

## Gent Sejko: Launch of the EBRD Transition Report 2017-18

Opening remarks by Mr Gent Sejko, Governor of the Bank of Albania, at the launching of the EBRD Transition Report 2017-18, Tirana, 11 April 2018.

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Dear Mr Colangeli,

Dear Mr Sanfey,

Dear participants,

It is a special pleasure for us to host again the presentation of the Transition Report 2017–18 by the European Bank for Reconstruction and Development.

The Transition Report 2017–18 addresses some very important issues for transition economies, such as convergence of firm dynamics and productivity, the importance of road infrastructure to economic growth, and the new opportunities from the green economy.

It is a pleasure to note that the Report presents a positive assessment of the developments in the region. After some years of anaemic growth, the economic activity in the region shows recovery and the prospects remain positive, notwithstanding the geopolitical concerns and the internal and external challenges we face. Some regional countries grew faster than other countries around the world, of similar development level and market size. The capital inflows have been relatively considerable, driving to the narrowing of the interest rates spread in the region compared with those in large economies. More importantly, it seems that inflation is gradually returning to target levels and the accelerated economic growth in the Western Balkans is supported by bank lending and some major infrastructure projects.

Nevertheless, the Report notes that productivity growth slowed down; hence, the firm dynamics is identified as one of the main issues that should concern our region.

The main reasons of these developments seem to derive from some factors:

- ♦ First, the low capacity of markets and firms to regenerate, decelerates the replacement of non-productive firms with new innovative ones, and hinders the efficient allocation of resources.
- ♦ Second, small firms do not succeed in increasing their output or the number of employees. Studies show that their productivity is rather lower compared with larger firms. Smaller firms make up the majority of producing entities – around 80% in EBRD region, and 95% in Albania. For this reason, more should be done for the integration of smaller firms into global production networks, finding human capital, access in the financial system or capital markets.

The Bank of Albania deems that the development of the financial system is indispensable for the economic development of the country. In this regard, through our policies, we are trying to encourage a more efficient allocation of bank lending, in order for it to be less fragmented or concentrated in certain sectors of the economy.

Also, we are closely monitoring the financial and borrowing situation of micro-economic firms, including those in the agricultural sector. These firms have a considerable share in the gross value added and in the number of employed persons in Albania. Our recent surveys show that the primary concerns of smaller firms are: unfair competition; difficulties in finding markets to sell the products; and, to a lesser extent, limited access in financing or the cost of providing banking products and services.

We are aware that the growth of productivity, in particular for smaller firms, is very important for the economic convergence of Albania. The fulfilment of needs for investing capital is a main challenge for small producers, as they have less or no borrowing history in the financial system. For this reason, the analysis with micro data are already subject of discussion in the activities and conferences organised by the Bank of Albania, to understand the needs of small firms and how we can help to improve the infrastructure, aiming to increase their financial inclusion in the future.

Productivity is important as it determines the convergence speed towards the advanced economies. So far, the productivity convergence of our countries with advanced countries is guided mostly by a re-allocation of resources from state-owned firms to private firms. Nevertheless, this process has not succeeded to move further forward to the development of innovative products. Unless these trends change, the Albanian and regional firms will likely lose competitiveness against their EU partners. Overall, it means that the economic convergence and the equality of income with EU countries will be considerably delayed. In a more specific aspect, the European integration processes will slowdown, as far as our firms will not be able to withstand the competitiveness pressures.

For this reason, I think that the regional and Albanian authorities should continue with the implementation of structural reforms, which aim to:

- ♦ Increase the formalisation level of the economy, as a tool for raising competitiveness, for promoting consolidation, for improving the governance of firms, and for lowering their financing costs;
- ♦ Promote the development of firms in fields where the region and Albania provide competitive advantages, such as tourism or the agro-industry, and in those fields that have high value added, such as the information technology or the financial services.
- ♦ Development capital markets, as a tool to support new and innovative firms and as a partner to share the financial risk of entrepreneurs in the stage of the expansion and development.

Dear participants,

Let me emphasise that, notwithstanding the focus on the future challenges, the report shows optimism for the region. It notes that, unlike the other emerging economies, the presentation of productive industries will contribute to the increase of employment.

Also, the regional integration in industry has the capacity to generate growth of productivity, to better compete with the imports and contribute to the growth of regional exports. The institutional adoption and convergence is considerably important for the integration of Albanian firms in the global output chain, and for strengthening their sophistication and specialisation in the global market.

Another potential for the transition to an innovation-based economy is “The green economy”, where the convergence capacity of the existing producing processes in other processes releasing less carbon may be considered as an opportunity for the further development of our region.

Regarding the future, the report assesses positively the reforms undertaken by the Albanian authorities. The macroeconomic environment is assessed as stable and prospects show the positive growth pace will be maintained. Trade, construction, transport and industry, as well as the narrowing of the deficit in the external sector of economy contributed most to the economic growth in 2017. At the same time, the financial system activity continued to reflect considerable improvement and showed good resilience to operational risks. The indicators of financial result, capitalisation and liquidity evidence the considerable improvement of credit quality and show the importance to continue the implementation of the measures undertaken by the Bank of Albania.

Also, the Report evidences that the projects and investments in infrastructure have contributed to economic integration of Albania with regional countries, providing a positive effect on higher productivity and more opportunities. We assess that TAP investment will provide positive effects on the energy infrastructure and will contribute to higher productivity through lower costs and covering the needs for energy capacities, thus reducing one of the structural weaknesses of the Albanian economy (the reliable supply with energy).

Concluding, I would like to highlight the suggestions found in the report that it is now the time for the financial sector to focus on firms, as the basis for employment, innovation, productivity and economic growth. Thus, the development policies should focus on the firms and their future, as a source of convergence growth. The economic development policies and priorities, at micro and macro level, should focus on: the improvement of the institutional and financial infrastructure; the development of the capital market; the investments in infrastructure; and, the regional integration.

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Dear participants,

The EBRD Transition Report 2017–18 is an important document to all of us. Irrespective of our status as decision-makers, policy-makers, researchers, academics or journalists, the Report provides ample information to further corroborate our analyses and conclusions.

I invite you to further read the Report and materialise its conclusions rationally and responsibly in your analyses for the present and the outlook of our economy, and beyond.

Thank You!