

Ardian Fullani: Prevent rather than recover

Greeting speech by Mr Ardian Fullani, Governor of the Bank of Albania, at a technical seminar on surveillance systems to assess and monitor economic and financial stability, Tirana, 24 July 2006.

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Honourable participants,

I would like to thank you all for your participation in this very important seminar. Allow me first to welcome Ms. Alvarez-Plata and Mr. Kholodilin, two experts representing the distinguished German Institute for Economic Research DIW, who will be holding presentations over these two days and discuss the introduction and implementation of early warning systems for the financial markets and the exchange rate stability.

Over the recent years, the Bank of Albania has been working closely with prominent international partners, such as the GTZ, in various projects, which aim at enhancing and further consolidating the work of the Bank in achieving our main objectives. I avail myself of this opportunity to thank Prof. Bolle, who has been coordinating our cooperation with the GTZ and Ms. Guda, local GTZ coordinator, for making this seminar possible, as a series of activities we have been organizing jointly with the GTZ.

Today's seminar focuses on an issue we have already begun working on. Last year in April, we organized a regional seminar in Tirana with the topic "Stress-Testing", wherein were discussed the ways of identifying timely the financial system weaknesses, which may jeopardize the maintenance of its stability in case macro and microeconomic conditions are unexpectedly aggravated.

Today's seminar focuses on similar issues, but it provides more progressive approaches as far as early warning systems are concerned. Such approaches and discussions bear a high level of technique, however, allow me to explain briefly and somehow simply the purpose of their implementation.

Last week, the Bank of Albania changed its core interest rate. As you may have already been informed of from our statements, the increase in the interest rate came as a consequence of future expectations effect and of a variety of factors which relate to inflation. What is important to the policies we conduct is the anticipation and prevention of destabilizing pressures in advance, rather than their correction after they have already occurred. Waiting to take the proper measures after the signals have become a fact may be costly in two aspects. First, the maintenance of stability is not stable, as long as the measures are taken upon the aggravation of the macroeconomic situation. Second, post-destabilization measures generally have their effects after a time lag of over one year – therefore, they are not only incapable of mitigating the current situation, but they may also bring about unwarranted aggravating effects in the future, when the economy will have actually recovered to its normal situation.

The concept of providing financial stability does not differ a lot from the logic of maintaining macroeconomic stability. In such a case, the saying "prevent rather than recover" bears a significant importance, considering the high costs accompanying the financial crisis. The rapid lending and financial activity expansion of the banking system over the recent years, despite its positive aspect of boosting the economic growth, has also increased the pressure of being more alert in monitoring and maintaining the financial stability. Regardless of the rigorous implementation of the best monitoring practices, the rapid growth and expansion are always characterized by elements of risk, which in normal situations are inclined to be underestimated or pass unobserved, in particular in a system level. Therefore, the methodologies to be discussed over these two days will come to help the identification of such risks and take the proper measures timely.

The methods to be introduced and discussed in this seminar are numerous, varying from non-parametrical to sophisticated modelling and econometric methods. Despite their complexity, each of them is presented with their own pros and cons. Our purpose is to establish and apply a wide packet of warning instruments, so as to minimize the errors deriving from the assumptions and various methodologies used. This packet will be a complement to the wide measures that we are considering to implement in the further enhancement of supervision, in order to anticipate the situations relating to the maintenance and consolidation of the financial stability.

Wishing you good proceedings,
Thank you!