

Gent Sejko: The need to reinforce understanding of economic developments and their relation to policy

Welcome remarks by Mr Gent Sejko, Governor of the Bank of Albania, at the 12th SEE Economic Research Workshop, Tirana, 6 December 2018.

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Ladies and Gentlemen!

It is a great pleasure for me to welcome all of you today to our 12th research workshop. I would like to express my sincere gratitude to our guests from academia and central banks who for 12 years have made this workshop one of the best and well-recognized economic and financial research events in Albania and in the region. Let me also thank all of our distinguished chairs, speakers and discussants for their engagement here today.

The papers that will be presented and discussed during these 2 days will cover a wide range of economic and financial issues that concern central banks. The topics on monetary policy, financial stability, risk and novel methodologies are all very relevant to the daily activity of central banks and as such are very important to us. The Bank of Albania is involved in decision-making on all these issues and we provide our active support to it through our research. Along with the papers that are going to be presented today in the panels, we have also decided to include and present in the poster presentations, tomorrow, some of our ongoing projects. Following this workshop, the results of these research works will feed into the decision making process and help the Bank of Albania to make more informed decisions and improve its models and the efficiency of policy-making. For this reason, I encourage and invite you all to ask questions, to comment and to assess our work with your opinions and academic proficiency, to challenge our findings and methodologies.

The nature of our research is undoubtedly influenced by our main mission and prevailing concerns. It is for that reason that the majority of our research focuses on monetary policy, price and financial stability, models related to them and the economic events that affect them the most. Some of the trends that we will discuss today are global and fundamental in nature. They may not have reached our economies, yet, but they will definitely have a significant impact on our real economy and financial system in the future. For example, new technologies, such as cryptocurrencies, Artificial Intelligence and machine learning, which represent a major challenge, not only for central banks, will have various implications for monetary and financial stability. Research related to these new technologies will be beneficial for both advanced and developing countries.

Unexpected, sometimes new, global or regional events can shock a domestic economy such that authorities need to intervene with what they already know and have experienced. It is important to understand the short and long-term implications of the adopted policies in these new environments. The crisis, for example, had a different impact on the Albanian economy, from what we had historically experienced. At the time, the Albanian economy did not seem to be vulnerable to the foreign sector. Subsequent analysis, however, showed that domestic imbalances had built and, indeed, made the economy vulnerable to a foreign credibility shock. It is crucial that research in central banks focus on available information and methodologies, which scrutinize existing paradigms, making this information useful to policymaking, before it becomes or leads to vulnerabilities. In light of the financial and human capital constraints faced by central banks in small, open economies, such as Albania, we believe that it is important for these topics to be discussed, in this workshop, with fellow researchers from academia and other central banks.

I would like to encourage our researchers to publish their papers in relevant, peer-reviewed

journals as the most important certification of their work. This will make your research projects more useful and facilitate speedy implementation in mainstream policy making. Despite recent success in publications, one of the things that I hear the most is that there is not much research interest in the scientific study of small, developing or emerging market economies like Albania. From my prospective, I think that there is interest in the scientific study of small, developing or emerging market economies such as Albania, because of the particular and distinguishing characteristics of our economy, which can be different from those represented in mainstream research findings. Distinguishing features such as shallow and narrow financial markets, limited number of financial instruments, particular behavioural traits of economic agents and distinctive economic and financial memories, can reveal non-traditional behaviour and interesting phenomena that do not appear and, are, therefore, not addressed in research findings from developed markets. The identification of these particular characteristics and their implications for research findings might be good enough to spark the interest of economic journals and economic conferences to bring these characteristics to the attention of the research community and enrich mainstream economic theory.

Just to illustrate a few interesting cases, I would like to remind you that the development of economic and financial markets in response to Bank of Albania policies has been weak and sometimes puzzling, making it difficult to interpret using mainstream economic models. The desire for unhedged borrowers to borrow in foreign currency, the reduced efficiency of transmission mechanisms in the presence of central bank credibility, the potential role of informal and parallel markets and informal economic activity, are some examples of interesting traits of economic behaviour. Several authors have been intrigued by such developments. Hence, they have conducted extensive research on these phenomenon in similar emerging and developing economies, which have later seen the light of publication.

Good examples are found in the research work done by the national bank of Austria (OeNB) on the level of euroization in the region, with interesting results that have helped authorities but have also increased the interest of other institutions and academics in euroization issues. In addition, there are increased concerns about financial and foreign exchange market stability in the event of a sudden reversal of capital inflows to the regional banking system. Recently dramatic changes are occurring in the global economic environment, including continuing monetary policy normalization by the U.S. Federal Reserve. These changes can potentially impact small, open economies and must be understood. Research conducted by the central Bank of Italy (BdI) is another example of research work, focused on the region, providing an interesting regional perspective for euro area policymakers regarding their policy decisions and actions. This research has formally provided researched-based evidence on the implications of their policy making on the large group of countries in the periphery of the euro area. These are just a few examples of interesting, useful and publishable research.

This year we have a couple of projects that involve cooperation and joint works between Bank of Albania researchers and those from other central banks or academia. This is another way to increase the potential for publication and I would encourage you to increase the amount and scope of cooperation in research with foreign researchers.

To conclude, I would like to reemphasize that we must enhance the overall efficiency of the transmission mechanism, and the resilience of the banking and financial systems so that potential and unexpected shocks do not advance to economic or systemic risk. To this end, we must reinforce our capacities and our understanding of economic and financial developments and their relation to policy tools, in order to properly respond to potential risks. This may be done by improving our current knowledge of past shocks, development, and the implications of potential shocks. Experience has shown that this knowledge is comprehensive only when it is the result of a rigorous and competent research process. Last but not least, we have to continue our policy efforts to strengthen the relationship between researchers and policy makers. I believe that these efforts can increase both from research and from the end users of the research

product.

Ladies and Gentlemen!

The research papers to be presented in this workshop reflect the serious thoughts and discussions of expert researchers on major issues. These include not only the work of the Bank of Albania, but also the work done in other central banks and academia. The topics cover a wide range of very useful issues. I hope that the research presented at today's workshop will spark vigorous debate and allow the sharing of diverse opinions that will help each other improve and strengthen your work from a different perspective. I invite you all and the Bank of Albania's researchers to use this activity to learn something new, and as a platform to strengthen the cooperation for your own and your institutions' benefit.

I would like to end my speech by wishing you a productive and successful workshop!