

## **Ardian Fullani: From coins to e-money – Albanian national currency exhibition**

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the opening of the exhibition marking the 85th Anniversary of the National Currency, National Historical Museum, Tirana, 31 March 2011.

\* \* \*

It is my pleasure to open the proceedings of the activities that the Bank of Albania has organized to commemorate the 85th anniversary of the national currency issue. When we decided to open today's exhibition, I was personally attracted by another dimension: the history of the Albanian monetary system development. ***The first Albanian coins found date back to the 2nd century B.C. All these bronze coins feature on one side the portrait of King Gent, the last ruler of Illyria. As in all other countries of the ancient Mediterranean, in Illyria, this powerful man set an unbreakable link between money and the state, not only to promote economic activity at home, but also gain its benefits.***

Today's activity aims to capture and convey to the visitors the artistic and numismatic values, and the historical development of our national currency. While viewing the evolution of nominal values, we are able to create a vision of:

- the performance of the national economy over the course of years;
- the purchasing power of money; and
- the history of the Albanian people through the portrayed entities and the depicted themes; the cultural and social sensations through artistic elements of design.

A country's monetary and financial system does not only put across the sovereignty of the state economic policies, but it also enables the country's economic and social development.

The issue of the national currency in the form of banknotes and coins undoubtedly plays a unique role in this regard. Historically, money was born as a response to the social needs for economic development and progress. Its three functions as a medium of exchange, store of value and unit of account, allow for greater economic sophistication.

These three roles were soon grasped by the ancient rulers, who were the first issuers of money in its classical forms. By acknowledging the role and power of money, these princes, kings and emperors sealed them with their portraits as a final expression of political and economic power.

This is very well described by Mayer Rothschild, the founder of the famous Rothschild dynasty, when he quotes: "...Give me control of a nation's money and I care not who makes the laws..." Indeed, even a surreal world as that of the famous Harry Potter cannot exist without Gringotts Bank, which J. K. Rowling describes as a multiple story white building with underground vaults that stretch to an unknown depth below the earth.

Economic and social development has constantly introduced innovations in the area of monetary systems, and also of banknotes and coins. The first banknotes were born as identical counter-values of the amounts of precious metals, mainly of gold, and they were explicitly guaranteed by the states and sovereigns for their gold parity. This characteristic is also found in the banknotes of the first period of the Albanian state. The banknotes issued during this period are designated as "gold franc" implying their coverage with physical gold at a fixed and invariable rate.

The further evolution of human societies and their economic and political systems introduced great innovations in the monetary area. The development of commercial banks, the credit system and central banks were crucial moments in the economic progress.

Central banks, as public institutions mandated to issue and circulate the currency, originate from earlier times. The first examples of central banks, closer to today's perception of the central bank, date back to the 17th century in England or Sweden.

These institutions, originally with a clear commerce orientation, were responsible for the issue of currency and servicing the state needs with loans or lending for different purposes. The modern central bank originates from the 20th century, and the US Fed served as a model for a number of other central banks.

The attribution of the supervisory and regulatory functions of the banking system and the orientation of the central banks' mission in terms of economic objectives, like low inflation or stable economic growth, marks the starting point of central banks at their present form. The latter have played a primary role in the further progress of monetary systems.

Fixed-rate convertibility to physical metals was found problematic in the economic and monetary management. The great economic depression of 1929–1932 clearly showed that monetary policy, designed as an opportunity for public authorities to affect the amount of money in circulation and its price, or the interest rates, is a valuable instrument to mitigate economic fluctuations.

Beginning from the 20th century, the issued banknotes and coins lost their convertibility into gold at fixed and invariable rates. The issued currency, from this moment on also referred to as fiat money, derives its value from the state's obligatory force.

However, this is only half of the picture. The most important aspect determining the value of the currency is now on public confidence in it. The preservation of such confidence requires above all accountable institutions and transparent and reliable economic governance.

The modern role of central banks as independent institutions, exclusively in charge of issuing the currency and legally mandated to control its value in time, or in other words its purchasing power, or put even simpler, price stability, originates under the same context.

The development of monetary systems has not had its final say yet; by contrast, the last decades have marked its highest rapid period. The origination of accounting currency in the form of savings deposits, current accounts, cheques and bills of exchange have stretched the classical definition of money further.

Electronic money in the form of debit and credit cards, payment orders initiated via the internet or mobile phone, or the movement of funds through electronic platforms of international financial markets, are great innovations. Important challenges for central bankers and other supervisory institutions lie ahead in terms of their management.

The foregoing developments, with some clear deviation during the communist regime, have also been reflected in the history of the Albanian monetary system. In what follows, I would like to point out the main stages our monetary system has been through. I will try to be brief and provide the essence of each stage in few lines.

When Albania gained its independence from the Ottoman Empire in 1912, the currencies of France, Italy, Greece, Austria-Hungary and the Kingdom of Serbs, Croats and Slovenians began to circulate in place of the Ottoman Lira. Albania did not possess a national monetary system.

The most widely used currency in Albania was that of the Latin Monetary Union – the gold franc –, which constituted Albania's de facto currency. Having no possession of any legal tender currencies, Albania applied the gold standard at which the silver and paper money values were fixed.

Albania was thus one of the few European countries to have a stable currency as a medium of exchange and treasury. The main duty for the Albanian authorities was to codify the monetary system by declaring the gold franc as the national monetary unit. This brought about the need to set up an issuing bank, one that would be able to fix the legal exchange rate for the issued banknotes, thus gradually removing the foreign paper money from circulation.

In 1922, Prof. Albert Calmes, Member of the League of Nations Commission of Inquiry into Albanian Affairs, noted that: *"... as the Albanian lives very simply, in many cases under conditions of great poverty, he is able to save, despite the small output produced by his methods of working, and he does save, for he is very thrifty. Capital is hoarded in gold. As a result, Albania possesses a large stock of precious metals valued at 100 million gold francs. But this capital, which, if put to use, would suffice to place economic life in Albania on the road to progress, is hidden.*

*Credit and credit organizations do not exist in Albania. Rates of interest at 30% are by no means rare. The reason for this is the lack of confidence. The Albanian's belief in the stability of the Government is not firm enough for him to risk his money in financial enterprises. In order to bring capital forth out of the hiding places in which it lies unproductive, confidence must be created..."*

The best means to this end was the establishment of a national bank, an institution that Albania needed greatly at that period. Its establishment was urgently needed, for it alone could awaken Albania to the conditions of modern economic life. Its principal mission was to create confidence, and hence credit and the spirit of enterprise in Albanians.

The Albanian National Bank was established in 1925 as an Albanian-Italian joint-stock bank. It had the exclusive right of issuing the currency – in metallic coins (gold, silver and bronze) and banknotes – and determining its legal tender. The amount of banknotes the Bank put in circulation had gold or silver coverage.

***The Bank gave Albania the first national currency – the gold franc – thus, going back to the gold-banknote monetary parity. The Bank's greatest achievement was the establishment of a sound monetary system that successfully weathered the difficulties of the global monetary system during the 1930s' global economic crisis. The Albanian currency remained faithful to the gold-banknote parity until April 1939.***

Being based on gold bars, the Albanian banknotes were accepted at sight in all main bank counters globally. The Albanian franc was one of the strongest European currencies in the period between the two world wars.

***The period between 1926 and 1939 corresponds to the establishment of a genuine banking system according to the market economy-based system and the banking traditions of that period. In the philosophy characterizing that system and time, which is basically similar to the current one, money played the main functions of the medium of exchange, store of value and unit of account.***

This is clearly evidenced in the press of that time. In his inauguration speech as the President of the National Bank, Mr. Mosconi noted that: "Our wish is to bring here the same value of money as in the neighbouring Italy, and many big steps have been taken in this regard. So we are reaching our goal, as during our short period of existence, the official discount rate, which forms the underlying rate, has decreased from 12 to 6%." (*An excerpt from the speech of the President of the Albanian National Bank, Mr. Mosconi, held on the occasion of the inauguration of the Bank's headquarters, published in Drita Newspaper on 1 November 1938*).

In the aftermath of war, Albania entered the orbit of countries with centrally planned economies and the Albanian National Bank changed into the State Bank of Albania.

The first attempts to discipline monetary circulation to some extent affected the stabilization of the value of the Albanian currency, as now on termed the Lek.

Originally designed to operate as a capitalistically organized central bank, the Bank soon transformed into an ordinary state administration institution, lacking all prerogatives required for a central bank, hence losing all its autonomy. The Bank lost the traditional right of conducting monetary policy, thus transforming into the state's cash office. The communist monetary and financial system, adopted in practice during 1945–1991, recognized the three main functions of money, but it did not entirely acknowledge the role and importance of the credit system. Furthermore, the analysis of banknotes and coins of that time provides evidence for a clearly socialist realism-oriented artistic spirit.

Only after 1992, the State Bank of Albania transformed into a modern central bank having as a primary mission the maintenance of Lek's purchasing power.

***In achieving this mission, our compass remains oriented towards the membership into the European Union through an unstoppable progress towards economic and legal EU convergence. To this end, strengthening Bank of Albania's functional, institutional, personal and financial independence, and particularly, ensuring price stability as the primary objective of monetary policy, will remain the main focus of our activity.***

***Money and sovereignty are destined to be interwoven. Just as the Illyrian coins used the sovereign's portrait as a means to encourage public confidence, the best way for the Bank of Albania to accomplish its mission to the public is to acknowledge and have confidence in the national currency. A strong and sound currency will be an inseparable companion along our path towards Brussels and Frankfurt gates.***

Let me conclude this opening address with some personal anticipation.

The banknote and coin, as classical symbols of the medium of exchange, but also as objects that stylishly represent the historical and artistic values of the time, will continue to be part of economic reality for the future generations as well. The Albanian people have written poems about money. In his "Autobiography of the People in Verses", Kadare writes: "Holding the horse reins/breastfeeding the son/the gold pouring over the forehead. Holding the mule rein/breastfeeding the daughter, the gold pouring over the neck." The currency museum we are initiating today will not only preserve this historical memory, but it will continue to enrich in the future as well. This is the beginning of the national museum of monetary and numismatic values that the Bank of Albania will soon offer to the public in its reconstructed headquarters, and present the added historical values of our nation.

In conclusion, let me thank the Albanian and foreign collectors and the National Historical Museum for their cooperation in organizing this exhibition.