

Gent Sejko: Seventh review of the arrangement with the IMF concluded

Speech by Mr Gent Sejko, Governor of the Bank of Albania, at the joint press conference with the IMF mission and the Minister of Finance, Tirana, 22 March 2016.

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In accordance with the agreed agenda, during the last two weeks, we have held intensive talks with the IMF mission, which focused on the Review of the Arrangement with the IMF. Also, in the framework of Article IV discussions, talks focused on identifying those structural problems that hamper economic development in Albania.

The Review concluded that economic indicators and macro-economic policies have been in line with our projections and commitments, despite the challenges facing the Albanian economy during this period. Moreover, Article IV discussions noted the need for accelerating structural reforms, which should pave the way for faster and steadier development.

Let me now present a summarized opinion of the Bank of Albania on the country's economic performance and the policies we have implemented and should continue to implement in the future.

The Albanian economy continues to be on a positive development trajectory. Economic growth accelerated during 2015, driven by the expansion of investments and improvement of the balance of trade with abroad. Private consumption showed signs of recovery in the second half of the year, whereas public consumption remained limited, in accordance with the fiscal consolidation strategy.

During this period, economic activity expanded, among others, thanks to the monetary policy and supervisory and regulatory measures by the Bank of Albania. Our accommodative monetary policy stance has contributed to lowering interest rates further down, mitigating liquidity pressures and maintaining the confidence of financial markets in price stability. In parallel, our supervisory and regulatory measures have contributed to reducing non-performing loans and improving the financial soundness of the banking sector. These developments are a prerequisite for sustainable crediting to the economy in the future.

Inflation remains at low levels, below our target. This performance has reflected the unutilized production capacities in the Albanian economy, and the disinflationary tendencies arising from trade exchanges with abroad.

In particular, over the first two months of 2016, inflation dropped, descending to 0.2% in February. Our analyses suggest that it dropped due to external factors, namely the pronounced fall in food and oil prices in global markets. As such, the rapid drop in inflation and its low levels represent a supply shock to the Albanian economy, rather than a disinflationary situation, which is related to actual or expected recessionary situations. Its effect on inflation is expected to persist for some time ahead; however, it will only be a transitory one.

Regardless of these conclusions, the Bank of Albania is constantly monitoring the situation. It has all the proper instruments to prevent long-term negative effects that may arise from low inflation, and stands ready to use them, if necessary.

Our projections suggest that the Albanian economy will improve progressively over the next two years. The improvement of the growth rate will contribute to strengthening the economic and financial equilibriums in Albania, and will be a determinant factor for the return of inflation to target in the medium term-horizon.

The balance of risks surrounding this projection is mostly on the down side. Thus, the expansion of economic activity continues to be decelerated by unfavorable economic developments in the euro area, low oil prices in global markets, as well as the still hesitating behavior of many economic and financial agents to undertake long-term business projects.

Against this backdrop, the Bank of Albania deems that economic policies and structural reforms should focus on the following:

- ***Continuation of the actual combination of economic policies, based on the stimulating monetary policy and the consolidating fiscal policy.*** The monetary policy will remain accommodative over this horizon and the intensity of the monetary stimulus may be further strengthened if that is judged as necessary. Fiscal consolidation mitigates the structural weakness in Albania and creates more space for expansion in the private sector.
- ***Implementation, without delay, of the plan of measures for tackling and finding a final solution for non-performing loans.*** This plan seeks to reduce the crediting risk and increase the bank credit supply in Albania. Its success is an essential precondition for the medium and long-term growth of the Albanian economy.
- ***Acceleration of structural reforms,*** especially in relation to completing the infrastructure, improving the business climate, expanding the knowledge, and improving the labor market.

In conclusion, I would like to once again thank the IMF Mission for the useful and constructive talks.

Thank you for your attention!