

Comments on the Challenges of Changing Monetary Policy Setup. What Should Concern the Bank of Albania

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A stylized, dark teal silhouette of a mountain range is positioned in the bottom right corner of the slide, extending from the right edge towards the center.

The Three Major Points of the Paper

- ◆ De- facto IT in Albania.
- ◆ Good Performance by Regional and European Standards, Helped by World-Wide Favorable Conditions which Will Probably not last
- ◆ Major Challenges for the Future of Many Dimensions

The Three Major Challenges

- ◆ Developing the Albanian Statistical Infrastructure
- ◆ Improve the Delineating Lines Between Fiscal and Monetary Policy
- ◆ Develop the various elements Domestic Financial System

The Statistical Infrastructure

- ◆ The BoA has gained credibility through its successful low Inflation record ,reflected in well anchored inflation expectations (both of the public and the banks)
- ◆ Maintaining and strengthening credibility is very important for an effective IT regime. More credibility means, however, that the public relies more on the growing professionalism of the BoA, at a time when the complexity of the economy is continuously increasing
- ◆ It is therefore vital and urgent to develop the still undeveloped statistical infrastructure in Albania.

Improve the Delineating Lines between Fiscal and Monetary Policy

- ◆ A developed, well functioning interbank market, is a key element to an efficient monetary-policy transmission process.
- ◆ This requires that monetary policy operations are conducted in a framework of a structural liquidity deficit faced by the banking system. Such a system incentivizes interbank trading in order to meet their liquidity needs.
- ◆ This incentive, however, is very weak in the current Albanian Financial environment, and a major reason for it is the fact that the banks in Albania have a steady liquidity source in the form of the frequent redemptions of the short term Government obligations, which the Ministry of Finance (MOF) still issues regularly in substantial Quantities. This is a major factor in preventing the desired structural liquidity deficit.

Improve the Delineating Lines between Fiscal and Monetary Policy

- ◆ The challenge is:
 - 1) To hasten up the process of lengthening the maturity of the Government debt
 - 2) To reduce further the frequency of issues, thus increasing the size of each series and creating a potential for a secondary Government bond market
- ◆ Pass in Parliament the propose REPO law to reduce the legal risks to interbank trading.

Develop the Financial Markets

- ◆ Developed financial market infrastructure (including good governance, transparency and internal control) contribute to a more efficient transmission mechanism, i.e. contribute to reduce the incidence of monetary policy
- ◆ They enhance financial stability which in turn improve possible tradeoff between monetary and financial stability (relevant in heavily “Dolarized” countries like Albania) act as disciplinary force against populist policies and political cycles .
- ◆ The example of Instituting Pension and other Reforms in Israel as a case in point