

Ardian Fullani: Preconditions for inflation targeting in Albania (opening speech)

Greeting speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the Open Forum "Preconditions for Inflation Targeting in Albania", Tirana, 1-2 December 2005.

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Ladies and Gentlemen,

It is with great pleasure that I welcome you to the Open Forum "Preconditions for Inflation Targeting in Albania". I am extremely pleased and proud that I have the honor to welcome so many distinguished national and international guests.

For the Bank of Albania it is the first time to organize an event of this character and with so many distinguished guests. I am very grateful that you accepted my invitation and warmly welcome you. I look forward to hearing your comments on the proposals that Bank of Albania will be presenting today and tomorrow. There will be ample time to hear all your comments and to exchange ideas on Albanian policies.

Our main theme in this Forum is concerned with the principal objective of the central bank. According to our central bank law The principle objective of Bank of Albania is to achieve and maintain price stability. The regime we are going to discuss here for achieving this objective is Inflation Targeting.

Our present formal monetary policy regime is called a heterodox Monetary Targeting. But within the central bank we use even different names for it. Some call the monetary regime a "two pillar" approach as it has features of Monetary and Inflation Targeting. Often also, the current regime is already referred to as Inflation Targeting.

Under the present monetary policy regime Bank of Albania adheres to a monetary program. Monetary policy aims at administering the money supply and interest rates with the view of achieving price stability in the short to medium term. The exchange rate is freely floating. Bank of Albania is considering to move to a fully fledged Inflation Targeting regime. Based on available information today, we consider this regime to be a good choice. We envisage moving smoothly to this new framework within a realistic time frame. I say here deliberately smoothly. Many steps have to be made gradually in time. Furthermore we have to analyze carefully all the new information that will become available to us.

The main reasons for adopting Inflation Targeting concern (more) transparency and (more) credibility. The central bank wants to move to a more transparent monetary policy regime with a strong anchoring of expectations over the medium term. According to Bank of Albania, Inflation Targeting is considered to be the appropriate monetary policy regime for Albania in these respects. In our current conduct of monetary policy we follow rules but also take discretion. A regime that provides well-defined and unambiguous objectives would bring us more "constrained discretion".

The discussions today and tomorrow will focus on the conditions that we have to meet before formally launching Inflation Targeting. Here in Albania we are aware that essential requirements have to be fulfilled for obtaining a successful IT regime. Some of these preconditions do not depend on Bank of Albania, such as the fiscal stance. Other preconditions do not only depend on Bank of Albania, such as structural reforms or deepening of the financial system. During these two days I hope to find out on which of the listed preconditions for Albania we share the same views, and where our views differ.

Next to this open discussion on the conditions for a successful monetary policy regime, there is another important reason for our gathering here. By means of this Forum the central bank adds to transparency and contributes to the enhancement of the cooperation within the region. I refer here to the region in a broad sense. Bank of Albania finds good relations with neighboring countries extremely important. Coordinated efforts to meet conditions and requirements that are set internationally are paramount for Albania and the Balkan region to attain the deserved place on the European map. They will bring economic and social prosperity to the Albanian people and other people in the region.

Albania is a relatively small country and for that reason we have to remain modest. But at the same time I can honestly say that I am proud, extremely proud, that the central bank of Albania can help in opening the way to a further and hopefully rapid convergence of Albania with Europe and other, more developed countries. Better communication lines between Bank of Albania, regional central banks and

international organizations will pave the way for a further development of commercial banks and other institutions. Ultimately a solid bridge will be built between Albania and the outside world, entailing a soundly developed financial system, a sustainable economic rate of growth and higher welfare levels for Albania.

In order to have productive discussions I wish to emphasize the open character of our meeting here. The Forum is deliberately called an Open Forum. I will appreciate any comments that can contribute to the further institutional building of the central bank of Albania up to the highest international standards. Only a discussion free in spirit – or as we say in Albanian “i hapur” – can bring us closer to each other at the same high levels.

Now coming to the end of this speech, I wish you all some fruitful but at the same time pleasant days here in Tirana. I am sure that our representatives of Bank of Albania will present their main views in a transparent way and I look forward to the discussion that will be started by the Panel Members.

I now give the floor to the Chairman for starting the Open Forum.