

## **Ardian Fullani: Recent economic developments in Albania**

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the Joint Press Conference of the International Monetary Fund (IMF) mission, the Ministry of Finance and the Bank of Albania, Tirana, 9 March 2010.

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Honourable Mr. Minister of Finance,  
Honourable Mr. Bell,  
Honourable participants,

During the last two weeks we have had an intensive dialogue with the IMF Mission, which visited Tirana in the framework of periodic consultations in terms of the observance of Article IV. During these discussions there is appraised the good performance of the Albanian economy during the past year and there is also emphasized the need for pursuing prudent economic policies, designed and implemented in the context of strengthening the macroeconomic and financial stability. Also, special attention has been paid to the need for ongoing structural reform that will support our long-term economic growth.

The Albanian economy has recorded a positive economic growth during the past year and has successfully tackled the direct and indirect shudders of the global economic crisis. Moreover, the Albanian economy has passed the test, by maintaining the domestic economic and financial balances, which serve as a prerequisite for a sustainable and long-term growth. Thus, inflation rate fluctuated around 2 to 3 percent during 2009; the country's external balances have shown correction signs, while the Albanian banking system remains robust and well-capitalized.

However, the economic growth rate slowed down significantly during 2009. The global economic crisis, which deeply affected all countries of the region, was accompanied by slowed exports, reduced remittances and other foreign currency inflows, increased uncertainty and slowed credit growth. Although 2010 is expected to be accompanied by a gradual improvement in the world economic environment, many of the factors that negatively affected the Albanian economy will continue to be present even during this year.

The stimulating fiscal and monetary policy helped supporting the economic activity during 2009. However, fiscal trajectories and the need for long-term stability suggest that the Albanian economy can not rely for a long time on fiscal stimulus. Against this background, in 2010 a more conservative fiscal policy is necessary and is welcomed by the Bank of Albania. In a medium- and long-term horizon, we are of the opinion that fiscal sustainability should be ensured through a clear and prudent fiscal rule.

Under new circumstances, the economic growth should be based more on boosting the private sector of the economy and bank credit plays a key role in this regard. The good financial health of our banking system and the progressive improvement of liquidity conditions and risk premiums in domestic and foreign financial markets are encouraging developments. The easing of monetary conditions and the liquidity injections by the Bank of Albania have supported and will further support this process. However, the reactivation of credit activity remains a challenging goal, which would require encouragement of the final demand and generation of business plans valid for bank financing, reduction of real and perceived risk in the economy, review of development strategies and commercial banks' lending policies, as well as reduction of cost and non-cost elements in lending. All these factors are envisaged to gradually improve throughout the year; however, they will remain far from the pre-crisis levels.

Bank of Albania's monetary policy will continue to be prudent, chiefly oriented towards achievement of inflation target. The recent upward inflation trend might have been motivated by temporary-action and limited-intensity supply factors. The Bank of Albania has envisaged

that the exceeding of 4 percent inflation rate will be for a short period of time and will not be followed by steady inflationary pressures. Our projections show that consumer price inflation will fall gradually towards the 3 percent targeted rate during 2010. However, we remain committed to taking all appropriate steps to ensure this performance and meet our legal mandate for price stability in the economy.