

Gent Sejko: Ninth and tenth 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 and the Minister of Finance, Tirana, 24 January 2017.

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On the completion of the ninth and tenth review of the Arrangement with the IMF

The beginning of 2017 coincides with the conclusion of Albania's arrangement with the IMF. This Arrangement has guided our development policies over the past three years, and has been a roadmap for our structural reforms agenda in the long term. Against this backdrop, the last review of the Arrangement not only provides for a comprehensive assessment on the achievement of its objectives, but also helps in identifying challenges to the country's development and contributes to discussions on the policies that need to be designed and implemented for supporting the development.

Let me now outline the opinion of the Bank of Albania on this review.

The Arrangement with the IMF was signed amid an external economic and financial environment surrounded by uncertainties, and in response to deepening internal development challenges. Economic growth was on the downtrend, public debt and non-performing loans were set on the uptrend, and uncertainties in the Albanian economy and financial markets were relatively high. With the support provided through expertise and funds, the agreed programme with the IMF has aimed at drawing up an appropriate monetary and fiscal policy mix, correcting fiscal imbalances, improving the balance sheets of economic agents, and implementing an ambitious structural reforms programme, to support the long-term development of Albania.

The Bank of Albania assesses that the Arrangement has achieved its major objectives: correcting structural imbalances and setting the country on a steadier path to long-term development.

Economic growth has been improving in the recent years, driven – among others – by the combination of the monetary stimulus and fiscal consolidation, reduction of risk premiums in the economy and improvement of the balance sheets in the real sector of the economy. From a longer-term perspective, the structural reforms and the improved business climate should open the way for faster, more balanced and stable growth.

In addition, excluding the effects of supply-side shocks, inflation has trended upward recently. The improvement of economic activity, implementation of a prudent monetary policy and a better anchoring of inflation expectations render us confident for the stable return of inflation to our 3% target.

Lastly, Albania has made notable progress with regard to strengthening other economic and financial equilibriums. Safety nets in the financial system have been strengthened. The institutional framework that shapes the coordination, design and implementation of measures for safeguarding financial stability has been improved. The legal framework that disciplines contract enforcement has been improved. Credit risk has been lowered and non-performing loans have been reduced, although their level remains high. After peaking in 2015, Albania's public debt appears to be set on a downward trend. Also, our external position remains stable and current account deficits have been financed by high levels of foreign direct investments.

Turning to the latest developments, the Bank of Albania deems that the recent economic

and financial indicators have been in line with our projections.

This performance reconfirms our scenario of expectations for the outlook. The Bank of Albania expects economic activity to improve in the medium-term horizon. This improvement will enable the return of the economy to equilibrium, the further improvement of indicators in the labour market, and the return of inflation to target.

The outlook remains positive, but its guaranteeing requires prudent economic policies and further structural reforms. Such policies and reforms should be, in essence, a continuation of the philosophy that has guided the initiatives and steps we have undertaken in the recent years.

To sum up, the Bank of Albania judges that:

- ♦ **The actual economic policy combination, based on an accommodative monetary policy and fiscal policy stance set on public debt reduction, should be maintained.** The monetary policy should maintain the accommodative stance in the medium-term horizon, whereas the intensity of the monetary stimulus should adapt to the needs of the country's development.
- ♦ **The business climate at home should be further improved.** The Bank of Albania considers that the attraction of foreign investments as well as the support and stimulation of domestic investments should be at the focus of decision makers.
- ♦ **Structural reforms should be accelerated and Albania's competitive advantages should be enhanced further.**

In conclusion, I would like to once again thank the IMF Mission for the useful and constructive discussions.