

BANK OF ALBANIA NEWS OVER OCTOBER – DECEMBER 2009

On 13 October 2009, the Bank of Albania organised the third Open Forum of the Albanian banking system, as a follow-up debate of the technical meeting held in August. Likely the previous forums, directors and experts of the Bank of Albania and of banks operating in the Albanian banking system attended this event.

*Third Open forum with
banking system in Albania*

The discussions addressed a number of important issues, not only for the moment, also as regards to the expectations for the future. Thus, the first line of discussion dwelled on during the Forum, related to the accountability in management, considered in the framework of strengthening the control systems, the improvement of risk management capacities, investments in human resources and technology, also the transparency with customers and the market. The second line of discussions dealt with the development of the activity, particularly the establishment of a better equilibrium in terms of assets–liabilities composition by currency, maturity, interest rate; stability of financing sources and the solution of liquidity challenges; the cyclicality and need to manage the latter. At the conclusion, whereas discussing the expectations of banking system for the future, it took place the discussion about the main developments occurring in the international standards and the level of their impact on the banking activity and the supervision regulatory framework, as well as the way expected these development affect banking activity over the short and medium run.

On 14 October 2009, the Governor of the Bank of Albania, Mr. Ardian Fullani held a meeting with the Deputy Minister for the Economic Development of the Republic of Italy, Mr. Adolfo Urso, who was heading a delegation composed by representatives of different Italian companies, who participated in the Fiera del Levante Exhibition organised in Tirana on October 14-17, 2009.

*Meeting of the Governor
of the Bank of Albania,
Mr. Ardian Fullani with
the Deputy Minister for
Economic Development of
the Republic of Italy, Mr.
Adolfo Urso*

Governor Fullani made a general depiction of the main developments of the Albanian economy and the country's macroeconomic performance. Mr. Fullani introduced to the Italian delegation the measures taken recently by the Bank of Albania in the framework of maintaining macroeconomic and financial stability at home and the work carried out to minimise the global crisis effects, thus affecting the stable performance of the economy and the establishment of a positive business climate.

The Deputy Minister Urso appreciated the reforms accomplished by the Bank of Albania, which has recently made strong and consolidated steps in

many directions, where undoubtedly a special contribution has been rendered by the Bank of Albania, as the monetary authority of the country, pursuing prudential and visionary policies. Availing this opportunity, Governor Fullani invited the Italian investors to pursue their support and investments in Albania, which offers a powerful potential, with well-unexploited natural resources, qualified human capital and modern developed infrastructure.

Governor's lecture at the University of Pristine

On 29 October 2009, in the framework of the Conference for the 10th Anniversary of the Central Bank of the Republic of Kosovo, the Governor of the Bank of Albania, Mr. Ardian Fullani delivered a lecture at the University of Pristine, entitled "The Albanian economy facing the recent challenges and the European Perspective". The lecture was attended by students of Economics and Law Faculty of the University of Pristine and by the academic staff of this University.

Lecture by the Governor at Agriculture University of Tirana and "Bank of Albania Day"

On 16 November 2009, at the invitation of Mr. Drini Salko, Responsible of Finance and Accounting Department, the Governor of the Bank of Albania, Mr. Ardian Fullani, delivered a lecture entitled "Policies of the Bank of Albania in the framework of global crisis". Speaking about the global crisis and its effects on the Albanian economy, Governor Fullani paid special attention to the importance and the need to pursue the appropriate agricultural policies to simulate the economy.

The lecture of Governor Fullani was accompanied with the organisation of "The Day of the Bank" at Agricultural University of Tirana. During this activity, the students and also the academics of university got more closely known with the publications of the Bank of Albania. At this occasion, there were delivered many periodic reports and bulletins, working papers and speeches of scientific conferences, educational brochures and informing leaflets, which are published from the Bank of Albania in the framework of transparency and responsibility for public informing.

The Bank of Albania's forum with representatives of main businesses operating in Albania

In the framework of developing the open dialogue with different players of the economy and given the recent developments in the Albanian and global economy, on 23 November 2009, the Bank of Albania held a meeting with the main businesses operating in Albania.

As the most dynamic part of the Albanian economy, business' contribution has been tangible in the country's economic development during transition. The incentive, the willingness and devotion have brought about tangible results in the country's development. Assessing the contribution of business sector, the Bank of Albania's forum dealt with issues regarding the current situation of Albanian economy, the country's exit from crisis and the potential difficulties of Albanian economy may encounter during 2010. Also, the forum aimed to start a broad public discussion about the alternatives of economic growth models in the future.

On 3-4 December 2009, the Bank of Albania, in cooperation with Centre of Excellence in Finance (CEF) – Slovenia, with support from the European Commission, European Central Bank and International Monetary Fund, organised the workshop on “Building Capacities for Policy Design and Implementation”. This workshop addressed the main challenges associated with policy design and policy anchoring, highlighting particularly the building of individual and institutional capacities in this very important area.

*Workshop on
“Building capacities
for Policy Design and
Implementation”*

The meeting took place for the first time in Albania and gathered representatives from central banks and the ministries of finances of Southeast Europe, as: Bosnia – Herzegovina, Bulgaria, Kosovo, Croatia, Monte Negro, Macedonia, Moldavia, Rumania, Turkey, Serbia, and Albania. The main speakers were from Centre of Excellence in Finance (CEF), European Commission, European Central Bank and International Monetary Fund.

In his opening speech, the Governor of the Bank of Albania, Mr. Ardian Fullani highlighted the importance of appropriate economic policies design to detect the new economic growth model, in the wake of crisis, with the focus on attraction of foreign capital inflows to the region. He suggested the need for risk-averse fiscal policies and proper structural reforms targeted to improving the business environment, which will help to increase new capital inflows and lead to their strong and sustainable growth.

While discussing with participants, Governor Fullani drew attention to the need for using the European institutions and integration process as a natural, sound and efficient external anchor in the medium run. According to Governor, the strengthening of external anchors over the medium run is a necessity, and the European policies or EU institutions can and should play such a role. Domestic anchors of regional countries are equally important, implying the compilation of sound financial economic policies on the one hand, and building of the appropriate capacities for their assimilation and implementation on the other hand.

On 13 December 2009, in the theatre of the Academy of Art in Tirana, was held the final stage of “Real Value of Money” competition for the academic year 2008-2009. The “Real Value of Money” competition is a challenge among the high schools’ teams, regarding their knowledge for the Bank of Albania, its monetary policy, the instruments it uses and the impacts of the central bank’s decisions on the country economy.

*The final phase of
Real Value of Money”
competition, 2008-2009*

In front of the Competition Jury panel, chaired by the Governor of the Bank of Albania, Mr. Ardian Fullani, were the 5 winning schools at the district level: “Ali Demi’ High - School - Vlora; “28 Nëntori” High - School - Shkodra; “Themistokli Gërmenji” High-School – Korça; “Siri Shaplllo” High School – Gjirokastrar; and “Tirana Jonë” High -School – Tirana. In addition to frequent questions, the competition’s finalists had to place on the shoes of the Supervisory Council of a central bank, to analyse the hypothetical situation of a country economy to decide on the key interest rate of the monetary policy.

At the conclusion of the competition, the Jury panel of the Bank of Albania assessed the teams not only for their knowledge, also about their analytical abilities of arguing the answers as a team work, and based on the scores, it announces as the winner of the competition, "Themistokli Gërmenji" school from Korça.

Meeting of the Governor of the Bank of Albania, Mr. Ardian Fullani, with journalists, analysts and Executives of media, 22 December 2009

On the occasion of the closing of year, the Governor of the Bank of Albania, Mr. Ardian Fullani held a meeting with distinguished journalists of print and electronic media, politics and economics analysts, and with head of media and other representatives in Albania. Governor Fullani appraised the contribution of journalists to conveying the Bank of Albania messages and expressed his confidence that the media analyses and comments will remain objective and realistic in the period to follow.

At the beginning, Governor Fullani made a short overview of the development in the Albanian economy, underlying that year 2009 attested to a number of events among which the global crisis was the most striking one.

The Governor underlined that the efforts and work made by the Bank of Albania helped to safeguard and consolidate macroeconomic and financial stability in the Albanian banking system.

In addition, the Bank of Albania has been throughout the year 2009 committed in a number of other projects of special contribution to the Albanian society.

In this light, the Governor introduced some of the central bank's commitments as regard public education, the inauguration of the research Institute of the Bank of Albania located in Berati and the launching of the Bank of Albania Calendar for 2010, to promote Albania's antique cities and the respective coins minted and used during that period.

Friday Seminar

The Research Department at the Bank of Albania organises twice a month the "Friday Seminar". This initiative provides a call to the Bank of Albania staff, analysts of academic field and of other financial, research and scientific institutions, to present and discuss their theoretical and empirical scientific works, having at their main focus the case of Albania and the application of new research methods.

Five working papers were part of the Friday Seminar during the last quarter of 2009. Lorina Green and Rezart Erindi, Monetary Operations Department of the Bank of Albania, presented the first paper entitled "Use of KMV-Merton Model to forecast the possibility of companies' failure in terms of settling the issued debt". An increasing interest has been shown, as regards to the models which forecast the failure possibility of companies in terms of their debt settlement, owing to the augmentation of issued debt products and the ever-increasing use of credit derivatives. A model introducing novelty

in forecasts, broadly applied in practice and in academic researches, is the special implementation of Merton (1974) model developed by KMV corporate. This paper aims to present this model and provides the possibility to exploit the latter at the Bank of Albania.

The next paper by Rezart Erindi and Valbona Luga, Monetary Operations Department of the Bank of Albania, entitled "Selection of strategic benchmark. Theoretical and practical aspects". The selection of strategic benchmark might be described as a process through which a domestic institution might decide on the neutral allocation of investment (financial instruments) at any time, to achieve the long-term targets of investment. In this paper, the authors concentrate on the final steps of the process, by describing the methodology observed to build up the strategic benchmark and the timely assessment of this methodology. Also, they set out the instruments classes allowed for investment purpose.

In November, Armela Mançellari, Research Department at the Bank of Albania, introduced the paper "Nowcasting GDP – Short-term assessment of real GDP". The purpose of this paper is to build up models for the short-term forecast of the country GDP value for the current quarter. Given that the data on quarterly GDP in Albania are published after 12 weeks, to accomplish a well-informed decision-making, it is needed the forecast of this indicator's performance prior to its publication. The author makes use of data from: real sales, selling and repairing of vehicles and confidence index components, to forecast current quarterly GDP with the assistance of the econometric models.

"Does the fiscal multiplier exist? Fiscal and monetary reactions, credibility and fiscal multipliers in Hungary", was the paper introduced by Zoltan Jakab, Director for Macroeconomic Analysis, Office of Fiscal Council, Republic of Hungary. The purpose of this paper is to assess the fiscal policy multipliers in Hungary by employing the DSGE model. Results show that the multipliers of different fiscal indicators vary from each-other. They do differ even when there are considered the ways the fiscal policy expansion shall be financed in the future. The perception of economic agents as regards to fiscal stimulus continuance considerably impacts the multipliers. Outcomes suggest that as regard to a small and open economy, where monetary policy mostly react against inflation, the accommodation it makes to fiscal policy has no effect on fiscal multipliers.

For the 2009, the "Friday Seminar" closed with the discussion of the working paper "Modelling the Quarterly GDP - Role of economic and surveys indicators", by Evelina Çeliku, Ermelinda Kristo, Merita Boka, the Department of Monetary Policy, Bank of Albania. The purpose of this paper is to estimate the Albanian GDP trends in the short term by following three main approaches for this assessment: a set of ARIMA models with seasonal information; b. a set of indicatory models – bridge models; and c. a set of VAR models. These models have provided the obtaining of prior estimates regarding the dynamics of the economic activity, about the main trend for the referring quarter (nowcast) and

for two succeeding quarters (forecast). The paper concludes that variables obtained from the surveys contain valuable information for the quarterly GDP forecast in the short run. Also, the average of forecasts from various models is considered as the “best” forecast, (excluding ARIMA models). Finally, the forecast performance out of the sample period in the future would assist to identify the model or models with higher forecasting power.