

# **Ardian Fullani: The convergence of economic systems and institutions of South East Europe towards the EU – a view from Albania**

Lecture by Mr Ardian Fullani, Governor of the Bank of Albania, at Bocconi University, Milan, 10 October 2007.

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Good Afternoon Ladies and Gentlemen,

Dear Students, I am pleased to appear before you tonight. This is a fantastic occasion and I am delighted to share with you some of my thoughts and findings over my country and the Balkan region.

## **1. Few words on Albania**

I would like to start my presentation by saying few words on my country, on its roots, on its past and its present.

Albania is a small country placed in the Southeastern Europe, bordering the Adriatic Sea and Ionian Sea, between Greece, Macedonia, Kosovo and Montenegro.

It is generally recognized today that the Albanians are one of the most ancient people in southeastern Europe. All indications point to the fact that they are descendants of the Illyrians. Authors of antiquity relate that the Illyrians were a sociable and hospitable people, renowned for their daring and bravery at war. Illyrian women were fairly equal in status to the men, even to the point of becoming heads of tribal federations. The land of Illyria was rich in minerals – iron, copper, gold, silver – and Illyrians became skillful in the mining and processing of metals. They were highly skilled boat builders and sailors as well; indeed, their light, swift galleys known as liburnae were of such superior design that the Romans incorporated them into their own fleet as a type of warship called the Liburnian.

The famous Roman orator Cicero, astonished by the beauty of Apollonia named it in his Philippics, magna urbs et gravis – a great and important city. In the first century B.C., Octavian Augustus studied philosophy there until he heard news of Caesar's murder in the Senate and went on to become the next Roman emperor.

More than thousand years after, Skanderbeg's stronghold in the mountain town of Kruja, became highly significant to the Albanian people, as it strengthened their solidarity, made them more conscious of their national identity, and served later as a great source of inspiration in their struggle for national unity, freedom, and independence. Skanderbeg's military successes evoked a good deal of interest and admiration of the Papal state, Venice and Naples, themselves threatened by the growing Ottoman power across the Adriatic.

Whoever discovered Albania (decided to visit Albania was marveled by its beauty and the spirit of its inhabitants. World figures were usually so moved that the name of Albania became eternal in their masterpieces of art.

Albania has a reputation as a land of great natural beauty and romantic remoteness. These two characteristics have made it all the more attractive, mysterious, forbidding, challenging, or exasperating to outsiders, be they travelers, scholars, diplomats, or merchants. Many of them have referred to it as the "Switzerland of the Balkans" or as the "rock garden of southeastern Europe." On the other hand, the country's uncommon isolation from the world, arising generally from its rugged, mountainous terrain, has led foreigners to speak of it as "the Tibet of Europe" or as a country more mysterious than central Africa.

The great eighteenth-century British historian, Edward Gibbon, speaking of Albania, said that it is "a country within sight of Italy, which is less known than the interior of America."

The remoteness and isolation of the country became practically legendary and all too frequently gave rise to reports and descriptions of the land and of the people – even in books and encyclopedias – that were closer to legends than to reality. Perhaps because of its romantic remoteness and other reasons, Albania has exerted a continuous fascination on artists, including poets, playwrights, composers, and more recently film makers and producers of television programs.

Shakespeare set his comedy Twelfth Night in Illyria – the name by which Albania was known in ancient times. Lord Byron, who visited southern Albania in 1810, wrote some stirring lines about her landscape in his poem “Childe Harold”.

*Morn dawns: and with it stern Albania's hills...  
Robed half in mist, bedewed with snowy rills.*

In Mozart's comic opera “Cosi fan tutte” the principal male characters, Ferrando and Guglielmo, appear for the most part as two "Albanian noblemen" in clever scheme to test the love of their fiancés.

I was trying to bring a bit flavor of my country across centuries. Being a crossroad, the main gate from east to west, today Albania represents an important actor whose solely role is to provide peace and stability in the region.

## **2. Albania through transition**

For many decades Albania was cut off from other European countries, including the Central and Eastern European ones because of its extreme economic centralization and adherence with the principle of self-support. Transition brought about a structural change in the principles of economic philosophy. The market forces took over the distribution of economic resources and the reduction of existing economic imbalances. This process resulted in increased unemployment, reduced output and consumption, while prices of consumption goods increased over 100 percent. Foreign reserves disappeared almost instantly under the pressure of reduced output and drastic devaluation of domestic currency. Meanwhile a relatively large and growing stock of foreign did not stop the declining trends. Public confidence dived and many Albanians emigrated mostly in neighboring countries. Financial situation deteriorated at a fast pace as well. Monetary policy as we know it was inexistent for Albania did not have a modern central bank.

Early structural reforms focused on cutting the subsidies for insolvent state owned enterprises; massive price liberalization; privatization process; land reform; and provided the necessary incentives for the rapid macroeconomic consolidation of 1993-1995. During '90s Albania's path has been quite disordered scoring one of the most unique transitory experiences. It was an experiment a trail and error by everybody. It was a quest to understand and the role and position in this new market economy; to rediscover the incentives of the private initiative and the risk that embodied in economic decision making. Along this process Albanian society established the foundations of the macroeconomic consolidations that started with the new millennium and accession to EU has scored significant progress. For a long period of time the economy has grown around 6 % percent annually, contributing to an upward trend of GDP per capita reaching around 2.500 euro. Inflation has been quite stable within our target band 2-4 % supported by responsible Monetary and Fiscal policies.

Further structural reforms improved the functioning of the market economy. Privatization of big and medium enterprises, the privatization of former public banks, the modernization of legal framework and many other important reforms contributed to such impressive performance of Albanian economy.

In the last years I believe the country has made a substantial progress in its way towards European Union. After wasting our chances during '90s I believe we are in the right track and

personally I'm confident that the distance to our final destination, Brussels is getting shorter day after day. The coming years are of a vital importance in adhering to EU as far as Albania is preparing itself to move with its own feet. The current agreement with IMF will finish at the end of 2008. I hope that Acquis Communautaire will become external driving forces guiding our country toward the European Family.

### **3. Bank of Albania**

Albania had its first central bank institution in 1913. It was founded as an outcome of the agreement of the Ismail Qemali government with some representatives of an Austrian-Hungarian bank group and of the Banca Commerciale Italiana. The Institution did not live long due to the outbreak of the First World War and it was not before the year 1925 that the bank's activity started under the name of the National Bank of Albania. During the years 1944-1992, it was named State Bank of Albania, which at that time exercised both the functions of a central bank and those of a commercial one and only after 1992 the two-tier system is established and Bank of Albania starts performing the functions of a modern central bank. Based on a parliamentary law it has the attribute of the monetary and supervisory authority of the country.

The primary objective of the Bank of Albania is to achieve and maintain price stability. It seems that this way Bank of Albania has solved the dilemma of choosing the key objective of monetary policy in favor of price stability will contribute to sustainable growth and to generate equilibrium in the labor market over long term period.

From the historic prospective, since the early stages of transition we adopted a monetary targeting regime. The choice was made believing in the Friedman's postulate that Inflation is wherever and always a monetary phenomenon. Direct control on money growth, credit growth and interest rates were the operational tools of monetary policy aiming at the control of money supply, which served as the intermediate objective.

A free floating regime of exchange rate was chosen to match the monetary targets. Other forms of exchange rate regimes were never discussed due to lack of adequate foreign exchange reserves and therefore the incapability to support a fixed rate of domestic currency. In addition the floating regime was chosen as an automatic stabilizer of the fast growing current deficits. Therefore the choice between different alternatives of stabilization program was conditioned (and easy).

In general this regime has resulted successful and still continues to be the operating framework of the monetary policy. I believe that its success was conditioned by low financial intermediation and under developed financial markets . The presumed stable relationship between money and transactions and permitted for confident monetary programming based on the Fisher's equation of exchange. However, as the efficiency and speed of financial intermediation increased and financial innovation set in motion, this policy setup become obsolete. Bank of Albania moved away from direct control on money in favor of indirect control of money supply in the economy.

In the context of reviewing our approach to monetary policy during the recent years we have dedicated the bulk of our research and analytical resources to better understand the relationship and causality between inflation and economic factors that influence it in the context of Albanian economy. For most of this period, we have integrated in our policy important monetary policy elements that define essential characteristics of the inflation targeting regime. Various internationally recognized experts of monetary policy have compared the current setup of monetary policy to a fully fledged inflation targeting framework.

During these recent years Bank of Albania has publicly announced a numeric objective of 3 percent with a tolerance zone of plus minus 1 percent for inflation in the 12 coming months. In addition, weekly repurchase argument rate, the key policy rate, has become the most

important instrument of monetary policy and signaling tool. Yet, we are still in the process of empirical investigation and quantification of the monetary transition channels, with particular focus on the efficiency of the inter-bank markets.

Modestly but surely I have to admit that the efficiency of our monetary policy has increased. In general we are satisfied with the reaction of the interest rate behavior, which model the developments of the bank of Albania key rate with the appropriate lag structure. Moreover increased and more efficient communication with the public are reflected in contained inflation expectations which are anchored to Bank of Albania announced numeric objective. We are happy to observe that results of consumer and business confidence as well as financial market expectations surveys indicate these trends.

It is widely accepted that such results are outcome of our continuous attention toward ever lasting improvement of institutional and regulatory framework on which Bank of Albania operates. Particularly, this stand for: independence, transparency and accountability.

It is well recognized by foreign and domestic institutions that legal and real independence status of Bank of Albania enjoys satisfactory standards. On the other hand we believe that independence represents a dynamic rather than a static process, therefore we have adopted contemporaneous practices of communication explaining our decisions to Albanian public. This process is embodied in the continuous improvement of the monetary policy report, standard communication of the supervisory board monetary policy decisions, improved analyses and research efforts, and last but not the least, intensive public activity of the Bank of Albania Governor, with various groups of interest across the country. Taken together these have improved public understanding and expectation building for current and future developments in inflation and economic activity.

Our approach to communication has further improved our accountability and has resulted in increased credibility and authority within Albanian public.

During the past 2-3 years we have increased our ownership in the short and medium run economic and financial development programs. Since the beginning of transition the economic program has been designed and implemented under the setup of IMF support programs. The current program will end in 2008. Starting from 2009, the Bank of Albania and other Albanian authorities will have full ownership in the design and implementation of financial and monetary policies. In the meantime our relationship with IMF will continue under Article IV, moreover the IMF assistance will be considered a welcomed secondary factor.

In such contest bank of Albania has been working together with important Albanian institutions, first and foremost with fiscal authorities, different European Central Banks, international financial advisories and academia to identify the new regime of monetary policy. The new regime must be efficient in the light of recent changes in financial markets and most importantly must provide good anchors for monetary policy and its sovereignty.

Please allow me to briefly describe the major characteristics of what we think will become the new regime.

#### **A. *Monetary policy regime***

As I already mentioned we have been working on the new regime for more than two years. During this period we have been tossing ideas and scrupulously studying the details of a fully fledged inflation targeting regime. As you might well understand, we are getting ready to launch the new regime at the beginning of 2009. Our analyses show that, considering the current features and expected developments of the financial markets, inflation targeting provides the best policy choice for the future. A relatively long history of low and stable inflation, efficient monetary policy, sound banking system, free floating exchange rate, fiscal consolidation and last but not the least a suitable and reliable institutional framework, are important factors that have convinced us on the potential success of inflation targeting regime.

## **B. Institutional framework**

The harmonization of monetary and fiscal policy will continue to be a challenge. I believe that long run success and real independence of monetary policy is gained in the well functioning of this simultaneous relationship. Albanian Constitution and the current Bank of Albania Law grants the responsibility of monetary policy design and implementation exclusively and without equivoque to the Bank of Albania. We believe that such legal framework and Albanian society aspirations and commitment toward Maastricht criteria's of convergence provide essential assurance for future compliance of monetary and fiscal policy.

## **C. Financial market efficiency**

Albania is a small open economy and relatively highly euroized. In general the financial markets are characterized by low trade volumes and interest rate volatility. This situation represents a high concentration in assets and liabilities in the banking system as well as a very limited supply of financial instruments in domestic currency. In this respect, we have been very aggressive to prepare and introduce a new set of rules for operational framework. The new regulation aims to increase the efficiency of the inter-bank borrowing market, it targets thinking on the margin behavior of the banks by reducing the frequency of treasury bills auctions, rearranging required reserves regulation and introducing a prime rate. Our objective is to have this package operative by the beginning of 2008.

## **D. Financial stability**

This process has progressed with the increase of the banking activity. However I have to admit that increase and consolidation of the banking activity is accompanied by a rapid growth of credit to economy. This rapid credit growth has become the challenge of the moment. However I believe that efficiency and soundness of financial system is a dynamic process and a continuous challenge. Frequently this challenge might generate from international financial markets too. Globalization of financial markets has increased the risk of contagion. The recent developments in the sub-prime mortgage loans, must serve as a excellent reminder of the never ending surprises, which make the trade off between monetary policy and financial stability a difficult balance.

I want to make it clear that by financial stability I do not assume only the absence of a financial crisis, but a well functioning financial system that performs well its functions. I think too tight regulations that definitely minimize all the risks are not conducive to sustained growth. Therefore the real challenge for which we are working hard is to find an optimal balance between deregulation which promotes market forces and financial innovations and negative consequences of possible market failures and financial crisis.

## **4. Balkan region: trends and major characteristics**

Dear students,

The rest of my discussion will provide few remarks on the developments of the South East European region. I will briefly comment on the common problems and characteristics of the region and voice my opinion upon possible direction of progress and convergence in policies.

Recently the Governors of the Region have been increasingly concerned regarding the issues related with banking system activity, market efficiency, financial stability, risk exposure and of course the role of central bank.

All this discussion is structured by the context of regional aspirations for EU integration.

Not only because I'm a Governor but also due to my own philosophy I have come to believe that there could not be real political cultural and social integration without a reasonable financial integration. I share the same opinion with other European sensibilities on the values

and importance of consolidation of democratic society and embrace of new social and cultural mentalities. Regardless I sincerely think that the process of transformation that has changed our societies since the fall of the Berlin wall is irreversible. The real question is how long this process will take to be complete. I believe that laying down solid foundations for efficient allocation of financial support and financial intermediation will significantly shorten this process. This will also provide the necessary infrastructure framework for the integration objectives and will supplement this process with the support of private initiative.

On the other hand, a developed and financially integrated region will be more attractive for foreign strategic investors, opening up the path toward regional development projects, particularly infrastructure, labour market, real estate ones where region's banks might be the financing and co-financing ones.

If I would have been asked to say with simple word how I understand the convergence process my answer would be very simple: The convergence means a set of performance criterion and structural reforms benchmarks. This means that each country should adopt the standards stemming from the Acquis Communautaire and different international codes (Basle's II) combined with energetic steps in improving economy, society, culture and environment as well. I think this is a MUST for promoting financial market efficiency in the entire Region."

Allow me to summarize financial system in the region along the following characteristics:

- **The system is dominated by commercial banks.** Financial intermediation role of the other financial institutions is weak. The insurance industry in most countries of the region is quite small and underdeveloped. Traditionally poor governance, inadequate risk management practices and lack of consumer confidence have limited total assets held by these institutions, in the same time limiting to some extent the possibility to present a source of systemic risk to the financial sector. However this sector's rapid expansion in some countries including Albania calls for the development of an adequate legal framework for conducting insurance business and the strengthening of the supervisory framework. Other financial intermediation such as leasing activities have grown sharply in the last years (Serbia, Bosnia and Herzegovina) representing an important source of funding source for fixed investment and for small and medium-size enterprises. Micro credit institutions have a significant presence in Bosnia and Herzegovina, being mostly established with donor funds but over the last years having shifted their funding source toward bank loans. Consolidation into larger credit unions would be a viable method to be able to offer larger loans and provide more banking-like services. Financial Sector Assessment Program (FSAP) calls for further strengthening of the underlining of the supervisory framework, even though unified supervision under a single supervisory agency was considered premature. Capital and money markets are small or nonexistent. At this stage of development it is necessary that the policy of regulatory institutions should focus on enhancing infrastructure and governance.
- **Banking system in the region is close 100 percent privately owned, with clear dominance of foreign capital.** The banking system in the region amounts from 40 percent of total assets to GDP in Macedonia to 119 percent of total assets to GDP in Croatia and is dominated by private foreign owned/joint ventures banks. The privatization of large state owned banks has been completed in all countries, except Serbia and representing approximately only 38 percent of total capital in the banking system respectively. The system is dominated by a restricted number of big European banks that have set presence across all countries in the region. Lately there is evidence of increasing interest of other banking groups as well.
- Increased financial intermediation of the recent years has lead to a rapid credit expansion. This trend reflects increasingly deep financial integration with EU Member States and supports rising trade, investment flows, and institutional

strengthening. The expansion of the financial sector and inflows of foreign savings can strongly support real convergence. However, increasing credit to GDP ratio in all countries, ranging from 23 percent in Macedonia to 76 percent in Croatia also raises the concerns for a possible credit boom. There are some important trends worth being noted: Credit composition is dominated by consumer credit and less oriented to enterprises; Credit/deposit ratio has steadily increased indicating banks willingness to extend their lending activity at a faster pace than the growth of savings. However, the average of credit/deposit ratio of the region is still below the level of the new EU member; Lending is mostly in foreign currency as a result of high euroization of the economies and lower interest rates in foreign currency; Another structural change in credit portfolio relates to the upward trend towards longer-term lending, which at least in three countries of the region (Albania, Macedonia and Bosnia & Herzegovina) consisted of 50 percent or more than total lending; The spread between interest rates of deposits and credits remains high. There are several explanations to this such as lack of efficiency and competitiveness among banks, high premium risks of the economies in the transition period, collateral problems, legal system obstacles etc. However, it's worth mentioning that the spread between deposit interests and credits has declined in the recent years, as a result of increased competition in the banking system.

Despite these characteristics must be admitted that the share of the banking system in the economy is relatively small by European standards. The total of banking assets measured as percentage of GDP shows that our region lags behind when compared to developed economies. Meanwhile prudential measures indicate problems with the credit portfolio quality, and the speed of growth could be beyond what is generally accepted sound. The risks that usually accompany fast credit growth could soon exerting pressures on monetary policy and financial stability.

In my opinion the low financial and real economic integration among countries in the region constitutes as well as international financial markets constitutes another major problem in the region. The problem could become more severe if you were to keep in mind the very integrated ownership structure of banking system in the region.

Cross-border lending and borrowing, or other forms of international financial flows are still relatively insignificant. With the stabilization of the economy and the rescheduling of debts, the countries together with their financial sectors have started to be gradually integrated in the international markets. Sovereign ratings given for these countries have accompanied and accelerated in some cases these developments. While the financial sectors, and particularly commercial banks, have strengthened their international ties and have been gradually integrated in the international financial markets, the competitiveness from cross-border banking activities remains still restricted. Cross-border lending activity increased slowly in the countries of the region. However, even in this field there is room to move more quickly. The foreign capital penetration in the countries I refer to is still low and mainly reflects the inability of our financial systems to facilitate the absorbing of foreign investments in our economies.

Finally, considering the above mentioned trends of financial intermediation the following region specific sources of risk need caution scrutiny, namely credit risk, indirect foreign exchange risk, and vulnerabilities associated with foreign branches entry.

#### - ***Credit risk***

The acceleration of credit growth rates in some countries of the region is warning when associated with an increase in the NPL ratio. Unfortunately there are chances that the build-up in credit risk may be underestimated. The deterioration in quality of disbursed credit is not immediately apparent as the increase in the share of new loans can temporarily depress the reported nonperforming loans (NPLs) and credit quality problems typically emerge with a delay. In the aftermath of deterioration in loan portfolio an increased risk of a credit crunch

emerges; when banks recognize the extent of the build up they may sharply cut or reverse lending growth.

Specifically the domination of foreign banks in the region may possess additional risks associated with a possible credit crunch. As long as subsidiaries of foreign banks earn high profits, they have easy access to new capital from their headquarters given that they account for a small share of the loan book of their international banking group. If the build up in credit risk is underestimated, foreign banks will tend to set overambitious ROE targets. When the extent of underestimation is recognized, banks have to increase their provisioning rate in line with their upward reassessment of credit risk, reducing ROE projections. This could lead management of large foreign bank groups to conclude that their ambitious ROE targets cannot be met and curtail lending growth in response.

The entrance of big international foreign groups puts upward pressure on the entire banking system attempt to compete for borrowers. However, there is a risk that credit growth is associated with lower lending standards, enhanced by the lack of financial information available on potential borrowers that continues to be a problem in the region. As the FSAP for Albania indicates, in the area of corporate lending, firms balance sheets and income statements may be altered to avoid taxes, while information about remittance income for individuals is imprecise and unverifiable.

The rising real estate prices in the region have also encouraged lending, using the real estate as collateral to a great extent. As real estate prices continue to rise, this could lead to an over-extension of credit, and if the real estate market becomes more speculative and more leveraged through bank loans, a decline in demand can cause a fall in real estate prices, causing both collateral to fall in value, and the ability of borrowers to pay to decline. Thus, there is a greater need for authorities to monitor development in real estate prices and warn against possible asset bubbles, while the collateral needs to be less homogenous.

- ***Risks associated with the foreign exchange***

As a result of large financial assets euroization in all countries of the region, the foreign exchange rate fluctuations are an important source of vulnerability. Stress tests in almost all countries suggests that there is limited exposure of banks balance sheets to the direct exchange rate risk as banks are able to hedge foreign currency loans with FC deposits and sources from their parent banks. However, the dominance of loans either denominated in or linked to the euro to borrowers with income in national currency means that sudden exchange rate depreciation could threaten their capacity to repay.

- ***Vulnerabilities associated with foreign branches entry and domination***

Turning to the issue of opening of the banking sector to foreign investors, specific issues need considerable attention by supervising authorities. The recently conducted Financial Sector Assessment Program in Serbia listed several benefits. Attracting funds from households that may be reluctant to deposit with domestic banks, providing new sources of funding for domestic credit, introducing new financial products and credit instruments, reducing the influence of vested interests, and enhancing competition by buying state banks and increasing the number of players.

However, in presence of externally generated and domestically generated shocks the banking system in the countries of the region can be vulnerable to lower profitability, less willingness on the part of the banking group to provide capital, and, ultimately, generate a credit crunch. Among the external shocks were listed rises in euro zone interest rates, adverse shocks to one or more of the countries of origin of the foreign banks, and contagion from an adverse shock elsewhere in the CEE region altering investor perceptions regarding the domestic economy. On the other hand domestic shocks such as declining margins from foreign banks fighting to gain market share, and lowering of credit portfolio induced by a



weakening economy or an unexpected domestic political event could have large effects in the presence of less adequate risk management in the context of foreign owned banks rapid expansion and increasing euroization of financial assets.

## **5. Policies to mitigate financial vulnerabilities: constraints and challenges**

In some cases supervisory authorities (Serbia, Croatia) have resorted to less market oriented macro prudential measures to contain credit growth. While credit controls create the incentive to route lending through less regulated non-bank intermediaries, the imposition of such credit controls in Bulgaria and Croatia was accompanied by a jump in cross-border loans.

Watson (2007) argues that prudential policy needs to allow for the fact that foreign-owned financial institutions, with a majority of assets in most cases, have deep pockets in terms of capital and liquidity. Thus, prudential tightening may not be able to be transmitted to a significant part of the banking sector but it may affect only smaller locally-owned banks.

It follows from our discussion that the supervisory authorities may gain by the increasing transparency in financial markets which will allow consumers and other bank borrowers to be more aware of the risks inherent in foreign currency borrowing. Efforts to enhance this transparency could be encouraging or requiring banks to discuss exchange rate risks explicitly with borrowers before contracts are signed. On the other hand there is a need to discuss with banks means of assessing the risks arising from foreign currency denominated loans and adjust existing loan classification schemes or provisioning if warranted (FSAP recommendation for Albania).

Monetary policy is constrained by the degree to which policy instruments are able to transmit into the economy. A tightening of policy interest rates' effect may be constrained even in floating rate or adjustable peg regimes. A moderate tightening of policy may not be very effective in slowing the economy because of the high degree of euroization and the uncertainty associated with the final effect of exchange rate changes in balance sheets and the real economy.

Many of the above issues require a significant degree of co-ordination between home and host authorities that can help fill supervisory gaps, given the very high levels of foreign bank ownership. In the process of improving the regulatory base, standards set by international institutions and especially the ECB are crucial in orienting regulators.

## **6. Concluding remarks**

The all region is going under a political, economical and social consolidating process. Now a day politicians, decision makers, analysts, almost everyone is stating the EU accession as the main priority, the top challenge for the next coming years.

How far are we? That's a difficult question.

Many times I looked behind my shoulders to see how far we have come. It is indeed a long way, full of ups and downs. Along this way we have scored positive developments as well as few setbacks. Yet it has been a road toward progress. However the modern attitude of central banking requires a forward looking approach. It is for this reason that in my public appearances have always stressed the vital importance of the integration process and related issues. The success of this process will depend first and foremost by our attempts and dedication. There is only one way to get closer to the finish line. That requires waking up every morning with a European mentality, and try with all our efforts to make this dream come true. We all agree with the idea of not decorating our home with Fendi furniture whilst our roof is not yet fully covered.

I personally believe our societies are becoming mindful on their efforts towards European standards. We all understand the need for reforms, the need for stronger growth, the need for macro stability, the need for regional cooperation, the need for political stabilization and peace among the different nations of the region.

Therefore as my very last sentence I would envisage the need for greater reforms, greater efforts towards democracy and market economy.

In this respect, I would like to quote myself in Bosnia-Herzegovina, three weeks before “I see enormous possibility for cooperation and policy coordination in the direction of information sharing, institution building, modification of the legal infrastructure and lobbying in European structures. Facing these problems in group rather than separately will allow to benefit and embrace the positive effects of “economies of scale”. I also invite the ECB and EC to explore the possibility of adopting a “party” treatment for the entire SEE region, by adopting a specific program for a specific group of countries”. It might even sound overly optimistic I see this as a mutual beneficiary relationship. The region, on its account, does provide several important advantages: labor markets are positioned right in the middle between Asian countries and new EU members; sufficient investment opportunities in real estate and infrastructure as well as high return on capital; it counts more than 20 million people and represents a fantastic touristic attraction as a product of an interesting combination of different climates with diversified geographical features and multi ethnic and cultural traditions.

I think that means in real terms economic stability and sound long term regional geopolitical solution.

Thanking you for your attention I’m ready to take several questions.