

Ardian Fullani: Albania's economy against the background of global developments

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the meeting with representatives of exporting companies and Albanian Association of Banks, Tirana, 23 February 2009.

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Dear participants,

It is a my great pleasure to welcome at the Bank of Albania premises, so many honourable guests, whose contribution to ensuring stable growth rates of the country's economic activity has been significant in the recent years. Your role has been vital in involving Albania to the globalization process and in attracting foreign investments.

Export industry is of great importance to the Albanian economy. During the transition period, our economy has recorded a negative trade balance, which, in turn, has caused a constant current deficit. Long-run macroeconomic stability requires that in the course of time, these balances are paid from future trade surpluses. You realise that it has to do with a challenge you have to cope with at present and in the near and distant future. Naturally, I can not avoid mentioning that a great role also belongs to decision-making institutions, which should create, by means of economic development policies, relevant incentives, the background and infrastructure on which your business will be based and promoted.

Macroeconomic developments in recent years and overall trends reflected in the standard of living indicators, show that the Albanian economy has succeeded in completing the transition stage and entering the group of the developing countries. Nevertheless, currently the Albanian economy is being influenced by second round effects that have affected the advanced economies of the world.

In general, first effects of the financial crisis outburst in American, Asian and European markets were: tightening of lending terms, reduced liquidity and decreased value of the national wealth of those economies. These phenomena triggered less consumption and investments, and eventually led to overall economic slowdown of all those regions.

Such developments have also affected the developing economies, since globalization process has turned them into factories of large economies. In consequence, this phenomenon has triggered the spread of crisis effects even in the developing economies.

Naturally, reduced demand has caused overall decreased investments of developed economies in traditional exporting markets. Currently, capital flows that have financed high current deficits, particularly into transition economies of the Central and Eastern Europe, are interrupted. Furthermore, financial and manufacturing companies, as well as households from advanced economies, being faced with financial difficulties, are exercising pressures to withdraw their funds from the developing economies. All these developments have shaken the macroeconomic equilibrium of the developing economies, which are experiencing current deficit deepening and strong pressures on their currencies.

This contagion mechanism, through which the crisis ignited in most advanced economies of the world is spreading worldwide, has made Albanian economy feel the effects. Even though the financial system was not influenced by the world financial crisis, second-round effects are being reflected and will be reflected even in the future. The Bank of Albania has assessed that, driven also by a large global market "drought", 2008 has recorded reduced foreign currency inflows and increased current deficit.

During two last months a moderate foreign exchange rate depreciation was noted. However, we should take into account that Albania is in a more favourable position than other

economies of the Central and Eastern Europe. Our advantage stands on the fact that unlike other countries of the region, we have not financed our current and trade deficits with short-term foreign capital inflows, otherwise referred to as “hot money”. The Bank of Albania has prohibited lending to the economy with the so-called “exotic currency”, which once upon a time represented funds of a very low cost, ready to penetrate even to our economy. Let me remind you that many developing economies have fallen into the trap of those funds, suffering now gravely from their flight. Furthermore, we have adopted a flexible exchange rate, unlike fixed or managed exchange rates.

The Bank of Albania has assessed that current developments, particularly those of our main partners, will bring about tendencies which are generally different from those with which we have been working over last ten years.

Actually, the euro area is in crisis. Economic growth is negative; the euro is losing terrain versus the dollar; unemployment is increasing; and prices are going down. Important industries, such as the financial industry or that of machineries are undergoing the worst situation over 50 recent years and governments of these countries are obliged to approve aid packages, to guarantee their survival. According to the most optimistic assessment, this situation will not be improved, at least until the end of this year. Therefore, I emphasise that exporters should adopt new philosophies. They should be innovators, increase products and discover new markets, beyond the traditional ones, which have currently been hit from the economic and financial crisis.

Global developments impose adoption of new approaches. The country's economic and financial development stage and passing into the group of the developing countries have created conditions for businesses in general and export industries in particular to adopt new standards in business management. Businesses should understand that the optimal regime of their activity requires new elements. Current developments of the world economy make necessary the increase of prudence for managing the financial asset portfolio, overall risk and exchange rate risk in particular, as well as for identifying alternative financial methods and instruments. Businesses should invest in increasing analysing and forecasting capacities. They should build their development scenarios, including even the envisage of their possible financial losses from non-operation. They should also employ capable human resources, specialised, educated, that is professional ones, in order to ensure an efficient activity. To this end, I invite you to cooperate more with the banking system, to stand by banks, but also by the Bank of Albania and be open with them. Make use of this communication for constructing preferential cooperation. This path will create to you the opportunity to find and promote appropriate financing instruments and possibilities to overcome difficulties of the moment and guarantee the future of this important branch of business.

Foreign currency income growth from all possible sources is translated into increase of macroeconomic stability in general and of financial stability in particular for the Albanian economy. At present, the geographic, demographic, economic and social characteristics of the Albanian economy present advantages, which if wisely utilized, may be materialised into economic benefits. Therefore, export sector constitutes an important source of profit and of foreign currency flows for financial intermediation in foreign currency. From this viewpoint, the support of exporters by the financial sector, not only with products and financial resources but also with financial consultancy, is an activity of mutual benefit. For this reason, I deem that the role of the banking system may be one of the main promoters to absorb some of advantages generated by the current international situation.

Availing myself of the presence of banking system participants, I would like to address an institutional appeal to them: Assess more prudentially the role and potentials of this industry, stand by it with advice and financial consultancy, review your policies on commissions applied to it and in this process, give priority to a larger funding for it. Recent crisis indicated that we all sail in the same waters and we may resist the waves, only if we confront these

challenges together. Export is a generator of foreign currency flows needed so much for the currency stability, which is related to all other balances, financial system's stability also included.

Under these conditions, we should be aware that a joint action, of national importance, deeply patriotic for the values and future of the country is needed. Make the market more lively, more competitive and more innovative. Now the financial infrastructure is complete and it is up to you to use it more efficiently.

It is the time to try to seek other balances in terms of foreign currency flows into the economy. Remittances have been important for a long time. They were the largest foreign currency serum in the economy. However, we should be aware that other indicators, such as exports and foreign direct investments will be prior items in the total foreign currency flows in the future. This should be realised by everyone and based on this ground, let us work together for the future.

Dear participants,

International initiatives are in the process. The Berlin meeting was extremely important in this regard. There was broadly discussed and converged into the idea that there is room for more coordinated actions, and protectionism is not the answer to the crisis.

The London meeting will make new steps in this regard. Promoting investments for a cleverer future, setting new models for a new world, more structured and with renovated industry, will be in its focus. The crisis will have its own winners. Winners will be those that will develop new policies, products, services and markets of a non-cyclic nature.