

Extraordinary Situation, Extraordinary Measures

“Higher public debt levels will become an economic feature and be accompanied by private debt cancellation,” says Mario Draghi. And depending on how long the pandemic lasts, this difficulty for financing may increase. Naturally a question is raised: What is the solution?

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As the coronavirus continues its march around the world, governments have turned to proven public health measures, such as social distancing, to physically disrupt the contagion. Yet, doing so has severed the flow of goods and people, stalled economies, and is in the process of delivering a global recession. Economic contagion is now spreading as fast as the disease itself. What about Albania?

The Albanian economy is “facing the blow” of the effects of the coronavirus pandemic and this makes it difficult to curb this situation and its performance this year. In addition to enforcing pandemic prevention rules, we need to spend to support the measures in healthcare, wages, businesses, families in need, pensioners and others. But if the pandemic continues past May, the economy and public finances will worsen. I stress this not for panic and pessimism, but for doing the best in this situation. Only due to the changes in the normative act in the function of the “financial plan A” of March to cope with the crisis, revenues are expected to be reduced by ALL 20 billion, the budget deficit nearly doubled, public debt to go beyond targeted parameters with a moderated increase (about 4% of GDP) to finance measures taken for



Hard times are looming ahead for the Albanian economy, says author

ALL 12 billion. Only with this situation, economic growth at the end of the year will be halved. This is because the economic chain is broken and many sectors are in apathy, with the exception of a part of the agricultural sector, some services and a part of the construction. To help mitigate the shocks that our economy is experiencing, has come in hand the implementation of the Government Plan A initiated by Prime Minister Rama, while the rest of the economy continues to be hit, which continues to be reflected in the decline in supply and demand. But depending on how long the pandemic lasts, it will be assessed its impact on the economy and the preparation of Plan B for injection of the economy and other supports. Although different scenarios are being worked out, the difficulties are real, factual, visible, facing us, same as in other countries, and need to be understood and accepted, thanks to the transparency the government that is working for this purpose. The needs of different strata, businesses, communities, associations, and their needs for more support are well understood, just like these difficulties need to be understood as well.

The first difficulty comes from the fact that due to the impact of the pandemic on the economy and the state of public finances (declining budget revenues and increasing spending demands,

though necessary), is being created a mismatch in time to meet the needs of the economy. “Higher public debt levels will become an economic feature and be accompanied by private debt cancellation,” says Mario Draghi. And depending on how long the pandemic lasts, this difficulty for financing may increase. Naturally a question is raised: What is the solution?

As it is known, the Government and the Assembly have adopted a law giving the Ministry of Finance and Economy the right to enter the international financial markets until May by issuing the much-needed Euro 600 million Eurobond for this year’s budget. But because of the state that has been created, this situation is at risk. Therefore, other options should be seen such as:

- *Issuance of treasury bills* in the domestic market, both for the needs in ALL and for the needs in foreign currency. This is a must. We mustn’t forget that “Liquidity is the one that disappears when we need it”. In the situation we are in, we need them and we need to ask. Therefore, there is a need for cooperation and understanding between the Government, the Bank of Albania and commercial banks, especially for the use for this purpose of their foreign currency deposits in banks abroad. Of course, here should also be seen the interest of commercial banks, it should be considered their

risk through a more flexible monetary policy and interest rates for this purpose (cooperation that seems to have been and is understandable and successful in this situation). Consultation and cooperation with other Central Banks and international financial institutions is required. Perhaps such a move may not provide the same amount that the Eurobond will provide, but it will somewhat alleviate the financing situation. It’s obvious that the debt will rise. But in this situation, in all countries “Higher public debt levels will become an economic feature...” Mario Draghi says.

- *Undoubtedly, and reaching an agreement* (I say an agreement to minimize the penalties of these agreements) on “delaying” some major investments (financing) with the contractors of these projects, is an opportunity that creates space for reallocation of funds towards priorities that this “war” situation dictates. However, the need for funding remains a priority.

There are also ideas for the Bank of Albania to massively inject liquidity by purchasing corporate securities. But this not only is officially banned for the ECB but also for their quality, safety and trust in us, I don’t think it’s an acceptable idea.

- *At the same time, the supply of the monetary market* by printing new banknotes has been debated, which for the moment and the situa-

tion doesn’t seem to be in the “queue” yet, while that of “touching the foreign exchange reserve” remains the “last option”.

Another issue is the shock in the international financial markets and the impacts on the change of the exchange rate of our national currency, the ALL, in relation to foreign currencies. The US dollar and Euro are valued in the domestic market in relation to the ALL. The reasons for this situation are the lack of introduction of the euro due to the reduction of remittances (closing of borders), the decline in foreign exchange earnings from the tourism industry, as the most affected branch of the economy in this crisis situation, the decline in exports, very important elements in this market that operates and influences.

When almost two years ago, the Bank of Albania promoted the de-euroization of the monetary market, there were different opinions on this monetary policy, to the extent of the “annotation” that was not right, as it is resulting. Back then it took some intervention by the Bank of Albania in the market to “sell the Euro”, the opposite action might be needed to buy the euro or the dollar. This situation in the monetary market will have an impact on the deterioration of the foreign public debt situation, it will affect the import companies and businesses, the decline of supply for these goods, and why not on the increase of the prices of import goods, etc. Therefore, it requires attention.

Also, increased efforts to continue working, in part or in total, in some sectors (under the Government Normative Act, to this end) and the support of the sector for agriculture and export businesses, somewhat curb the economic downturn. At the same time, we will face another priority that will not only be providing basic income to those who lose their jobs (which we are trying to do) but also protecting people from losing their jobs, not to fall into an employment crisis.

(Panorama,
March 31, 2020)