

Ardian Fullani: The importance of consumer confidence indicators

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the Press Conference on Publication of Business and Consumer Confidence Surveys, Tirana, 16 February 2009.

* * *

Distinguished participants,

We are holding this meeting to announce business and consumer survey results. These surveys represent an important long-run project of the Bank of Albania. Starting from today, the Bank of Albania will quarterly publish them, together with supporting materials for the user, including a publication schedule, the methodology applied for their compilation and the relevant questionnaires. Considering this day as a special one, I avail myself of the opportunity to share some ideas with you on the importance of confidence indicators, their methodology and the significance the Bank of Albania has given to this project.

The publication of business and consumer confidence indicators is an important moment for enhancing Bank of Albania's transparency. For some years on end, these indicators have been produced and made use of by Bank of Albania's experts and by its decision-making structures, but now it is just the time to share this useful product with potential users of all levels. I would like to highlight that the results obtained from the processing of businesses' and consumers' answers are totally independent of and not influenced by the Bank of Albania, by economic, political and social conjunctures at home and abroad. All the users of this information should be aware that this information does not substitute or duplicate the official macroeconomic statistics. These qualitative indicators are compiled on the basis of opinions and expectations of the interviewed economic agents.

I would like to be more concrete relate to this point.

The Bank of Albania, having the awareness, independence and a certain degree of institutional transparency, and aiming at achieving high professionalism, plays an active and proactive role in the country's economic development. Economic analysis is under direct function of the monetary policy decision-making process. In essence, the decision-making precedes the medium-term developments, sustaining the maintaining of price stability as the primary policy target drafted and implemented by the Bank of Albania. Profound analysis of the past, present and future developments of the economy contribute to appropriate decision-making. I assure you that building a complete "picture" of the present and the future of an economy is a rather difficult process, not only for an emerging economy, such as that of Albania, but also for the most advanced economies of the world. Economic and financial developments are accompanied by elements of insecurity, which have become, as you already know, dominant in last two years.

Making decisions on the future of this already globalised world of economic links, requires professional maturity. Assessing and selecting appropriate and reliable statistical information requires profound intuitive abilities. Making the selected data bank beneficial to the decision-making, requires analytical foresight. As a matter of fact forward-looking decisions should be made on the basis of an ever larger and timely information; They should be constantly consulted with specialized economic and financial market agents.

The Bank of Albania, likewise other central banks, endeavors to increase the qualitative and quantitative data base, in order to improve analyses and the decision-making process in making new steps. The finalization of the several-year project of the Bank of Albania, along which the Business and Consumer Confidence Indicator was consolidated, is an accomplishment of one of the medium-term development strategy objectives of our institution. The decision to publish these indicators passed through a prudent process and matured only after experts and decision-makers of the Bank of Albania were convinced that the confidence indicators, together with other indicators, revealed valuable additional

information about the recent and future developments in the country's real sector of the economy.

Allow me to briefly summarize some of the basic concepts on confidence, tendency and the foregoing indicators. They have been widely used in many advanced countries of the world, particularly over the last two decades. These indicators are constructed on the basis of information collected from surveys, which are technically referred to as Business and Consumer Confidence/Tendency Surveys. The Bank of Albania conducts these surveys in cooperation with INSTAT. Increasing demand of analysts, decision-makers, market agents and the broad public for timely economic information and the ability of these indicators to hint business cycle turning points, have made them very common and useful. The peculiarity of these indicators is that they reveal information on the tendency of various economy indicators, based on qualitative opinions of businesses and consumers.

The Bank of Albania has been working for several years to construct these indicators, based on the results from large-scale surveys conducted with 720 businesses and 1200 consumers. The cooperation with global leaders in this area has been very efficient. Experts from the German Institute of Economic Studies have supported the process of methodological and economic analysis of business confidence indicators. While working for this project, Bank of Albania's experts have studied and applied important aspects of contemporary methodologies followed by the OECD countries and by the European Commission. Until coming to the decision to publish them, researches and tests have been constantly carried out on the developments, suggested by these indicators and later on verified by the statistics of the INSTAT. The compliance degree of the tendencies from both sources is assessed as statistically significant, thus making them useful. Various methodologies and empirical findings have been introduced in technical round tables, and in working papers and articles compiled by the Bank's experts. For more than four years, the results revealed by these indicators have been more and more taken into consideration by Bank of Albania's decision-making, thus contributing to the building of inflation expectations indicator. They provide preliminary information on expected producer price performance, an important link for the price-setting process in the economy. Consumption and savings tendencies of the population are revealed through relevant indicators. In conclusion, the economic sentiment indicator combines the businesses' and consumers' opinions, giving hints of the economic prospects in the short run.

I would like to speak at length about the importance and informational utility of the confidence and the foregoing indicators. But, I would rather emphasize the respect the users should pay to such indicators, opting for being oriented to the large information flow through them. I regard this only as the beginning of a comprehensible and transparent cooperation. To this end, other special meetings and activities will follow, enriching various groups of interest with knowledge on business confidence or tendency indicators. I have confidence in the added values they will bring to users' analyses. But, I advise and require of users, researchers, economic journalists of written and electronic media, students and pupils, businesses and consumers and the broad public, to rightly understand these indicators, before using them. These tendencies have resulted from businesses' and consumers' opinions and do not constitute the official stance of the Bank of Albania.

The Bank of Albania has built them on the basis of an advanced methodology. It has made use of the information obtained from interviewed businesses and consumers and it has confidence in their qualitative assessments and in those indicators. Their publication enhances the public transparency and makes the decision-making process more comprehensible. It is up to users to decide whether to use these indicators or not. I assure you that experts from the Bank of Albania will stand by the users, making them well-informed, highlighting that further improvements will be made in this area.

Thank you for your attention!