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QUANTITATIVE EASING IN ABANIA: PROBLEM OR SOLUTION?

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Abstract
Ongoing changes in the economy have caused new monetary policies to be considered, which help its development. Ups and downs, affected by various factors should be perceived and corrected if it is necessary. One of these policies is quantitative easing, seen as a possible way to set the economy back to motion after a very difficult period. In order to review the interventions of the Government and central bank in context, we need to briefly examine the significance of money creation and how this relates to economic policy and performance in Albania.
This study analyses the positive and negative (if there is any) side effects of quantitative easing and its impacton public finance, with particular emphasis on the expected and experienced effects and efficiency of policy instruments used in the European countries. At the end, the question that arises is: should countries with economic difficulties as Albania use quantitative easing?
Key words: *quantitative easing, public debt, inflation, economic growth, Bank of Albania.*

Introduction

Albanian economy during the last five years has continued to grow in positive ground, but still below its potential. The fact that economic growth remains below potential not necessarily reflects a lack of effectiveness ofmonetary policy transmission channels. Two more visible signals that should to be taken into consideration by the monetary policy are the inherent problems withconsumers's demand for goods and services, expressed in the collapse of consumer price index, as well as problems in circulating money. Based on statistical data of recent years, it is noticed that consumption and circulating money are going through difficult times, particularly if their trend does not change.One of the main reasons for this is the impact of global post-crisis which has engulfed the entire region of Southeast Europe, where the growth rates have been lower. Consequently, the aggregate demand remains weak, ruining the right incentives for the revival of economic activity.Thus, Albania is currently in disinflation[1], which means that the risk of a possible deflation is still distant. According to the Governor of the Bank of Albania, the current slowdown of price increases is a temporary phenomenon (Sejko, May 2016). The perspective of deflation is a threat to prosperity and financial stability, particularly in countries with low economic growth and high levels of private and public debt such as Albania. But the infectious nature of cuts in key interest rates raises the question of whether national monetary policies have become more interdependent again.

Literature Review

In considering the implementation of unconventional monetary policy instruments, we emphasize that our analysis is based essentially on the theoretical literature and the experience of other central banks:
Andrew Hughes Hallett is of the view that past QE programmes (led by the US Federal Reserve, the Bank of England and the Bank of Japan) have had relatively consistent and measurable results, i.e. a yearly increase in GDP of around 0.25%-0.5% and a negligible increase (less than 0.1%) in prices. Since these effects are insignificant, he argues that indirect effects − such as liquidity provision, market stabilisation

[1]With the term 'disinflation' we intend an economic situation where inflation is close to zero, while the economic development appears to be quite high.

and lower uncertainty – are probably the most significant benefit of QE.

Daniel Gros et al. note that it is difficult to measure the overall impact of the various asset purchase programmes, because each of them constitutes a special case, impacting on different economies at different times (a point shared by Christophe Blot et al. who note that, in the US and the UK, QE measures started when inflation was present in the economy, even as the opposite was the case for Japan and the euro area).

According to RamaprasadBhar et al., asset purchase programmes were expected to work by lowering interest rates, which reduce the debt-servicing burden for individuals or corporations thus allowing them to spend or invest more. Yet they note their effect is rather limited: three rounds of QE in the US had only a marginal impact on long-term interest rates, as they were lowered on average by 0.2 - 0.3 per cent.

Similarly, GrégoryClaeys et al. indicate that, there should also be gains for the ECB − and national Treasuries, when they are ultimately repatriated − resulting from the purchase of sovereign bonds and supranational debt securities, as well as from the increase in excess reserves induced by the programme. Nevertheless, the authors note that these profits will be lower than in the case of the other QE programmes: profits from the purchase of sovereign bonds and supranational debt securities − estimated at €3.978 billion and €0.28 billion respectively − will be lower than in the USA or UK due to the fact that euro area government bond yields are already at a very low level, while profits from the excess reserves held by banking institutions at the ECB will also be modest (€1.9 billion).

Monika Blaszkiewicz - Schwartzman notes that one of the key issues with regards to euro area QE relates to the potential scarcity of the sovereign bonds to be purchased under the programme over the period up to September 2016, which could limit its effectiveness by reducing the impact on inflation and lead to significant distortions in bond markets, with supply insufficient for demand. Concern was raised that QE programmes might lead to an increase in leverage in the financial sector, which in turn could increase financial instability. Through a reduction of the cost of holding reserves as collateral which, according to Gabriel Chodorow-Reich can lead to larger portfolios and higher leverage, or through low volatility which according to Markus Brunnermeier and YuliySannikov will affect the value-at-risk models of banks and encourage them to increase their leverage. Again, Claeys and Darvas note that data for the largest banks in those economies that underwent assetpurchase programmes provide evidence that banking-sector leverage has declined since the crisis, and has remained at relatively low levels despite those purchase programmes, probably due to the regulatory reforms undertaken during the crisis, as well as the increased supervision of the banking and financial sector in the aftermath.

Yet another concern is that, together with lowering interest rates, asset purchase programmes work by raising asset prices, so they may eventually lead to the creation of asset bubbles, especially if those policies are maintained for long periods. According to Claeys and Darvas, bond prices increase because of falls in interest rate and also possibly because of falls in risk premiums. Although the authors carefully note that the answer to this issue especially for stock exchanges depends on the indicators used (two standard indicators of equity valuation; the book/market ratio and the price/earnings ratio),they are of the view that data relative to house prices − a sector which could indirectly trigger financial instability, as in the global financial crisis − do not suggest that bubbles emerged in the other countries that have launched asset purchase programmes. Finally, there is a concern that, as the Extended Asset Purchase Programme will increase stock (and other asset) prices, the end of the programme may have the opposite effect, thus applying negative pressures on an already fragile euro area economy.

Considering the Eurozone case, Claeys and Darvas note that exit from the current mix of 'loose' conventional and unconventional policies could have a number of negative side effects (such as a decrease in stock, bond and housing prices, an increase in risk-aversion, or a weakening of public debt sustainability),which could be compounded or mitigated by inflationary and output developments, and the duration of those policies. Therefore, they recommend complementing the unwinding with microand macro-prudential supervision, as well as fiscal policy measures, to mitigate the potential risks.

Results

I. The monetary policy pursued by the Bank of Albania has been effective in all channels and dimensions mentioned in this paper, as it has brought significant improvements in the Albanian economic situation and financial system. In its absence, the business and the consumer would suffer from higher funding costs, the trade balance would be worsened, and the financial condition of the private and public sector would be more problematical. Also, indicators of consumption, investment, economic growth, employment and wages, would be certainly below what we have today

II. However, the monetary policy transmission mechanism has not been at its optimal level for all the reasons explained below:
   - ✓ The high level of uncertainty and perceived risk in the economy discourage the demand for consumption, investment and bank loans, regardless of the cost of obtaining these activities.
   - ✓ The international financial markets and the economies of our trading partners perform problematic discourageing investment and lending in Albania.
   - ✓ The Albanian economy has to cope not only with cyclical weakness, but also with structural problems such as over-investment in certain sectors or with low level of competitiveness of products "Made in Albania" on international markets. The renovation and the economic growth are two processes that happen simultaneously, but the first process does not favor the second one.

III. Mostly, all these obstacles fall outside the scope of monetary policy and central bank's mandate. However, all the above mentioned problems of the monetary policy transmission mechanism do not make unwelcome the pursuing of a stimulating monetary policy.Contrariwise, they illustrate the necessity of maintaining or strengthening the monetary incentive, emphasizing simultaneously the necessity of initial structural reforms in the economy.

IV. In the wake of an easing and simulating monetary policy, there are various challenges to be achieved such as:
   - ✓ a coherent strategy of reforms to improve the business climate
   - ✓ a consolidated fiscal discipline and extending structural reforms needed to reduce budget deficit and to boost economic growth
   - ✓ high levels of non-performing loans, which continue to inhibit lending revival
   - ✓ the approval of the law on bankruptcy by the Albanian Parliament, as a premise for the reduction of non-performing loans

Discussion

The global impact of "Quantitative Easing"

In the past there have been practiced different policies similar to *Quantitative Easing*(QE), but using other terms such as countercyclical intervention or reflacion[2].

QE is a term introduced after the global economic and financial crisis of 2007, which means an 'unconventional' tool of monetary policy whereby a central bank creates, at low cost, new money in electronic format to buy financial assets, such as government or corporate bonds. This so-called unconventional monetary policy was taken as more conventional measures, i.e. interest rate policy, had largely lost their potency. This means that formally its aim is not to provide further stimulation to the economy but, instead, to reestablish the functioning of the monetary policy transmission mechanism, so that signaling monetary policy through the key interest rates is still possible in unconventional circumstances. Through QE, central banks go beyond low interest rates to resuscitate their economies. Particularly, they buy long-term government orcorporate bonds with the new money created, aiming to stimulate the economy by increasing liquidity and promoting bank lending, even when interest rates cannot be pushed any lower, and the economy is in a liquidity trap. But what does it mean for a central bank to "buy" assets? In

[2] A policy, designed to give a new impulse to the economic activity which is stagnating or decling.

reality, the central bank is not "buying" anything, in the conventional sense that cash is paid for the asset. What it does is to accept the assets permanently asreservesof the bank that is "selling" the assets to the central bank. Reserves posted at the central bank are in effect the currency used to settle the net day-to-day interbank debts between the client banks of the central bank. Consequently QE increases reserves in the banking system, i.e. deposits of commercial banks at the central bank, giving depository institutions the ability to make new loans. The idea is that banks take the new money and buy assets to replace the ones they have sold to the central bank. That raises stock prices and lowers interest rates, which in turn boosts investment and economic activity by raising confidence.

Three major central banks which have been the first to start implementing QE are those of Japan, United States, and United Kingdom. Although the names of the specific programmes and their details differ, they are commonly referred to as 'quantitative easing'.QE allows, at least theoretically, a quick action on inflation.

Following the above of the view, in the context of a possible increased risk of deflation and a slowing growth in Europe, the European Central Bank (ECB), succeeding the application of a hybrid platform,[3] launcheda European version of QE[4] with the aim of reviving the eurozone economy. The ECB asset-purchase programme is based on a detailed analysis of the situation in Europe and it contains at least three main risks:

a) an eventual inadequacy of government bonds available;
b) the unpredictability of countries' behavior which are in crisis, like Greece or Spain;
c) Timely reaction of Eurozone countries regarding to the purchase of obsolete bonds.

It is composed of three separate programmes (Asset-Backed Securities Programme, Covered Bonds Purchase Programme and Public Sector Purchase Programme) which were launched at different times and involve different levels of purchases for the underlying assets.[5] Nonetheless, they all share a common aim – to enhance the functioning of the monetary policy transmission mechanism, support financing conditions in the euro area, and facilitate credit provision to the real economy. They will all have a substantial short-to-medium term impact on the ECB's balance sheet. Although all three purchase programmes constitute QE, this paper focuses on the last programme (PSPP), because it is the most ambitious in sizeand because it has been more intensely debated than the other two.This programme was launched in early 2015 and has so far pumped in $600bn of extra money. Originally the programme was set to run until September 2016, but it has now been extended until at least March 2017.The programme is expected to have a positive impact on the economy's growth and to raise inflation, bringing it back to the desired level of lower than but close to 2%. The ECB is just the latest central bank to jump on board the QE bandwagon. As mentioned above, most rich-economy central bankers began printing money to buy assets during the Great Recession, and a few, like the Bank of Japan, are still at it.

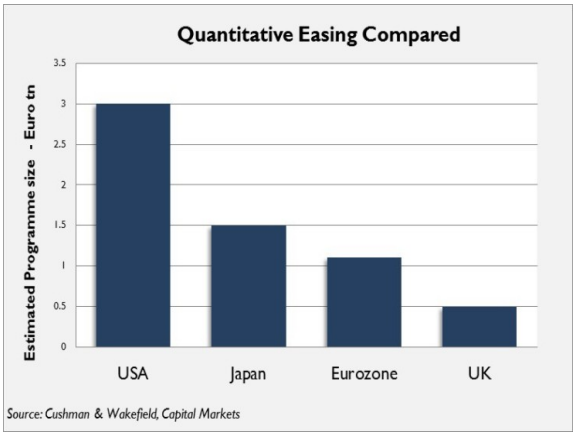

Figure 1: Comparison of Quantitative Easing[6]

But what exactly is quantitative easing, and how is it supposed to work in Europe?

[3] In the period 2011-2012, the European Central Bank applied the so-called "long-term refinancing plan", which consists in a number of financial interventions by the European Central Bank, through which the European Central Bank lends money with a maturity of three years to banks that have applied, and that, in return can leave as a guarantee the securities of European countries, which these commercial banks have bought.

[4]Originally, in the ECB's January 2015 documents and speeches, the programme was referred to as the Extended Asset Purchase Programme (EAPP), but its name seems to have changed since the March press conference, so for simplicity we refer to it as the Public Sector Purchase Programme (PSPP).

[5]Asset-backed securities for the ABSPP, covered bonds for the CBPP3, and central government bonds and bondsissued by recognised agencies, international organisations and multilateral development banks for the PSPP.

[6]Source: Cushman&Wakefield Capital Markets

QE consists in purchasing financial assets, such as European government bonds, from private investors such as banks, pension funds and insurance companies, in order to restore the bank lending channel, to promote the low cost investments and to tackle the low inflation problem - currently dangerously low - around 0.4 per cent (Eurostat, September 2016). This process is electronic and does not involve printing banknotes: the ECB creates money by increasing the credit in its own account. The official goal of the ECB's financial asset purchases is to assess the liquidity problems in the banking sector (having to do with a bank-based financial structure), without the aim of expanding the asset side of the balance sheet since these measures are accompanied of sterilization operations. In fact, liquidity provision to banks had a very significant impact on the increase of the size of the balance sheet of the ECB and on its composition (see Charts 1 and 2). As seen in chart one, a general tendency for growth is observable at least until 2012, with the widening of the gap between the assets and liabilities. However, after 2012 the ECB's balance sheet declines until 2013. In its growth period, between 2007 and 2013, he ECB's balance sheet approximately tripled in size. In terms of the composition of the balance sheet, observing chart two, the measures that that have the largest contribution in the ECB's balance sheet are the Long-Term Refinancing Operations (LTROs), reflecting the importance of the banking system in the Euro Area economy. The average provision of liquidity to banks conducted by the ECB represents approximately a maximum of 2% of the economy's GDP (in 2009) and of 25% of average assets (in 2008).

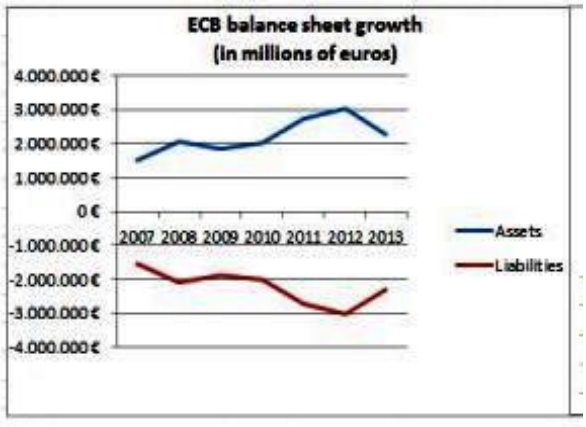

Chart 1: Size of the ECB's balance sheet (2007-2013)[7]

Note: The values used in the construction of this chart correspond to the last available value of each year, since the available data on assets and liabilities is cumulative

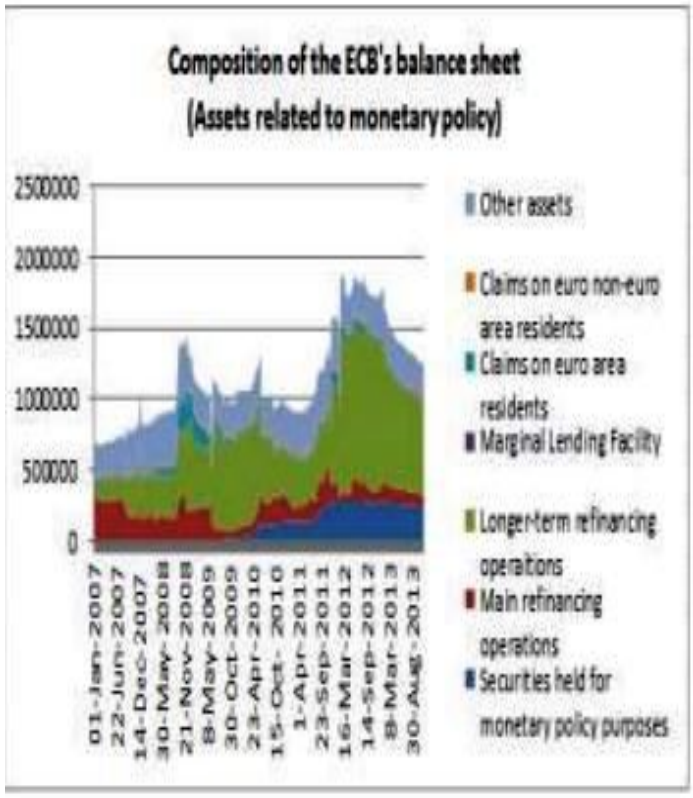

Chart 2: Composition of the ECB's balance sheets (2007-2013)[8]

Note: The values are in millions of euros (ECB)

By means of these unconventional policy measures, the ECB has expressed its availability to purchase large amounts of euro-denominated, investment-grade securities issued by eurozone governments and European institutions, with money it has created electronically. This means that if there is a major lender (mainly banks) in the market, the sovereign debt interest rates will decrease, facilitating the gain of money for cash-strapped governments. But it needs to be seen if the market can develop adequately rapidly, as there are some regulatory barriers. Certain additional eligibility criteria are supposed to be applied in the case of countries under anEU/IMF

[7] Source: European Central Bank (2014b)
[8] Source: European Central Bank (2014b)

adjustment programme.[9]Greece can be ruled out from this operation, being a country in which the economic crisis has had dramatic effects, and the assets are not considered to be able to provide sufficient guarantee. Finally, "with regard to the sharing of hypothetical losses, (...) 20% of the additional asset purchases will be subject to a regime of risk sharing".[10]It is assumed that every single central bank can buy a maximum of 20-25 percent of its domestic debt through the purchase of securities (usually government bonds) held by commercial banks or pension funds.[11] The new money swells the size of bank reserves in the economy by the quantity of assets purchased hence "quantitative" easing. This increases the overall amount of useable funds in the financial system, encouraging financial institutions to lend more money to investitors.It can also push interest rates lower across the economy, even when the central bank's own rates are just about as low as they can go. Nowdays, interest rates on everything from government bonds to mortgages to corporate debt are probably lower than they would have been without QE. This in turn should allow businesses to invest and consumers to spend more, giving a knock-on boost to the economy (see Figure 2).

It may be possible in some circumstances if QE convinces markets that the ECB is serious about fighting deflation or high unemployment.

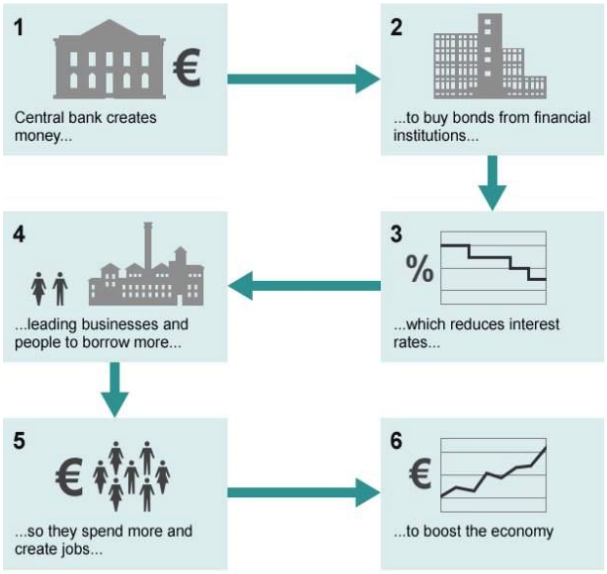

Figure 2: Theory of Quantitative Easing[12]

To sum up this process is supposed to work through various transmission channels:

- by announcing large-scale asset purchases, the central bank signals to market participants its commitment to keep interest rates low in the future (because if it chooses to increase them, the price of the bonds it purchased will fall and it will have to bear significant losses on them);
- the low interest rates prompt investors to look for better yields on government bonds elsewhere, which in turn should contribute to lowering the value of the domestic currency and boost exports;
- by purchasing assets from the banks, the central bank provides them with extra money; given that, at the moment it costs banks to deposit money in the ECB they should, in principle, use the extra amount available to finance more loans
- by purchasing a large quantity of assets held by insurance companies and pension funds, the central bank encourages them to rebalance their portfolios into riskier assets, such as corporate bonds or stocks. This, then, stimulates expenditure by increasing wealth and lowering borrowing costs.

Will QE revive the euro area economy? What are the risks?

The results achieved in countries that have previously implemented QE (the United States, Britain and Japan) have been mixed. This

[9]This formulation, which summarizes a statement made on January 8th, in effect subordinates the purchase of Greek sovereign bonds, to the signature of another financial assistance agreement.

[10]This formulation has been interpreted as a concession to German Members of the ECB, who expressed concernswith having to shoulder the losses in the event of a country's default and subsequent exit from the euro area.

[11] European Central Bank through this mechanism aims the diversification of risk relating to the operation of purchasing, ensuring that each national central bank is responsible for its government debt.

[12]Source: Bruegel, ECB

unconventional monetary policy instrument has generated lively debate among policy practitioners, as well as among academics, politicians and journalists. But discussions on its introduction by the ECB have been particularly extensive since the euro area presents particular challenges that relate to the legality and the feasibility of such programme, and these may impede the ECB's programme from fully realising its potential. Which are the concerns related to the legality and the feasibility of such programme?

The first category of concerns relate to the compliance with the scope of the ECB's mandate (its primary objective of price stability) as well as the guiding principles set out in Article 123.TFEU[13], Article 125 TEUF[14] and Article 5 TEUF[15].

The legal framework of the ECB sets out a number of restrictions and principles in order to guide the ECB's monetary policy. There are limits on how these unconventional tools should be used appropriately to best achieve the EBC's mandate. In the ECB's case, the price stability mandate is enshrcined in the Treaty[16], and all major central banks can discharge their clear price stability mandates with a large measure of independence. Thus they cannot decidewhetherthey achieve their objective – they have to obey the law – but they can decidehowthey do so. "*This position has been confirmed by the European Court of Justice, which ruled that the ECB can deploy any available instrument which is explicitly mentioned in the Statute to ensure price stability. But the discretion ECB have over how it uses its instruments, though wide, is not unlimited "whatever it takes" is qualified by "within its mandate". Independence must not be confused with arbitrariness*." (Yves Mersch, 23 June 2016).

The second category bunches concerns that relate to the feasibility of the programme; whether the particular structure of the European economy and its prevailing conditions will prevent the programme from reaching the expected results. Such concerns are the following:

- The motivation behind QE is to purchase large quantities of euro zone euro-denominated securities in order to lower their yields and push investors into equities or corporate bonds. However, with the exception of Greece, interest rates on euro area government bonds kept falling since July 2012. They are consequently already at a very low level, therefore reducing significantly the scope of QE;
- The fact that about 80% of the financing of the real economy in the euro area originates from the banking sector implies that the success of the QE depends ultimately on the banks' willingness to lend. Nevertheless, under stressed financial conditions, banks may choose to hold those central bank injections of money to increase their capital buffers, instead of letting it trickle down to the real economy through lending.

That said, the implementation of new, unconventional monetary policy measures by the ECB, in line with the Eurosystem legal

[13] "Overdraft facilities or any other type of credit facility with the European Central Bank or with the central banks of the Member States (hereinafter referred to as 'national central banks') in favour of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the European Central Bank or national central banks of debt instruments", Official Journal of European Union, *Consolidated Version of the Treaty on the Functioning of the European Union*, 26.10.2012, pg. 99.

[14] "The Union shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project. A Member State shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of another Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project.," Official Journal of European Union, *Consolidated Version of the Treaty on the Functioning of the European Union*, 26.10.2012, pg. 99.

[15] "1. The Member States shall coordinate their economic policies within the Union. To this end, the Council shall adopt measures, in particular broad guidelines for these policies. Specific provisions shall apply to those Member States whose currency is the euro. 2. The Union shall take measures to ensure coordination of the employment policies of the Member States, in particular by defining guidelines for these policies. 3. The Union may take initiatives to ensure coordination of Member States' social policies." Official Journal of European Union, *Consolidated Version of the Treaty on the Functioning of the European Union*, 26.10.2012, pg. 52.

[16] Article 127.1, Treaty on the Functioning of the European Union (TFEU)

framework (TFEU) and its mandate, is essensialcounter the deflationary pressures in the euro area. QE monetary policy measures are part of the ECB's efforts to stimulate growth in the euro area and meet its objective of inflation lower but close to 2%. The biggest concern is that injecting more money into the economy could ultimately lead to an inflation problem (risk of hyperinflation). In case when inflation is close to zero, as it is in the euro area at the moment, a bit more upward pressure on prices can be seen as a good thing (considering the unemployment rate of around 12.0 per cent, almost 10 per cent higher than before recession). The high inflation may be caused also by an increase of import prices that will be established by a depreciation of the euro. Despite the risk of inflation, this process has very small dimensions and again it will leave essentially in eurozone inflation to less than 1 percent. But more than the increasing inflation, the worst possible scenario is an impending deflation of the euro area. A major goal, although implied, of the policy of low interest by ECB has been an encouragement of net exports by the depreciation of the euro. But despite the fall in the value of euro has stimulated the Eurozone's net exports, the impact on exports and GDP of member states was very limited. One reason for this is that most of the eurozone countries carry out trade with one another and, consequently, use the same currency. Moreover, exports to the US do not benefit excessively from the decline in euro-dollar exchange rates. [17]Some worry that the flood of cash has encouraged reckless financial behaviour and directed a firehose of money to emerging economies that cannot manage the cash.Others fear that the money created through QE is not used to increase bank lending to consumers and businesses. Because the EU does not have widespread property of the shares ownership like the USA, QE can not be used to stimulate consumer spending, as it does not increase the family property.

In conclusion, although the financial markets reacted in an expected manner, long-term interest rates fell, stock prices rose, and the euro weakened against the dollar, QE did raise eurozone economic activity a bit. According to critics, if the risk-sharing plan is confirmed the financial system of euro area will be further fragmented and also not homogeneous. The basic problem, say the critics, is that in the USA, QE is made possible by the fact that the central bank refers to a single central state, while in Europe, on the contrary, there is no central state. Consequently without political union, the monetary union is not sufficient to ensure the effectiveness of unconventional policy measures on a wider and demanding scale, as in the case of "quantitative easing". The past experiences and the above explained reasons let us know that a great part of the ECB's unconventional measures were an extension of existing facilities, and they were significant in stabilizing the real economy, but not sufficient to avoid a fall in economic activity. The measure adopted has been necessary to combat deflationary headwinds in the euro area, but they cannot last forever since their goal is to make them redundant. To make real progress towards the overall recovery of their economies, member states should rely less on ECB quantitative easing and focus more on structural reforms and fiscal policies. It's up to the governments to implement these structural reforms, and the more they do, the more effective will be QE monetary policy. Only time will show whether these alternative monetary measures will reach the expected results.

The Reaction of Bank of Albania to the crisis Albania economic conditions

Due to an easing and simulating monetary policy[18], based on continuous analysis of the current situation, as well as periodic updates of projections for the future[19], the Albanian

[17] European Exporters in generally invoice their exports in dollars and also adjust export prices in dollar very slowly, an issue that became clear in an important study of Gita Gopinath from Harvard, presented at the Conference of the Federal Reserve in Jackson Hole, in August 2015.

[18]The Bank of Albania cut its key interest rate twice, in April-May 2016, giving a cumulative effect of 0.5 percentage points in the Albanian financial system. During the same period of time, similar steps were taken by all central banks in the region. Similar steps, during this period, were taken by central banks in the region.

[19] Basically these forecasts and analysis are intended to provide answers the three basic questions: (i) how is projected the future price and economic activity performance and are these projections avoided by our intended objectives a target objectives of us; (ii) against these possible deviations, how appropriate are monetary conditions and is there any need to change the monetary policy stance; as well as (iii) what are current trends of economic development and financial markets.

economy is reeling and the country's public finances are improving.[20] More concretely:

I. the reduction of the base interest rate has been accompanied by a reduction of interest rates across the spectrum of the financial system, which means reduction of financing costs (loan cost) for the private sector, the public sector and financial system as a whole;

II. The reduction of financing costs, for existingand new financing services, has stimulated private consumption and investments, which represent the engine of economic development in the country. As a result of these maneuvers, lending has recovered slowly during the first three quarters of 2016 (mainly loan portfolio in ALL), but the performance of the loan as a whole continues to be dim, as a direct consequence of the problems of demand and internal bid, at a time when external demand remains weak and public sector demand appears limited as a result of the strategy of fiscal consolidation;

III. the amount of liquidity injected into the banking system has increased[21], having a positive impact on the total loans and private investment in the economy, as well as enabling a better functioning of our financial system;

IV. there are now the premises for a more appropriate exchange rate for the Albanian economy, which means a weakening of the local currency (All Lek) in nominal and real terms[22], and a favorable position for the Albanian export oriented businesses[23];

V. A positive trend of the inflation rate has been observed during the period from February to August 2016[24], which is confirmed by the monthly growth rate of 2 percent in August of 2016, the highest one so far this year, but still dangerously low. Curbing inflation fall, despite the weakening of inflationary pressures in the international market, it can be seen as a first step towards normalization of the situation in our country (see Table 1 for the main economic indicators in Albania).

VI. So, during the last two years, the Bank of Albania has used the expansionary monetary policy instrument to mitigate the short-term fluctuations of the economy, as a result of shocks to aggregate demand. Monetary policy, by ensuring price stability, enables the economy to fully utilize the resources of long-term economic growth, but by no means can be used to stimulate long-term economic growth of the country.

Table 1: Main Economic Indicators in Albania, 2015-2016

Albania | Economic Indicators

Overview	Last	Reference	Previous	Range	Frequency
GDP Growth Rate	1.2 %	Mar/16	0.73	-4.89 : 6	Quarterly
Unemployment Rate	15.9 %	Jun/16	16.9	12.1 : 22.3	Quarterly
Inflation Rate	2 %	Aug/16	1.9	-2.11 : 42.08	Monthly
Interest Rate	1.25 %	Aug/16	1.25	1.25 : 8.5	Daily
Balance of Trade	-27380 ALL Million	Jul/16	-29397	-39313 : -974	Monthly
Government Debt to GDP	72.13 %	Dec/15	69.77	53.43 : 84.6	Yearly

Source: Trading Economics, INSTAT

[20] According to IMF Annual Report 2016 on Albania's economic conditions.

[21] Thus, for the period 2011-2015, the total amount of injected liquidity in the banking system has reached an average sum of 24 billion, against an average of 18 billion on the five previous years.

[22] According to the annual Intelligence Unit report 2016, is predicted a further Albanian Lek devaluation against the US dollar, while the exchange rate Albanian Lek - Euro will remain stable.

[23] In terms of a high trade deficit, as a result of the economic difficulties in the main exporting partners of Albania, like Greece and Italy.

[24] In August 2016, the annual percent change in consumer price index (rate of Inflation) is 2 per cent. A year ago the annual percentage change was 1.9 per cent. For further information, please consult the INSTAT publication "Consumer Price Index", August 2016.

The experience from the global financial crisis shows that long-term economic growth requires the implementation of structural reforms by the government.

It is important to note that the rate of employment in the country and economic growth are determined by various structural factors such as, technological progress, enforcement of contracts and protection of property rights, training of human resources, the structure and functioning of the economy, and economic and financial stability of the country.

Therefore, in addition to easing monetary policy, the Bank of Albania has paid special attention to financial sector reform and prudent banking supervision, focusing primarily on changes in legislative and regulatory nature, undertaken in cooperation with the Parliament and the Government. Fiscal discipline and deepening of structural reforms, referring to the best standards that offers world experience, create incentives for an upturn in lending and security, and also constitute a key priority for restoring sustainable economic after a crisis.Economic crisis, as defined by Friedman, is a situation where production refuses to grow, inflation is low and interest rates on loans and deposits are low. Based on this, the question arises: if the interest of loans in Albania is low, why people do not apply for loans? If prices are low or declining, why people do not spend? So, this theoretical discussion would be valid in case of a large economy like America, where this theory was born. In Albania, the current problems mainly relate to the unusually high level of migration in 2015[25], with the decrease of investments by businesses, as well as the high level of uncertainty and perceived risk in the economy. This situation seems to have contributed in discouraging the demand for consumption, investment and bank loans, despite the cost of financing these activities.

Based on available statistics, we can conclude that despite the surplus of liquidity in the banking system[26] and the historical minimum of the base interest rate in the country, the fall in consumption and private investment and the economic uncertainties, in an environment of low inflationary pressures, have adversely affected the level of borrowing and investment.So, aggregate demand in its two components remains weak, not creating the right incentives for the revival of economic activity. This explains why the growth of the Albanian economy, although positive, remains below potential.In these circumstances, would it be necessary for the Albanian economy the adoption of alternative (non-traditional) monetary policy instruments, such as quantitative easing?How it works? Is that possible with the existing features of the Albanian financial market? What would be the cost-benefit ratio?

The role of Bank of Albania in the Albania crisis

The Bank of Albania in cooperation with the Albanian Government is making a series of easing and supporting policies for economic revitalization. More specifically, it is actively being used the instrument of monetary policy and that of prudential policy aiming to further reduce short-term interest rates, whch are already negative, and to extend its bond-buying program.; It is aimed to increasetransparency in fiscal policy and decision making in the communication with public; it is given more attention to the improvementof business climate; and it is given a special attention to the reform in the financial sector and to the prudential supervision of the banking sector, by undertaking severalinitiatives as well as legislative and regulatory changes."...a complete repair of the financial system is an essential condition for sustainable economic recovery after a crisis" (J.Yellen, 2015).In this context, a very important step is the inter-institutional initiative materialized in the document named "Action Plan for the Reduction of non-performing Loans", which mainly consists in a multidimensional action of legal, fiscal and regulatory improvements, which have proved successful and are a prerequisite for revival in lending activities in the country.

However, the interventions through monetary policy or through macroprudential tools have so far failed to close definitively the undesirable output gap in the country. The realization of this major objective requiresunavoidably the solution of problems arising from the politically connected companies. A group of

[25]Accordingtodata publishedrecentlybyEurostat, over 68 thousand Albanians sought asylum in EU countries, mostly in Germany; a very high number for a country with 2.8 million inhabitants as Albania.

[26] According to the data published by Bank of Albania in the Financial Stability Report first half 2016, page. 69.

companies[27]linked with few businessmen own more than half of the non-performing loans. Although their liquidation was theoretically one of the priorities of the Albanian government, no company has been dissolved and the level of non-performing loans in the system remains constant. These companies not only don't pay off debts, but also constantly undermine the free competition in the market, impeding the entry of new and healthy companies.

If the abovementioned interventions fail to bring the economy in a long-lasting positive balance, then the question is: what else should be done?

The answer is structural reforms, willingness for designing and undertaking structural reforms that are daring and forward-looking (i.e. structural reforms extended in time, oriented toward productivity, potential output andhigher standard of living) constitutes the golden key to success.They should strengthen confidence in the economy and contribute to the alleviation of

social inequality (the Financial Committee of the IMF, 2015).In these circumstances, would it be essential for the Albanian economy apossible implementation of the alternative policy measures such as QE?QE is mentioned as a possible monetary policy to be implemented by the Bank of Albania, but the central bank has left open the possibility of pursuing this type of monetary policy.The implementation of QE in such a context, would allow the insolvent companies to avoid bankruptcy. These companies not only reject bankruptcy, but also have the power to corrupt the courts and challenge the banks. So in Albania there is not merely an economic problem, basically there persist a political problem.

Conclusions

Compared to other countries that have already used quantitative easing, it should be noted that Albania is in a different situation. Our situation is somewhat more specific because we have liquidity in the banking system; we just need to pass it in the economy. The biggest weakness in our country is bad loans in the banking system. If they would be reduced or even better eliminated, our economy would perform more efficiently. Quantitative easing has given positive effects only when it has been implemented accompanied by the fiscal incentives, in order not to worsen the debt situation. If the government and taxpayers, in particular, will perform government bond purchases under quantitative easing model, this measure should be accompanied by a permanent clause for maintaining stability of the debt. The Central Bank should clearly commit to hold the bonds purchased by the government. If quantitative easing policy does not provide such a mechanism of action, the burden of these bonds purchased will become a new debt that the government would dismiss as tax burden on the shoulders of the Albanian taxpayers. Consumer demand and investment, efficient distribution of resources according to risk, and productivity growth are probably all being held hostage by a QE monetary policy combined with fiscal policy. Hopes for sustainable economic recovery will probably be realized if the proper direction of policies is chosen. I believe this can be achieved without the intervention of quantitative easing. Therefore, its use in the economy is not seen as reasonable for the moment. At the conclusion of the analysis and ideas presented, remains to

suggest that the implementation of the quantitative easing policy will give effect, in the best case, to the banks of the second level to close the bad performance with problematic loans that they have registered and transfer them as bad debt in their books.

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[27]These types of businesses are considered 'zombies' in the economic literature.

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