

Ardian Fullani: Overview of Albania's latest economic and financial developments

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the joint press conference of the IMF mission, Albanian Ministry of Finance and Bank of Albania, Tirana, 2 October 2012.

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Dear journalists,

During the last two weeks, intensive discussions have taken place between the IMF mission and Albanian authorities. As a key player in drafting and implementing macroeconomic policies, the Bank of Albania has been active in these discussions, sharing its vision on current and expected developments in the Albanian economy and concerns surrounding it, as well as optimum measures to address them.

The Albanian economy is increasingly facing the economic growth challenge. While the Albanian economy enjoys consolidated macroeconomic stability and sound financial foundations, aggregate demand has been weak during the first nine months of 2012. Both domestic demand and foreign one suffer from high uncertainty, relatively tight lending standards, and limited space for discretionary and stimulating policies. In the global context, the Albanian economy encountered a difficult setting, characterised by economic growth problems, high risk premiums in financial markets and decreased appetite of these markets to invest in emerging economies. In the domestic context, the economy continues to face relatively low consumption and private investments, as well as an absent stimulus by the public sector as a result of the increasing orientation of the fiscal policy towards maintaining long-term stability of the public debt.

In the presence of temporary shocks from the supply side, these factors were translated into negative economic growth for the first quarter. According to our estimations, the following months have recorded improved aggregate demand and economic activity, yielding economic growth for 2012. This growth, however, remains relatively low and inadequate to ensure full production capacity utilisation. It has led to low inflationary pressures during 2012 and is reflected in improved external position of the Albanian economy.

The banking and financial system remains sound. Banks that operate in Albania are characterised by satisfactory liquidity and capital levels, and fit for financial intermediation. Transaction and risk indicators are also improving, as perceived in the financial markets and, following fluctuation in the first half of the year, interest rates have trended down.

Given the above-mentioned circumstances, the monetary policy of the Bank of Albania has been increasingly stimulating. During the past year, we have sequentially eased the monetary conditions; after five consecutive key interest rate cuts, the cost of money in the economy reached its record low. Moreover, through our monetary operations, we have supplied the banking system with the liquidity it needs for smooth operation. Finally, through the review of regulatory norms and application of a prudent supervision of the banking system, we have managed to establish a stable financial environment for the country's long-term development. Boosted confidence of the public in the banking system was followed by rapid increase of bank deposits, thus reducing reliance on foreign short-term financing. All these initiatives, coordinated with other policies, have proven effective. Inflation remains subdued and in check, inflationary expectations are anchored, macroeconomic environment is steady and financial stability is consolidated.

Looking ahead, the Bank of Albania holds that the Albanian economy will continue to face the above-cited concerns over 2013 and beyond. Although improving, economic activity is expected to remain below its potential, followed by low inflationary pressures, creating premises for maintaining stimulating monetary conditions in the future. Likewise, our

projections suggest that external balances of the economy are expected to improve. On the other hand, slow economic growth rates may generate pressures on debt stability indicators, unless they are identified and taken into consideration in fiscal policy decisions.

In Bank of Albania's view, growth rate recovery will require combining the cyclical stimulus of the economy with structural measures that expand the growth potential.

Regarding the cyclical aspect, the Bank of Albania holds that macroeconomic policies are rightfully stimulating. In the absence of space, fiscal policy should continue to be oriented towards long-term stability of debt indicators. The monetary stimulus is expected to be transmitted more completely in the upcoming period. We continue to underline our message that businesses and consumers should have a more realistic approach on sound perspectives for the country's development as well as revise up their consumption and investment plans.

In the structural aspect, we welcome reforms and initiatives that contribute to the country's growth potential, through developing infrastructure, improving the legal framework, enhancing productivity and competitiveness of the Albanian economy, attracting foreign investments and maintaining and improving macroeconomic stability at home.

The Bank of Albania is fully committed and engaged in the latter. Our key focus will continue to be: maintaining price stability and establishing pre-requisites to step-up financial stability. Therefore, we are convinced that we are providing a valuable service to long-term economic growth and welfare.