical, and environmental changes, it is generally expected that inflation in the country will increase to a maximum. Thus, in general, unfavourable conditions for the functioning of the financial market in Albania are expected. It is advisable to consider the latest trends in the economic situation in Albania (Table 1).

Table 1. Dynamics of indicators of the economic situation in Albania during 2018-2022

Indicator	2018	2019	2020	2021	2022	Growth rate, %
GDP (billion, current US dollars)	15.16	15.40	15.16	17.93	18.88	24.58
GDP per capita (current US dollars)	5287.66	5396.21	5343.04	6377.20	6802.80	28.65
Inflation, GDP deflator (annual %)	1.47	1.26	0.70	3.45	9.68	557.16
Inflation, consumer prices (annual %)	2.03	1.41	1.62	2.04	6.73	231.61
Import of goods and services (% of GDP)	23.25	25.54	17.04	17.34	16.62	-28.52
Export of goods and services (% of GDP)	31.57	31.30	22.66	31.31	37.46	18.66
Central government debt, total (% of GDP)	75.89	64.57	75.70	83.89	82.38	8.56
Poverty rate at the national poverty line (% of population)	23.70	23.40	23.00	21.80	22.60	-4.64
Total unemployment rate (% of total labour force) (ILO modelled estimate)	12.30	11.47	13.07	12.68	11.81	-4.00

Source: Central government debt; Exports of goods; GDP (current US$), 2022; GDP per capita (current US$), 2022; Imports of goods; Inflation, consumer prices; Inflation, GDP deflator; Poverty headcount ratio; Unemployment, total.

Table 1 demonstrates that the GDP level in Albania tended to increase, and accordingly, GDP per capita increased, which indicates a decrease in the poverty level of the country's citizens. Therewith, there are adverse changes in pricing, as the GDP deflator and the consumer price index had intensive growth rates during 2018-2022. Albania's trade balance had a positive trend during the analyzed period, as exports of goods and services increased while imports of goods and services decreased. The central government's debt tended to increase in 2018-2022, reflecting the adverse trend in the country's economic development. Therewith, the poverty level of the population is decreasing as the poverty rate has decreased, which is accompanied by a similar decrease in the overall unemployment rate in Albania. Thus, in general, the country's economic environment is unstable. In terms of recent financial market developments, Albania is characterized by a moderate degree of financial services preparedness.

Intensive progress has been made in terms of improving legislation on retail payments, bankruptcy, insurance, and collective investment. In addition, banking regulation has been aligned with Basel III, specifically concerning the capital adequacy ratio, and laws have been passed on the internal liquidity assessment process, the capital adequacy ratio, and the net stable funding ratio of banks. In terms of financial market infrastructure, the Albanian Stock Exchange, a private entity, trades only in government bonds. In addition, the country has a central securities depository. Therewith, the Albanian capital market is structured into two segments, namely government securities and bonds issued through private placement. As of the end of 2022, 13 entities operate in the capital market of Albania, including one central securities market, a depository, one securities exchange, and the rest of the banking institutions (Communication from the Commission, 2022). Thus, in general, the financial market of Albania is based on the monetary and public securities markets. Consider the specifics of Albania's monetary market over the past 5 years (Table 2).

Table 2. Dynamics of indicators of the financial market development in Albania during 2018-2022

Indicator	2018	2019	2020	2021	2022	Growth rate, %
Money supply (% of GDP)	77.24	77.94	88.44	85.25	77.74	0.65
Broad money supply growth (annual %)	-0.22	4.31	10.49	8.60	4.87	2313
Banking capital to assets ratio (%)	9.15	9.08	9.07	8.85	8.60	-6.07
Non-performing loans of banks to total loans (%)	10.43	7.97	7.65	5.39	4.79	-54.07
Domestic credit provided by the financial sector (% of GDP)	58.50	61.42	69.08	63.97	60.17	2.86
Domestic credit to private sector (% of GDP)	32.99	34.13	37.92	36.64	34.04	3.20
Depositors of commercial banks (per 1000 adults)	1122.23	1051.96	1094.85	1133.08	1153.53	2.79
Deposit interest rate (%)	0.75	0.49	0.42	0.48	0.73	-2.77
Loan interest rate (%)	5.93	6.28	6.12	6.02	6.51	9.68
Commercial bank branches (per 100,000 adults)	20.72	19.54	18.71	18.61	18.57	-10.38

Source: Bank capital to assets ratio; Bank nonperforming loans; Broad money (% of GDP); Broad money growth; Deposit interest rate; Depositors with commercial banks; Domestic credit provided; Domestic credit to private sector; Lending interest rate (%).

Table 2 demonstrates that, in general, the money supply in Albania tended to grow, which indicates an improvement in the functioning of the country's financial market. Therewith, there was a positive trend in broad money growth in 2018-2022. During the analyzed period, the ratio of bank capital to assets in Albania tended to decrease, which is an adverse trend. In addition, during the period under review, the value of the indicator did not correspond to the regulatory requirements according to the Harmonized Banking Regulation with Basel III. Therewith, there was a positive trend in the loan portfolio of the Albanian banking system, as the ratio of non-performing loans to total loans almost halved between 2018 and 2022. In other words, the Albanian banking system has resolved the issue of non-performing loans in its loan portfolio. In addition, the loan portfolio of the country's banking system is expanding, as evidenced by the increase in domestic loans granted by the financial sector and domestic loans to the private sector. A positive trend for the Albanian financial market is that the number of depositors has increased, which indicates an increase in confidence in the country's banking system. Therewith, the deposit interest rate has decreased, which indicates a reduction in interest costs in the banking sector. The lending rate has increased significantly, which in turn is accompanied by an increase in interest income for the Albanian banking system. Such trends in the country's credit and deposit markets indicate an increase in the level of profitability and a decrease in the degree of risk in the financial market of the country examined.

Therewith, the number of bank branches has decreased, which indicates the automation of financial services and a reduction in the level of costs for banking institutions. Thus, the Albanian monetary market at the end of 2022 will be characterized by positive trends and have great prospects. The research established that there are no indicators of the functioning of the Albanian securities market, according to the World Bank. The indicator of the market capitalization of domestic listed companies was considered, which includes shares of registered national companies; shares of foreign companies listed exclusively on the stock exchange; ordinary and preferred shares of domestic companies (2022); and non-voting shares, the dynamics of which are not traced in Albania at all. In addition, the financial market analysis drew attention to the indicator of the total number of traded shares, both domestic and foreign, multiplied by their respective prices (stocks traded, total value, 2022), and the dynamics of this determinant are absent. Such trends indicate the absence of a stock market in the country in general. Since the banking system is the main sector of the Albanian financial market, it is advisable to determine the specifics of changes in banking performance indicators, considering the impact of economic factors in the country, to establish further prospects for its development. Currently, due to economic shifts in the world and adverse forecasts, non-performing loans in the banking system of Albania are expected to grow. Thus, in the course of the research, when constructing a one-factor regression, the indicator of non-performing loans of banks to the total amount of loans in Albania was taken as the first effective indicator (Table 3).

***Table 3. The results of establishing one-factor regression models of non-performing
loans in Albania as one of the main indicators of the financial market to the economic
development of the country***

X	a	b	Correlation coefficient	Determination coefficient	Connection density
GDP per capita (current US dollars)	24.02	-0.003	0.89	0.80	High
Inflation, consumer prices (annual %)	8.94	-0.61	0.61	0.37	Average
Export of goods and services (% of GDP)	12.16	-0.16	0.37	0.14	Low
Central government debt, total (% of GDP)	20.10	0.14	0.57	0.32	Average
Poverty rate at the national poverty line (% of population)	-52.32	0.90	0.86	0.73	High

Source: created by the author.

Table 3 demonstrates that there is a rather high dependence on non-performing loans in the Albanian financial market on the dynamics of the level of GDP per capita and the poverty ratio. The regression equation for the dependence of non-performing loans on the level of GDP per capita demonstrates that with a one-unit increase in the level of GDP per capita, there will be a decrease in non-performing loans in the banking system. It is explained by the fact that as the financial situation of the population improves, their solvency increases and the level of non-performing loans decreases. In addition, as the poverty ratio increases by one unit, non-performing loans in Albania increase, as the poorer the population, the lower their solvency and the more loan obligations are subject to default. The consumer price index and central government debt have a medium impact on the indicator. Thus, as inflation rises by one unit, the level of non-performing loans decreases, as rising prices generally reduce the significance of non-performing loans in the banking system. Therewith, as the country's debt grows, the amount of overdue debt increases. Foreign economic activity has a weak impact on the Albanian financial market, as the regression equation for the dependence of NPLs on exports has a low coefficient of determination. In addition, the regression equation demonstrates that as exports decline, the number of non-performing loans increases. A review of the features of the loan portfolio as an indicator of the financial market is not enough. Thus, the following is a regression of the ratio of bank capital to assets in Albania as one of the main indicators of the financial market's contribution to the country's economic development (Table 4).

Table 4 demonstrates that the dynamics of Albania's bank capital-to-assets ratio are highly correlated with GDP per capita and the consumer price index. The regression equation demonstrates that as GDP per capita increases by one unit, the bank capital-to-assets ratio in Albania decreases. It is explained by the fact that with the growth of household income, the demand for banking services decreases, which generally decreases the level of bank capital sufficiency. The single-factor model of how the indicator depends on the consumer price index shows that the bank capital-to-assets ratio goes down every time the inflation rate in Albania goes up by one unit. Such trends can be explained by the fact that inflationary processes are mostly accompanied by crisis phenomena that negatively affect the capitalization of the banking system. The average impact on the capital adequacy ratio of the Albanian banking system is caused by the export of goods and services and the debt of the

central government. In addition, with the growth of exports of goods and services, there is an outflow of capital from the country, which generally decreases the level of capital sufficiency of the banking system of Albania. A model of the dependence of the performance indicator on the central government debt is established, which demonstrates that with an increase in the debt per unit in Albania, the ratio of bank capital to assets decreases. However, the poverty rate has a weak impact on capital sufficiency, and, accordingly, with the growth of the poor population, the demand for credit products increases, which further contributes to the capitalization of the country's banking market. Next, to fully explore the impact of the economic environment on the financial market and determine its prospects, the money supply in Albania will be considered (Table 5).

Table 4. The results of establishing one-factor regression models of the ratio of bank capital to assets in Albania as one of the main indicators of the financial market to the country's economic development

X	a	b	Correlation coefficient	Determination coefficient	Connection density
GDP per capita (current US dollars)	10.80	-0.0003	0.98	0.96	High
Inflation, consumer prices (annual %)	9.20	-0.0898	0.88	0.77	High
Export of goods and services (% of GDP)	9.82	-0.0283	0.66	0.43	Average
Central government debt, total (% of GDP)	10.46	-0.0198	0.66	0.44	Average
Poverty rate at the national poverty line (% of population)	8.07	0.0718	0.20	0.04	Low

Source: created by the author.

Table 5. The results of establishing one-factor models of regression dependence of the money supply of Albania as one of the main indicators of the financial market to the economic development of the country

| X	a	b	Correlation coefficient	Determination coefficient	Connection density
GDP per capita (current US dollars)	84.65	-0.001	0.08	0.01	Low
Inflation, consumer prices (annual %)	83.76	-0.88	0.38	0.15	Low
Export of goods and services (% of GDP)	104.70	-0.76	0.77	0.60	High
Central government debt, total (% of GDP)	66.50	0.19	0.29	0.08	Low
Poverty rate at the national poverty line (% of population)	159.28	-3.40	0.49	0.24	Average

Source: created by the author.

Table 5 demonstrates that exports of goods and services have the most significant impact on the money supply of the Albanian financial market. The regression equation demonstrates that as exports increase, the money supply in the country decreases, as such transactions are accompanied by an outflow of funds from the country's financial market. In addition, the level of poverty in a country has an average impact on the money supply, since, as can be seen from the regression equation, the growth of the poor population causes a decrease in the money supply. Therefore, inflation and central government debt have a weak impact on the money supply. As inflation increases, the money supply decreases, and as the Albanian

government's debt increases, the money supply increases accordingly because the debt increases the amount of cash in circulation. The established regression equation for the dependence of the money supply on the level of GDP per capita presented that the density of the relationship is quite low; thus, further determination of the relationship between these indicators would be inappropriate. In general, the research on the specifics of the dependence of the Albanian financial market on its economic environment has allowed it to be established that this market is diverse and, accordingly, each area of its functioning is subject to a significant impact on the country's economic development.

Thus, the research has demonstrated that due to the unstable foreign economic situation and the significant impact of the country's economic situation on the financial market of Albania, there are practically no prospects for its development. Thus, it can be predicted that the Albanian financial market will either remain at the same level of development or will be exposed to risks due to the crisis. In such a situation, the Albanian government should pay attention to the country's stock market and, to expand the financial market and prevent risks, take measures designed to develop the securities market. Accordingly, the development of the stock market in the Albanian financial market will provide the following prospects (Figure 1).

Figure 1. Prospects for the development of the Albanian financial market
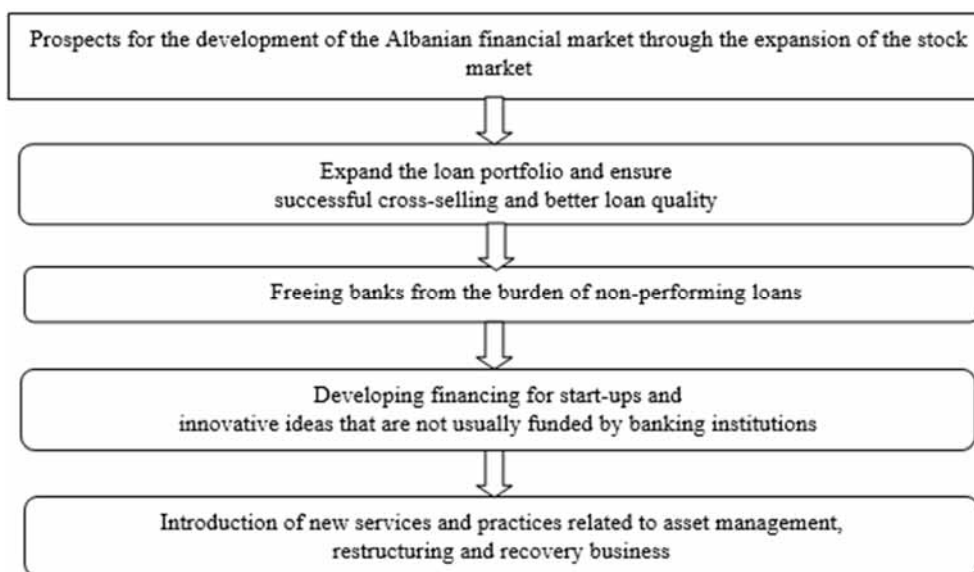
Source: created by the author.

The only promising solution in Albania's current economic environment to stabilize the financial market is to expand the stock market. First and foremost, banks' interaction with the securities market can help turn bad debts into high-quality loan portfolios, and in general, the loan portfolio can be expanded. In addition, private equity funds can support innovative ideas and business development. In general, the presence of a stock market in the Albanian

financial market will improve the asset and business management system, expand asset restructuring and recovery, improve investment banking and securities, expand brokerage activities, introduce the establishment and functioning of a secondary market for distressed assets, and introduce the process of asset securitization.

4. Discussion

The trends and development of the Albanian financial market are currently uncertain. In addition, there is a rather small amount of research on the development of the financial or economic sector in Albania. Sh. Bundo et al. (2022), in their research, only summarized the main provisions and features of the interaction of the financial system of Albania. The work of these researchers determined that the priority sectors of the economy were established in the economic development strategies of Albania. The main strategies are economic development and poverty reduction. In addition to state support for education, healthcare, and social protection, such sectors of the Albanian economy as food, agriculture, industry, and tourism are prominently considered priorities. The authors explain that such priorities are based on many important factors, such as natural resources and geographical location, cultural heritage and traditions, human resources, and strategic position. Most of these strategies have been approved by the Albanian government. This trend suggests that the Albanian economy and its government have determined the main path of the country's development, and accordingly, these sectors will be the main ones to control the development and orientation of the promotion policy.

However, the researchers draw attention to the fact that the country's financial system, in general, and the banking system, in particular, maintain a certain distance from agriculture. The researchers emphasize the lack of interaction between the financial system and agriculture, farming, and livestock and state that the misuse of agricultural land is a rather negative phenomenon (Aghion et al., 2022; Allayarov, 2020; Chaboud et al., 2023; Felix et al., 2015; Guerdjikova, Quiggin, 2021; Jamil et al., 2023; Prymostka, Kysil, 2023; Tajibekova, 2023; What are financial markets, 2022). The authors identify these trends as a shortcoming of Albania's financial system and recommend that investments be made in agriculture. They explain that the more consolidated components the Albanian financial system has, the more stable the country's economy will be. In other words, the authors only consider the priority areas of the Albanian financial system, and, therefore, the issue of the financial market development of the country examined in this research was not raised.

E. Meka (2016) researched to establish some key opinions on the role and importance of the existence and establishment of private equity funds in the Albanian financial market as a means of alternative financing for companies and to determine their significant role in supporting and promoting innovation in the economy. In addition, the researcher examined the legal and institutional framework for the development of the financial sector in Albania. The author identified the main principles and areas of development of the stock market and recommended that banking institutions expand their loan portfolio beyond the meagre credit, which, in turn, will be transformed into positive investments and add value to the economy. Such changes will be accompanied by an increase in the volume of stocks and securities on

the Albanian market. In addition, the researcher proposed several appropriate measures for the Albanian government to ensure the functioning of the country's financial market. The researcher recommends improving the legislative framework to ensure better regulation and monitoring of private enterprises. It is important to pay attention to tax legislation in terms of introducing tax exemptions or holidays for specific sectors of the country's financial system. The author believes that banking institutions should consider and explore the possibility of opening and starting to provide private equity and venture capital services to their existing or new clients, which would be a new way to expand their loan portfolio, allow for successful cross-selling, and improve loan quality. Such measures will help to avoid bad loans or otherwise contribute to the reduction of the bad loan portfolio. The researcher considered only the essence of private equity funds in the financial market but did not define the main principles of financial market development in Albania.

Meka and Tosku (2023) studied the decision-making processes in economics, with a specific focus on the real estate market in Albania. Some researches highlighted how financial decision-making is often influenced by psychological and emotional factors rather than purely rational considerations. The study observes that individuals frequently make irrational decisions, particularly in the context of perceiving losses or overestimating the value of their assets. These tendencies are further influenced by herd instinct, where individuals mimic the investment choices of their social group. The study also finds a correlation between age and bias level, with all biases appearing similarly in both men and women. It points out a general overestimation of financial literacy among individuals, leading to common decision-making errors. The anchoring bias, in particular, is noted to significantly impact asset valuation and loss aversion in the Albanian context.

G. Sejko (2021) conducted research on the economic and financial development of Albania in 2020. The researcher determined that the COVID-19 pandemic and the implementation of the necessary measures to control it had a significant impact on the economic situation of the Albanian economy, as economic activity narrowed, employment problems emerged, and the financial situation of households and businesses worsened. Along with fiscal measures, the Bank of Albania introduced an entire package of measures to preserve liquidity in the financial markets, continue lending and customer service, reduce the cost of borrowing, and create an uninterrupted flow of financial services. These measures helped to reduce the financial costs of the crisis for households and businesses, avoid its transmission to the financial sector, and maintain a stable monetary and financial environment. The researcher determined that, in general, the Albanian economy demonstrated resilience to the shock during 2019 and has a positive result and favourable conditions for development in the near and distant future. However, it was determined that there are a significant number of adverse risks, according to which the economic and financial environment in Albania remains challenging. The author recommends continuing proactive macroeconomic policies until employment expansion and economic growth become stable. Furthermore, the researcher recommends focusing on reducing public debt and establishing the preconditions for risk prevention. Although the author provided the main advantages and disadvantages of the country's financial system, the research indirectly concerned the development of the Albanian financial market.

Hoti et al (2022) critically analyzed the IS-LM model's applicability to the Albanian economy, questioning the effectiveness of current theoretical models in this context. The study reveals weak connections between the Bank of Albania's monetary policies, specifically REPO rates, and key macroeconomic indicators. It also notes that these policies have had a limited impact on the economy, as indicated by the weak transmission effect. Additionally, the study finds an insignificant correlation between inflation rates and REPO rates, suggesting the central bank's limited control over inflation.

The literature review was conducted based on the work of A. Naqellari et al. (2015), which is based on the consideration of one of the areas of the financial market of Albania: the banking market. The purpose of this research is to analyze the development of the banking sector in Albania. The authors found that during the research period, the banking system was concentrated in two parts, with six leading banks and 10 satellite banks. The main effect of monetary policy transmission is a low exchange rate for inflation, the allocation of credit, and economic growth. The distribution of loans, in general, demonstrates that the Albanian economy is not characterized by an appropriate level of lending by commercial banks, establishing developmental disparities between different countries. Consequently, rural areas are not developing financially, as financing is mainly provided by immigrants there and less by government subsidies. The researchers concluded that Albania's banking system is deformed (Allayarov et al., 2020; Anvarov, Allayarov, 2022; Lamara, Nino, 2019; Kravchuk, Lutsyshyn, 2022). In addition, recommendations were made to establish a bank with state capital, gradually liquidate foreign currency deposits and loans, and open a second-tier agricultural bank with full state ownership, which would provide lending to agriculture, agricultural processing, tourism, etc. This research is quite useful in terms of establishing a general idea of the development of the financial market, as it reflects aspects of the functioning of one of the main areas of the country's financial market. In addition, it is important to add that, like some of the previous studies, it recommends paying attention to agriculture in the country's financial market.

Gjoni et al. (2022) in their study provided a comprehensive examination of financial performance measurement in Albania's construction sector, a critical component of the country's economic growth. The authors underscored the importance of financial performance analysis as a tool for stakeholders to make informed decisions. It highlights the utility of financial performance indicators in evaluating the economic health of businesses within the same industry or across different time periods. Their research also reflects on the impact of external factors, such as the COVID-19 pandemic and post-earthquake reconstruction efforts, on the construction sector's financial performance in Albania. The authors concluded with a high determinability coefficient ($R^2 = 99.24\%$), indicating that the considered factors significantly explain ROA variability.

E. Musta (2016) researched the impact of financial development on economic growth in Albania. The author defined the volume of lending as an indicator of financial development since its decrease is always accompanied by crises. In other words, a better-developed financial system helps to maintain the sustainable growth of the country's economy. The purpose of this research is to identify the correlation between lending and growth in the Albanian economy. Accordingly, the research results obtained by the researcher demonstrated that in Albania, the growth of the financial sector has an adverse effect on

economic growth, which the author explains by focusing on the allocation of capital to the most efficient opportunities. Although the research has preliminarily considered the main aspects of financial markets, there is no general description of the system.

Thus, the research conducted on scholars' works on the financial market of Albania has demonstrated that there are indirect, outdated studies, and the structure and prospects for the development of the financial market of the country examined have not been determined.

5. Conclusions

Thus, the research on the financial market allowed for the establishment that it is a set of economic relations based on the purchase and sale of financial instruments for financial and production activities. The analysis of the economic situation has established that Albania is characterized by unstable trends, as there is an intensive increase in inflation, although the level of GDP per capita is increasing, poverty and unemployment are decreasing, and foreign economic activity is positive. It is expected that in the current period, due to external developments such as the conflict in Ukraine, sanctions, environmental transition, protectionist policies, and inflationary pressures, unfavourable conditions for the functioning of the financial market in Albania will be in place.

After reviewing the main current trends in the financial market of Albania, it was found that it is represented by the monetary market, and the securities market is almost absent. The banking system of Albania has positive trends in terms of lending and deposit activities, but the capital sufficiency of the banking services market is declining and does not correspond to international standards. In addition, the money market is characterized by positive trends. In general, the current financial market can be described as stable. However, considering the economic situation of the country in general, the Albanian financial market is beyond risk. The regression analysis of the dependence of the Albanian financial market on its economic environment has demonstrated that this market is diverse and, accordingly, each area of its functioning is subject to a significant impact on the country's economic development. Thus, the prospects for successful development of the financial market in Albania are only possible if the stock market is established.

The development of the stock market in the financial market of Albania will allow to establish a high-quality loan portfolio and expand it, help support innovations, improve the asset and business management system, expand asset restructuring and recovery, expand brokerage activities, improve investment banking and securities, and introduce the process of asset securitization. Further research on the prospects for the development of the Albanian financial market should be based on the development of measures to improve the efficiency of the stock market and the development of the securities market at the international level.

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