

Gent Sejko: Fifth review of the arrangement with the IMF concluded

Speech by Mr Gent Sejko, Governor of the Bank of Albania, at the joint press conference with the IMF mission, Albanian MoF (Ministry of Finance) and MEDTTE (the Albanian Ministry of Economic Development, Tourism, Trade, and Entrepreneurship), Tirana, 30 June 2015.

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Dear media representatives,

In line with the already established practice, in the past two weeks, we have constantly met and exchanged views and opinions with International Monetary Fund representatives. As always, these meetings serve to make a comprehensive analysis of economic and financial developments, with a view to identifying the necessary measures for a steady development.

Following, I will present a summary of Bank of Albania's opinion.

The Albanian economy is on a positive development trajectory, irrespective of the shocks we have been facing in the first half of the year. Economic and financial balances in Albania are sound. The Banking system is liquid and well capitalised; Albania's public debt is in control; and, the financial situation of Albanian businesses and households is improving. Long-term development resources for the country remain stable.

This situation is an outcome of economic policies oriented towards stability, which we have undertaken. In view of the latest developments in Greece, I would like to emphasize that the external environment appears challenging, but Albania's economy and financial system are capable to withstand even extreme shocks. The short-term costs that we have paid due to structural reforms and fiscal consolidation show their benefits exactly in such moments.

Under the current circumstances, it is necessary for economic and financial policies to continue to be guided by the philosophy of prudence. We are able and ready to take additional measures, if necessary. I would like to assure the private sector that the development perspectives for the Albanian economy remain positive. Albanian businesses and households should continue, uninfluenced, with their consumption, investment and development plans.

Let me be more concrete with regard to the above.

Economic and financial developments have been overall in line with our year-start projections, but incoming information has resulted on the down side of our expectations. Therefore, the Bank of Albania has revised down the expected economic growth for 2015. Yet, in our judgment, shocks are expected to have only a transitory effect on economic activity indicators and not affect the medium and long-term trends of development. Economic growth is expected to improve in the second half of the current year and in the two years ahead, which would enable the return of inflation to equilibrium.

Notwithstanding the above said, the Albanian economy continues to operate below its potential and inflation remains below Bank of Albania's target. These developments require maintaining simulating macroeconomic policies for at least some quarters ahead.

The Bank of Albania has urged and supported the fiscal consolidation trend, pursued by public finances. Fiscal data, overall, are in line with this target, albeit work should still be done with regard to the rigorous implementation of public borrowing and spending plan.

The monetary policy implemented by the Bank of Albania is at very simulating parameters. Interest rates and financing costs are at historical low levels. The Bank of

Albania has ensured that the market is fully supplied with liquidity and has provided long-term guidance on the monetary policy direction.

In accordance with the monetary policy direction, the Bank of Albania has continued to implement easing supervisory and regulatory measures. Also, we will announce a major project very soon, aimed at addressing definitely the issues related with the treatment and reduction of non-performing loans. All these measures have contributed to and are expected to better support the Albanian economy with funds.

As I said above, the economic and financial equilibriums of Albania are solid. The current account deficit improved in the first quarter and the Albanian foreign exchange position is quite positive. Banking system's liquidity and capitalization indicators have been improving. The growth of non-performing loans decelerated and the Albanian banking system is profitable.

Taking into account the international setting, I would like to guarantee the public that the banking system has no direct exposure to the Greek crisis. Our analyses, both at individual bank and system level, confirm that that it would maintain the soundness and normal operations even in extreme adverse scenarios. Lastly, the implementation of the IMF arrangement not only guarantees the stability of the public debt, but also provides us with the possibility for additional funds to withstand any unexpected and unwanted development. The arrangement is an insurance policy, which should assure all the economic actors for the country's financial soundness.

Dear media representatives,

Concluding, I would like to re-emphasize Bank of Albania's commitment to safeguarding the country's economic and monetary stability. In our judgment, the adopted policy framework provides a sound and coordinated development platform.

Pursuant to our legal requirements and the development programme, the Bank of Albania will continue to work on:

- ***Maintaining price stability and sustaining the country's development.*** Under the current scenarios, the monetary policy stance will remain accommodative for several quarters ahead. We are, however, willing to take any additional measures necessary to maintain price stability and the purchasing power of Albanian households.
- ***Safeguarding the country's financial stability, in cooperation with all the stakeholders.*** We are in on-going contact with our international partners and other public agencies. Our analyses show that the banking system is stable. However, even under shocks, we have detailed measure plans available to avoid financial constraints.
- ***Developing the financial system further*** through the implementation of measures agreed upon under the FSAP arrangement and provided for in cooperation with the continued IMF assistance.
- ***Continuous improvement of the Bank of Albania,*** with a view to enhancing its professionalism, reputation and independence. In this context, the Bank of Albania will continue to work on improving the control and management systems, to reduce operational risks and improve communication and transparency.

In addition, the Bank of Albania emphasizes the need to continue structural reforms, which will allow faster, more sustainable and more inclusive growth for different social levels of the society.

Thank you!