

## Ardian Fullani: Effects of the exchange rate regime

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the lecture of the Governor of the Central Bank of the Republic of Turkey, Mr Durmus Yilmaz, entitled "Current Global Financial Crisis and Recent Developments in the Turkish Economy and Monetary Policy", Istanbul, 24 September 2009.

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Ladies and Gentlemen,

It is my great pleasure to give the greeting speech in this joint meeting, in which our dear and honourable friend, the Governor of the Central Bank of the Republic of Turkey, Mr. Durmus Yilmaz, will address very important theoretical and practical issues related to the most recent global developments, sharing at the same time his experience in Turkey.

The global financial crisis hit all the advanced economies severely. It certainly affected the emerging economies of South-East Europe, our two countries are part of. The contraction of global economic growth, the decline in foreign trade, the higher risk premiums, the interrupted functioning of the credit system and the rush to get liquidity affected our economies as well. These economies remain closely related to the Euro area economy through a number of trade and financial channels.

The response of fiscal and monetary policies to this crisis is of prime importance; this aspect will be thoroughly elaborated by our dear friend.

However, I would like to briefly address an aspect of macroeconomic and institutional framework, which has been an important determinant of the extent and magnitude of the national authorities' response to the crises: the exchange rate regime. A quick glance at the current developments in the region and broader allows us to draw the conclusion that the countries adopting a fixed exchange rate regime have been affected by the global crisis proportionally higher. Moreover, they have been more constrained in terms of responding to the crisis. By contrast, countries adopting a free floating exchange rate regime have been affected by the crisis more mildly and smoothly, and they have preserved higher independence in their economic policies for the mitigation of crisis effects.

Obviously, this is not occasional: the free floating exchange rate regime is an important political, economic and institutional investment of emerging countries. Their sacrifices in terms of building reliable monetary and fiscal policies, enhancing public confidence in the respective currencies and national financial institutions are rewarded with the flexibility this regime provides to macroeconomic policies in coping with the crises.

Exchange rate volatility mechanism is precisely a mechanism that allows the economy to absorb various shocks. The free floating exchange rate regime, devotedly adopted by the Bank of Albania, allows the Albanian economy to withstand these shocks at minimum cost.

Let us leave this mechanism operate smoothly, without excessive reactions from the market or its agents. Any smooth moves towards the exchange rate equilibrium will be in the Albanian economy's own interest. Any hasty short-term reactions, like the ones we have been attesting to over the course of the present year and in the early days of this week, bring about individual financial cost to those undertaking them, as well as financial cost to the economy. No economic agent is stronger than the foundations. The high volatility and uncertainty in the foreign exchange market do not have any real base.

The euroisation of the economy is a visionary idea, not only for Albania but for the entire region as well, since its final aspiration is the membership into the European Union. It encourages the domestic and the regional market, and the European authorities, to speed up the convergence process. However, convergence in the Euro area is a derivative of continuous structural reforms and strengthening of financial systems, wherein the stability of

the currency is of prime importance. There can be no European integration without a long-term equilibrium of the national and European currency.

In the long run, the exchange rate will inevitably reflect the sound foundations of the Albanian economy, which are to remain so. The past years' equilibriums remain real indicators of the potentials of the Albanian economy.

In the long run, we remain deeply convinced of the benefits the free floating exchange rate regime brings about. It will be the passport to and the best support to the Albanian economy in its path to European integration. I take this opportunity to invite all the economic agents to consider the benefits, that our national currency provides, impassively, as the best long-term instrument for protecting their savings and as the greatest buffer to wealth volatility.

To Albania, the Lek has been, is and will remain a successful currency. The Lek serves as an anchor for all our European initiatives. In the last 17 years, the Lek has managed to withstand the inflationary pressures and the pressures deriving from the foreign markets. Therefore, it should be left alone. It should move freely on its path, concurrent with the market demand and supply. The Lek is the icon of the Albanian economy that will guide us through the European gates. I take this opportunity to invite the media to comprehend this message and transmit it to the public at large.

Before giving the floor to our dear friend, I would like to briefly introduce Governor Yilmaz.

Mr. Yilmaz obtained his BA in Economics from the City University of London and his MA degree from the University College, University of London. Mr. Yilmaz started to work in the Foreign Exchange Department at the Central Bank of Turkey in 1980. After a long and successful career, Mr. Yilmaz was appointed Executive Director of the Workers' Remittances (Non-Residents FX Deposits) Department in 2002.

One year later, in the Shareholders Ordinary General Meeting held on 7th April 2003, Mr. Yilmaz was elected Member of the Board of the Central Bank of the Republic of Turkey. Having served as Board Member between May 2003 and April 2006, Mr. Durmus Yilmaz was appointed Governor of the Central Bank of the Republic of Turkey on 18th April 2006.

Mr. Governor, the floor is yours.