Ardian Fullani: Cooling down the liquidity situation in Albania

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The argument the organisers have found is very relevant, particularly when it comes to central banks of the Western Balkan. Actually, as far as I am informed from my colleagues, constrained liquidity (especially in foreign currency) and lending tightening are two fragile points, which may put us in a difficult position in the months to come.

This set of two arguments carries over a dual problem: the short-term one, which puts banking system stability at risk, while providing its own implications even on the economic activity and on macro stability in a broader sense.

The second problem is related to the financial support of the country's economic activity in the future, given the recent years, when lending to the economy has constituted one of the main contributors in this regard.

So far I deem that we have been effective in short-term management of these problems. Similarly to the European Central Bank and other central banks of the developed countries, we (the central banks of our region) have succeeded in supplying the market with ample liquidity, combining a variety of operational tactics and instruments. It is understandable that it is easier as concerns liquidity in national currency, whereas as concerns the one in foreign currency, at least in Bank of Albania's case, we did never consider acting as a lender of last resort for providing foreign currency assets to the banking system. On the other hand, we exerted maximum pressure on the parent banks to ensure capital adequacy and sufficient credit lines to their banks, and for the sake of truth, we have found a spirit of cooperation and concrete actions in this regard, without any exception.

Today, one year after the onset of the global financial crisis, I would say that all the measures taken by central banks in certain countries of the region resemble to one-another.

The Bank of Albania considered as indispensable the prudential monitoring of the situation, taking a number of actions, which significantly dampened the pressure over the banking system. These actions have helped cooling down the liquidity situation and have been in line with the operational actions applied by the European Central Bank in response to the crisis.

First, an ad-hoc task force was set up. Its main responsibility still continues to be the daily monitoring of the situation for each individual bank. Our direct conclusion was that the analysis should consider all micro-level aspects, each and every cell of the system and its indicators.

Second, a number of facilities were adopted for the incessant supply of the system with the required liquidity. The type of auction for the injection of liquidity changed to fixed-price auctions, the collateral base for repo agreements expanded, the use of the required reserve increased from 20 to 40 percent, and the spread between the Bank of Albania's key interest rate and overnight loan dropped from 175 to 75 basis points.

Third, through a special act, the Bank of Albania required higher capitalization of banking activity from the banking sector, adding to the guarantee of the banking sector's financial soundness.

Making a generalization, I deem that the measures adopted over this period are unusual, extraordinary and contrary to the "constitution" of modern central banks as regards the liquidity, money market and monetary policy transmission channels. However, we well understood the philosophy that "the purpose justifies the ways". For the sake of financial stability, all the measures taken are justifiable and have proved effective. So far so good.

However, I think that the current situation makes the central bank more vulnerable from the viewpoint of monetary policy independence and efficiency. Liquidity by all means, whatever the size, whatever the maturity, and whatever collateral for an indefinite period of time, would damage irremediably the monetary policy and the financial stability in a second round.

Preserving balances is more complex, if we take into consideration even the other major vulnerability related to high degree of euroisation (high share of foreign currency component to money supply structure) and lack of convertibility of our national currencies.

Taking into consideration even the impossibility of the European Central Bank to serve as liquidity provider to our countries, I would deem that the spaces available to us in the framework of current legal and regulatory aspect have already been exhausted (from the liquidity viewpoint). Otherwise, I would say we have reached a critical point, below which no space for action is left.

Let me emphasise that now that the crisis highlighted many "vulnerabilities" of this rapid catching up, the analysis should go beyond just accepting it as valid. This becomes necessary if we take into consideration the designing of a different economic growth model.

In this context, I am more and more convinced that the global crisis was a development that advanced in time the need for inevitable steering of many imbalances that our economies accumulated over the last 10-15 years.