

## Gent Sejko: The productivity slowdown and the secular stagnation hypothesis

Opening address by Mr Gent Sejko, Governor of the Bank of Albania, at the presentation by Mr Patrizio Pagano, Executive Director for Albania at the World Bank Group, Tirana, 18 September 2019.

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Dear friends, colleagues and media representatives,

Thank you for your participation!

I have the honour to launch today a presentation on “The Productivity Slowdown and the Secular Stagnation Hypothesis”.

The productivity and its role on economic growth is an argument, which, in the aftermath of the last global crisis, is at the centre stage in the agenda of researchers and decision-makers of the economy.

The recent decades had never seen before such a duration, intensity and complexity of this crisis. The global economy experienced the longest and deepest economic slowdown and recession, since the Great Depression in 1930s. Certainly, it was a real drama for the national economies, as well as enterprises and households. Nevertheless, the crisis served as a catalyser to re-assess the economic ideas and a great laboratory to test them.

The book titled “International Macroeconomics in the Wake of the Global Financial Crisis” has been added to the existing vast body of economic literature that studies the challenges to various economies in detail. This book is a collection of research work by experts of the Banque de France, Banca d’Italia and Banco de España on the major topics in the post-crisis period.

Through the systematic investigation of:

- ♦ structural problems in the economy, in more concrete terms, the correlation between advancements in technology, productivity, globalisation and potential growth;
- ♦ problems incurred by the global trade and promotion of consumption and investments;
- ♦ problems that the monetary policy has faced and continues to face, due to the heightened uncertainties, fall in the natural interest rate and the chronic low inflation; and
- ♦ the increasing interdependence of global economies, due to the financial integration and the role of financial flows and interest rates in small and developing economies,

the authors provide a precious contribution to the professional debate present in this field.

We are honoured to have among us today one of the authors of this publication, Mr Patrizio Pagano. He is present today as both the World Bank Group Executive Director for Italy, Albania, Greece, Malta, Portugal, San Marino and Timor-Leste and as an academic with a long-standing history of scientific publications while serving as the Head of Advanced Economies and International Finance Division within the Directorate General for Economics, Statistics and Research of the Bank of Italy. Mr Pagano has cooperated and co-authored several articles with distinguished institutions, such as: Bocconi University and University of California, Berkeley.

As I emphasised earlier, Mr Pagano will discuss on the role of productivity on economic growth, in particular, the recent debate triggered by the hypothesis that advanced economies are doomed to experience a long period, why not decades, of slowdown of economic growth and deceleration of welfare improvement.

I would rather not anticipate the findings in the presentation, but I must say that I feel encouraged by the finding that this hypothesis is likely not to be true.

Productivity and its role on economic growth has always been a central theme at the focus of the attention at the Bank of Albania. Our studies suggest that, beyond the cyclical fall in the aggregate demand, the economic slowdown in Albania, after the crisis, has had a strong structural element. In other words, the reduction by half of the economic growth pace before and after the crisis, shows both the slowdown in the expansion of demand for goods and services, and the slowdown in the capacity of the economy to provide these products. In particular, our studies have found that the degree of expansion of productivity in the Albanian economy – broadly defined as the capacity of an economy to utilise labour and physical capital to generate output – is reduced in this period from 2% to 1%.

For this reason, the growth of productivity has been and should remain a guideline in the agenda of structural reforms in Albania. In this context, the conclusion in today's presentation that the currently slow growth in productivity, globally, does not necessarily represent a new "normal" of the economy, is a further encouragement for the success of reforms in Albania.

Let me now explain this argument in greater detail.

First, the Albanian economy has been going through a restructuring process of its growth model. Among others, this process envisages a higher reliance of growth on export oriented sectors – such as industry and tourism – and a further orientation of financial resources towards the expansion of investments. The shift in financial, human and management resources between sectors of the economy needs time and is followed by a temporary slowdown of productivity. Nevertheless, rebalancing the sources of growth – from construction and trade towards industry and export-related services – has already started. This shift is noted even in the symmetric rebalancing of banking credit portfolio.

Second, the level and speed of productivity expansion is directly connected with the level of education and qualification of the labour force. The educational system reform and the emphasis on vocational training are essential dimensions of the economy's restructuring, whose benefits will increasingly become clearer in the long run. However, Albania still has a lot of work to do in this regard, in particular with regard to containing the migration of its qualified labour force and the renewal of its labour force skills by the private sector.

Third, productivity is closely connected with the improvement of business management skills. The campaign to enhance formal business practices, the gradual increase of competition, and the revision of the law on bankruptcy will provide the necessary stimulus in this regard. In particular, I am confident that the legal improvements regarding the enforcement of bank credit contract will not only help the banks' soundness, but will also contribute to increasing the discipline and effectiveness in the use of funds by the Albanian enterprises.

Finally, I would like to highlight that unlike the advanced economies, which are on the technology frontier, and see their progress related to their ability for innovation, Albania has considerable space for development through the adoption of the existing technologies and practices. In this light, our task remains to choose and implement the tested models of development.

Based on the above, I am confident that Albania has all the premises to increase productivity and, in this way, to accelerate the economic growth pace and increase the welfare of the Albanian people. What is needed now is a consensus on the vision for the development of the country and a shared will to implement it.

Dear participants,

I am fully convinced that this presentation will further enrich our debate on these issues.

Thank You!