

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

Farewell 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,

I want to conclude this Forum by saying first and foremost that we have had two very productive days! It was a great pleasure for me to listen to your views, constructive suggestions and fruitful ideas concerning monetary policy in Albania. I thank you very much for all your contributions!

At the end of this Forum I would like to give my personal views on the road ahead for Bank of Albania. But I will first put some developments in perspective.

Since 1990 and until today in 2005, the Albanian economy has been transformed from an isolated centrally planned to an open market economy. Before 1990 there used to be only a state mono-bank. Nowadays, there is a central bank with a network of commercial banks and other financial institutions. In 2000, the central bank began to fully rely on indirect instruments for conducting its monetary policy.

As you can see, Bank of Albania has a relatively short history of central banking. In my opinion, the central bank is moving in the right direction. But time has come to decide how to proceed in the near to further future. This has been the main reason for organizing this Open Forum.

For our country, an ultimate objective is the accession to the European Union. Accession to the European Union implies a full membership. As a consequence, it implies eventually the adoption of the euro after the accession date. EU accession will ultimately induce entering into ERM II, and thereafter adopting the full legal tender of the euro. There will be an automatic adherence to the monetary policy of the European Central Bank. However, these developments still belong to the future.

Having this EU-time path in mind, we are aware of the changing world surrounding us. Albania as a small and open economy is part of this dynamic world. Today, we observe a rapid globalization, liberalization, continuous financial deepening and broadening, with new financial innovations in a always more interconnected world. Albania is influenced by these developments on a day to day basis. Albania therefore, needs a daily monitoring of new developments and it needs to cope with these international challenges.

Before reaching the ultimate EU-accession objective in this constantly changing world, there is still a long distance to cross. As it concerns monetary policy, Bank of Albania today thinks that Inflation Targeting is the way to take. Better highways will bring us more quickly from Tirana to the Airport. Likewise, the better monetary policy is able to maintain price stability, the quicker Albania can take the road and reach the levels of neighboring Europe with their higher welfare levels.

We are fully aware that adopting fully fledged Inflation Targeting is a process that requires hard work with several preconditions in place, as these two days have underlined. Getting to Inflation Targeting is more of a marathon than a steeplechase. Our two days here have shown that it is not a discrete one-time decision that resolves all problems. It should also be a smooth process. This holds in particular for a transitioning country like Albania. Our country faces different challenges and virtues compared with developed countries.

Now, how is our Working Agenda set?

I want to distinguish between the working areas within and outside the central bank. And the working area outside the central bank can be split into Albania and the international environment.

I see the further building of the central bank as a recognized and respected institution as one of my primary tasks. Qualified young and ambitious people need to help us bringing our internal discussions and work to higher levels. Cutting-edge discussions and fundamental studies are needed to make the central bank choosing the best policies, on monetary policy as well as on supervision and financial stability (in a broad sense). The human resources capacities need to be secured. Inflation Targeting is to be further scrutinized in all respects. Econometric models need further development for forecasting inflation and analyzing transmission channels. More statistical work needs to be done, in particular on micro information from the real side of the economy. A specialized unit should concentrate on all areas that cover the consumer price index. A clear and professional communication strategy is to be

developed. Information on monetary policy is to be translated into a language for the different population groups in our country. Next to all these activities, we need to continue our discussions on the Monetary Decision Making arrangements that are deemed essential for Inflation Targeting. These activities within Bank of Albania are on my agenda for tomorrow.

Outside the central bank in Albania we need to take all efforts for a further development of the financial markets and other transmission channels. We cannot do this on our own. In this respect we should establish a deeper constructive collaboration with other national institutions. We should elaborate with the Ministry of Finance and the Parliament on the legal issues for strengthening the central bank's independence. With the Ministry of Finance we have already projects, such as the anti-cash, credit office, T-bills market and so on.. But a topic high on our and the agenda of the Ministry of Finance's agenda should be the statistical framework. Statistics by means of Instat need to become timelier and need to be improved for the purposes of policies by the central bank as well as by the government. As discussed also these days, we should take all efforts in bridging the gap between Bank of Albania and the other central banks in Europe. The central bank law served Albania at the time it was laid down. Now at the brink of the year 2006 we all agree that it needs amendments.

Governance at the central bank needs to reach the levels of governance at the central banks in more developed countries. We need a full independence of monetary policy on the one hand, and of fiscal and other government policy on the other hand. We need more professionalism. We need monetary policy conducted with a view to the future. We need to improve on accountability. We need to make our people contestable within and outside Albania as it concerns the policies. I would like to see more open discussions where we discuss elaborately about our differences in opinions but at the end of the day also reach agreements that - as their sole purpose - benefit the Albanian economy.

Our cooperation with international organizations like the International Monetary Fund will be maintained and open discussions about consistency issues with the new monetary strategy will carry on. Cooperation with the European Commission should become intensive in order to harmonize all central bank requirements in line with EU standards. In my view EU is one of the highest priorities on the Agenda of Albania, and the central bank will provide all cooperation in making its central bank law and all further rules and regulations according to EU-standards.

Next to this, the relationships with the Bank for International Settlements and the European Central Bank need to become closer. As a special point I want to highlight again the cooperation with the central banks in the region. We can more often share our views about monetary policy, supervision and financial stability. We can more often have common projects. One of the big projects I have in mind is the process of preparation for the accession to the European Union.

As you see, our Agenda is quite full. Probably not only in the short term but also for the medium term. But let me stop here.

I am sure we will meet again in the future. But I conclude here by saying that I hope to meet you again in the very near future. At these occasions I will update you about any steps and progress we have been making within Bank of Albania! Today I spoke a lot; tomorrow we will start implementing what we said today.

Once more, thank you very much and have a safe return home.