



---

REPUBLIC OF ALBANIA  
BANK OF ALBANIA

**The 39<sup>th</sup> Meeting of the Central Banks Governors' Club  
of the Central Asia, Black Sea Region and Balkan Countries**

**Bodrum, 13 - 15 May 2018**

**Speech by Gent SEJKO  
Governor of the Bank of Albania**

**Sustainability of Global Economic Recovery**

Dear Mr Chairman,  
Ladies and Gentlemen,

It is a great pleasure to be among colleagues, in this 39<sup>th</sup> Meeting of the Governors Club, and to discuss with you our common economic challenges and prospects. I highly appreciate this opportunity to share views and experiences, assess the progress made and reflect on our policy priorities and policy options.

The topic of this panel, the sustainability of the global recovery, is gradually gaining importance amongst policy-makers. Ever since the financial crisis took hold, our focus has been on dealing with the aftershocks of the crisis and on fueling a rapid recovery. After a long, hard road, the global economy is gaining pace. Global growth rates are accelerating and jobs lost during the crises have been almost fully recovered. In addition, economic sentiment is high, globalization and integration are mitigating inflationary pressures, while a moderate upturn in business investment provides additional reassurance for growth. The latest forecasts confirm this picture. They point to a continued, synchronized and broad-based recovery.

The baseline is therefore positive, at least in the short to medium term.

However, as policy-makers, we should try to see beyond the horizon. Once we turn our attention there, we can identify several risk factors that might potentially affect global growth.

Without pretending to be exhaustive, the risks I want to share with you are the following:

- i. Divergences around free and global trade;
- ii. Insufficient structural reforms;
- iii. Financial markets turbulences; and,
- iv. Geopolitical uncertainty.

Let me briefly expand on each of them.

### **On global trade**

Global trade, financial integration and the free movement of goods, capital and people, is a key ingredient to the unprecedented economic success story of the post-war period. From a global perspective, open markets allow for a more efficient allocation of resources and provide better employment opportunities. This is crucial to Albania and the region we are located in, the SEE region, which represents a multitude of small and open economies, in the process of convergence to EU.

Therefore, recent tensions and potential protectionist policies are not exactly encouraging. Though the general view is that a trade war will be avoided, the uncertainties are already high. I believe it is our duty to work towards preserving – and possibly enhancing – the spirit of free trade.

## **On structural reforms**

The past crisis highlighted a broad range of structural problems and provided the political stimulus for determined structural reforms. In advanced economies, much of the focus has been on the financial system regulation and on the sustainability of public finances.

From a developing country perspective, such as Albania, and many countries of the SEE region, the challenge has been threefold:

- The need to revise our economic growth models, by improving external competitiveness and increasing internal flexibility;
- The need to rebuild fiscal buffers, through further fiscal consolidation; and,
- The need to enhance domestic savings and to attract further FDIs, especially in the wake of increased risk aversion among global private and institutional investors.

These challenges require determined action and strong political commitment. With the memory of the crisis fading, I'm afraid the political will for structural reforms might slow down. The goal of EU integration can enhance in this regard, but it is not a substitute to the strong domestic ownership of reforms.

## **On financial markets turbulences**

After years of low interest rates and the search for yield, financial agents have built up large exposures in the global financial system. The risk here derives from the fact that the expected normalization of monetary policy in – at least – a few big economies might shake global financial markets. Evidence was seen some time ago in the stock markets, with the so called '*taper tantrum*'. The large rise in U.S. bond yields during mid-2013 triggered a nearly matching increase in interest rates in many foreign economies, driving down the prices of risky assets globally, providing only a limited preview of potential dangers that might arise from an untimely or not enough clear policy action. Therefore, communicating the key elements of an exit strategy in due time and comprehensive manner, would greatly improve the prospects for a smooth normalization process in developed economies. This will consequently mitigate any risk of potentially unwanted spillovers abroad and encourage a stronger and more resilient global economy.

## **On geopolitical risks**

This is a subject where we – as a profession – are perhaps less qualified to discuss. Therefore, I will limit my comments only on pointing out that a revival of geopolitical tensions can only spike prices, spook investors, and disrupt the normal flow of goods and capital. The connection between geopolitical risks and growth prospects can be even stronger for developing countries and can make them ever more exposed to risks in distant geographical location. Developing countries are very vulnerable to trade flow disruptions with which their economic progress is

tightly combined. In addition, heightened risks due to geopolitical tensions can have implications on the so far progress reached in financial and technological integration, so vital in any developing country's progress towards a high income economy.

\*\*\*

**Dear Colleagues,**

As central bankers we are either directly responsible for, or stake-holders in, mitigating these risks. What would be a few effective guidelines for informing our policy response? Allow me to conclude my speech with sharing a few thoughts on them.

**I'll start from the last one, i.e. the mitigation of financial market turbulences.** From a global perspective, I believe an appropriate communication and information sharing will be fundamental. In a financially integrated world, no country is an island. The monetary policy normalization in developed countries might cause unintended consequences in developing economies, which in turn might spill back into the developed world.

From a developing country perspective, such as Albania, we have further work to do in order to reduce NPLs, to improve the supervision of the non-bank segments of our financial system, and to increase the resilience of our financial institutions and financial markets.

**On the need to upgrade our growth models,** I believe such a monumental task will require a higher focus on export-competitive industries and a general drive to increase productivity and flexibility. As the saying goes, every long journey starts with a simple step. In our case, I think that increasing investment in human capital and promoting market friendly reforms should be the key first step, in the right direction.

**On the need to improve fiscal buffers,** I believe we should insist on anchoring fiscal consolidation in clear and transparent fiscal rules. These fiscal rules should be both enough flexible– to allow for some degree countercyclical stimulus – and sufficiently robust– in order to avoid repeated fiscal slippages.

**In terms of attracting FDIs and preserving inbound financial flows,** we have to further improve our business environment and to expand regional integration. These objectives are not easy to be achieved; hence it is necessary to shift from the short term policy fixes and the discretionary decision-making. To achieve economic and political stability and an economic structure helpful to foreign and domestic investment, public policy needs to be carefully and intelligently designed with clear long-term objectives to be achieved. Enlargement of human capital, better quality of infrastructure, of legal framework and more efficient bureaucracy can all influence a significant improvement in the business environment and attractiveness of the market, to provide excellent opportunities for investors.

**Finally, on the need to preserve global trade,** we have to explain better and lobby harder in favour of the established historical trends of trade openness and global integration. The latter have proved instrumental on interconnecting the world, bridging distant lands and facilitating the technological boom with overall benefits passing equally to developed and less developed nations. We should not let a reversal to happen and should be prepared to articulate well and decisively the achievements the world has witness throughout this era of intensified trade and global integration.

\*\*\*

**Ladies and Gentlemen,**

Correcting the problems of the past and setting the global economy on a path of sustainable growth is a common responsibility. We all share the benefits of global growth. We should all share the responsibility of ensuring its sustainability.