

FINANCIAL STABILITY AND ECONOMIC GROWTH

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As the Governor of the Bank of Albania and my very good friend, Ardian Fulani, mentioned, as the first IMF mission chief to Albania it gives me great pleasure to be back here after 14 years. And in fact we are here, in the exact place where we started, in the Adriatik Hotel in Durres. We came to Albania to work on the country's application to become a member of the Fund in February 1991 and were brought here, from the airport, with the intention to conduct all the discussion in this place, rather than in Tirana. We met in one of the hotel halls with representatives from various public institutions, including the central bank, and it became clear that this was not a practical proposal. Therefore, we moved to Tirana the next day and were accommodated in one of the available official residences that were previously used by high ranking members from the previous government. We were, then, ready to start the task of learning about Albania and its economy.

It is important, in order to understand the situation, to make a composition of place and time. By the beginning of 1991 the Berlin wall had fallen, the Soviet Union had disintegrated, and most of the Eastern and Central European countries had had their change in regime. Most of these countries had become members of the international financial organizations and the IMF staff were quite excited about the new tasks created by the transition process. It

seemed as if the Fund's enlargement had concluded (of course, this was before the break-up of the former Yugoslavia) and the challenge was to follow up with stabilization and reforms. It was at that juncture that a mysterious short—and not very formal—note arrived into the European Department of the Fund. It requested the admission of Albania into the organization but did not provide too much detail.

Working from that note and after many different channels were explored, a staff team was put together and we were ready to come here and start discussing the issues relevant for membership and find the required information to carry out the process. But very little was known about the country and very few sources were available. In our original notes, we wrote “Until the beginning of 1991, and for more than four decades, Albania has been one of the least known and less accessible countries in the world. It secluded itself in self-imposed isolation and was ruled by an authoritarian regime that professed strict Marxist ideology and Stalinist practices. Not much is known about the country's economy but the picture that emerges is one of an economy in the midst of a very serious and profound crisis that is probably deeper than that experienced by other former socialist countries. It is undergoing a drastic contraction in economic activity, a sharp deterioration in its external accounts, a virtual exhaustion of foreign exchange reserves, and a rapid build-up of external debt and arrears.”

And indeed, as we collected actual information, we could document that the output collapse was about 30-40 percent during 1990-91 and that we could not find more than US\$ 5m. in foreign reserves. While many stories could be told about the membership process and about our three trips to Tirana that year, the final result was the admission of Albania into the IFIs in October 1991. Less than 14 years later, in March 2005, the IMF Country Report on Albania, just released, tells us that the economy has been growing more than 6% a year in the past 2 years, that there is a current account deficit of 7%, compared with the more than 20% that we found, that external debt is below 20% of GDP, 4 times lower than in the early 90s, and that foreign exchange reserves exceeded US\$ 1 billion.

You have, no doubt, come a long way. And while the way ahead is also long and there is a long distance to catch up, taking a long view

helps to evaluate correctly the extent of the effort and of the progress made and also contributes to assess the magnitude of the job that is still in front of you.

From the first day we arrived at this hotel to the end of the membership process, we had to try to understand and to digest information, all types of information—not just data and economic facts—that could help us to gauge correctly the nature of the state of affairs in this country that was quite dissimilar to anything we had dealt with before. When I go back over this experience, I can say that, at the time, I came up with three guiding observations. And from them I could derive some insights that have much broader implications. The observations were simple:

- (a) the country economy was very unusual, but in a very specific sense: the country took to extremes the type of policies and attitude that in other countries were present in a moderate manner;
- (b) people were very nice and very cooperative—and also very willing to learn and to integrate;
- (c) the country had a large and rich potential

Take the first issue, the unusual characteristics of the Albanian situation. Many examples could be given, but I do remember our shock when on arrival to Tirana we did not see any cars in the streets. We first believed that it was a holiday. But then we understood that the previous regime just did not allow the property of cars. A few months later, during our third visit, cars were overflowing the streets. There were no parking rules, and barely any driving regulations. Cars were not registered nor driving licences required. It was difficult to cross the streets – and I imagine it was close to impossible to drive - and it was, indeed, quite a confused situation. As we enquired about this phenomenon, we were told that cars were not allowed before and now they are. Period. No need to interfere anymore with automobile property rights. Restrictions should be avoided.

Of course, that may have been a normal reaction to years of limitations. But the unsustainability of that situation also illustrated an interesting lesson. While freedom may be the opposite of

oppression, full deregulation, absolute decontrol, and chaos, is not the opposite of central planning. And certainly anarchy is not the opposite of communism. There were intermediate points. Public goods, and the public good, both require rules, directives, a legal framework and enforcement. This was very clearly exemplified by the early experience of Albania and also by its sad moments in 1997.

The other two points, the human quality and the huge potential, both certainly combine to make this a highly viable and an eventually prosperous country. We did point out this potential in an IMF monograph, an Occasional Paper, published in 1992 summarizing the membership findings. We called it Albania: from Isolation to Reform. Today, obviously, the isolation has gone. But the reforms and the institutional development are still in progress. And the bright future for Albania will only be realized if these reforms and the strengthening of its institutions succeed to fully modernize the economy and to integrate it with the rest of the world.

I would like to stress, now in my current position at the Bank of England, that we are willing to offer all the support and collaboration in the central banking area and we are happy to work towards the establishment of a fully fledged cooperation program.

Finally, I want to wish all the success to the Albanian authorities and to thank again the Governor for the invitation and for giving me this opportunity to come back and to see first hand all the progress that Albania has made during these years.