

Greeting speech by the Chair of the Economy and Finance Committee, Mr Arben Ahmetaj, at the Annual Conference of the Bank of Albania 2019

Your Excellency Mr President,

Honourable Governor,

Honourable Minister,

Dear Erik,

Dear guests,

It is always a pleasure to address the Annual Conference of the Bank of Albania, which I believe is one of the most important economic and financial conferences in Albania.

We have come together to discuss in this format several times and, certainly deliberately so, and for a moment I was looking back at the discussions we had last year.

We were discussing then about how Albania had overcome the risk of a Greek scenario for the economy. Through a very careful work in favour of fiscal consolidation, which the Governor also referred to in his speech, we set the premises for a sustainable economic growth at 4%, driven by consumption and investments, and accompanied by a serious increase of employment.

We were discussing at that time about how, you as the banking sector, would have to respond to the accelerated economic growth or to the call of the Government for further commitment in increasing lending and participating in substantial investments.

We also discussed about how for an economy like ours -and the regional economies as well - the line dividing success and failure remains extremely thin and threatening, in the absence of guarantees for continuing reforms.

Now, one year later, we may have another reflection, but in my view, the challenges are still the same and, again in my view, they have become even more threatening.

Albania's economy has accelerated its growth pace in the last five years. However, in the first half of 2019, it was around 2.3%, relatively low compared with our expectations and expectations of international institutions as well. I would like to prompt the debate a bit in this conference. I believe, the experts here will also dwell on these issues, consider the underlying factors of an underperforming economy and draw lessons for managers and decision-makers, whether in government or in legislative bodies, in order to expand and speed up the reform agenda .

Unemployment trended downwards in 2019 as well, reaching its historic low level at 11.5% and

participation in the labour force remains the highest in the region. On the other hand, again to spur the debate, we need to evaluate or better still re-evaluate, if we have managed to do the right thing regarding capacity development and productivity growth.

Here, there is another thought-provoking questions: practically factor productivity in Albania remains the lowest in the region. Is this the reason why exports slowed down this year, compared with the last year and previous years? If we refer to 2014, practically exports reached even double digits. These are questions that this auditorium and this audience may assimilate and draw lessons for all of us decision and policy-makers.

I am glad that in the financial aspect, a series of measures undertaken in the last years have produced tangible results in the economy, like the reduction of non-performing loans (NPLs). In my analysis of the causes that brought NPLs levels down, I noted loan repayment, which includes also the execution of collateral. When we first started the reform of the financial system we also referred directly to the reasons why all these phenomena were happening, including the increase of NPLs. One of the experienced foreign bankers here in Albania, always mentioned the justice reform. I believe a debate that we will have to open during the day, but also in the future, should be on how the financial system reforms - in cooperation with the IMF, the World Bank and the Bank of Albania - have worked and draw conclusions from that. The reason why we must draw conclusions, and I believe we should turn this into a tradition– at least in the economic aspect because in the political aspect I am not as senior as other representatives in this hall, like the President of the Republic – is that we will have to look back and come to understand where we have made mistakes. We have not turned this into a tradition yet. Building a tradition would force us to look back to the history, see why NPLs happened, why we lost fiscal consolidation, what fiscal measures we took to accelerate growth and whether they worked, so as not make the same mistake two, three or four times.

Then all of us, without exception, don't tell me no, need to learn that high debt is bad. High debt is bad. In discussions around tables, outside this illustrious auditorium on financial and economic aspects, unfortunately the debate on “let us raise the debt level a little” continues.

The Prime Minister had and has pressures, I had pressures, I believe the Minister today also has pressures to increase the debt level, but decreasing the debt level would become again a necessity. As I have said earlier in other public avenues, not only a necessity, but a patriotic duty. To assimilate this, we need to be educated and well-educated even more about the harm debt causes to the economy, public finances and, above all, the citizens.

Of course, this is not only an Albanian debate. Today, governments, central banks and other stakeholders in every economy are “recalculating their accounts”.

In one of its latest assessments, the IMF forecasted that in 2019, around 90% of the economies of the world will register lower economic growth rates, close to the lowest level of this decade.

In advanced economies, the US, Japan and the euro area, the dynamism of economic activity has diminished. In China, growth is gradually slowing down after the rapid growth it registered for

almost three decades.

On the other hand, the trade war between major economies politicians all around the world claim they are right - has raised serious questions that dominate trade approaches and policies, and affect the confidence and responses of markets and stakeholders.

The conclusion is clear. All come out losing in a trade war. The IMF calculates that, for the global economy, the cumulative effect of trade tensions may cause a loss at the order of USD 700 billion by 2020, or around 0.8% of global GDP.

The same picture seems to be coming up in our region as well, according to the World Bank, which recently has revised its year-start forecasts due to heightened uncertainties. Last year we talked about the mitigation of all risks.

Then how would we need to modify the reform agenda, how do we reformulate the priorities, redesign policies and coordinate the actions among all economic, financial and political stakeholders, to respond to the challenges of this decade for Albania, even for the countries of the region? Remember, there is a threat for us – and the countries of the region, but I am focusing on Albania – and that is the slowdown of population growth, which all policy makers and scientists or experts of the field will need to take it into account with regard to all the factors of growth: whether they accelerate it, slow it down or even eliminate it altogether, if you like.

In the meantime, I will focus on the economic growth debate. There is often talking about the energy sector and its impact on the Albanian economy. It is undoubtedly true. For us, the energy sector constitutes a significant part of economic growth, and we have to rely on energy, the weather, God. However, to stir the interest of and some degree of debate among the audience, I would like to share with you some figures. In 2011, the negative shock from energy was -1%. In 2017, the shock from energy was -1.3%. What does this mean? How come in 2011, despite the energy shock, real growth was 2.55% while in 2017, despite the highest energy shock of the last 10 years, growth hit 3.82%? This needs to be analysed. I would refrain myself from drawing any conclusions, but for the same shock, economic growth rates are different. There is one non-negotiable factor, reforms. In 2017, the entire full speed reform agenda shook up positively all economic fundamentals, which we have discussed continuously.

Here, I want to highlight those reforms in energy sector to need to continue, absolutely, in order to consolidate all that has been achieved in the last years.

This country, this economy, these institutions, this society do not have the luxury of halting the reform engines even for a second. We just do not have this luxury. Beyond political discussions on continued or discontinued reforms, the day economic reforms (then definitely in all other fields) stop, the premises, not simply for a slowdown but also for an economic pitfall are much more eminent.

Referring to a quote of the former Prime Minister of Greece, Tsipras - brilliant words in my view - on reforms: *“Reforms for an economy are like riding the bicycle. You stop pedalling, and you fall”*.

I will refer again to a study of IMF on the importance of reforms. The implementation of structural reforms in public finances, external finances, trade, labour market and governance may increase the national output by around 7% in a six-year period and by 1 percentage point the annual rate of GDP per capita. The challenges in front of us, in front all those that govern, all those that formulate policies, all those members of the legislative bodies are to keep up with the reforms.

Proper reforms, at the right time, may double the convergence speed of developing economies with advanced economies. Citizens' dissatisfaction is lack of convergence, citizens' dissatisfaction in the entire region and the world has to do with what you see, but you don't have. You want to reach that and then you find other instruments to do it. However, true achievement is through economic convergence, hence reducing the gap, and that can be attained only through proper and synchronized reforms.

I believe that fiscal consolidation is very important. We may not relax and lay back. We need to achieve sustainable levels of debt. I am not referring to the fact that when we come to power it was 74% and now we are bringing it down to 65%, I am not referring to that, 65% is still too high for the Albanian economy.

The justice reform is crucial. No need to argue at all about that. It will change the course of justice, but it will also greatly help economic development. Surely, it will help social development and institutional developments, but above all economic development.

The formalisation of the economy may sound painful, but it is necessary. There is no redistribution without formalisation; we can discuss it as you want. Without formalisation, there is no sound redistribution, because a lot of the distribution happens in the "grey space" where fiscal, financial and monetary policies are deformed. They have no impact if informality is at such levels that it hampers their efficiency.

Investments in human capacity development in line with the global economic/technological developments are also very important. I am glad that the World Bank has also reiterated this in the last report, Erik here referred to it as a challenge. Without such investment we cannot raise productivity, we are not competitive, we cannot maintain sustainable growth rates. Without sustainable growth, we would see what we often see: volatility in consumption.

Some points, before I conclude, on the banking system. I have noted everywhere I have been in Albania or abroad that, overall, banking and financial communities are somewhat self-congratulatory (I refer to commercial banks, not central authorities). Outside round tables and meetings they even believe that, without them, development is impossible. This is true. Without you, there is no development. But, I would like to challenge you on two points.

In August 2012, credit to the economy amounted to ALL 552 billion; economic growth was somewhere above 1%. In August 2019, credit amounts to ALL 561 billion. Thus, in seven years, growth has been only ALL 8.7 billion (or 1.6%). This figures, I suppose do not render the banking system very proud out there. Meanwhile, the economic growth rates reached 4.06%.

In relation with the countries of the region, lending is flat. Credit to non-financial corporations in 2004 was 61%. In 2012, 15.5%. But why then in 2018 it was only 3%? What happened? Has there been a lack of reforms? No, because the EBRD (of which, Eric has been the Chief Economist), the World Bank and the IMF have assessed the period 2013-2018 as the best time regarding reforms. What is the reason? A thought-provoking question for you.

The other point is very interesting. I was looking at the figures on credit growth – I am not referring to assets – of banks with Albanian capital. These data are public, I am not revealing any secret, and it is interesting to see that banks with Albanian capital have increased lending considerably. Banks with foreign capital (I am referring to them since ownership is one of the elements of the topic and title of this Conference) have been “taking their time”. My question for you is – no need for an answer today because I do not think this is the place and time – but do you think that banks with Albanian capital are less risk conscious? Banks with foreign capital are more sophisticated in calculating risk in Albania? Just a question, I do not know, but I will point out some figures.

Credit growth in the period 2015-2019, BKT: -16%. Credins: +19.5%. Raiffeisen: -28.9%. Intesa San Paolo: +1%.

If you like, I here are some figures on credit in the period 2010-2019. BKT: 78.7%. Credins: 195.5%. Raiffeisen: -7.4% and Intesa San Paolo: -9%.

But how is it possible? What happened? Now that NPLs are decreasing, that reforms are being implemented, now there is no lending?! Banks with Albanian capital are lending, banks with foreign capital are somewhat more sophisticated towards risk. I believe the most of you, who are bankers, will be able to teach us.

In conclusion, another thought-provoking idea regarding cryptocurrencies. I believe, it is time for the regulatory authority, legislators as well, to think seriously about them, Cryptocurrencies, as much as they can be a blessing, can also turn into a curse, particularly for economies and systems like ours. I believe that this should be put in the agenda of discussions among you, the government and the legislators.

Thank you for the invitation, and best wishes for a successful Conference!