

THE EFFICIENCY OF CENTRAL BANK MONETARY POLICIES AND ITS ROLE IN ECONOMIC GROWTH

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Abstract

It is quite a while of years now that the inflation rates in Albania have been kept low and stable. This is not yet clear from what reasons, whether it comes from the successful policies of the Bank of Albania, or the stability of the Albanian economy, or financial policies undertaken by the government to cover the demand for expenditures and investments, or by a continuous economic growth, or due to the financial stability in the region, or by the situation with structure of capital and domestic production, or by important changes in the structure of consumption in Albania. Of course, in a market-oriented economy, central banks cannot control inflation directly. Bank of Albania has always kept an anchoring inflation policy (2%-4%) when country is moved from a centralized economy to a decentralized one. They have to use other instruments as interest rates, whose effects are uncertain in the economy. Some Central Banks use the exchange rate or money growth to guide policy decisions. This last tool has been used recently by the European Bank since the Greece crisis.

Recently, due to the global crisis and other internal problems in Albania the economic situation has given signals of hard times to maintain on due target level of growth. Even monetary stability should be one of the major foundations of success of Albanian economic development, measured by inflation rate and the exchange rate; we still are facing hard times in our national economy.

Monetary policy is an important instrument for both Keynesians and Monetarists, who have to adapt the level of employment and production. According to Keynesians, aggregate demand can be influenced by monetary and fiscal policy. While for Monetarists, the quantity of money in circulation directly affects inflation change.

In this paper we evaluate the Bank of Albania's efficiency by analyzing conventional monetary policy mechanisms and by analyzing the evidence of inflation expectations. We will identify some alternatives to guide the monetary policies by using econometric and descriptive statistics, to see how the monetary policies influence in the economy compared to different factors as mentioned above. Monetary policy plays an important role in country's economic growth, since the decrease of interest rate lending is stimulated and investments are encouraged. We shall consider this effect and performance considering the inflation rate impact on the economic stability and growth in Albania.

Key Words: *Monetary Policies, Central Bank, Implementation, Inflation, Economic Growth.*