

Minister Ahmetaj: Opening remarks at the Bank of Albania's Annual Conference 2018 "Monetary Policy, Economic Integration and the New Normal"

Your Excellency Mr Prime Minister

Honoured Mr Governor,

Dear Erik,

Dear ladies and gentlemen,

It is such a pleasure for me to address the annual conference of the Bank of Albania, which is now a consolidated, prestigious and important platform for exchanging views and opinions with the international economic experts on important issues regarding Albania's development.

The financial crisis of 2008 had a major impact on the global economy in such a way that it is normal now to refer to it as the era before, or after the crises. It is a known fact that many aspects of economic activity have radically changed since 2008, from the perspective of the global financial infrastructure and of the behaviour of institutional and individual economic actors.

The effects of the 2008 crisis spilled over to other economies through various channels. Fortunately, Albania did not experience the "classic" recession after the 2008 crisis, but its economic activity weakened year after year to reach a trough in 2012 and 2013; in 2012 when Albania was considered to be experiencing uttermost poverty and in 2013 when the public finances and the economic situation were in a state that surprised and, at the same time, did not surprise us, when we ran a scan on the real situation.

Today, we have a definitely new reality; the Albanian economy has left behind the tough year 2013 and its consequences that we would eventually see and feel, including public employees, senior citizens, people in need, businesses, banks, etc. Now, thanks to the responsible approach of the government and of all the relevant actors, including the Bank of Albania, the Greek crisis was left behind. The Greek crises is now history.

Back in 2013, the crisis was not a fiction, it was a tangible reality and here I take the opportunity to quote the Prime Minister of Albania, during the presentation of the government programme in September 2013, "In fronts of us lays a rock, behind we left a pit", which means there was only one path, and we all walked that path. It has been a challenging walk of reforms and successes, eventually getting out of the pit and breaking the rock ahead of us to pieces.

The Albanian economy recorded 4% growth. Everyone asks whether this growth rate is enough. This will be an on-going discussion; 4% is not sufficient, 7% may not be sufficient, 10% may not be sufficient to converge faster with the European Union level. But, when compared with 0.8% recorded in 2013, or the risk of a total collapse, certainly 4% is four times higher and next year growth is expected at 4.3%, considered to be the highest in the region.

Economic growth has relied, in a balanced manner, on both the population consumption and investments in the economy. Unlike in the pre- 2013 period, economic growth was at last accompanied by an increase in employment. I cannot emphasise it enough that employment, in my view, is the most important issue of discussion between governments and other stakeholder in the economy.

In 2018, we expect FDIs to remain at good levels and - believe me when I say - at least in nominal terms, the level will be the highest ever recorded.

It was not easy to achieve this present economic reality. The Albanian government undertook a series of bold and tough measures to prevent a similar difficult situation the country experienced in 2013.

In 2013, the same actors, now with changed names, discussed how to overcome the crises. Meanwhile, today we are discussing whether we are moving toward a normal monetary policy or other economic instruments that are related to the second part of reforms and that deal with the another leap in economic growth.

The energy sector, which used to be in total collapse, has been thoroughly reformed; the pension reform was undertaken to transform the scheme into a sustainable one, the administrative-territorial reform reduced the local government units from 374 to 61. It looks like simple arithmetic, but in fact this was a very difficult and bold political and administrative exercise, similar to the reform in higher education, etc.

Of course, I must bring to your attention the public finance reform, in cooperation with the IMF, the World Bank, and the Commission. At present, we are part of the countries with adequate, high transparency regarding public finances.

It is worth mentioning that we undertook a broad reform for the modernization of the financial system in Albania, in cooperation with the Bank of Albania and our international partners (WB, IMF, EBRD). Year 2016, as many here can remember, was a year of broad-based discussion regarding the financial system reform. Over the previous mandate, the legislation on the "Financial Supervisory Authority" was revised, the capacities of the Deposit Insurance Agency were enhanced, and the Law "On the Recovery and Resolution in Banks in the Republic of Albania" was approved. A comprehensive strategy was undertaken for reducing the level of non-performing loans, which in turn required for example amending the Civil Code, and changing bailiff service fees. Today, non-performing loans have decreased from 24% in 2014, to 13.3 % in 2018 and they continue to fall.

Thanks to these significant interventions in the Albanian financial system, the system is now much safer and better equipped to withstand difficult situations. Currently, the system is liquid and is reaching pre-crisis profitability levels.

The "Doing Business" report came out yesterday. One of the elements that improved the ranking of Albania by two positions, (it may seem insignificant but it is actually a huge amount of work) is the financial reform, one of the elements of the financial reform.

The Public Finance Management Reform, assisted also by the World Bank, the International Monetary Fund and the European Union, revised the majority of public finance legislation (On borrowing, On Financial Management and Control, Organic Budget Law), etc.

Regarding fiscal policy, the Government of Albania is determined to continue the fiscal consolidation, until the level of public debt reaches acceptable levels for a country like Albania. As to the discussion on how much public debt is tolerable for Albania, the discussion always starts below 50% of the Domestic Product.

Currently, the facts and figures are the best judge of the reforms undertaken. Public Debt has been on a downward trajectory for the third consecutive year, and the presented mid-term budget, clearly expresses our intention to reduce it further in the following years. Today, the

public debt is at 68.9%, while the primary balance is expected to be positive for the fourth consecutive year, in and for 2019 it is expected at the surplus level +0.5% of Domestic Product.

The package of reforms has already given its results on the economy, not only by addressing the identified issues but also by boosting the confidence of economic actors. The increased consumption in the economy, the high level of FDIs, a higher number of foreign companies operating in Albania and the successful Eurobond issue, ultimately point to a growing confidence in our economy.

Although the confidence in our economy is improving rapidly, among the fastest pace in the region, we are still convinced that it can be improve faster. One of the main reasons of issuing the Eurobond, in addition to debt and liquidity management, was to create more space in the domestic market with regard to crediting; sadly, I must say that the banking system is not yet responding to growth and the challenge of economic growth. The growth of loans to enterprises remains moderate and does not fully play its role in the economy. We believe that after the steps that the government has taken, together with the Bank of Albania, to facilitate the banking system, it is time for this sector to carry out one of its main functions, reallocating the capital beyond the exposures to the government.

I am convinced that after adequate crediting, the growth rates have the potential to return to the pre-2008 levels, having a significant impact on the country's economic situation and the well-being of citizens. It is therefore necessary for all actors to work together, as good partners, in order to go a long, tough yet secure way toward its success.

We are aware that we do not have the luxury to stop the pace of reforms. I will share with you a particular moment from a government meeting two weeks ago, when in the course of the normal business of the Government meeting, the Prime Minister presented all what lies ahead for us as the cabinet or as a ruling majority and I avail myself of the opportunity to share that, "it is time for the second set of reforms in the country". A country is doomed to fail if it stops trying to make headway and seek to enjoy, instead, the success of the initial reforms, within the term of a governing mandate, or in the course of few years. This is the case of this government. Meanwhile, the opening of accession negotiations with the European Union is a very important political and administrative challenge.

These challenges remain present in the context of a more unpredictable international environment, e.g. the recent political developments, those occurring with public finances globally - not only with the Italian economy, and the tendency in the United States to increase interest rates. We do not know who will take the helm of the European Central Bank; it can be a German, it can be a Dutch, but certainly the policies will have their reflection changed.

The Albanian government has already shown its willingness to undertake the necessary measures to improve the productivity and the competitiveness of our economy, to prepare it to operate in the common market. We remain focused on promoting optimal use of growth factors to tackle the challenges that prevent growth and to maximize the benefits from integration.

Concluding, I wish for a successful conference and fruitful discussions in the following sessions.

Thank you!