

Ardian Fullani: Recent economic and monetary developments in Albania

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the joint press conference with the Albanian Minister of Finance and the IMF Mission Chief for Albania, Tirana, 22 June 2011.

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Dear media representatives,

In the last two weeks, a team of the International Monetary Fund (IMF) led by Mr Gerwin Bell, Mission Chief, visited Albania. During this visit, we had intensive discussions on the current economic developments, the economy's expected performance and appropriate orientation of macroeconomic policies. This visit in the framework of Article 4 Consultation focused also on structural issues of the Albanian economy, highlighting the steps to be made for ensuring sustainable long-term growth.

Brief overview of key issues discussed

First, the 2010 and early 2011 economic and financial developments showed that, overall, the Albanian economy overcame the global crisis effects with success and has the prerequisites to generate economic growth in the period ahead. Foreign demand was the main contributor to the 2010 economic growth, while the current year is expected to be characterised by a resurgence of domestic demand and slower growth rates of Albanian exports. Overall, the macroeconomic situation is balanced, characterised by low and controlled inflation; safe, liquid and well-capitalised financial system; improving financial markets; and improved current account position. These developments reflect, inter alia, the relevant policies, which have proven effective in buffering large shocks from the global crisis. I take this opportunity to point out that the Bank of Albania's efforts to keep inflation in check and anchor inflationary expectations, as well as its regulatory and supervisory measures to guarantee financial system stability managed to reduce shock-buffering costs and prevented undesirable consequences.

Second, as regards the economy's expected performance in the medium and long run, the conclusion reached after the two-week long consultations was that the Albanian economy is expected to remain in positive territory of economic growth. However, growth rates will clearly depend on the resurgence of the domestic demand, which is suffering from insecurity related to national and international developments. Consumption and investments continue to suffer from added prudence by economic agents, while financial conditions and banking system capacity to credit the economy are improved. Furthermore, higher inflation rates, noted during the first months of 2011, are expected to drop in the upcoming period. This reveals the foreign origin of shocks that have led to increased prices and reflects internal economic and financial conditions as well as our monetary policy.

The joint examination of the Albanian economy found that the fiscal and external sectors are the two main ones that would require our attention and our work in the future.

The Bank of Albania has long held that public finances' long-term stability is a precondition for sustainable economic growth. The daily world press illustrates channels through which indicators such as budget deficit and public debt affect financial markets and in turn the real economy. Convinced that the Albanian economy would benefit in the medium and long run from lower public debt, we have encouraged and supported all measures taken in this regard. We deem that this philosophy should lay at the foundation of the expected 2011 mid-year budget review, as well as other medium and long-term public finances projects.

The external sector is another structural weakness of the Albanian economy. Partially also in response to this concern, the Bank of Albania has underlined constantly the need for deepened structural reforms to support a new economic growth and development model for

Albania. This model should inevitably materialise through increased efficiency and competitiveness of our products and services in domestic and international markets.

On the other hand, it requires a more rational attitude of the private sector towards the current economic context as well as a more careful financial-risks management. What is more, the Albanian economy needs to become more attractive to foreign investors by continuously improving the business climate, the legal framework and its implementation, as well as by providing educated and cost-attractive labour force.

Thirdly, seen in the above-mentioned setting, our policies should remain prudent to guarantee the country's macroeconomic equilibriums. As the crisis showed, prevention is better than cure. In this regard, political and structural measures that contribute to stability have a positive impact in the long term horizon.

During the consultations, I found that we share with the IMF and the Ministry of Finance the same views on the need to maintain and further strengthen macroeconomic stability. Moreover, there is a modern consensus on division of duties between the two central institutions of macroeconomic administration (central bank and Ministry of Finance) as well as a concrete commitment to continue this co-ordination in the future. In conclusion, I would like to reiterate that the Bank of Albania remains fully committed to observe the inflation target of 3%, and continue to orientate its monetary policy exclusively to this function.