

## Gent Sejko: Do crises change economic fundamentals in SEE

Speech by Mr Gent Sejko, Governor of the Bank of Albania, at the Conference “Do crises change economic fundamentals in SEE?”, hosted by the Bank of Albania, organised in cooperation with the South East European Studies at Oxford, Tirana, 30 October 2015.

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***Your Excellency Prime Minister,***

***Dear Governor Hamza and senior central bank representatives,***

***Your excellencies ambassadors,***

Dear guests, friends and colleagues,

I am delighted to welcome you to the annual conference of the Bank of Albania organised in cooperation with the South East Europe Studies at Oxford. It is a pleasure to see that this cooperation brings together old and new partners.

This has been a tough year full of challenges for the Albanian economy, consequently for the work of the Bank of Albania. The full recovery of economic growth and its further improvement in the future are and remain one of the top priorities of our work for the year.

The prolonged crisis has impelled us and homologous institutions across the world to review many of the economic axioms, which we had taken for granted for a long time.

It is not by accident that ***the main topic of the conference focuses on the causality and solutions for long-term problems we are facing during this period.***

Over the five year period, the Albanian economy has been growing in positive territory, yet, below its potential. This is a global phenomenon in the post-crisis period, extending across the entire South East Europe, which have experienced even lower growth rates.

I hope that during this conference we will have the opportunity to analyse in depth the reasons behind this situation, sources that feed it and the difficulties it imposes on the business model and financial intermediation. Furthermore, it would be useful to discuss on the options available to policymakers and the way out of this situation, which, I believe, ***is a temporary situation rather than a long-term economic equilibrium.***

The Bank of Albania has been actively using two main instruments, ***the monetary policy and macro-prudential one***, to give its contribution for a swift and systematic closure of the negative output gap in Albania. The Bank has continued to implement an accommodative monetary policy lowering the key interest rate to the historic 2% level.

Notwithstanding the scepticism that has accompanied this process, the lowering of the key interest rate is reflected in a wide range of interest rates in the financial market, ***including those on loans and government securities***. The fact the economy continues to grow below its potential, does not necessarily reflect the absence of an effective transmission channel for the monetary policy. We are more and more convinced that, above all, we have a weak aggregate demand, which is not generating the much needed stimuli for the recovery of the economic activity.

Recent data, however, render us more optimistic. The real sector is showing signs of constant recovery, corroborated by some positive developments in the external economy. I would like to underline that a clearer prospect of the political and economic situation in Greece will have a positive impact over the upcoming period. The Bank of Albania has been continuously monitoring the developments in our Southern neighbour, aware of the various risks that could spill over in the Albanian economy. But, thanks to the precise and duly interventions, especially in the banking sector, these risks never materialised.

The constant easing of the monetary policy seems to be reflected especially ***in investment indicators, with the domestic and foreign ones showing significant improvement over the first half of the year.*** On our side, we are happy that these investments were not only due to public sector interventions. There was also a substantial component by the private sector. This makes us believe that well-studied projects by the investors, coupled with an increasingly sound and pro-investment business climate, will serve as main drivers for the economy towards not only higher but also more sustainable growth in the near future.

In accordance with the best contemporary practices, ***the Bank of Albania has endeavoured to enhance the transparency in its communication with the public,*** not only about the actual decisions but also about our forecasts. The Bank of Albania has constantly conveyed to the economic agents the idea that the monetary policy will remain accommodative and will sustain the revitalisation of the economy. As a result, we hope that ***the forward guidance on the monetary policy stance of the Bank of Albania will be adequately understood by all market agents and the public.***

Banks and entrepreneurs should use this opportunity to boost their activity resting assured that the central bank will continue to sustain and support their activity.

In addition to the monetary policy easing, the Bank of Albania has paid special attention to the reform in the financial sector and the prudent supervision of the banking sector. ***The Chair of the Board of Governors of the Federal Reserve System, Ms. Yellen,*** in a statement not long ago leaves no doubt about the necessity of reforms in the financial sector, I quote ***“... a sine qua non for sustained economic recovery following a financial crisis is a thoroughgoing repair of the financial system.”***

From the perspective, in cooperation with the Parliament, government and other public regulatory entities we have undertaken a series of legislative and regulatory initiatives, aimed at creating incentives for the recovery and assurance in lending.

Thanks to the reforms we have undertaken during this year, we have started to reap the first positive results as regards the situation of the non-performing loans.

As a result, ***the ratio of the non-performing loans fell for the first time after almost seven years of continuous rise.*** The write off of loss loans, as I have explained in previous statements, was the finalisation of joint inter-institutional efforts. During this process, we have been assisted and overseen also by important international financial institutions such as the World Bank and the International Monetary Fund.

***Beyond the non-performing loans issue, the banking system continued to be well capitalised, liquid and financially sound.*** The issue of non-performing loans will require some more time to resolve, but this should not keep us from the recovery of the credit activity at home. For as long the positive performance of the other above-mentioned indicators continues, the banking sector has room and the potential to credit convincing projects and investments. In my judgement, it is important to administer with courage and persistence the prevalent perception that non-performing loan have forced banks to adopt a very conservative approach to lending.

To permanently address this problem, additional measures have been taken and will be taken in the future. I would like to briefly focus on the latest initiative in this regard: ***a coordinated plan between the Bank of Albania, Government of Albania, Association of Banks, and International Monetary Fund, consisting in two main pillars:***

The first pillar relates to the drafting and completing the legislation that regulates lending from the moment of concluding a contract until the final repayment, including disputes among the parties. These changes aim at making more precise in legal terms all procedures related to banking activity, bailiff services, borrowers and other relevant state institutions.

The second pillar is related to the regulatory framework of the activity of the banking system, therefore, related to the day to day activity of the Bank of Albania and the banking system.

We have identified the regulations that will be subject to amendments. In addition to the objective for creating higher flexibility in relation to certain aspects of the activity in the treatment of the credit portfolio, we will aim at adopting a new concept: the “background check (biografi)” of the client in relation to bank borrowing. We believe that this new element will help banks assess the borrowing potential of each client.

In spite of what I said above, it is a fact that, **recently, lending in the national currency has seen positive growth over the months**. This phenomenon, among others, has been accompanied with a positive side effect at a higher speed and intensity in the pass through mechanism of the monetary policy in the economy.

Dear guests,

As I pointed out, at the beginning, **economic activity at home remains in a positive trajectory, but it has not yet reached the level we wish it were**. Research at the Bank continues to confirm that the **Albanian economy has unutilised potential and that the closing of the gap remains the main challenge for policymakers**. Interventions through both the monetary policy and macro-prudential elements insofar have not succeeded to definitively close the gap. I listed these facts intentionally as the conference of this year is called “Do crisis change economic fundamentals?” These interventions are main actions central banks are allowed by the legislation, and recommended by the most modern theory.

If these interventions fail to introduce a long-term positive equilibrium for the economy, then a question arises naturally: what else should be done?

The answer is in the phrase “structural reforms”. While the phrase may have often been speculated, the truth firmly confirms: only the willingness to project and undertake courageous and visionary reforms is the golden key to success”.

This fact was strongly emphasised in the final statement of the **Ministers of Finance and central bank Governors of 24 most developed nations**, (Financial Committee of the IMF) in the annual meeting of the IMF organised earlier this month in Lima, Peru. **A secure sustainable long-term growth requires timely-implemented and well-sequenced structural reforms which remain critical to raise productivity, potential output, and living standards; they should bolster confidence in the economy and reduce social inequality**.

Concluding, **I would like to underline the support of the Bank of Albania for a series of reforms undertaken recently as part of the medium-term agreement between the Government of Albania, Bank of Albania and the International Monetary Fund**.

Similarly to the rest of South East Europe, Albania needs a new path, in which investors will be able to see again profit opportunities. It is vital for all of us, for the region to detach itself as fast as possible from the perception as an irrelevant geographical areas, fragmented, with insignificant human, financial and economic potentials. We should do anything it takes, at any cost, to restore once again the trend and vitality this region showed before the crisis.

Thank You!