

Ardian Fullani: Brief overview of key topics and the appropriate macroeconomic policy response

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the joint press conference of the International Monetary Fund (IMF) mission with the Ministry of Finance and the Bank of Albania, Tirana, 3 November 2010.

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Dear Mr. Minister,
Dear Mr. Bell,
Dear media representatives,

It is a pleasure for me to appear before you today following a week of intensive and fruitful discussions to present the Bank of Albania's position. Allow me first to underline that the meetings held broadly confirmed the conclusions provided in our last monetary policy report and the Bank of Albania's outlook regarding its future performance.

In what follows I will provide a brief overview of our opinions, dwelling upon the key topics of discussion: current and expected economic developments; risks and related concerns, and; the appropriate macroeconomic policy response.

The Albanian economy had a positive performance in the first nine months of 2010, expressed in positive growth rates and improved key parameters of macroeconomic stability. In turn, the recovery has been reflected in contained and downward inflation rates, improved current account deficit, lower budget deficit and relative sustainability of public debt figures. These developments contributed to fully restoring confidence in the banking system, lowering the interest rates and the risk premiums, enhancing the exchange rate sustainability and improving the liquidity and financial sector's balance sheet indicators. The analysis of economic growth factors suggests that foreign demand for Albanian products and services provided the major contribution, while domestic demand remains dampened and continues to suffer the heightened uncertainty about the future outlook and the tighter lending conditions. Monetary and fiscal policies have been prudent aiming at creating appropriate conditions for a stable economic development. In practical terms, this has materialized in greater orientation of fiscal policy towards the preservation of long-term public debt sustainability. In the meantime, monetary policy has been more stimulating.

As I noted in the presentation of conclusions on the quarterly monetary policy report, this performance is expected to persist in the coming period as well. Macroeconomic stability and the improved banking system's balance sheets have created the proper preconditions for inducing consumption and investment in economy further.

However, it has to be acknowledged that several important challenges lie ahead for the country's development. In the short run, the correction of fiscal behaviour requires greater private sector's contribution to economic growth. This implies a more realistic consumer and business behaviour in their consumption and investment-related decisions, and greater financial support from the banking system. This need becomes even more critical considering the expected performance of foreign demand. The positive tendency of Albanian exports is expected to persist in 2011, but their contribution to economic growth will be more moderate. This performance will call for the generation of domestic forms of aggregate demand, along the same lines as described above. In the long run, the persistence of structural reforms remains a priority for stimulating the economic growth rates.

The Bank of Albania has constantly called for the restructuring of the Albanian economy and the need for a new economic growth model. It should be an export-oriented growth model and it should create a more favourable environment for promoting foreign direct investment

at home. Increasing economic growth potential is, among others, a necessity against a background of steady employment growth and lower unemployment figures.

The Bank of Albania has been consistent and transparent about the targeted macroeconomic policy approach. We have requested and welcomed the re-orientation of fiscal policy towards bringing the budget deficit down and keeping the public debt level in check. The successful borrowing via the issuance of Eurobond is a positive signal for the Albanian economy and it will help finance public sector's activity with foreign currency in the short-run. On the other hand, the quotation of the Albanian sovereign debt in the international markets will require greater commitment in order to maintain appropriate parameters of fiscal sustainability. Pursuing these principles in 2011 budget and in the medium-term public finance framework would be the first right step in this regard.

Keeping inflation under control will continue to guide our monetary policy judgment and decision-making on interest rates and the liquidity conditions in economy. Without prejudice to the primary objective of price stability, we have been and remain firmly committed to providing the possible monetary stimulus to bolster economic growth. Lastly, we are scrutinizing the options of supporting this goal with prudent regulatory measures to be adopted in full concordance with financial stability at home.