

Ardian Fullani: Medium and long-term development priorities in Albania

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the Joint Press Conference with the Ministry of Finance and the International Monetary Fund Mission, Tirana, 27 September 2013.

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**Dear Minister of Finance,
Dear Mr. Ilahi,
Dear media representatives,**

The past two weeks have seen very intensive discussions on the current situation of the Albanian economy, the state of public finances, the developments in the financial system, as well as on the country's development perspective and management of economic policies, which should support Albania's sustainable and long-term growth. As the Governor of the Bank of Albania, I am pleased to see convergence on a common and real diagnosis of the current situation, and also on many viewpoints about medium-term and long-term development priorities. I would like to share with the media several opinions of the central bank on these issues.

Two days ago, at its monthly meeting on monetary policy, the Bank of Albania analysed the latest information on current and expected performance of the economy. I made public the conclusions of this analysis at a press conference following the meeting. However, I will telegraphically re-present our main conclusions to put our suggestions for the future into the proper context.

The Albanian economy is suffering from cyclical weaknesses, which appear in the form of a weak aggregate demand and are reflected in low and below-potential growth of the economy. In simpler terms, consumer spending of Albanian households, private sector investments, public spending and external demand for Albanian goods and services do not manage to fully use the productive capacities of the economy. The low aggregate demand leads to low increase in employment, wages and production costs, and hence to low inflation rates. Also, it poses difficulties for many businesses and is translated into increase in non-performing loans in the banking system.

In this context, undoubtedly, promoting and stimulating the economy should be a priority of the macroeconomic policies. The Bank of Albania deems that besides the classic instruments of the economic stimulus, monetary and fiscal policies, attention should be paid to smoothing uncertainties in the economy. I will briefly address three of these elements.

First, in our opinion, the **fiscal policy** has limited space for economic stimulus. The rapidly expanding public debt increases the vulnerability of the Albanian economy and may make the fiscal stimulus counterproductive. We deem that the fiscal policy should focus on monitoring the public debt in the medium and long term. The Bank of Albania sticks to the opinion that the public finance consolidation should anchor to an effective and transparent **fiscal rule**. This rule would increase the short-term flexibility of public finances and reduce the fiscal adjustment cost.

Second, the overall economic and financial stability is a prerequisite for a rapid economic growth. The **monetary policy** has been and will remain oriented toward meeting our inflation target. In line with the cyclical situation, this policy has provided its stimulus through the key interest rate cut and ongoing liquidity injection into the banking system. We have also revised the banking system regulatory basis from the viewpoint of easing it, in order to stimulate lending by the banking system.

I avail myself of the opportunity to reiterate that the banking system remains profitable, liquid and well-capitalised. Safeguarding the stability of this system will always be on our focus.

Third, **reducing uncertainties and risk premiums** in the economy is an important priority. As I have already stated, these uncertainties stem, to a great extent, from the foreign market, but a part of them stems from the Albanian economy. Without intending to make a list, I will mention just a few:

- *Reducing informality should be a primary objective.* Besides outflows in public finances, informality brings hidden costs in terms of diminishing competition, inefficiency in terms of lack of balance sheet transparency, and artificially increased financing costs to businesses.
- *Fostering the financial system infrastructure protection* is another aspect deserving attention. The Bank of Albania signed and has already made effective a cooperation agreement with the People's Bank of China, which also provides for the possibility to obtain liquidity in case of need. An important step in this regard is the agreement between the Deposit Insurance Agency and the European Bank for Reconstruction and Development to increase the deposit insurance coverage. We deem that there is room for other agreements with international financial institutions specialised in providing funds and assistance. Establishing collective public protection releases the financial system and businesses from setting up individual protection. Besides, it may be transformed into a necessary source of funds for the Albanian economy.
- *Improving the business climate further and observing the contract enforcement.* The business climate is a rather complex issue, but I would highlight two issues here. First, the payment of deferred budget liabilities as a priority. In spite of the financial cost, it is an important step for easing the debt burden in the economy and signalling the political willingness to guarantee contract enforcement.
- Second, the improvement of by-laws that regulate the collateral enforcement and write-off of bad debt from banks' balance sheets. The definitive solution to this problem would signal to the banking system that Albania is a country where lending is safe.

All these steps would stimulate the economic activity and restore economic equilibrium.

However, the Albanian economy is also suffering from structural weaknesses, which restrict the growth rate. I would not like to examine this aspect in detail but I think it's reasonable to reiterate my message that Albania should speed up structural reform.

It should be anchored to the EU convergence process and aim at adopting its best models and rules. Through public investment and economic incentives, it should aim at a more effective and competitive economic structure, capable of generating a rapid and sustainable growth.