

## **Gent Sejko: Including monetary policy and financial shocks and trends in modelling and policy analysis**

Address by Mr Gent Sejko, Governor of the Bank of Albania, to the Tenth South-Eastern European Economic Research Workshop "Including monetary policy and financial shocks and trends in modelling and policy analysis", Tirana, 1 December 2016.

\* \* \*

Dear participants,

I am privileged to open the 10th South-Eastern European Economic Research Workshop organised by the Bank of Albania, and welcome all new and returning friends. I would like to congratulate Bank of Albania' experts that present every year their research works for discussion.

This year's workshop will focus on the main topics that prevail in the economic, political and academic debates in the field of economy, finance and central banking. The topic of this workshop is: "Including monetary policy and financial shocks and trends in modelling and policy analysis".

The focus was placed on these topics on the grounds that the central bank and policy decisions should take into account an increasing number of shocks that are arising not only as a consequence of economic, but also of political, legal and regulatory phenomena. The challenges that monetary policy and financial stability are facing reflect the problems of the society in the economic, social and geo-political aspects. These challenges are best reflected in the non-effective functioning of the pass-through mechanism that should transmit and amplify the positive effects of central banks' decisions. These challenges increase ambiguity, uncertainty and volatility in goods, services and financial, markets, broaden and intertwine the nature of shocks and place the authorities *vis-à-vis* new and unprecedented phenomena.

These developments render the well management of monetary policies and financial stability even more difficult. As a result, scientific research needs to: explore and propose new solutions, more efficient empirical and theoretical models for policy implementation by central banks; assess the effects of the adopted policies; and, carefully observe the side effects in the economy or the financial system, which may potentially accompany such policies.

Due to unconventional monetary policies, central banking is practically in unexplored territories; therefore, it is necessary to carry out an assessment of how the economy reacts to shocks under such circumstances. The Bank of Albania is interested in identifying potential shocks and their modelling with a view to guaranteeing optimal solutions in terms of prices, economic activity, employment and financial system soundness. For that reason, we invite you to discuss openly and thoroughly all the papers that will be presented during these two days. This would serve to discuss about their findings, improve them and assess their effectiveness for the Bank of Albania' decision making.

The Bank of Albania deems that the economy and the financial system are currently sound and in line with our expectations and forecasts. The present indicators of prices and economic growth are not yet at their long-term equilibriums; however, they do not present surprises that would call for immediate attention of the Bank of Albania and change of monetary and financial stability policies. They are in line with our expectations and are very well serviced by the actual decision-making course of action.

In concrete terms, consumer prices, the main objective of the monetary policy, returned to an upward trajectory and are expected to progressively approach the 3% target. Economic activity

remains stable, at positive figures, reflecting a slight upward trend, and is expected to perform along similar trends in the future.

Nevertheless, the current figures appear still far from the optimal conditions and there is place for further improvement in both the inflation rate and the economic activity. In addition, there is place for faster growth of lending and monetary expansion, yet, subject to the situation in the balance sheets of the private sector and banking system. The fall in interest rates is transmitted to all segments of the financial market, contributing to the decrease of existing credit costs and providing the possibility for investments in new projects. The monetary policy transmission has helped somewhat to mitigate the negative effects and improve the households and firms' balance sheets. Also, it is noteworthy that, during this time, lending in the domestic currency has increased; this is translated into a success for both the transmission of the monetary policy and the soundness of the financial system and the private sector.

The monetary policy decisions have helped the economy by not causing adverse effects on the banking system soundness indicators. An accommodative monetary policy, potentially, has side effects; but, they have not materialised thanks to the duly and prudential management of the monetary policy intervention. In our daily work, we pay special attention to maintaining a sound system and our decisions take into account potential implications on the banking system at home.

In perspective, the short-term shocks of the past have turned into stable equilibriums in the medium term and the non-traditional policies, which are turning into conventional instruments of policy making in our partners, have encouraged a new behaviour among economic and financial agents. These changes affect the Bank of Albania's ability to stimulate the economy and mitigate the effects from economic shocks during times of difficulties that may arise in the future. *The researches will assess whether we are experiencing a new equilibrium or other problems exist in the transmission of accommodative policies, and whether the resilience and reactions against these shocks remain similar to the pre-crisis periods.*

In the meantime, regulatory and adjustment processes that accompany monetary policy decision-making (especially those that will follow the return of the past to normality) may trigger temporary shocks with effects on both the European economy and the small economies related to it. Again, it is the duty of research to investigate potential shocks and model them in the framework of models corroborating central banks decision-making. This situation is not unique to Albania, but is a global-wide problem. Therefore, we are happy to see here participation from all the regions, whose research will introduce new experiences, of benefit to us not only from their conclusions but also from the methodologies they have applied.

Fortunately, the topics that will be discussed address the whole spectrum of central banks' interest and will enrich our experience with the opinion and focus of your scientific research. I hope you will find Bank of Albania's experience interesting, informative and valuable for your current and future scientific research.

I take this opportunity to thank the regional and European central banks for their high consideration and valuable contribution to the reputation of our research workshop.

Finally, I wish you a successful and fruitful Workshop and hope to meet you again in future activities of the Bank of Albania.

Thank You!