

## 2. THE ACTIVITY OF THE BANK OF ALBANIA

### 2.1. MONETARY POLICY

*According to the Law “On the Bank of Albania”, our monetary policy is formulated and implemented for the purpose of achieving and maintaining price stability. The Monetary Policy Document, which details the objectives, explains the principles and lays out the monetary policy strategy, defines price stability as keeping the consumer price inflation rate at 3% in the medium term. Through the fulfilment of this objective, the Bank of Albania contributes to the stable development of the economy, the promotion of financial stability, and increase in the welfare of Albanian citizens.*

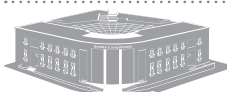
*The Supervisory Council of the Bank of Albania makes monetary policy decisions. These decisions are based on the contemporary framework of analysis and forecast, which makes use of all available information, and is based on tested econometric models and the best practices of central banking.*

*The Albanian economy performed positively throughout 2023. In face of a still challenging external context, the economic activity, employment and wages continued to rise, whereas inflation has been coming down. In parallel, the key indicators of economic and financial soundness improved.*

*Monetary policy played an important role in this performance. The prudential normalisation of the monetary policy stance over the past two years, contributed in: the decline of inflation, reduction of uncertainties, and in the establishment of a stable monetary environment. Not least, the progressive decline of inflation was realised without hindering the positive economic growth trend and without damaging the financial stability in Albania.*

#### 2.1.1 MONETARY POLICY IN 2023

The global economy’s fight with inflation made a positive turn during 2023, although challenges regarding growth and stability remain present. Inflation dropped from its high levels recorded one year ago, due to the stabilisation of prices of raw materials and the tightening of the monetary policy across the globe. On the other hand, as uncertainty, costs of raw materials and financial costs all went up, economic activity slowed down, particularly in the euro area. However, the economy’s slowdown in the euro area, our main economic and financial partners, has engendered - up to now - minimum consequences on its labour markets and financial stability indicators.



**Year 2023 was positive for the Albanian economy.** The volume of economic activity expanded, inflation of consumer prices declined significantly, whereas the labour market and the key indicators of economic and financial soundness improved.

**Inflation declined progressively over 2023, dropping from 7.4% at the beginning of the year to 4.0%, at the end of it.** This fall reflected the reduced commodity prices in international markets, the normalisation of our monetary policy stance, and the strengthened exchange rate. The fall of inflation affected initially the prices of food and oil, and it later found a relatively broad base in the categories of consumer basket items. However, inflation, although on the decline, showed an increasing stability during the second half of the year, illustrating both the high demand for goods and services as well as the effect of higher wages and production costs.

**The economic activity, employment and wages increased over 2023.** According to INSTAT, the Gross Domestic Product (GDP) grew by 3.3% during the first three quarters of the year, employment expanded by 2.8%, whereas the unemployment rate decreased at its historical minimum level of 10.5% over the third quarter. Economic growth was mainly underpinned by the expansion in the services sector activity, given the rapid increase of revenues from tourism and construction. This performance reflects the increase in the external demand for services, whereas the increase of consumption and investments was somewhat slower and fiscal policy had a neutral impact. In the same vein with the profile of economic activity, employment growth was focused mainly in the services sector.

**The higher demand for employment and increasing labour shortages translated in a fast and with a broad base growth of wages.** In the first three quarters of the year, the average wage in the private sector climbed by 13%. This increase continued to support households' income and consumption, but it was also reflected in a fast rise of production costs, keeping domestic inflationary pressures at high levels.

The key indicators of economic and financial soundness in Albania, improved, whereas risk premia were reduced<sup>1</sup>. In particular:

- **External position marked a significant improvement, as it registered -** for the first time in the post-transition history - a current account surplus. This surplus reflected the rapid growth of revenues generated by tourism during the first three quarters of the year, and it was assessed at 0.2% of GDP, improving by 6 percentage points compared to the same period in the previous year. In parallel, external debt of Albania dropped below 50% of GDP, whereas the level of international reserve of the Bank of Albania recorded an historical level of EUR 5.8 billion,

---

<sup>1</sup> In September, Standard & Poor's (S&P) reconfirmed the sovereign debt risk assessment of Albania to "B+", but revised this indicator upward from "stable" to "positive."

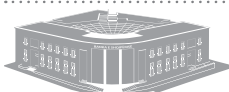


- considerably improving the payment solvency of the country.
- **Albania's fiscal position improved as well**, reflected in the simultaneous reduction of the budget deficit and public debt, which dropped to their over-more-than-a-decade minimum levels of 1.4% and 59.2% of GDP, respectively. This improvement reflected the consolidated stance of the fiscal policy, the continuation of the upward economic trend, and the exchange rate appreciation. As public debt reduces, the fiscal space necessary to address future shocks expands, while helping to minimise risk premia and financing costs for all Albanian economic operators.
  - **Last, the banking sector - which has been and remains a dominant segment of our financial market - continued to present solid parameters of the activity.** This sector maintained sound liquidity parameters, further improved its capitalisation and profitability indicators and continued to progress in terms of improving credit portfolio, by reducing the non-performing loans ratio to 4.7%. These positive development trends enable the banking sector to provide to the Albanian economy - efficiently and uninterruptedly - financial funds, payment and saving instruments.

**The high level of resilience of the economy against the shocks in the recent years was supported by a series of factors.** First, the solid balance sheets of the private sector, the high levels of confidence, the robust labour market and the expansion of bank lending, enabled the absorption of shocks and drove up consumption and investments for both households and businesses. Second, the international interest for Albania as a new tourism destination increased, supporting economic growth and strengthening its future perspective. Third, the response of the fiscal, monetary and financial policies against shocks, was coordinated, in terms of stance, time and scale.

**The monetary policy continued its normalisation stance in 2023, aiming to return to its 3% target as fast as possible and at the lowest cost on the economy.** This normalisation was realised through rising the policy rate and continuing providing forward guidance to the market. The policy rate rose twice over the year, from 2.75% to 3.25%. In the same vein, the communication on the future monetary policy stance maintained the same features of the previous year, conditioning the speed and degree of normalisation to the new information available and the performance of factors with the primary impact on inflation.

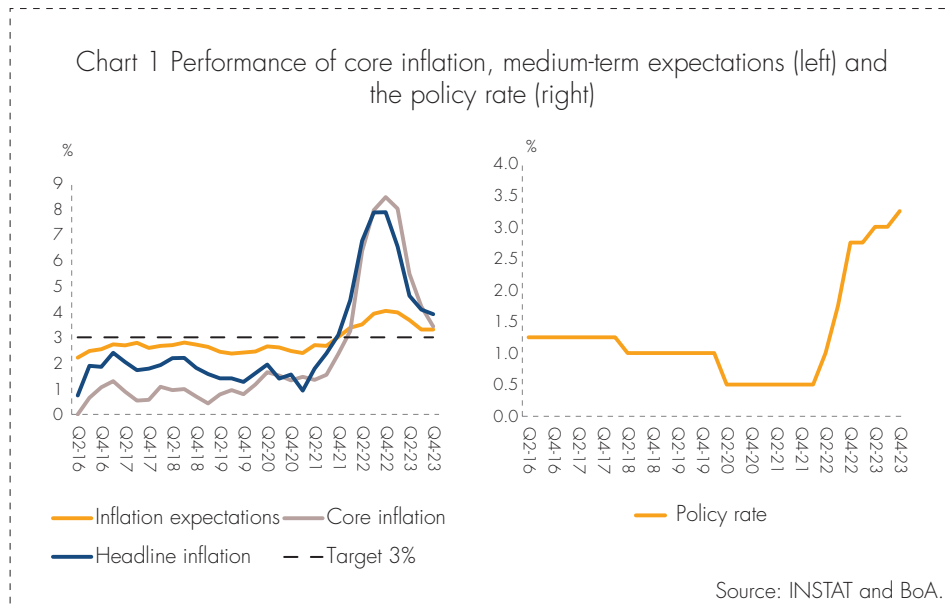
**The Bank of Albania dampened the normalisation pace of the monetary policy stance over 2023, increasing the policy rate by 0.5 p.p., from the 2.75 p.p. rise recorded in 2022.** This deceleration was driven by the consolidation of fiscal policy and the strengthening of the exchange rate. Not least, fiscal consolidation helped to curtail domestic pressures, whereas the fast appreciation of the exchange rate mitigated imported inflationary pressures, creating the space for a more moderate tightening of domestic monetary conditions.



**The transmission of the monetary policy decisions to financial markets and the economy, has been satisfactory.** The rise of the policy rate in the last two years has driven to an overall increase of the interest rates in Albania, although the domestic financial conditions remain stimulating to the expansion of consumption and investments. Also, the normalisation of the monetary policy stance has enabled financial market’s risk premia to fall down and a calm domestic financial environment.

**Credit to the private sector continued to grow, meeting the funding needs of businesses and households.** By the same token, the performance of lending activity had some positive features in 2023. First, credit growth was diversified, financing households’ and enterprises’ needs for consumption, working capital and investments. Second, the growth of credit in domestic currency was faster, which drove the share of the credit portfolio in lek to total credit to increase, expanding thus the available space for the monetary policy to act, and diminishing the risks against financial stability. Third, credit quality improved, as is shown by the drop of non-performing loans ratio to the lowest level recorded since 2008. These developments suggest that there will be a stable and sound growth of credit in the future as well.

**The normalisation of the monetary policy stance helped to bring inflation down during the past two years without jeopardizing the positive economic growth trend.** The positive contribution of the monetary policy was materialised through three channels. First, there was willpower exhibited and concrete measures undertaken to observe the price stability objective, which helped to anchor inflationary expectations and mitigate economic agents’ uncertainties. Second, the prudential increase of financing costs engendered a more balanced performance of demand and supply in the economy, enabling the containment of domestic inflationary pressures. Third, the normalisation of the monetary policy stance helped financial markets to function in a calm manner, keeping down their risk premia.



**Forecasts on the economic outlook remain positive.** The Albanian economy will continue to grow over the coming years, while inflation will return to our 3% target over 2024. This forecast takes into account the further decline of inflation across our trading partners and a more balanced performance of demand and supply in the economy, as well as a sustainable exchange rate.

**The Bank of Albania will continue to be dedicated to respecting its objective of price stability, by adopting an adequate and prudential monetary policy.**

2023 was another challenging year in terms of drafting and implementing the monetary policy. The high inflation rates, the complexity of factors affecting it, and the increased risks and uncertainties springing from the external environment, have triggered a watchful adjustment of the monetary policy stance. However, the ongoing dedication of the Bank of Albania to: improve its analysis and forecasts; advance its research agenda; and provide a better monetary policy transmission mechanism, proved to be crucial elements in the fulfilment of our mission.

**After reflecting on the results achieved and lessons learned from dealing with latest shocks, while simultaneously aiming to adopt the best international practices, the Bank of Albania will continue to work toward:**

- Improving and expanding the forecasts models and analysis of the monetary policy, in order to better understand current developments and more accurately forecast their future performance;
- Bolstering the development of domestic financial markets and their gradual convergence with the EU standards during the negotiation period;
- Strengthening cooperation with the fiscal and macroprudential policies in order to enhance the synergy between domestic economic policies and the European integration process;
- Enhancing transparency and accountability, by communicating the decision in a clear and timely manner.

### 2.1.2 ECONOMIC ACTIVITY

*The economic activity in Albania has embarked on a positive trajectory over 2023, appearing resilient against the latest shocks. The volume of economic activity has picked up, underpinned by the expansion of domestic and foreign demand for goods and services. This dynamic has reflected the improvement of confidence in the economy, the sound financial balance sheets of the private sector, the stimulating financial environment, and the rapid increase of demand for tourism services.*

*However, economic growth did not have a broad sectorial base. It relied on the expansion of the activity of services and construction, whereas agriculture has not grown and industry has decelerated.*

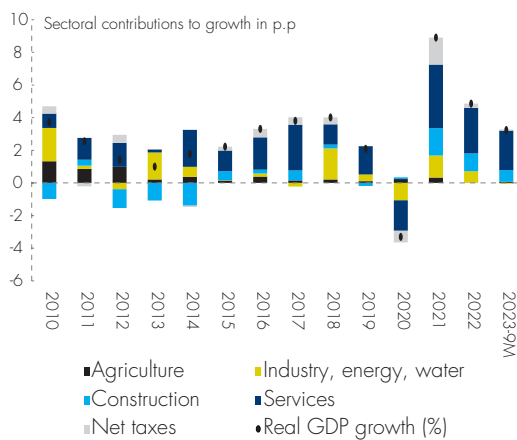


*Our assessments show that the Albanian economy finds itself on a positive stage of the business cycle, reflected in both the shortages noticed in the labour market and the still high inflationary pressures coming from the domestic economy.*

According to INSTAT data, the Gross Domestic Product of Albania grew by 3.3% in the first nine months of 2023<sup>2</sup>. In the same line with the expectations, the pace of economic growth decelerated from the previous two years, reflecting the impact of the high comparative base and approaching to the optimal pace of growth. In terms of demand, the expansion of economic activity reflected the simultaneous increase in households' expenses, private sector investments and foreign demand for tourism, as fiscal policy was consolidating and export of goods declined. In the sectorial aspect, economic growth reflected the expansion in the activity of services and construction, whereas agriculture maintained levels comparable to the previous year and the industry declined.

Economic growth was driven mainly by the services sector, which expanded by 5.4%, contributing around 2.4 percentage points to economic growth in the first nine months. Not least, the fast expansion of tourism during the year provided a positive impact on the growth, which was more pronounced during the third quarter and was reflected in the rise of the activity of the branch of "Accommodation and food services". Based on the positive performance of indirect indicators, the effects of tourism spread over the fourth quarter of 2023 as well, as tourist activities became more diversified and extended in time. In the same vein, the branches of "Public administration, defence, education and health" and "Real estate" made positive contributions to the services sector's growth in 2023.

Chart 2 Economic activity by sector



Source: INSTAT and BoA.

Production sector grew by 1.7%, contributing by 0.7 percentage points to the economic growth in the first nine months of 2023, against 1.7 percentage points recorded last year. Within this sector, the branch of "Construction" provided the most significant contribution to growth, although the growth rates have fluctuated over the quarters. On the other hand, industrial production shrank by 0.5%, reflecting the fall recorded in both the manufacturing industry by 4.7% and mining industry by 17.1%, respectively. This performance reflects the weak demand from the foreign market for our exports; specific issues regarding development in certain branches; and the loss of competition suffered due to the rise in the production costs and the strengthening of the exchange rate.

<sup>2</sup> The information published by INSTAT on gross domestic product following the production and expenditures method cover developments up to 2023 Q3, published on 22 December 2023.



Table 1 Sectorial contributions to economic growth (in p.p.)

	2018	2019	2020	2021	2022	2023		
						Q1	T2	T3
Agriculture	0.2	0.1	0.2	0.3	0.0	0.1	0.0	-0.2
Industry, energy, water	1.9	0.4	-1.1	1.3	0.7	0.4	-0.1	-0.3
Construction	0.2	-0.2	0.1	1.7	1.1	0.4	1.3	0.5
Services	1.2	1.7	-1.9	3.9	2.8	2.4	2.0	3.1
Net taxes	0.4	0.0	-0.7	1.7	0.3	-0.4	0.2	0.4
Real growth	4.0	2.1	-3.3	8.9	4.9	2.9	3.4	3.5

Source: INSTAT and Bank of Albania calculations.

### DOMESTIC DEMAND GROWTH WAS BROADLY BASED

Domestic demand grew on average by 4.4%, during the first nine months of the year. Its growth was broadly-based: private consumption remained the main contributor, with around 2.2 percentage points; public consumption contributed by 0.8 percentage points, while investments contributed by around 1.4 percentage points.

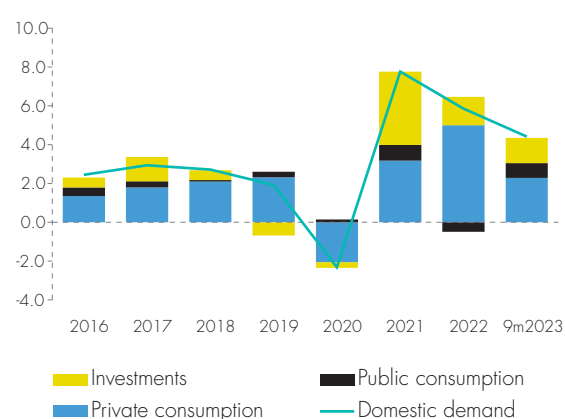
### PRIVATE CONSUMPTION GREW BY 3.2% DURING THE FIRST THREE QUARTERS OF 2023

The expansion of private consumption remains the main contributor to the increase of aggregate demand. From a macroeconomic viewpoint, its expansion continues to be fostered by the increase of disposable income, given the fast increase of employment and wages, the improvement of consumer trust, and the still accommodating financial environment, which has driven consumer credit upward. In parallel, the progressive drop of inflation has reduced uncertainties and has bolstered consumers' purchasing power.

### INVESTMENTS GREW BY 6.7% DURING THE FIRST THREE QUARTERS OF 2023

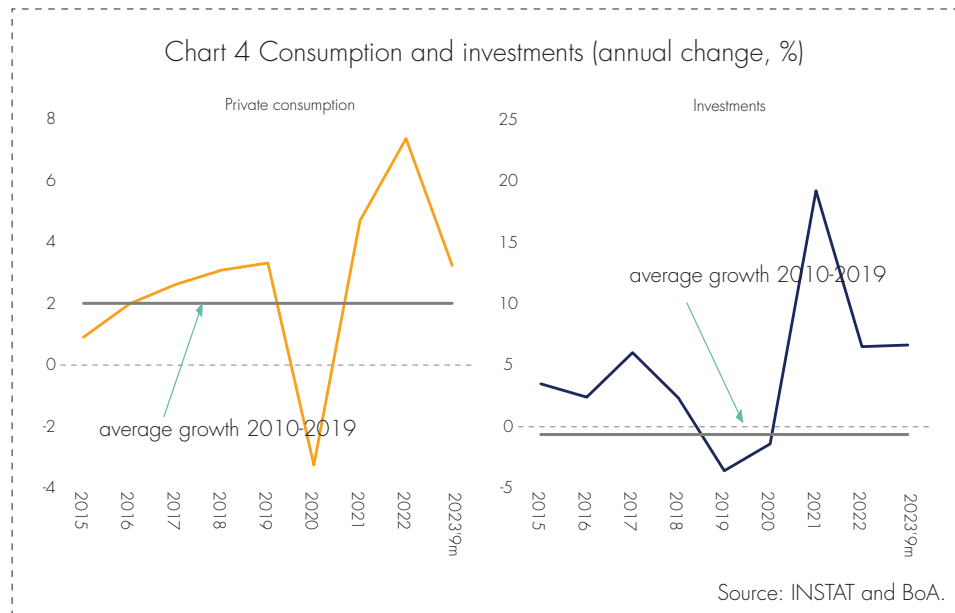
The volume of investments continued to expand in 2023. According to indirect data, this expansion was mainly backed by the growth in private investments, whereas public investments made a lower contribution, albeit positive and upward. The increase in private investments was driven by the higher capacity utilisation rate, which has urged businesses to make more investments in order to meet the demand for goods, and particularly for services. In parallel, the increase of investments is favoured by the improved business confidence and their sound balance sheets, and has been accommodated by the rising support of bank loans.

Chart 3 Annual change of domestic demand by components



Source: INSTAT and BoA.

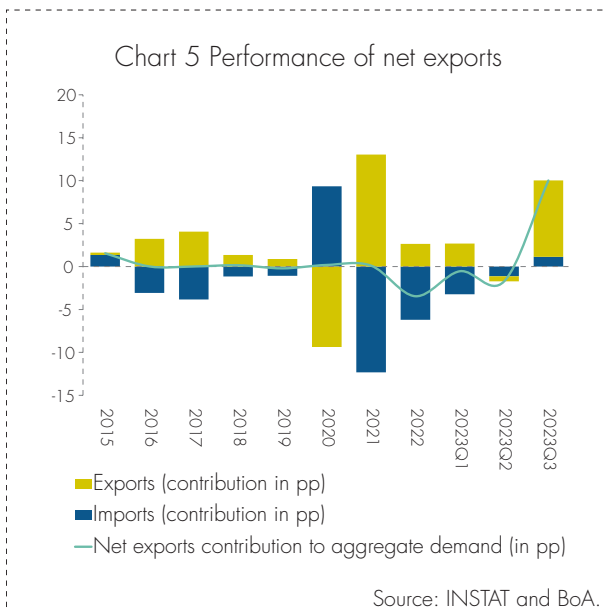




**REAL TRADE DEFICIT REDUCED BY 34.7% DURING THE FIRST THREE QUARTERS OF 2023**

The improvement recorded in the net export balance had a positive contribution on the economic growth in the first three quarters of the year, assessed close to the average of 2.6 percentage points. The trade deficit in goods and services narrowed by 34.7% in real terms over this period. Not least, in the third quarter, the balance of international trade in goods and services recorded a surplus, for the first time in three decades. This improvement reflected the expansion by 8.7% of total real exports, which was driven by the 20.4% increase recorded in the exports of services, whereas the export of goods declined by 20.4% in real terms. On the other hand, the import of goods and services grew by 2.1%

in real terms, reflecting the 20.7% expansion in the import of services and the 5.4% contraction in the import of goods.



**In nominal terms, the export and import of goods declined in 2023.** This performance was driven by a slowdown in the volume of the international trade, the drop in commodity and energy prices, some specific issues affecting our export sector, as well as the exchange rate effect.

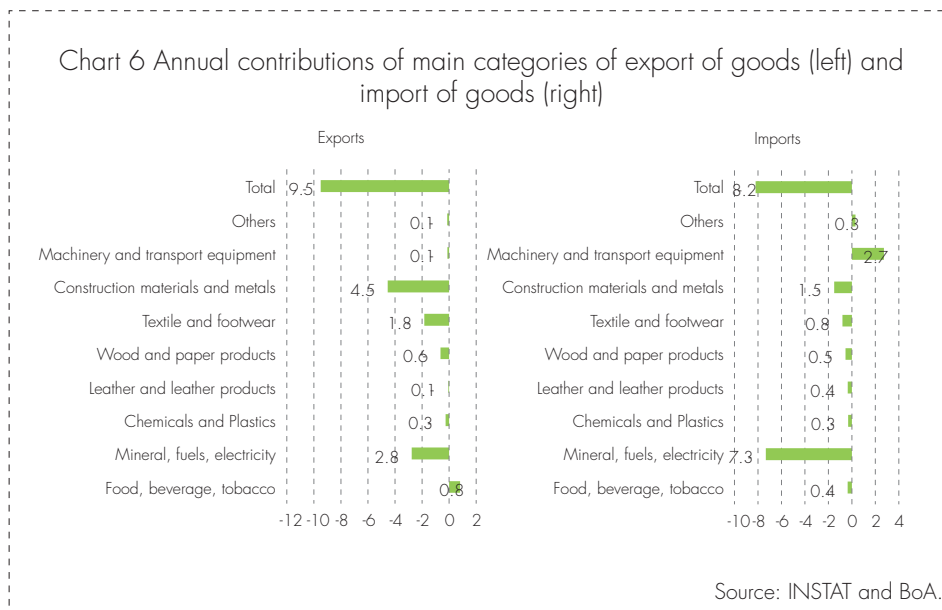
**Export of goods** reduced by 9.5% during the first three quarters of 2023<sup>3</sup>. The decline in the export of goods was broadly based, except the category of "Food, beverages and tobacco", which recorded an increase. The most significant negative contributions

<sup>3</sup> In the first three quarters of 2023, the export of goods constituted 20% of total Albanian exports, whereas export of services 80%.





were recorded in the category of “Construction materials and metals”, “Textile and clothing”, and “Minerals, oil, electricity”.



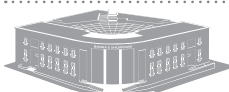
On the other hand, the import of goods reduced by 8.2%, where the main contributors were the categories of “Minerals, oil, electricity”, “Textile and clothing” and “Machinery, equipment and spare parts”, whereas the declining contributions of the other categories were relatively low.

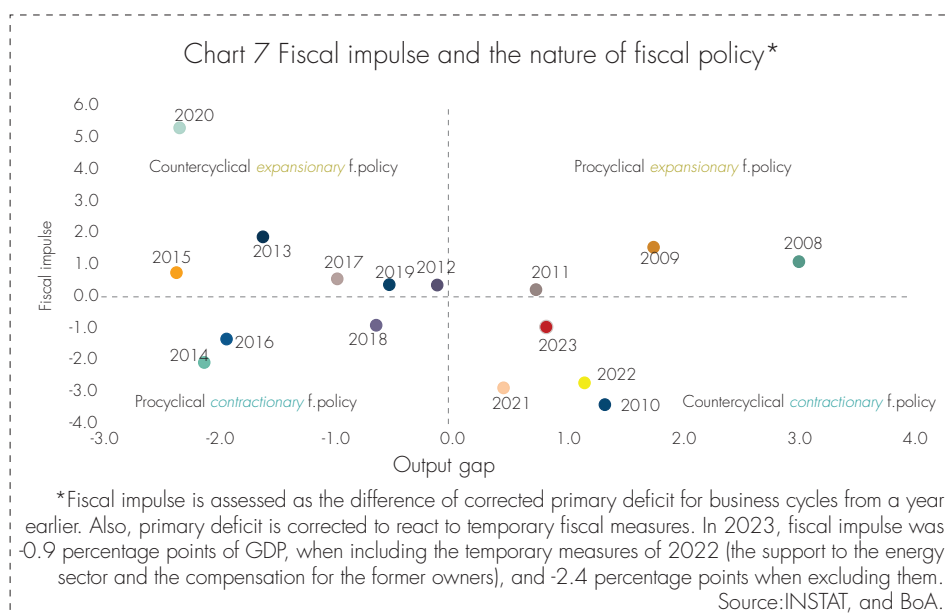
### *FISCAL POLICY CONTINUED TO MAINTAIN ITS CONSOLIDATING NATURE IN 2023 AS WELL*

**Fiscal policy had a counter-cyclical nature over 2023.** This policy underpinned the improvement of fiscal position and the strengthening of macroeconomic stability, through a better coordination with the normalizing monetary policy. Fiscal consolidation was expressed through the reduction by 2.3 percentage points of the budget deficit ratio to GDP, and enabled the drop by 5.3 percentage points of public debt ratio to GDP.

**Fiscal consolidation was discretionary, as its primary balance shifted from a deficit of 1.8% of GDP in 2022, to a surplus of 0.7% of GDP in 2023.** Fiscal consolidation was underpinned partly by the termination of the mandatory support to the energy sector and partly by the positive performance of the labour market, characterised by the growth in both employment and wages.

**Compared to the previous year, primary expenses were around 1.5 percentage points lower in terms of GDP,** an amount similar to the transfers carried out from the government in 2022, which aimed to avoid the burden of high energy prices being passed on to the end consumer in Albania. In parallel, the ratio of primary income to GDP rose by one percentage point, and most of this





improvement came from taxes on employment, such as personal income tax and social and health insurance contributions.

In 2023, budget deficit was ALL 31.3 billion, being considerably lower than the ALL 55.5 billion that was planned out. In terms of GDP, deficit was assessed at around 1.4% of GDP, from 3.7% recorded in the previous year. The realisation of deficit in 2023 was concentrated in December, and in the first eleven months of the year, fiscal balance recorded positive and high values.

**Budget deficit was financed by both foreign and domestic sources.** A 5-year Eurobond valued at EUR 600 million or around 2.7% of GDP, was issued in June. Most of it was used for paying the principal of debt that was received in the previous years, as well as to pay in advance part of the Eurobond issued in 2018, at the amount of ALL 133 million. Foreign currency inflows to finance deficit increased, with the budgetary support of foreign entities, at ALL 19.2 billion, or 0.8% of GDP. Part of the FX surplus funds were transferred to be used in financing the deficit of 2024.

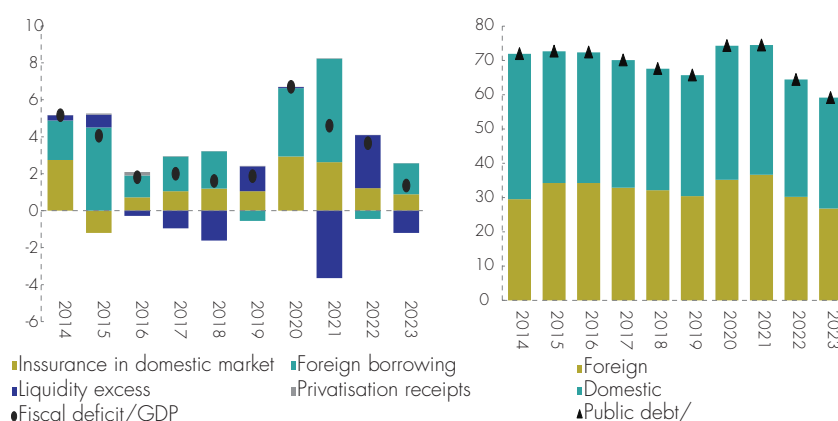
**The financing of deficit in the domestic market was ALL 20.7 billion, from ALL 25 billion that was planned out.** In contrast to last year, the additional borrowed amount was realised through long-term securities. The growth in this portfolio offset the ALL 21 billion reduction in the T-Bills portfolio of government. The banking sector had an important role in this financing, contributing by ALL 17 billion, or around 80% of the additional domestic borrowing.

**Gross public debt to GDP ratio fell to 59.2%, as at end of the year, down by around 5.3 percentage points than the level recorded at the end of 2022.** More than half of this decline, or 2.7 percentage points, is attributed to the effect of lek appreciation against the euro. In parallel, the following events had also a declining impact: the growth of economic activity in Albania, by 1.9



percentage points; the negative real interest rate, by 0.8 percentage points; as well as, the consolidating fiscal policy, by 0.7 percentage points.<sup>4</sup> In terms of structure, domestic debt was assessed at 32.3% of GDP, from 34.3% at the end of 2022, whereas external debt stood at 26.9% of GDP, from 30.3% at the end of 2022.

Chart 8 Budget deficit and budget financing (left) and public debt to GDP ratio (right)\*



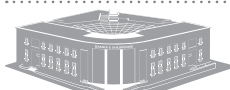
\*Data on public debt are available until the third quarter.  
Source: INSTAT, MFE and BoA's staff calculations.

**Budgeted expenditures in 2023 were around ALL 675 billion, or 29.2% of GDP, from 30.4% a year earlier.** In nominal terms, the annual increase in expenditures resulted around 3.6%. If the base effect of energy sector transfers of 2022 were to be excluded, this growth rate would have been around 8.3%.

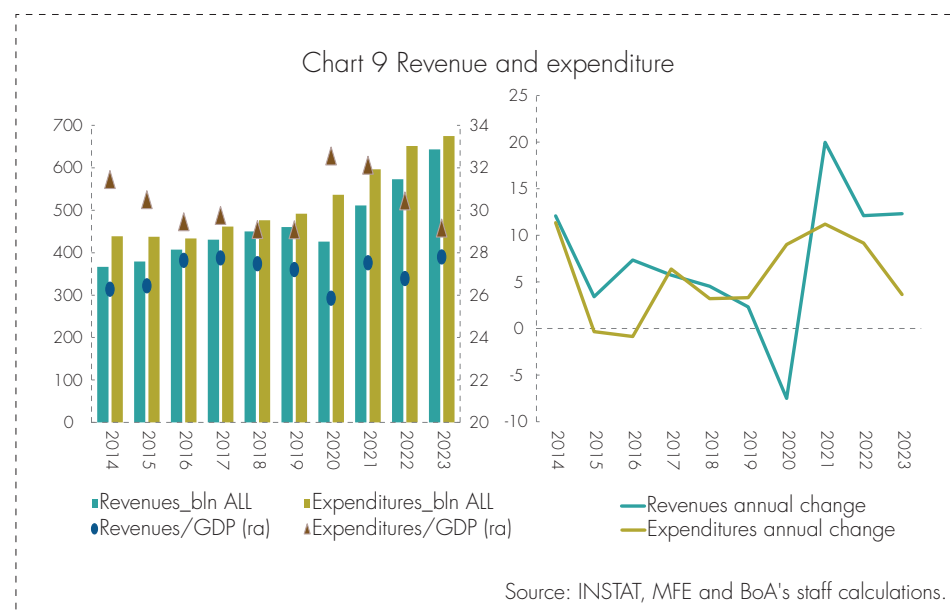
**Public investments reached ALL 120 billion, or around 5.2% of GDP.** In annual terms, investments grew by 6.7%, improving the structure of budget expenditures, and accounting for around 18% of total expenditures. In this aspect, the Reconstruction Fund, which continued to be part of the budget in 2023, had a positive effect. In absolute terms, the higher increase of expenditures was driven by wage rises for the public sector employees, by around 2.4 percentage points. In the same vein, expenses for the local government and for the pension funds scheme contributed by 1.6 percentage points, whereas interest expense contributed by 0.7 percentage points.

**Fiscal revenues reached ALL 643 billion, assessed at around 27.8% of GDP, or up by 1 percentage point than the previous year.** In annual terms, revenues expanded by around 12.3%, underpinned by three main factors. First, the growth of employment, the increase of minimum wage and in the wages of public and private sector, engendered a rapid increase of revenues from taxes

<sup>4</sup> In addition to the above-mentioned factors: real interest rate, the real economic growth, primary balance and the exchange rate; there is also a residual item, which enables the equalization of the identities and which was assessed at around 0.8 percentage points of GDP.



on wages and on social services. Second, revenues from grants contributed by around 2.2 percentage points to the growth of public revenues, reflecting the funds accorded by the European Commission to support the reforms taking place in energy sector. Third, revenues from tax on profit contributed by 3 percentage points to the expansion of public revenues. This item reflected mainly the additional revenues generated by the special tax on private companies involved in selling electricity, which realized high profits in 2022, due to the fast increase of electricity prices.



VAT revenues amounted to around ALL 192.3 billion, or 8.3% of GDP, falling by 0.6 percentage points from the previous year. The performance of VAT revenues reflected the lower commodity prices, primarily of energy, and the effect of the domestic currency appreciation in 2023. Most of VAT revenues, or around 76% of it, is generated from the import of goods. As a result, the revenues accumulated from this tax highly depend on the volatility of prices in international markets and the exchange rate performance.

### 2.1.3 LABOUR MARKET

*The main indicators of the labour market have been improving in 2023; employment grew even further, unemployment has subsided to its historical minimum level, and the growth of wages remains high.*

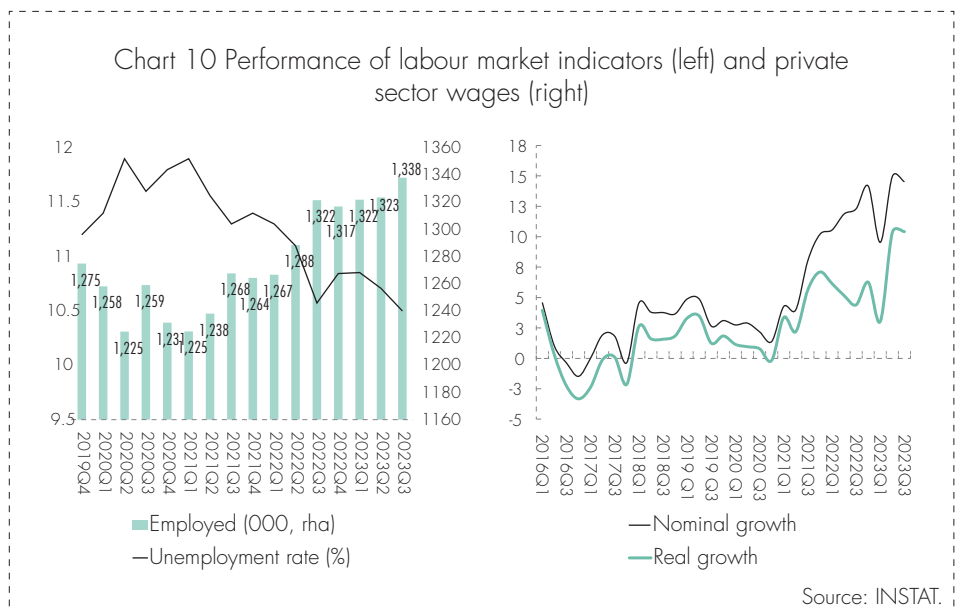
The growth in the demand for goods and services was reflected in an increase of employment, fall of unemployment and rise of wages. According to INSTAT data, employment recorded an average increase of 2.8% during the first three quarters of 2023. In coordination with the dynamics of sectorial development, the growth of employment was concentrated in the sectors of "Services", whereas employment in the sectors of "Agriculture" and "Industry" dropped.



The growth of employment was reflected by the increase in the labour force participation rate, and the decrease in the inactivity rate.

**The unemployment rate continued to reduce, dropping to 10.5% in the third quarter.** This rate was around 0.1 percentage point lower compared to the previous year and marks a new historical minimum of the unemployed, whereas the number of employed persons climbed to the highest level yet.

**The tight conditions in the labour market continue to exert additional pressures to the rise in wages.** During the first nine months of the year, the nominal wage increased on average by 14% for the entire economy, and by 13% for the private sector. Sectorial data suggest that contributions by all the branches of the economy were broadly based. Enterprises continue to report challenges in attracting the labour force and the rise of wages is considered a necessary instrument to hire qualified employees. The increase of the nominal wage and the deceleration of inflation have accelerated the rise of the real wage, at the level of 9.0% for the entire economy, and 7.9% for the private sector.



## BOX 1

**THE CURRENT PERFORMANCE AND THE LONG-TERM PERSPECTIVE OF LABOUR MARKET IN ALBANIA**

**Labour markets in Albania and globally, have been characterised by tight conditions in the past years.** This tightening is driven by both cyclical and structural factors. As regards demand, the rapid growth of economic activity - particularly after the pandemic - has pushed labour demand up. As regards supply, its fulfilment has been hindered by the unfavourable demographic trends, the international race for acquiring the labour force available, and changes in society's preferences. These dynamics have been expressed in the fall of unemployment and the rapid increase of wages.

Box 1 aims to take a closer look at the developments of the Albanian labour market, in both the short-term and medium- and long-term perspective.

**The labour market performance has been positive during the past two years, in line with the expansion of economic activity.** The Albanian economy has created 68 thousands new jobs in the past two years, driving up employment by 6.8%. In parallel, the labour force participation rate climbed by 8.9 percentage points, driven mainly by a higher number of female participants, whereas the rate of unemployment has dropped to its historical minimum, and the inactivity rate has been declining.

Table 2 Economic growth and labour market indicators throughout the years (in %).

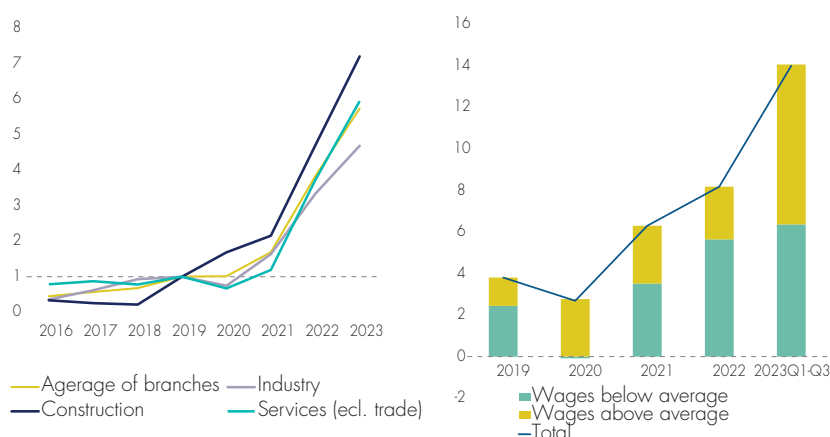
Economic and labour market indicators	2019	2020	2021	2022	2023 Q1-Q3
1. GDP growth (y/y)	2.1	-3.3	8.9	4.9	3.3
2. Employment growth (y/y)	2.8	-1.7	0.5	4.0	2.8
3. Unemployment rate	11.2	11.8	11.4	10.8	10.5
-Unemployment rate (15-29 years-old)	21.4	21.7	20.6	21.5	22.0
4. Long-term unemployment rate	7.3	6.9	7.3	7.3	7.4
5. Employment rate	61.2	60.6	60.9	65.0	67.4
-Employment rate (15-29 years-old)	41.2	41.2	41.5	44.0	44.6
6. Labour force participation rate	69.6	69.1	69.3	73.2	75.9
-Labour force participation rate (15-29 years-old)	52.5	52.1	52.5	55.6	57.4
7. Inactivity rate	30.4	30.9	30.7	26.8	24.1
-Inactivity rate (15-29 years-old)	47.5	47.9	47.5	44.5	42.6

Source: INSTAT.

**The growth in wages reflected the fast expansion of labour demand and the increasing deficiencies in the labour force.** The Bank of Albania Surveys<sup>1</sup> shows that businesses identify "Labour force shortages" as a serious and consequential obstacle for their activity. In 2023, its scale of importance increased by around 6 times compared to 2019, as labour force shortages have affected all the surveyed sectors. As a result, wages in the private sector have followed an upward trend since the end of 2021, where annual rates jumped from 6.6% in 2021 to 12.2% in 2022, and to 13% in the first nine months of 2023. The growth of wages is broadly based, in both sectorial terms and in terms of the level of qualification of the labour force. Furthermore, businesses report that vacancies have increased, due to their inability to fill them out<sup>2</sup>.



Chart 11 The importance of the "labour force shortages" factor (left, index, 2019 = 1) and the growth of wages (right, in %).



Source: Bank of Albania, Business Confidence Surveys and INSTAT.

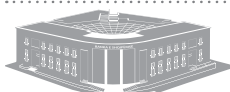
**The rise in wages and employment have supported economic growth, in terms of both demand and supply, but they also drive up production costs and create the premises for the rise of inflation.** This factor remains on the focus of the Bank of Albania, in order to promptly assess its impact on price stability and the monetary policy stance.

**The labour market perspective is positive.** The expansion of the economic activity will be accompanied by a higher demand for labour and the emergence of new job vacancies. On the other hand, demographic inclinations, such as the declining birth rate and population ageing, coupled with the incessant emigration springing from the rising competition in the international market to attract the labour force, will drive labour supply up, which may result in higher pressures to tighten labour market conditions in the future.

#### Some structural factors of labour market in Albania

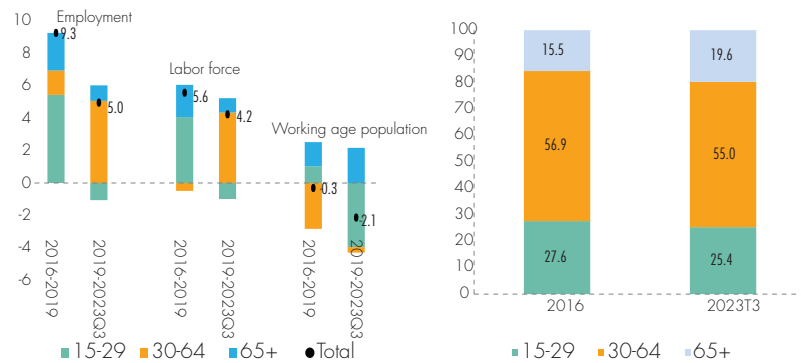
**The demographic situation in Albania has been marked by rapid structural changes in the past two decades.** Population has been declining due to several factors such as a lower fertility rate, population ageing and emigration.<sup>III</sup> In parallel to the fall in population, its average age in 2022 was assessed at 38.2 from 36.7 in 2019, and the median age has increased. Consequently, the pyramid of the population's age has a narrowing base, as the number of youth has fallen and that of the elderly has risen.<sup>IV</sup>

**From a longer-term viewpoint, structural changes are also observed regarding employment and labour force by age group** (Chart 2, left). For both these indicators, the positive contributions of youth aged 15-29 years old during 2016-2019, have become negative during 2019-2023 Q3. Meanwhile, the shrinking pace of the working age population has accelerated, from 0.3% in the first period, to 2.1% in the second period. This decline was determined primarily by the negative contributions from the age group 15-29 and 30-64 years old, whereas the only positive and slightly expanding contributions spring from the 65 year-old age group. These developments identify a relative ageing of the working-age population (Chart 2, right).



*In this perspective, closer attention should be paid to the implications of the unfavourable demographic trends on the country's developments. In the same vein, the continuation of structural reforms - which enhance productivity and competition – are crucial, as they are instruments for the stable growth of wages and the economy.*

Chart 12 Labour market indicators (in %) by two sub-periods, de-composed by contributions by age-groups (right) and the structure of the working-age population by age-group (right)



\* Changes in % and contributions are accumulated for the periods 2016 Q4-2019 Q4 and 2019 Q4-2022 Q3.

Source: INSTAT and Bank of Albania calculations.

<sup>I</sup> *Businesses Confidence Surveys in 2023.*

<sup>II</sup> *The Monetary Policy Quarterly Report 2023/II, Bank of Albania, Box 2, pg. 41-43.*

<sup>III</sup> *References: Albanian population, INSTAT, 1 January 2023.*

<sup>IV</sup> <https://www.instat.gov.al/en/statisticaliteracy/the-population-pyramid/>

### 2.1.4 INFLATION AND ITS DETERMINANTS

*Inflation of consumer prices experienced a progressive decline in 2023, recording a 4.8% average. In macroeconomic terms, inflation fell due to a weakened inflation in international markets, the appreciation of exchange rate, and the gradual reduction of domestic inflationary pressures.*

*However, the pace of the falling inflation decelerated over the year, reflecting the high domestic inflationary pressures persisting over labour costs and consumer prices.*

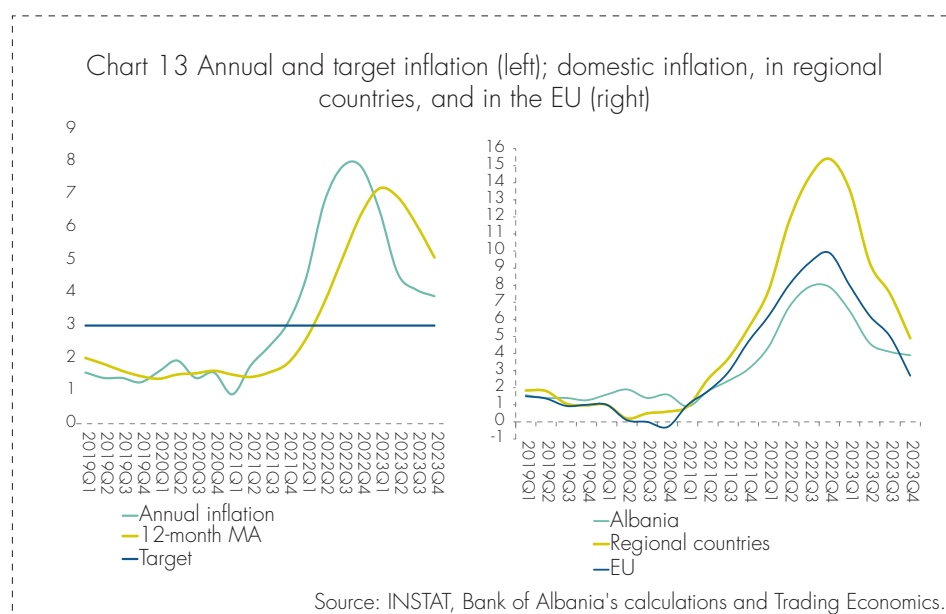
*The normalisation of the monetary policy stance has improved the balance between demand and supply and the control over inflationary expectations, creating the necessary premises for inflation to return to the target in 2024.*





Inflation continued on a downward trajectory over 2023, dropping from its 7.9% average in 2022 Q4, to a 3.9% average in 2023 Q4. The fall of inflation was faster in the second half of the year, reflecting the decline in the prices of food, energy and oil in foreign markets. On the other hand, domestic inflationary pressures declined as well, albeit at a more gradual pace. Consequently, these pressures remained relatively high, becoming ever more determinant on the level of inflation. This dynamic springs from the high demand for goods and services and the upward trend of wages and production costs. As a result, inflation of services, core and domestic inflation, recorded a gradual decline over the year, driving to a progressive deceleration in the declining speed of headline inflation in the course of 2023.

Inflation performance, in Albania, was similar to the one across regional countries and the EU, dictated mainly by falling prices of oil and imported food items<sup>5</sup>. Meanwhile, inflation in Albania remained below the one recorded in the countries of the region and the EU, since electricity prices for households and businesses were capped, and the strengthening of exchange rate had also an easing impact.



The fall of inflation was broadly-based and present across all the categories of the items grouped by inflation<sup>6</sup>. To illustrate, the share of items with inflation above 3%, fell by 10 percentage points over the year, accounting for 55% of the items at the end of year.

<sup>5</sup> Its items have a high importing content in terms of both final product and intermediary product.

<sup>6</sup> The assessment is based on the annual inflation data at a 2-digit level, pursuant to COICOP classification of CPI basket items, which includes a total number of 96 goods and services.

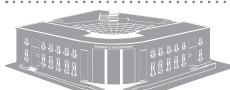
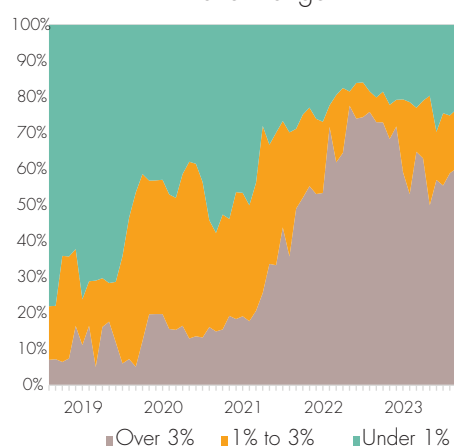


Chart 14 The structure of CPI basket items by inflation range



Source: INSTAT and Bank of Albania's calculations.

This difference was distributed almost equally between the shares of the items with inflation below 1% and inflation in the range of 1-3%, pushing them up to 25% and 20%, respectively.

The downward trajectory of inflation was mainly driven by the drop in oil prices, and the slower increase in the prices of imported foods. As a result, contributions from the category of oil and processed foods to inflation dropped to 20% in 2023, from around 60% in the previous year. These categories caused the inflation to drop by 3 percentage points, with the biggest impact coming from the fall in the fuel prices. On the other hand, the "Unprocessed food" category provided a sizeable contribution to inflation during last year, accounting for around 45% of it, against the 20% level recorded in the previous year. Within this group the sub-groups of "Fruits" and "Vegetables" marked an upward trend in contributions.

The prices of other more stable components of inflation - housing, services, and durable goods - provided an increasing contribution to inflation formation. Not least, prices of services remained high, due to the increased demand in the sector of tourism and its related services. The surge in prices extended to the category of housing, through the rent sub-group. Also, higher contributions were recorded by the prices of "Durable goods" category, reflecting a further increase in labour and production costs. Last, as energy prices for households remained unchanged, contributions from regulated prices to headline inflation remained neutral.

Table 3 Contributions of key items to annual inflation (in p.p.)

	Average contributions by year					Average contributions by quarter - 2023				Annual inflation 2023 (in %)
	2018	2019	2020	2021	2022	Q1	T2	T3	T4	
Processed food	0.2	0.5	0.6	0.6	2.8	2.8	1.3	0.8	0.6	6.9
Unprocessed foods	0.9	0.9	0.8	0.8	1.6	1.9	2.5	2.3	2.1	12.3
Services	0.1	0.1	0.2	0.2	0.5	0.5	0.5	0.5	0.4	2.9
Goods with regulated prices	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.1
Housing lease	0.1	0.2	0.1	0.1	0.3	0.4	0.4	0.3	0.4	3.2
Non-food consumer goods	0.1	-0.2	0.2	0.2	1.3	0.4	-0.6	-0.4	-0.1	-1.7
Durable goods	0.0	0.1	0.1	0.1	0.2	0.5	0.5	0.5	0.4	5.0
Inflation (%)	1.4	1.6	2.0	2.0	6.7	6.5	4.6	4.1	3.9	4.8

Source: INSTAT and BoA.

The persistent high inflation levels in 2023, reflected pressures engendered by the rise in wages, costs and profit margins in the domestic economy.

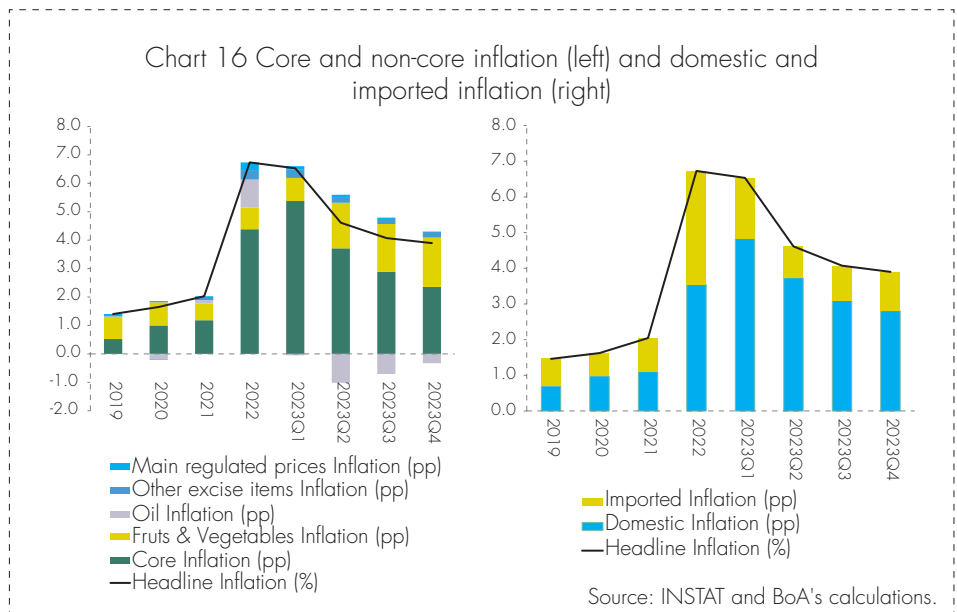
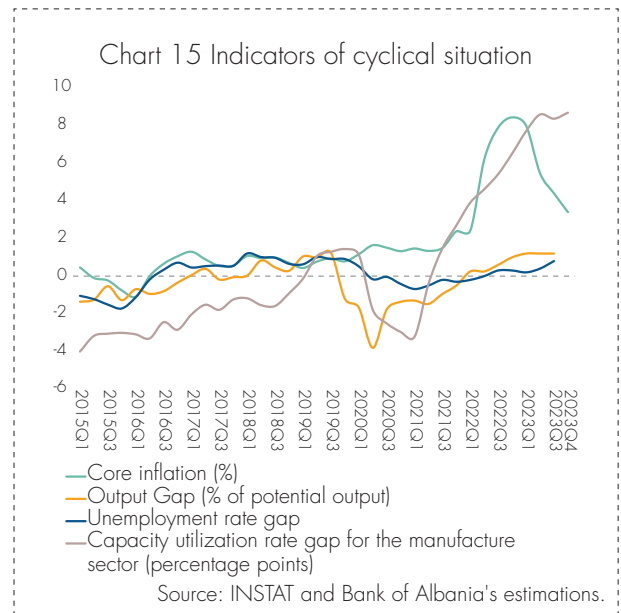
The stable increase in the demand for goods and services has pushed the Albanian economy on a positive stage of the business cycle. This was apparent



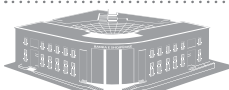
as employment continued to increase, unemployment recorded its minimum historical levels, private sector wages shot rapidly upwards, and the capacity utilisation rate as reported by businesses was high. Consequently, although decelerating, core inflation has remained at relatively high historical levels in 2023.

**Although broadly-based, the deceleration of inflation in 2023 was not consistent in time and intensity.** The fall of inflation reflected for the most part the rapid decline of imported inflation. Meanwhile, although on the decline, domestic pressures on inflation had an ever-increasing weight.

**The domestic inflationary pressures continued to be fed by the high demand for goods and services and the tight labour market conditions.** These factors translated in a rapid increase of wages and costs of production, and relatively high profit margins. As a result, although core and domestic inflation decelerated, recording average values of 5.3% and 4.5%, respectively, their contributions remains high and accounted for 2/3 of headline inflation (Chart 14). The high pressures from domestic demand were reflected in almost all the measurements of core and domestic inflation. Not least, net core inflation was on average around 3.7% during 2023, from 2.7% in the previous year<sup>7</sup>.



<sup>7</sup> Net core inflation excludes the sub-group of processed foods (including bread and grains) from the measurement of core inflation. Net core inflation takes into account 44.6% of the CPI basket of 2023. This measurement is approximate to the net inflation published by the Eurostat on the European countries and EU candidates, including Albania. The figure is derived after excluding from the calculation of the price index all the food, energy goods (electricity, oil and gas etc.), alcoholic beverages and tobacco.

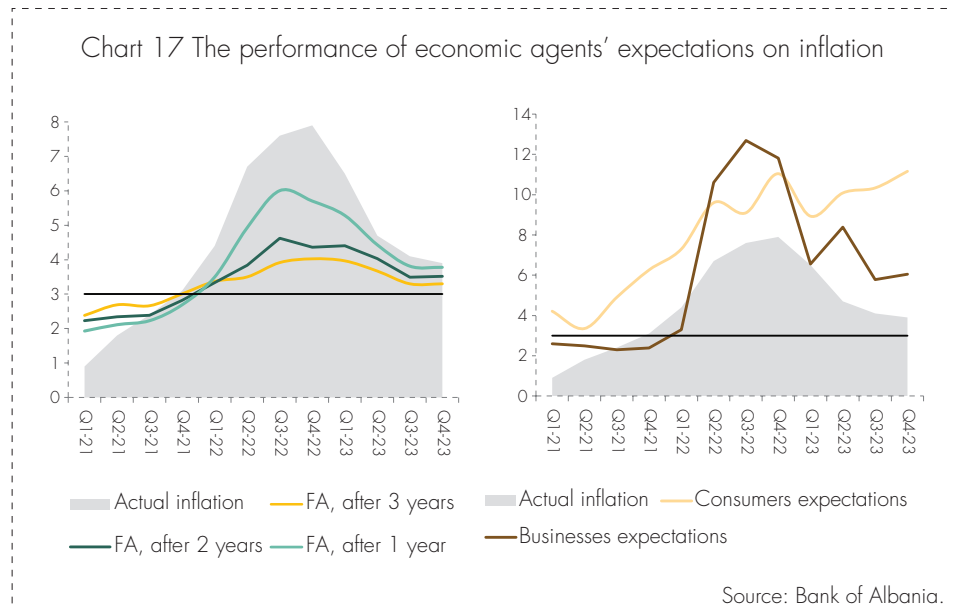


The normalisation of the monetary policy stance during 2022-2023, helped to gradually mitigate pressures from the demand in economy and to control inflation expectations.

**On the other hand, imported inflation decreased rapidly during the first half of the year.** Its decline was driven by the downward trend of commodity and food prices in international markets; the appreciation of the domestic currency; and the effects of the high comparative base of the previous year. Imported inflation dropped to the 6% average level, from the double-digit rate of 14% in the previous year, contributing by around 25% to inflation formation in 2023.

*EXPECTATIONS ON INFLATIONARY HAVE DECREASED IN 2023*

**After the highest historical values recorded in 2022, inflation expectations of businesses and financial agents have been revised down in 2023<sup>8</sup>.** However, they remain still high compared to their historical average and above inflation target. Compared to consumers and businesses, financial agents' expectations on inflation registered the lowest values over three time horizons. Furthermore, with the extension of the time span, financial agents' expectations are approaching the inflation target. At the end of 2023, they expect inflation to stand at 3.8% after one year, 3.5% after two years and 3.3% after three years. Businesses expect inflation to reach 6% after a year, down by about 1 percentage point than their expectations in the previous year. On the other hand, the dynamic of consumer expectations shows that they decline in the first half of the year, and are revised upward in 2023 H2.



<sup>8</sup> Inflation expectations are calculated using surveys addressed to enterprises, consumers, and financial agents.



### 2.1.5 BALANCE OF PAYMENTS AND EXTERNAL POSITION OF THE ECONOMY

*The balance of international trade and financial exchanges improved significantly over 2023. For the first time in the last three decades, current account recorded a surplus in the first three quarters of the year, accounting for 0.2% of GDP, considerably improving from 2022. The main contributor to this performance was the fast expansion of exports from tourism. In parallel, inflows from foreign direct investments have continued to increase considerably. Last, the external debt to GDP ratio decreased and the long-term repayment ability indicators have continued to improve during 2023 as well.*

The balance of current account marked a sizeable improvement in the first three quarters of 2023, recording a surplus of 0.2% of GDP, and climbing by 6 percentage points from 2022.

The improvement of current account was driven by the fast growth in tourism exports. In the first nine months of 2023, these flows registered EUR 3.2 billion, up by 47% compared to the same period last year. Consequently, the export of total services grew by 38.2%.

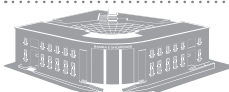
In contrast to the positive trend of services, the exports and imports of goods declined in 2023, by 9.3% and 3.4%, respectively, mainly due to the fall in prices in international markets. However, exports of goods shrank in volume as well, as a result of challenges encountered by the industrial sector, both due to the low demand from our trading partners and the financial difficulties resulting from the increase of costs and wages, and the stronger exchange rate.

Primary income deficit reduced by 7.1% during the first nine months of 2023. This reduction was driven by the positive performance of labour inflows, which expanded by 20.8%, evidencing the return of the phenomena of seasonal employment of Albanians abroad. In parallel, the outflow of investment income continued to grow, indicating the good financial performance of companies which have invested in FDIs in Albania.

Lastly, remittances which account for the main share of secondary income, continued to grow at a high rate. Their inflows expanded by 14.2% in annual terms, whereas the surplus of secondary income account grew by 9.5% during this period.

#### FOREIGN DIRECT INVESTMENTS INCREASED AT A CONSIDERABLE RATE

The inflows of FDIs expanded by 10.6% in the first three quarters of 2023. The main sectors contributing to this growth were: "Energy", "Financial services"



and “Real estate”. The reinvestment of company’s profits remains an important source of FDIs, reflecting their positive economic performance. The FDIs ratio to GDP is calculated at 7.3%, slightly lower from 2022.

*EXTERNAL DEBT INDICATORS CONTINUED TO IMPROVE OVER 2023*

In 2023 Q3, the external debt stock is estimated at EUR 10.14 billion, up by 2.5% annually. The stock expansion is owing to the issuance of Eurobond during the second quarter of the year. However, external debt to GDP ratio continues to diminish continually. At the end of 2023 Q3, this ratio dropped to 49.8%, down by 4.5 percentage points compared to the end of 2022. In terms of maturity structure, long-term debt continues to dominate, accounting for 91.2% of the total, which keeps financial need and financial risk at bay.

In the same vein, repayment ability indicators have improved, driven by the fast growth of exports and fiscal revenues. The debt stock to exports of goods and services ratio dropped to 106.6% at the end of 2023 Q3, from 118.1% at the end of 2022. Also, the ratio of foreign debt stock to fiscal revenues decreased to 171.1%, from 198.7% at the end of 2022.

At the end of 2023, the foreign exchange reserve stock stood at EUR 5.8 billion, sufficient to cover 7.5 months of imports of goods and services, or 507.1% of short-term gross external debt.

Table 4 Main indicators of balance of payments and external debt (in % to GDP)

	2010	2015	2016	2017	2018	2019	2020	2021	2022	2023 Q1-Q3
Current account	-11.3	-8.6	-7.6	-7.5	-6.7	-7.9	-8.7	-7.7	-5.9	0.2
Trade of goods and services	-20.6	-17.3	-16.8	-15.1	-13.7	-13.7	-14.5	-13.4	-10.4	-4.1
Exports	28.0	27.3	29.0	31.6	31.6	31.3	22.7	31.3	37.4	41.2
Imports	48.6	44.6	45.8	46.7	45.3	45.0	37.2	44.7	47.8	45.3
Remittance inflows	7.7	5.8	5.7	5.5	5.2	5.1	5.1	5.0	4.6	4.4
FDI inflows	9.2	8.7	8.8	7.8	7.9	7.8	7.0	6.8	7.6	7.3
External debt	45.6	74.4	73.5	68.7	65.0	59.9	64.2	64.3	54.3	49.8

Source: BoA.

**2.1.6 FINANCIAL MARKETS AND MONETARY INDICATORS**

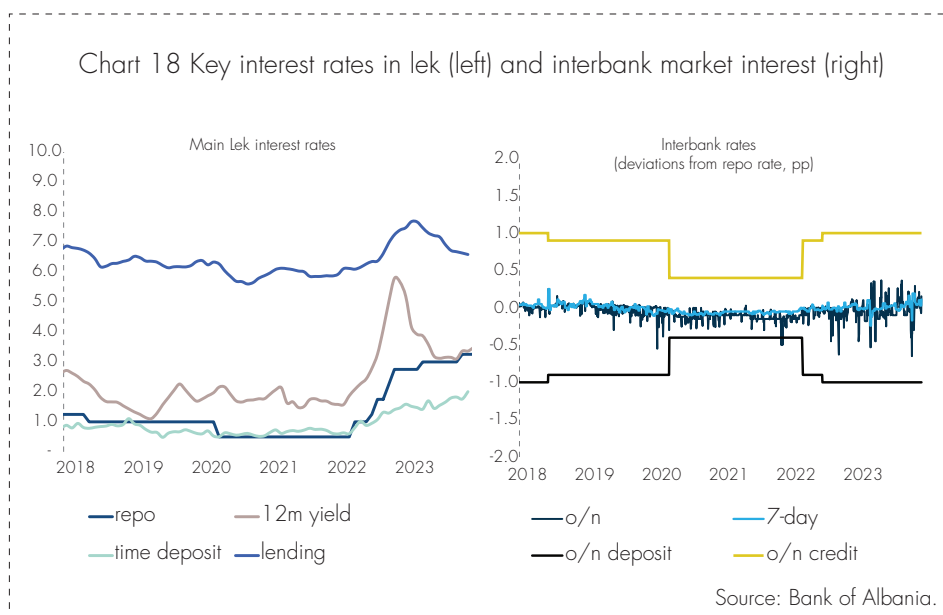
*Financial markets have been relatively calm in 2023. The deceleration of the monetary policy normalisation pace, the downward trend of inflation, and the favourable conditions of liquidity were accompanied by a falling yield curve and lower risk premia.*

*However, markets have experienced higher interest rates on both savings and loan instruments than two years ago, in both ALL and foreign currency. Nonetheless, monetary conditions and credit supply from the banking system appear accommodative. In response, lending to the private sector increased at a fast and stable pace during the year, fulfilling the needs of businesses and households for consumption and investments.*



*A particular feature in financial market developments over 2023 was the rapid strengthening of lek against euro. This was driven by a significant improvement in the balance of trade and financial exchange with abroad, and the higher supply of foreign currency in the domestic market. It was also accompanied by a heightened volatility in the foreign currency market, while refraining from damaging the soundness of banking system balance sheets.*

Financial market developments in 2023 were characterised by a good liquidity situation, low risk premia, a positive approach of the banking system towards lending and a stronger exchange rate. Policy rate increased twice in March and November, by 0.25 p.p. each time, and the interbank market followed suit immediately and fully. Meanwhile, the performance of other interest rates has been declining in the first half of the year, picking up in the fourth quarter. This performance was a partial reflection of the adjustment of the rapid interest rate rise they experienced in 2022 H2. In addition, market perceptions on low risk premia and their optimistic expectations regarding the economy's performance materialised in narrow yields' spreads and loan rates against the policy rate and between each other. The interest rates are higher than in the beginning of the normalisation cycle of the monetary policy, but the enhanced competition between banks and the reduction of spreads has kept the overall financial conditions accommodative.



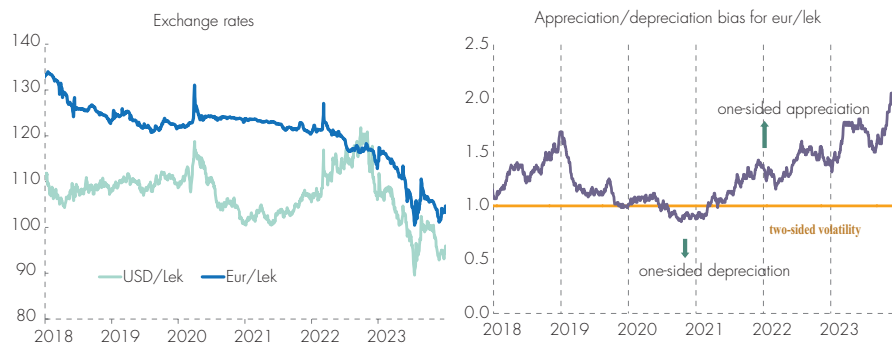
Interest rates in the interbank market remain anchored to the policy rate, in accordance with the operational target of monetary policy. They reflected the rapid rise of the policy rate, while maintaining a minimum difference from it and being slightly volatile. The liquidity situation in the banking system was calm, characterised by low risk premia. The volume of trade in interbank market were comparable to last year's 1-day maturity segment and slightly above that of 7-day maturity. The expansion of lending to the economy and the growth of financing to the public sector has slightly increased the needs of the banking



system for borrowing from the Bank of Albania. This has been fulfilled by increasing the 7-day injections, whereas the 3-months maturity injections have maintained the same level as last year.

**The exchange rate of lek against the euro strengthened at a fast pace over the course of 2023.** The appreciating trend of the domestic currency, started since 2016 and subsided temporarily during the pandemic period, re-emerged stubbornly in 2023. The euro/lek exchange rate was on average ALL 108.7 this year, from ALL 119.0 last year, appreciating on average by 8.7%. Similarly, the US dollar was quoted on average ALL 100.6, or down by 11.0% from last year.

Chart 19 Exchange rate performance (left) and appreciation and depreciation bias\* for eur/lek (right)



\*The appreciation/depreciation bias indicator is calculated as the ratio of the number of days when the exchange rate is appreciated versus the number of days when the exchange rate is depreciated, in a moving time horizon of 250 days (a calendar year). The value 1 of this indicator represents the equilibrium value, where the number of days the exchange rate has been appreciated is equal to the number of days when the exchange rate has been depreciated, and indicates that there has been neither appreciation nor depreciation bias in the market. If the value of this indicator is above 1 (below 1), then appreciating (depreciating) pressures on the exchange rate prevail in the market.

Source: Bank of Albania.

The strengthening of the exchange rate of lek against the euro reflected the significant improvements in the external sector of the economy, the increase in the activity of tourism, and the upward trend of foreign direct investments and remittances. The high level of foreign currency flows increased the volume of trade in foreign exchange market, but this latter has operated - overall - under normal circumstances. However, during the year there were episodes with heightened volatility of the exchange rate as market agents experienced higher uncertainties in the face of the unprecedented speed of lek appreciation. The Bank of Albania responded in accordance with its mandate, policies and regulations, intervening episodically in order to prevent these volatilities from becoming real trade disorders. Box 2 presents a more comprehensive analysis of the factors behind the performance of the exchange rate and the response of the Bank of Albania.

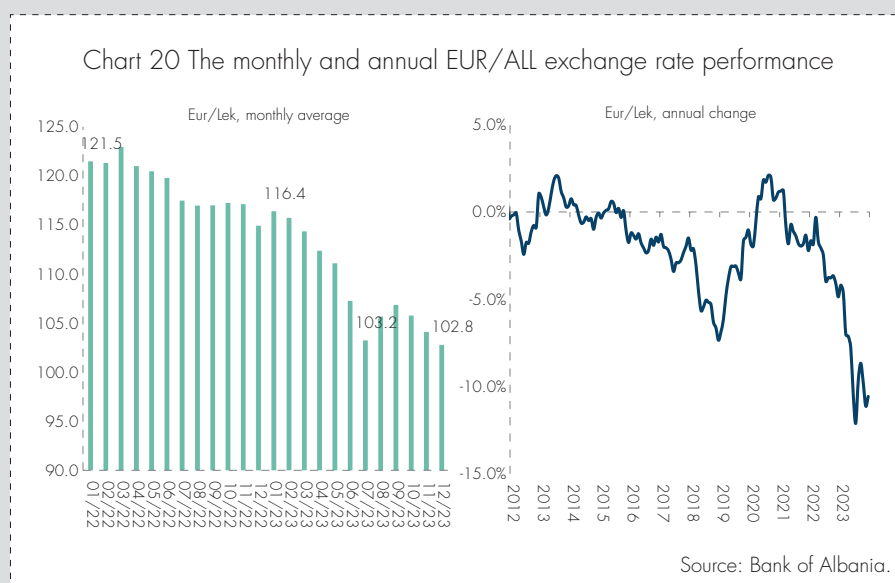




## BOX 2:

### EXCHANGE RATE PERFORMANCE FACTORS, IMPLICATIONS AND REACTION OF THE BANK OF ALBANIA

The domestic currency strengthened at a fast pace in 2023, underscoring the appreciating trend that has characterised the exchange rate in the past few years. The strengthening of lek peaked initially in July, as the EUR/ALL exchange rate dropped to an average of ALL 103.2, recording a 12.1% annual appreciation of lek. After weakening somewhat in the following months, lek appreciated once more in the last two months of the year, as the EUR/ALL exchange rate dropped to another low of ALL 102.8 in December. This Box provides a summarised analysis on the factors behind the appreciation of lek, its implications and the reaction of the Bank of Albania.

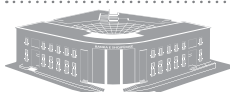


#### Why did lek appreciate?

The Bank of Albania has adopted a free-floating exchange rate regime, meaning that the exchange rate reflects the demand and supply ratio of foreign currency. This ratio is driven - for the most part - by the dynamics of trade and financial exchanges with abroad.

The analyses we have conducted suggest that the appreciating trend of lek in the past years was due to the structural improvement in the external sector of the economy, which was expressed by the continuous contraction of the current account deficit - as a result of the increase in the export of services - and the continuous growth of foreign direct investments. In addition, the appreciation of the domestic currency reflects the improved confidence on our currency in respect to the foreign exchange market, as market agents' confidence on its stability has increased, and foreign investors' perspective regarding the Albanian economy has improved.

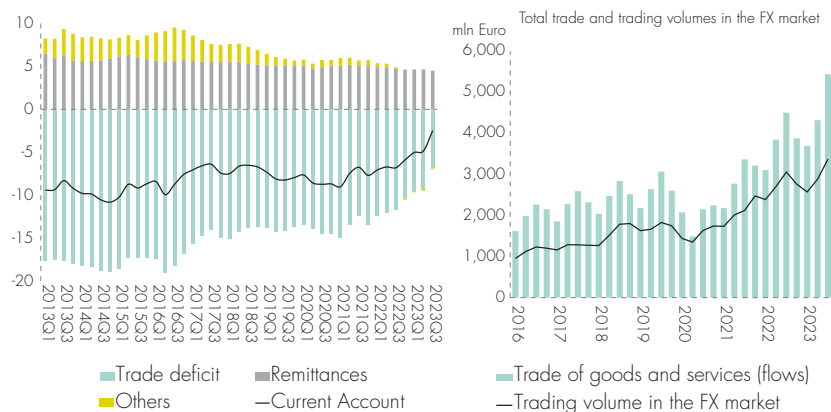
As regards 2023 developments, the strengthening of the exchange rate seems to be driven by a considerable supply surplus in the domestic foreign exchange market. The available data shows that the abovementioned surplus reflects the



significant and beyond the expectations improvement registered by the balance of international trade and financial exchanges of Albania. In more concrete terms, in 2023:

- The balance of current account improved by EUR 1 billion during the first three quarters of the year. As a result, for the first time in the post-nineties economic history, the current account recorded a surplus, assessed at 6.4% of GDP in the third quarter of the year. For the first three quarters of the year, the surplus was 0.2% of GDP, from a deficit of 5.9% of GDP recorded in 2022.
- Current account improved due to the high level of tourism inflows. For the first three quarters of the year, tourism income yielded a foreign currency flow of EUR 3.2 billion, with an annual growth of 46.6%. Remittances made a positive impact as well, amounting to around EUR 676 million in these three quarters, or up by 14.2% than the previous year.
- Foreign direct investments have continued to rise, comprising another foreign currency supply source, beyond the account surplus. They amounted to around EUR 1.08 billion in the first three quarters of 2023, or 10.6% higher than in the previous year.

Chart 21 Current account in % of GDP (left) and volume of trade in foreign currency market (right)



Source: Bank of Albania.

These developments resulted in a surplus of foreign currency in the economy, which given the free-floating exchange rate regime, caused domestic currency to appreciate.

In parallel to this line of analysis, the performance of trade volume in our foreign exchange market appears to be entirely steered by the performance of the volume of trade with abroad (Chart 2, right panel), standing at a lower level than them, and with no evidence of the presence of foreign currency flows from another origin.

What are the implications of the exchange rate appreciation in the economy? The impact of the exchange rate appreciation in the economy has been positive overall. First, it resulted in lower inflation rates, apparent in both the regional and European context, protecting consumers from the erosion of their purchasing power. At the same time, the lower inflation rates have allowed policy rate to rise



at a slower pace, with a lesser negative impact on economic growth. Second, the exchange rate appreciation has had a positive impact on strengthening financial stability. This was reflected by borrowers in foreign currency as their solvency improved, which has in turn bettered the quality of the banking sectors' balance sheets. Third, the appreciation of domestic currency has reduced the level of the private and public sector's external debt, improving its long-term stability and becoming a premise to reduce financing costs.

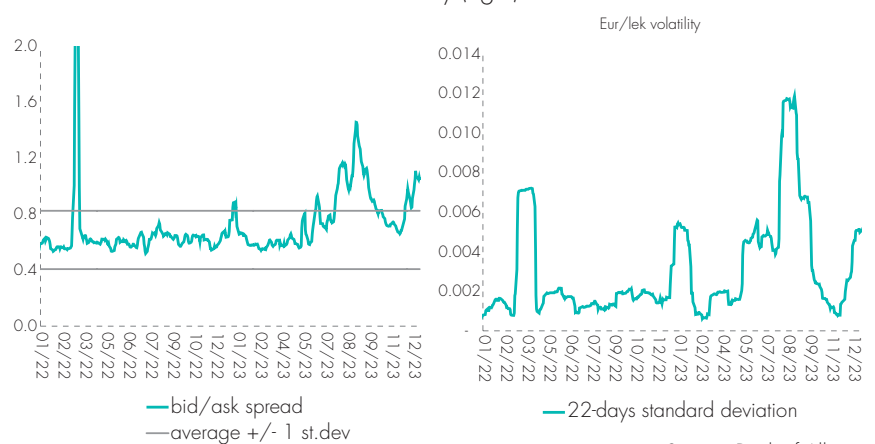
On the other hand, the impact of the appreciation of the exchange rate on specific sectors varies depending on their exposure to exchange rate fluctuations, their financial and operational flexibility, as well as foreign demand conjecture related to the sector. In this regard, the appreciation of lek during 2023 has weighed upon the financial and competitive position of several segments in the export sector, which are hardly able to negotiate prices, have low operational profit margins, and register a low level of demand in international markets. In the short-term perspective, the shock experienced by these sectors was mitigated by temporarily easing the fiscal burden, this being a more appropriate instrument to handle their issues selectively. However, in the medium- and long-term perspective, the businesses operating in these sectors must make additional efforts to restructure so that they can improve productivity, explore new markets, and increase the use of instruments that provide financial protection against exchange rate fluctuations.

#### What was Bank of Albania's response?

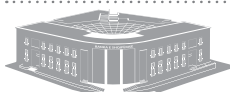
Although broadly in line with the main fundamentals, the appreciation of lek in 2023 was accompanied by short-term deviation of a psychological nature, which were especially present during July. At this moment, the speed of appreciation increased market agents' uncertainties and created a self-fulfilling prophecy as expectations regarding its further appreciation, lingered on. These expectations were expressed in the acceleration of the appreciation pace, the widening of euro bid/ask quotation spreads, and the significant exchange rate volatility.

In these circumstances, the Bank of Albania took two actions, which proved successful in containing the psychological factor and stabilising the market. First, on 2 August, in its regular statement on monetary policy decision, the Supervisory Council stated the Bank of Albania's determination to intervene in the

Chart 22 Spreads of EUR/ALL exchange rate quotation (left) and exchange rate volatility (right)



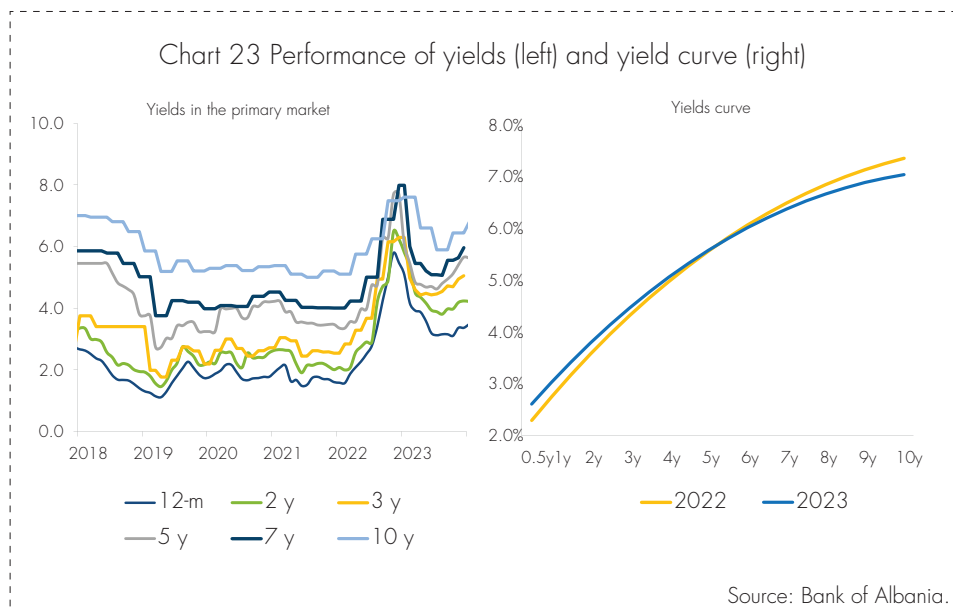
Note: the range of spreads ALL 0.4-0.8 is calculated as an average (ALL 0.6) +/- 1 standard deviation. Source: Bank of Albania.



foreign currency market, if these events were to risk meeting inflation target. This deceleration reduced market uncertainties and helped to calm it down. Second, given the foreign currency surplus in the market, the Bank of Albania decided to increase foreign currency purchases in order to expand the international reserve in 2023, from EUR 160-220 million to EUR 220-300 million.

The Bank of Albania will continue to remain attentive toward the performance of the exchange rate in order to understand the reasons behind its fluctuations and the relevant consequences. This will help the Bank of Albania to correctly identify the impact of the exchange rate on inflation and to adequately formulate the monetary policy stance.

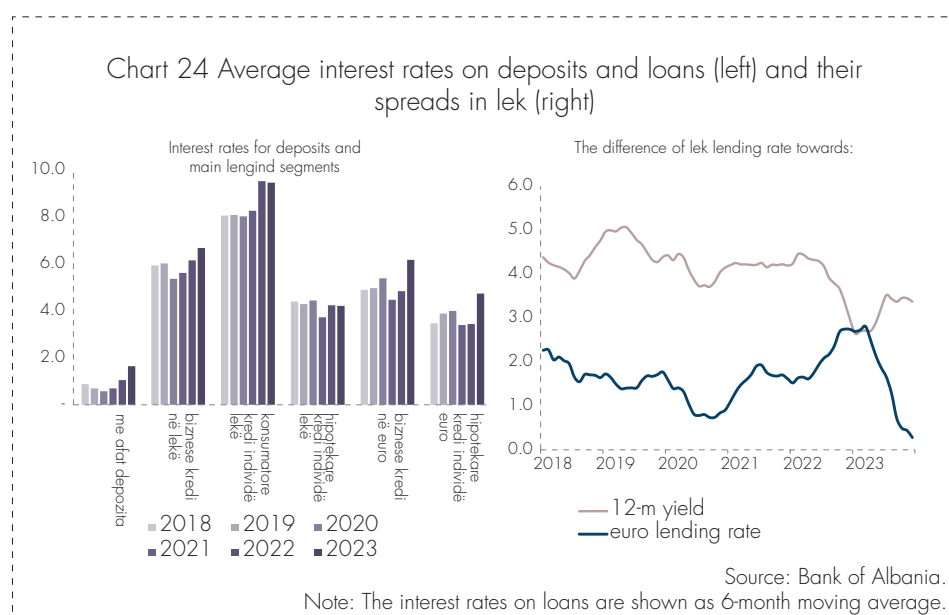
**Yields on government securities anchored close to policy rate in the short-term segment and flattened out over the long-term one.** Following the overreaction toward the normalisation of the monetary policy stance in 2022, which sprang from uncertainties regarding the magnitude and duration of inflationary pressures, the yield curve edged down in the first half of 2023. However, its decline went beyond the adjustment to the overreaction. The high market interest for investment securities and the low government demand for financing resulted in a minimal difference of yields to policy rate.



**Yields recorded yet another hike in the fourth quarter of the year, in keeping with direction of the monetary policy,** although their spreads toward policy rate remained low. On average terms, the level of yields over 2023 did not essentially change compared to the previous year, but their curve flattened out, reflecting market expectations to a fall of inflation in the future. Compared to the period prior to the start of the normalisation cycle of the monetary policy, yields were 2.0 p.p. higher for maturities 1-5 years and 1.4 p.p. higher for maturities 7-15 years, while policy rate rose by 2.75 p.p.



The interest rate on loans in lek increased for enterprises and remained stable for mortgages and households' consumer loans. Interest on loans to enterprises continued the gradual hike which started last year. In 2023, it was on average 6.7%, up by 0.5 p.p. than 2022 and 1.1 p.p. than 2021. Meanwhile, the average interests on loans to households remained unchanged during 2023, in both its segments, 9.5% for consumer credit and 4.2% for mortgages, respectively. These figures were 1.2 p.p. and 0.5 p.p. higher than in 2021.

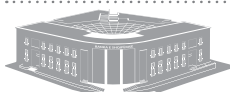


Overall, taking after the yields on government securities, interests on loans increased at a lower rate than the signals of the monetary policy, as a result of lower risk premia and higher competition. On one hand, the good liquidity situation of the banking system has engendered a slow rise of interest rates on deposits, transmitting weak pressures from costs to loan rates. Interests on time deposits have gradually gone up, registering 1.6% in 2023, or up by 0.9 p.p. than the period preceding the rise of policy rate. On the other hand, the improvement of the banking sector's confidence and the additional competition of the sector, have reduced loan risk margins. Subsequently, during 2023 the difference between loan interest rates and 12-month yields were low.

Interest rates on loans in euro have risen significantly, in keeping with the global market's performance of reference rates in euro and the monetary policy cycle in the euro area. In 2023, the average interest rates of loans in euro increased by around 1.3 p.p. for both businesses and on mortgage loans to households. The faster increase of interests in euro has narrowed their interest differential with loans in lek, which has been an important factor behind the increase in lending in domestic currency.

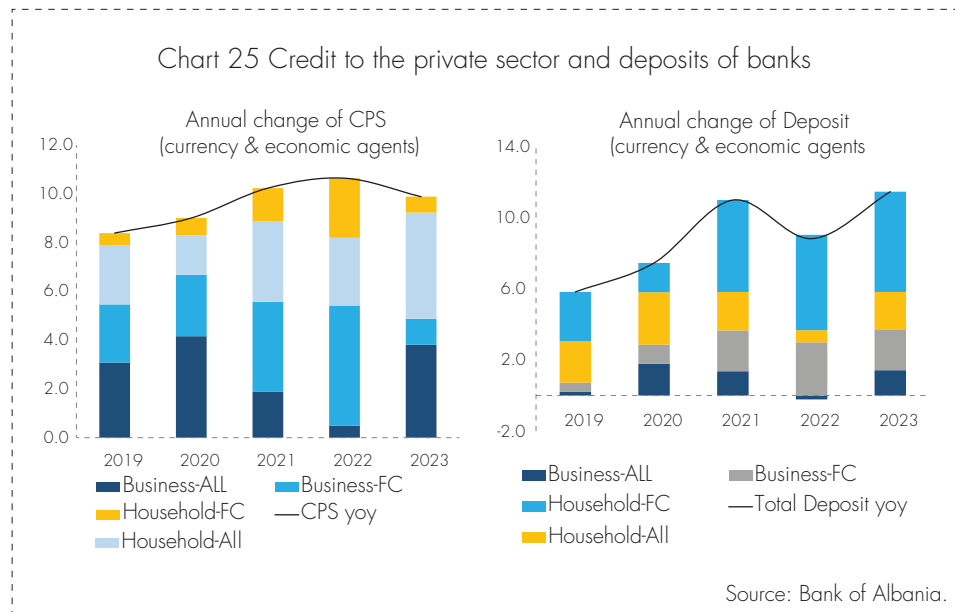
**Credit to the private sector increased at a fast pace, driven by the high demand for financing, as well as the yet accommodative financial conditions<sup>9</sup>**

<sup>9</sup> The latest data published by the Department of Statistics of the Bank of Albania on March 3, 2024.

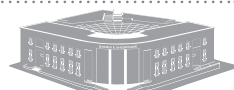


Credit portfolio to private sector increased by 9.9% in 2023, at almost the same rate as the previous two years. The growth of credit in 2023 has been in line with the higher demand for funds by households and enterprises, reflecting the expansion of economic activity, the improved confidence and the need to expand production capacities. Parallel to the heightened demand, the supply of bank credit has been accommodating overall. This was driven by the high amount of liquidity, the perception of low risk regarding credit, the increased level of competition and the sound positions of balance sheets and capital.

In terms of currency, in 2023, lending in lek gained some traction, as its portfolio grew by 15.6%, whereas lending in foreign currency grew only by 3.6%. The significant expansion of lending in lek reflected the shift of financing from euro to lek, due to the strong appreciation of lek and the narrowing of the difference between interest rates of loans in lek against those in euro. These dynamics were reflected by the portfolio in lek as its weight to total portfolio increased to 56%, or up by 5 p.p. than in the previous year.



In sectorial terms, both segments, households and enterprises, experienced a growth of credit. Credit to enterprises grew by 8.0% in 2023, as both lending in lek and lending for investments increased simultaneously. Credit to households grew by 13%, reflecting an expansion of mortgage loans by 13.3% and consumer loans by 12.5%.



## BOX 3

## LENDING PERFORMANCE IN THE FACE OF DEVELOPMENT NEEDS, AND COMPARISON WITH THE REGION

The banking sector is the most important segment of the financial sector in Albania, owing more than 90% of the system's assets. Consequently, its role as the manager of households' savings and supplier of the economy with funds, is crucial in the development of the country and the overall economic and financial stability. This Box aims to present a general overview on the performance of lending in Albania, time-wise and in the regional context.

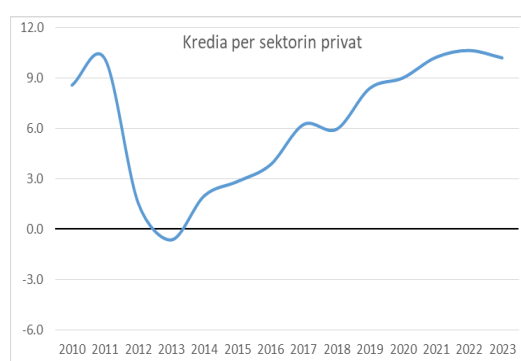
**Credit to private sector has followed a positive trend in the past years, in terms of both quality and quantity.**

As regards quantity, the pace of credit growth has improved progressively, recording double-digit growth rates in the past two years. This trend becomes apparent after 2013, a period during which the consequences of the global financial crises (2008-2009) and the sovereign debt crises in Europe (2011-2013) started to peter out. These consequences were expressed in the fast rise of non-performing loans, the revision of the business model by the banking system, and the tightening of regulatory requirements, domestically and globally. In order to address the above, the banking system instituted a comprehensive reform of its activity, where, despite revising the regulatory requirements in order to improve risk management processes, special focus was dedicated to compile the national program for reducing non-performing loans and the consolidation of the banking sector in Albania. These reforms were essential in reducing credit risk and increasing banking sector's competition, two significant premises to improve loan supply.

As regards quality, the loan portfolio of the banking sector experienced: (i) an upward trend in lending in lek (Chart 2, left panel), increasing its resilience to exchange rate fluctuations and improving the efficiency of the monetary policy transmission; (ii) an increase in the share of credit for investments by enterprises and the share of credit for house purchases (chart 2, centre panel); and (iii) a fast improvement in the quality of loan portfolio, illustrated by the progressive reduction and minimal levels of non-performing loans ratio (Chart 2, right panel).

In parallel to these events, the dynamics of lending in Albania suggests that the banking sector has been a consequential and supportive factor in the process of restructuring the economy. The sectorial developmental dynamics in the past decade, show that the shares of the industry and services sector, particularly that of tourism, have increased at a faster pace, while the sector of construction and agriculture at a slower one (chart 3, left panel). To support these developments, the loan portfolio of the banking sector experienced an upward trend toward lending to the services and tourism sector, and a slower increase in lending to construction and trade (Chart 3, right panel).

Chart 26 Annual growth rate of loans to the private sector (in %)



Source: Bank of Albania.

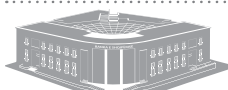
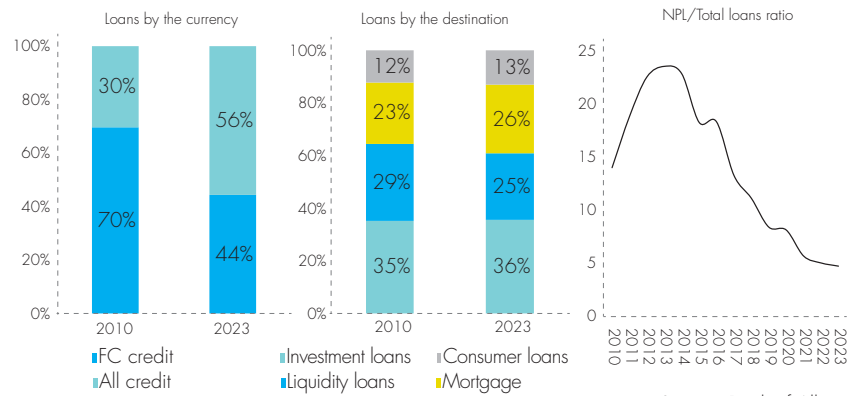
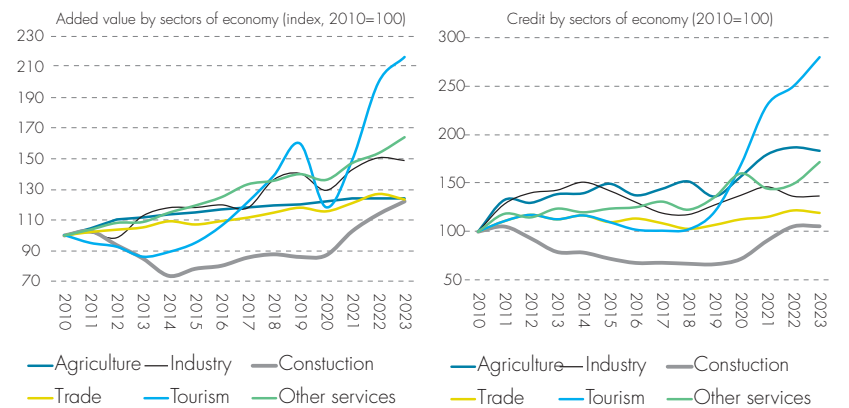


Chart 27 The structure of loan portfolio in terms of foreign currency composition (left in bln ALL) and destination (centre, in ALL bln), as well as the non-performing loans ratio (right, in percentage)



Source: Bank of Albania.

Chart 28 The sectorial dynamics of the Albanian economy and credit performance (index, 2010 = 100).



Source: Bank of Albania and INSTAT.

In the regional context, the dynamic of credit performance in Albania is similar to that across regional countries, in terms of both the growth rate (chart 4, left panel) and credit ratio to GDP.

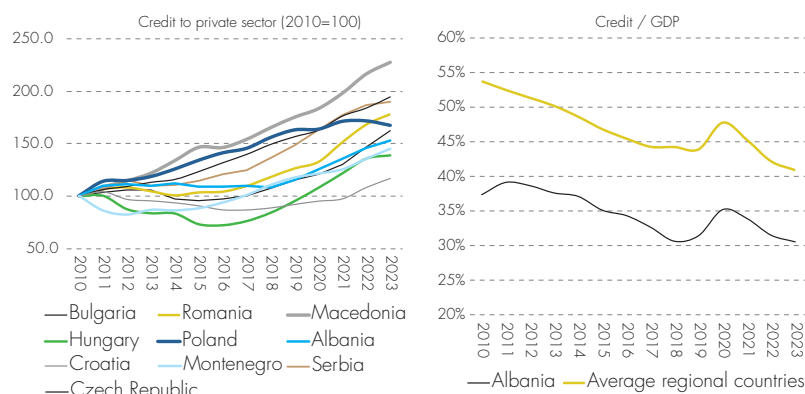
This chart analysis suggests two important conclusions:

- First, the dynamic of credit growth rate in Albania is similar to the one of the region (left panel). Overall, the growth rate of credit was slow in 2011-2015, while it picked up in the preceding period. This phenomena was driven by similar types of problems that affected the economies of the region, while trying to tackle the strong financial shocks of the beginning of the past decade. Not least, it illustrates the important role of the overall financial environment in the euro area and the risk seeking tendencies of the investors of this region, who own considerable quotas in banking and financial sector in the countries of Central and Eastern Europe.





Chart 29 The credit performance in Albania and some Southern European countries (left panel, index 2010=100) and credit to GDP ratio (right panel, in %)

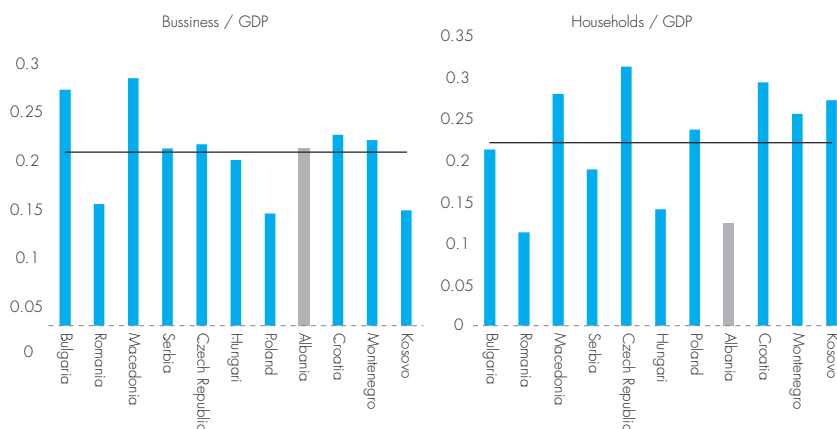


Source: Bank of Albania, Eurostat, central banks of the region.

- *Second, credit to GDP ratio has been falling in all these countries (right panel). This performance suggests the need to further diversify the financial system of Albania and the region, with other segments of the capital market, which improve the fund supply structure.*

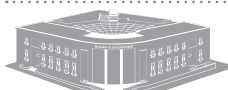
*Also, credit-to-GDP ratio in Albania was lower than the countries of the region. At a closer look, the scale of lending to enterprises in Albania is comparable to the countries of the region, in fact it is above their average (Chart 5, left panel). On the other hand, lending to households is significantly lower than the countries of the region (Chart 5, right), causing its share to total ratio to be relatively lower as well. This latter feature could be explained by the high degree of informality of the labour market in Albania, a factor which restricts households' access to lending.*

Chart 30 Lending to enterprises (left panel) and to households (right panel) in Albania and the region (in % of GDP)



Source: Bank of Albania, Eurostat, central banks of the region.

*In conclusion, the development of lending from banks in Albania is in a positive stage, driven by the improvement of bank loan supply, which is oriented toward*



*supporting the restructuring of the economy, and characterised by the qualitative improvement of the loan portfolio. The profile of credit development in Albania is comparable with the one across regional countries.*

*These trends, coupled with the sound balance sheets of the banking sector and the higher competition experienced by it, are positive signals to its further growth, which in turn supports the fast and sustainable development of the country.*

The expansion of deposits in banks was high, sufficient in covering the needs for funds of the private and public sectors.

**Bank deposits grew by 11.5% during 2023.** Their expansion reflected the positive cycle of the economy and a rising inclination to deposit savings in banks, due to their higher return rates. The growth of deposits was supported mainly by the expansion of deposits in foreign currency, which recorded stable growth rates at around the 15% throughout the year. Conversely, deposits in lek grew by 7.5%, reflecting the deepening of the intermediation in lek and the shift of households' savings from securities to banking deposits market.

**In sectorial terms, both segments, households and enterprises, experienced a growth of deposits.** Deposits of enterprises grew by around 20% in 2023, as their liquidity improved due to the overall growth in the volume of activity and the good tourism season. In parallel to them, households' deposits grew by 9.6%.

**By deposit maturity term,** there is an increase in the average maturity of deposits, due to the faster increase of interest rates over the longer time horizons. The annual growth rate of time deposits reached 12.8%, significantly higher than the one recorded two years ago, prior to the start of the normalisation cycle of the monetary policy. The shift was more apparent for deposits with over 2 years maturity, as their share to total deposits reached 17.3%, around 2.1 p.p. higher than in the previous year. This shift was confirmed by deposits in both lek and foreign currency.



Table 5 Main macroeconomic and financial indicators

	2019	2020	2021	2022	2023*
<b>Annual average inflation</b>					
Headline inflation (in %)	1.4	1.6	2.0	6.7	4.8
Core inflation (in %)	0.7	1.4	1.7	6.5	5.3
<b>Economic growth</b>					
Real GDP growth (annual, in %)	2.1	-3.3	8.9	4.9	3.3
<b>Labour Market<sup>1</sup></b>					
Labour force participation rate	69.6	69.1	69.3	73.2	75.9
Unemployment rate (15+)	11.6	11.7	11.5	11.0	10.7
<b>Fiscal sector</b>					
Budget balance (including grants, % of GDP)	-1.9	-6.7	-4.6	-3.7	-1.4
Budget revenues (as a percentage of GDP)	27.2	25.9	27.5	26.8	27.8
Budget expenditure (as a percentage of GDP)	29.1	32.6	32.1	30.4	29.2
Public debt (as a percentage of GDP)**	65.8	74.3	74.5	64.5	59.2
<b>External sector</b>					
Current account (official transfers exempted in % of GDP)	-8.4	-8.5	-8.0	-6.1	0.1
Imports of goods (fob, as a percentage of GDP)	29.4	28.4	33.6	34.5	29.9
Exports of goods (fob, as a percentage of GDP)	6.6	6.0	8.3	10.7	8.6
FDIs (as a percentage of GDP)	7.8	7.0	6.8	7.6	7.3
<b>Monetary and financial sector</b>					
Repo rate (end of period)	1.00	0.50	0.50	2.75	3.25
M3 aggregate (annual growth, end of period)	4.3	10.5	8.6	5.2	2.0
Credit to the private sector (annual growth, end of period) <sup>2</sup>	8.4	9.0	10.2	10.6	9.9
Deposit/GDP <sup>3</sup>	70.1	77.7	75.9	70.0	68.2
Credit/GDP <sup>3</sup>	31.5	35.2	33.9	31.5	30.6
12-month average yield	1.6	1.9	1.8	3.2	3.7
ALL/USD average exchange rate	109.9	108.7	103.5	113.0	100.7
ALL/EUR average exchange rate	123.0	123.8	122.5	119.0	108.7
NEER	92.0	89.9	86.4	78.6	67.9
<b>Banking Sector</b>					
Non-performing loans ratio/total loans (%)	8.4	8.1	5.6	5.0	4.7

Source: INSTAT, Bank of Albania, Ministry of Finance and (MFE).

\*Data on economic growth for labour market and the external sector are from the first 9 months of 2023.

\*\* Public debt data for 2023 are from the first 9 months of 2023.

1/ "Labour force survey results", published by INSTAT.

2/ Based on the monetary flow data published by the Statistical Department. The data is adjusted for the foreign-exchange effect and written-off loans.

3/ GDP assessment for 2023. Data as a ratio to GDP are calculated on this assessment, except when differently specified.



## 2.2. MONETARY OPERATIONS

The Bank of Albania implements its monetary policy by using instruments grouped in: open market operations, standing facilities, and the required reserve. The main market operations are the repurchase and the reverse repurchase agreement of seven-day maturity, whose interest rate is determined by the Supervisory Council of the Bank of Albania and is referred to as the policy rate.

### OPEN MARKET OPERATIONS AND LIQUIDITY NEEDS MANAGEMENT

Open market operations include the main operation, which is refinancing in the form of reverse repurchase agreement of 7-day maturity; fine-tuning operations of 1-day or 8-days and up to 3-months maturity; and structural operations consisting of outright transactions in secondary markets. These operations are mainly aimed at accomplishing the Bank of Albania’s operational objective: orienting short-term interbank interest rates close to the Bank of Albania’s policy rate, and limiting their volatilities.

In 2023, the average number of bank participating in one-week injection auctions was 5, same as last year. The volume of the temporary liquidity provided, increased at an average of ALL 45.60 bln, against the ALL 40.80 bln recorded in the previous year. The liquidity-providing volume concentrated 65% in one-week maturity, and 35% in 3 month- maturity.

The one-week injection rate averaged in the range of +2 basis points to +24 points above the key rate, resulting on average +7.37 basis points. The maximum gap was recorded in January and February, while the range closest to the historical average was recorded in 2023 Q2 and Q3.

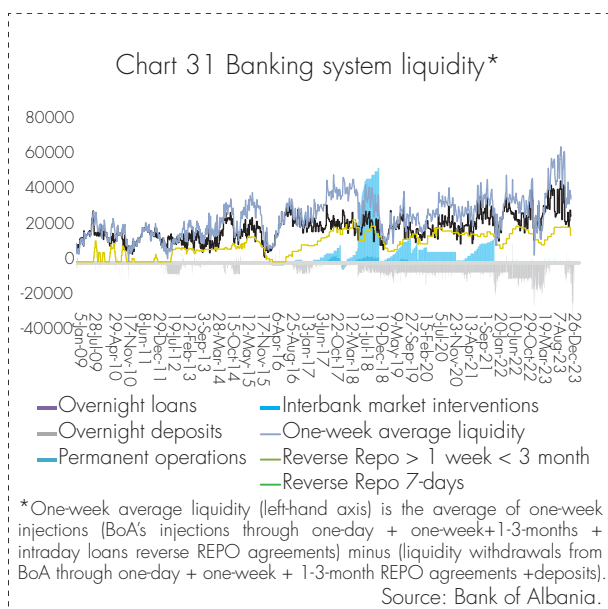


Table 6 Structure of liquidity injection operations by the Bank of Albania

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Main instrument	55%	80.7%	61.6%	54%	61%	56%	59%	63%	65%
Long-term liquidity	45%	19.3%	39.4%	46%	39%	44%	41%	37%	35%

Source: The Bank of Albania.

### STANDING FACILITIES

Standing facilities - overnight deposits and overnight loans at the Bank of Albania - are instruments available to commercial banks to manage unexpected liquidity on a daily basis. These facilities define a limit in which interest rates fluctuate in the interbank market. In 2023, the Bank of Albania changed policy rate twice, in parallel with the overnight deposit and loan rates at the current



level of 3.25%, 2.25% and 4.25%, against the 2.75%, 1.75% and 3.75%, at the beginning of the year.

The corridor has been symmetrical with +/- 100 pints, unchanged from previous year. The overnight deposit instrument has been used in 519 cases, with a daily volume of ALL 8.85 bln, compared to the average of ALL 9.1 bln in 2022, and the ALL 4.60-6.60 bln recorded in the period of 2018-2021. Overnight loan use has increased to 54 cases, compared to 22 cases recorded in 2022.

### REQUIRED RESERVES

The required reserve in lek is a monetary policy instrument used by the Bank of Albania that aims to adjust liquidity in the banking system and stabilise the interest rate. During 2023 there was no regulatory changes applied to the required reserve rate in lek and foreign currency that banks should hold as required reserve at the Bank of Albania. The latest regulatory amendment was adopted in 2018, in the framework of the de-euroisation program, where the required reserve rate was lowered for both domestic and foreign currency obligations<sup>10</sup>.

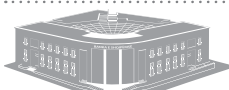
During 2023, banks used the opportunity to average the balance of the required reserve account in lek, maintaining the minimum daily level of 30% of the required reserve, with a frequency similar to 2022. The remuneration rate on required reserves in lek for commercial banks has remained 100% of the policy rate. The remuneration rate on required reserves in US dollar and Euro is 0%.

Over the year, the remuneration rate on the excess reserves in lek, euro and US dollar remained 0%.

## 2.3. FINANCIAL STABILITY AND MACRO-PRUDENTIAL POLICY

*Pursuant to the legal framework in force, the Bank of Albania is responsible for the smooth functioning of the banking system and the financial system, supporting the preservation of financial stability in Albania. In order to achieve this objective, the Bank of Albania drafts and implements the macro-prudential policy, which aims at identifying, assessing, preventing and mitigating systemic risks in the financial system. Intermediate macro-prudential objectives, risk indicators, as well as the instruments that can be used for each risk are described in detail in the Macro-prudential Policy Strategy. The Bank of Albania, along with the Ministry of Finance, the Financial Supervision Authority and the Deposit Insurance Agency, is a member of the Financial Stability Advisory Group, an inter-institutional structure with an advisory*

<sup>10</sup> Overall, the required reserve rate decreased to 7.5% for the reserves in domestic currency and increased to 12.5% for the reserves in Euro, from the undifferentiated level of 10% adopted one year prior.

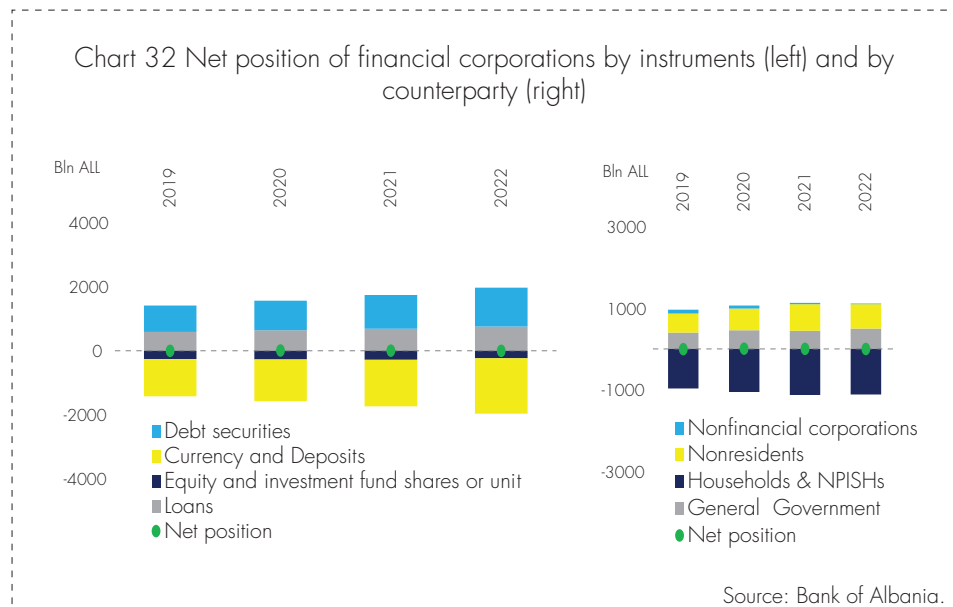


nature, which assists in the preservation, stability and development of financial markets in the Republic of Albania.

The regular reports and survey analyses published by the Bank of Albania provide information on developments in the banking sector and the financial system. These reports provide an elaboration of the potential risks and those identified during the analyses, the instruments implemented to mitigate and prevent the risks, the financial situation of enterprises and households, the results of stress tests of the banking sector against adverse macro-financial scenarios, as well as the impact of the implemented macro-prudential measures.

### 2.3.1. MAIN HIGHLIGHTS IN THE FINANCIAL SYSTEM AND BANKING SECTOR

The financial system activity has been expanding during 2023, across all segments.<sup>11</sup> The fastest growth was recorded in the assets<sup>12</sup> of pension funds (14%), investment funds (8%) and insurance companies (7%). On the other hand, the assets<sup>13</sup> of the banking sector and non-bank financial institutions expanded by around 5% in annual terms. Indicators related to the quality of assets and profitability of financial entities improved over the course of 2023. Net exposure levels within the financial system and in relation to other resident and non-resident sectors remain contained. Investments in debt securities and loans dominate the assets of the financial system.



<sup>11</sup> The share of financial system assets as a ratio to GDP reached 93% from 97% at the end of 2022. This performance is related to the faster growth of the nominal GDP compared to the expansion of the assets of the financial system, as the expansion of the financial balances has been restrained by the statistical effect of exchange rate the appreciation in the last two years.

<sup>12</sup> For the period December 2022 - September 2023.

<sup>13</sup> For the period December 2022 - December 2023.



Around 80% of liabilities are represented by deposits of resident enterprises and households at banks. Compared to other sectors, the financial sector is a net borrower to households and a net lender to the non-resident sector, to enterprises and to the government.

The banking sector was stable and with good financial soundness parameters over 2023. This sector has a positive financial result, a high level of liquidity and activity capitalization indicators, as well as improved credit quality indicators. Also, it appears resilient against shocks and with contained risks.

The financial result was positive and significantly higher compared to the previous year. Capitalization levels are considered good and the capital adequacy ratio was 19%. The total assets of the banking sector account for over 90% of the assets of the financial system and, during 2023, it increased by around 5%. Investments in debt securities and lending, which were financed by a significant increase in deposits, provided the main contribution in this regard. Time deposits, primarily of households and current accounts mainly affected the growth in deposits. By currency, deposits in lek and in foreign currency grew at an almost similar pace.

Table 7 Financial system activity indicators

	2019	2020	2021	2022	2023
<b>Indicators the banking system's financial soundness (Financial sector)</b>					
Regulatory capital as a percent of risk-weighted assets (%)	18.7	18.7	18.5	18.8	19.4
Non-performing loans ratio/to total loans (%)	8.4	8.1	5.7	5.0	4.7
Return on equity (ROE) (annual basis, %)	13.0	10.4	12.6	11.8	17.3
Non-interest expenses to gross income (%)	57	55	55	60	53
Liquid assets as a percent of short-term liabilities (%)	49	47	46	41	43
Deposits/Loans (%)	207	211	214	212	217
Loans in foreign currency to total loans (%)	51	50	51	51	46
Net open position in foreign exchange as a percent of regulatory capital (%)	7.4	7.9	8.9	4.8	6.1
<b>Weight of assets to GDP (%)*</b>					
The Banking Sector	87.2	97.8	93.9	87.8	84.5
NBFIs	3.9	4.2	4	3.8	3.8
SLAs and Union	0.6	0.7	0.7	0.7	0.6
Insurance companies	2.0	2.4	2.2	2.0	2.0
Pension funds	0.2	0.2	0.2	0.3	0.3
Investment funds	4.0	4.2	4.1	1.9	2.0
<b>Financial system</b>	<b>97.9</b>	<b>109.5</b>	<b>105.1</b>	<b>96.5</b>	<b>93.1</b>

Source: Bank of Albania. \* September 2023

Bank credit quality continued to improve during 2023. The decrease of the non-performing loans ratio to 4.7% from 5.0% in the previous year was a result of the increase in total credit and the reduction in the non-performing loans stock, mainly during the second half of year. The share of paid-off non-performing loans and of those with improved status was around ALL 20 billion during the year, or accounting for around 54% of the non-performing loans stock, at the beginning of the year.



During 2023, the banking sector generated a profit of ALL 32 billion or 1.5 times higher compared to the previous year. This performance is related to a faster growth of income from transactions with customers; investments in securities; treasury and interbank transactions, and from investments in financial assets, compared to the increase in the banks' expenses for interest rate paid on deposits account holders and operational costs. In regards to loans, the activity of banks in lek has provided more income compared to that in foreign currency, while in regard to treasury and interbank transactions, the activity in foreign currency was more profitable. Non-performing loans provisioning increased somewhat compared to the previous year. Operating expenses to gross income ratio of the banking sector fell to 53%, from 60% at the end of 2022.

### 2.3.2. SYSTEMIC RISK ASSESSMENT AND MACROPRUDENTIAL POLICIES

During 2023, the Bank of Albania has continued to work on expanding the regulatory and methodological base to control the systemic risks, defined in the Macroprudential Policy Strategy, and has increased attention towards the identification and analysis of the newest financial risks that are related to both technological developments and climate change. The performance of selected indicators for the assessment of systemic risks and the impact of implemented macroprudential measures have been monitored regularly. For these purposes, the conduction of specific survey has continued, and for the implementation of 2017 Memorandum<sup>14</sup>, the six-monthly report "On the performance of the indicators monitored by the Bank of Albania in the framework of the de-euroization process" has been regularly published.

#### ASSESSMENT OF SYSTEMIC RISKS

The Bank of Albania employs a series of indicators, models and surveys in order to assess the systemic risks. Internal analysis such as the "Monthly reports on financial soundness indicators for the banking sector", the report on "Indicators performance of the Macroprudential Map of Systemic Risks", and analysis of stress test exercises results convey the macro prudential discussions and decision-making. Public materials, such as the Financial Stability Report and survey analyses, in addition to decision-making, support both and simultaneously the transparency and the accountability of the Bank of Albania.

Systemic risks in the banking and financial sectors are analysed based on four intermediate objectives of the macroprudential policy. They are monitored based on the indicators of the Macroprudential Map of Systemic Risks, the performance of which suggests that systemic risks during 2023 were contained.

---

<sup>14</sup> Cooperation Memorandum between the Ministry of Finance and economy, the Bank of Albania, and the Financial Supervisory Authority "On extending the use of the national currency in the financial system and the Albanian economy."





Table 8 Heatmap for some systemic risks indicators by intermediate objectives<sup>15</sup>

Intermediate objective	Treguesi i rezikut sistematik	2019	2020	2021	2022	2023															
Objective 1: Mitigation and prevention of excessive credit growth and borrowing	Credit to GDP gap, %	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
	Annual change in credit, %	5	5	5	5	7	7	7	7	7	5	7	7	8	8	8	8	7	5	5	5
	Annual change in the stock of unhedged loans, %	8	7	7	5	5	5	5	7	7	8	9	7	5	5	5	10	11	9	8	
	Annual change in real estate loans - households, %	7	7	7	7	8	8	8	8	8	9	9	9	10	10	10	9	9	8	8	
Objective 2: Mitigation and prevention of excessive maturity mismatch and market illiquidity	Assets - Liabilities gap up to 30 days, % of total assets	7	7	8	10	9	12	12	12	12	13	13	14	14	14	14	14	13	14	10	
	Liquid assets to short-term liabilities, %	2	2	1	1	1	3	3	2	3	3	3	3	9	8	8	7	5	5	5	
	Open position to regulatory capital, %	7	5	11	11	10	7	10	12	11	5	11	13	14	11	13	5	9	7	11	
Objective 3: Limitation of direct and indirect exposure concentrations	Cross-border assets to total assets, %	9	8	9	9	11	7	7	5	5	7	8	5	5	5	5	5	4	5	5	
	SLAs and NBFIs liabilities to the banking sector, % of SLAs and NBFIs assets	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
Objective 4: Limitation of excessive risk taking by systemically important financial institutions and conflict of interest	Banks exposure to 5 main countries, % of assets	12	11	12	13	13	5	5	5	4	5	5	5	3	2	2	1	2	1	3	
	Banks liabilities to nonresidents, % of liabilities	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
	Interbank exposure to total assets, %	10	10	9	10	10	5	5	5	4	5	5	4	3	3	4	2	2	1	1	
	HHI for size (banking sector)	3	4	4	4	4	4	4	4	4	4	4	4	7	7	8	7	5	5	4	4
	Total bank assets to GDP, %	4	3	4	4	5	5	5	5	5	5	5	5	5	5	5	5	4	3	3	

Source: Bank of Albania

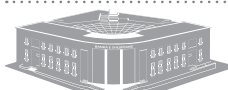
Indicators related to credit growth, liquidity position, fluctuations in the foreign exchange market, concentration of exposures and activity of the financial system denote contained risks. The hottest areas of the Macroprudential Map of Systemic Risks are related to the indicators of loans in foreign currency, the negative gap of liquidity between assets and liabilities for the short-term maturities and of loans for real estate purchase. These risks have been mitigated by the decline in foreign currency loans unhedged against exchange rate fluctuations, the preservation of high levels of banks' liquid assets, the maintenance of adequate lending standards to enterprises and households by banks, and by the increase in loan interest rates over the last two years. Based on these analyses, the Bank of Albania has neither set new macroprudential measures nor reviewed the existing ones.

### MACRO-PRUDENTIAL MEASURES

The framework of macro prudential measures implemented by the Bank of Albania currently continues to be focused on macroprudential capital buffers as provided for in Regulation No. 41, dated 06.05.2019 "On macroprudential capital buffers" (Regulation 41/2019). The fulfilment of these requirements by the banking sector is monitored through quarterly reports and, in cases where non-compliance is found, the Bank of Albania requires rapid fulfilment of these requirements.

Until the end of 2023, every bank operating in Albania was subject to the requirement for capital conservation buffer (CCoB) at 2.0%. Four banks, declared systemic in March 2022, have met a capital buffer between 0.5% and 1.5% called the capital buffers for systemic banks (SIST). The countercyclical capital buffer (CCoB) is implemented in fulfilment of Objective 1 and is used

<sup>15</sup> Light green indicates low levels of risk; yellowish - orange medium levels of risk and dark red indicates accumulation of systemic risk and avoidance of the value of the indicator by 1.5 or more standard deviations from the value - limit or target.



to mitigate excessive credit growth and increase the resilience of banks during periods of overheating of credit markets. Despite the fact that this instrument is active, the buffer rate for Albania, which is announced at the end of each quarter, has remained unchanged at 0%. This is related to the fact that the indicators present good levels of current lending against the historical share to GDP. In general, aided by a good initial capitalization level, the banking sector was able to meet the macro-prudential capital requirements. The Bank of Albania deems that their implementation, combined with the implementation of new requirements related to the resolution, will further strengthen the resilience and soundness of the banking sector in the country.

### 2.3.3. REGULATORY AND METHODOLOGICAL FRAMEWORK

During 2023, the Bank of Albania has taken several important steps towards completing the macroprudential policy framework. The regulatory basis of the institution has been completed with the regulation on the indicators that support the implementation of macroprudential measures aimed at the borrower, while the set of methodological documents has been finalized with a more complete and improved version of the stress test methodology on capital adequacy ratio. In more concrete terms:

- In October 2023, Regulation No. 44, dated 04.10.2023 “On data reporting, identification and monitoring of indicators on lending and investments for real estates” entered into force. This regulation aims to standardize the means the banks use to define, monitor and report indicators for lending standards and for their real estate exposures. It also sets out the ways by which the banks can apply critical values and threshold levels for loan-to-income ratio, loan-to real estate ratio, and loan servicing-to-income ratio. The regulation provides for the right of the Bank of Albania to use these indicators as instruments of macro-prudential policy, applying, if necessary, upper or lower limits on their levels. The subject of reporting are institutions licensed by the Bank of Albania to grant loans for real estate purchases or investments, or loans for which the used collateral is real estate. The approval and implementation of this sub-legal act further aligns the countries the macro prudential framework with the practices adopted by the EU. The regulation is accompanied by 8 reporting forms, for new loans and for the outstanding loans granted by banks at borrower entity level, for residential and commercial properties. Consolidation of these data with data from other sources will provide a qualitative detailed and complete database on the exposures of the banking sector in the real estate market.
- In accordance with the “Strategy for the Management and Supervision of Climate-Related Financial Risks to the Financial Sector, 2023-2025”, in the context of financial stability and with technical support from the Financial Sector Advisory Centre during 2023, the work was focused



on building and developing analytical capacities for the assessment and identification of climate risks and filling the gaps in the Green Panel data for Albania. The strategy envisages the creation of a specific resilience stress test from the banking sector against the impact of climate change and the assessment of the possible costs associated with the implementation of green agenda from the banking sector.

#### BOX 4

##### GREEN FINANCE

*Climate change is a global challenge that knows no limits and affects all countries. From the Bank of Albania point of view, the impacts from the climate change can be translated into financial results that jeopardize the stability of financial institutions and the private sector, and therefore affect financial and macroeconomic stability. The Bank of Albania as the banking supervisor and regulator, contributes in assessing and managing the risks arising from the climate change, which include possible structural changes in the financial system and the economy, which affect the performance of the bank's fundamental missions related to price and financial stability.*

*As a concrete step towards addressing this challenge, the Bank of Albania has developed and adopted the Medium-Term Green Strategy 2023-2025 for "Administration and Supervision of Climate-Related Financial Risks in the Financial Sector". This strategy, which was drafted with the assistance of and in cooperation with the World Bank (FinSAC) and approved by the Supervisory Council of the Bank of Albania in May 2023, aims to systematically and clearly integrate climate risks into the macroeconomic and financial dimensions of the bank, in line with international best practices and in accordance with the Action Plan of the EU Commission.*

*The strategy defines a detailed action plan that includes capacity building and expansion, research and share of knowledge, risk assessment and measurement, as well as strengthening of national and international cooperation. This action plan aims to include all aspects and policies of the Bank of Albania, thus contributing directly to the effective management of climate risks in the financial sector.*

*The Bank of Albania is also working on improving data availability, the models and assessment of risk related to climate. The essential element of this strategy is the commitment to draft a regulatory guideline on climate risk. The objective of this strategy is to encourage banks to integrate this guideline into their risk management framework. The guideline will serve as a basis for communication with banks, requesting them to assess, measure and manage climate risks. The process will take into account the harmonization with the initiatives of the European Central Bank and the global best practices in this regard.*

*Through the medium-term green strategy and concrete actions, the Bank of Albania aims to promote an integrated and coordinated approach. The latter reinforces the role of the Bank of Albania as an institution that positively affects the financial and economic stability of the country in line with the objectives of global sustainability.*

<sup>1</sup> [https://www.bankofalbania.org/About\\_the\\_Bank/Green\\_finance/](https://www.bankofalbania.org/About_the_Bank/Green_finance/)



## 2.4. SUPERVISION

The supervisory function of the Bank of Albania has as its main objective the early identification and the implementation of measures for reducing risks in the activity of banking sector: credit risk, liquidity risk, operational risk, interest rate risk, capital and profitability risk, reputational risk and money laundering. In addition it aims at assessing the internal audit and the effectiveness of corporate governance, as important risk-mitigating factors in the activity of banks, non-bank financial institutions, and other institutions licensed by the Bank of Albania.

Timely action and effective regulatory measures through ongoing supervision and their implementation remain one of the most important steps to successfully finalize the ultimate goal - to safeguard the soundness of financial entities.

The banking sector appeared well-capitalized, profitable, with ample liquidity and characterized by a low credit risk exposure during 2023. The capital adequacy ratio was 19%, return on equity increased to 17.3% in annual levels, liquid assets to short-term liabilities increased to 43% and the NPL ratio fell to 4.74%. Overall, the loan portfolio increased by 3.43%<sup>16</sup> during 2023. Banks with domestic capital increased their share in total assets by 1.8 p.p. This trend is present in the structure of the main source of financing: deposits, by around 1.17%, as well as of the loan portfolio by about 1.26%.

### 2.4.1. ON-SITE EXAMINATIONS

In total, 8 on-site examinations were performed in 2023. Of which: - 4 full-scope in banks, 3 full-scope in non-bank financial institutions and 1 full-scope in a Savings and Loan Association (SLA).

Table 9 Number of examinations by topic in 2023

Examined institutions	Strategic Risk	Organisational Risk	Credit Risk	Liquidity risk	Interest Rate Risk	Market Risk	Information and Communication Technology	Operational risk	Reputational Risk	Profitability	Capital
2021	7	7	12	7	7	7	8	8	109*	6	6
2022	8	9	12	12	8	8	8	8	82**	8	12
2023	8	8	8	8	4	8	7	7	61***	8	8

\* In 2021, 90 examinations were carried out at Foreign Exchange Bureaus on Reputational Risk. While the other 19 examinations regarding this risk were carried out at banks and non-bank financial institutions. Of these, examinations at 2 banks, 6 non-bank financial institution and 1 Foreign Exchange Bureau were carried jointly with the General Directorate for the Prevention of Money Laundering.

\*\* In 2022, 70 examinations were carried out at Foreign Exchange Bureaus on Reputational Risk and 12 other examinations regarding this risk were carried out at banks and non-bank financial institutions.

\*\*\* In 2023, 50 examinations were carried out at Foreign Exchange Bureaus on Reputational Risk. While the other 11 examinations regarding this risk were carried out at banks and non-bank financial institutions.

<sup>16</sup> In this calculation, the significant effect of the exchange rate is excluded, it is absence the loan portfolio would increase by around 8%. Also, this indicator refers to the total loan portfolio and not only to the part that belongs to the private sector, which is analysed in section 2.1.4 of this paper.



During 2023, 2 systemic banks and two non-systemic banks were examined. In regard to the systemic banks, the focus has been on monitoring the extent of compliance with regulatory requirements for capital, including requirements for eligible liabilities and macroprudential reserves. Constant importance is also paid to the evaluation of governance systems and culture, risk management (credit, liquidity, market, operational and reputational risks), as well as the business model. In general, the systemic banks have consolidated the risk management systems, but more improvements are necessary to be done in the framework of adding monitored indicators, harmonizing risk appetite with risk tolerance, parametrizing stress tests, etc. In addition to compliance with legal and regulatory requirements, it is evident that banks must ensure a stable culture for a qualitative implementation of the principles for a good governance, which includes the appropriate division of duties and reporting lines, effective assurance of independence for key positions of control, effective supervision by senior management.

In regard to non-systemic banks, the supervision focused on the measures and systems for ensuring full compliance with legal and regulatory requirements, the design and pursuit of feasible strategic plans in relation to their risk-bearing capacity, prerequisites created to ensure a sound increase of activity, etc. The main concerns of supervision remain the creation of a sufficient level of reserve funds for asset losses or impairment and their timely reflection in the bank's financial balance sheets, as well as planning and ensuring sufficient capital resources to support the activity, in the conditions when a significant part of them do not belong to the largest banking groups.

In 2023, examinations at non-bank entities and SLAs have covered entities of payments, lending, financial lease and microcredit. The examinations focused on the business model, governance systems, credit risk, market and operational risks, accuracy of reports to the Bank of Albania, transparency with customers and the risk of money laundering. These examination has evidenced that the activity of these entities generates stable income which has continuously supported the capital. Overall, the internal organisational and regulatory framework is congruent to the size and complexity of the relevant entities. In the new subjects, deficiencies and the need for additions and improvements are evident, in line with the current level of activity. As regard the accuracy of reports at the Bank of Albania, transparency with clients and prevention of money laundering, there is a satisfactory compliance from consolidated entities in the market, while there are weaknesses and breaches of regulatory and legal requirements from other subjects.

Examinations also identified the need for improving the overall management of financial risks, operational and IT risks, as well as for providing adequate human resources, etc. Related to the identified breaches, the Bank of Albania has taken the relevant supervisory measures, specifically, the suspension of the activity of an entity for a 6 months period. Meanwhile, the issue of an order for the interruption of breaches and implementation of a "fine" for the administrator are applied in for another entity.



In 2023, a total of 3 publications on the Maximum Effective Interest Rate (EIR) were carried out, including an intermediate publication, after the regulatory amendments that were made in response to the requests from the entities operating in the microfinance sector.

#### **2.4.2. REVIEW OF THE LEGAL AND METHODOLOGY FRAMEWORK**

The Bank of Albania has continued to complete and improve the supervisory regulatory framework, by approving several new regulatory acts and reviewing some existing ones, furthering thus its approximation with the EU acquis, while taking into account the developments of the banking and financial system in Albania. The following are some of the main changes to the regulatory framework during 2023:

##### ***I. In accordance with the requirements laid down in the Law 55/2022 "On Payment services," the Supervisory Council approved:***

- The regulation "On the exercise of activity and supervision of payment institutions," which sets forth the requirements for the supervision and regulation of the activity of payment institutions, in accordance with the provisions laid down in the Law "On payment services". The Regulation provides for: prudential requirements; the responsible and effective management requirements of payment institutions; capital requirements; the protection of funds and risk management of these institutions, as well as requirements for their accounting, auditing and reporting.
- Some amendments to the regulation "On the reports at the Bank of Albania accordingly to the Unified Reporting System", which consist in reviewing the reporting requirements for some subjects of the regulation and include respectively i) a new reporting system for payment institutions and electronic money institutions, drafted in accordance with the supervisory requirements arising from the new legal provisions and regulatory requirements for these entities, ii) some amendments in the reporting forms for non-bank financial entities, to reflect the latest regulatory amendments for these entities, as well as iii) the inclusion in the electronic reporting system of some forms for banks and saving and loans associations.

##### ***II. In the framework of further alignment with the EU acquis, during 2023 the following were approved:***

- Amendments to the Regulation "On capital adequacy ratio" and the regulation "On the consolidated supervision", which consist in the revision of the annexes of the regulations regarding the reporting forms of the COREP package, as well as the explanatory guidelines for their completion on individual and consolidated basis. The reviewed forms reflect the previously approved amendments in the regulation "Capital Adequacy Ratio", regarding capital requirements for credit risk and market risk, as well as for securitization exposures.



### III. Other developments concerning the review of the regulatory framework in 2023 took place, during which the following were approved:

- Amendments to the Regulation "On consumer credit and mortgage loans", related to the application of the maximum EIR for consumer credit. Also the amendments aim at ensuring a more accurate calibration of the calculation and determination of the maximum EIR; and
- Amendments to the Regulation "On licensing and activity of savings and loan associations and their Unions, which are related to the revision of the requirements on the documentation required for the payments of membership contributions and payments or the capital buffers of SLAs.

#### 2.4.3. LICENSING FRAMEWORK AND APPROVALS

The banking sector continues to be dominated by foreign banking group subsidiaries with capital originating mainly from the EU, meanwhile the number of banks operating in Albania remains 11.

During 2023, the Bank of Albania issued preliminary approvals for ownership of the qualifying holding of shares of 2 non-bank financial institutions; amendments to the statutes of three banks, issuance of subordinated debt from six banks and settlement from one bank; approval of authorised chartered auditors (statutory auditors) for auditing the financial statements of all banks in 2023. The Bank of Albania approved 66 bank administrators, 23 members of the steering council, 15 members of audit committees, and 28 executive directors and managers of the bank's internal audit.

In 2023, the network of banks within the territory of the Republic of Albania expanded with one new branch, and one new branch outside the territory of the Republic of Albania. Banks have also reported the reduction of the number of 12 branches and agencies within the country. As of the end of the year, banks operated through 391 branches and agencies.

Table 10 Banks' ownership structure, number of banks (at period-end)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Banks in Albania, of which:	16	16	16	14	12	12	12	11	11
I Majority foreign owned <sup>1</sup>	13	13	13	11	8	8	8	6	6
• EU-based banks	9	9	9	7	6	6	6	5	5 <sup>2</sup>
• Turkish based	1	1	1	1	1	1	1	1	1 <sup>3</sup>
• Majority owned by an international financial institution (Saudi Arabia)	1	1	1	1	1	1	14		
II. Majority Albanian owned	3	3	3	3	4	4	4	5	5 <sup>5</sup>

Source: Bank of Albania.

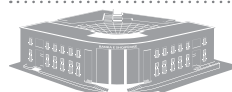
<sup>1</sup> "Majority" is in any case the simple majority of 50% plus 1 vote.

<sup>2</sup> Banks with capital origin from EU countries are from: Intesa Sanpaolo Albania (Italy), Raiffaisen (Austria), Procredit (Germany), OTP Bank Albania (Hungary), and First Investment Bank (Bulgaria)

<sup>3</sup> National Commercial Bank.

<sup>4</sup> United Bank of Albania.

<sup>5</sup> Majority Albanian owned banks are: Union Bank, Credins Bank, American Bank of Investments, Tirana Bank and United Bank of Albania Bank.



In 2023, the Bank of Albania licensed 2 electronic financial institutions, and 1 non-bank financial entity, for the exercise of the activity “Purchase of non-performing loans” and revoked the license to one entity upon its request. Also, the BoA issued an approval for additional financial activity to (insurance intermediary/agent) of one bank and one non-bank financial institution. At the end of 2023, there were 39 non-bank financial institutions, micro-credit institutions, and electronic money institutions in operation.

Non-bank financial institutions also received preliminary approvals for 9 administrators, 4 Chairman of Steering Council, and 1 Chairman of Audit Committee. In 2023, preliminary approval was issued for the reappointment of one Chairman of savings and loan associations.

During 2023, 52 new foreign exchange bureaus were licensed, while licences were revoked for 14 existing foreign exchange bureaus. By the end of 2023, there were 621 foreign exchange bureaus.

Table 11 Number of banks, non-bank financial institutions, savings and loan associations and foreign exchange bureaus licensed by the Bank of Albania (end-period)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Banks	16	16	16	14	12	12	12	11	11
Non-bank financial institutions	27	28	31	30	32	30	35	38	39
Foreign exchange bureaus	397	428	426	463	503	538	556	583	621
Unions of savings and loan associations	2	2	1	1	1	1	1	1	1
Savings and Loan Associations	111	13	13	13	14	14	16	16	16

Source: Bank of Albania.

#### 2.4.4. OTHER DEVELOPMENTS

##### *Implementation of recommendations of assessment report by Moneyval Committee and ICRG/FATF action-plan*

One of the most important developments during 2023 is the removal of Albania from the list of jurisdictions under increased monitoring, otherwise known as the “grey list” by the FATF in the plenary on 27 October 2023. This evaluation came as a result of the commitment and policy reforms undertaken to fulfil the required criteria by the institutions in Albania. The Bank of Albania has made a significant contribution to the entire evaluation process of Albania by the experts of the Moneyval Committee - the 5th round of evaluation (2017-2018), and in particular to the realization of the obligations arising from the Bank of Albania according to the ICRG/FATF action plan.

The removal from the FATF grey list is an important achievement for the country, its economy and its reputation. Delisting the list constitutes a vote of confidence from the international community and shows the country’s commitment to combat money laundering and terrorist financing.





### *Assessment of the equivalence of the regulatory and supervisory framework*

Delisting Albania from the FATF grey list paves the way for the return of discussions with the European Banking Authority (EBA) on the equivalence assessment process. At the beginning of 2022, EBA published a new assessment methodology. The Bank of Albania has carried out an independent assessment of the current supervisory framework on banks, with the assistance of the European Bank for Reconstruction and Development (EBRD) and PriceWaterhouseCooper (PwC) Spain. Results show that the procedural and regulatory framework, as well as supervisory practises, are at a high degree of equivalence with the applicable standards of the EU countries, especially in relation to capital requirements, credit risk mitigation techniques, large exposures, liquidity, financial leverage, securitization, macroprudential supervision, professional confidentiality and international cooperation. After the submission of the official request to the EBA by the BoA, the beginning of discussion on the equivalence assessment process of Albania is expected to start.

### *Drafting the guideline on financial reporting*

In 2023, the draft document on financial reporting was compiled, in the framework of supervisory process, which is the first step in the implementation of international financial reporting and accounting standards. The drafting of the document is based on the standards set by the European Banking Authority (EBA), in terms of content, tables of the report and explanatory instructions. This document has been distributed to banks and has served as a starting point for the dialogue on the challenges that accompany this process, also defining the relevant obligations that arise for its implementation.

### *The drafting of the draft law "On payment account with basic features"*

The purpose of the draft law "On payment accounts with basic features", drafted with the assistance of the World Bank, is to create a legal framework to provide payment services to all consumers, and especially, to households who do not have a bank account, at no cost or affordable by them, guaranteeing and enabling the right to every consumer, regardless of income level, employment status, solvency history, to have access to basic features of payment account. Box 5 introduces in details the terms and conditions that set forth in this draft law.



## BOX 5

### THE NEW LAW ON "PAYMENT ACCOUNT WITH BASIC FEATURES"

Law 100/2023 "On payment account with basic features", is drafted by the Bank of Albania for bolstering financial inclusion of people, modernising the payment system, pursuant to the National Retail Payment Strategy in Albania (2018-2023). The law aims to increase the number of bank accounts by bringing closer to the banking system the group of consumers who do not currently have a bank account, as well as encouraging the more active use of existing payment accounts for that group of consumers who have an account but use it rarely.

With the approval of the Law 100/2023 "On the payment account with basic services" by the Assembly of the Republic of Albania and the Regulation of the Bank of Albania 59/2022 "On the comparability of fees related to payment account and payment account switching service", the transposition of Directive 2014/92/EU (PAD) into the legal and regulatory framework of the Bank of Albania was completed. The transposition of Directive 2014/92/EU also marks the fulfilment of obligations within the National Plan for European Integration 2022-2024.

The Law "On payment account with basic features" focuses on the consumer (individual customer). It offers the consumer the opportunity to have access to basic banking services, through a payment account with basic features, regardless the consumers' employment status or financial situation. To enable this goal, the law establishes the obligation for banks not to refuse to open a payment account with basic features, with the exception of specific cases, such as breaching the requirements on preventing money laundering as well as some other requirements, aimed at guaranteeing basic services to consumers. Also, the consumer has the right to appeal to the Bank of Albania, in case of banks' refusal to open such an account.

A payment account with basic features offers a range of basic banking products and services, such as deposits and/or withdrawals of funds, payments and various transfers at counters, via debit cards, or online platforms. The payment account with basic features is offered only in the domestic currency (lek) and serves for the execution of transactions within the territory of the Republic of Albania. In the basic services provided by this account, the law excludes payment transactions with credit cards, as well as the provision of loans related to payment services.

Consumers will benefit from these basic services at more favourable rates than those applied to standard payment accounts, while for some vulnerable categories it is envisaged that the service provision fee will be zero.

For this purpose, the Law defines the categories of vulnerable consumers, for whom a zero fee will be offered for the services provided in the payment account with basic services. These categories include households who benefit from social, economic and health protection and assistance, as well as pensioners, students and people with disabilities.

The Law also determines the mechanisms for setting fees according to the type of service provided by this account as well as the modalities for transactions. Concluding, it provides for requirements related to the handling of complaints and transparency as well as administrative offences, sanctions and the right and procedures for appeal.



### *Green finance*

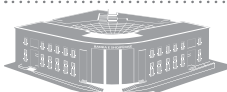
In the framework of green finance and the strategy drafted for its inclusion in the supervisory processes, the Bank of Albania is committed to increasing the knowledge of similar processes undertaken by other counterpart institutions, best as international practice, and to document the typologies that can be adopted in the domestic market.

### *Cyber risk*

Due to global geopolitical developments and the active positioning of the Republic of Albania towards these developments, even throughout the 2023, critical sectors, including the banking and financial system, have been under constant and escalated cyber threats. In such circumstances, the level of alarm and preventive measures increased as a proportional ratio to threats.

The financial system has carefully managed the continuous and varied attacks caused by threat actors, whose ultimate goal is to damage the image and confidence of the general public in financial institutions and, in particular, in banks rather than benefiting any monetary values. Consequently, these attacks have not been able to successfully fulfil their purpose. We can mention the Denial of Service (DoS) attacks observed during 2023 Q3, which also targeted commercial banks, aiming to interrupt the services provided in their websites. While in 2023 Q4, we have several smishing attacks (impersonation of the official websites of banks), which have also been unsuccessful due to the measures taken by the banks and thanks to various customer awareness campaigns. We emphasize that there is an increased attention of customers in the cases of remote access to bank services, and in this case several attempts for identity theft were identified and reported by the bank customers themselves.

In regard to the above mentioned, the Bank of Albania has strengthened its communication and interaction especially with the banking sector and the responsible regulatory authorities, increasing the focus and attention on this regard, especially during on-site inspections. In this context, with the aim of updating the regulatory framework with information systems developments and improving supervisory processes, the Bank of Albania is continuing with the process of reviewing the regulatory framework according to the standards and best practices of the European Union. This process, in accordance with the long-standing approach of the Bank of Albania, will be finalized with the cooperation of the banking industry in order to include the best market practices.



## 2.5. RESOLUTION

*The Law “On recovery and resolution of banks in the Republic of Albania” grants the Bank of Albania the capacity of the Resolution Authority in Albania. This legal mandate aims to ensure an organized resolution of banks in insolvency, avoiding negative impact on the real economy and the financial system, by minimizing the use of taxpayers’ money, as well as guaranteeing the protection of customer assets in the form of insured deposits.*

The Bank of Albania, in the capacity of Resolution Authority, has further developed the functions of this capacity according to the priorities foreseen in the medium-term development plan. It has: updated the resolution plan for all banks of the sector (11); taken measures in regard to strengthen the capacity for resolution in banks; and monitored the annual MREL intermediate level of requirements. The Bank of Albania has continued to complete the regulatory and methodological framework for resolution as well as completed and monitored the Resolution Fund.

In the process of drafting Resolution Plans, the Bank of Albania has maintained stable dialogue with banks regarding the increase of resolution by regularly monitoring the fulfilment of the recommendations communicated as part of the annual inspection process in banks.

In terms of fulfilling the requirement for MREL, the Bank of Albania has been involved in an intensive consultation process with the banking sector, the Albanian Financial Supervisory Authority as well as international institutions, supporting the banking sector in issuing financial securities that meet regulatory requirements.

The Bank of Albania was invited by the Single Resolution Board- SRB- to participate in the meetings of the EU banking Resolution Colleges with subsidiaries operating in Albania, in accordance with the cooperation agreement signed between the two institutions.

The Bank of Albania is involved in projects and collaborations with the European Bank for Reconstruction and Development - EBRD and the FinSAC project of the World Bank, in regard to the operationalization of resolution instruments.

### 2.5.1. STRENGTHENING THE ABILITY FOR RESOLUTION IN BANKS

#### *Resolution plans*

Every year, the Bank of Albania drafts and updates the resolution plans for every bank operating in Albania. During the annual cycle for 2023, the BoA updated resolution plans according to the following: information periodically provided by banks, results and more detailed information from on-site inspections carried out during July 2023.



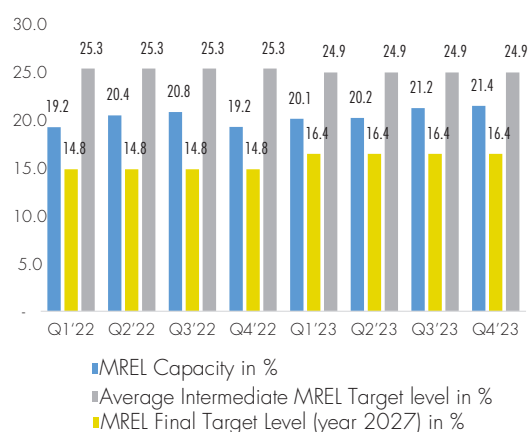
As part of the annual process of drafting plans, in 2023 the following were made possible: the identification and evaluation of the economic functions of critical importance for the Albanian banking sector, the assessment of the public interest for all banks, the preferred strategy for resolution as well as the measures that the bank should undertake for it to be able to implement this strategy. In conclusion, the executive summary of the contingency plan was communicated to each bank, focusing on assessing the bank’s capacity to efficiently implement the contingency strategy. The Bank of Albania has requested from the banks to draft the annual work programme on the capacity for resolution and report it to the Bank of Albania. For the cycle of 2023, the banks have progressed towards fulfilling the objective for: governance, increasing capacities for absorbing losses and recapitalizing them; ensuring operational continuity and maintaining access to the market, in case the banks are subject to resolution; improving the quality of reporting for MREL purposes, etc. These objectives will be under constant monitoring, until the complete fulfilment of the “Capacity building programme to implement resolution”, within the deadline of 2027.

### *The minimum requirement for regulatory capital instruments and eligible liabilities (MREL)*

(MREL) constitutes the foundation for the financial preparation of banks regarding the capacity of the banking sector for resolution. By fulfilling the MREL requirement, the banking sector gradually builds the financial capacity to absorb losses and to recapitalize through internal resources, in case it is subjected to resolution.

Pursuant to the regulatory framework, within 2027, the BoA communicates, yearly, the intermediate level of requirements for MREL that must be fulfilled by banks within the next 12 months. In 2023, the banking sector met the MREL intermediary level of requirements through the use of regulatory capital instruments and eligible liabilities. In December 2023, MREL capacity reached at 21.4% of risk-weighted assets. The intermediate annual target was 16.4%. In December 2023, banks were notified of the MREL intermediate level of requirements which must be met for 2024.

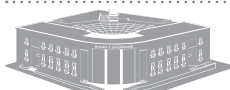
Chart 33 MREL capacity, for the period 2022-2023, in percentage of risk-weighted assets



Source: Bank of Albania.

### *Inspections in banks*

The Bank of Albania has continued to work towards strengthening the ability for resolution in banks. In this context, it has carried out annual on-site examinations at banks that provide critical functions for the economy, focusing on evaluation of the fulfilment of recommendations being communicated during the cycle of 2022, and the determination of new priorities that banks must fulfil in 2024.



Following this examination cycle, the BoA prepared individual reports for each bank with a focus on achieving bank’s ability to implement resolution, according to the strategy and instruments selected in the relevant plan. The Bank of Albania submitted a series of recommendations that must be fulfilled by each bank with a focus on resolution. Each bank with a resolution strategy has periodically reported to the Bank of Albania regarding the progress of the measures it has taken, according to definite deadlines, to increase their ability to implement resolution plans.

**BOX 6**

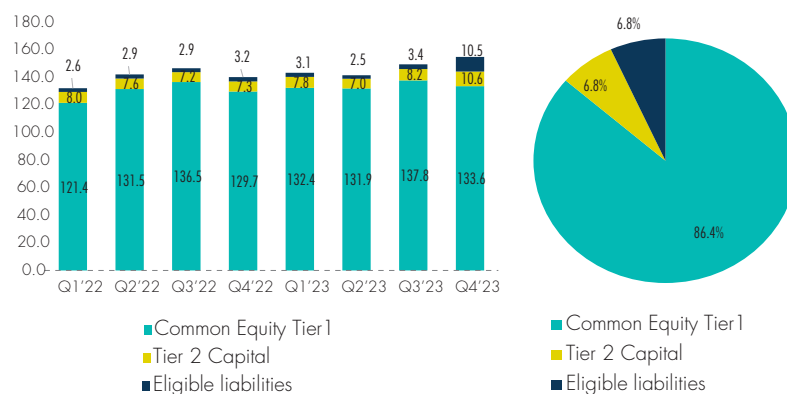
**SOURCES OF FINANCING MREL REQUIREMENT DURING 2023**

*The banking sector has diversified the strategy of financing the MREL requirement during 2023, increasing financing through debt securities that meet the regulatory criteria to be classified as “eligible liabilities”. The banking sector has successfully issued financial securities in the domestic capital market, as well as in international markets through financing from International Financial Institutions.*

*This year, the banking sector signed the MREL financial security for the first time with professional financial market investors, such as the EBRD and the OPEC Fund for International Development. This is the first financial security to be issued in the Western Balkans, signed totally by international financial market investors. It reflects confidence in the Albanian banking sector and the alignment of the European regulatory framework by the Bank of Albania. The investment is intended to serve as a catalyst to increase the other investors’ interest to fund securities for MREL.*

*Similar positive developments have been reflected in the financing of the banking sector in the domestic capital market. During 2023, the issuance of “unsecured” bonds was successfully carried out, for the first time by the banking sector; also the number of banks that issue subordinated debt for regulatory capital purposes increased.*

Chart 34 MREL financing sources for the period 2022-2023, ALL billion for the group of banks subject to this requirement and MREL structure, December 2023



Source: Bank of Albania.



Consequently, during 2023 H2, the stock of “eligible liabilities” in the balance sheet of the banking sector reached ALL 10.5 billion, compared to ALL 3.2 billion in 2022. Following the continued strengthening of the regulatory capital position through the increase in the tier 1 capital and new issuances of subordinated debt, for tier 2 capital purposes, the banking sector recorded a significant improvement in the financing of the MREL requirement. Reflecting these developments, at the end of 2023, the structure of MREL consisted of about 93% regulatory capital instruments and about 7% eligible liabilities, represented by subordinated debt not part of regulatory capital, from respectively 98% of it and 2% in 2022.

### 2.5.2. PREPARING A RESILIENT FRAMEWORK FOR RESOLUTION

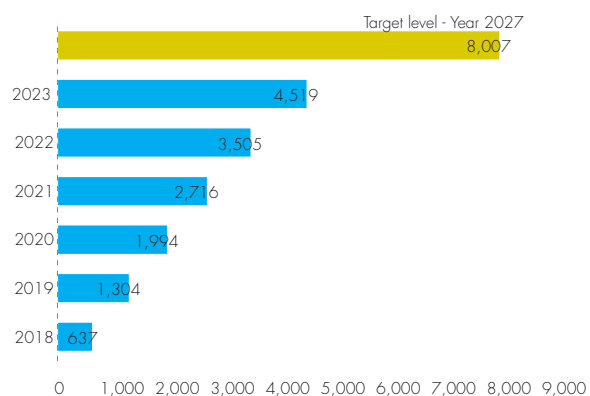
Aiming to establish a resilient framework for resolution, the Bank of Albania has drafted several methodological and guiding documents, which support banks in fulfilling the recommendations of the Bank of Albania. Thus, in accordance with the provisions laid down in Regulation No. 78/2020 “On the minimum requirements for regulatory capital instruments and eligible liabilities”, the Bank of Albania has updated the document on “The methodology, policies and the way of fulfilling the minimum requirement for capital instruments regulatory and eligible liabilities”, for the cyclical year 2023.

Also, in the context of increasing the banks’ capacity to implement resolution, the Bank of Albania has published the guideline “On the identification and mobilisation of collateral in resolution”. This guideline will orient banks toward building and designing the contingency plans related to the assessment of collateral needed for access to liquidity in resolution. The Bank of Albania is engaged in the analysis of the national legal framework and the European legislation in the field of resolution, aiming for its complete alignment.

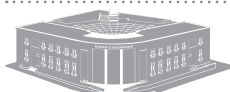
### 2.5.3. RESOLUTION FUND

In accordance with legal and regulatory requirements, banks pay annual contributions to the Resolution Fund, in order to meet the target level of the Fund. The target level of the Fund for 2027 at 0.5% of total liabilities of the banking sector. Based on the latest assessments of 2023, the target level of the Fund is ALL 8 billion. After adding the banks’ annual contribution to the Fund during 2023, at ALL 896.2 million, the Resolution Fund reached about ALL 4.5 billion at the end of 2023, reaching about 56% of the target level aimed for by 2027.

Chart 35 The Resolution Fund build up throughout the years and the targeted level for 2027 (ALL million)



Source: Bank of Albania.



The Bank of Albania regularly monitors the performance of the financial assets of the Resolution Fund, based on the periodic reports of the Deposit Insurance Agency, as the Fund's Administrator, based on the investment policy approved by the BoA. In 2023, the Bank of Albania approved the review of "Fund Investment Policy", in accordance with the objectives for its good administration. Also, the Bank of Albania approved the "Manual for the Resolution Fund", which focuses on defining all the procedures and steps that the Bank of Albania shall follow for this fund, pursuant to the legal framework of resolution.





## 2.6. CURRENCY ISSUE

*The Bank of Albania has the exclusive right for the issue and circulation of the national currency – the Albanian lek. The Bank of Albania determines the form, measure, weight, model, and other features of Albanian banknotes and coins of legal tender in Albania.*

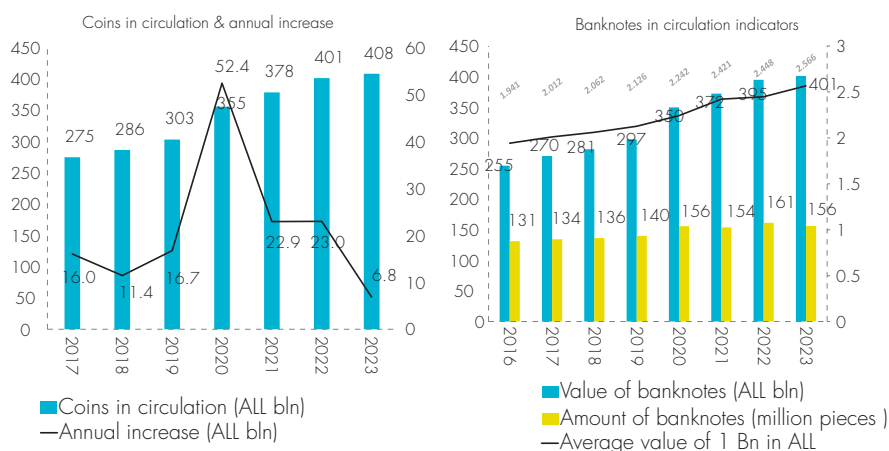
One of the main responsibilities of the Bank of Albania is to meet the needs of the economy for cash, through the issuance of modern and qualitative banknotes and coins that communicates security and stability to the users of the Albanian lek.

The issue in circulation of the last two denominations of the new series in 2022, helped to fully introduce it to the economy. The issuance of a new series of banknotes and its addition with the 10,000 Lekë banknote have been successful in meeting the requirements of the Albanian economy in terms of value and structure.

### *Banknotes and coins in circulation<sup>17</sup> and their value*

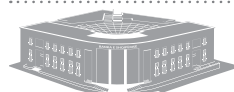
The domestic currency in circulation at the end of 2023 reached ALL 408 billion, up by ALL 6.8 billion compared to the end of 2022 (+1.7%). At the end of 2023, there were around 156 million notes in circulation, worth around ALL 401 billion. Compared to 2022, the number of banknotes in circulation decreased by about 4.9 million pieces (-3%), while in value it increased by ALL 6.4 billion (+1.6%). The decrease in the number of banknotes and the increase in their value is due to the improvement in the structure of banknotes in circulation, in favour of the increase of banknotes with a nominal value of 10000 Lekë, 5000 Lekë. At the end of 2023, the average value of a banknote in circulation reached at ALL 2566 compared to ALL 2448 at the end of 2022.

Chart 36 Performance indicators of the domestic currency (left) and the banknote in circulation (right)



Source: Bank of Albania.

<sup>17</sup> It is the number and value of banknotes put into circulation by the Bank of Albania.

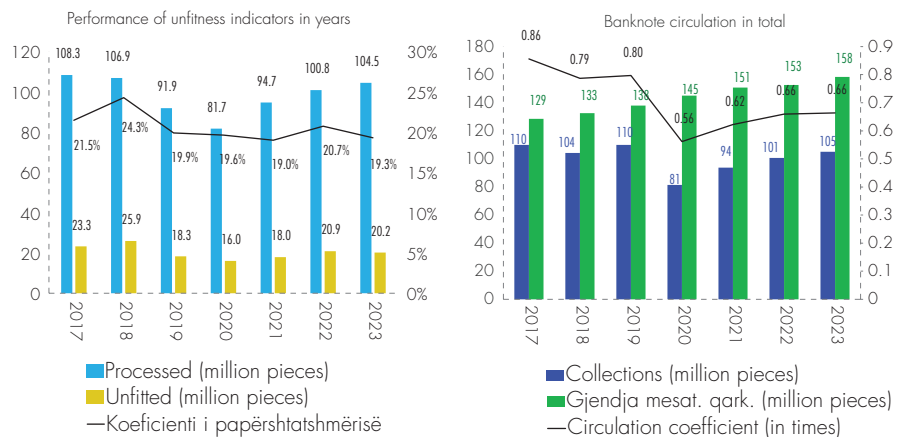


In regard to coins, their number in circulation reached 273 million pieces against 257 million at the end of 2022, up by around 16 million pieces or +6.2%. The average value of a coin in circulation at the end of 2023 reached 25.2 ALL/coin compared to 25 ALL/coin in 2022.

### Cash recycling, banknote quality and its circulation

During 2023, about 104.5 million pieces of banknotes were processed compared to 100.8 million pieces in 2022. They were simultaneously checked for authenticity and fitness for recirculation. The sorting rate was 19.3% compared to 20.7% in 2022, while unfit banknotes were replaced case-by-case with new banknotes fit for circulation.

Chart 37 Processing and fitness indicators (left) and circulation ratio (right)



Source: Bank of Albania.

The banknote circulation coefficient <sup>18</sup> for 2023 was 0.66, implying that a banknote is returned at the cash desks of the Bank of Albania, on average less than once a year. This coefficient is higher for 500 Lekë, 1000 Lekë banknotes (about 1.28 and about 1.1) and lower for 5,000 Lekë and 10,000 Lekë banknotes, at 0.2 and 0.1 times a year, respectively.

### Protecting banknotes and coins against counterfeiting

Throughout 2023, 195 counterfeit national banknotes compared to 343 banknotes in 2022, as well 71 counterfeit national coins were withdrawn from circulation. The coefficient of counterfeit banknotes per 1 million banknotes in circulation continues to decrease significantly. The coefficient of counterfeit banknotes per 1 million banknotes in circulation was 1.3 in 2023 compared with 2.2 in 2022.

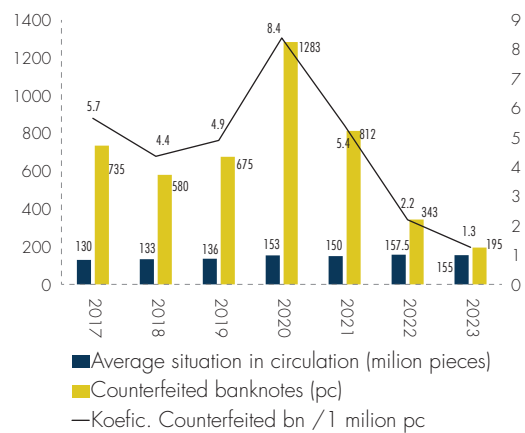
<sup>18</sup> Ratio of the number of banknotes received at the Bank of Albania cash desks to the average annual number of banknotes in circulation.



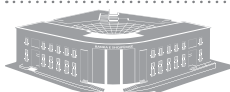
By structure, the 1000 Lekë and the 5000 Lekë denominations have the main share in total counterfeit banknotes, followed by the 2000 Lekë and the 500 Lekë denominations. Among counterfeit coins, the 50 Lekë denomination continues to be the only counterfeited, in insignificant amounts. The largest share of counterfeited banknotes belongs to the old denominations, 153 banknotes or 78%. The latter reflects the high quality and security features applied to the banknotes of the new series.

From the technical and/or technological aspect of counterfeiting domestic banknotes, they are reproduction by commercial digital equipment, mainly ink-jet, accompanied by the use of additive artisanal and technological methods to imitate security elements. Whereas, security feature imitations in counterfeit banknotes, readable by authenticating/sorting equipment has not been encountered in any case.

Chart 38 Performance of counterfeited banknotes in circulation



Source: Bank of Albania.



## 2.7. PAYMENT SYSTEMS

*Operation, oversight and reform of payment systems are some of the main functions of the Bank of Albania. Their implementation guarantees the security, sustainability and efficiency of the basic infrastructure of payments. This is a crucial precondition for transmitting the monetary policy, safeguarding financial stability and the overall economic growth.*

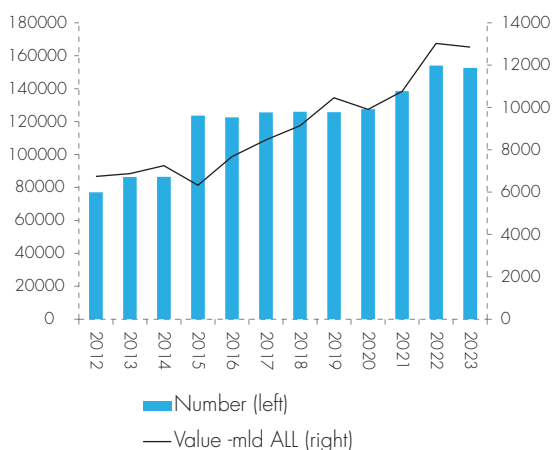
*In fulfilment of these responsibilities, the Bank of Albania, beyond the stable operation of payment systems, has paid particular attention to the oversight and catalysing role in the fulfilment of the National Retail Payments Strategy.*

### 2.7.1. PERFORMANCE OF PAYMENT SYSTEMS

The Bank of Albania plays a key role in promoting the normal functioning of payment systems through the operation and administration of three main infrastructures for the processing of interbank payments and one infrastructure for the settlement of securities. AIPS system is considered the core infrastructure for the settlement in real time of large-value payments in lek. The AECH system enables the clearing of interbank transactions with a value of less than ALL 1.5 million of bank clients (households and enterprises).

The AIPS EURO system, enables real-time gross settlement of payments in euro within the territory of Albania. Also, since 2015, the BoA operates the central system of settlement and registration of transactions with government securities - AFISaR. All systems have operated smoothly and in accordance with the rules and operating schedules laid down in the relevant regulations, providing maximum availability over 2023.

Chart 39 Number and value of transactions processed in

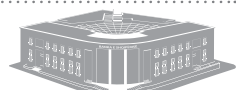


Source: Bank of Albania.

#### AIPS - ALBANIAN INTERBANK PAYMENT SYSTEM FOR LARGE-VALUE PAYMENTS

The large-value payment system is crucial in developing the stability of the financial system as it ensures the normal circulation of liquidity in the markets and economy. Every bank operating in Albania, the Bank of Albania and the Ministry of Finance (as an indirect participant) are participants in the AIPS system. The total volume of liquidity circulated in the system was ALL 12,849 billion, or 5 times more than the nominal GDP.

The intraday loan facility (ILF) is an AIPS system instrument offered by the Bank of Albania to participating banks in order to manage daily liquidity and ensure normal continuation of interbank

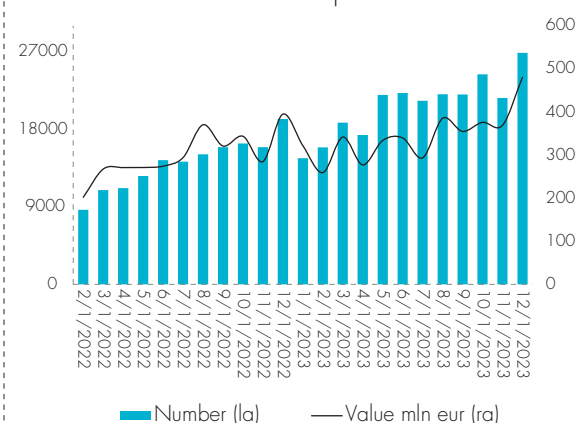


payments operation. The ratio of the value of ILFs to the total value of the activity of the AIPS system remain low (4%-5%), indicating that the system's exposure to liquidity risk of participants is low.

#### ALBANIAN INTERBANK PAYMENT SYSTEM FOR DOMESTIC CUSTOMER PAYMENT ORDERS IN EURO CURRENCY, WITHIN THE TERRITORY OF THE REPUBLIC OF ALBANIA (AIPS EURO)

The AIPS EURO system was established to enable the Albanian citizens to make payments in euro within Albania at much lower costs, as well as within a much shorter time-period than the process carried out previously through correspondent banks. This system has enabled households and enterprises to make their payments in euro, within the territory of Albania, for the second consequent year. During the 2023, a volume of payments of 249,018 transactions worth around EUR 4,134 million were processed in AIPS EURO system. Compared to 2022, the number of transactions increased by 60% and their value by 24%. About 1,016 transactions are processed daily in this system with an average daily turnover value of around EUR 17 million.

Chart 40 Performance of the AIPS EURO system according to the number and value of transactions processed



Source: Bank of Albania.

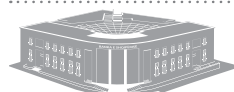
Albanian consumers and enterprises are estimated to have saved around EUR 37 million in 2023 from using AIPS Euro system. Expanding its use helps bolstering financial inclusion and promoting electronic payments in the country. Through this system, payments in euro within the country are completely regulated by the legal and prudential regulatory framework for the protection of customer created by the law "On payment services", thus avoiding relations with correspondent banks.

#### ALBANIAN ELECTRONIC CLEARING HOUSE FOR RETAIL PAYMENTS (AECH)

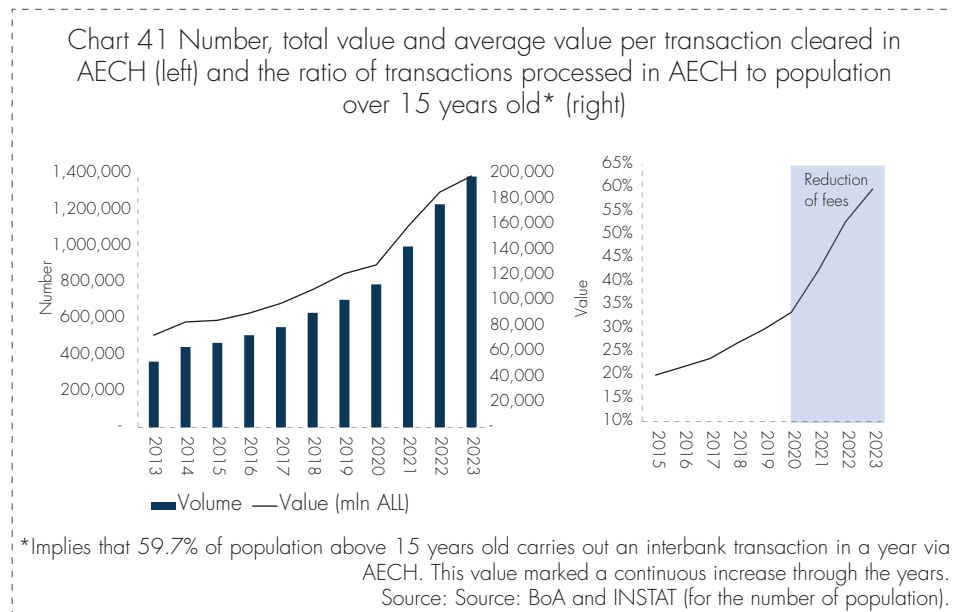
The AECH is an automated clearing system for small value payments. It is fully integrated with AIPS. The use of this system mainly reflects the use of bank transfers by households and enterprises, mainly medium-sized and small ones.<sup>19</sup> The activity in the system has continuously increased and, during 2023, cleared transactions increased by 12.4% and total transactions by 6.8% compared to 2022.

Beyond the steady increase in the number and value of transactions processed in recent years via AECH, the average value per transaction has decreased, in line with the use of carrying out lower value transactions. The ratio of transactions

<sup>19</sup> The analysis of the payment distribution indicator according to the participants is evidence that customer payments initiated by banks continue to hold the main share of transactions processed in the in AECH system, dominating the transactions initiated by other participants (Ministry of Finance and economy, the Bank of Albania).



carried out in AECH to the population continued to increase. This performance has been supported by the measures taken by the Bank of Albania on the differentiation of commissions applied by banks, favouring the retail payments in electronic form<sup>20</sup>.



### ALBANIAN FINANCIAL INSTRUMENT SETTLEMENT AND REGISTRATION SYSTEM (AFISAR)

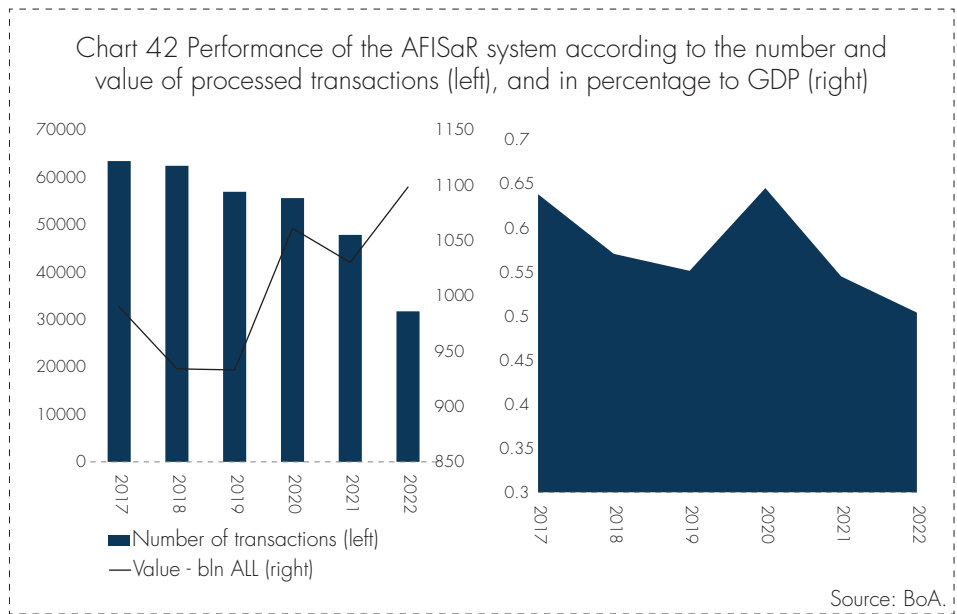
The AFISaR system is the central system for the settlement and registration of transactions with government securities. This system is operated by the BoA in the capacity of fiscal agent. Through the AFISaR system, the Bank of Albania offers the issuer (Ministry of Finance and Economy) and the market, the organization of auctions for the issuance of Albanian State securities in the domestic market both in lek and the euro, as well as the settlement and registration of transactions with these securities in the secondary market - actions where the collateral is the securities of the Albanian State or the reverse repurchase agreements with the subject these securities. The system also provides tax collection services for securities income and interest payment events. It informs account holders in this system about the balance and movements in these accounts.

At the end of 2023, the AFISaR system registered 14 financial institutions as direct participants, including 1 issuer (Ministry of Finance and Economy) and 1 central bank (BoA), 7 indirect participating financial institutions with accounts through the Bank of Albania, and connection with 1 Private Stock Exchange. At the end of 2023, there were 19,490 individual accounts in the AFISaR system opened through the Bank of Albania.

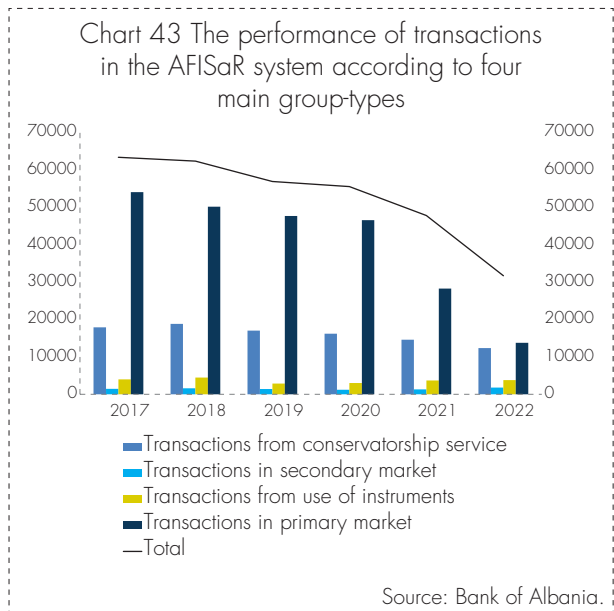
<sup>20</sup> The regulatory amendment for the use of the system (2020), provides for the elimination of commissions for retail payments initiated electronically (home-banking) up to the amount ALL 20,000 as well as the differentiation of fees for the other part of payments initiated electronically up to 50% of those initiated in paper form.



At the end of 2023, the total nominal value of Albanian securities issued in the domestic currency in the AFISaR system, was ALL 732.26 billion, up by 2.8% from the end of 2022. Issue in the European currency are at EUR 69.13 million, unchanged from the value of the previous year.

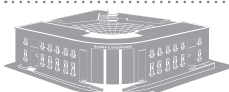


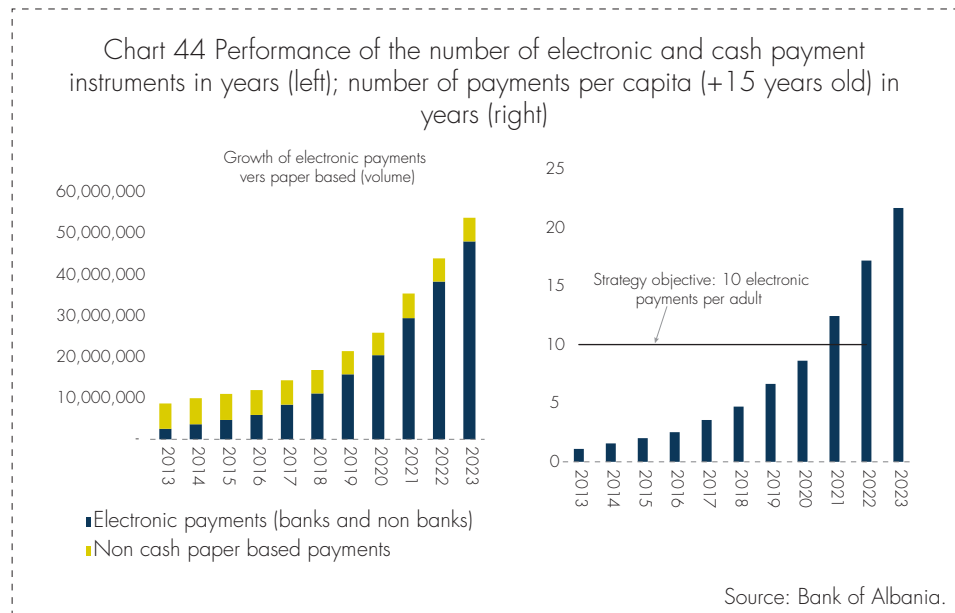
Using the AFISaR system for four general types of transactions, shows that transactions in the primary market and custody transactions (tax collection, coupons payments, etc.) decreased by 16.5% and 45%, respectively. Transactions in the secondary decreased by around 8%. There was a significant increase in transactions from the use of instruments, with 31.7%, where the main role was played by overnight loan (up by 94%) and repo in the interbank market (up by 30%). Albanian securities exchange (ALSE) had no activity in 2023.



### 2.7.2. PAYMENT INSTRUMENTS

The use of electronic payments instruments has continued trending upward over the course of 2023, whilst payments in paper form remained almost unchanged. Around 89% of the number of payments conducted by both banks and non-banks were carried out in the electronic form. Compared to the previous year, the number of these payments increased by 25.5%, while their value grew by 27.1%.





The progress of electronic payments has contributed to the fulfilment of the quantitative objectives of the National Strategy of Retail Payments (2018-2023), reaching a level of use of electronic payments per capita at 21, in 2023, out of 10 payments which is the objective of the Strategy. Financial inclusion has increased and the objective of 70% of the population owning a payment account has been met<sup>21</sup>.

### PAYMENTS PROVIDED BY THE BANKING SYSTEM

Banking institutions are the main provider of payment services. Large-value payments continue to be carried out in the form of paper transfers, mainly from enterprises. They account for a small share in the total number of payments. In terms of value, they account for around 61% of the total value of payments.

The use of other electronic payment instruments carried out through banks has increased. Around 61.9% of the total payments were made via bank cards. Compared to 2022, the number of card payments increased by 22.2%. On the other hand, due to the very nature of payments made via this instrument, their value remains at low levels, accounting for only 3.1% of the entire value of payments. Cards are mostly used by individuals (94.7% of the total number of card payments).

Home-banking payments<sup>22</sup> constitute for the second place as a payment instrument to the total number of payments. The rapid trend of increasing use of home banking shows the greater familiarity of the public with this instrument as well as its promotion by the banking system. The number of payments made through the mobile banking service reached 3.1 million transactions and

<sup>21</sup> In 2014, less than 40% of the population owned a payment account.

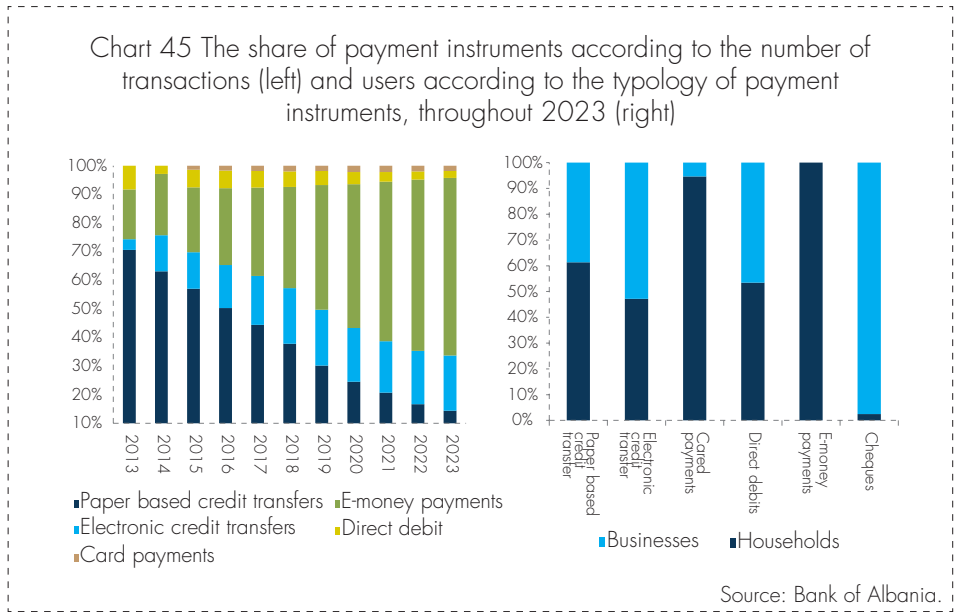
<sup>22</sup> These products provide remote access to the bank account, via on-line, telephone or software that the bank makes available to its clients.





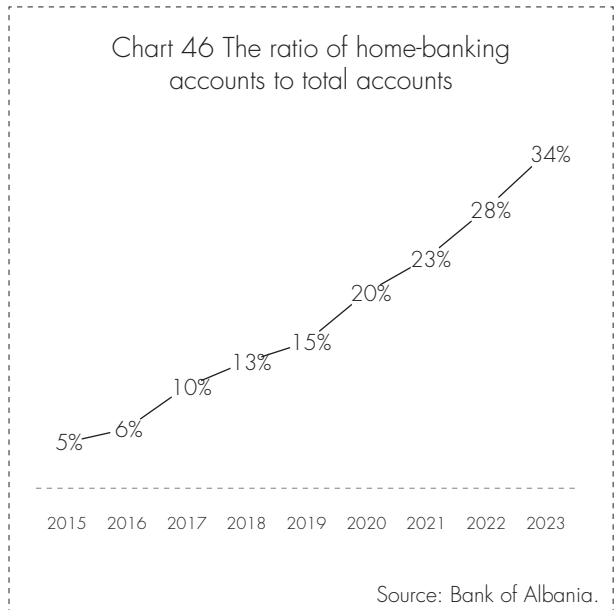
increased by 36.7% compared to 2022. Their value reached ALL 336 billion, up by 25.8% annually.

Electronic money payments in the banking system grew during 2023, but the value of these payments still remains at low levels (only 0.1% of the total of all payments). E-money or prepaid payments are used exclusively by households.

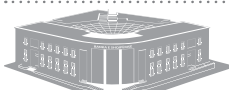


### HOME BANKING

“Home banking” services are offered by all banks and are increasingly being used in the Albanian market. They are being used not only for basic account status information services, but also for carrying out on-line payments. In 2023, the number of payments and the value of “home banking” transactions increased by 22.1% and 28.1%, respectively, compared to the previous year. This progress was driven by the measures taken by the Bank of Albania to reduce commissions for this type of transactions<sup>23</sup> the development of the infrastructure, the spread of opportunities to access the Internet, as well as the familiarization of bank customers with the use of this instrument. The number of accounts accessible remotely increased by 24.3% in 2023, accounting for 33.8% of the total of all customers’ accounts in banks.



<sup>23</sup> In regard to the differentiation of commissions between on-line payments and those in-person near bank branches.

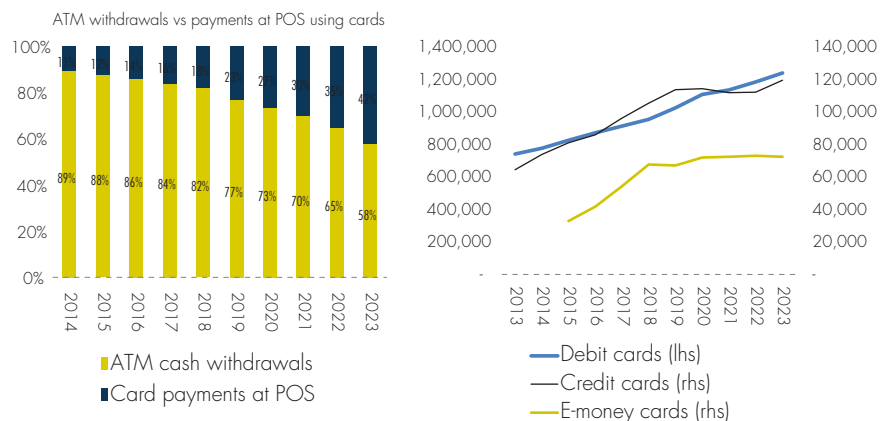


**BANK CARDS AND THE INFRASTRUCTURE FOR THEIR USAGE**

All the 11 banks that operate in the Republic of Albania are licensed as card issuers, of which 8<sup>24</sup> are licensed also as card accepters. The number of ATMs and POS terminals per 100,000<sup>25</sup> adults in Albania, due to the increase of the familiarity of the enterprises and the public, higher use of cards at the points of sale and the expansion of the financial inclusion of the population.

The number of cards increased by 4.6% compared to the previous year. Debit cards predominate in this group, with 86.5% of the total number of cards in circulation. The average number of card payments per capita (population over 18 years old) has increased to about 11 payments during 2023 compared to 9 in the previous year. The number of POS increased by 18.2% compared to 2022. Despite the expansion of the distribution of the POS network in all regions, the highest concentration is in Tirana,<sup>26</sup> where 80% of them are installed. The use of cards at POS increased by 34.9% compared to 2022.

Chart 47 Use of cards for carrying out payments vs cash withdrawals at ATMs (left), number of cards in circulation (right)



Source: Bank of Albania.

The number of ATMs increased by 8.2% compared to 2022. Despite the fact that ATMs are mainly used for cash withdrawals, the number of ATMs that enable cash deposits has increased. Their use for this function is still limited.

<sup>24</sup> The First Investment Bank has started to offer the service of accepting cards during 2023.

<sup>25</sup> The adult population (over 18 years old).

<sup>26</sup> Regions are divided according to the branches of the Bank of Albania.

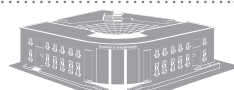
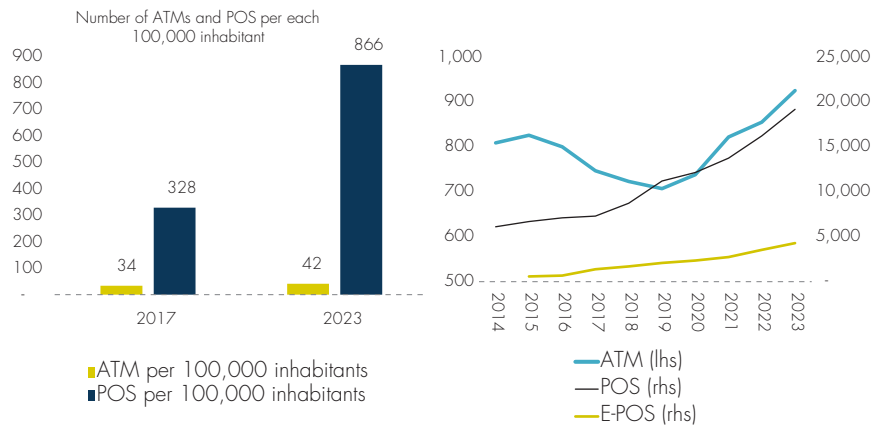


Chart 48 Number of ATMs and POS terminals for 100,000 adults (left) and number of ATMs and POS terminals (right)

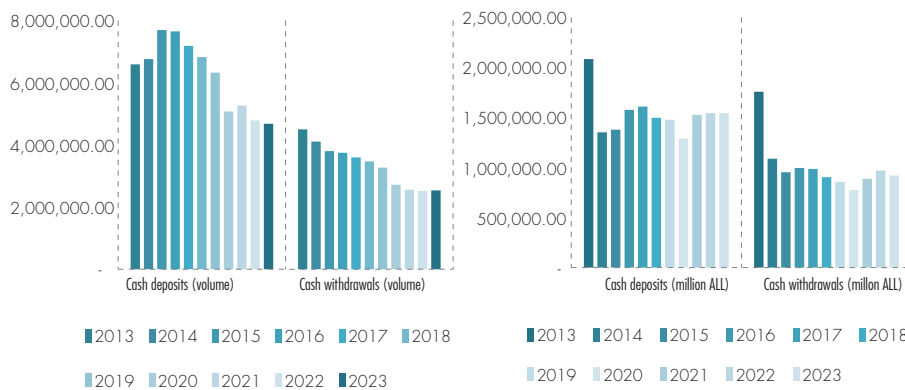


Source: Bank of Albania.

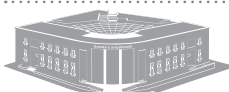
### CASH TRANSACTIONS

The increase in infrastructure for the use of electronic payment instruments has been reflected in the decline in the use of cash for transfers. In 2023, cash transactions carried out by customers at the banks' cash desks have decreased by 2.1% in number and 0.2% in value compared to 2022. However, the use of cash in the Albanian economy remains a dominant phenomenon, which carries high costs for the economy. The ratio of currency outside banks against liquid money (M1) is 51% from 52.7% in the previous year. Coordination of efforts with all relevant actors, as well as increasing financial education to encourage the use of the most efficient and low-cost instruments constitutes one of the priorities of the Bank of Albania.

Chart 49 Number and value of cash transactions at bank's cash desks (households and businesses)



Source: Reports submitted by banks according to the "Methodology for reporting payment instruments".



### 2.7.3. ELECTRONIC MONEY INSTITUTIONS

Electronic money products are offered by non-bank financial institutions licensed as electronic money institutions. Their number increased at 10 as a result of the adoption of the law “On payment services” The newest electronic money institution was licensed by the Bank of Albania at the end of 2023. These institutions together performed a volume of approximately 14 million electronic money payments, with a value of ALL 91.6 billion marking an increase of 37.6% in number and 102% in value compared to 2022<sup>27</sup>.

The use of electronic money enables convenience mainly to that part of the Albanian population that does not own a bank account. The advantages for this part of the population consist in the increased flexibility for carrying out payments, considering the wide scope of these institutions in the country, but also at a lower cost for the payments made, especially for the payment of fines, monthly utility bills, etc. Although the number of electronic money payment transactions from money institutions has reached 41% of the total electronic payments, their value remains low, at around 4% of the value of electronic payments.

### 2.7.4. PAYMENT SYSTEM OVERSIGHT AND THE REFORMATORY ROLE

Beyond the operation of the payment systems, the Bank of Albania pays attention to the consolidation of the payment system oversight role and of the use of payment instruments as an integral part of them. In this regard, it continues to improve and strengthen the regulatory framework and payment infrastructure, in compliance with the European standards.

The regulatory framework for the implementation of the Law on “Payment Services” is now complete. This law transposes the EU Directive on Payment Services and opens the payment market for a variety of services and institutions, in favour of increasing competition, reducing costs and increasing transparency for the consumer. During 2023, work was done on the approval of the regulations necessary for the full implementation of the Law (for the approved regulations, see 2.4.2 Review of the legal and methodology framework).

The finalization and approval of the Law on the “Payment account with basic features”<sup>28</sup> is an important element in order to promote financial inclusion (for more detailed information, see Box 5). It is expected to positively affect the use of the payment service and the expansion of citizens that owns and uses a payment account.

During 2023, the work toward **Albania’s membership in the Single Euro Payments Market (SEPA)**, a very important project of the Bank of Albania,

---

<sup>27</sup> The data is up to November 2023. Please allow the data to be updated until the report is published.

<sup>28</sup> Approved on 14.12.2023, published in the Official Journal No. 1, dated 03.01.2024.



started. The process started in 2021 when Albania became part of the World Bank's regional project "For the modernization of payment systems in the Western Balkans". As an integral part of the agenda of the Berlin process, in addition to the World Bank, it is also supported by the European Commission, CEFTA and RCC. The accelerated membership of Albania in SEPA is one of the objectives that must be met to achieve the New Growth Plan 2024-2027 approved by the European Commission in November 2023 (New Growth Plan for the Western Balkans). Allowing the membership of the Western Balkan countries in SEPA is an opportunity to integrate our payment platforms and therefore e-commerce with the European market and, for this reason, the project has been given priority in the development strategy of the Bank of Albania (for more details on criteria, procedures and benefits, see Box 6).

#### **BOX 7:**

##### **ALBANIA'S PARTICIPATION IN SEPA**

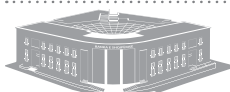
*The criteria for expanding the geographic scope of the Single Euro Payments Area (SEPA) are defined by the European Payments Council (EPC), and the assessment of compliance with the criteria for participation in SEPA is undertaken by the same entity. The criteria for participation in SEPA have been developed to allow the financial community in countries outside the European Union to be able participate in SEPA schemes. More specifically, a central bank or similar entity may act on behalf of the national financial community to submit a request for participation in which the country's legal compliance with the SEPA participation criteria is also analysed. In the case of Albania, the application document will be submitted by the Bank of Albania.*

*The criteria in regard to ensuring equal conditions between the applicant and other participants of the SEPA scheme focus on compliance with EU legislation on payments. This compliance must be demonstrated either through effectively represented legal provisions or through equally binding market practices. These criteria do not require a strict application of relevant EU legislation, but the relevant provisions in domestic legislation must be considered substantially or functionally equivalent to the EU legislation.*

*The World Bank is assisting the Bank of Albania throughout this process, and has already performed a preliminary assessment of the need for legal amendments that will meet the criteria of compliance with the EU legislation. This assessment has shown that Albania is significantly advanced as in regard to the alignment the legislation. A very important development in this regard has been the Albania's delist from the gray list, an essential criterion for participation in SEPA. Through the National Committee of the Payment System, the banking system has also been informed on this initiative. The commitment of the banking system is very important for the success of this project since following the application by the Bank of Albania and the possible acceptance by the EPC and the European Commission, banks and non-banks will have to join the SEPA schemes individually.*

##### **Benefits from Albania's participation in SEPA**

*Albania is a country with a considerable high economic interaction with the European Union countries such as:*



- Import-export trade exchanges
- Revenues from labour and remittances
- Tourism, mainly from European Union countries
- Expansion of European companies in the Albanian market and vice versa

*For the development of these interactions as efficiently as possible, it is necessary to establish channels for the transfer of funds as proficiently as possible, both in terms of costs and time. One development that could support this objective is the accelerated membership in the Single Euro Payments Area (SEPA). This membership brings a number of real benefits to various economic actors and to the economy as a whole.*

*SEPA makes cross-border payments between member countries as simple and cheap as domestic payments. Participation in SEPA enables the implementation of the principle of equal fees for both national and cross-border payments processed electronically in euro.*

*Currently, transfers and payments with European Union countries and vice versa are carried out through correspondent banks, a costly and inefficient channel in terms of transaction execution time, monitoring of its finalization, transparency of working conditions and consumer protection. For consumers and businesses- simplicity, convenience and efficiency are three of the main benefits of SEPA membership, as Albanian citizens and businesses would make payments and transfers within one (1) market, avoiding intermediary banks.*

*In regard to the development of tourism, membership in SEPA facilitates European tourists to pay quickly and at low costs, as if they were in Europe or in their country of origin. For investments, the movement of funds and payments between Albania and the countries of the European Union for investment purposes becomes easier and less expensive. Finally, the creation of such a facility will increase the sending of remittances through formal channels from the countries of the European Union.*

The Bank of Albania has worked intensively for infrastructural developments through the "Upgrade of AIPS, AIPS Euro and AECH systems" project. This project aims to implement international processing standards (SEPA/ISO 20022), which increase the security of transactions and ensure uniformity in data exchange at the global level. The project implies improvements in the technical infrastructure to increase the security and efficiency of the systems operated by the Bank of Albania.

The Bank of Albania has taken important steps to implement the infrastructure for instant payments. "Instant payments" are credit transfers of retail payments available at any time and with near-instantaneous interbank settlement of the transaction.

In the role of reformer of payment markets and related infrastructures, the Bank of Albania has led the implementation of the action plan of the Albania National Retail Payments Strategy (2018-2023). The year 2023 was the last year of implementation in terms of regulatory improvements and new infrastructures. The measurable (quantitative) objectives of the Strategy have been met or exceeded.



## 2.8. INTERNATIONAL RESERVE MANAGEMENT

*The Bank of Albania is the national responsible authority for maintaining and managing the foreign reserves of the Republic of Albania. It uses its best opportunities to achieve and maintain a certain level of international reserve, conducive to Albania's financial stability, and in accordance with the monetary policy.*

During 2023, the gross international reserve, estimated and reported in the euro currency, grew by EUR 890.11 million, at EUR 5,846.06 million as at end of December 2023. The increase in foreign exchange reserves proves for a significant improvement of the country's solvency.

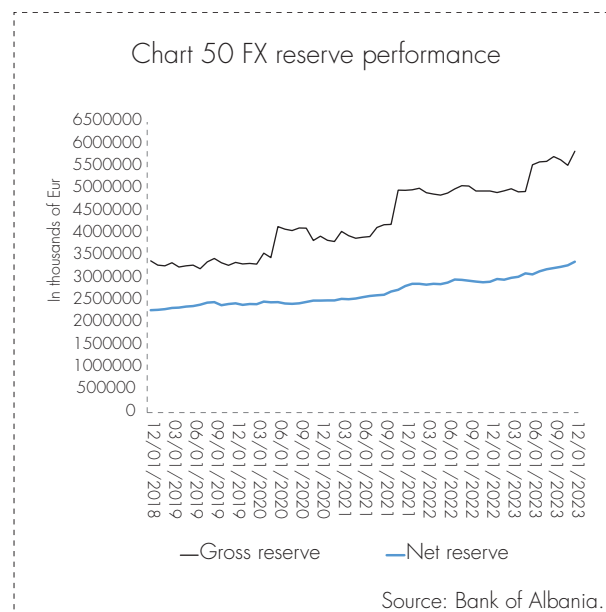
The regulation "On the policy and management of the international reserve", approved by the Supervisory Council, defines liquidity and security as the primary objectives of the exchange reserve management process. Ensuring returns from reserve funds management represents a third objective, as long as it does not infringe the objective for liquidity and security. The Supervisory Council also approves the qualitative principles and criteria for the development of international reserve management. In order to implement these criteria, the Investment Committee approves the quantitative indicators and follows the application of the investment policy through the periodical publications.

The Investment Committee approves the names of entities where foreign reserves may be invested. Allowed entities in which the international reserve is invested include the governments of the USA, Japan, United Kingdom, Canada, Australia and those in the euro area, which overall are rated at least A- (for the euro area governments the accepted minimum rate is BBB<sup>29</sup>). The entities allowed for investment also include agencies or institutions related to governments, multilateral institutions or other entities rated at least AA- (for banks/other financial institutions, the accepted minimum rate is A-).

At the end of December 2023, the stock of the gross international reserve is EUR 5,846.06 million, including monetary gold (about 108.59 thousand ounces or 3.38 tons).

### COMPOSITION OF THE INTERNATIONAL RESERVE PORTFOLIO BY CURRENCY

At the end of 2023, the composition of the gross international reserve by currency was: USD 16.9%; EUR 68.4%; GBP 2.0%; JPY 1.9%; AUD 0.8%; SDR 4.4%; Gold 3.5%; RMB 2.2%. The chart



<sup>29</sup> <sup>1</sup> Names / instruments listed up to BBB- are included in the category "For investment" (investment grade).

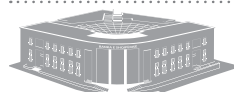
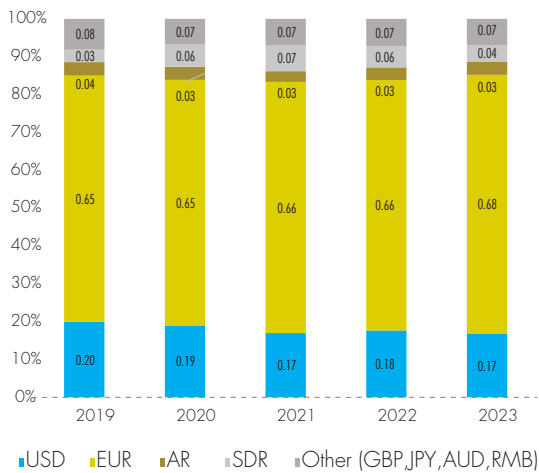


Chart 51 Composition by currency of the gross foreign exchange reserve



Source: Bank of Albania.

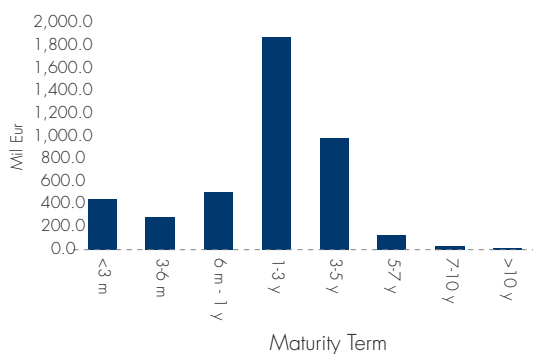
below shows the performance of the composition by currency of the gross foreign exchange reserve, where the euro currency continues to have the main share in the portfolio.

The exposure in AUD (Australian dollar) and RMB (Chinese renminbi) reflects the decision of the Supervisory Board to invest a part of the reserve according to the SDR basket. The share RMB is distributed onto two currencies, RMB and AUD, according to a ratio approved by the Investment Committee.

### COMPOSITION OF INTERNATIONAL RESERVE PORTFOLIO BY MATURITY TERM

The international reserve is invested in liquid assets, mainly with a maturity of 1 - 3 years. The share invested in debt instruments with maturity over 5 years has increased compared to the previous year, accounting for around 4% of the reserve portfolio invested in securities at the end of the year. This development reflects the increase in investment duration for the strategic portfolio as a result of the increase in interest rates. In the conditions of the significant growth of the reserve stock, the share of the stock invested in debt instruments has also increased. The share against the total stock of investment reserve has slightly decreased compared to 2022. The portfolio managed by the external administrator (World Bank) continues to be invested against a 1-3 year reference portfolio, mainly in debt instruments issued by the governments and government agencies.

Chart 52 Distribution of reserve by maturity of instruments\*



\*The chart does not reflect the funds held in the current account, as well as the part of the reserve in monetary gold and SDR. The balance of current accounts at the end of the year is about EUR 1.1 billion.  
Source: Bank of Albania.

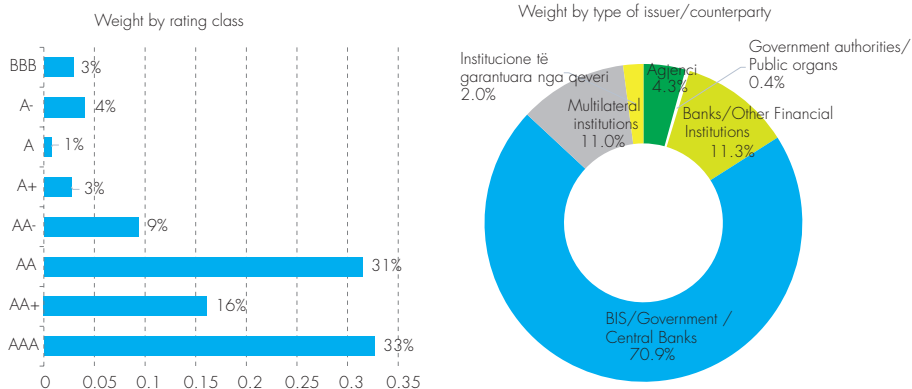
### COMPOSITION OF THE INTERNATIONAL RESERVE PORTFOLIO BY RATING AND TYPE OF ISSUER/ COUNTERPARTY

Around 90% of the international reserve portfolio resulted invested in names with high quality rating (class AAA and AA including exposures in current accounts). Exposures by type of issuer/counterparty are represented by governments/central banks (70.9%), followed by banks/other financial institutions (11.3%), multilateral institutions (11%), agencies (4.3%), institutions guaranteed by governments (2%) and government authorities/public bodies (0.4%).





Chart 53 Composition of the reserve portfolio by evaluation (left) and counterparty (right)



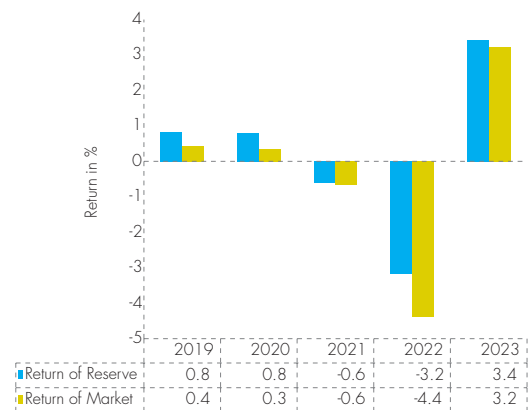
Source: Bank of Albania.

### RETURN ON THE INVESTMENT OF RESERVE PORTFOLIO

The absolute return of the total reserve for 2023, including the fund managed by the World Bank, was positive at 3.43 %. The return generated by active management of the reserve portfolio has been positive. Chart 43 shows the performance of the stock return against the market return, for comparison purposes.<sup>30</sup>

The positive return of the reserve portfolio came as a result of the increase in interest rates in the international market during 2023. Also, the size and pace of the interest rate growth were lower compared to 2022, which has enabled the achievement of stable income, un-jeopardised from capital losses that occur in case of significant and immediate increases of interest rate, such as in 2022.

Chart 54 Return of Foreign Exchange Reserve\*



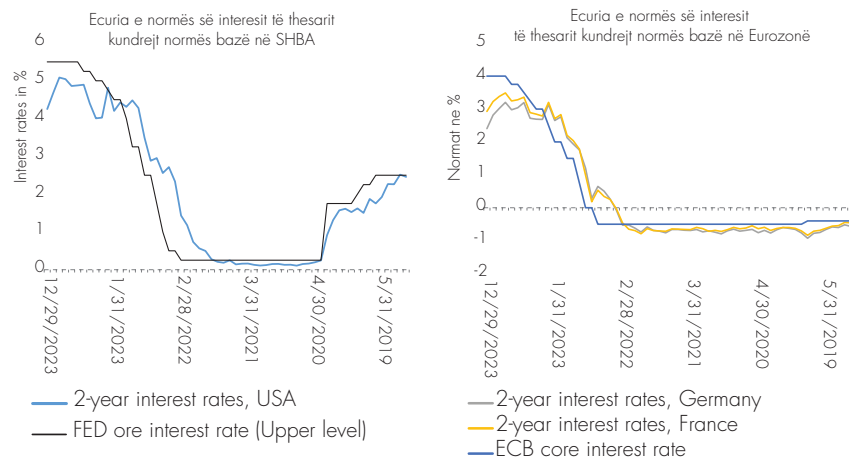
\*The return estimation does not account for the exchange rate effect.

Source: Bank of Albania.

<sup>30</sup> The market return reflects the aggregate performance of the markets in developed countries according to the share that the main currencies EUR, USD, GBP, JPY and AUD have in the foreign exchange reserve portfolio.



Chart 55 2-year interest rates for government issues with significant share in the reserve portfolio



Source: Bloomberg.

**OTHER DEVELOPMENTS RELATED TO THE INTERNATIONAL RESERVE**

In the framework of the periodic reassessment of the share of monetary gold in the foreign exchange reserves, at the beginning of February, the Supervisory Council decided to purchase 28 gold ingots (11,200 oz or about 0.35 tons of gold). Purchases of monetary gold were made during February – March/

Cooperation with the World Bank in the framework of Reserves Advisory and Management Program (RAMP) continued in 2023. The World Bank has continued to provide training and specialized education programs. These qualifications aimed at consolidating and increasing the level of professionalism of the employees engaged in the process of administering the foreign exchange reserve, of the staff that supports or monitors the progress of this process, as well as of the Bank’s staff in general.

In addition, the renewal or postponement of the deadline for some agreements that help the Bank of Albania to preserve the availability of the necessary liquidity, with the aim of preserving and supporting the financial stability of the country, has been carried out. The agreement based on Repo with the Bank for International Settlements was also renewed, for the amount of EUR 500 million. In support of liquidity needs is the Swap agreement with the People’s Bank of China, for the amount of RMB 2 billion.

Regarding the information technology infrastructure, during 2023, work began on drafting the Terms of Reference (requests and accompanying documents) for obtaining a new system that will support the activities carried out by the Department of Monetary Operations for the purpose of foreign reserve management, the implementation of monetary policy by the Department of Payment Systems and Accounting and Finance for the purposes of Payment and Transfer Service. The Bank of Albania relies on the technical assistance of the



World Bank for the drafting and evaluation of the requirements from the new system in function of foreign reserve management. For the requirements of the new system for the implementation of monetary policy and the payments and transfers service, the main support is the experience created over time by the institution itself.

## BOX 8

### FLAWS AFFECTING INTERNATIONAL RESERVE IN 2023

The main factors that have impacted the gross foreign exchange reserves are grouped below:

- Transactions with the Ministry of Finance provided a positive impact, estimated at EUR 308.83 million, according to the following items:
  - Inflows from grants and from extension of various loan EUR 448.88 million;
  - Inflows from debt issuance in the foreign market amounted at EUR 593.46 million
  - Transfers (outflows) for debt service and other at EUR 733.51 million.
- The transactions of commercial banks and other entities had a positive impact amounting at EUR 192.29 million, according to the following items:
  - transfers from commercial banks to their account at the Bank of Albania to fulfil the required reserve, to manage the balance sheet exposures, etc. at EUR 4,580.04 million;
  - transfers from commercial banks at the amount of EUR 4,387.71 million;
  - net outflows for the account of other entities (IDA, etc.) at EUR 0.04 million;
- The transactions of the Bank of Albania had a positive impact at the amount of EUR 317.61 million, according to the following items:
  - net purchase of foreign currency by commercial banks and other institutions at EUR 262.01 million:
    - o from commercial banks EUR 251.30 million;
    - o from the Ministry of Finance and Economy EUR 7.80 million;
    - o from other institutions EUR 2.91 million;
  - Inflows from interests, coupons, etc. calculated on a cash basis) created by the investment of the foreign exchange reserve, calculated EUR 65.66 million;
  - Transfer at EUR 10.06 million.
- Market factors provided a positive impact in the amount of EUR 71.38 million, according to the following items:
  - fluctuations in the exchange rate of the currencies constituting the foreign exchange reserve have negatively affected the value of the gross reserve reported at the amount of EUR 41.83 million;
  - the revaluation effect for the portfolio, as a result of interest rate fluctuations, is calculated at a positive value of EUR 113.21 million<sup>1</sup>.

<sup>1</sup> This value contains also the impact created from the payment of coupons and securities and is corrected for transactions of purchase/sale/maturity of securities on cash basis.



## 2.9. STATISTICS

*In accordance with the provisions of the Law “On the Bank of Albania”, the Official Statistics Program and the Law on Official Statistics, the statistics of the Bank of Albania aims at compiling impartial, objective and reliable statistics in compliance with the legal objectives of the Bank of Albania, as the central bank of the Republic of Albania and a statistical agency within the National Statistical System.*

The Bank of Albania is a producer of statistics mainly related to financial markets, financial institutions and financial infrastructure. In this context, the development of monetary and financial statistics and those of the external sector of the economy is a fundamental responsibility of the Bank of Albania, for the purposes of its objectives, and for enhancing transparency and communication with the public. The set of statistics produced by the Bank of Albania, accompanied by the relevant methodology, are found on the official website of the Bank, in the Statistics section.

In the framework of the EU integration and membership in the European System of Central Banks, the Bank of Albania aims to create a national statistical framework that can be integrated into the European statistical framework and rely on modern IT infrastructure and qualified specialists. In this regard, work has been carried out on the development of new statistical indicators and reports, in parallel with the alignment of existing ones. Also, the publication of detailed statistical indicators has begun pursuant to the time frame provided in the Data Transmission Program at Eurostat. In recent assessment, the European Commission confirms the high compliance of the external sector statistics transmission with the *acquis communautaire*. The Bank of Albania has been selected to join the IMF Financial Access Advisory Committee. This assessment reflects our active commitment in global efforts to measure and identify gaps in the financial inclusion of the population.

Furthermore, in response to the increasing importance of green finance, our strategic efforts in this area are evident through the drafting of the Green Finance Strategy and the work in identifying indicators and building the Greendashboard. These climate-related data are crucial for microprudential and macroprudential supervision.

**With the focus on and for the purposes of the methodological alignment of statistics with international standards and their harmonization according to the *acquis communautaire*, the following has been achieved:**

1. Implementation of the medium-term strategy of the ESCB (European System of Central Banks) and international organizations for the balance of payments and statistics of the international position and direct investments.



The Bank of Albania actively engages in technical working groups representing member countries and collaborating closely with the IMF and Eurostat, in terms of evaluation of statistical indicators and adaptation of new methodologies, arising from changes in the international standard of drafting the balance of payments (IMF, BPM6), as well as the finalization of the data reporting framework for member countries.

2. Reporting to Eurostat on quality reports for balance of payments statistics/international investment position statistics, financial and monetary indicators and financial accounts

The implementation of the new data quality requirements aligns with the public commitment to harmonize with the quality standards and structure of the European Statistics of the European System of Central Banks, in accordance with the suggested content and the ECB/EUROSTAT standard. During 2023, there was an increase in data transmitted to Eurostat for foreign direct investment statistics and financial accounts.

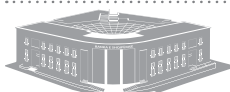
3. Harmonization with the regulatory framework of the European Central Bank, regarding the balance sheet of other financial institutions

The ECB's regulatory framework regarding the reporting of the balance sheet of pension funds, other financial institutions and insurance companies has been fully adapted. Pursuant to the Memorandum of Cooperation between the Bank of Albania and the Financial Supervision Authority, in order to implement these three regulations, data reporting forms will be collected by the AMF and will be sent to the Bank of Albania according to the specified calendar.

This regulatory basis, along with the Supervisory Council Regulation (48/2017) "On interest rate statistics reporting at the Bank of Albania", and Supervisory Council Regulation (73/2021) "On balance sheet items of credit institutions and monetary financial institutions reporting at the Bank of Albania" complete the basic framework for statistical information as a function of monetary policy decision-making in the Bank of Albania, in accordance with the standards of the European Central Bank.

4. Implementation of the European Central Bank's Guidelines for reporting on quarterly financial accounts (ECB/2013/24)

Significant improvements were made in terms of the timeliness and quality of financial accounts during the year, as part of the implementation of ESA2010 and ECB determinations. The "from who to whom" presentation of the financial flows of each sector of the economy has been completed. The consolidation and finalization of quarterly data for the General Government sector follows -



closely related to the progress of the drafting and reporting to Eurostat of the EDP (Excessive Deficit Procedure)<sup>31</sup>.

5. Compilation of government finance statistics in accordance with the ESA2010 standard

In 2023, qualitative improvements have been achieved in the field of government finance statistics, with ongoing work to align existing statistical indicators with Eurostat's methodological standards. The compilation of Government finance statistics, in accordance with the ESA2010 standard, is a product of interinstitutional cooperation and is supported by the IMF through the project "On Government finance statistics - Excess Deficit Procedure (EDP) and Government financial accounts according to methodological and international standards best practices".

The Excessive Deficit Procedure (EDP) is the basic instruments through which the EU fiscal policy framework is implemented, which derives from the Treaty on the Functioning of the European Union (TFEU).

Intensive work was carried out on the compilation of quarterly government data (Tables 27 and 28 of the EDP for Eurostat), which made it possible to fulfil the obligation of transmission to EUROSTAT, specifically from the Bank of Albania (financial accounts) and INSTAT (non-financial accounts).

Likewise, for the first time, drafting and transmission of annual data was carried out to EUROSTAT, for the General Government sector including extra-budgetary units, for the time period Q1 2010 - Q2 2023.

6. Implementation of the strategy for the supervision of climate-related financial risks in the financial sector within the framework of the green finance project.

During 2023, within the framework of the strategy "On the administration and supervision of climate-related financial risks in the financial sector" for the time period 2023-2025, progress has been made towards compiling the panel of indicators that allow for more in-depth research and analysis on climate-related risks and the banking sector's exposure to them.

7. Increasing reliance on survey resources along with participation in international research networks

The household Finance and Consumption survey and the Survey on the Access to Finance of Small and Medium-sized Enterprises are alternative sources of

---

<sup>31</sup> EDP - The excessive deficit procedure represents an important statistical building block for monitoring the health of public finances in Member States and candidate countries in terms of compliance with the two Maastricht criteria: the government deficit-to-GDP ratio and the public debt-to-GDP ratio which do not exceed the reference values of 3% and 60% respectively.



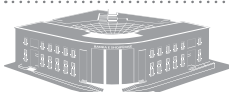
information. The Household Finance and Consumption Survey is conducted by most central banks in EU member states to assess the effect of financial shocks on households, to achieve a better understanding of the household financial decision-making and behaviour, to assess the effects of social, tax, educational policies, and others, as well as research on poverty and inequality. This survey is based on a standardized methodology developed within the ECB Household Finance and Consumption Network. The Bank of Albania conducted the Survey on the Access to finance of small and medium-sized enterprises, which examines the financial needs of this segment of the economy and the obstacles it faces.

8. Harmonization with international standards (IFRS and bank accounting) of regulatory reporting for banking supervision, in accordance with EBA's ITS for regulatory reporting.

Intensive work is done on the adoption of the common framework of the financial reporting standards of banks (FINREP) according to the EBA standard. The process is assisted by FINSAC.

9. The bank completed the range of financial stability indicators with new indicators for the IMF transmission, as well as it continued to participate in the Access to and Use of IFM financial services Survey.
10. The development of an integrated data system is one of the most important objectives in the statistical production domain at the Bank of Albania.

Creating an integrated data system increases data speed and accessibility, laying the groundwork for advanced analytics and artificial intelligence applications.



## 2.10. RESEARCH

*The Bank of Albania aims to base its decision-making process on the solid foundation of a body of knowledge on the Albanian economy. Investment in creating solid research capacities contributes to improving the Bank of Albania's qualitative work, reputation and credibility as an institution with the relevant methodologies and required knowledge to guarantee the macroeconomic equilibriums of Albania. Therefore, the active development of scientific research assumes a primary role in the Bank of Albania's development strategy.*

The focus of scientific research at the Bank of Albania in 2023 was the analysis and exploration of economic and financial phenomena in the function of monetary policy and financial stability. Other research efforts were directed towards important issues, such as: green finance and the challenges of the banking system in coping with unexpected climate-related risks; improving financial education and inclusion in the country; on international and development economics. In compliance with the medium-term scientific research strategy, research continued to support the decision-making process for formulating and implementing the Bank of Albania's policies, through the establishment of the needed statistics and the enrichment of the economic models portfolios by employing the new tools and techniques provided by artificial intelligence.

In the function of monetary policy decision-making and financial stability, research projects continued to pay special attention to economic analyses on the challenges presented by the potential consequences of global warming. Three studies have focused on their macro-financial implications in Albania and the region, as well as on the role of financial institutions in the context of risk management resulting from climate change. As climate change increases in frequency and severity, it is crucial to understand their impact on economic growth, price levels, and financial stability. Our studies in these areas have revealed that extreme weather events are correlated with significant output contraction, increased vulnerability in the financial system, and inflationary pressures. To mitigate the potential damage, significant structural transformations and investments are needed to position the Albanian economy on a sustainable path. This is achieved by an involvement and coordination of all private and public institutions.

Research projects on monetary policy focused on credit analysis, on assessing the long-term relationship between demand and supply for loans to enterprises and monitoring financial conditions and their implications for the monetary policy transmission chain. Their analysis concludes that there is a strong long-term relationship between loan demand and supply and macro-financial indicators such as economic confidence, liquidity conditions, opportunity costs, spreads, bank competition and prudential behaviour, and exchange rate movements.

Within the framework of the cooperation agreement of the Bank of Albania with the London School of Economics (LSE), work continued on two projects which





analyse the financial fragility of households in the Western Balkan countries and Albania and which have implications for financial stability. To analyse the distribution of fragile households in six countries of the Western Balkans, one of them uses data from the third round of the EBRD (2016) survey, "Life in Transition." The results show that almost half of the households in the Western Balkans found that they could not afford unexpected expenses.

For several years now, the Bank of Albania has paid particular attention to the challenges posed by the education and financial inclusion of households for the efficiency of the transmission of monetary policy. The latest report presents the results of the Survey of the Financial Literacy of Adults in Albania, conducted by the Bank of Albania, during 2023. The financial literacy index of adults in Albania shows improvements compared to the past, reaching the level of 59 points (out of 100 which is the maximum) in 2023. This rating is 4 points lower than the average index across OECD countries.

Other research projects have focused on international economics and development, demographic trends and their impacts, and the development of new and essential statistics. Research on measuring the benefits of economic and financial integration between Albania and Kosovo concludes that a more complete integration brings further benefits for both countries. The study on the characteristics of Albanian migration and the negative effects accompanying these trends concludes that public policies must adapt and target structural changes to address the reduction of human capital in the labour market and minimize the negative effects in Albania. Within the framework of the creation of the statistics necessary for economic analyses, work was done on the creation of a database on the activity of banks in the period 1944-1990 and on the construction of a national index of rental prices.

These and other studies have become the subject of discussion in the activities and conferences organized by the Bank of Albania or other institutions, where comments and observations have been provided for their further improvement. In this framework, Bank of Albania, on 4-5 December 2023 organised the "17th Regional Research Workshop in South-East Europe". This scientific research activity aims to serve as a discussion forum for research papers on economic and financial issues and promote the exchange of views among researchers from the Bank of Albania, other central bankers, academia in the region and beyond.

More complete and detailed information on the research papers of the Bank of Albania is found on the official website of the Bank of Albania in the sub-category "Publications/Researches and Working papers". Other research works are published as articles in the "Economic Review" of the Bank of Albania. The semi-annual magazine "Scientific novelties at the Bank of Albania" provides information about newly completed research materials, about those in process, materials presented in the "Friday Seminars", and on other activities organized by the Bank of Albania throughout the year.



## 2.11. EUROPEAN INTEGRATION AND INTERNATIONAL COLLABORATION

*The Bank of Albania has continued to contribute to the fulfilment of the obligations stemming from the opening of membership negotiations in the EU, the Stabilization and Association Agreement, the Progress Reports of the European Commission, joint EU-Albania subcommittees and the National Plan for European Integration. It chairs two Inter-institutional Work Groups for chapter 2 of the acqui.*

Following the opening of negotiations on 19 July 2022 and the organisation of the First Intergovernmental Conference between Albania and the EU, bilateral screening meetings for each chapter of the acqui were held during 2023 between Albanian delegations and representatives of the European Commission (EC). This process concluded by highlighting existing legal and institutional gaps compared to the EU framework for each chapter. In these meetings, plans for further alignment with the EU were presented by satisfying the criteria of each negotiating chapter. Following the conclusion of the Meetings in November 2023, the European Commission is expected to approve a screening report for each chapter. Currently, the first Screening Report for the "Essential" Group-chapters has been submitted.

The Bank of Albania, as the leading institution for Chapter 4 - Free movement of capital and Chapter 17 - Economic and Monetary Policies, has been maximally engaged preparing the bilateral meetings held in 15 February and 15 June 2023. In this regard, the Bank of Albania has coordinated the work with the contributing institutions, in collaboration with the Office of the Chief Negotiator. Also, the Bank of Albania has contributed in the bilateral meetings related to the other chapters such as Chapter 9 – Financial Services; the Economic Criterion Chapter; Chapter 32 – Financial Control; and Chapter 18 – Statistics, Chapter 28 – Consumer’s protection, as well chapters 24 and 20. In these meetings, around 35 representatives from the Bank of Albania have been engaged as speakers, supporters, technical secretariat, introducing above 20 presentations.

The Bank of Albania is regularly represented at the annual high-level meeting of the Stabilization and Association Committee and in the meetings of two subcommittees: 1) Domestic Market and Competition and 2) Economic, Financial and Statistical Issues, as well as Economic and Financial Dialogue between the EU and Western Balkan Countries and Turkey. In the above mentioned meetings, issues such as drafting and implementation of monetary policy, financial stability, indicators and developments of the banking sector, financial inclusion of the population, etc. were discussed at the political and technical level.

In November 2023, the European Commission submitted to the Albanian authorities the Progress Report 2023. The report commends the work of the BoA in terms of drafting and implementing its monetary policy, which is considered



appropriate and effective. Also, the report commends the BoA's work in the direction of maintaining financial stability and the approximation of legislation in the field of supervision and payment systems.

In chapter 4, Albania is prepared at an average level in the field of the free movement of capital. In this chapter, the progress focuses on the implementation of the Moneyval recommendations and the Financial Action Task Force action plan (FATF). In October, Albania was taken off from the grey list. Progress has also been made in further aligning national legislation on payment systems with the EU acquis, in particular in the area of the Electronic Money Directive, the Payment Accounts Directive and financial education.

In Chapter 17, Albania ranks between a moderate and good level of preparedness in the area of economic and monetary policy. The Bank of Albania's governance and monetary policy were considered adequate and effective in dealing with the crisis caused by Russia's aggression against Ukraine. Albania has made progress on last year's recommendations to improve government policy coordination and consultation mechanism with non-governmental stakeholders, on aligning public and national accounts with ESA2010 and on announcements on the excessive deficit procedure.

#### **RELATIONS WITH THE INTERNATIONAL MONETARY FUND**

The Republic of Albania continues to have SDR 139.3 million quotas (0.03% of the total) and owns 2,858 votes or 0.06% of the total amount of the votes of all members of the IMF. It is in the same constituency with Italy, Greece, Portugal, Malta, and San Marino. The total amount allocated and disbursed up to 31 December is SDR 211.14 million.

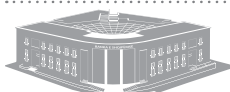
Albania's relations with the IMF continue to be focused on Article IV consultations. On 12 January 2024, the Executive Board of the IMF concluded the Article IV consultations with Albania, at the end of which it published the assessments on the performance of the Albanian economy and made the relevant recommendations.

#### **RELATIONS WITH THE WORLD BANK GROUP**

The World Bank Group began working in Albania in 1991 and has supported projects aimed at alleviating poverty and providing funds for long-term, sustainable development. Albania is part of the constituency composed by Greece, Italy, Portugal, Malta and Timor-Leste. The total amount of loans extended by the World Bank Group is USD 490 million and that of grants is USD 1.6 million<sup>32</sup>.

The World Bank has supported the Bank of Albania in the field of payments, foreign exchange reserve administration, financial supervision, resolution, statistics, cybersecurity, education and financial inclusion, etc.

<sup>32</sup> Information from the official website of the World Bank Group for Albania, updated October 2023.



### **TECHNICAL COOPERATION**

During 2023, the EU continued to finance the implementation of the second phase of the program “Strengthening the capacities of the central banks of candidate countries and potential candidates for EU membership from the Western Balkans” through its Instrument for Pre-Accession Assistance. This program supports central banks and supervisory agencies in countries that are focused on the program to further strengthen institutional capacities, through the further improvement of their analytical and policy instruments based on the best international standards.

The Bank of Albania engaged in the trainings sessions hosted by the European Central Banks and benefited from their experience in the fields of communication, payment systems, monetary policy, information technology, internal audit, banking supervision, green finance, etc. A bilateral agreement has been signed between the Bank of Albania and the Bank of Spain regarding legal services.

### **OTHER ACTIVITIES**

- On 28 March 2023, the Governor of the Bank of Albania, Mr Gent Sejko, invited by the London School of Economics and Political Science (LSE), delivered a public lecture on “Dealing with Shocks at the Gates of EU: New Policy Instruments & The Role of Central Banks”. This lecture was organised in the framework of the long-standing cooperation between the Bank of Albania and the London School of Economics and Political Science (LSE) and was attended by international experts in economy, academic body of the University, as well as by foreign and Albanian students studying at LSE. The Governor discussed the economic and financial challenges faced by the small and open regional economies in Western Balkans, particularly in Albania, in their path toward the European Union (EU) and the implications such challenges pose to the monetary and financial policies undertaken by the relevant central banks.
- On 22 June 2023, the Governing Board of the Centre of Excellence in Finance (CEF) convened the annual meeting at the premises of the Bank of Albania, to review achievements, discuss future plans, and promote learning for stronger public institutions. Governing Board is a decision making body of the CEF. Members of the Board comprise ministers of finance and governors of central banks from the CEF members.

### **PARTICIPATION IN INTERNATIONAL CONFERENCES, FORUMS AND SEMINARS**

- On 10-11 January 2023, the Governor of the Bank of Albania, Mr Gent Sejko, attended the Central and Eastern Europe (CEE) Forum – an annual Euromoney event that brings together renowned academic, economic and financial figures from CEE countries – to discuss the latest economic developments in Southern and Eastern Europe.



- On 28 February 2023, the Governor of the Bank of Albania, Mr Gent Sejko, attended a discussion meeting focusing on access to finance in Albania, organised by the World Bank Group. The meeting was also attended by executives of commercial banks, experts of the financial sector and representatives from financial institutions in Albania. The meeting took place in the framework of the collaboration of the World Bank with the Ministry of Agriculture and Rural Development, for the preparation of a supportive project concept for the financing of agriculture.
- On 10 March 2023, the Governor of the Bank of Albania, attended the International Monetary Fund/World Bank Group constituency meeting, which took place in San Marino. In this meeting, central bank governors and ministers of finance from the constituency member countries discussed the recent developments in the global economy and in the respective economies. This meeting focused particularly on the challenges of post-COVID recovery and the geopolitical tensions.
- On 12-15 April 2023, the Governor of the Bank of Albania, Mr Gent Sejko, attended the Spring Meetings of the International Monetary Fund (IMF) and the World Bank Group (WBG) in Washington D.C., USA. Each year, the Spring Meetings bring together central bank governors, ministers of finance of member states, senior officials of international financial institutions, and representatives of academia, business and civil society.
- On 29-30 May 2023, the First Deputy Governor of the Bank of Albania, Ms Luljeta Minxhozi, attended the 10th regional summit held in Bečići, Montenegro. This annual summit brings together executives of central banks of Montenegro, Macedonia, Bosnia & Herzegovina, Croatia, Kosovo, Serbia, as well as ministers of finance and tax directors from the countries across the region.
- On 26 September 2023, the Governor of the Bank of Albania, Mr Gent Sejko, attend the Economy Ministerial Forum of regional countries hosted in Tirana, in the framework of the Berlin Process. The discussions in this forum were greeted by the Prime Minister of Albania, Mr Edi Rama and the representatives from the European Commission and the Organisation for Economic Co-operation and Development (OECD). Governor Sejko participated in the third session panel of Governors, and provided his comments on: "The integration of regional payment systems to facilitate trade exchanges and the preparation of the Western Balkan economies for the euro area membership".
- On 5-6 October 2023, the Governor of the Bank of Albania, Mr Gent Sejko, had an official visit at the Central Bank of the Republic of Kosovo, as the Governor participated in the International Scientific Conference on "Economic Cooperation: Challenges and Perspectives among Kosovo, Albania and the region", organized in Pristina, by the Academy of Sciences and of Arts of Kosovo (ASAK) and the Academy of Sciences of Albania (ASA).
- On 12-15 October 2023, the Governor of the Bank of Albania, Mr



Gent Sejko, attended the 2023 Annual Meetings of the International Monetary Fund (IMF) and the World Bank Group (WBG), which took place in Marrakech, Morocco. These meetings represent a high level forum which brings together the most senior decision-makers of the IMF and the WBG, governors and ministers of finance of the member countries in these international financial institutions, to discuss issues of global concern.

- On 30 October 2023, the Second Deputy Governor of the Bank of Albania, Ms Natasha Ahmetaj, attended the 6th Workshop on Resolution planning and meeting the MREL requirements, organised by the European Bank for Reconstruction and Development (EBRD) and Raiffeisen Bank International. This annual forum takes place under Vienna Initiative umbrella and gathers European regulatory authorities, those in Balkans and investors engaged in financing MREL instruments.
- On 8 November 2023, the Bank of Albania in collaboration with the World Bank hosted the High-Level Forum on "Climate, Macroeconomy, and Finance: Navigating Risks and Driving impacts". The Forum, organised under the auspices of the Governor of the Bank of Albania, Mr Gent Sejko, brought together in a discussion panel representatives from European central banks, international financial institutions, prominent experts, policymakers and economists, with the main goal to involving various actors in a dialogue regarding the challenges from climate change and its impacts on macroeconomy and finance.
- On 16 November 2023, the First Deputy Governor of the Bank of Albania, Ms Luljeta Minxhozi, attended the High-Level Workshop on the payment systems developments, organized by the European Central Bank (ECB) in Frankfurt, Germany. This workshop was organised in the framework of the "Programme for Strengthening the Central Bank Capacities in the Western Balkans. The ECB presented how the Euro system adopts the mandate related to it.
- On 4-5 December 2023, the Bank of Albania organized the 17th Economic Research Workshop for Southeast Europe. This year's themes covered various areas such as monetary policy and financial stability, climate change, digitalization, finance and households' financial inclusion.

### **MEMORANDUMS OF COOPERATION**

On 19 June 2023, the Bank of Albania hosted the ceremony on signing the Memorandum of Understanding between the Bank of Albania and the State Secretariat for Economic Affairs (SECO) regarding the implementation of the third phase of the bilateral assistance and capacity development for central banks programme (BCC Phase III: 2023-2028). This new phase focuses on new macroeconomic and financial challenges that are determined by specific geopolitical conditions, the rapid developments in digitization and financial innovation. These developments trigger significant challenges both for the authorities and the society. The latter should know, understand and use these



instruments, but at the same time, cushion themselves from the risks that come with the rapid and furious development of technology.



## 2.12. TRANSPARENCY AND PUBLIC COMMUNICATION

*Public communication is an important pillar in Bank of Albania's activity, in fulfilling its obligation to provide maximum transparency in its decision-making and increasing its effectiveness, through strengthening its credibility. In this framework, for the Bank of Albania the interactive communication with the public is a primary issue of strategic importance, to transmit its activities correctly and in a comprehensive manner to the public.*

### AN OPEN AND TRANSPARENT CENTRAL BANK

Beyond legal obligations, the Bank of Albania communicates a variety of information to the public regarding its role and activity, ranging from the decision-making of the Supervisory Council to its daily operational activity. This transparent communication helps increase the effectiveness of policies pursued by the Bank of Albania, allowing the public to understand decisions in a timely and clear manner. Communication to the public over 2023 aimed at informing on the measures adopted by the Bank of Albania for the normalisation of monetary policy and the return of inflation to the target.

The monetary policy decision-making is based on a periodic cycle of analyses, forecasts and assessment defined in an annual calendar of 8 meetings of the Supervisory Council. A press conference with the Governor is held after each meeting. Its aim is to explain the decision taken by the Supervisory Council and the analysis used to corroborate this decision, to the public. Press conferences were followed by publication of the Governor's speeches, and related Q&A in Albanian and in English. Also, after each meeting, a brief summary of key decisions taken by the Supervisory Council of the Bank of Albania was published. All public decisions of the Supervisory Council, as well as orders or acts of the administrators, applicable by entities licensed by the Bank of Albania, were fully published in the Official Bulletin of the Bank of Albania.

The Bank of Albania's communication was completed with regular reports, surveys, analyses, evaluations and opinions on the country's macroeconomic situation and the Bank's role in supporting it. Communication with the media has been ongoing through press conferences, speeches, presentations and announcements in activities organized by the Bank of Albania or other institutions. This includes dedicated interviews, participation in television shows, and expressing positions of public interest, or other activities by the Governor as well as other representatives of the Bank of Albania. These communication formats have resulted in 170 products and 7 "off the record" presentations of periodic reports. To increase interaction with the public, digital communication has continued on Twitter, Facebook, YouTube, Flickr and LinkedIn, disseminating the activity of the Bank of Albania in a quick and complete time.





## BOX 9

## ACTIVITIES WITHIN THE COUNTRY

- On 8 February 2023, the Bank of Albania organised the Fourth Conference of the Museum of the Bank of Albania on: "The Medieval, the forerunner of a well-organized monetary system". In his greeting speech, Governor Sejko highlighted that this Conference is one of the most prominent events of the Museum, as it helps to enrich and further the study of the exposed collections, and serves as a platform for experts to discuss and share their research findings.
- On 8 May 2023, the Governor of the Bank of Albania, Mr Gent Sejko, held a meeting with the representatives of business associations of exporters to discuss the concerns raised by them regarding the strengthening of lek against the euro. This meeting was held in the framework of cooperation and round-table discussions to keep them informed and bring forth alternatives and instruments which could be coordinated with the financial industry.
- On 13 July 2023, the Bank of Albania held a roundtable with the Supervisory Board of the Albanian Association of Banks and executives of commercial banks that operate in Albania. The meeting was organized on the initiative and chaired by the Governor of the Bank of Albania, Mr Gent Sejko, in view of building a continuous dialogue and bolstering the cooperation with the banking system.
- On 13 December 2023, the National Payment Systems Committee (NPSC) held its 9th meeting, chaired by Ms Luljeta Minxhozi, First Deputy Governor of the Bank of Albania. In her speech, Ms Minxhozi emphasised the fulfilment of the objectives outlined in the Action Plan set forth in the National Retail Payments Strategy. In this framework it was achieved the alignment of our regulatory framework with that of the European
- On 18 December 2023, the Governor of the Bank of Albania, Mr Gent Sejko, met with renowned publicists, experts of politics and economy, journalists and representatives of the print and electronic media on the occasion of the traditional end-of-year event. By the end of this activity, the three winners of the "Governor's Award for the Best Diploma Thesis 2023" were announced. The first prize was awarded to Ms Aurora Kapo, student at the University of Van Amsterdam, The Netherlands on: "Narrative economics: Central Bank Communication and Inflation Expectations"; the second prize was awarded to Mr Virjosin Stafasani on: "The relationship between Market Efficiency, Expected Return and Volatility in the Stock Market", a student at the University of Greenwich, England, and the third prize was awarded to Ms Krista Kozmai, student at the European University of Tirana, on "Fear of the floating exchange rate, case of Albania".

## A RESPONSIBLE AND ACCOUNTABLE CENTRAL BANK

As an independent institution, the Bank of Albania aims to inform citizens, and in particular the Parliament, on all its activities. Institutional relations with the Assembly develop in several directions, where the most significant ones are the Governor's hearing sessions to the Parliamentary Commission of Economy and Finance (CEF) and plenary sessions of the Assembly. In May 2023, the Governor presented the Annual Report of the Bank of Albania to CEF



and after, in June to the Assembly of Albania, responding to MP's interest in related matters. As every year, the Governor presented in November 2023, in a special hearing session to the CEF, the opinion of the Bank of Albania regarding government' draft-budget for the upcoming year (2024).

More comprehensive and up-to-date information on the financial and economic situation as well as on main macroeconomic developments, and the role and the contribution of the Bank of Albania in this regard, can be found on the official website, [www.bankofalbania.org](http://www.bankofalbania.org). In 2023, the Bank of Albania continued its regular update of its website, which had around 3 million visitors, and browsed in total around 9.7 million sections. Our website is constantly enriched with a broad statistics system for many sectors of the Albanian economy, such as the banking sector, the fiscal sector, the real sector and the external sector, which are published according to a defined schedule that is updated semi-annually. Bank of Albania publications provide detailed and updated information on developments, in Albania and globally, in banking and financial systems, currency and financial stability, amendments and enrichment of banking legislation and its regulatory framework.

Periodic and non-periodic publications, in 2023, consisted of about 3100 pages of analyses, statistics and research in both Albanian and English. The set of periodic reports was the same as in the previous year: Annual Report, Quarterly Monetary Policy Report (quarterly), Financial Stability Report (semi-annual) and Supervision Report (Annual). In addition to periodic reports, the following were published with the Official Bulletin (depending on the meeting of the Supervisory Council): the semi-annual Economic Magazine of the Bank of Albania, the semi-annual magazine "Research newsletter", as well as various study and educational papers.

In order to inform the public, the Bank of Albania informs its citizens in writing or in electronic form, depending on how they want to receive this information. In 2023, 40 official requests addressed to the coordinator were answered. A total of 1630 correspondences with departments within the Bank of Albania and the general public for information, or with complaints and questions regarding the banking system, were received by the Bank's official contact address at [public@bankofalbania.org](mailto:public@bankofalbania.org).



## 2.13. FINANCIAL EDUCATION

Public financial education is a significant part of the activity of the Bank of Albania. It is realised through educational activities and programmes, visits at the Museum, exhibits, as well as well as special publications. Two are the main goals of the activities prepared by the Bank of Albania: presenting the central bank, its functions and role to the public; and cultivating and strengthening financial literacy in the Albanian society.

### ***BANK OF ALBANIA'S STRATEGY ON FINANCIAL EDUCATION AND INCLUSION***

In 2023, the strategy of the Bank of Albania on financial education and inclusion was drafted as the first institutional document that promotes financial literacy, for boosting financial inclusion, prosperity and stability.

This Strategy is based on: the existing multi-year efforts of the Bank of Albania in the field of financial education; the results of the Survey for the Measurement of Financial Literacy and Inclusion; and the Map of Financial Education Initiatives in Albania. This strategy aims to ensure that Albanian households acquire the knowledge, master the skills, maintain their positions and develop the appropriate, adequate and applicable behaviours that would enable them to make well-informed financial decisions, with the ultimate goal of improving their well-being and their financial sustainability.

The main objectives encompassed in this strategy are: i) the well management of personal finances and sound borrowing; ii) planning and saving for the future; iii) prevention and consumer protection. To achieve these objectives, the Bank of Albania will be based on the following strategic principles: a) initiatives for a broad public; b) increasing the use of impartial means and sources of financial information, directed mainly to vulnerable segments of the population; c) provision of personalized and quality guidance and counselling; d) search for synergies in the organization of joint activities and programs with other institutions; e) improvement of monitoring and evaluation BoASFEI was reviewed and approved by the Supervisory Council of the Bank of Albania on 24.1.2024.

### ***THE FOURTH MEASUREMENT OF FINANCIAL LITERACY AND INCLUSION OF THE ALBANIAN CITIZENS***

In June 2023, according to the methodology developed by OECD/INFE, the Bank of Albania conducted the fourth round of its survey for measurement of financial literacy and inclusion of the Albanian citizens.<sup>33</sup> The collected data will serve to study the progress of its main component indicators: financial knowledge, behaviours and attitudes, but also financial inclusion; to better identify areas and needs for intervention through financial education programs.

<sup>33</sup> The survey has been carried out since 2011, with a periodicity of 4 years.



This survey's novelty lies in its data on the digital financial literacy, stability, and financial well-being of the population.

### *THE MUSEUM OF THE BANK OF ALBANIA*

The National Council of Museums approved, after 9 years of valuable contribution to the numismatic and banking history of our country, in October 2023: the recognition and registration of the Museum of the Bank of Albania in the National Register of Museums of the Republic of Albania.

During 2023, the Museum was visited by about 4600 visitors. Visiting the Bank of Albania Museum has become integrated into the educational curriculum or even leisure time for elementary-school students, high schools and university students. At the Museum's IV conference held in February with the theme "The medieval, the forerunner of a well-organized monetary system", the scientific works were presented by researchers from the Academy of Sciences of Albania, the Institutes of Archaeology and History, professors from the University of Tirana, as well as museum employees, experts, researchers in the field of museology and education.

In the International Day of Museums in May, the Museum of Bank of Albania remained open to the public with extended hours and without limits on visitors' numbers. Two temporary exhibitions were inaugurated in the Museum premises: "The Bank of Naples 85 years ago in the documents of the General Directorate of Archives", organized in collaboration with the General Directorate of Archives (DPA) and "Documents, evidence of banknotes and objects belonging to the 1957-1991" period part of the museum collection of Bank of Albania. In collaboration with the Central State Film Archive (CSFA), a film collage was created, under the theme "The Power of Money", comprising fragments of Albanian films predating the 1990s that offer insights into the relationship with money. During the month of October, two activities were held as part of the "Nights at the Museums" cycle. The first activity showcased a photo exhibition from the collection of the Ethnographic Museum of Berat, themed "Berat of the XVII - XX Century, focused on economic development and trade relations with neighbouring countries. The second activity showcased a photo exhibition from the Historical Museum of Shkodra, themed "Shkodra of the XVII - XX century, focused on economic development and trade relations with neighbouring countries.

### *EDUCATIONAL PUBLICATIONS*

In 2023, the distribution of textbooks "Personal finances in your hands" for high schools, which have chosen to develop the subject has continued, as well as the distribution of brochures and educational materials prepared in previous years mainly for Museum visitors.



### ORGANIZATION OF EDUCATIONAL ACTIVITIES

- Global Money Week 2023. On 20 March 2023, at the premises of the Bank of Albania, the Money Week for 2023 was launched under the motto "Plan your money, plant your future!". The Bank of Albania in cooperation with the Albanian Association of Banks and with the support of the Ministry of Education and Sports, and the Deposit Insurance Agency, organized educational and awareness activities, including directly over 4000 pupils and students, from more than 160 schools of all levels, from all over the country. Activities include: school competitions, lectures in university auditoriums, as well as lessons in elementary and high schools.
- International Savings Day. On 31 October 2023, within the framework of the International Savings Day and the Bank of Albania's commitment to the cultivation of financial literacy, experts in financial education delivered a lesson with the sixth grade students of the elementary non-public school "Ylber", in Kashar. During this conversation the students were introduced to the functions of money, the importance of saving for achieving goals, how to draw up a personal budget, as well as some simple methods for managing income.
- Festival of Skills, Career and Work Expo 2023. The Festival of Skills, Work and Career Expo 2023 held from 13- 15 December 2023, served as an engaging platform for communication, networking and interaction, where interested institutions and companies from the public and private sector contributed to the training of young people, in area such as employment, consultancy and professional training. The Bank of Albania joined this activity through a stand with educational and research publications, as well as the development of a workshop. The fields of banking, economics, finance, education and financial inclusion were presented and discussed with the young participants, as well as the impact that the information published by the Bank of Albania can have on personal and professional success. Attendees also learned about the benefits derived from innovations in the financial field and new payment laws.

