

Interview with the IMF Resident Representative in Tirana, Ann-Margret Westin

Albania?! Westin: “I believe we can refer to it as a success case”

Interview by Erald Kapri

Ann-Margret Westin, the IMF resident representative in Albania for some years now, talks to “Standard” newspaper on the latest developments. At the beginning of 2009, the IMF will have a new monitoring program with Albania, which will mean less conditionality for Albania. Regardless of this foretold process, the opposition expressed its doubts on the new program, but Westin said that “if Albanian authorities are interested, the IMF would be ready to discuss on a new arrangement. This program would again focus on safeguarding macroeconomic stability, but it would contain less conditions on structural reforms and the possibility of access to IMF financing. It could have the form of a regular precautionary Stand-By Arrangement (SBA)”. During this interview, the IMF head in Albania said that Albania is not a poor country anymore, but a middle income country, which means that it has been maturing as country. “Our PRGF arrangement is aimed at the poorest countries and it is now time for Albania to graduate from this type of arrangement, something that has been discussed with the authorities as well”, - said Ann-Margret Westin, who further adds that despite the debate in the country regarding the kind of arrangement that we should have with the IMF, “there are example of countries where ahead of elections the government and the opposition together signed off on a new Fund program to signal that policies would remain on track”. In her interview for “standard”, Westin comments on the global financial crisis and the possibility of its penetration in Albania. She answers this question saying: “there is a saying in English that “every cloud has a silver lining”. She sees 2008 as a year with buoyant economic growth and with contained inflation. Westin unveils that in August of next year she will leave her post as the Resident Representative for Albania, and asked how she is leaving Albania she declared: “I believe one can refer to Albania as a “success” case”. However Westin gives her advice for the advancing of reforms and “In particular, further structural reforms to enhance property rights, in particular when it comes to land registration, contract enforcement, and governance at public institutions will be needed to create a good enough business climate to attract large-scale foreign investment”.

Ms. Westin, IMF just concluded the discussions for the economic performance of 2008 with the Ministry of Finance. How does the IMF see this year for the Albanian economy?

Our outlook for the economy for 2008 is still quite favorable, with buoyant growth at around 6 percent in real terms and with inflation well contained within the Bank of Albania’s 2–4 percent target range. The positive inflation performance is taking place despite the still high credit growth and the impact of the higher global food and fuel prices. Budget execution keeps improving, with solid revenue performance and current spending on track. Capital spending implementation, although improving, is still lagging behind plan if you exclude the

large road project. This under spending has in part helped contain inflation and the current account deficit, which however still remains somewhat on the high side.

This positive outlook is, however, at the backdrop of the ongoing global financial crisis, which effectively is reducing the room for maneuver and calls for prudent macroeconomic policies going forward, all the more important in an election year.

One of the problems often raised by the IMF is the electricity crisis. Is electricity still a concern for the IMF? Do you see other risks?

As I often mention, the IMF is not an expert per se in the energy sector. We have been quite involved given KESH's financial losses and their consequences for the state budget. KESH's losses have been driven by a combination of a poor collection and loss performance, and electricity tariffs that have not covered costs, in particular for imported electricity.

Given the privatization of the electricity distribution company, there should be less impact on the budget as the private company will not have recourse to state financing. Hence, looking ahead, we will be less involved in the electricity sector, although other donors will of course continue to be involved.

We have very much welcomed the privatization of DSO, which over time should imply that required investments be undertaken, losses are reduced, and collection improved. However, as this will be a private monopoly, it will be very important that there is a strong and independent regulator that sets tariffs at levels that allow for cost recovery and some reasonable level of profits. It also seems important that the private distribution company will be able to import electricity, as domestic production is unlikely to cover the growing electricity demand of the Albanian economy. Lastly, further efforts will of course be needed, by the authorities and the relevant donors in concert, to enhance the capacity in the generation and transmission sectors.

The US is going through a deep financial crisis as a result of bad loans in real estate. Do you think this financial crisis can be reflected in Albania?

There is a saying in English that "every cloud has a silver lining." Hence, in the current situation, the fact that Albania still is less than perfectly integrated with the rest of the world economy also means that the country is somewhat sheltered from the ongoing global credit crisis.

So far, we see little direct impact on the local economy. However, if e.g. the economies of Western Europe are increasingly affected, Albania might face a weaker export demand, and a decline in remittances.

The one sector in the Albanian economy that is increasingly global is in fact the banking system, which is almost completely foreign owned. At this stage, there are no signs of

distress. However, if home country banks would get affected by the international credit crisis, they might make less funds available for their Albanian subsidiaries. While this in turn could affect their credit giving, it should be noted that most of the credit provided by Albanian banks are financed through deposits, not through financing from home banks.

The IMF program ends in 2009. The opposition in Albania has seen this issue as a problem. What in fact is expected to happen in 2009? What role will the IMF have after 2009 in Albania?

The current three-year IMF arrangement with Albania, which is supported by a combined Poverty Reduction and Growth Facility (PRGF) and Extended Fund Facility (EFF), was approved in January 2006 and is set to expire according to schedule in January 2009. This assumes that agreement on the sixth and final review can be reached during the upcoming review mission in early November so that the review can be concluded on time.

The current arrangement is the sixth program that Albania has had with the IMF. Since its inception, it was expected that this would be Albania's last PRGF arrangement, an IMF lending facility designed for low-income countries.

If the Albanian authorities are interested, the IMF would be ready to discuss a new arrangement. This program would still focus on maintaining macroeconomic stability, but could contain less conditionality on structural reforms and possibly access to IMF financing. It could take the form of a regular or precautionary Stand-By Arrangement (SBA).

As a member of the IMF, Albania will continue to have access to technical assistance and undertake annual Article IV Consultations after the conclusion of the program, as is the case with all IMF member countries.

The Minister of Finance Mr. Bode said that the IMF will assist Albania based on the Article IV, which means that you will continue to provide assistance and advise. What does in fact Article IV imply?

The Article IV Consultation, which is done every or every other year, is at the heart of our surveillance activities, where we provide an assessment of economic and financial developments, and advise on risks to stability and growth and if policy adjustments are warranted. The Article IV "Staff Reports" can be found, together with our other country reports, at our website at www.imf.org.

On your press statement, you said that "it was expected that this would be Albania's last PRGF arrangement, an IMF lending facility designed for low-income countries". Does this mean that Albania is not any more listed under low-income countries, or incapable to take its own decisions?

At an estimated per capita income of significantly above US\$3,000 this year, Albania is no longer considered a low-income country but is rather rapidly transitioning toward an emerging market status. Our PRGF arrangement is aimed at the poorest countries and it is now time for Albania to graduate from this type of arrangement, something that has been discussed with the authorities as well. This is obviously a sign of success and a result of adherence to macroeconomic stability for many years and the implementation of important structural reforms.

On the same press statement, the IMF stated that “we would be ready to discuss other arrangements, that will continue following the current program. This program could focus on maintaining macroeconomic stability”. What if the Government does not see as necessary to renew another program, apart from the Article IV, does this constitute a problem for Albania?

There are various reasons why countries might chose to have an IMF arrangement. There is the access to Fund financing. Apart from the financing, some countries have chosen to have a Fund program to maintain the close policy dialogue and to signal to the rest of the world that policies are on track. This signaling effect might be particularly important for international observers and investors when official statistics are still not up to international standards or in an election year. In fact, there are example of countries where ahead of elections the government and the opposition together signed off on a new Fund program to signal that policies would remain on track.

Irrespective of whether Albania will have another program with the Fund or not, prudent macroeconomic policies will need to be maintained to lay the foundation for continued poverty reduction and sustained high economic growth. The Albanian authorities, both this government and previous governments, have a very good track record as to maintaining macroeconomic stability. However, the Fund arrangements have functioned as anchors for economic policies and once the Fund arrangement expires there will be a need for another fiscal rule to anchor budget policies.

Ms. Westin, what if after 2009 the Government, regardless of who they might be, seeks to renew the same program that Albania has had previously, will the IMF accept?

The Fund always stands ready to discuss an arrangement with a member country. The request for the program has to come from the country authorities. As already mentioned, I don't think another PRGF arrangement would be relevant; indeed, at current income levels Albania would simply not qualify for such an arrangement. Rather, we would then be talking about a regular or precautionary SBA.

Ms. Westin, you have been in Albania for some years now as IMF representative and have followed developments closely. Do you think you're leaving Albania in full security?

The Albanian economy is doing increasingly well, with macroeconomic stability well entrenched, a simpler tax system based on lower rates and a broader base, improved tax and customs revenue administration, an increasingly sophisticated and well-regulated banking system, a widening export base, important improvements to the business climate in terms of the e-government project, significant investments in infrastructure, and with the remaining strategic state-owned enterprises either privatized or in the process of privatization. At the same time there are of course several challenges remaining in order for Albania to truly tap on its potential in several sectors. In particular, further structural reforms to enhance property rights, in particular when it comes to land registration, contract enforcement, and governance at public institutions will be needed to create a good enough business climate to attract large-scale foreign investment.

While my mandate expires in August next year, it is likely that I will have a successor and that our office here in Tirana still will remain open for a while. However, whether the office remains open or not, I am sure that the government in charge will continue on the road of reform. Also, we will of course continue to assist with advice from Washington and during our short-term missions to Albania.

During your assistance here, how do you describe your relations with Prime Minister Berisha and Minister of Finance Bode? Has the Prime Minister and the Government listened to your advices or have they acted otherwise?

Our relationship and cooperation with the Albanian government during this program, which happens to coincide with my tenure here and with the current government's mandate, has been and remains excellent. We have an open and productive dialogue, where there might be differences of opinion but where we have managed to agree on "the bigger picture." All reviews under the current program up until now have been concluded on time.

Ms. Westin, the IMF is often regarded by the financial analysts as an obstacle for Albania, even the IMF's role is considered as inefficient, taking into consideration the experience that the IMF has had with other countries, like Indonesia, do you think that Albania has been a successful case?

I am not sure whether we are considered an "obstacle" to Albania, in particular by the financial analysts who better than anybody else understands the importance of maintaining macroeconomic stability for sustained high growth, in particular for a small open economy like Albania's. However, it can of course be "difficult" for governments to work with us as we do impose constraints on policy making. In the case of Albania, I do believe that one can refer to it as a "success" case, with strong economic growth based on sound policies and excellent relations with the authorities spanning several governments.