

Ardian Fullani: The development of, and challenges for, the Albanian economy

Opinion of Mr Ardian Fullani, Governor of the Bank of Albania, published in the Albanian daily newspapers “Panorama” and “Albania Daily News”, 2 December 2013.

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Soon enough representatives of the International Monetary Fund (IMF) will come to Albania to judge on the performance of the Albanian economy and its perspective. During their mission to Tirana, Fund representatives are expected to discuss the country’s economic outlook in the medium run, from the perspective of the IMF vis-à-vis the perspective of the Albanian authorities. Given the latest economic developments in Albania, the possibility of signing a new cooperation agreement between the IMF and Albanian authorities has been a persisting question in public debates. My approach to this issue has been to fully support negotiating a new agreement with the IMF. I am certain our economy will only benefit from it, especially under the current circumstances, as the attitude of the IMF towards developing economies has become more flexible.

Presently, the biggest challenge facing the Albanian economy is recovering its activity, ensuring stable economic growth and employment. On the other hand, all the economies of Central and Southeast Europe are also facing these challenges. The main objective remains enhancing competitiveness: in other words, creating and boosting production capacities to produce high-quality goods and services at lower costs compared to our competitors. Currently, both our economy and the economies in the region are too small to generate sufficient domestic demand that would promote employment, and, for them, to cope with the competition from the Asian economies is costly. At the same time, our economies are small against the economies of Central Europe; they suffer from low productivity, implying that, in the current conditions, the production quality and quantity for unit of labour is lower than in our direct partners, both at regional and global levels. Higher production and employment rates are the only alternatives that lead to creating values that would guarantee convergence with advanced European economies. In Central European economies, this phenomenon happened at the end of 1990s thanks to capital investments from European and global markets. Factors that supported these capital flows weakened at the outbreak of the global financial crisis and withdrew totally after the sovereign debt crisis. At present, the global markets have withdrawn from Eastern Europe economies and from other developing countries. In the absence of free capital from abroad, structural reforms in the labour, capital, and land markets and pension system remain the only possibilities to attract foreign capital and investments to support growth and employment. These reforms have high financial costs and their benefits materialise in the medium and long run.

In the meantime, actual economic policies are oriented towards maintaining the fragile macroeconomic and financial equilibriums and are obliged to focus on overcoming the difficulties of the moment caused by the crisis that has stricken not only our region, but also our European trading partners. The priorities of the moment do not sustain, or better say, render it more difficult to undertake and immediately implement structural reforms in the economy, at least for those that require financial resources and support. Nonetheless, definite solutions for short-term problems will come in the framework and context of economic benefits and convergence. Consequently, choices related to defining economic priorities, education, employment, existing vacuum in human and financial capital, fiscal policies, structural and legal reforms should be guided by the vision and objectives for the next 20 years.

While long-term solutions and short-term problems in the economy interact with and condition each other, it is indispensable to adopt domestic and external anchors, which would support economic and development policies. Assessing the existing situation at 360 degrees,

in a global context, taking into account the decision-making time and approach, I deem that the country needs and deserves to enter as a partner into a new and flexible agreement with the International Monetary Fund.

From the overall perspective, the Albanian economy enjoys economic and financial stability. Our economy continues to produce positive growth rates; it has a stable financial system, low but contained inflation, relatively stable exchange rate and low interest rates to finance the public debt. Moreover, macroeconomic policies have been in line with the scope and recommendations of IMF programmes. Signing under these conditions enables a dignified agreement and minimises the costs that accompany the implementation of reforms at present by Albanian authorities. At the same time, from the point of view of foreign investors in general and those in the banking sector in particular, this development would contribute to reducing risk premiums for the country. The experience of other countries has shown that the intervention of the IMF has helped sovereign ratings return to their previous positions. The spread has narrowed immediately, hence reducing the nervousness and hesitation of agents to invest in these markets.

In the national and international arena it seems that the highest risk is related to ensuring the monetary assets to meet immediate needs arising from acknowledging government liabilities to businesses, and medium-term needs to cope with liabilities or enable reinvestment of liabilities arising as a consequence of extraordinary fiscal stimuli applied in 2009. An agreement with the IMF would address the scepticism of the domestic and international markets about the size of the public debt, especially under the conditions of a sizeable absence of foreign reserve funds in relation to crediting the economies in our region.

According to reliable analyses of the market itself and of important international financial institutions, a number of risks exist, not only for developing economies, but also for the so-called advanced economies. Our main trading and financial partners are focused on their problems of the real economy and financial system. Their adjustment policies have negative side effects on the Albanian economy, which appear in low demand for our products, downward remittances and limitation of financing with direct investment and other forms of capital while, despite the partial adjustment noticed recently, the current account to GDP ratio continues to be of concern. The dependency of the Albanian economy on countries experiencing difficulties such as Greece and Italy, requires measures to face a potential non-financing of the balance of payment.

Moreover, European monetary authorities and regulators of the banking and financial markets state that there is a political decision that each European economy experiencing lack of financing must find funds in cooperation with the IMF. The new agreement would ensure low cost and safe foreign reserve funds directly from IMF accounts. This would increase Albania's rating in relation to its capacities to pay back the foreign debt, and would provide for better access in the international financial market with low financing costs.

The agreement is positive news for foreign investors and potential partners as well, not only from the point of view of ensuring financial assets but also as a guarantee to implement prudent policies and adopt a reliable fiscal rule, which enables the consolidation of public finances in the medium run and, at the same time, keeps the trajectory of the public debt in check.

The IMF may not solve the challenges for long-term developments of the Albanian economy. Problems related to competitiveness, employment and demographic developments, capacity utilisation, and repositioning of our economy in the region and global economies, require structural reforms in the realms of education, employment, expansion and deepening of financial and capital markets, alignment and unification of legislation and coordination of structural reforms at regional and European level. Overcoming these challenges, however, will be easier under the calming effects that an agreement with the IMF offers. This agreement should and could be characterised by sufficient flexibility, which would guarantee

the necessary space to stimulate on-going structural reforms and sustainable economic growth in the long run, unaffected by short-term problems.

Concluding, I am confident that the news for an agreement will be received positively by the domestic and foreign financial markets, and will also be interpreted as a guarantee that Albania enjoys a sound economic and financial environment, with many opportunities for investment and profit.