

Gent Sejko: Fourth 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, Albanian MoF and MEDTTE, Tirana, 17 March 2015.

* * *

Dear media representatives,

During the last two weeks, an International Monetary Fund (IMF) team visited Tirana, to conduct, together with Albanian authorities, the fourth review of the arrangement. In Bank of Albania's perspective, the economic and financial developments have been relatively positive. Notwithstanding the problems the Albanian economy has encountered, it has recorded growth and a range of economic and financial balances of the country have improved. The economic policies and the legal, regulatory and institutional reforms by the Albanian authorities have played a significant role in this regard. These development policies are anchored in the arrangement that Albania has with the IMF and have benefited from the credibility and financial assistance of the International Monetary Fund and World Bank. The Bank of Albania deems that the reforms that Albania has started should continue, to provide sustainable and long-term growth.

I would like now to outline Bank of Albania's opinion on the country's economic and financial situation, and to list the priorities of our work in the framework of this arrangement.

The Albanian economy posted growth in 2014, which is expected to further accelerate in 2015. Increase in consumption and private investments, owing to the improved financing terms, confidence and private sector balance sheets, was, and is expected to continue to be, the main driver of the economy's performance. On the other hand, the public sector has been and remains committed in the path to fiscal consolidation, whereas the external environment continues to face problems and pose challenges to the increase of Albanian exports. In the short run, the increase in consumption and private investments is sufficient to generate initial triggers for economic growth, but the long-term growth of the Albanian economy should rely more on the improvement of its competitive profile and growth of exports. Therefore, we deem that the acceleration of structural reforms has a unique role in supporting economic growth.

Inflation continued to stand below our target. Internal inflationary pressures have been upward, but the fall in prices in global markets decelerated the return of inflation to target at home. The monetary policy stance of the Bank of Albania has become strongly accommodative. This policy stance aims at reducing the financing costs of the private sector, in order to sustain the return of the economy to equilibrium and of inflation to target, in the medium-term horizon.

In our view, the indicators of economic activity and inflation are performing in the right direction; however, the sustainable accomplishment of targets will need time and will imply keeping low interest rates for some quarters ahead. Overall, the main indicators in banking system activity improved. Liquidity, profitability and capitalisation indicators are at good levels, while the ratio of non-performing loans has trended down. The Bank of Albania has continued to work for the regulation and prudent supervision of the banking system, pursuant to the legal obligations, as well as to sustain its steady development.

Also, we have cooperated with:

- (i) other public agencies, to improve the legal framework, align regulatory practices, and identify measures for withstanding systemic shocks;
- (ii) international financial institutions, to develop loan restructuring programmes; and,

- (iii) foreign regulatory institutions and parent banking groups operating in Albania, to exchange information.

I would like to reiterate that the banking system is solid, liquid and well capitalised for conducting its intermediary function. However, credit growth continues to appear sluggish, due to tight bank lending policies. Maintaining and strengthening banking system soundness is to everyone's benefit, as this is the only system that, with its funds, may sustain long-term economic growth. Lending is expected to improve slightly during 2015. The Bank of Albania, however, expects an increasingly active role of the banking system in lending and will also take all the needed measures to encourage it.

At the conclusion of discussions, the Bank of Albania shares the view that economic policies are performing overall in the right direction.

In compliance with its legal duties, and pursuant to its institutional commitments in the framework of the arrangement, the Bank of Albania will continue to work on:

- Maintaining price stability, in accordance with its 3.0 % inflation target. The Bank of Albania will continue to implement its monetary policy in accordance with the targeted inflation regime and free-floating exchange rate regime. The monetary policy will remain on the easing side, aiming at enhancing transparency of communication and its effectiveness.
- Maintaining adequate foreign currency reserves.
- Supporting banking system stability, by exercising its duties as the regulator and supervisor of the banking system. Special attention, in this regard, will be given to addressing factors determining non-performing loans. For this purpose, the Bank of Albania will cooperate with the banking industry and other national authorities to swiftly address this issue. Moreover, the Bank of Albania will continue to work on improving the infrastructure that assesses and addresses risks facing the overall financial system, in the framework of recommendations left by the Financial Sector Assessment Program.
- Completing the project for adopting the new IFRS standards on compiling financial statements.

Thank You!