

## **Ardian Fullani: Economic and political challenges of regional cooperation**

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the round table entitled “The economic and political challenges of regional cooperation”, Tirana, 8 September 2010.

\* \* \*

Honourable guests,

Dear participants,

I feel honoured to open today this roundtable. Before anything else I want to welcome our colleagues from Oxford University, who have undertaken an important mission for Albania and the region: contributing to the growth of research capacity, of sapience, and to building of a sustained long-term response to the growth challenges we come through on our common ways, similar but unique, towards the European Union.

It is a great pleasure for me and for the Bank of Albania to have the opportunity to begin a series of studies about the domestic and regional economic policy, which will assist the scientific debate about the economic growth model, also backed by a regional point of view at social, economic and political level.

You may ask yourself, why Bank of Albania is so much interested in the economic growth and the economic policies overall, as the main target of the central bank is the stability of prices. In the following minutes I shall try to deal with some of the main points of the Bank of Albania’s agenda in recent years.

In this respect, the efficiency of monetary policy, the importance of internal and external economic anchors, the building up of research capacities for the purpose of implementing our policies, as well as public communication and education. The right addressing of these issues is indispensable for the monetary policy and its crucial role for the economic prosperity.

The successful central banks, whose main target is inflation, are increasingly giving more importance to the economic activity, also to the other indicators of real economy. This trend is not only based on the fact that inflation is directly impacted by the fluctuation of economic activity and unemployment in the short-run, but also on the theory of monetary economics, accordingly the central bank should pay attention to the potential economic growth over the long run as well.

In addition, the argument about economic growth is the key target of the economic policies. Therefore, the decisions of the central bank in the filed of monetary policy, of supervision and of the financial stability, should interact and be harmonised with this central target, thus guaranteeing the macroeconomic and financial stability of the country.

The Central Bank, in this respect, tries that its policies, neither increase the short-term volatility of the economic activity, nor impede the potential economic growth over the long run.

The monetary policy of the Bank of Albania policy is similar to the policy implemented by the European Central Bank; it is based on two pillars: the first is the monetary analysis, and second the economic analysis. The second pillar has a considerable importance for inflation’s performance, particularly in the long-run.

Inflation, in general, is a monetary phenomenon and as such, it depends considerably on the money supply and the pace this latter increases relative to the Gross Domestic Product. The right tie which exists between these variables imposes that the growth of monetary supply in the long-term not be faster than the growth of the economic activity, thus the central bank and its monetary policy not lead to inflation.

***Having the maintaining of prices stability and the financial stability as main priorities,*** the Bank of Albania is determined to make all endeavours to encourage and play an active role in the convergence process of the country with the European standards.

One of the steps to be made immediately in this direction is the compilation of a new economic growth model, which should avoid the weakness of the current model built on the increase and expansion of lending and consumption high levels rates. In May of this year, Bank of Albania held a scientific round table, which was concentrated in the identification of the economy sectors which may provide a stable economic growth in the future. The meeting concluded that the next model of the economic growth imposes the designing of a national strategy for the economic development. at home The next model should be based on the upsurge of output factors in all sectors of the economy.

Given a small-sized and open economy, the increase and stability of exports is of outmost importance. Therefore, the research work, the reforms and the strategic decisions should be adopted in line with this target. In this respect, the role of banking systems acquires a particular importance, which should carefully identify the primary and profitable sectors and should provide their ongoing financing. Banking credit has been and remains one of the main instruments which shall provide the sustainable performance of the economic and financial activity at home.

For this strategy to be successful, it must include as one of its substantial constituents the philosophy and priorities of the Western Balkan regional development. This need does not only derive upon the competition requirements and the achieving of the economy of scale, but also upon our common target for the European integration.

During the recent years, I have continuously highlighted that the key of the successful integration in the European Union is the regional cooperation. There are many reasons backing the conclusion that our models of growth must be seen as complementary and not competitive to each-other. It is indispensable that the complete process of structural reforms takes place quickly and in a coordinated way, which precedes the membership to the European Union.

Only in this way the whole region will converge naturally, avoiding episodes of misbalances within the bosom of the European family upon the membership.

This will be a real contribution to the long-term sustainability of the European developments.

The whole region is going through a political, economic and social consolidation process. The policy-makers, the decision-makers, the examiners and almost everybody declare that their priority is the adherence to the European Union.

The question to ask is if:

- we have either to converge towards the European economic zone with small and fragmented economic structures competing with each other for European markets and opportunities,
- or embrace a model:
  - gaining from the economies of scale,
  - encouraging and exploiting the advantages of the current competitive positions;
  - that grows the economic prosperity of the whole region and of each individual economy?

Personally I think that the second alternative is the contemporary approach that our region should embrace with no hesitation. The success of this process shall depend on all our attempts and devotion to see which our competitive advantages are and to build up the right

economic, financial, legal and physical infrastructure to use and increase these advantages to become competitive in the global economy.

Therefore, it is significantly important that the study of the growth model takes place not only from a regional point of view, but to be an approach directed *deeply towards the future*.

The region in itself provides a lot of important advantages:

- labour markets amongst the Asiatic countries and of the EU member countries;
- the possibilities of high return profit investments against capital, in real estate and infrastructure are huge and attractive for the developed markets;
- the region has a population of higher than 20 million inhabitants sharing pleasant demographic characteristics;
- the regional tourism is potentially indispensable as a product of different climatic combination to geographical features and various ethnical and cultural traditions.

Preliminary results of empirical researches in the Bank of Albania show that the economic possibilities to exploit from regional countries are huge.

Our analysis of external trade, based on gravity models, reveal that external trade of Albania with EU partners stays at optimum levels, while trade with the region is under its potentiality.

- What does hamper our regional trade to achieve the potentiality?
- What do we need to undertake coordinated structural reforms at regional level?
- Are we encountering a weakening in coordinating the policies, information sharing, the establishment of institutions, the current legal infrastructure, or lobbying in European structures?
- How much possible is the synchronisation of the efforts for more effective and efficient convergence and the integration process?
- Which are the main economic and political fields where we may find larger space for the achievement of common regional policies?
- How has the last global financial and economical crisis impacted the Albanian economy, the regional economy and more priority the convergence process?
- Can we afford it?

All these are very important issues on which I think we should stop and study in deep. They are subject of research work, whose findings shall light the orientation of economic and structural reforms.

Given that, the Bank of Albania has joint the forces with the University of Oxford to carry out a scientific research dedicated to the finding of the answers for the above questions and other similar.

Answers to these fundamental issues benefit not only Albania and its regional partners, but also the EU and its political and economical structures.

I am confident that the European Commission may exploit the outcomes of these scientific researches to build up new anchors, as economic and political incentives in order to increase the efficiency of all regional sources.

These studies shall help us to better see that: What and how should be done to return EU, its Pre-adhering Economic Programs and Fiscal Economic Programs into stronger external anchors for the national and regional policies.

However, it is important to realise that international restrictions can not support the long-term sustainable prosperity in absence of internal anchors.

Obligations that may be imposed from Brussels or from other international organisations are indispensable as long the internal anchors are fragile. Therefore, it is necessary the society itself and international institutions support the establishment and strengthening of internal anchors.

Which would be an efficient internal anchor?

I think that the best internal anchor is a technician who thinks independently, proud of what he does, conscious for the results and the consequences of the proper actions.

In other words, this implies the establishment of professional capacities as one of the cornerstones of long-term successful policies. The scientific education and research in this direction have an important and inalienable role.

All the issues mentioned so far, as:

- The new strategic model of economic growth;
- The effective, efficient and consistent monetary policies with the economic growth;
- The necessity for coordinated structural reforms in the region;
- The challenges to European integration;
- The common political economy of the region in the future;
- The importance of internal anchors and the study and research of external ones, and;
- The need for establishing capacities;

are included in the research work's agenda of the Bank of Albania.

It is a great pleasure that we already have the possibility to cooperate with a remarkable partner as Oxford University, a distinguished institution for the high-level research in political and economic sciences.

For this collaboration, I hope and I believe that many issues I discussed above would have an answer, partial or a complete one. The one thing I strongly desire is the involvement of as many domestic and regional researchers.

I would like to guarantee all the interested persons that we are open in this direction. On the other hand, I am confident that the collaboration we made official today, shall provide a sensitive contribution towards the education and establishment of professional capacities at national level.

Please allow me to close my speech returning once more to the argument of professional technicians. I still think that

- We need to educate our technicians;
- Furthermore, we should make them independent financially and politically;
- And afterwards, we should educate them again.

On the other hand, the building of capacities is not an "individual" issue; it is an institutions' issue; in fact it is a process independent from human resources.

This because capacities should be based on "processes" and not on people, for long-living. The good anchors are not used only from institutions which relate policies with them. They are instruments in the hand of public, as strong arguments to encourage government's agencies towards the compilation and implementation of long term sustainable policies.

I believe that the European values may play decisive role in this direction, by strengthening and supporting the establishment of respected institutions, where the criticism occurs

independently from the political processes and targets. That is the reason we have chosen the collaboration with the Oxford University.