



WE WANT ALBANIA TO BE LIKE THE REST OF EUROPE!



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Ardian Fullani has 30 years of experience in banking. He was Chief Executive Officer at Italian-Albanian Bank and Governor of the Bank of Albania (2004 – 2014). He made a major contribution to the negotiation of the debt reconciliation under Article VIII of the IMF agreement and to the building of a modern central bank in Albania. By strengthening the institutional and legal framework for an independent central bank and promoting a sound policy mix, he contributed to macro-financial stability in Albania. He also provided business consultancy and coordination services in important investment projects, including German-Albanian projects on financing small and medium-sized enterprises in agriculture and agro-industry, foreign exchange market restructuring and institutionalization, capital market development and capital market analysis in Albania. He has a master's degree in Finance and Law from the University of Tirana.



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This was the slogan used by students during the democratic revolution in 1990. This is still the slogan today, while Albania remains standing at the door of the EU, waiting for negotiations to open. Many things have changed since then, but the dream of becoming European citizens still remains.

The first act of EU convergence in 1991, in my memory, was IMF-led balance of payments support. Since then, we have engaged in a speedy process of transformation towards a market economy and EU membership. Structural reforms undertaken since the beginning of this transition have brought considerable political, economic and social progress and have led to a substantial increase in living standards. Early structural reforms aimed to establish a market economy and were jointly led by the IMF and the integration processes of EU and NATO membership. These often painful reforms involved cutting subsidies for insolvent state-owned enterprises, massive price liberalisation, privatisation, land reform, as well as deepening and broadening markets and democratising society.

IMF programs and EU institutions became important foreign anchors of economic, institutional and regulatory development. These reforms provided the necessary incentives for rapid



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macroeconomic consolidation. Despite ups and downs and a few crisis episodes, Albania repaid its foreign public and private arrears and established the macroeconomic foundations that enabled its fast catching up process. By the beginning of 2000, Albania had made substantial progress on its way towards the European Union. The *acquis communautaire* and the Maastricht criteria become the most important external anchors of Albania's institutional, political, legal and economic development. Significant progress was made in its EU accession process too. This resulted in further consolidation of macroeconomic conditions as well as responsible monetary and fiscal policies that have contributed to the impressive economic performance. For more than a decade, the economy grew by around 6% percent annually with stable inflation and financial markets. Structural reforms aimed at EU membership led to the modernisation and democratisation of the institutional and legal framework.

Albania's institutions and their functioning were designed around the European integration process and European institutions. This is perhaps best exemplified by the central bank, the Bank of Albania, whose objectives, targets, policy tools, organisation and governance model were closely based on the European Central bank.

I highlight the example of the Bank of Albania because I

think the success of the convergence process depends on the implementation of structural reforms that allow the economy to work efficiently, and thus promote political, social and economic convergence towards the EU. This means that each country and its institutions should adopt the standards stemming from the *acquis communautaire* and other internationally accepted codes (such as the Basle rules) combined with energetic steps to improve the economy, society, culture and the environment.

Albania's EU aspirations have played an important role in its development and have led not only to progress in its society and institutions but also to speedy economic and financial integration with the EU. The EU dominates foreign trade in goods and services, foreign direct investment and the ownership structure of the banking and financial system. This economic and financial integration naturally become an indirect force of integration that accelerated institutional, legal and regulatory convergence in financial markets and the private sector. Once established in Albania, the headquarters of the EU financial groups enforced requirements to comply with EU regulations in the financial sector. This became a leading force for the implementation and convergence of laws and regulations.

The integration of Albania's financial markets and banking sector and their institutional, legal and regulatory convergence has



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proceeded faster and been more complete than the overall level of political and institutional convergence. Even the considerable scale of 'euroisation' might be considered a natural expression and consequence of convergence by a private sector which understands that full EU membership is completed by the adoption of the euro.

The external anchors provided by the EU integration process have also helped to reinforce domestic policy anchors. Reforms usually have significant political costs and politicians will be tempted to yield for short-term gains, losing the guidance of domestic anchors. That is why I consider the EU integration process a necessary and efficient external anchor for the establishment and maintenance of solid domestic anchors in our societies. Such pressures will be necessary until our society has achieved a higher level of emancipation and wellbeing, which can naturally support its own domestic policy anchors. Our experience shows that this convergence process automatically functioned as a safeguard mechanism for financial and price stability, even during the most difficult financial and EU debt crisis.

These distinctive traits of political, institutional and legislative convergence and economic and financial integration were not unique to Albania but happened across all countries in the region. All south-east European countries have chosen integration with

the EU as the main vehicle to deliver sustainable and long-term economic prosperity to their citizens who speak the languages of convergence. Politicians, decision makers, analysts, almost everyone in our countries have named EU accession as the main priority and the top political goal. In this respect, the EU integration process has directly and indirectly supported development and promoted cohesion and cooperation among the countries of the south-east Europe.

Led by the European integration process, the countries of the region have also signed bilateral free trade agreements and coordinated infrastructure projects among themselves. Bank of Albania studies show that these free trade agreements have positively affected trade flows among countries in the region. In this process, they understood that comparative advantages are not burdens but build bridges. Authorities in south-east European countries have shown signs of consistent regional collaboration and are poised to make additional efforts to unify and harmonize their legal, institutional, regulatory and infrastructural frameworks. In this respect, investments in large infrastructure projects, such as the national highway connecting Albania to Kosovo, are not seen as simple patriotic acts but rather as acts of convergence. In this case, the highway promises to grant quick and easy access to Albanian seaports and connect the Balkans with the EU.



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The EU is the principal trading partner across the region and a small group of EU financial institutions dominates the financial system. This has led to increased financial intermediation with EU Member States and has supported trade, investment flows, and institutional strengthening. This expansion of the financial sector and financial flows has also supported real convergence within south-east Europe and simultaneously as well as institutional, legal and regulatory convergence (as described above for Albania).

For more than 20 years, European integration, in all its political, economic and financial dimensions, has been the main driving force for the economic and social prosperity of the South-East European region. Our countries have undergone structural reforms and adapted their regulatory, legislative and institutional frameworks as a result of this partnership. These reforms have enhanced the credibility and independence of public institutions and, in particular, the central bank's role and independence.

The process has delivered very positive results and based on development indicators such as GDP per capita, the relative size of financial intermediation, the relative cost of labour and capital, and the level of technology implementation, this process should continue in the future.

New trends in sentiment, which began to emerge after the financial crisis and the sovereign debt crisis, however, are now emerging and these competing ideas are diminishing the anchoring role that the EU and EU integration process has played.

In recent years, the EU has been facing significant challenges from Brexit to Euroscepticism and the rise of populism in politics. Southern EU members, are facing additional problems of fiscal sustainability and in the financial sector. Solutions to these challenges by euro area authorities individually or in a concerted manner, will have important and direct economic and political implications also for the economies of south-eastern Europe. The rise of populism and Euroscepticism, Brexit, along with populism and economic and financial stability problems could slow (if not stall) the integration process. If this were to happen, there could be significant and direct negative implications for political, institutional, legal, and economic convergence.

Moreover, some in the EU seem to have lost interest in the region. Any retreat from enlargement would undermine the basis on which the progress towards integration and convergence in the region has been built. Even worse, following the crisis, aiming to put their houses in order, EU regulatory authorities have imposed regulatory requirements for EU groups in the



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region that increase capital requirements and the cost of doing business, even when they deal with central governments and central banks. These policies represent a phenomenon, which contradicts the integrating and stabilising role that our partners have so far played in south-east Europe.

Fatigue, Euroscepticism and a general loss of hope is gaining traction in the region too, leading to a brain drain of the best and the brightest from the region to the EU. This is taking a toll on the labour force and human capital, as well as the education and health systems, but most of all, it is leading to lost hope in integration, which will take a significant toll on convergence in the long run.

Fortunately, despite these challenges the EU integration process continues to progress. However, using integration as external anchor for the development of the economies in the region during these harsh times requires considerably more skill, as we are sailing against the wind. For the sake of the countries in the region and the EU itself, we hope that the politicians in Brussels will keep the process of integration alive.

Integration with the EU has been of paramount importance for the countries and societies of the region, generating hope for long-run prosperity and a future within a European home without

borders. Our countries may well become a driving force of this integration, bringing new energy and motivation to the EU to keep the process going. I am confident that this will happen, for all the roads in the Balkans lead to Europe.