

Ardian Fullani: Recent economic and financial developments in Albania

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the Joint Press Conference of the IMF Mission with the Ministry of Finance and the Bank of Albania, Tirana, 11 November 2008.

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The regular visit of the IMF's EU1 European Department mission is made in the context of the last review of the current 3-year PRGF – EFF Arrangement between the Albanian authorities and the IMF Board of Directors.

This last review coincides with a sensitive outlook of the world economy, which is facing a highly intensive and uncommon global market correction. Given this situation, present and future prospects still remain vague and uncertain.

However, worth to note is that the Albanian economy has exhibited admirable immunity to these developments. In this context, the prudent and systematic work of the Bank of Albania, both in terms of maintaining the macroeconomic balance at home and safeguarding the banking system's financial stability, has provided an overwhelming contribution.

Over the last two years, the Bank of Albania has been an active actor in both directions, analyzing carefully all the risk factors and taking various measures to minimize their materialization in practice. In our work we have been guided by the philosophy that one cannot build authority in the market through the mechanical use of a set of instruments but through the market perception and trust in the policies pursued by the authorities.

The conservative policy – the increase of the interest rate extended in a time period of 18 months – is the concrete application of this philosophy. In addition, measures have been taken in terms of amending and constantly improving the legal and regulatory package. The entire process of measures and decisions has aimed at ensuring the financial system's efficiency and stability.

The latest regulatory amendments, which have brought a new dimension to the banking business in relation to the customers, foreign currency lending, investments in parent banks and internal control, are of particular importance. The Bank of Albania will persistently make an assessment of the existing regulatory framework and aim at improving it, in order to address the present and potential risks.

I believe the set of actions taken recently by the central bank have been a kind of intensive therapy which has contributed to the increase of the banking system's immunity.

With reference to the economic and financial situation at home, I would like to inform you that the Bank of Albania shares the same opinion with the IMF and the Ministry of Finance regarding the current period as of end 2008. We project that the GDP will grow during the present year by 6 percent. In addition, our projections indicate that the 12-month inflation will mark around 3 per cent at end year, which is very close to our numerical target.

All the other macroeconomic indicators attest to a relative stability with rates being close to our projections.

Despite this positive outlook, the public attention is at this moment future-oriented. In this context, the year 2009 shows a more complex setting, with numerous challenges ahead not only for the real economy but also for the monetary policy, the fiscal sector, the external sector of the economy and the financial system at home.

With respect to the international developments, the partner countries are close or have now plunged into economic recession. The decline of the economy, among others, affects negatively "the export of its surplus" in goods, capital and investments in partner countries. In

this context, the possible slowdown in foreign currency inflows may constitute a future occurrence, although the intensity at which this phenomenon may be exhibited is still vague.

In the recent months there has been a halt in the price rise of raw materials, oil and foods. In addition, a rapid correction process of these prices on the demand side has commenced. The further fall in prices may affect the decline on both sides of foreign trade. But, given the difference between imports and exports by several times, the net effect will naturally be the reduction of trade deficit. Worth to note, however, is that the fall in prices may impact indirectly the performance of fiscal revenues since the amount on which the fiscal tariffs are applied will be lower.

We are now facing the reduction in lending and credit lines extended by parent banks to their subsidiaries. Based on these arguments, the Bank of Albania assesses that there is an increasing risk that the economic growth may slow down in 2009.

The harmonization of the two basic policies in economy is a key element which ensures growth and a balanced development. In this context, we are in the process of analyzing the new project drafted by the Government for 2009. We remain constant in the belief that the harmonization of both basic policies remains a priority in the future as well. To this purpose, we require from the Government the inclusion in the fiscal package for 2009 of a fiscal rule on the performance of fiscal policy. This rule should be quantitative, monitorable and extended through the entire political mandate, with a clear bias towards the quantitative Maastricht criteria.

Other possible risks involve those related to the hydro-energy situation and to the possible rise in the energy price or to the performance of agricultural production at home.

In its last monetary policy meeting, the Supervisory Council of the Bank of Albania concluded that there is a balance in the risk factors affecting the consumer price performance.

Inflation expectations are now being anchored around our objective. Inflation is forecasted to continue to fluctuate around the current values during 2009 and 2010. The Bank of Albania remains committed to take all the required measures that will help contain inflation within our 3 percent target.

In terms of financial stability, I would like to re-stress that the banking system continues to operate at optimal parameters which are in line with the prudent banking supervision standards.

The latest analyses indicate that the banking system has satisfactorily coped with the domino effect of the international financial market. The central bank has supplied the market with necessary liquidity in order to avoid any unwelcome situation in the system. I would like to assure you that the Bank of Albania will continue to do so based on the market needs and specifications in different periods of time.

I avail myself of this opportunity to address to the banking system, both to commercial banks and to their respective parent banks, to prudently analyze the Albanian economy in order to provide it with the real chances through the support with banking loans. The latter has been a key element in the economic development of Albania and consequently, it has to remain so in the future as well. Special emphasis should be also paid to the development of the money market. The new instrument of repurchase agreement transactions needs to be put in place as soon as possible. The Bank of Albania, the Ministry of Finance and the banking system need to mobilize the entirety of their resources and expertise in order to ensure a more liquid and stable money market. In view of this, I assure you that the central bank will assist and be fully committed to achieving it.

The Albanian business should keep being active, far-sighted and dynamic in developing its business plans. Only this way it will be well-capitalized, lucrative and credited by the banking system. The business should co-operate closer with the bank, not only in terms of receiving

loans but also in obtaining financial advice, which is a pre-requisite for ensuring its long-term stability.

I would also like to address to households and the public at large and advice them to be calm, cautious and rational in the way they manage their savings and investments portfolio. **Any kind of savings or investments outside banks and in the form of cash bears considerable moral, financial and physical risks.** My appeal is simple and straightforward: consult your bank for any actions you take. The banking system remains your best consultant. Prior to making a financial transaction of any kind, have the opinion of your bank as well – it is your banker.

In conclusion, I would like to highlight that the banking system is a national wealth – it belongs to us all. Let us develop it further in order to ensure a stable growth and a better future for the generations to follow.