

Gent Sejko: Aligning monetary policy with financial stability - their objectives, responses and interaction in times of uncertainty

Welcome address by Mr Gent Sejko, Governor of the Bank of Albania, at the Annual Conference 2016 "Aligning monetary policy with financial stability - their objectives, responses and interaction in times of uncertainty", Tirana, 27 October 2016.

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Your Excellency Prime Minister,

Your Excellencies Ambassadors,

Honourable Members of the Government,

Ladies and Gentlemen,

Dear Mr Anastasakis,

Dear guests,

It's my great pleasure to welcome you to the Annual Conference of the Bank of Albania 2016. The conference is organised in cooperation with the European Studies Centre of St Antony's College, University of Oxford.

This year's conference will focus on two main topics that prevail in the analyses and debates among policymakers, academia and professionals circles:

- ♦ *First*, possible implications from the Brexit; and
- ♦ *Second*, determining the modalities for coordinating the monetary policy with the macroprudential policy and measures, in the new reality we are facing.

Together with guests from European and regional central banks, international institutions and academia, we will be discussing about the current challenges, and appropriate policies and instruments central banks need to employ.

I am confident the proceedings of this Conference will produce more clarity for all participants, policy makers and private sector representatives alike.

Let me elaborate in greater details the perspective of the Bank of Albania on these two topics.

- Initially, I would like to present the backdrop of the current economic and financial situation.
- Next, I would like to share the Albanian and regional perspective on the possible implications from Brexit.
- Concluding, I would like to present an overview of challenges facing the two main central bank policies: the monetary policy and the macroprudential policy.

1. Albania and Western Balkans in the post-crisis period

The last global crisis affected the economic, financial and social dimensions of the human activity. By size of shock, complexity of challenges and interdependence of transmission channels, the crisis was unprecedented, for decades. It started as turbulence in certain segments of the financial system to later transform into a fully-fledged crisis of the system; before long, it was transferred to the real sector. This shock caused immense loss in production

and employment levels, reduced the welfare and put to test the stability of growth and development models in many countries.

Western Balkan countries were not at the eye of the cyclone of the global crisis. Yet, while at the periphery, the effects of the crisis became increasingly stronger on the region, as well. The decline in foreign demand, increased uncertainties, tightening of financing conditions and deleveraging in the region decelerated the economic activity and evidenced a series of structural problems.

I would rather not list all the channels and consequences of the global crisis, but I would like to say that withstanding the crisis required revising many conventional policies and practices.

First, central banks were obliged to explore untrodden paths. The intensity of the accommodative monetary policy was unimaginable a few years ago. Oftentimes, this policy relied on employing non-conventional instruments, which had not been tested before, but now have a legitimate claim to be enlisted in the arsenal of central banks.

Second, to guarantee the sustainable and long-term development of the economy, special attention was paid to the financial stability aspect, both at system and institutional level. In this regard, a series of supervisory and regulatory policies were adopted.

Third, interaction between fiscal soundness and economic and financial stability became necessary, thus conditioning the space for action and reaction by public finances.

Lastly, many development models – relying more on debt and consumption, rather than in investments and productivity – proved to be short lived. These models have required and still require the continuation of radical structural reforms to reconceptualise business models in many countries and guarantee sustainable and long-term growth.

While debates continue on the suitability and efficiency of the instruments used to withstand the crisis, it is unquestionable that – overall – these instruments managed to prevent the worst and gradually create premises for further growth of the global economy.

The situation described above is true for the Western Balkans as well. The stimulating economic policies, structural reforms and adjustment of internal and external imbalances have yielded their effects. The economies in the region seem to be set on the growth path, and are now based on a better understanding of the determining factors for the long-term development, and a more comprehensive framework of endorsing policies. The experience gained and the lessons learnt are undoubtedly elements that will help us steer safely, as we navigate our way into the future.

As a typical Western Balkan country, Albania is in a similar development stage to its peers.

Our analyses and forecasts confirm that the Albanian economy is on a positive track. Economic growth is expected to improve progressively over the next three years. Such growth continues to be fuelled by the recovery of the domestic private demand.

The accommodative monetary policy of the Bank of Albania, the improved financing conditions and strengthening of private agents' confidence are considered as the main elements underlying the recovery. The gradual return of the economy to equilibrium will help improve economic indicators across the board, more specifically:

- ♦ increase in employment;
- ♦ return of inflation to target;
- ♦ reduction of public debt; and

- ♦ further strengthening of private sector balance sheets.

The acceleration of economic growth in Albania attests the private sector dynamism. This is an encouraging development given that the fiscal policy implemented over this period focused on showing prudence and rendering public finance healthy, while the macroprudential policy and measures of the Bank of Albania have sought to further strengthen financial stability. As a result of our measures, the Albanian banking sector is sound, with high degree of capitalisation and liquidity, and positive levels of profitability.

The conditions for lending in Albania have improved and are on the course of constantly improving. In the light of its mission, the banking sector should translate these positive premises in more lending:

- ♦ showing far-sighted decisions;
- ♦ assessing properly the development perspective of the Albanian reality;
- ♦ utilising the potential from various sectors of the economy.

On the other hand, the phenomenon of non-performing loans – which reflects to a large extent the retroactive effect from the crisis shocks – is being addressed, although a lot remains to be done until its eventual solution.

Dear guests,

When we discuss about the development perspectives, as policy makers, we may not ignore the risks and challenges we face. Relations with our economic and financial partners in the euro area have been and continue to be a source of progress as well as an open channel of shocks.

As a region, we have generated and consumed crisis, but recently the balance has been notably on the consumption side.

Beyond economic and financial problems, the global crisis was also reflected in notable social problems. These problems have materialised in different forms in different countries, but the anti-globalisation movement is a common thread of tension in global economic developments. This movement has produced various results: in some places it has been reflected in increased protectionist barriers, in other places in isolationist policies, in others in repatriation of capital and refocusing of activity in home countries. The result of the 23 June referendum on the relationship between the UK and the European Union is one of them.

The anti-globalist movement and barriers to the free movement of goods, people and capital appear as harmful to the overall global economy. However, their negative effects fall disproportionately on emerging countries, such as Albania, and the Western Balkans in a broader sense.

Let me now outline our assessment on the potential negative implications resulting from Brexit and the relevant effects on the central banks in the region.

2. Potential implications resulting from Brexit for Albania and the region

Brexit is certainly a determinant factor for the European Union and the euro area. As such, it has left its mark in Albania and the region. It may be accompanied by direct or indirect, short-term or long-term negative effects in the labour, goods and services markets.

Overall, the direct implications for Albania and the region are assessed as minor ones, given that

trade exchange with the United Kingdom is low. To illustrate my point, the export of Albanian goods to the UK accounts for only 0.2% to the total over the past ten years, whereas the share of imports amounted to around 1.1%.

The stock of British foreign investments in Albania shows low rates, whereas the impact of emigration and remittances indicators is somewhat higher, but still a non-determinant factor.

On the other hand, indirect effects would depend on Brexit's impact on the European economy and banking system. Brexit may also translate into institutional developments that will affect the rules of European economic and financial market development, as well as European integration processes. In other words, implications for Albania and the region potentially exist, but still remain difficult to identify. I would rather not dwell very long on this topic; however, I do believe that today's discussions will help us understand these processes and assess in advance the potential political and economic implications and consequences for our countries.

I would like to stress that all of us in the Western Balkans remain hopeful that Brexit will not generate centrifugal forces, which harm our European integration processes, initiate setting barriers to free trade and movement of people, and encourage further fragmentation of the European financial system.

3. Monetary policy and financial stability in the post-Brexit period

The coordination of the monetary policy with the necessary measures for safeguarding financial stability remains a challenging issue for policy makers even in better days. The challenges to this coordination may only strengthen, if Brexit implications assume the negative dimensions listed above.

Let me emphasise that, in Bank of Albania's vision, the monetary policy oriented toward price stability, and the supervisory and regulatory policy oriented toward financial stability contribute to the sustainable and long-term development, and are complementary to each other. This creed is fully tested by experience, both in the world and in Albania.

In the long-term horizon, the Bank of Albania is confident that the investment we have made in promoting financial stability will bear its fruit with regard to sustainable development, and will increase the space for monetary policy manoeuvring. In addition, accomplishing our price stability objective would enhance the confidence in the national currency, reduce volatility and foster transparency in financial markets, thus contributing to the sustainable development of the financial system.

Meanwhile, in the short-term, the coordination of monetary policy and financial stability often present challenges and compromises. In this context, setting clear priorities, using the right instruments, and communicating transparently central bank actions and objectives are key elements for the success of our work.

Concluding, I would like to reiterate that I am fully confident that in the course of the day, all the issues I posed above will be elaborated in greater detail. I do believe that the contribution of the eminent panellists and active input from all participants will be an added value in this regard.

I wish the best of success look forward with the greatest interest to the outcome of your deliberations.

Thank you for your attention!