

Ardian Fullani: Monetary policy, from the past to the present

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the 10th international conference on “Monetary policy, from the past to the present”, Tirana, 26 October 2012.

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H.E. Prime Minister,
Your Excellencies Ambassadors,
Honourable Minister of Finance,
Honourable Governors,
Distinguished Guests and Participants,

I am very honoured and privileged to open the proceedings of the Tenth Conference of the Bank of Albania. This conference is particularly important this year as it is organised in the framework of activities for the 100th anniversary of the Declaration of Albania's Independence and the 20th anniversary of the Bank of Albania. While retaining the scientific approach, the conference pays tribute to the endeavours made over the years in the monetary and finance aspects.

In Bank of Albania's view, the past is an essential element for the analysis and decision-making, and a requisite for theoretic or empirical research. At present, this is a necessity, a challenge that the economics world is facing.

To scan, diagnose and cure the situation of the economy, a successful scholar would have to be able to read the human thought. Unfortunately, such a doctor does not exist.

Therefore, in our days, the economic science is turning its attention to individual characteristics such as: history, ethnography and other national traits, considering them as substantial determinants for the stochastic process that leads the behaviour of economic agents.

The history plays also a significant role in the formation and development of institutions. The declaration of independence introduced a new era for Albanian state institutions, paving the way for the establishment of a central bank, a unified Albanian monetary system, and the administration of economic life through the monetary policy. Despite its short life, the National Bank established in 1913 is a cornerstone in the history of the Albanian state. The then Prime Minister, Ismail Bej Vlora said about it: *“I say the affair of the Bank is praiseworthy; for Albania, it is a second victory, after freedom, from both the economic and political perspective.”*

The events that followed the declaration of independence, in the national and international aspect, have played a crucial role concerning the nature and character of these institutions and, at the same time, determined the nature of the monetary policy.

Economic and political partnerships, and the charisma of the Albanian statesmen to build a modern society, led to the establishment of the first functional national bank in 1925, with the characteristic and distinctive profile embodied in the building that was constructed in the centre of Tirana.

Historic developments in early 1990s became once again determinant factors for the financial system and the central bank. Introduction of modern economics concepts led to the creation of the Bank of Albania as a bank with all the attributes of a modern central bank.

Its institutional evolution led to the development and modernisation of monetary and financial policies. The Bank of Albania became also an important institution for the development of the financial and economic systems in Albania.

The challenges of the past 20 years have transformed the central Bank into a modern, responsible and credible institution; a centre of professionalism; an institution that applies the most modern methods of monetary management; the heart of the financial system.

Aware of the decisive role that modern theories on economic growth assign to institutions for the prosperity of a nation, and taking advantage of the support from the political class and the trust of the Albanian society during these 20 years, the Bank of Albania has undertaken to transform itself into a modern institution and a dignified public entity across the institutional, moral, professional, ethical and intellectual dimensions.

The Bank of Albania considers this as a highly significant task and contribution to state formation and prosperity in the future.

Its efforts for the infrastructural and conceptual modernisation of the institution, including the Bank's construction projects during the last three years, are a requisite to guarantee contemporary standards for the management of the activities of the institution. In other words, this literally implies rapid approximation with homologous institutions in Europe. Upon the completion of these projects, the Bank of Albania will be more opened to the public that will benefit from financial education policies, scientific research, library services, and legislative, history, museum, and numismatic-related activities.

These novelties will be offered to the public as a modest contribution to the formation of a modern and dignified state for the Albanian nation.

At present, fulfilling these obligations has become a more difficult task due to negative effects arising from the global economic crisis. Most evidently, labour markets, capital markets and economic activity remain under the effect of contraction of consumption and investments in the private sector.

The anaemic reaction of the markets has placed central banks in a difficult position, a solution without any choice, i.e. intervene in the economy with all the instruments to address current emergencies while the other factors are forced to contract in favour of the long-term stability of public and private balances. In this situation, central banks are obliged to undertake a series of extreme and qualitatively-different measures, which have been never tested before and exceed all imaginary boundaries of the monetary policy.

Actually, politicians are obliged to cope with debt crisis through an extreme fiscal policy aiming at short-term balancing and long-term stability of the fiscal policy. The focus and emphasis of the economic policy remains long-term rebalancing by cutting on expenses. An important part of these measures is very focused on the short-term problematic, hence risking to disregard the undesired effects in the long term. Under the pressure from social costs, the philosophy of current policies is to overcome the situation and maintain social peace and macroeconomic stability at the expense of sovereignty.

This emergency compromise has shifted the focus away from structural reforms, which guarantee rebalancing through the increase of income. Often, the perspective of economic policies does not extend beyond some quarters ahead, while a much longer time vision should be considered. ***The anchoring of the future should start from the present.***

The actual philosophy of stabilising policies is based on past experiences with the hope that the current crisis is similar to previous ones. This reasoning has urged the authorities to insist on recycling stabilising measures. The time, however, shows that the global economy has undergone radical changes. The current crisis is happening as the global economic map is being redesigned in terms of economic size, geographic distribution of savings, debt, and trade and current balances. Advanced economies have traded positions with the emerging ones across all these dimensions.

Consequently, old recipes do not provide an exit given that axioms on which they are based have changed. The solution of current and future challenges requires a new philosophy of thinking based on the new global reality.

This reality, globalisation, is no longer a choice, but a fact that should be taken into account when formulating long-term development strategies.

Turning to a regional setting, I think that this philosophy should be embraced and supported without hesitation. In order to make it more productive, we should be more opened to each other and take regional cooperation to new and higher levels.

Individual prosperity of the economies of the region requires that we leave behind the philosophy of competition encouraged and inherited by state-formation efforts and sclerotic models that dominated the last century. We need to prepare the way for elevated economic and financial cooperation and coordination.

We need to tear down Balkan barriers and raise, instead, a comprehensive functional infrastructure, a regional payments system, a regional energy system, a regional market of financial products and lastly but may be most importantly a regional market of production factors. In Martin Luther King's words "*we may have all come on different ships, but we're in the same boat now*".

Dwelling a little longer on the regional theme, I would like to briefly touch on another problem.

The experience of the past year shows that as a result of regulatory capital requirements imposed by euro area supervisors, various bank groups reduced their participation not only in the euro area markets but also in our region.

This process, known as deleverage, yielded negative consequences. To prevent such phenomena, policymakers and supervisors of partner economies need to cooperate more closely.

In this regard, the Vienna Initiative is a good but limited cooperation platform. It is conceptualised as an instrument to address emergency crisis situations, whereas the current situation requires platforms for dialogue to enable effective and persistent communication among policymakers. This dialogue should aim at preventing undesired mutual effects; a more ambitious programme, on the other hand, would aim at drafting and implementing coordinated initiatives of mutual interest.

Nonetheless, potential emergencies arising from contamination from euro area partners would create additional difficulties and huge effective costs for the economies of the region.

Therefore, we call for the establishment of appropriate mechanisms and instruments for liquidity provision by the **European Union to peripheral euro area countries**.

I believe that the financial integration makes this common defence more urgent, through the right understanding of the common fate of our trade partner economies. ***I take the opportunity, given the presence of many central bank officials from the region, to call for an en bloc coordinated position in this regard.***

The experience of the latest crisis showed that the countries which had more space to react, in the form of healthier fiscal balances or the financial system, and in the form of more reliable public institutions, were able to cope better with the consequences of the crisis. This lesson should not be neglected. Among other things, it implies timely measures and, through counter-cyclical policies, establishment of the necessary space to buffer potential shocks. Likewise, it implies ongoing efforts by macro and micro-prudential policies to minimise financial imbalances across all the sectors of the economy and the financial market.

These policies, which are often known as "leaning against the wind", have been and will continue to be part in the logics behind the actions of the Bank of Albania.

Concluding, I would like to assure you that the Bank of Albania will make maximum efforts to continue its success story into the third decade of its life. I am confident that these issues I shared with you provide a summarised vision of some of the main directions of our work during this period.

Looking forward to a productive exchange during the proceedings of the conference,
I thank You for your attention!