

Gent Sejko: Prospects and challenges facing Albania

Statement by Mr Gent Sejko, Governor of the Bank of Albania, at the conclusion of discussions on the eighth review of the arrangement with the International Monetary Fund, Tirana, 28 June 2016.

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In the last two weeks we have been engaged in intensive discussions with IMF Mission representatives, in the framework of the review of the IMF arrangement. The discussions focused on: the analysis of the current situation of the Albanian economy and financial system; identification of development prospects and challenges facing Albania; and the policies to be implemented with a view to supporting the country's development.

The conclusions of our discussions may be summarised in three main points:

- (i) Economic activity appears upward and the development outlook remains positive.
- (ii) Yet, the external environment is unfavourable and the Albanian economy continues to face structural weaknesses, which decelerate the pace of growth.
- (iii) Therefore, the monetary and fiscal policies should continue to generate a prudent economic stimulus, whereas structural reforms should accelerate their pace.

In this context, the Bank of Albania deems that the arrangement with the IMF and the measures envisaged as part of the Eighth Review provide a consistent framework for drafting and implementing a programme for the country's development.

Let me now present in greater detail the opinion of the Bank of Albania.

The growth pace of the Albanian economy continues to show progressive improvement. The improvement reflects the expansion of domestic demand - that is increase in consumption and private investments - whereas foreign demand appears weak and fiscal policy continues the consolidating trend. The new information obtained in the first half of the year is in line with this judgement.

The intensity of supply shocks, which led to the rapid decline in inflation over the first half of the year, seems to decrease. Inflation recorded a slight increase in May, reaching at 0.7%. This performance confirms our judgement about the transitory nature of the above-mentioned shocks. However, our analyses confirm that the balance of inflationary pressures is still weak. Economic activity remains below potential, suggesting that the return of inflation to target will be a gradual and medium-term phenomenon.

Our monetary policy has assumed a stronger stimulating stance over 2016. After two consecutive cuts in April and May, the key interest rate currently stands at 1.25%. The strengthening of the monetary stimulus has led to lowering the interest rates across all segments of the financial market, thus stimulating the increase in consumption and private investments. The Bank of Albania deems that the financial setting - characterised by low interest rates and ample liquidity - should encourage banks for a more positive approach towards lending.

Banking sector's soundness indicators have been improving, in response to economic activity recovery and other measures undertaken by Albanian authorities. Liquidity and capitalisation indicators maintain good parameters, whereas the stock of non-performing loans - albeit fluctuating - has been put under control.

Our projections have not changed: the Bank of Albania expects economic activity to improve progressively over the medium-term horizon. This performance will continue to be sustained by stimulating financial conditions and growth of private domestic demand. It will contribute to the improvement of economic and financial equilibriums in Albania and to the return of inflation to target within 2018.

The realisation of these objectives requires maintaining the actual mix of economic policies. The monetary policy will maintain the stimulating trend over the medium-term horizon, while the intensity of the monetary stimulus will not decrease for some quarters ahead. On the other hand, the fiscal policy should maintain its consolidating trend.

The balance of risks related to expected developments remains on the down side. The expansion of economic activity continues to be decelerated by the unfavourable economic performance in the euro area, which is further complicated by the Brexit, as well as by the behaviour of economic and financial agents, who continue to show reluctance in undertaking long-term business projects.

Against this backdrop, the Bank of Albania deems that economic policies and structural reforms should focus on:

- Maintaining and further strengthening the economic and financial stability.
- Accelerating structural reforms, especially with regard to: improving the legal setting and business climate; encouraging domestic and foreign investments, completing the infrastructure; enhancing productivity; and, improving the labour market.
- Expanding crediting, to support the country's medium-term development. Issues related to credit growth were addressed at length in the Albania Financial Forum IV. The Forum's conclusions will serve as a road map in our joint efforts for lending to return to the desired levels.

Concluding, I would like to underline that the Bank of Albania will remain committed to maintaining price stability and strengthening financial stability in Albania. In parallel, and in accordance with the engagements in the framework of this arrangement, the Bank of Albania will continue to work to further improve the regulatory framework and to further develop the financial infrastructure in Albania.

Thank you for your attention!