



SPILLOVERS OF THE EURO-AREA EXPANSIONARY MONETARY POLICY IN ALBANIA

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Presentation at the 14th Annual NBP-SNB Joint Seminar: Monetary policy spillovers

Motivation

Albania is significantly exposed to the EU / Euro Area, through:

- Trade
- Financial flows and FDI
- Banking sector inter-linkages

Aggressive monetary policy easing across the EU affected the European financial landscape

Albania was bound to be affected

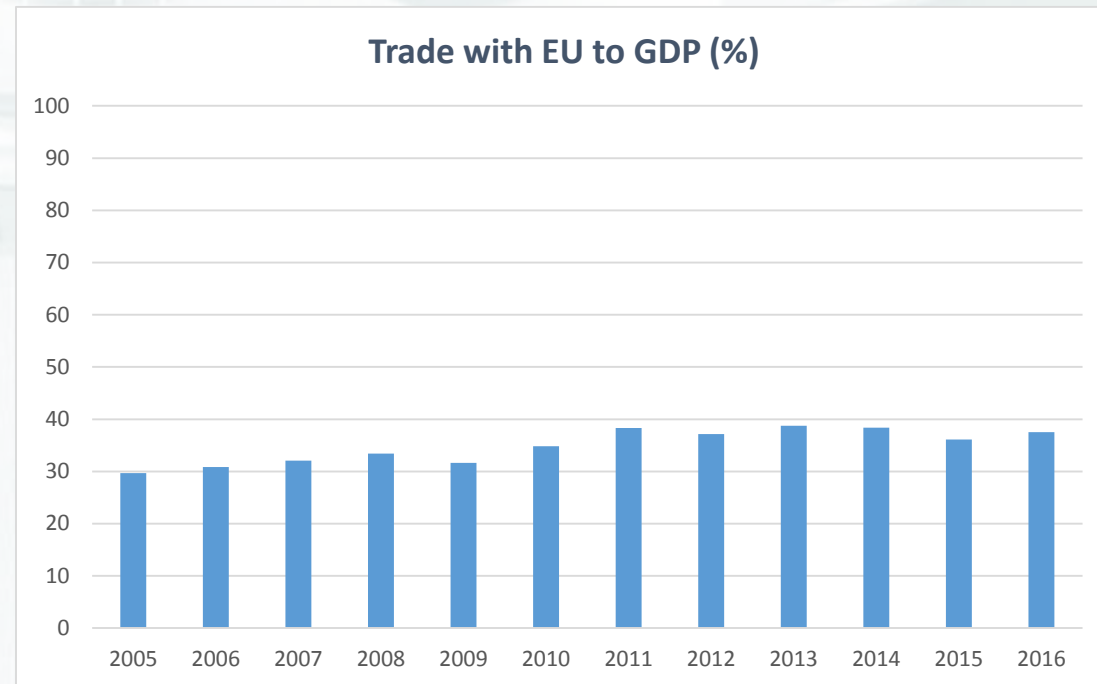
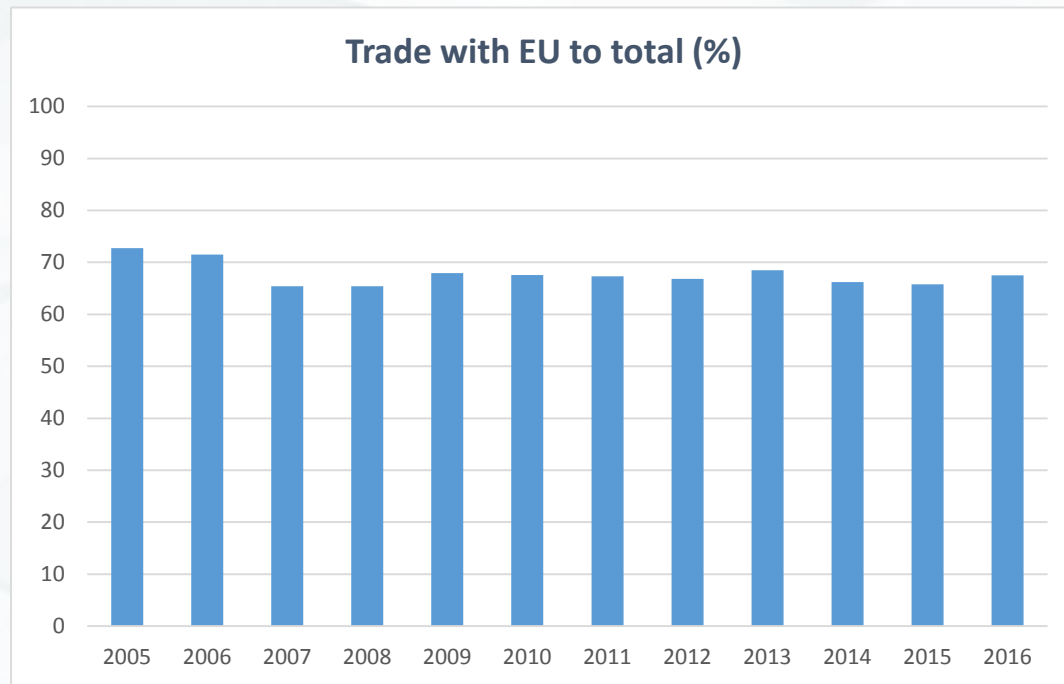
Overview

- 1. Albania's exposure to EU / Euro Area**
- 2. EA expansionary monetary policy**
- 3. Spillovers in Albania**
- 4. Concluding remarks**

Albania's exposure to EU: the trade channel

EU countries represent the main trading partner of Albania (mostly Italy and Greece)

Trade with EU represents a growing share of GDP

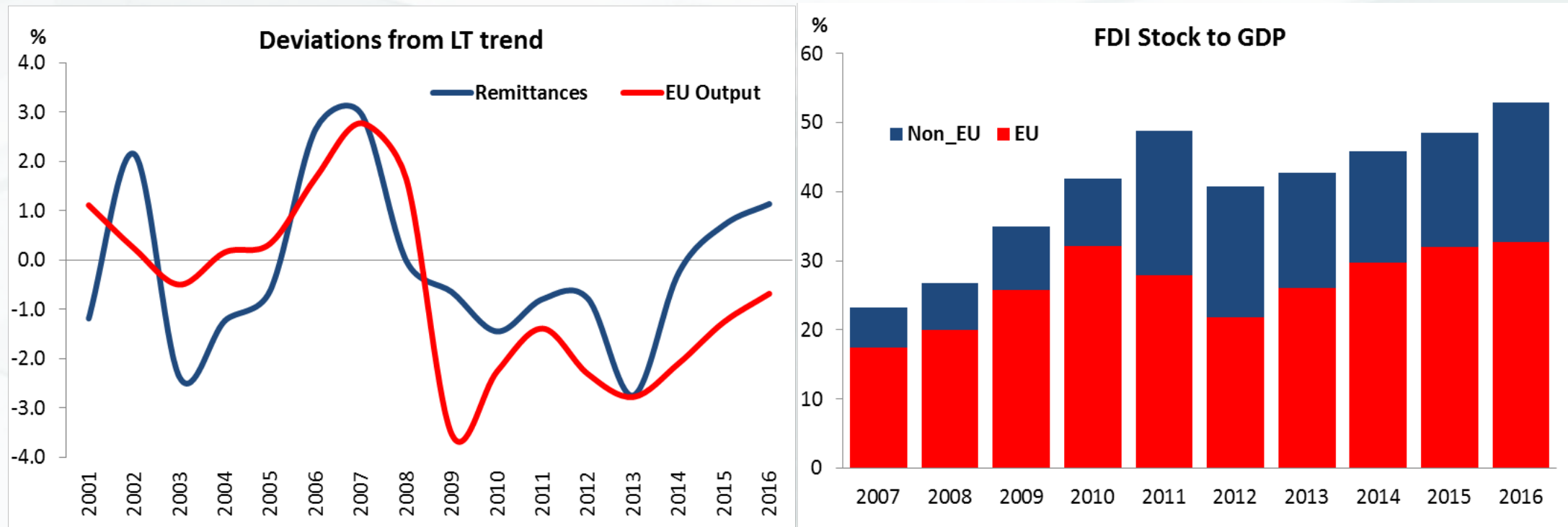


Source: BoA, INSTAT

Albania's exposure to EU: financial flows

Large private financial flows, mostly in the form of FDIs and remittances

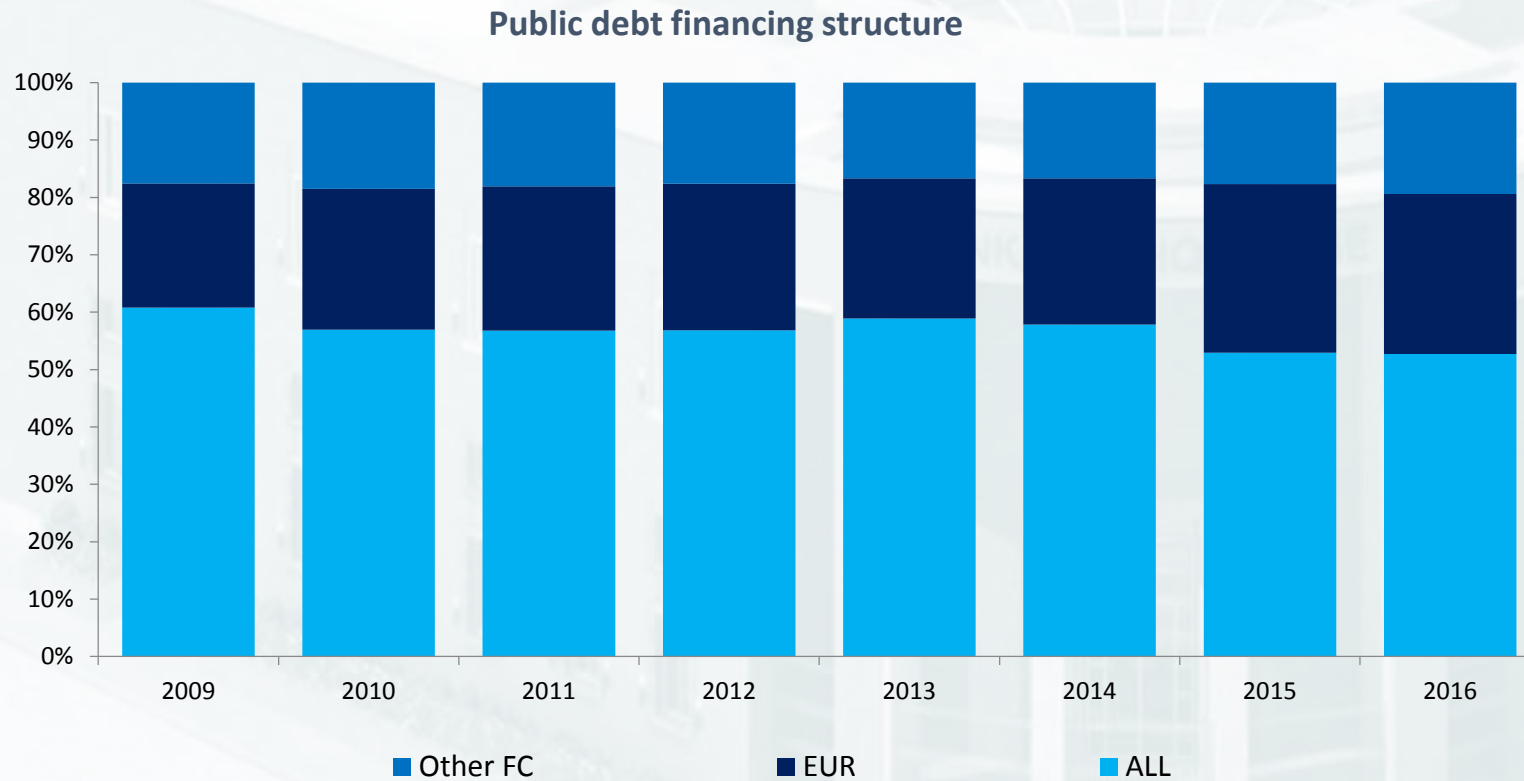
Remittances and FDIs appear to fluctuate with the EU output gap



Source: AMECO Database, BoA, INSTAT, own calculations

Albania's exposure to EU: financial flows (cont'd)

External funding plays an increasing role in the structure of public debt

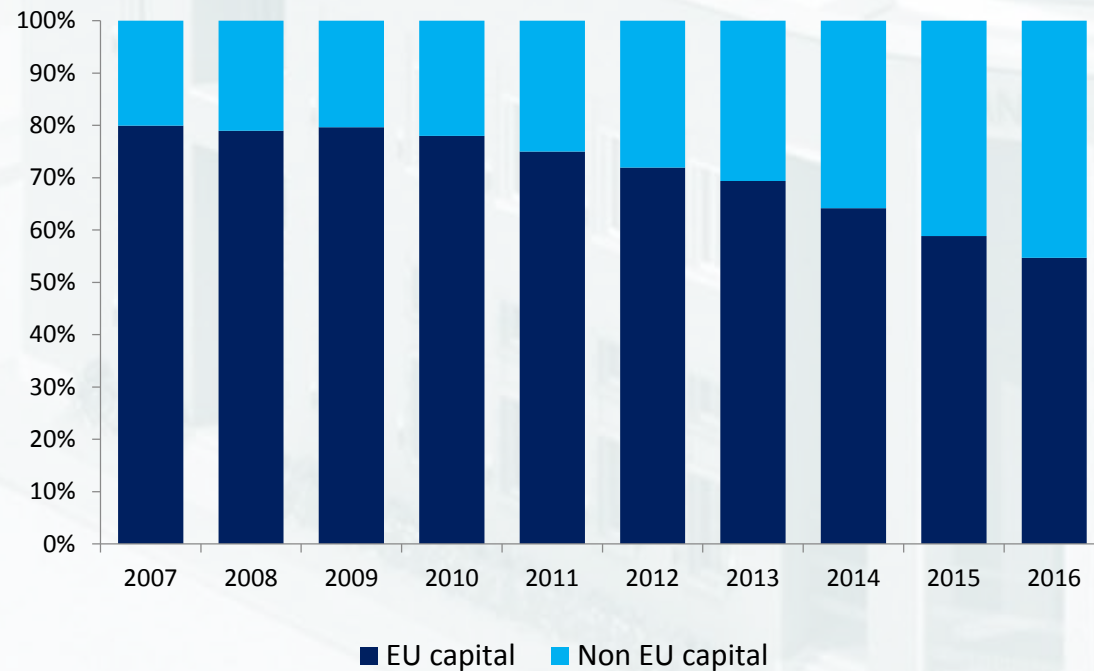


Source: Ministry of Finance, BoA.

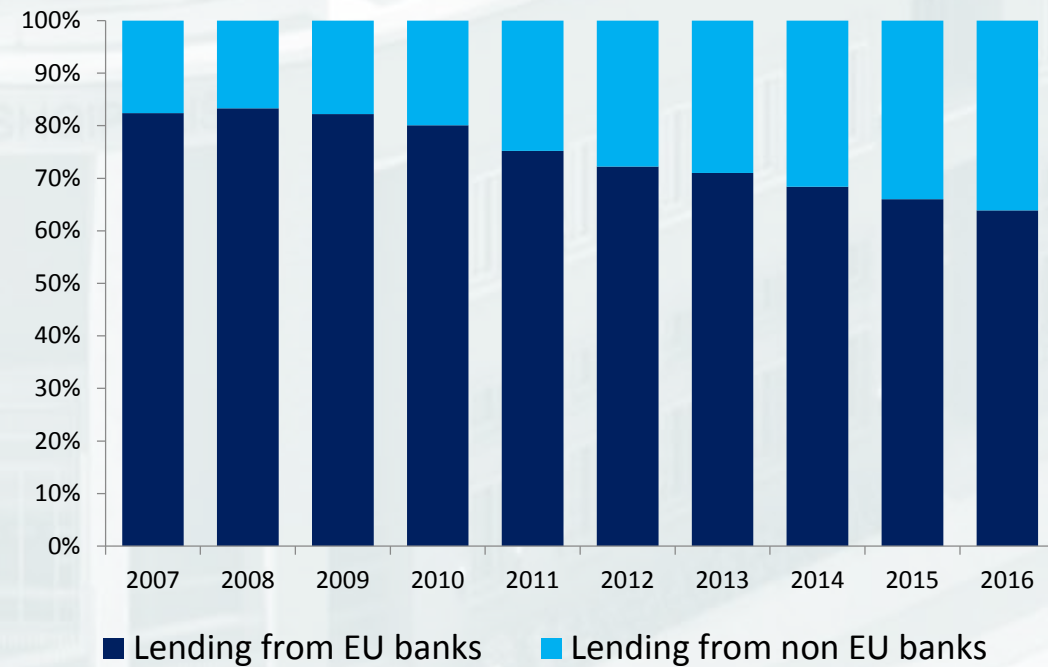
Albania's exposure to EU: *banking system*

EU banks dominate the banking landscape

55% of shareholders originate from EU



Majority of lending is provided from EU headquartered local subsidiaries

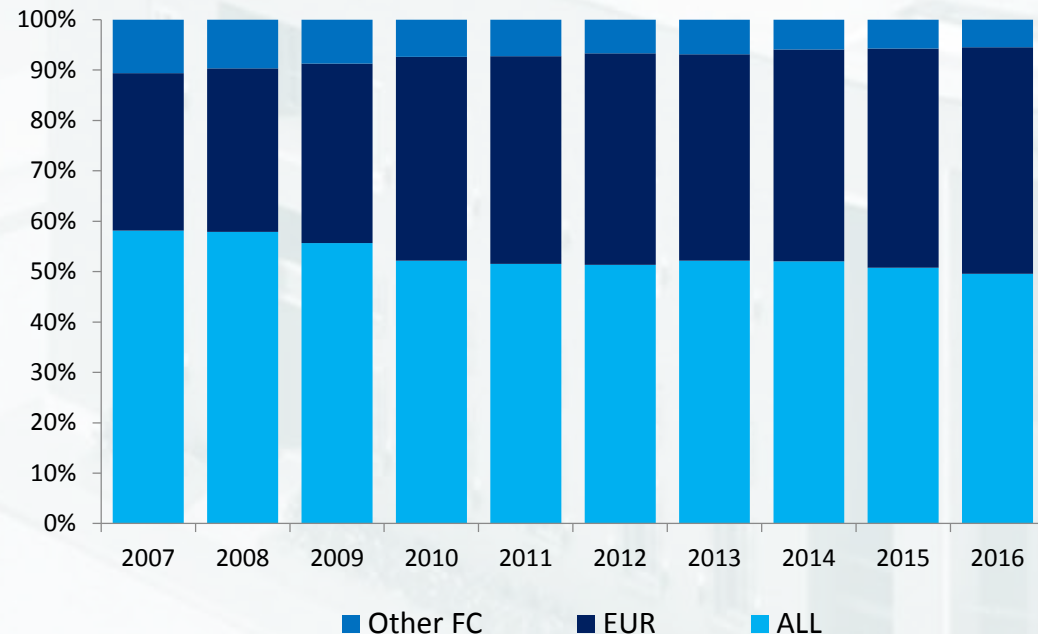


Source: BoA

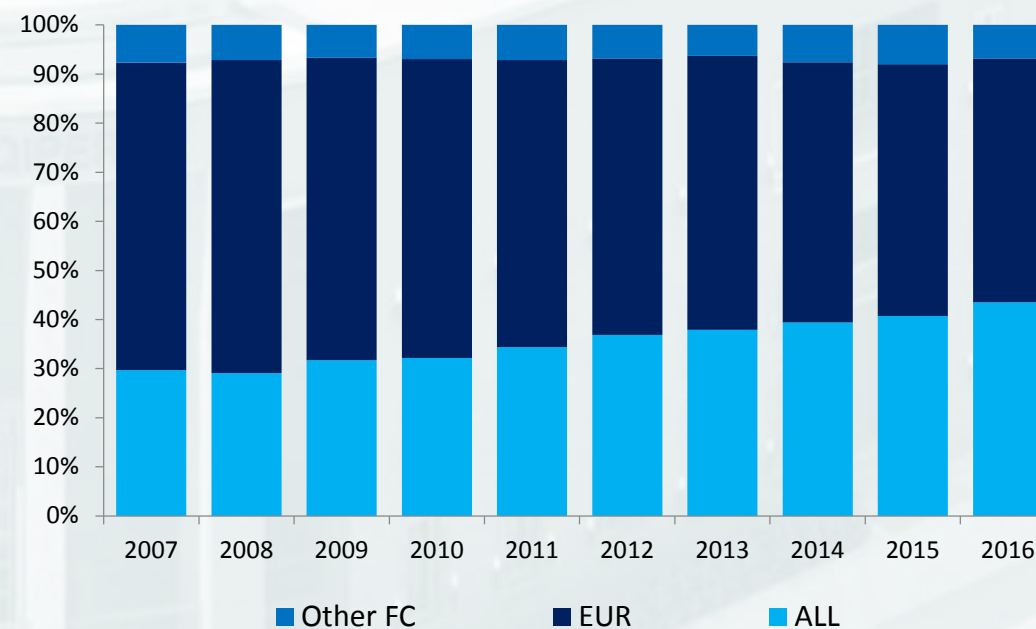
Albania's exposure to EU: *euroization*

Albania classifies as a highly euroized economy

Around 45% of total deposits...



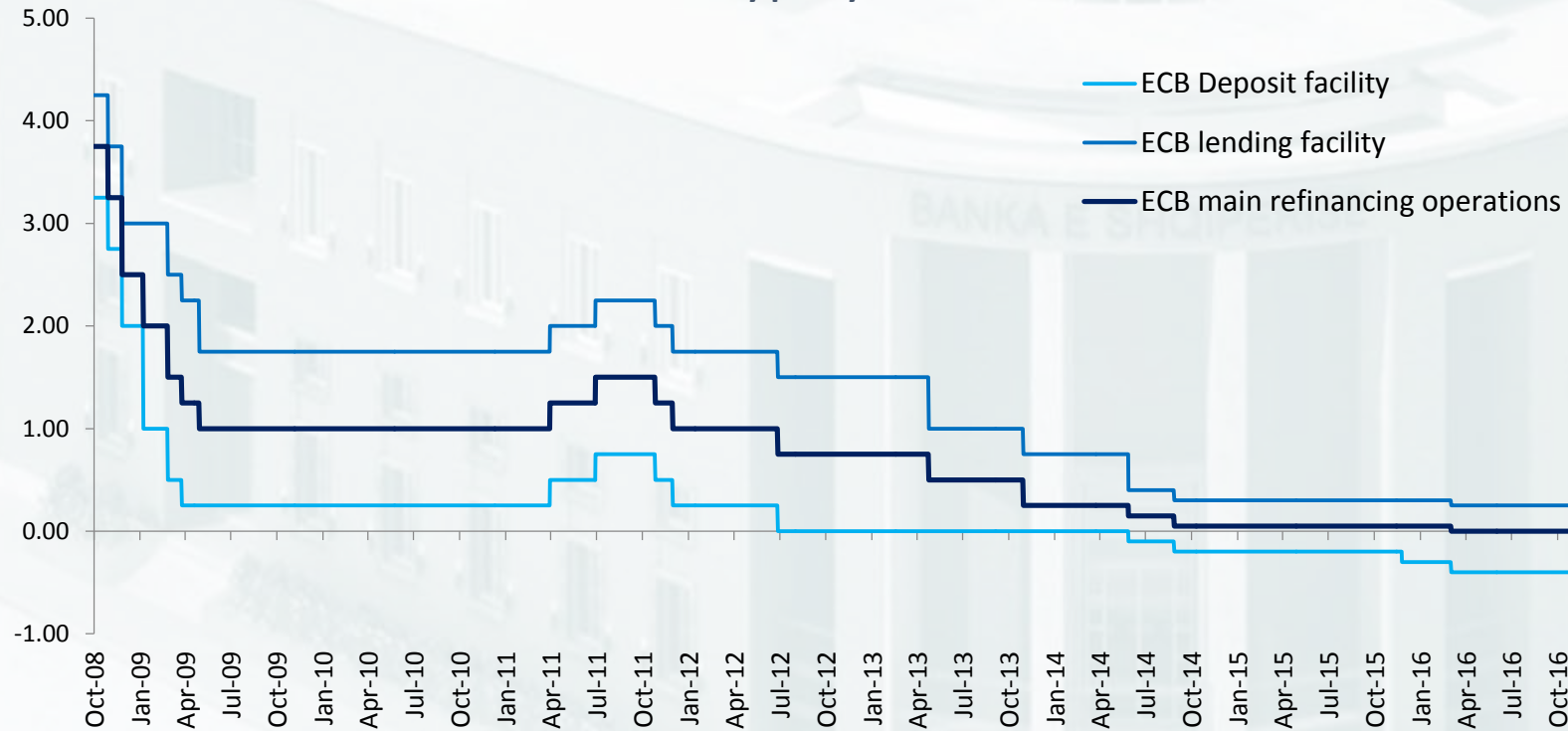
...and almost half of credit are in EUR



Euroarea: standard monetary policy measures

ECB standard monetary policy reached the limit rather soon

Conventional monetary policy measures in EA



Euroarea unconventional monetary policy

Constrained by the zero lower bound, ECB resorted to unconventional policy instruments

Liquidity and funding measures

- Fixed-rate tender procedure with full allotment
- Extension of the maturity of refinancing operations
- Expansion of the collateral pool

Outright purchases in malfunctioning market segments

- Securities Market Program (SMP)
- Covered Bond Purchase Programs (CBPP 1&2)
- Outright Monetary Transactions (OMT, September 2012)

Credit easing package (2014)

- Targeted Long-Term Refinancing Operations (TLTRO)
- ABS Purchase Program
- Covered Bond Purchase Program

Quantitative easing package (Jan 2015-ongoing)

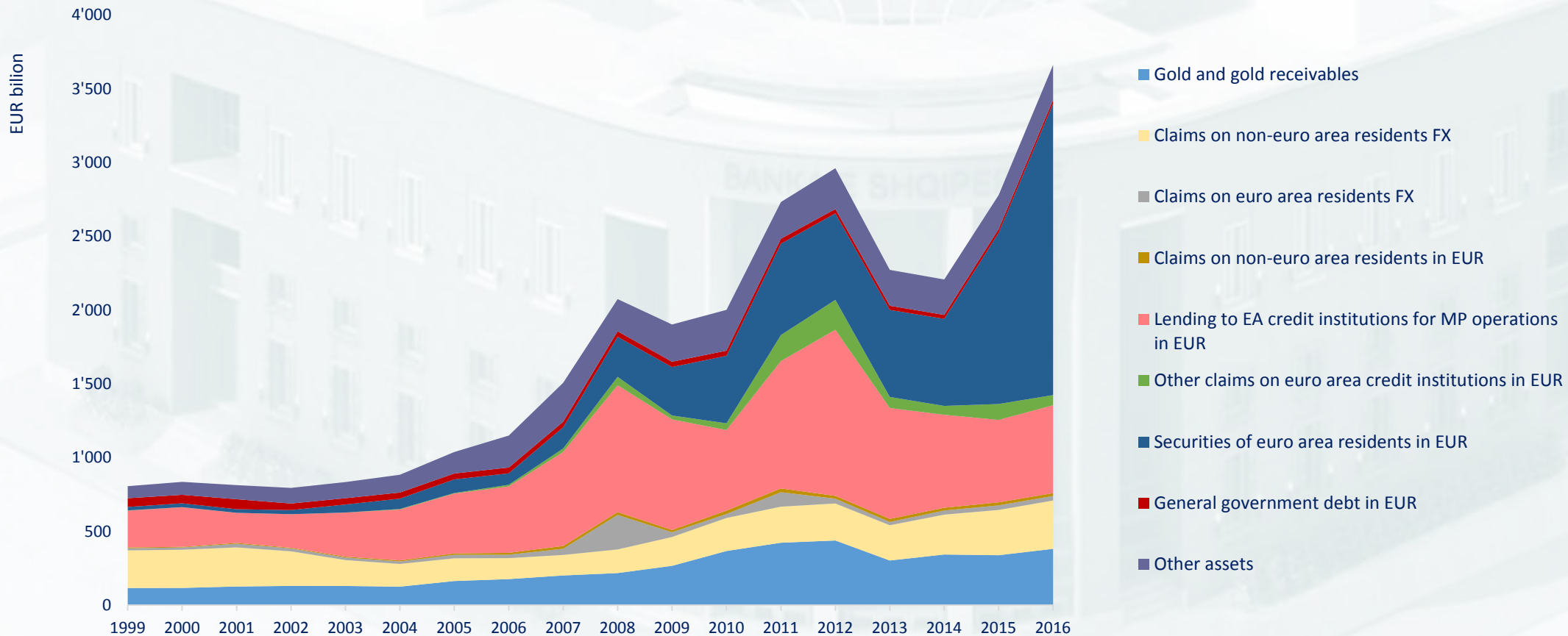
- Expanded Asset Purchase Program (APP): monthly purchases of securities issued by EA governments, agencies and EU institutions with commitment until the end of December 2017, or beyond, if necessary.

Forward guidance (as of July 2013)

- ...until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim

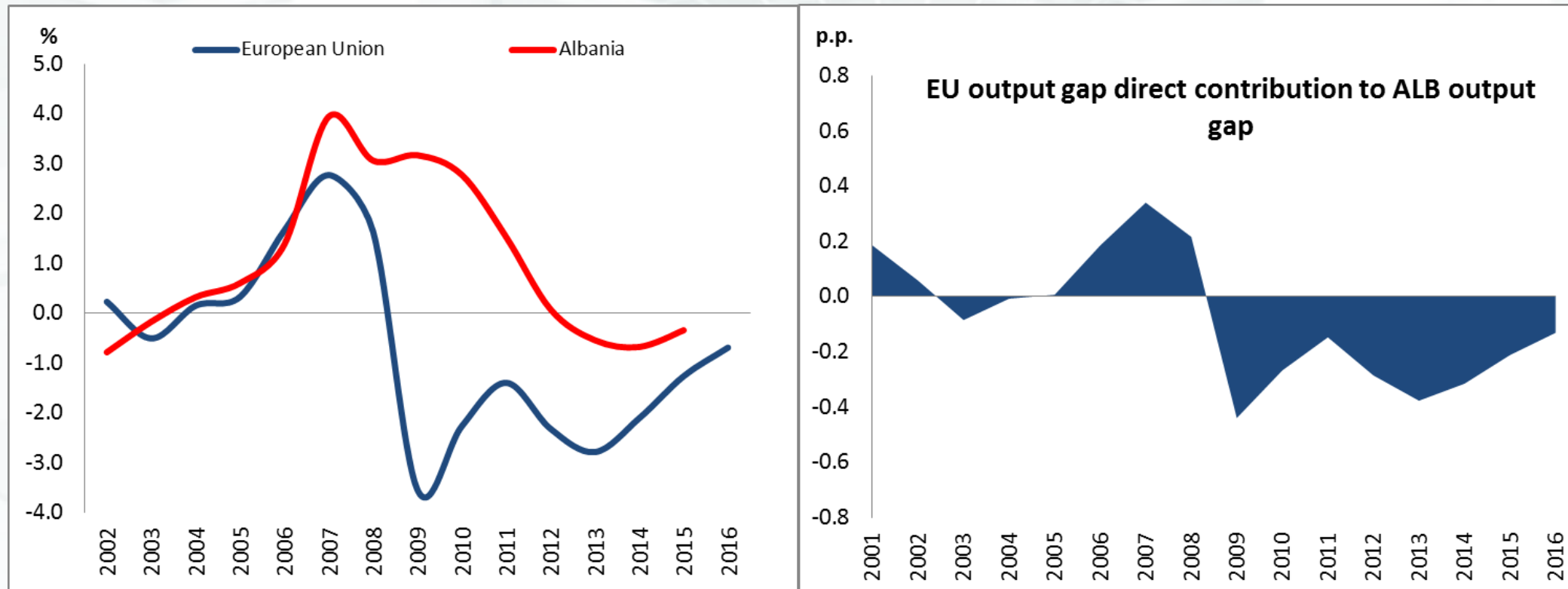
Euroarea unconventional monetary policy

ECB balance sheet expanded rapidly



Positive spillovers: boost to aggregate demand

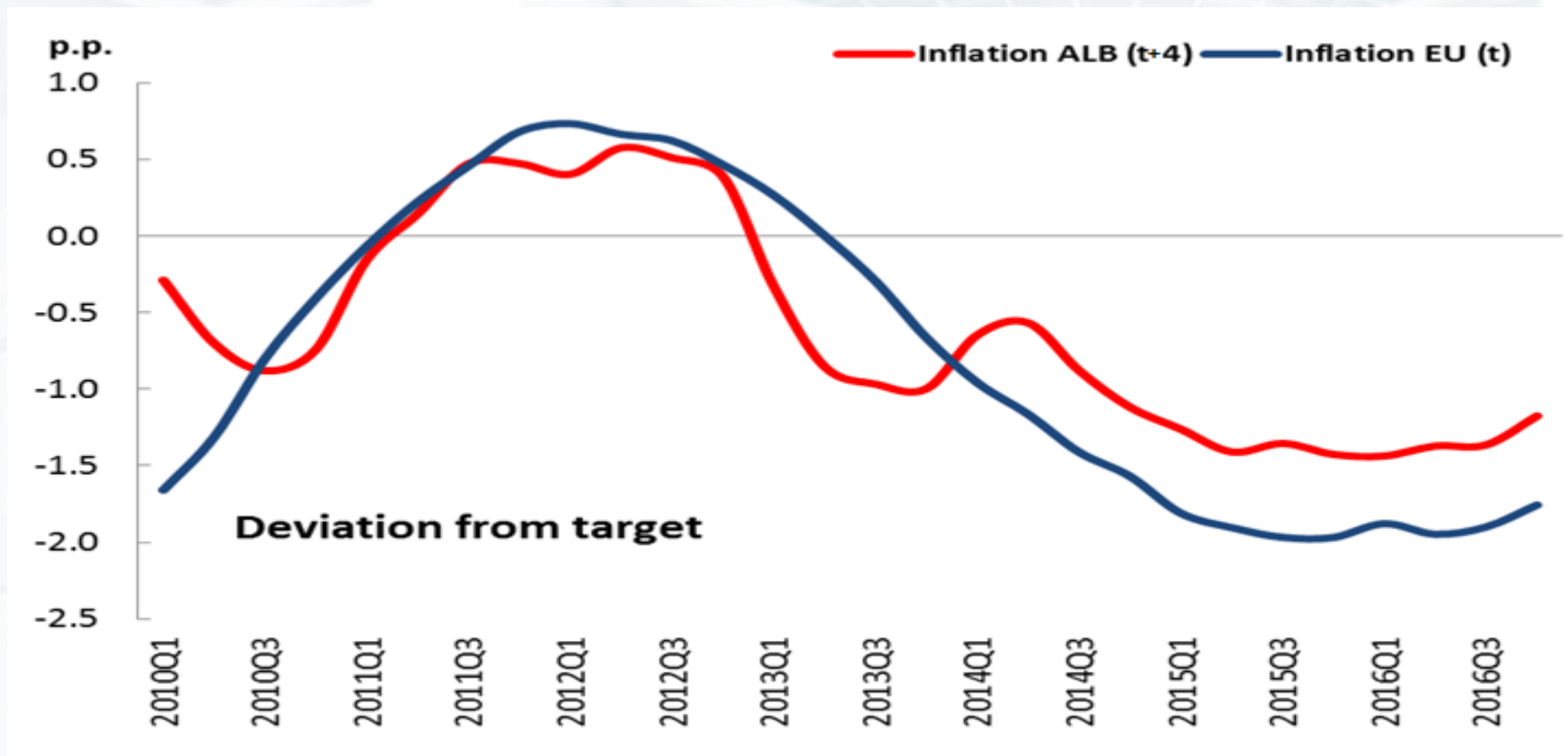
Cyclical convergence means EA policy stimulus helped raise aggregate demand in Albania



Source: AMECO Database, BoA, own calculations

Positive spillovers: containing disinflationary pressures

EA monetary policy helped mitigate external disinflationary pressures

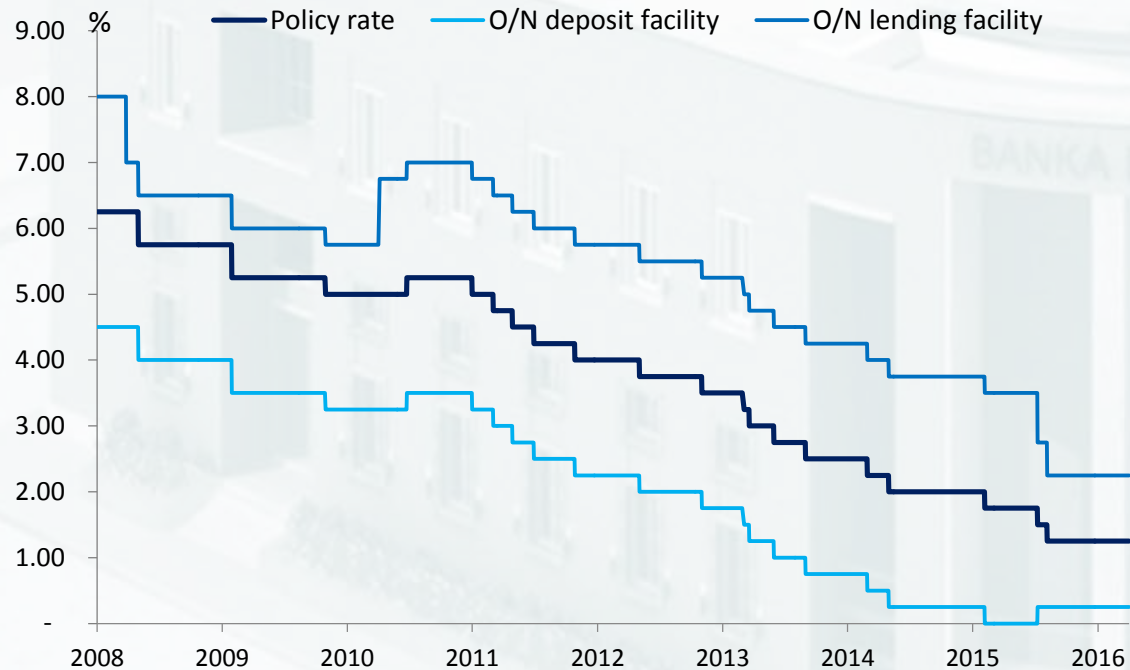


Source: BoA, EUROSTAT, own calculations

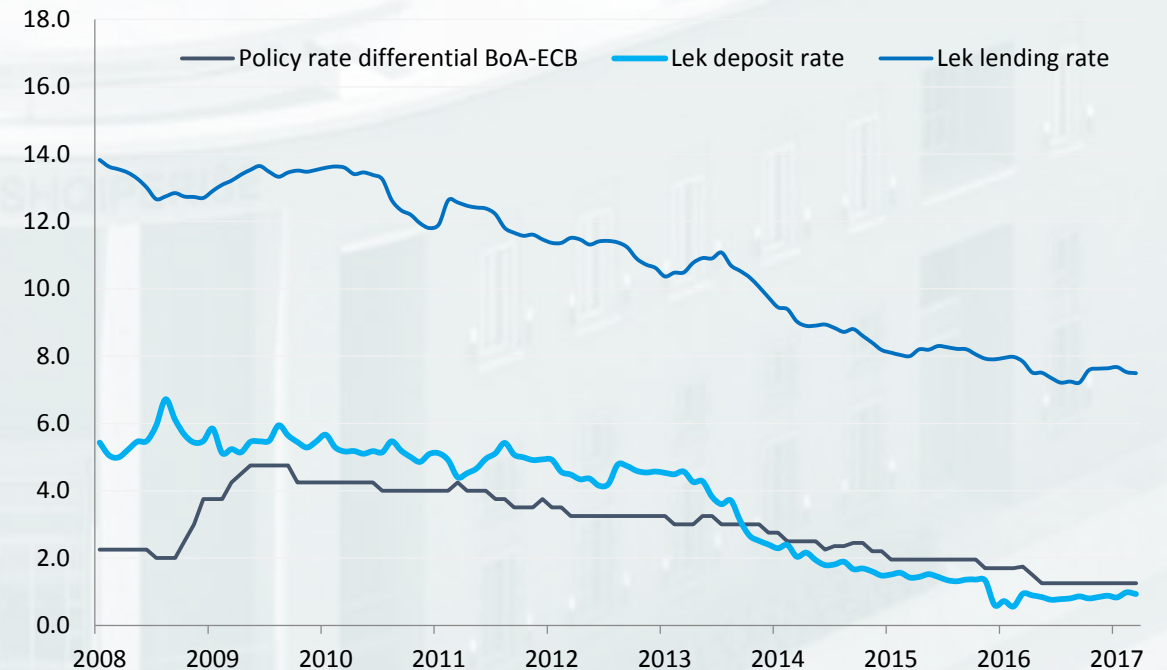
Positive spillovers: increased space for our monetary policy

Decreasing rates in euro allowed sufficient room to reduce domestic policy rate

Policy rate in Albania



The transmission of the BoA policy rate



Source: BoA

Challenges:

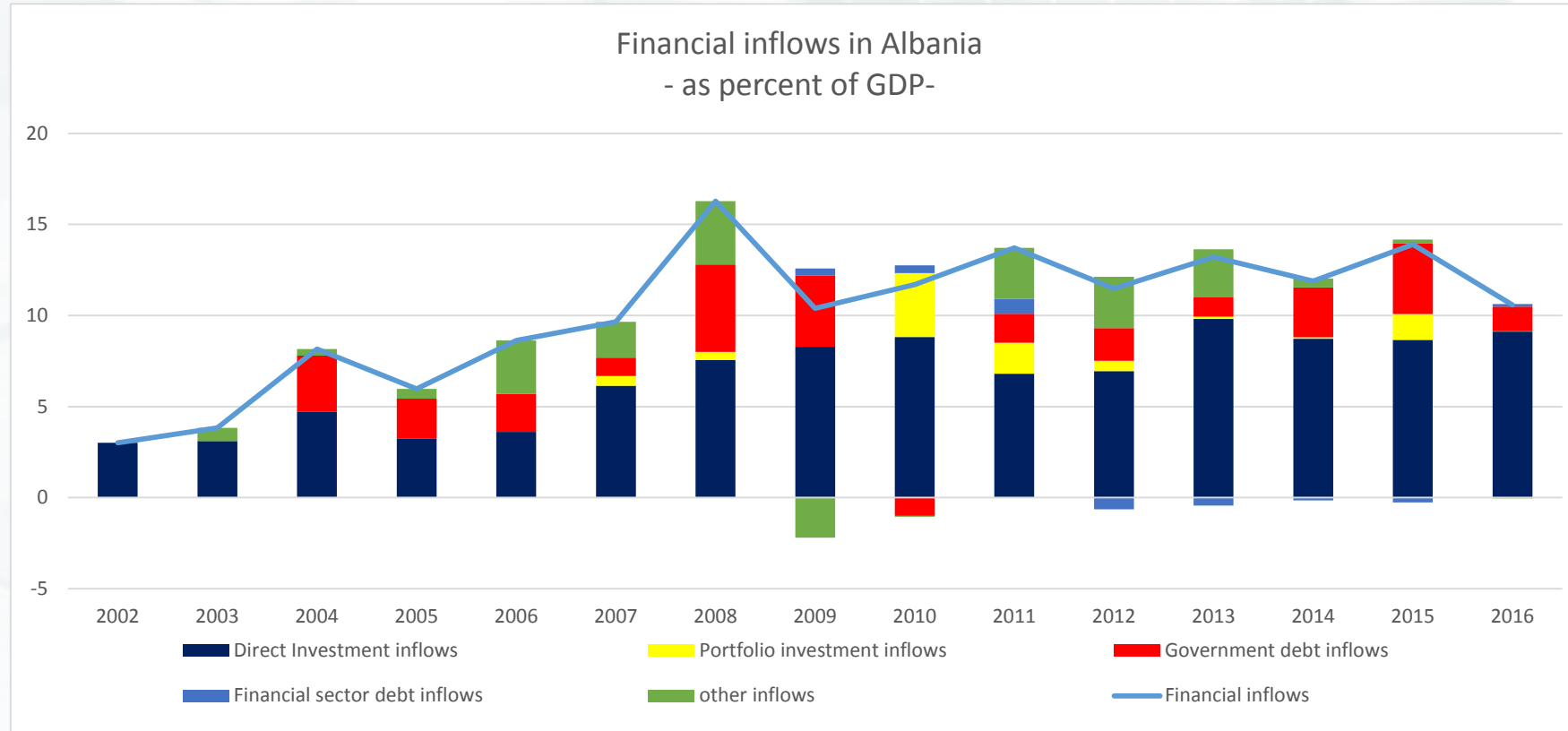
Economic volatility: financial flows, lending, exchange rate appreciation

Financial stability: deteriorated returns, exchange rate volatility

Monetary policy: estimating the effective lower bound for the policy rate

Challenges: economic volatility

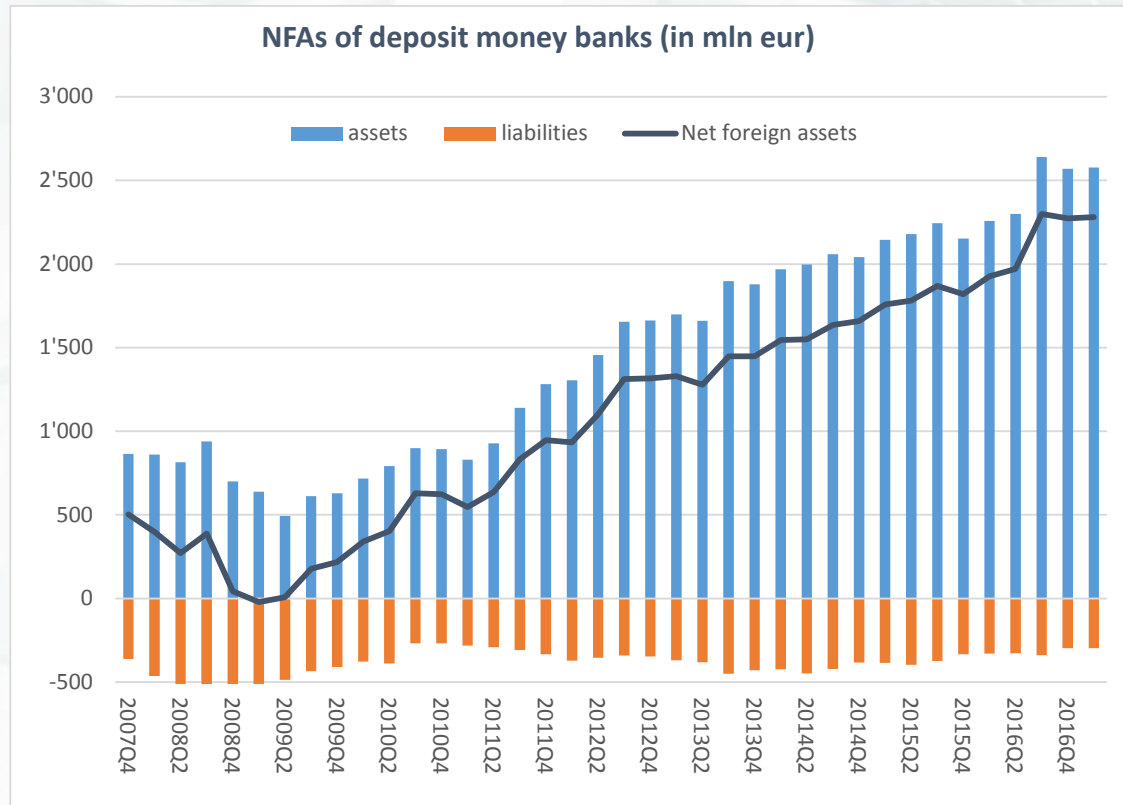
Financial inflows show no excessive volatility



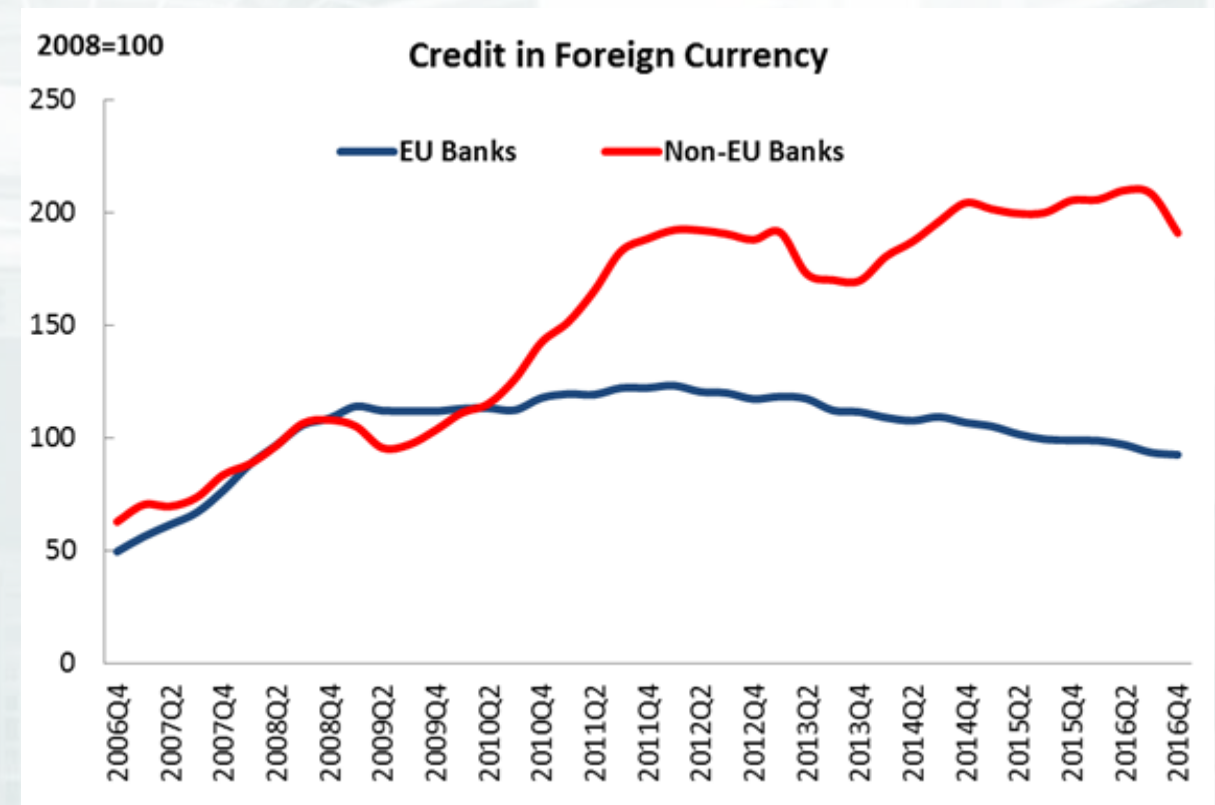
Source: BoA, own calculations

Challenges: economic volatility

EU banks lending activity constrained by tighter EU regulations

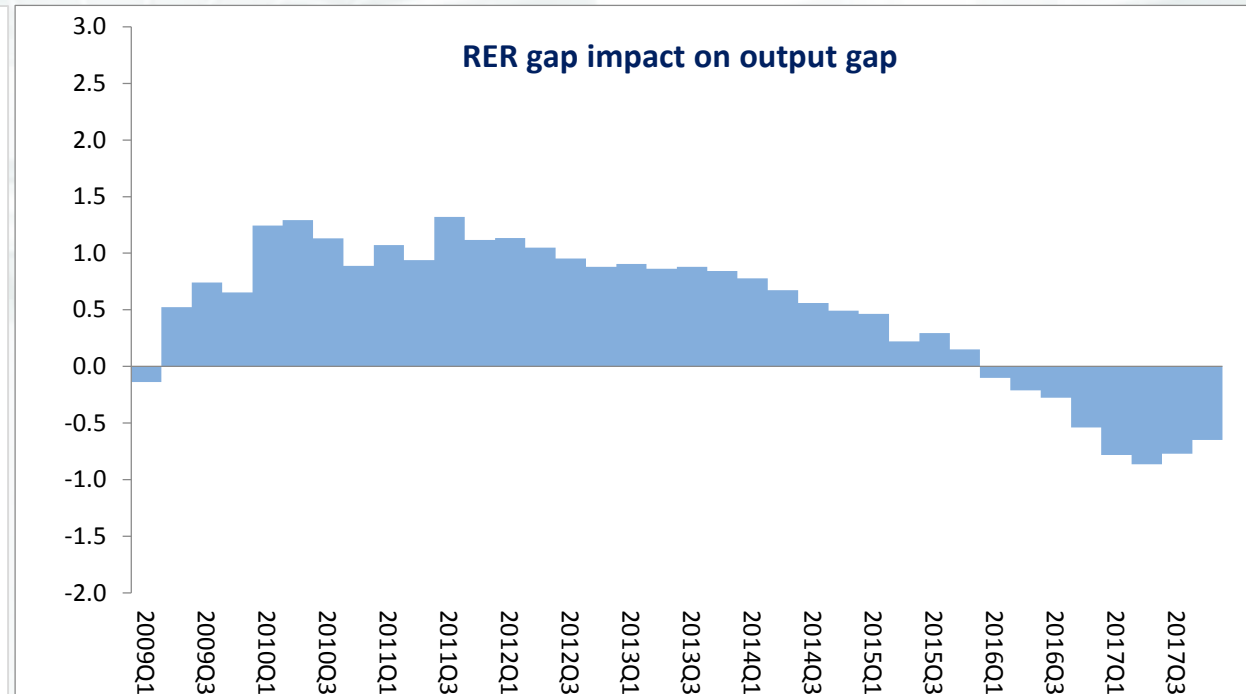
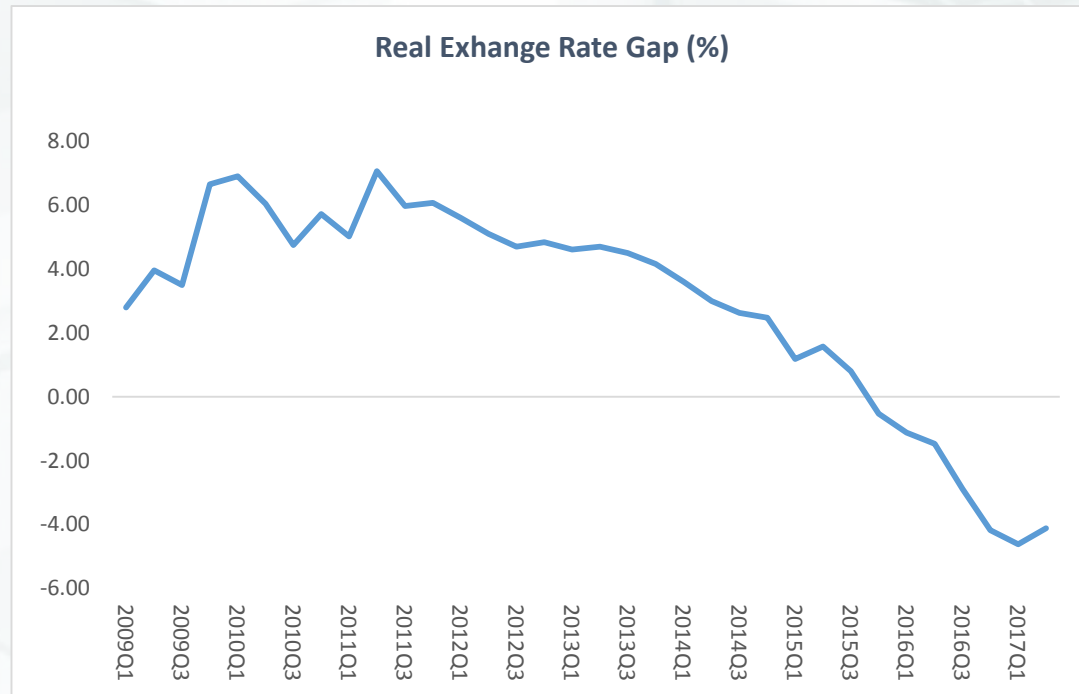


Source: BoA, own calculations



Challenges: economic volatility

Our exchange rate has been rather stable, if slightly overvalued

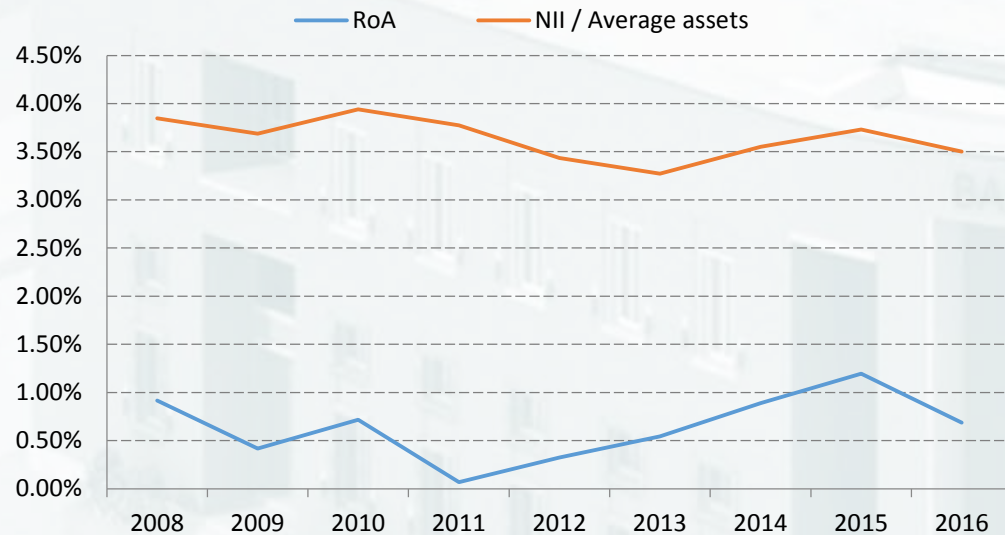


Source: BoA

Challenges: financial stability

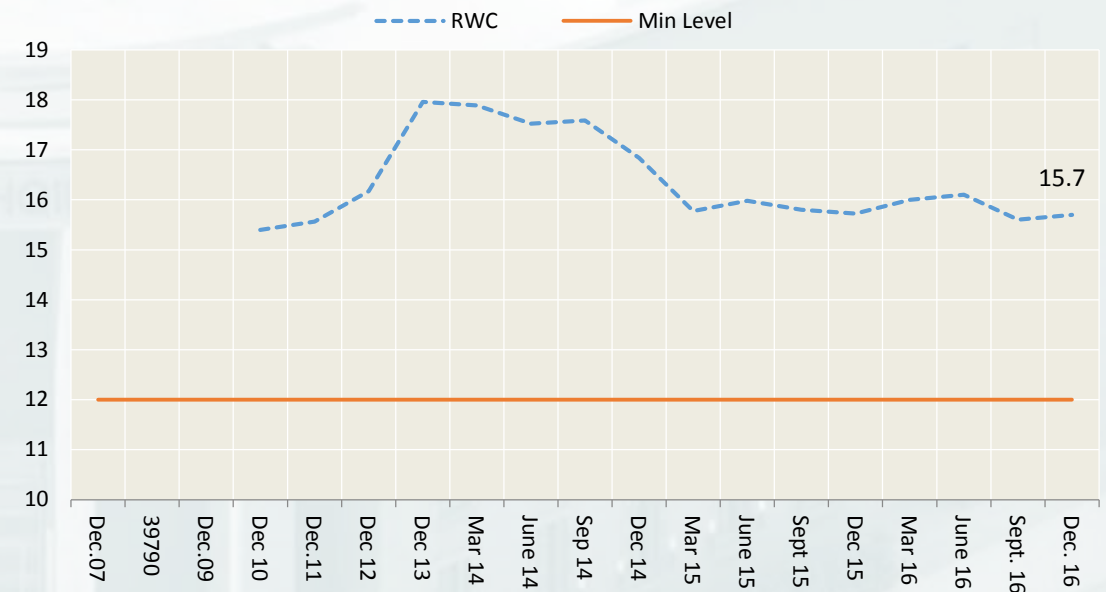
Low interest rate environment has not hampered the financial health of the banking sector

Albania's banking sector profitability



Source: BoA

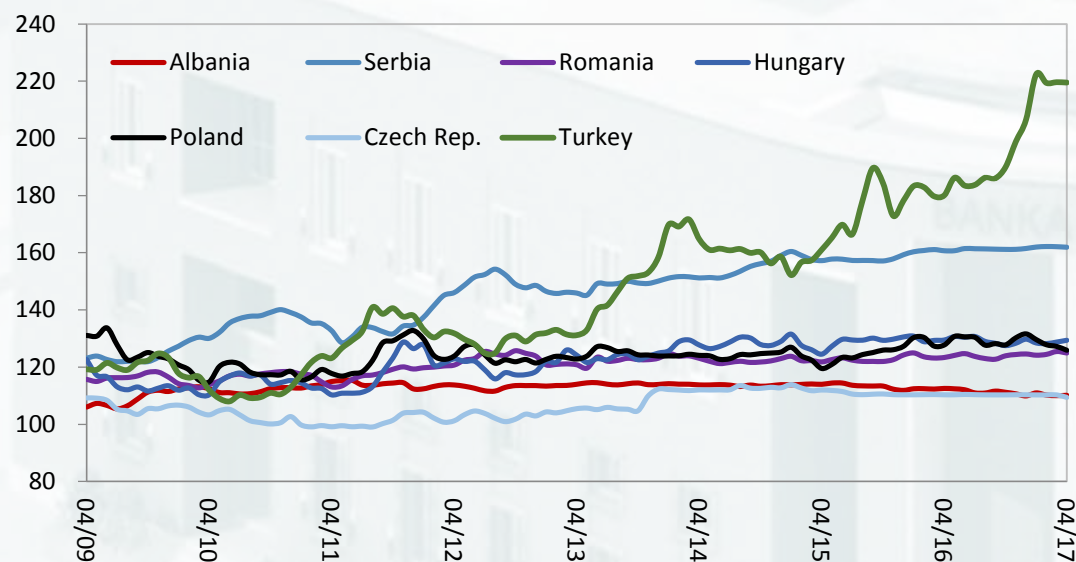
Risk Weighted Capital (%)



Challenges: financial stability

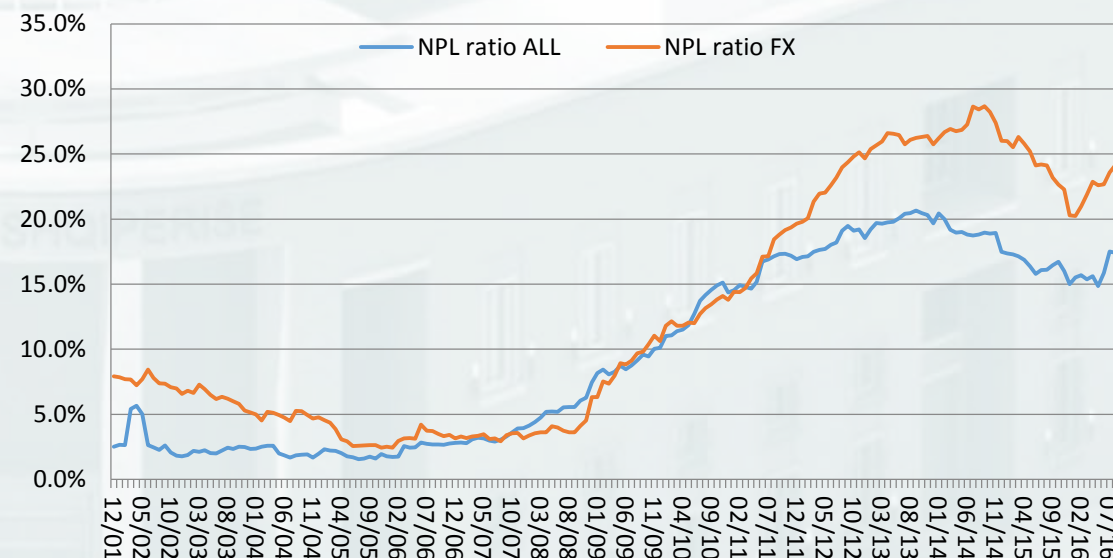
Exchange rate stability has contained the deterioration of credit quality

Euro exchange rates (Index, September 2008 = 100)



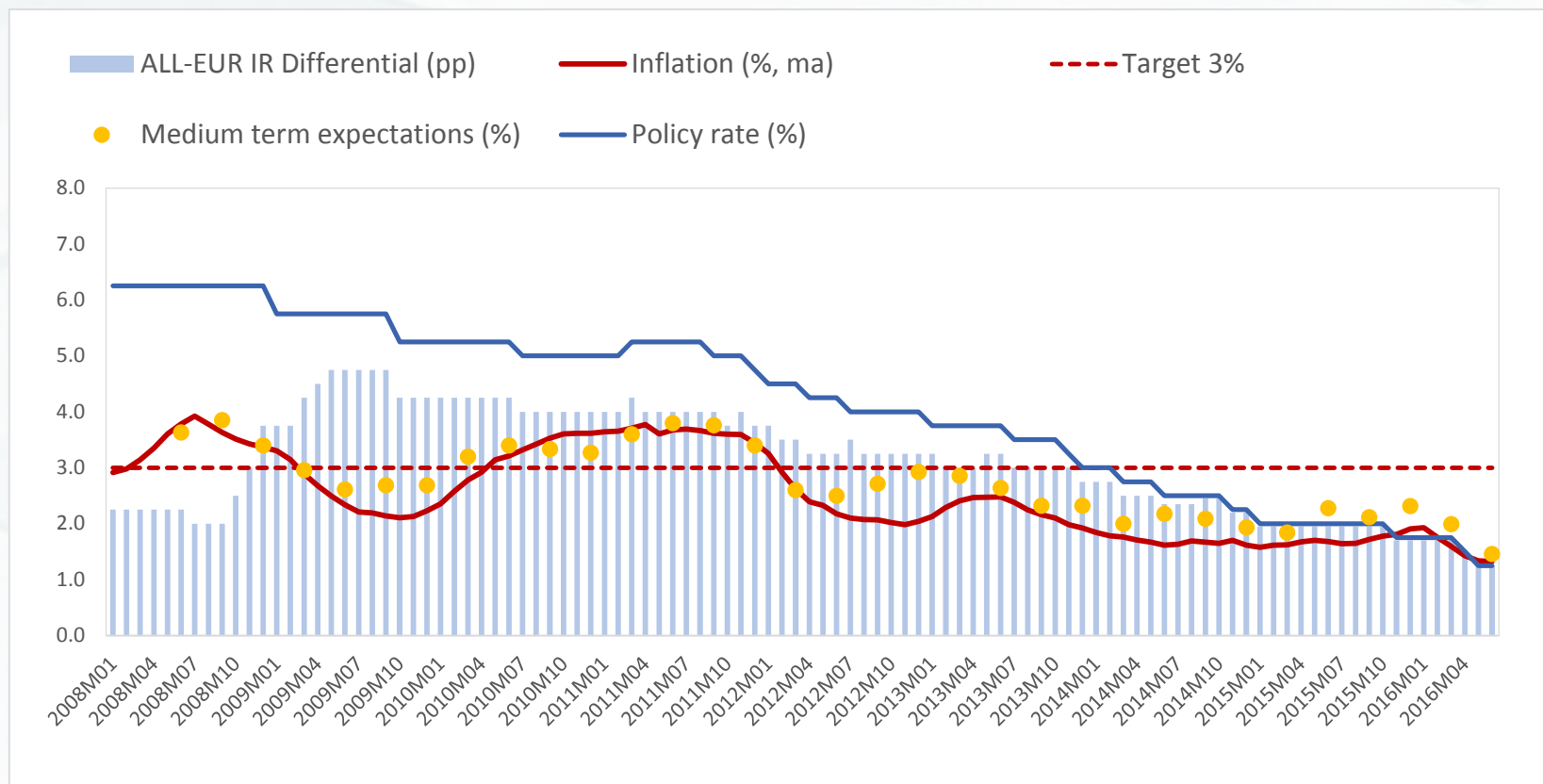
Source: BoA

NPLs in the Albanian banking sector



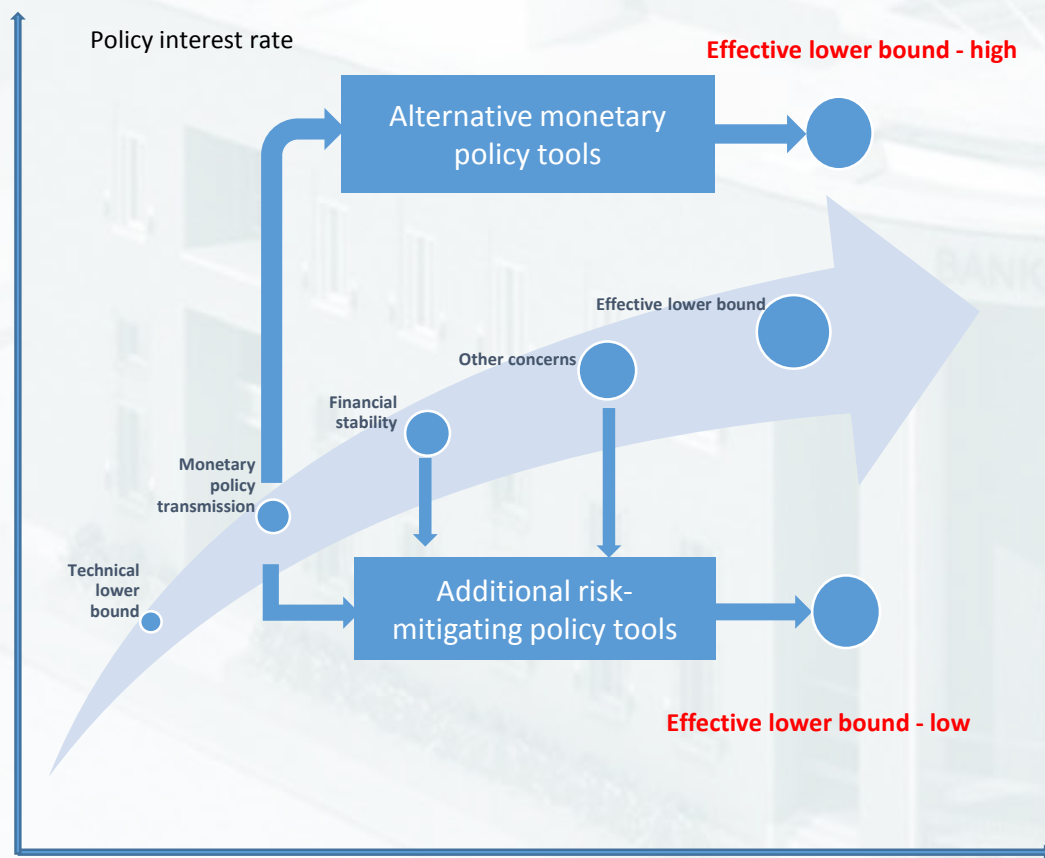
Challenges: monetary policy

As a nominal anchor, the ECB policy rate might constrain our policy options when faced with asymmetric shocks



Challenges: monetary policy

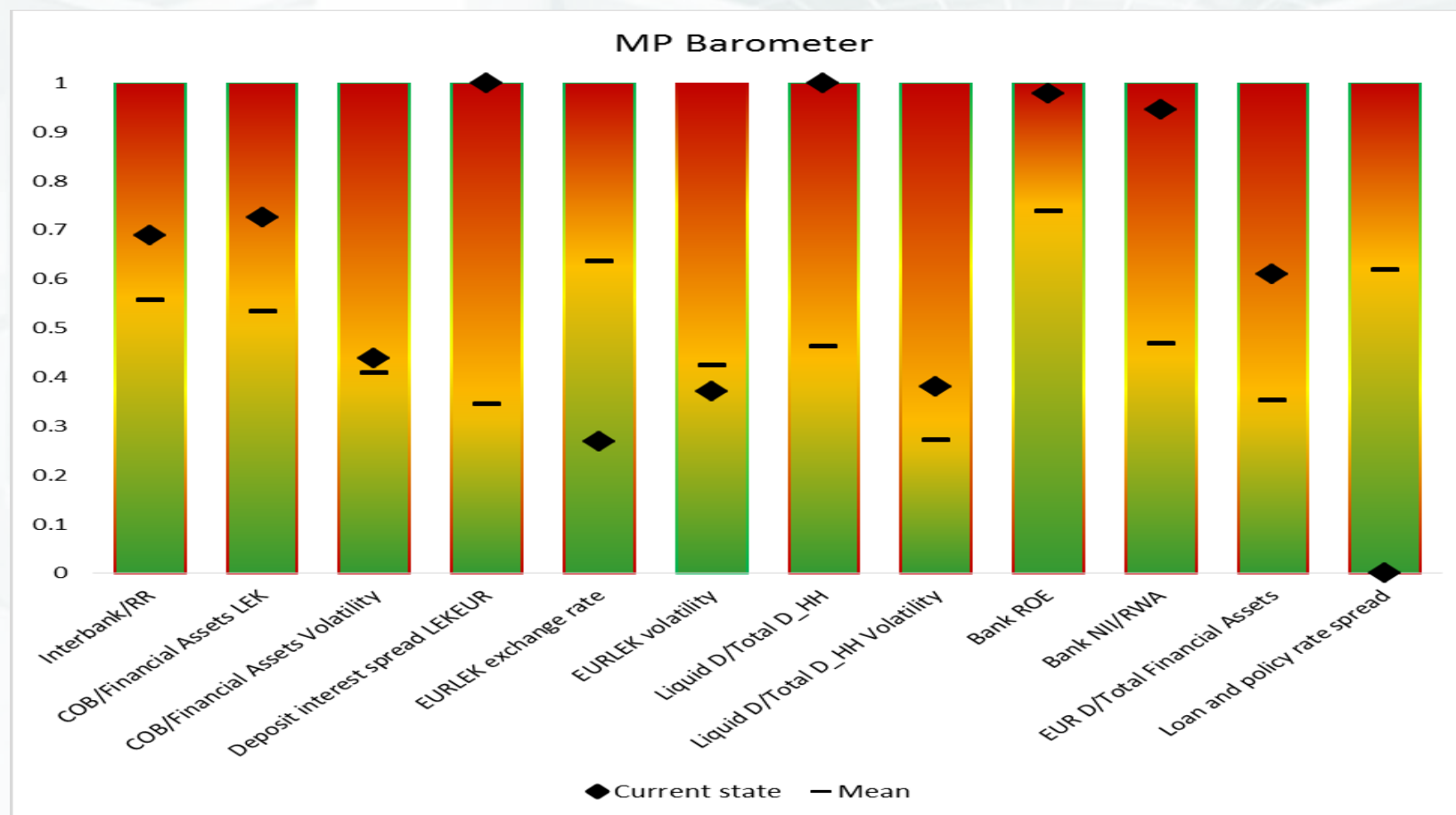
The conceptual framework for assessing the effective lower bound *



* See forthcoming IMF Working Paper 'The Effective Lower Policy Rate Bound in Albania', by Guido della Valle, Romain Veyrune, Erald Themeli, Ezequiel Cabezon, and Shaoyu Guo

Challenges: monetary policy

The 'barometer' as a dashboard to summarize the distance from the ELB



Conclusions

- **Albania remains heavily exposed to the EU / EA / ECB monetary policy**
- **The ECB monetary stimulus had positive effects in Albania, through:**
 - **Boosting aggregate demand and controlling inflation**
 - **Increasing monetary policy space**
- **... but also posed 'contained' challenges to:**
 - **Economic activity**
 - **Financial stability**
 - **Monetary policy**
- **Some caveats are worth remembering though:**
 - **The understanding of the transmission remains still partial**
 - **It is difficult to disentangle the impact of monetary policy tools from other simultaneously occurring tools and policy responses**



THANK YOU!

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