
Governor's public appearance in 2022

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Gent Sejko, Governor of the Bank of Albania, 2022

CHAPTER I

REAPPOINTMENT AND VISION OF THE GOVERNOR

- *Governor Sejko: Speech at the hearing session of the Parliamentary Committee on Economy and Finance on his reappointment as the Governor of the Bank of Albania, 23 February 2022*

Reappointment of the Governor

Mr Gent Sejko was reappointed as the Governor of the Bank of Albania by the Parliament on 24 February 2022, upon the decree of the President of the Republic of Albania. Mr Gent Sejko was first appointed as the Governor of the Bank of Albania on February 2015. Governor Sejko, with a longstanding career in the banking sector, has accumulated an extensive experience in the macroeconomic area, while dealing with strategic and practical policy issues in the fields of: monetary policy, banking supervision, financial stability, economic and financial markets, research and the EU integration process.



**SPEECH AT THE HEARING SESSION
OF THE PARLIAMENTARY COMMITTEE
ON ECONOMY AND FINANCE ON HIS
REAPPOINTMENT AS THE GOVERNOR
OF THE BANK OF ALBANIA
- 23 February 2022 -**

*Honourable Chair,
Honourable Members of the Committee,*

Thank you for this public hearing organised in the framework of my nominee for the renovation of the term as the Governor of the Bank of Albania.

At the beginning of my address, please allow me to highlight that I am very honoured that the Parliament of Albania re-affirmed the confidence to continue to contribute in the field of Albanian economic and financial area management, as a member of the Bank of Albania's Supervisory Council. In the same spirit, I would like to point out that my nomination for the position as the Governor is motivated by an internal incentive: finalising the thoroughly transformation of the Bank of Albania and turning it in a modern central bank.

"In my vision, the Bank of Albania should converge towards the conjectures of a modern central bank, suitable to be part of the European System of Central Banks; able to deal with the challenges lying ahead in the path of the sustainable economic development, for the comprehensive modernisation of the financial system, for the European integration, and in its function as a reliable partner of Albanian public, civil society and academic world."

In my vision, the Bank of Albania should converge towards the conjectures of a modern central bank, suitable to be part of the European System of Central Banks; able to deal with the challenges lying ahead in the path of the sustainable economic development, for the comprehensive modernisation of the financial system, for the European integration, and in its function as a reliable partner of Albanian public, civil society and academic world.

Dear members of the Parliament

In capacity of the Governor of the Bank of Albania, as well as the Chair of its Supervisory Council for the last seven years, I had the privilege to serve in one of the highest public positions of the country. Throughout this period, I have conceptualised and supervised the implementation of a set of important reforms, which have affected the organisation and activity of the institution, and have enhanced the ability and accomplishment level of our legal tasks and our institutional commitments.

Due to the limited time to provide a complete overview of the institution's achievements, which have been maximally assessed in the annual resolutions of the honoured Parliament, allow me to focus on some of the main directions of my work.

The main mission of the Bank of Albania is to achieve and maintain price stability. This mission is interpreted as an average inflation rate of 3% in both the medium and long term The Bank of Albania. In fulfilling this mission, conducts exclusively and in independently the monetary policy function.

“During my previous mandate, the monetary policy of the Bank of Albania has performed a notably qualitative progress throughout the previous term. In this light, in 2015 we have adopted a clear inflation targeting regime, which represents the golden standard in this field, by: building up the necessary infrastructure of analysis and forecast; improving the operational framework for the monetary policy implementation; and strengthening transparency and improving its communication effectiveness to the Parliament, public and various groups of interest.”

The monetary policy of the Bank of Albania has performed a notably qualitative progress throughout the previous term. In this light, in 2015 we have adopted a clear inflation targeting regime, which represents the golden standard in this field, by: building up the necessary infrastructure of analysis and forecast; improving the operational framework for the monetary policy implementation; and strengthening transparency and improving its communication effectiveness to the Parliament, public and various groups of interest.

This investment is materialised in tangible results, across all the aspects of our activity. Notwithstanding the fact that the

Albanian economy has suffered various negative shocks, amid more rigid ones, the effects originating from: the global financial crisis; sovereign debt crisis in euro area; and the shocks from both the earthquake and

the pandemic; inflation has not displayed any significant deviation from the target, though fluctuating on its down side. The average inflation rate at 1.8%, during the reference period, the minimum historical level of both public and private sector financing costs, the upward lending trend in lek, and the stable exchange rate of the national currency, illustrate the monetary stability of Albania. These factors have provided a vital contribution in absorbing the shocks consequences, preserving the macro and financial equilibriums, and bolstering the economic recovery. The Bank of Albania has carried out a comprehensive and radical transformation in the supervision and banking regulation field. During my previous term as Governor:

- First, the Bank of Albania has implemented in a coherent and consistent manner the plan on the reduction of non-performing loans. The complete revision of the legal and regulatory framework has led to the decline of non-performing loans ratio to 5.4%, from its peak of 25% in 2014. In addition, importantly the credit risk has decreased and credit supply has improved. This improvement has been reflected in the 10% growth of credit to private sector in the course of the previous year. This period coincided with the consequences caused by the pandemic.
- Second, the Bank of Albania has initiated and implemented a plan of measures to increase the use of the national currency, in the financial system. This plan of measures aims at strengthening the financial stability of the banking sector and economy and at the better monetary policy pass through. It has induced positive effects in terms of reducing the share of loans in foreign currency around the level of 50% and increasing the interest for holding savings in our national currency.
- Third, the Bank of Albania has successfully managed the consolidation process of the banking sector. This process, consisting in a huge investment of time and energy, has aimed at not simply reducing the number of commercial banks (from 16 to 12), but - above all - at the introduction of new and motivated actors in the domestic market and increase of competition in this market. Albania has benefited a more competitive, efficient and safer banking sector.
- Last, the Bank of Albania has worked for the adoption of the best practices in the banking regulation and supervision field, aiming at the convergence with the euro area standards and focusing on the analyses and address of large risks. In reflection of this work, the Bank of Albania is already a member of the supervisory colleges

of central banks. We have also established and approved a complete and functional framework on resolution of banks, thus being the first amid regional countries.

These efforts have given their fruits. The Albanian banking sector bore a considerable part of the financial bill of the pandemic and provided a continuous financial support to enterprises and households. In addition, the banking system carried out its function without jeopardising the main parameters of its financial soundness: the level of liquidity; profitability and capitalisation. Nowadays, the public considers our banking system a safe destination to hold their savings; enterprises find a source of funds, services and consultancy, while the economy finds a promoter of development and absorber of shocks.

In parallel with these main directions, the Bank of Albania has worked and has achieved successful results in other fields as well, among which I find it appropriate to highlight:

- The payment system, which is already operating within a legal and regulatory framework in full compliance with the EU standards and with a payment infrastructure in an ongoing modernisation process. Here, I mention the approval of the new Law on the Payment System, which transposes the relevant directive of the European Union and paves the way for increasing the number of actors and strengthening the market effectiveness. Also, in January 2022, the Bank of Albania has started operating the complete infrastructure for the processing and settlement of euro denominated payments within the country. This development will result in lower costs and considerable reduction of the time for the realisation of payments, with a considerable benefit to both the Albanian enterprises and households.
- Successful management of the foreign exchange reserves of Albania, where I would emphasise that the adoption of contemporary methods on evaluating their adequacy and administration, has driven to the increase of this reserves - from EUR 2.2 million in 2014 to almost EUR 5 million in 2021, coupled with the maintaining of its soundness in terms of liquidity and safety. In addition, I would like to note here that the pleasant level of our foreign exchange reserve is one of the main indicators supporting the positive risk assessment of the country in international financial markets.
- The European integration process, where the direct responsibility fields of the Bank of Albania are evidenced as the closest

contact points with the European Union legislations, or Acquis Communautaire.

- In terms on national currency management, the Bank of Albania has ensured the normal supply of market with cash, even in the presence of considerable operational challenges triggered by the pandemic. Also, we have refreshed the entire series of existing banknotes. This process was finalised at the beginning of this year with the introduction of the last two denominations. In parallel, with the refreshment, in response to both the requirements posed by the time and the economic and financial developments, the series is completed with a new banknote, with a nominal value 10,000 Lekë. The entire series of the banknotes has a contemporary design and meets the highest security standards.
- Financial education, a crucial investment for the awareness of the management of personal finances and enhancing the welfare of the society.
- Communication with public, the Bank of Albania is already a more transparent institution and in turns more accessible to the public at large. The regular communication of our decisions and views, the organisation and participation in academic conferences, and the rigorous accomplishment in a timely manner of requests for information, are assessed by our international partners. In more concrete terms, the National Bank of Austria in the last report, ranked the Bank of Albania first among all the banks of Central, Eastern and South-Eastern countries, for the level and quality of public communication.

Honourable Committee members,

Notwithstanding the successful results that I listed above, I still do not consider my mission as complete so far.

Looking forward, I see that the Bank of Albania has a lot to achieve in all aspects. Allow me to briefly list the priorities in my agenda for the second term.

First priority is related to monetary policy and price stability. In capacity of the Governor of the Bank of Albania, I have been heedful and I will make sure that the

“First priority is related to monetary policy and price stability. In capacity of the Governor of the Bank of Albania, I have been heedful and I will make sure that the quantity and cost of money in economy enables: the stability of prices; the sustainable economic growth and the improvement of welfare.”

quantity and cost of money in economy enables: the stability of prices; the sustainable economic growth and the improvement of welfare. In the medium term, addressing inflationary pressures stemming by the upsurge of prices in international market will be the main challenge. In my view, commitment to the legal mandate of price stability is a non-negotiable objective. The drafting of a prudential and forward-guidance monetary is required from the successful accomplishment of this term. At the same time, in parallel with the primary objective, this policy should factorise the need for supporting the economic rebound and be harmonised with the fiscal consolidation process, in view of the sustained fiscal and financial strengthening of Albania. In particular, I am confident that the prudential harmonisation of monetary and fiscal policies yields better

economic results, in terms of both growth and stability. In a longer-term context, the operational framework of monetary policy should be completed with contingent instruments, like those adopted by large central banks. The improvement of legal infrastructure and further development of financial markets is the pre-condition to this objective. Nevertheless, the horizon of the next seven years provides for a sufficient timely dimension to meet it. The second priority is related to banking supervision and regulation, with a view to further strengthen the financial stability of the country. In this view, the objective of my work will be:

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- The establishment of all premises to bolster sound lending to economy.***
- Full adoption of Basel II and Basel III relevant practices and standards.***
- Greater convergence with the EU standards and accomplishment of further certifications by the European Central bank in the supervision field.***
- Complete re-scanning of our financial system...”***

- The establishment of all premises to bolster sound lending to economy. In my view, the availability of bank loans should not hinder the country’s sustainable and long-term economic growth. However it is crucial that the lending process always adheres to the necessary risk management parameters to ensure the financial health of banks and the preservation of deposited savings.
- Full adoption of Basel II and Basel III relevant practices and standards.
- Greater convergence with the EU standards and accomplishment of further certifications by the European Central bank in the supervision field. These certifications will reduce costs and increase efficiency of our banking system operation.

- Complete re-scanning of our financial system - in collaboration with the World Bank and the IMF - (financial Sector Assessment Program) - to enable the identification and correction of its weak points in a timely manner. I consider that special attention will be paid on:
- The activity of non-bank financial institutions and convergence of their practices and regulations with those of the banking system. This will boost the effectiveness of financial system and fair competition within and among various segments of this system;
- fully efficient operation of the supervisory architecture of our financial system, starting from the Financial Stability Advisory Group (FSAG) and continuing with the practices on information share and collaboration amid its regulatory institutions;
- continuing the work for the reduction of foreign currency use in Albania, aiming at increasing awareness of both public and private actors on the risk it bears, thus by strengthening the response of the Albanian institutions.

Third priority relates to encouraging formalisation, and increasing both financial education and inclusion. The relatively high level of informality in the Albanian economy stems serious negative consequences, through putting in threat competition, increasing uncertainty in commercial and financial relationships, and reducing public revenues.

In this view, the Bank of Albania will continue to work to strengthen formalisation of the economy. In my view, this process should be supported through: the regulatory approach to in-formalised activities; completion of the financial infrastructure which reduces costs on formal activities; and coordinated initiatives with the public sector.

The Bank of Albania should pay a crucial role in the financial education field, in compiling and implementing the national strategies and promoting the increase of financial literacy in Albania. This should be considered vital to the long-term growth of the society's welfare.

“Third priority relates to encouraging formalisation, and increasing both financial education and inclusion. The relatively high level of informality in the Albanian economy stems serious negative consequences, through putting in threat competition, increasing uncertainty in commercial and financial relationships, and reducing public revenues.”

In addition, the Bank of Albania will continue the work to increasing financial inclusion of the population. Modernisation of the payment system and the increased level of electronic payment is already a starting point of this process, next the utilizing of this opportunity for providing access to both payment and financial services which in turn affect they economic development of the country.

Meanwhile, being aware on the role and importance of structural reforms, the Bank of Albania will continue to contribute - through advises and attention on public interest - in their progress. I believe that these reforms will boost productivity, unlock growth potential and build on the premises for a rather fair distribution of their results to the society.

“The forth priority is the support to European integration. Even though the opening and speed of this process will depend, on a large extent by our European partners, our task as an Albanian authority is to proceed with neither delay nor hesitation. In this context, I think that the Bank of Albania should continue to maintain the leading role, in its field of responsibility and competence, related to this process, by providing the good example and its experience to the other authorities.”

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Last, allow me to point out that the Bank of Albania has been and will continue to be an open and transparent institution. The strengthening and observance of this principle will become the fifth priority of my tasks. The Bank of Albania is able and should expand further the range of the economic information it publishes, and increase its presence in the tables where economic issues are discussed.

*Honourable Chair,
Honourable members of commission,*

By presenting and motivating my request for the term renovation as the Governor of the Bank of Albania, allow me to re-affirm, that my 30-year-work in both the public and private sector of financial industry, the experience in executive positions, and results of my work, are a guarantee in fulfilling this duty.

The reliance of this distinguished committee, will serve as a further motivation in giving my contribution to developing the Bank of Albania.

Thank You!



CHAPTER II

PRESENTATIONS TO THE PARLIAMENTARY COMMITTEE ON ECONOMY AND FINANCE

- *Governor Sejko presents the Annual Report 2021 of the Bank of Albania to the Parliamentary Committee on Economy and Finance, 11 May 2022*
- *Governor Sejko presents BoA's Annual Report 2021 to the Parliament of Albania, 16 June 2022*
- *Governor Sejko presents BoA's opinion on the Draft Budget 2023, 4 November 2022*

Presentations to the Assembly

The Bank of Albania is an independent, transparent and accountable institution. The accountability is realized through a number of instruments, most importantly the hearing sessions of the Parliamentary Committee on Economy and Finance with the Governor and the Assembly. Every year, the Governor presents the Annual Report of the Bank of Albania, answering to the questions and responding to the interest of MPs on specific issues related to it. Also, since 2015, the Governor has presented in a dedicated session the opinion of the Bank of Albania on key issues in the draft budget of the Government of Albania for the next year. In addition, hearing sessions may also take place on the operational activity of the Bank of Albania and the banking system.

GOVERNOR SEJKO: ADDRESS TO THE PARLIAMENTARY COMMITTEE ON ECONOMY AND FINANCE PRESENTING THE ANNUAL REPORT 2021 OF THE BANK OF ALBANIA - 11 May 2022-

During 2021, Albania experienced a rapid economic recovery.

- *The recovery was broadly based, by reflecting the increased consumption and private investments, the expanded exports of goods and services, and the positive contribution of fiscal stimulus.*
- *The recovery has been accompanied by an increase of employment and wages, driving to the improvement of financial balance sheets of households.*
- *The economy recovered fully. The entire economy and its individual sectors in particular have exceeded both the pre-pandemic and pre -2019 earthquake levels of output and revenues.*
- *The recovery reflected the positive contribution of all economic actors.*
- *The consolidation of the economic and financial balances of the country accompanied the recovery.*

*Honourable Chair,
Honourable Members of the Committee,*

First of all, let me thank you for the trust you have given me in renewing my mandate as Governor of the Bank of Albania. I assure you on the continuing accountability and constructive dialogue between our institutions in the future.

In my speech today, I will present the work and results of the Bank of Albania over the last year, in terms of both complying with our legal duties, and regarding the Parliament Resolution on the activity of the Bank of Albania in 2020, and implementing its institutional commitments. Nevertheless, availing this opportunity, I would like to share with you our view on the challenges we are tackling in this new economic reality, caused by the Russian military attack on Ukraine. This war has caused a sharp rise in commodity prices in international markets, driving the cost of living for households more expensive and increasing the production

costs of businesses. In addition, the armed conflict has heightened the uncertainties and has created new supply chain bottlenecks, which are also being affected by the recent pandemic-related measures imposed in Asia due to its new waves.

This two-fold shock, - on climbing prices and falling economic activity - will also be transmitted to the Albanian economy. It is expected to bring higher inflation rates and a slower economic growth in Albania compared with our pre-war assessments.

However, the positive economic trend in Albania is expected to remain intact in the medium and long term. Based on the current information, we expect economy to continue to grow during 2022 and following. The expanded and solid growth sources, the consolidated economic and financial balances, and the implementation of a stimulating monetary and fiscal policy mix support this opinion. In the other hand, we forecast inflation remains relatively high in 2022. Further, it is expected to trend downwards in 2023, in line with the expected reduction in global markets pressures, and return to target in the first half of 2024.

These projections are based on three important considerations.

First, they are based on the assumption that the war in Ukraine does not escalate and our trading partners continue to grow.

Second, they factorize the solid foundations on which the Albanian economy is based after the comprehensive recovery in 2021. Summarising, allow me to highlight, that the Albanian economy closed 2021 with improved economic and financial parameters. The volume of economic activity grew, employment expanded and the rise in wages accelerated. Overall, private sector's balance sheets improved, the monetary and financial stability in Albania consolidated, and financial markets functioned smoothly. In particular, banking sector maintained good indicators of liquidity, capitalisation and profitability.

Third, they require continuous revision of economic policy mix. The Bank of Albania judges that these policies should continue to underpin the recovery process, coupled with the preservation of the monetary and financial stability of the country. This stability has been and remains a precondition for the sustainable growth of both economy and welfare of society.

Nowadays, meeting this objective, unlike before, requires addressing the risks to hiking inflation.

In the light of the above, the monetary policy of the Bank of Albania will continue to be guided by complying with its primary objective: to maintain price stability. In this spirit, we decided to raise the key interest rate in March, bringing it back to the pre-pandemic level of 1%.

On the other hand, fiscal policy should continue to financially support the low-income strata of society and the sectors most exposed to the shock. However, this support should be financed by additional revenues provided by the price increase and the revision of non-priority expenditures. In this way, the effectiveness of intervention will not damage public debt indicators.

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Dear Ladies and Gentlemen,

The conflict has heightened uncertainties for the future. The impact of the war will depend on how the conflict evolves and the potential tightening of sanctions on Russia. We are aware on the upside risks surrounding inflation and the downside risks to the growth outlook.

The role of monetary and fiscal policies, in this complex economic environment, remains critical. The Bank of Albania will continue to monitor inflation performance, and will not hesitate to react in a timely manner and with the right force, to guarantee the monetary and financial stability of the country. Monetary policy stance is expected to normalise gradually during 2022. This position provides an adequate balance between the accelerating risk of inflation and the decelerating risk of economic growth.

In the following, I will briefly address the main directions of the Bank of Albania’s work over 2021 and its results.

1. Albanian economy and monetary policy in 2021

The Albanian economy recovered rapidly over the course of 2021. According to INSTAT data, the Gross Domestic Product grew by 8.5%,

after the contraction of 3.5% in 2020. The rapid economic growth reflected the reduced restrictive measures, increased confidence, improved external environment, as well as the fiscal and monetary stimuli. These factors paved the way to the fast expansion of the demand for goods and services.

The swift rebound of economy has some characteristics, which illustrated the flexibility of our economy and are encouraging premises for a continuing sustainable growth.

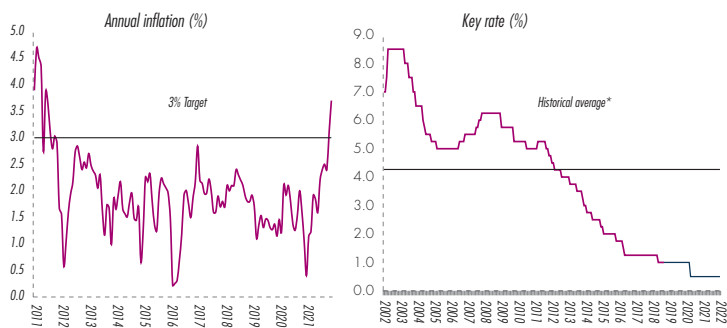
Let me focus on some of them:

- Rebound in economy was broadly based. In terms of aggregate demand, it reflected the increased consumption and private investments, the expanded exports of goods and services, and the positive contribution of fiscal stimulus. In sectoral terms, it reflected the expansion across all sectors of economy.
- The recovery has been accompanied by an increase of employment and wages, leading to improved financial balance sheets of households. Increased employment enabled the unemployment rate fell to 11.4% at the end of year, standing close to the pre-crisis levels. In reflection of them, wages experienced a high increasing pace across almost all sectors of economy.
- The economy recovered fully. The entire economy and its individual sectors in particular have exceeded both the pre-pandemic and pre-2019 earthquake levels of output and revenues. This development shows the rapid recovery of the demand and the low structural impact of these shocks on the production structure of the economy.
- The recovery reflected the positive contribution of all economic actors. First, the response by enterprises and households showed they had relatively solid balance sheets, alongside the flexibility and willingness to return to their normal economic behaviour. Second, public authorities responded swiftly, adequately and in an efficient manner, thus easing the financial burden of the shock on the Albanian enterprises and households, by paving the way towards recovery. Third, the banking sector continued to finance the expansion in both consumption and investments, by simultaneously improving its profitability and liquidity indicators.
- Last, but not least, the recovery was accompanied by the improvement of economic and financial equilibriums of Albania. Both external and fiscal positions of Albania improved and the main indicators of financial soundness were consolidated. The decrease in the current account deficit averaged 7.7% of the GDP

in 2021, against the 8.7% registered in the previous year. In fiscal area, the combination of economic growth with the decreased budget deficit contributed to the fall in public debt to GDP ratio at 73.2%, from 74.5% recorded in 2020.

The progressive growth in the demand for goods and services enabled the increase in employment, wages and profit margins. In 2021, annual inflation averaged 2.0%, from 1.6 % in the previous year. On the other hand, the sharp rise in international markets' prices pushed up inflation to 3.7% in December, and 5.7% in March 2022.

Chart 1 Inflation and policy rate (in %)



*Calculated by excluding 2020-2021, when the policy rate was cut to extremely low levels.
Source: INSTAT and the BoA.

Honourable Committee members,

Availing your time, let me address the role that the Bank of Albania has played in the recovery process, with regard to both economic growth and safeguarding financial stability.

The monetary policy continued to maintain the accommodative stance throughout 2021 as well. The policy rate remained at its historic lowest levels, of 0.5%, while the liquidity volume injected into the system increased. In parallel with them, the Bank of Albania continued to use forward guidance in the monetary policy stance, contributing in the reduction of uncertainties in financial markets.

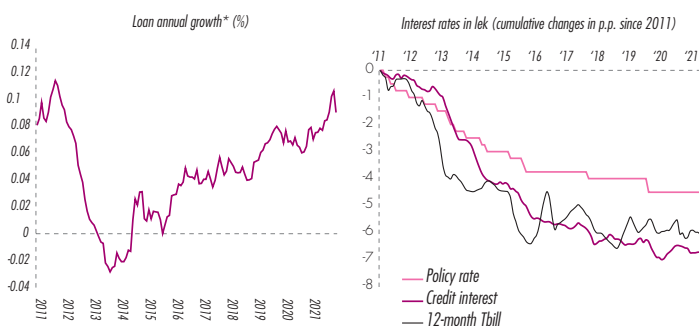
The accommodative monetary policy stance has provided for an environment with low financing costs and adequate lending conditions.

“Our assessments show that the accommodative monetary policy stance has contributed by around 1.3 percentage points to the economic growth in 2021.”

Financial markets operated smoothly and were characterised by ample liquidity and contained risk premia. The effective transmission of monetary stimulus has maintained the interest rates on loans to public and private sectors at low levels. Also, the exchange rate was relatively stable, by reflecting the supply and demand balance for foreign currency.

This environment enabled a stable credit growth. The volume of credit to private sector rose averagely 8.4% over 2021 - the highest growth rate since 2012. Beyond the overall growth of credit portfolio, lending dynamics embodied other positive signals. First, the increase of credit portfolio has broadly supported the financing of enterprises’ investments and for mortgage loans, by signalling the upsurge in investments of the private sector and an improving situation of its liquidity. Second, loans in the domestic currency continued to maintain higher increasing rates, by being reflected in the progressive growth of the share of loans in lek to total credit. This encouraging development establishes the premises for a better transmission of the monetary stimulus and a higher resilience of the banking system against risks. Third, the quality of credit portfolio to private sector has been improving, as illustrated by the progressive fall in the non-performing loans ratio.

Chart 2 Transmission of monetary stimulus to the interest rates of loans and credit performance



*Reported credit adjusted for the foreign exchange rate movements and the written off loans.
Source: Bank of Albania.

Our assessments show that the accommodative monetary policy stance has contributed by around 1.3 percentage points to the economic growth in 2021. The low interest rates, the low risk premia, uninterrupted lending to economy and increased competition of the Albanian exports drove to this positive contribution. The monetary stimulus has provided a positive contribution in price stability through bolstering the aggregate demand and better utilisation of production capacities.

Allow me to address some issues related to financial stability and banking supervision and regulation. This environment enables a stable credit growth.

2. Banking supervision and financial stability

The banking system performed positively throughout 2021. During the pandemic period, the banking system showed a serious partner in supporting the economic development of Albania, by undertaking a considerable part of costs. Year 2021 affirmed this sector has high resilience levels, owing to the macroprudential policies of the Bank of Albania, the sound supervision framework and the continuous improvement of controlling systems of banks.

The financial activity of the banking system was stable, their investments have expanded, the quality of asset portfolio has been improved and the profit rates have been increasing. The financial result was positive and around 29% higher from the previous year; capital adequacy ratio remained at 18%, considerably above the regulatory limit while non-performing loans ratio declined to 5.6%, as at end of year, from 8.1% in the previous year, by recording the lowest rate in the last decade. The exposure of the activity of the banking sector to risks remains contained. Stress test exercises show that the capability of the banking sector to withstand losses deriving from the materialisation of unfavourable shocks on the real and financial sector remains strong.

Table 1 Indicators of financial system activity

FINANCIAL SYSTEM	2021	BANKING SECTOR	2021	2020
Non-bank financial institutions (% , annual change)	8	Deposits (% , annual change)	11	8
Insurance companies (% , annual change)	4	Loans (% , annual change)	10	6
Saving & loans associations (% , annual change)	10	Transactions with securities (% , annual change)	21	19
Pension funds (% , annual change)	18	Net results (% , annual change)	31	(12)
Investment funds (% , annual change)	11	Return on Assets(%)	1.3	1.1
Banking sector (% , annual change)	12	Non-performing loans (%)	5.6	8.1
Assets of financial system (% , to GDP)	111	Capital adequacy ratio(%)	18.0	18.7

Burimi: Banka e Shqipërisë.

These positive results have not decreased our attention on strengthening bank supervision and improving the macro prudential framework. Some of the priorities in the work of the Bank of Albania in this regard are listed following.

Opening the equivalence process of our supervisory and regulatory framework with the European Union framework. This process aims at certifying the convergence degree of our regulatory framework and supervisory practices with those of the European Union. An independent assessment of the supervisory framework in Albania was performed in 2021, with the technical assistance of international experts. This assessment concluded that Albania has a high equivalence level with the European Union standards. The Bank of Albania has already submitted the request to the European Commission to begin the formal equivalence process.

Implementing the recommendations from the Committee of Experts of CoE on the Evaluation of Anti-Money Laundering Measures and counter Terrorist Financing (MONEYVAL). The Bank of Albania is included in the implementation of the national plan of measures on the prevention of money laundering and combating the financing of terrorism, with a view to improving the regulatory framework and strengthening the effectiveness of supervisory process. In this framework, the Bank of Albania has continued the on-site examinations related to the prevention of money laundering, with a particular focus on terrorist financing issues and the implementation of international sanctions. Examinations were targeted to banks, non-bank financial institutions (NBFIs) and foreign exchange bureaus (FEBs).

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Improving the regulatory framework on transparency enhancement and consumer protection. In the view of accelerated lending to consumers, particularly from non-bank financial institutions, the Bank of Albania undertook an initiative seeking to foster the regulatory framework on consumer loans, aimed at protecting consumers from high and unjustified interest rates applied on these loans. The amendments introduce for the first time the concept of the cap on EIR and penalties applied on clients of consumer loans. The best practices from

the European Union members were followed for the realisation of these amendments.

In addition, amendments took place in the framework of transparency on banking products, where with the gradual replacement process of reference on banking products interest rates, like LIBOR, EURIBOR, etc., banks should increase the information degree to borrowers. The adopted amendments in the respective regulations regulate this information in terms of the legal basis on the contractual relationships.

Regulatory and methodological approximation with the international standards. The Bank of Albania has continued to work for the improvement of the regulatory framework, aiming at its alignment with the EU Acquis, the Basel Committee principles and the best practices of banking supervision. The revision of regulations has been focused on approximation with the latest European Union (EU) Acquis (directives and regulations), aimed at assessing the ability on liquidity management of banks; creation of capital buffers to protect banks from various risks-related exposures. Also, an important part of sub-legal acts have been drafted and approved to complete the regulatory framework for the implementation of the Law "On Payment services" and the Law "On the recovery and resolution of banks in the Republic of Albania".

The rigorous monitoring of financial system through on-site inspections. On-site inspections have continued regularly, through increasing the examinations in non-bank financial institutions and foreign exchange bureaus. Examinations in banks have been focused on the assessment of the pandemic situation management and the impact on credit portfolio. Banks have implemented a prudential approach towards lending, based on defined criteria for providing facilities to clients with problems. In addition to credit risk focus, the examinations have assessed the other risks' profile related to the banking activity, such as: operational and information technology risk; financial risks, etc. In this context, relevant recommendations have been provided accordingly.

Strengthening the resolution capacity in banks. The compilation of resolution plans for all banks that conduct their activity in the Albanian market has been completed. In addition potential obstacles to the resolution ability have been identified. In compliance with the legal and regulatory framework on resolution in banks, there are set out the

minimum requirements of instruments that banks should hold in any time, aimed at enabling the implementation of resolution.

Development and implementation of macro-prudential policy for the purpose of financial stability. The measures aimed at reducing the use of foreign currencies in the activity of the banking system and the macro-prudential capital buffers have continued to be implemented in 2021. Developments, throughout 2021, have not requested for interventions with macroprudential measures. Nevertheless, the use of foreign currencies remains at high levels, and requires increased attention from other authorities.

Alongside with its primary role to safeguarding monetary and financial stability, the Bank of Albania is in charge of a range of duties and activities, which due to the time, I am going to address briefly.

3. Other activities

Guaranteeing safe and efficient payment systems. The Bank of Albania operates two payment systems in lek: the Albanian Electronic Clearing House (AECH) for small value payments; and the Albanian Interbank Payment (AIPS) for large-value payments. Both systems have showed maximum availability and have operated safely, by guaranteeing the flow of funds to the economy. The Bank of Albania, aiming at completing and modernising the payment infrastructure in Albania, has finalised the project on operating a new settlement system of national payments in Euro to banks' clients - AIPS-Euro. This system has started to operate in January 2022. The AIPS Euro enables the Albanian citizens to conduct euro-dominated payments within Albania with a quite lower cost and at a shorter time from the current process carried out by the corresponding banks. Also, with a view to increasing financial inclusion and the use of electronic payments, in 2021, it was enabled the implementation of "Direct debiting" scheme, which provides consumers with flexibility in conducting payments for utility services through the banking system.

Table 2 Commissions applied before and after the operation of AIPS EURO

	Up to 24 January 2022	After 24 January 2022	
	Payments in paper form & (jo letër) e-payments	Payments in paper form	Electronic payments
OUTGOING Transfers▶			
MIN-Euro per transaction	Max 30 Euro	Max 6 Euro	Max 3 Euro
In % above value	Max 3%	Max 0.2% up to 10,000 euro	Max 0.1% up to 10,000 euro
MAX-Euro per transaction	Max 300 Euro	Max 50 Euro	Max 25 Euro
INCOMING Transfers◀			
MIN- Euro per transaction	20.00	0	0
Në % above value	0.2 %	0	0
MAX-Euro per transaction	200.00	0	0
Swift commission MAX- Euro per transaction	10.00	0	0

Source: Bank of Albania.

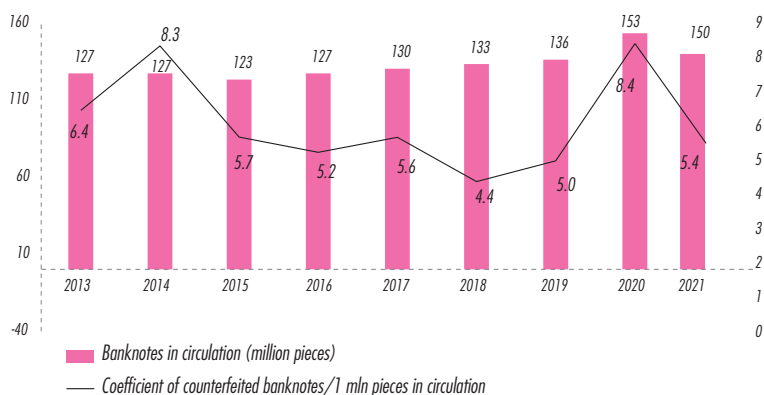
Boosting electronic payments and financial inclusion of population. The number of electronic payments conducted in Albania was up by 29.5% in 2021. The regulatory amendments through the Law “On payment services”, coupled with the infrastructural improvement helped their increase. The use of electronic payments per capita reached at 12.5, at the end of 2021, from 4.3 in 2017. Also, the expansion in the share of population owing a current account has recorded positive developments. In 2021, around 69% of adults have a payment account, from only 40% in 2017. In 2021, around 69% of adults have a payment account, from only 40% in 2017.

Improving the regulatory framework of payment system in compliance with the European Union standards. In 2021, the Law “On payment account to access basic services” is drafted in line with the EU Directives. Its approval enables the basic financial services to individuals with no access in bank services, notwithstanding the level of income, employments status, and the history of solvency.

Currency issue. The physical security and the well-management of cash, is another crucial pillar in our activity. In this regard, in June 2021, we signed the agreement with the ECB on the protection of euro banknote from counterfeiting, making thus the Bank of Albania an integral part of the European process in the fight against banknotes counterfeiting.

Also, we have finalised the completion of the new series of banknotes, consisting in six denominations. In December 2021, the two last denominations of this series, namely 500 Lekë and 2,000 Lekë were put in circulation. Meanwhile, in June 2021, the bank note with the highest denomination, 10,000 Lekë was put into circulation. In addition, this banknote introduces a novelty in the production process of our currency. Banknotes of the new series are produced with state-of-the art technology and embody contemporary and sophisticated security features.

Chart 3 Counterfeited banknotes statistics



Source: Bank of Albania.

Accomplishing institutional obligations under the European integration process. The Bank of Albania plays a crucial role in meeting the national commitments for joining the European Union. In this view, the Bank of Albania coordinates one chapter on legislation compatibility, while is a member of the work groups for the other chapters. The Bank of Albania has fulfilled the approval of sub-legal acts deriving from the National Plan for European Integration and has included in its work priorities the recommendations of the European Commission.

Enhancing communication, transparency and accountability. The Bank of Albania remains an open institution, ready to communicate in a transparent manner its decisions, and seriously respond on its activity. In 2021, we continued to communicate in person and virtually with media, academics, and public at large and all interested parties. In recent years, the Bank of Albania is publicly engaged in campaigns on financial education. In collaboration with the Albanian Association of

Banks, various activities were organized throughout the year, aimed at increasing both financial literacy of public and awareness on personal finances.

In parallel with them, the Bank of Albania has progressed further in: the field of foreign exchange reserve management; scientific research; the collection, compilation and reporting process of statistics; and in terms of strengthening the governance of the institution. Also, the Bank of Albania has fulfilled the recommendations left by the Assembly of the Republic of Albania in the Resolution "On the assessment of the activity of the Bank of Albania for 2021".

The Report provides detailed information on these issues.

Honourable Committee members,

Thanking you for your attention, allow me to emphasise that the Bank of Albania has been and remains committed to: complying with its legal objectives; addressing the challenges to growth; and constructing a constructive dialogue with all actors and stakeholders of both economic and social life.

The Parliament of Albania and public will see in the Bank of Albania a reliable partner in the path of the sustainable development of the country.

Thank You!

GOVERNOR SEJKO: ADDRESS TO THE ASSEMBLY OF THE REPUBLIC OF ALBANIA PRESENTING THE ANNUAL REPORT 2021 OF THE BANK OF ALBANIA

- 16 June 2022 -

*Honourable Speaker,
Honourable Members of Parliament,*

I would like to start my reporting by expressing my highest regard for the Albanian Parliament. The Bank of Albania views the accountability process to this institution as a legal and moral obligation. This reporting - a crucial element of transparency and accountability - serves to enhancing the accountability and credibility of the Bank of Albania in the eyes of the public. This reporting also enables presentation of the Bank of Albania's perspective on the economic and financial situation in the country and the challenges for the future, thereby further empowering constructive dialogue between our institutions.

Honourable Members of the Parliament,

Allow me to present an overview of our work and the results we achieved in 2021.

Rebound and consolidation were key words in relation to 2021 economic developments. Economic activity in Albania was marked by a swift and thorough recovery, coupled with consolidation of the main indicators of economic and financial soundness.

"This reporting - a crucial element of transparency and accountability - serves to enhancing the accountability and credibility of the Bank of Albania in the eyes of the public. Also, this report enables presentation of the Bank of Albania's perspective on the economic and financial situation in the country and the challenges for the future, thereby further empowering constructive dialogue between our institutions."

Official data show that the volume of economic activity grew by 8.5% from the previous year, exceeding the pre-pandemic and pre-earthquake levels. Economic growth was broadly based. It reflected rapid recovery in family consumption, private investment, and in the exports of goods and services. In addition, the results of this recovery were present across almost all sectors and main branches of the economy. The comprehensive

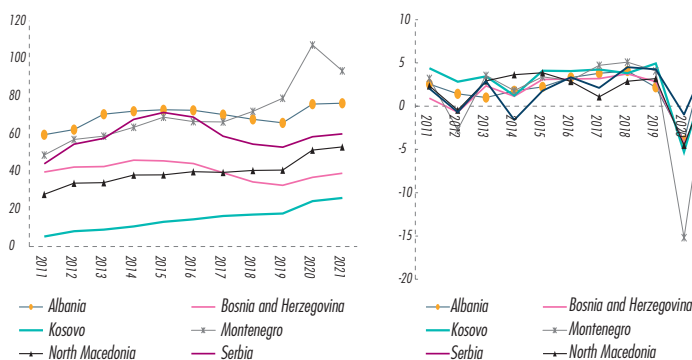
recovery of demand generated more income for Albanian enterprises and households, thereby improving their financial balances and increasing the sustainability of growth sources.

The economic recovery drove a rise in employment, wages and profit margins, which caused a build-up of domestic inflationary pressures. Consequently, inflation rose gradually over 2021, though undershooting the target.

Consolidation of economic and financial balances accompanied the recovery.

The external economic and financial position of Albania has been improving. The current account deficit decreased to 7.7% of GDP in 2021, from 8.7% in the previous year. Also, Albania's level of external debt was down. In fiscal perspective, economic growth and decreased budget deficit led to a reduction in the public debt ratio to GDP to 73.2%, from 74.5% in 2020. In parallel with these developments, the monetary and financial stability of Albania has been consolidating. Financial markets functioned smoothly, the exchange rate was stable and lending conditions improved. The banking system performed positively throughout 2021. Financial intermediation has been increasing, while indicators of capitalisation, liquidity and profitability improved and were considerably above our regulatory requirements. The exposure of banking activity to risks has been contained, while stress test exercises suggest that its ability to withstand shocks appears high.

Chart 4 Public debt in % of GDP (left), and real economic growth (right)



Source: FMN, WEO October 2021 database, MFE, INSTAT.

This positive overview of developments has reflected the relatively solid fundamentals of the Albanian economy and the flexibility of the private sector of the economy, and, in turn, the success of coordinated, timely responses with the appropriate fiscal, monetary and financial instruments. Focusing on the work of the Bank of Albania, I would like to highlight that our monetary policy continued to maintain an expansionary stance throughout 2021. This stance has served to meet our primary objective, which is price stability, and bolstering economic recovery. In concrete terms, we kept the policy rate at historically minimum levels, met the liquidity needs of the market, and continued to inform the market through forward guidance on the future path of the monetary policy stance. Our monetary policy stance has provided an environment with low financing costs, adequate lending conditions, and a stable exchange rate. It has maintained contained financial costs to the private sector and has enabled a fast and stable growth of lending, by underpinning the expansion of consumption and investments in the economy. Our assessments suggest that the monetary stimulus has contributed by around 1.3 percentage points to economic growth in 2021, and supported the strengthening of price stability, in line with our inflation target.

The Bank of Albania, in coordination with momentary stimulus, has continued to maintain macro-prudential measures, which supported loan restructuring for clients in difficulty even in the first quarter of 2021. Further, upon consolidation of lending and economic recovery, our supervisory and regulatory focus has been oriented towards the strengthening of financial stability.

In this context, the Bank of Albania has intensified work on further regulatory and methodological approximation with the EU Acquis, the Basel Committee principles and best banking supervision practices. In this view, in 2021, the Bank of Albania further extended the macro-prudential intervention framework as well as objectives and tools. It has also strengthened its banking resolution capacities, through the finalisation of individual resolution plans and setting out minimum requirements on the instruments banks should hold to enable implementation of resolution. These actions increase financial safety nets and strengthen our institutional capacities to guarantee financial stability.

In parallel with the above-mentioned measures, we have paid particular attention to improvement of the regulatory framework on the enhancement of consumer transparency and protection. In this context, we have strengthened the regulatory framework on consumer loans granted

from non-bank financial institutions, aimed at quantitatively restricting the interest rates and commissions applied on these loans. These amendments are fully based on best practices that are implemented across the European Union countries.

In addition, we have continued rigorous monitoring of the financial system. On-site inspections have continued regularly, by increasing examinations of non-bank financial institutions and foreign exchange bureaus. These examinations focused on assessment of how the pandemic situation was managed and the impact on credit portfolios, as well as on risks related to banking activity.

Table 3 Number of examinations by yera and theme tematikës

	On-site examinations	Strategic Risk	Organisational Risk	Credit Risk	Liquidity Risk	Interest Rate Risk	Market Risk	Information and Communication Technology	Operational Risk	Operational Risk	Profitability	Capital
2018		8	10	9	8	8	8	9	8	28*	9	8
2019		13	13	16	13	13	14	13	13	14	13	15
2020		2	8	15	11	2	5	5	5	88**	2	6
2021		7	7	12	7	7	7	8	8	109***	6	6

* In 2018, 28 examinations were carried out at Foreign exchange Bureaus on Reputational Risk. 10 other examinations regarding this risk were carried out in collaboration with the General Directorate for the Prevention of Money laundering.

** In 2020, 74 examinations were carried out at Foreign exchange Bureaus on Reputational Risk. While the other 14 examinations regarding this risk were carried out in banks and non-bank financial institutions. of these, examinations on 2 banks, 1 non-bank financial institution and 1 Foreign exchange Bureau were carried out with the General Directorate for the Prevention of Money laundering, and examinations on 3 banks were carried out in collaboration with the Financial Supervision Authority.

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

Lastly, the Bank of Albania has paid special attention to the

implementation of recommendations by the Moneyval Committee, in the framework of Anti-Money Laundering and Terrorism Financing Measures. In this framework, the Bank of Albania has continued on-site examinations related to the prevention of money laundering, with a particular focus on terrorist financing issues and the implementation of international sanctions. Examinations targeted banks, non-bank financial institutions (NBFISs) and foreign exchange bureaus (FEBs). The last evaluation report by Moneyval for 2021 concluded that the Bank of Albania had "broadly addressed" the recommendations provided on the rules and supervision of financial institutions, for the prevention of money laundering and terrorism financing.

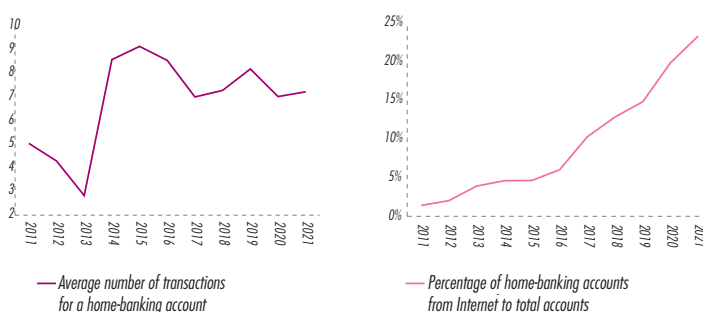
On the other hand, the Bank of Albania has already started the equivalence process of our supervisory and regulatory framework with the European Union one, by opening the way for further reduction of intermediation costs and establishment of a more adequate environment for crediting in Albania. Following the very encouraging results of an independent evaluation by a specialised international agency, we have submitted a request to The European Commission for starting the formal process of equivalence.

In parallel with the supervision and regulation of the banking sector, the Bank of Albania has also worked on promoting the development and sophistication of Albanian financial markets. In this regard, I would like to make note of work on the following:

- Guaranteeing secure and efficient payment systems, as well as expanding the existing infrastructure with a new settlement system, AIPS EURO for the settlement of the domestic euro-denominated transfers for banks' clients. This system enables the conduction of euro-denominated payments within Albania, with rather lower cost and in a shorter time compared to the previous process.
- Promoting electronic payments and increasing the financial inclusion of the population. The regulatory amendments in the Law "On payment services" and the infrastructural improvements have led to an increase in the number of electronic payments.
- Improving the regulatory framework of the payment system in compliance with the European Union standards in 2021. The Law "On payment account to access basic services" is drafted in line with the EU Directives. Its approval enables the basic financial services to individuals with no access to bank services, notwithstanding the level of income, employment status, and history of solvency.

To illustrate the results of our work and the progress that the banking sector has made in terms of digitalization, the use of electronic payment instruments increased by approximately 30%, the volume of “home banking” payments rose by about 25%, while the number of remotely accessible accounts was up by 31% in 2021. Developments in electronic payments have contributed to meeting the quantitative objectives set forth in the Albanian National Retail Payments Strategy. The use of electronic payments per capita reached 2.5 out of 10 payments which is the objective of this strategy. Also, in 2021 approximately 69% of the adult population owned a payment account, significantly approaching the target of 70% laid down in the strategy.

*Chart 5 Volume of home banking transactions to total accounts and online accessible account**



*The utilisation ratio shows how much on average an account is used on-line to carry out transactions.
Source: Bank of Albania.

In addition to fulfilling its primary role, the Bank of Albania has continued work on implementation of a number of tasks and other institutional commitments, as well as on the fulfilment of the recommendations left in the resolution of the Assembly.

In summary, allow me to point out that in fulfilling its function as the issuer of the national currency, the Bank of Albania has continuously improved the quality of the Albanian currency. During 2021, we completed the printing of all denominations of the new series of banknotes. We also, for the first time, put into circulation the new denomination of 10000 Lekë. This process was accompanied by an extensive educational campaign

on Albanian banknotes. As well, the Bank of Albania has continued work on improvement of foreign exchange reserve management, which already relies on a consolidated regulatory and professional process, where the main objective is to guarantee its liquidity and security. In addition, the Bank of Albania has made further progress in the following:

- Fulfilling institutional obligations in the framework of the European integration process, where the Bank of Albania has a key role in approximation of the legislation and the institutional infrastructure of the financial system with the EU standards;
- Enhancing communication, transparency and accountability, with a view to meeting our steady commitment to turn the Bank of Albania into an open institution where the public finds a trustworthy partner.
- Promoting financial education, as a crucial element for increasing the long-term well-being of society;
- the field of scientific research, as a precondition for designing the most effective growth and development policies;
- as well as in the processes of collecting, compiling and reporting statistics, in support of the most efficient decision-making, both in the public and private sector.

All these changes are driven and supported by the strengthening of the governance of the institution and continuous investment in the professional enhancement of staff, in order to always be able to face the challenges that time poses.

The Report provides detailed information on these issues.

Honourable Members of Parliament,

Taking advantage of this public communication, I would like to address briefly the current challenge that the Albanian economy is facing, as a result of the upswing in prices in the international markets. This shock has not spared any economy, at the European or global levels.

The rapid upsurge in prices of energy, foods and commodities across world markets has driven a climb in the cost of living for households and a push upwards in production costs for businesses. Ambiguity over the evolution and consequences of armed conflict has also intensified uncertainties in financial markets and created supply chain bottlenecks. This shock has begun to be transmitted to the Albanian economy.

“Based on the current information and our analysis, the Bank of Albania deems that the Albanian economy has sufficient premises to withstand the shock and avoid recession. In these circumstances, the focus of economic policies should be oriented towards preserving price stability, as a precondition for: the financial stability of Albania; sustainable and long-standing growth; and in helping the poorer segments of the society.”

Inflation in the country and in the world is recording the highest rates of the last two decades and current projections suggest that this shock will grow considerably in the next year as well.

To this end, the Bank of Albania is monitoring on an ongoing basis the situation. Based on the current information and our analysis, the Bank of Albania deems that the Albanian economy has sufficient premises to withstand the shock and avoid recession.

In these circumstances, the focus of economic policies should be oriented towards preserving price stability, as a precondition for: the financial stability of Albania; sustainable and long-standing growth; and in helping the poorer segments of the society. This focus will require ongoing review of the adequacy of the monetary policy stance, as well as maintaining budgetary flexibility to address potential contingencies in terms of easing social costs, without compromising the long-term sustainability of public debt.

Overcoming this shock, our focus should be oriented once again towards undertaking the necessary structural reforms which will free the production potentials of the country and will underpin the faster increase of society's welfare.

Thanking you for your attention, allow me to emphasise that the Bank of Albania has been and remains committed to accomplishing its legal duties and addressing challenges to the country's development.

Thank You!

GOVERNOR SEJKO PRESENTS BOA'S OPINION ON THE DRAFT BUDGET 2023 TO THE PARLIAMENTARY COMMITTEE ON ECONOMY AND FINANCE - 4 November 2022-

*Honourable Chair,
Honourable Members of the Committee,*

First, I would like to thank you for the invitation to present to this Committee the opinion of the Bank of Albania on the 2023 Draft Budget.

The Bank of Albania has continuously valued the open discussion on budget approval, as it includes both institutional stakeholders and other relevant actors. This process serves as an important instrument in drafting the most optimal budget and getting the broadcast consensus on its regard. In this context, as an institution mandated to safeguard the domestic monetary and financial stability, and in its role as the financial advisor of the government, I will put forth the viewpoint of the Bank of Albania on the main issues regarding the 2023 draft-budget.

In compliance with the legal mandate and within the scope of our competence and expertise, the following opinion will focus on three main issues:

First, I will present the Bank of Albania's opinion on fiscal policy stance which affects the main draft-budget indicators related to budget deficit, revenues and public spending.

Second, I will address the structural aspects of the budget and taxation policy, which affect the efficiency of fiscal policy and the flexibility of public finances to withstand shocks.

- Third, I will provide some suggestions of the Bank of Albania, which aim to enhance the long-term sustainability of public finances.

"The 2023 Draft Budget and its accompanying report mark a step forward toward increasing transparency, as well as strengthening the analytical framework in order to identify the structural weaknesses of the Albanian economy and assess the risk related to public finances."

Before going into further details, allow me to emphasize that the 2023 Draft Budget and its accompanying report mark a step forward toward increasing transparency, as well as strengthening the analytical framework in order to identify the structural weaknesses of the Albanian economy and assess the risk related to public finances. Against this backdrop, we encourage to continue the work conducted on this regard, with a view to integrate to the best of our abilities the analysis on the available financial resources and the main developmental goals, so that we can enable the most optimal allocation of public funds to the economy.

I will lay out the assessment of the fiscal policy stance presented in the draft budget.

1. The macroeconomic context and fiscal policy

The 2023 draft budget is compiled while taking into account some major challenges, which have affected both the global and Albanian economy.

As we are well aware, the Russian armed conflict against Ukraine and the imposed sanctions, triggered an unprecedented supply-side shock. The upsurge in the prices of food, oil, energy and commodities in global markets, were reflected by a progressive rise of inflation in Albania, as it reached at 8.1% in September. Our analysis suggests that the initial external shock has started to spillover on the production cost structure and future expectations of market operators, risking to become a persistent inflationary period.

“The Bank of Albania deems that the main risk to the stable and long-term growth, in Albania, is the expansion and strength of inflationary pressures. The high and persistent level of inflation threatens the domestic economic and financial stability, which remains a necessary precondition to the economic and social development.”

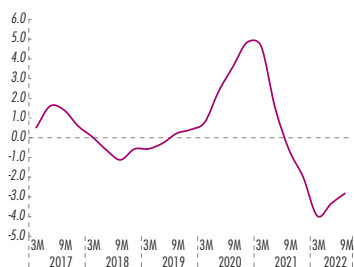
The Bank of Albania deems that the main risk to the stable and long-term growth, in Albania, is the expansion and strength of inflationary pressures. A high and persistent level of inflation threatens the domestic economic and financial stability, which remains a necessary precondition to the economic and social development. In the same vein, this type of inflation reduces long-term investments, disproportionately hits the lowest income earners, and increases uncertainty among households and enterprises, and damages social cohesion.

As a result, undertaking measures that guarantee price stability in the shortest time and at the most reasonable cost possible, should be the current priority of economic policies. Consequently, the Bank of Albania has started the normalisation of the monetary policy stance, by gradually raising the policy rate and by expressing our willingness to continue this process until the monetary and financial conditions become adequate to maintain our inflation target.

However, global theory and practice show that economic policies have greater efficiency when they are consistent and coherent. Under these circumstances, the Bank of Albania commends the fiscal consolidation engagement, which is also the main message of the 2023 draft budget. Overall, fiscal consolidation looks like a reduced budget deficit - from 3.3% of GDP expected in 2022, to 2.6% of GDP in 2023; and an improved primary balance - from a deficit of 1.3% of GDP expected in 2022, to a surplus of 0.2% of GDP in 2023.

Chart 6

Fiscal impulse remains in negative territory...



*Notes: Change of the primary balance ratio for 12 months to GDP, from the previous year. Positive values of this indicator show that fiscal policy has been easing, while negative values that it has been consolidating.
Source: Ministry of Finance and Economy, MPD calculations.*

... due to the high values of budget surplus recorded in the first half of year



*Notes: Budget deficit to GDP. Calculations based on quarterly flows. Positive values show deficit, negative values show budget surplus.
Source: Ministry of Finance and Economy.*

The Bank of Albania deems that this consolidation will impact positively the domestic economy and its financial markets.

First, it signals the willingness of the Albanian government to safeguard the long-term soundness of public finances, by increasing their credibility for domestic and foreign investors and controlling the long-term costs of public debt financing.

Second, fiscal consolidation reduces the need of the public sector to borrow in the domestic financial market, by easing the private sector's financing costs.

Third, it reduces the need for a rapid and strong normalisation of the monetary policy stance, by cushioning the burden of adjusting to the new reality, between the public and private sector.

To this end, given the challenges ahead of us, the Bank of Albania deems that the fiscal consolidation and the normalisation of the monetary policy stance are the best possible economic policy mix. This combination enables inflation to return to target within the first half of 2024, and it doesn't hinder economic growth premises.

"The Bank of Albania deems that the fiscal consolidation and the normalisation of the monetary policy stance are the best possible economic policy mix. This combination enables inflation to return to target within the first half of 2024, and it doesn't hinder economic growth premises."

Our projections suggest that economic growth in Albania will remain in the positive territory in the upcoming years as well. Although the external environment remains challenging and economic growth in Albania is expected to slow down in the short run, in the medium and long term, the reduction of inflation, fewer uncertainties and the stabilisation of financial conditions, will drive to an accelerated growth pace. The growth of the Albanian economy is expected to be underpinned by: the domestic demand

for goods and services; sound balance sheets of the private sector; maintaining the positive credit growth; as well as the continuation of the upward trend of tourism revenues.

Based on the above, the Bank of Albania judges that the macroeconomic framework forecasted in the draft budget is real and consistent, regarding both the current domestic trends of development and the expected monetary and fiscal policy stance.

However, given the importance of the fiscal consolidation and the additional uncertainties predicted, the Bank of Albania deems that this process should be monitored on ongoing basis and should be protected from risk scenarios.

In more details, the Bank of Albania notes that the fiscal consolidation in 2023 is based on:

- The increase in the share of tax revenues to GDP;
- The moderate increase of the share of staff expenses, for special funds and local budget, to GDP;
- The allocation of additional funds to cover interest expenses;
- Maintaining the share of public investments to GDP unchanged; and
- Reducing subsidies to the energy sector.

On the revenue side, the Draft Budget for 2023 predicts budget revenues at the level of ALL 632 billion, or 29% of GDP, up by 9% compared to the level expected for 2022. This prediction takes into account the expected growth of economic activity in Albania, the new fiscal measures, and the benefits expected from the improved efficiency of the taxation and customs administration. In more concrete terms, the growth in the nominal volume of the economic activity is expected to bring around ALL 22 billion additional budget revenues, the new fiscal measures are expected to bring around ALL 15 billion, whereas the improved efficiency around ALL 8 billion. The Bank of Albania judges that the central projection on total revenues is acceptable, although remaining on the upside of our expectations.

In the expenses side, the 2023 draft budget forecasts public expenses at the level of ALL 687 billion, or 31.6% of GDP. This prediction factors in the increase of wages and pensions, the rising costs of debt servicing, maintaining a high rate of capital expenses, and the significant reduction of subsidies to the energy sector, underpinned seemingly by the expected improvement of domestic production and the reduction of prices in international markets.

In principle, the Bank of Albania supports a consolidation process led by the growth in budget revenues. This action, which is based on the continuous elimination of informality and tax evasion, boosts competition and efficiency in the economy. It also preserves the space necessary for public spending, particularly for emerging countries, which are in the process of converging to the EU standards as well, such as Albania. Simultaneously, we support a controlled growth of current expenses in the short term, to address - in a targeted manner - the shock of inflation to the people most in needs.

However, the Bank of Albania estimates that the balance of risk in the Budget is on the side of deficit expansion. These risks stem from the downside risks on economic growth and the realisation of forecasted

revenues, as well as the uncertainties of predictions related to the degree of improvement of taxation efficiency and the balances of the energy sector.

To address these risks, the Bank of Albania suggests to:

- Provide a higher level of contingency funds in the budget, in order to increase operational efficiency and implement the spending plan, as a priority;
- Continuously monitor the performance of the financial balance of the Albanian energy sector, and to intervene in a timely manner in order to avoid potential costs springing from rising prices in foreign markets or production issues in the domestic market;
- Regularly monitor the performance of revenues and the public investments plan, in order to take the measures that keep the budget deficit within the planned parameters.

Dear Members of Parliament, allow me now to move on to the next point in the Bank of Albania's opinion on the draft budget 2023.

2. Strengthening the effectiveness and sustainability of public finances

The efficiency and flexibility of the fiscal policy are the two most desirable features of public finances.

The efficiency of fiscal policy means to establish a direct balance between its redistribution function - the fiscal instruments which mitigate social inequality and protect the vulnerable members of society - and its function as an instigator of economic development. The flexibility of public finances implies their ability to withstand unprecedented shocks, without engendering a steep increase in taxes or massive spending cuts. In this light, both the tax framework and the spending structure of the budget and their rate of realisation throughout the year, are of primary importance.

As regards the tax framework, the Bank of Albania has continuously emphasized that it needs to increase its sustainability and predictability. In parallel, designing a simple and standardized tax framework, as well as eliminating informality, would benefit the overall efficiency of public finances.

In this regard, we support the government's effort to enhance formality, assessing that the long-term benefits of this process surpass the short-term costs. At the same time, we encourage to accelerate the steps toward adopting the medium-term strategy of public revenues. This strategy should serve as an anchor and guide to our tax system, by reassessing the priorities and instruments of this system and by enhancing the predictability in the medium and long run.

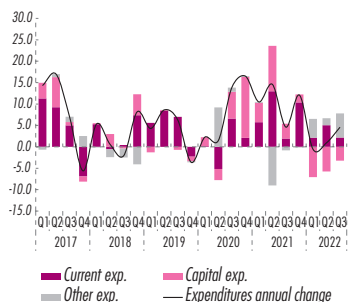
More specifically, the Bank of Albania demands the revision of an amendment proposed in the Draft Budget "On Revenue taxation," which aims to revoke the amendment enacted in the tax legislation regarding the accounting treatment for loan losses and their inclusion in the list of expense deductions. These improvements were an essential element in the National Strategy for the Reduction of Non-performing Loans, which was approved by the Albanian government and the Bank of Albania in 2015. This strategy was crucial for significantly decreasing the non-performing loans in the banking sector and for maintaining a low ratio of these loans in the future.

In this regard, we support the government's effort to enhance formality, assessing that the long-term benefits of this process surpass the short-term costs. At the same time, we encourage to accelerate the steps toward adopting the medium-term strategy of public revenues."

As regards the spending structure, the Bank of Albania deems that maintaining a direct relation between current and capital expenses is crucial to the efficiency and flexibility of public finances. In more concrete terms, the need for capital investments is apparent for emerging economies like Albania, in order to improve the physical capital stock that underpins the development of the country and the process of convergence with the EU standards. Moreover, maintaining a positive current balance enhances the flexibility needed to withstand shocks, so long as public investments have a higher discretionary degree in the realisation compared with current expenses.

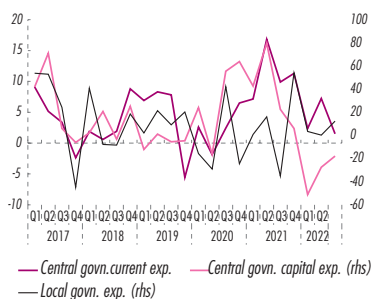
Chart 7

Realisation of expenditure was somewhat higher than in the first half of year



Notes: Composition of expenditure growth by quarter.
Source: Ministry of Finance and Economy.

Investment continue to remain lower from a year earlier



Notes: Annual growth in % of main expenditure items, by quarters.
Source: Ministry of Finance and Economy.

To this end, we deem that one of the positive aspects of the Albanian public finances is the high level of investments and their positive current balance structure. More specifically, capital expenses for the past five years have remained at an average of 5.5% of GDP, accounting for 18% of overall public expenses, on average. Also, these expenses were on average 50% higher than budget deficit, showing a relatively high level of fiscal responsibility in this regard.

In this context, the Bank of Albania considers it necessary to emphasise the importance of maintaining the current space for public investments in the Budget's structure. This requires attentiveness to current expenses in both the medium and long term, by increasing them in line with the structural improvements on the basis of public revenues and the war against informality.

While remaining on the issue of efficiency, the Bank of Albania continues to recall that, throughout the year, expenses should be better distributed in time and their concentration should diminish in the fourth quarter. This phenomenon - repeated and dictated to a larger extent by the uneven realisation of investments- creates unnecessary fluctuations in the domestic financial market and reduces the efficiency of public spending. Dear members of the Committee, allow me to present the third and final point.

3. Enhancing the long-term sustainability of public finances

If we were to assume a more scrutinized standpoint, we would realise that the long-term sustainability of public finances is the main feature for the assessment of fiscal policy. This sustainability serves as a final guarantee to the economic and financial stability of Albania. It drives the economic risk premia and affects the financing costs of the private and public sector.

In this context, the Bank of Albania assesses that the forecasted reduction of public debt in the 2023 draft budget, from 68.8% of GDP expected in 2022, to 67.5% of GDP in 2023, is a positive one. We assess that adopting an additional provision in the Organic Budget Law is also positive. This provision requires that a positive primary balance is maintained in every fiscal year, as a guarantee for the sustainable reduction of public debt.

In the same vein, in order to maintain and consolidate the sustainability of public finances, the Bank of Albania finds it appropriate to reiterate the following suggestions and recommendations.

On deficits in health and social insurance schemes.

The draft budget 2023 projects that expenses for social and health insurance consists of 1/3 of budget expenses. Also, the deficit of these schemes are expected to be around 4.2% of GDP, around 60% higher than the overall budget deficit.

The social and health insurance schemes will continue to be a heavy burden to the state budget. In this context, by considering also the unfavourable geographical trends, the Bank of Albania suggests the periodic review lending activity pension scheme, health insurance scheme and other social insurance schemes, with the aim to maintain these schemes on a stable trajectory and affordable for the state budget. On the management of Public - Private Partnership programmes

The Public - Private Partnership programmes (PPP) present potential risks to public finances. In this context, the Bank of Albania welcomes the heightened attentiveness in the draft budget toward potential PPP risks. We also welcome the strengthening of the role of the Ministry of Finance and Economy in conducting a preliminary analysis of these projects and continuously monitoring them.

“The Bank of Albania suggest for a continuous inclusion of an overall upper limit on the PPPs total value. This adjustment would supplement the control of the level of potential risk that PPPs would have on the soundness of public finances.”

However, in line with our previous position, the Bank of Albania suggests:

- Including an overall upper limit on the PPPs total value. This regulation would supplement the control of the level of potential risk that PPPs would have on the soundness of public finances;
 - The integration of contracting and selecting of PPPs process with strategic program of investments, as identified in the long-term development programs of the country.
- Finally, continuously improving the professional capacities of units that manage the assessment, contraction and monitoring of these projects, particularly regarding legal and financial obligations that they pose to the budget.

*Honourable Chair,
Dear members of the Parliament
Thank you for your attention!*



CHAPTER III

PRESS CONFERENCES ON MONETARY POLICY DECISIONS

- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision, 2 February 2022*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision, 23 March 2022*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision, 4 May 2022*
- *Governor Sejko: Statement to the Press Conference on Monetary Policy Decision, 6 July 2022*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision, 3 August 2022*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision, 5 October 2022*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision, 2 November 2022*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision, 21 December 2022*

Press conferences on monetary policy decisions

The Supervisory Council of the Bank of Albania meets 15 times a year, of which 8 are dedicated to monetary policy decisions. The monetary policy is formulated in the light of the main objective of the Bank of Albania – achieving and maintaining price stability. After each meeting, at 16.00, the Governor explains to the public, in a press conference the decision of the Supervisory Council on the monetary policy stance and the underlying analysis. At the end of the conference, the Governor answers questions by the journalists.

BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 0.5% **-2 February 2022-**

- *Economic activity expanded rapidly and steadily.*
- *Inflation accelerated in the fourth quarter.*
- *Our forecasts for the future are positive.*
- *The stable return of inflation to the 3% target is expected within 2023.*

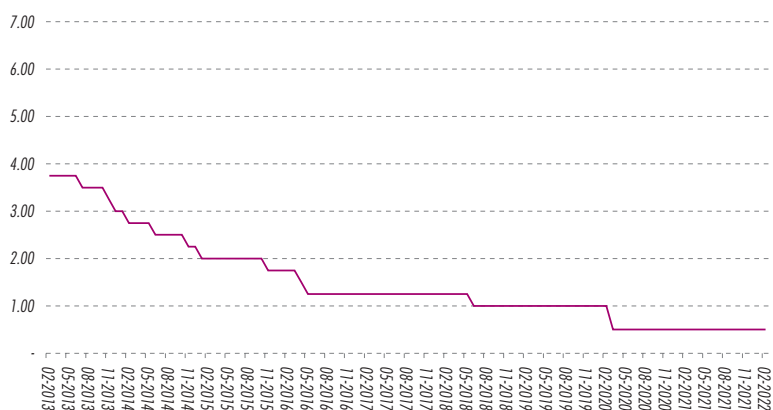
Dear ladies and gentlemen,

Today, on 2 February 2022, the Supervisory Council of the Bank of Albania reviewed and approved the Quarterly Monetary Policy Report.

The new economic and monetary information showed the swift and stable expansion of the domestic economic activity in the course of the second half of 2021 and the acceleration in inflation in the fourth quarter. The upswing in inflation was driven by stable factors, related to the progressive growth of the demand, employment and wages, also by transitory factors, related to the sharp rise of prices in international markets.

Our projections suggest economy will grow further in the next years. Inflation rate is expected to remain above our 3% target in the course of the current year, due to high prices in international markets. These shocks have resulted stronger and more persistent than under our initial assessments. Nevertheless, their impact on inflation is expected to gradually subdue during 2022. Further ahead, inflation is expected to robustly converge towards our target in the course of 2023, in reflection of the demand and supply balance and the increase of employment and wages in line with productivity.

Chart 8 Key interest rate, February 2022



Source: INSTAT, Bank of Albania calculations.

Against this backdrop, the Supervisory Council deemed that the current monetary policy stance remains adequate. The Supervisory Council judged that the current monetary stimulus serves to: bring inflation up to our target; underpin the further recovery of the Albanian economy; and maintain the right balance between risks that high prices in international markets may have on both the level of prices and economic activity in Albania.

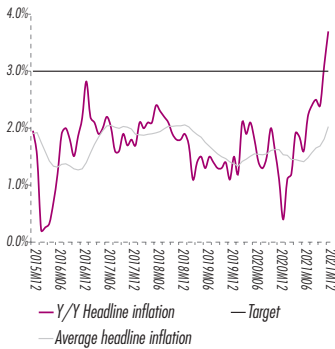
[I will now outline in more detail the main findings in the Quarterly Report, our expectations for the future, and the reasons backing the today decision of the monetary policy]

The new information of the last months resulted, overall, in line with our expectations, though supply-side shocks are proving to be stronger and more persistent than currently anticipated under our initial assessments.

At global level, the economic recovery from the pandemic is strong, but uneven across countries. In addition, it continues to be characterised by supply-chain bottlenecks and shortages in labour force. The strong demand for goods and services, constrained supply and high prices of electricity have pushed global inflation up. In this context, global monetary policy perspective is moving towards normalisation, and this is reflected also in the behaviour of the international financial markets.

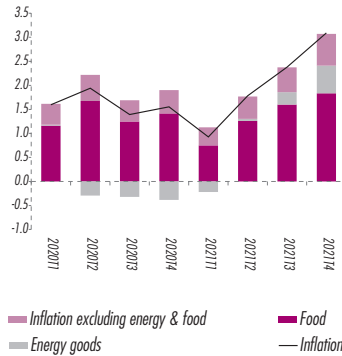
Chart 9

The inflation rate exceeded the Bank of Albania's target in the fourth quarter



Source: INSTAT and Bank of Albania's calculations.

Its performance reflected the increased inflation of food and energy items prices



Source: INSTAT and Bank of Albania's calculations.

Inflation in Albania has risen swiftly in the fourth quarter, reaching at 3.7% in December. Inflation was present in prices across almost all consumer basket items, whose prices are freely determined in the market. Nevertheless, the increase in processed foods and oil prices drove inflation to accelerate in the fourth quarter.

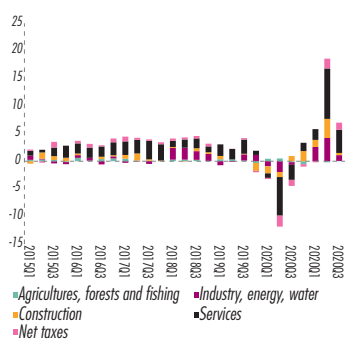
In macroeconomic terms, the sharp upswing in inflation, in the fourth quarter, reflected both the gradual and persistent action of demand-side factors, and the strong impact - but transitory - of supply-side shocks. In one hand, the continuing increase of the demand for goods and services was accompanied by a rise in employment and wages, coupled with a build-up of domestic inflationary pressures. This performance was reflected in the upward trend of core inflation in the course of 2021. On the other hand, the sharp rise in prices for foods, fuel, shipping costs and commodities in global markets, have considerably affected inflation picking up in the fourth quarter.

Domestic economic activity has been expanding at a relatively solid momentum. INSTAT data show that the Albanian economy grew by 10.4% over the first three quarters of 2021. The available information signals a further expansion of economy in the fourth quarter. Our analyses show that the volume of economic activity in Albania has already surpassed the pre-earthquake and pre-pandemic levels, both in aggregate and sectoral level, by displaying the swift recovery of demand and the low structural impact that these shocks have provided on the

production structure of economy. Overall, private sector's balance sheet remains sound, as shown by the growth of deposits and reduction of non-performing loans. Meanwhile, business confidence has performed consistently with the further expansion of output.

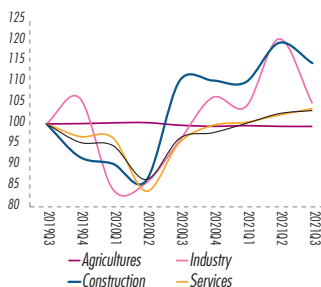
Chart 10

Economic growth slowed down compared to the previous quarter, affected by the more mitigated base



Source: INSTAT and Bank of Albania.

All sectors have surpassed the value added levels of the pre-pandemic



Note: The value added of the economic sectors adjusted seasonally and turned into an index based on the 2019 Q3.

Source: Bank of Albania.

The recovery of aggregate demand reflected the reduction of restrictions, improved confidence, improved partner economies, and the continuing support with simulating economic policies. The growth profile evidences expansion of consumption and private investments, coupled with the increase in public expenditures. In particular, the improved tourism activity drove to the fast growth of exports in 2021 Q3.

Economic growth has led to the improvement of labour market indicators. In the third quarter, employment and the labour force participation rates have been climbing, while unemployment rate dropped to 11.3%. In parallel, average wage rose by 6.9% at economy level and by around 8% to private sector.

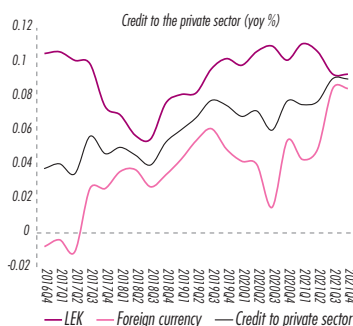
Monetary and fiscal stimuli have provided a vital support to the recovery process, in terms of both economic growth and for safeguarding monetary and financial stability.

The accommodative monetary policy has contributed through the reduction of borrowing cost and growth of lending to economy. Interest

rates on loans to both households and enterprises have remained at low levels, coupled with the stable exchange rate of lek against main foreign currencies.

Chart 11

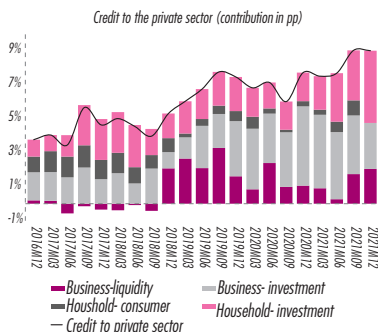
Credit to private sector recorded a high growth in the fourth quarter



Notes: The data indicate the annual changes (%) of lending by currency.

Source: Bank of Albania.

Both lending to enterprises and households have supported the growth of credit in the fourth quarter



Notes: The data indicate the annual changes of lending by purpose of use to the private sector.

Source: Bank of Albania.

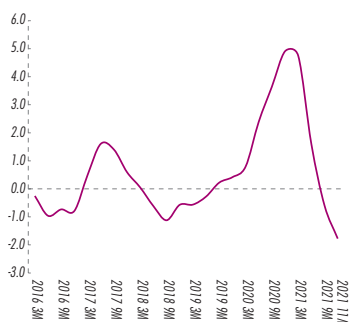
The favourable financing conditions, growth of demand and the improved non-financing supply conditions have driven the expansion of credit portfolio to private sector. In the fourth quarter, this portfolio grew around 9.9%, on average, the highest value of this indicator since 2011. Bank credit has served to finance consumption and investments as well as for meeting liquidity needs of both enterprises and households. Credit in lek has maintained a relatively high growth pace, in reflection of the monetary policy effectiveness and by mitigating the exchange rate risks to financial stability.

Current trends and supportive credit factors suggest its good performance in the future as well. These expectations are based on the high loan demand, the sound balance sheets of the banking sectors, the eased lending conditions, and in particular, the reduction of credit risk, as displayed by the further decrease - at 5.65% - of non-performing loans ratio in the end of December 2021.

Fiscal policy provided a positive contribution to the growth of aggregate demand over 2021, through the increase in investments and public consumption. Nevertheless, the fiscal stimulus has been reducing in the fourth quarter, in reflection of the slowdown in expenses and the fast increase of budget revenues.

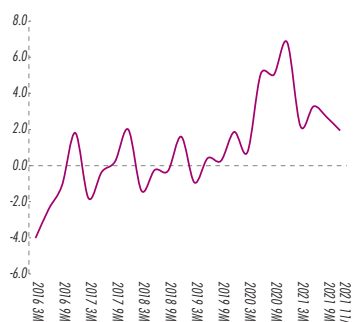
Chart 12

Fiscal impulse remained in negative territory...



Notes: Change in primary deficit ratio to GDP for 12 months, from the previous year. Positive values of this indicator show that fiscal policy has generated increased impulse into the economy
Source: Ministry of Finance and Economy, Bank of Albania.

... due to a lower deficit compared with the previous year



Notes: Budget deficit to GDP. Calculations based on quarterly flows. Positive values show deficit, negative values show budget surplus.
Source: Ministry of Finance and Economy

The fiscal stimulus is expected to be withdrawn in the following years. The budget of 2022 suggests that fiscal policy has turned towards normalisation in the course of 2022, while public finances are expected to accelerate the consolidation pace in the following years. The Bank of Albania deems that to enhancing the sustained economic recovery it is indispensable to turn attention towards reducing public debt. This course helps the proper sequence of economic policies normalisation process and strengthens fiscal stability in the long term.

Our projections for the outlook remain positive. The Albanian economy is expected to progress along an upward trajectory in the next years. Both domestic and foreign demands are expected to underpin economic growth, by reflecting the favourable financing conditions, improved confidence and private sector's balance sheets, and the demand growth in partner economies. In view of high levels in 2021, the economic growth rates are expected to be reducing in the course of 2022, and following. Nevertheless, expansion of demand is expected to be sufficient to ensure the increase in employment, in line with market supply, and the rise in wages, in line with our inflation target. In addition, the Bank of Albania assesses that expansion in the demand for goods and services will enable growth across almost all sectors of economy, although some of them will counter increased costs in commodities and energy products.

Inflation is expected to remain above our target during 2022, in reflection of the shock stemming from increased prices in global markets. However, this shock is expected to provide temporary effects. Our analyses and those from international institutions suggest that market will normalise in the first half of this year, and the effect of external shocks on inflation will be reducing.

Inflation is foreseen to return sustainably to 3% target starting from 2023. The reduction of supply-side shocks and the good demand/supply balance in the Albanian economy will support the return and stability of inflation to target.

Nevertheless, the balance of risks to inflation remains tilted to the upside. Upside risks mainly originate from the possibility of a faster or longer increase of prices in international markets, their embodiment to inflationary expectations, and a slower fiscal consolidation pace. Downside risks are related to a possible negative impact of the pandemic on the economic activity.

Judging on these projections, the Supervisory Council of the Bank of Albania deemed that the current monetary policy stance remains adequate for supporting the economy and inflation converging to target within 2023.

In this view, the Supervisory Council decided to:

- Keep the policy rate unchanged, at 0.5%;
- Keep the overnight deposit and overnight lending rates, unchanged at 0.1% and 0.9%, respectively.

The Supervisory Council assessed that the materialization of the baseline scenario - the further consolidation of the recovery, the continuous gradual increase of the domestic inflationary pressures, and the constrained supply-side shocks- would require a gradual normalisation of monetary policy in the course of 2022. This normalisation is expected to start in the next months and continue gradually over the medium-term horizon. Through this normalisation, the Bank of Albania will guarantee the achievement of our inflation target and establish the premises for a sustained economic growth in both medium and long term.

Also, the Supervisory Council considered that the materialisation of risk scenarios would require a revision of the monetary policy stance, by

either accelerating the monetary policy normalisation, or conversely by pushing it further in time.

In any case, the Supervisory Council highlights that monetary policy stance will be consistent with the achievement of our inflation target over the medium term and will offer the necessary support for the consolidation of the economic rebound.

“The Supervisory Council assessed that the materialization of the baseline scenario - the further consolidation of the recovery, the continuous gradual increase of the domestic inflationary pressures, and the constrained supply-side shocks- would require a gradual normalisation of monetary policy in the course of 2022. This normalisation is expected to start in the next months and continue gradually over the medium -term horizon.”

BANK OF ALBANIA INCREASES THE POLICY RATE TO 1.0% -23 March 2022-

- *The global economy is facing elevated prices of food, commodities and basic goods.*
- *Consumer price inflation increased in the first quarter.*
- *Against this backdrop, the Albanian economy has shown clear signs of recovery.*
- *The stimulating monetary policy of the Bank of Albania generated stable financial markets, low interest rates, and favourable financing conditions.*

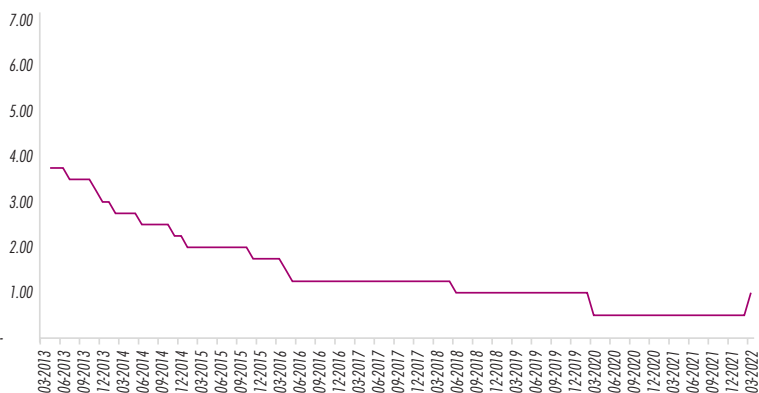
Dear ladies and gentlemen,

Today, 23 March 2022, the Supervisory Council of the Bank of Albania reviewed and approved the Intermediate Monetary Policy Report.

The Supervisory Council's discussions focused on the impact that the military aggression of Russia against Ukraine will have on the Albanian economy. Sanctions imposed on Russia and the heightened volatility and uncertainty affecting international markets have generated a new and challenging economic reality. This reality demands a revision of our previous projections and a re-evaluation on the adequacy of the monetary policy stance.

The geopolitical pressure will cause a twofold shock - directly on the supply side and indirectly on the demand side - on the Albanian economy. However, based on current analysis and projections, the Supervisory Council assesses that the Albanian economy will continue to grow in 2022 and beyond. This expectation is based on the vastness and strength of growth sources, assuming that the conflict will not evolve any further, as well as supposing that a combination of stimulating monetary and fiscal policies will continue to be implemented. On the other hand, the Supervisory Council assesses that inflation will remain above the Bank of Albania's target for most of the next two years.

Chart 13 Key interest rate, March 2022



Source: Bank of Albania.

Against this backdrop, the Supervisory Council decided to adapt the level of monetary stimulus in the economy. This adaptation aims at establishing the necessary monetary conditions to: observe our inflation target; safeguard financial stability; and ensure the sustained and long-term growth of the economy and employment in Albania.

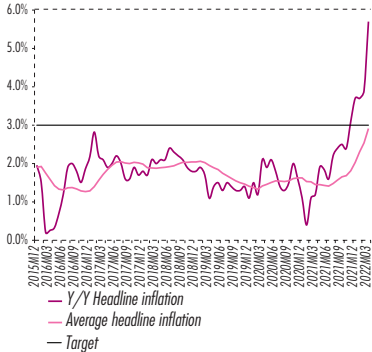
[I will now outline in more detail the main findings of the Report, our expectations for the future, and the reasons backing today's decision.]

The new data obtained suggest that the global economy is facing high prices of food, raw materials and commodities; a trend which is expected to persist. This shock will spillover to Albania as well.

Consumer price inflation increased in the first quarter. According to INSTAT, this inflation was 3.7% and 3.9% in January and February, respectively. Although official data is incomplete, the available information shows that prices will continue to rise in March.

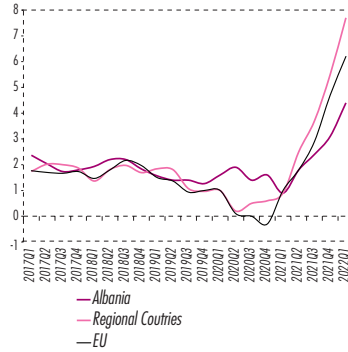
Chart 14

Annual inflation in Albania continued on the upward trajectory, due to strong pressures coming from global supply factors



Source: INSTAT and Bank of Albania's calculations.

The pandemic and recently the geopolitical situation are causing unpredictable rise of inflation



Source: INSTAT and Bank of Albania's calculations.

Performance of inflation in Albania has been affected by higher prices in food and oil, coupled with the increased costs of production and transportation. In macroeconomic terms, the upward inflation trend reflects the fast and stable increase of demand, higher wages and employment, as well as the swift upsurge of prices in international markets, over the last two quarters. The latter were high in 2021 H2 and have been under increasing pressure due to the geopolitical tension that accompanies the conflict in Ukraine.

The upcoming price performance will be defined by the intensity and duration of this conflict, by its impact on prices and international trade, as well as by the stability of the economic growth in Albania.

The data derived from foreign markets signal that prices will continue to remain high over 2022 and 2023. These high prices will corrode the purchasing power of households and will be accompanied by a deceleration of the growth pace in a global scale. Consequently, global inflation projections over the succeeding two years are revised upwards, while economic growth projections are revised downwards. Also, most of central banks have accelerated their plans for normalising the monetary policy stance.

Against this backdrop, the Albanian economy has shown clear signs of recovery. The available data shows that, in the first quarter of the previous year, the economic activity has surpassed the level registered

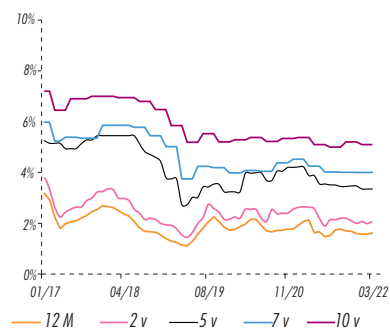
before the earthquake and the pandemic. Also, the data suggests that the positive growth moment has been carried over in the first two months of the current year as well.

Economic growth was broadly-based. This fall reflects the expansion across almost all sectors of economy and of the aggregate demand components. In macroeconomic terms, it was fuelled by: the improved confidence; a higher foreign demand; the favourable monetary and financial environment; and the fiscal stimulus of the past two years.

The stimulating monetary policy of the Bank of Albania has generated stable financial markets, low interest rates, and favourable financing conditions. Lending to the private sector increased by 11.8% in February, illustrating a growing support of consumer and investment funds. The climbing trend in lending was affected by the higher demand of households and enterprises, as well as the favourable lending policies adopted by the banking sector. This sector continues to be characterised by liquid and sound balance sheets and lower non-performing loans.

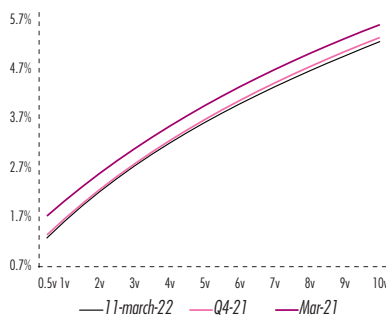
Chart 15

Yields in primary market have appeared stable and minimum changes have been tilted on the downside



*Note: t data show interest rates (monthly average) of public bills and bonds issued in the market.
Source: Bank of Albania.*

Yields curve has not changed substantially from December and is lower than in the previous year



*Note: data show interest rates (monthly average) of Government debt securities, by various maturities calculated upon Nelson Siegel model.
Source: Bank of Albania.*

Our assessments suggest that the aggregate demand is generating an almost complete utilisation of capital and employment. The economic growth is reflected in the gradual increase of employment and the acceleration in the pace of wage hikes. In particular, INSTAT data show that employment increased by 2.1% in annual terms during 2021

Q4, whereas wages in the private sector were up by 10.2%. The high increase of wage rate suggests that the labour market is characterised by few unutilised capacities.

Medium-term forecasts update shows that the Albanian economy will suffer the effects of the shock. The upswing of prices in global markets and the reduction of foreign demand, will be accompanied by high inflation rates and a slower economic growth compared with our previous evaluations.

However, assessments in the baseline scenario suggest that the Albanian economy will continue to grow during 2022 and in the medium term. Also, our projections show that economic growth will remain in positive territory even if the shock results stronger than current assessments.

On the other hand, supply-side shocks and the stability of domestic demand are expected to engender higher inflation rates. According to the forecasts of the baseline scenario, inflation will hover around the 5-6% level for the remaining part of 2022. In addition, as international markets are expected to calm down, inflation is expected to fall during 2023 and return to target in the last quarter of the year.

Consistent to the above forecasts and previous communications, the Supervisory Council of the Bank of Albania deems it necessary to adapt the monetary policy stance to the new conditions in the economy.

Our monetary policy has been in quite a stimulating position during the past two years. It has aimed to drive aggregate demand during the pandemic, as a precondition in honouring our inflation target. The mission of this policy has been successful.

However, the current supply-side shock and the strength of aggregate demand, risk hindering our objective of price stability in the medium term.

Judging on the above, the Supervisory Council of the Bank of Albania decided to:

- Increase the policy rate by 0.5 percentage points, from 0.5% to 1.0%;
- Keep the overnight deposit rate at the current level of 0.1%;
- Increase the overnight lending rate, from 0.9% to 1.9%.

The Supervisory Council evaluates that - even after this movement - the current monetary policy stance continues to stimulate the growth of economy, employment, and wages. In the new reality, this stance provides a good balance between the risk of accelerating inflation and the risk of damaging economic recovery.

Judging on the current information, the normalisation of the monetary policy stance will be a gradual process underpinned by the new data. However, the Supervisory Council observes that the balance of risks to inflation remains tilted to the upside. In this view, it will continue to monitor the reaction of the Albanian economy towards this shock, and will take all the necessary measures to observe our objective of price stability in the medium term.

“The Supervisory Council observes that the balance of risks to inflation remains tilted to the upside. In this view, it will continue to monitor the reaction of the Albanian economy towards this shock, and will take all the necessary measures to observe our objective of price stability in the medium term.”

BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 1.0%

-04 May 2022-

- *The global and the Albanian economy continue to be subject to the shock caused by the war in Ukraine.*
- *The new information analysed suggests that supply shocks will be stronger and more persistent over time than our previous assessments.*
- *However Supervisory Council observes that the Albanian economy will preserve its monetary and financial stability*

Dear media representatives,

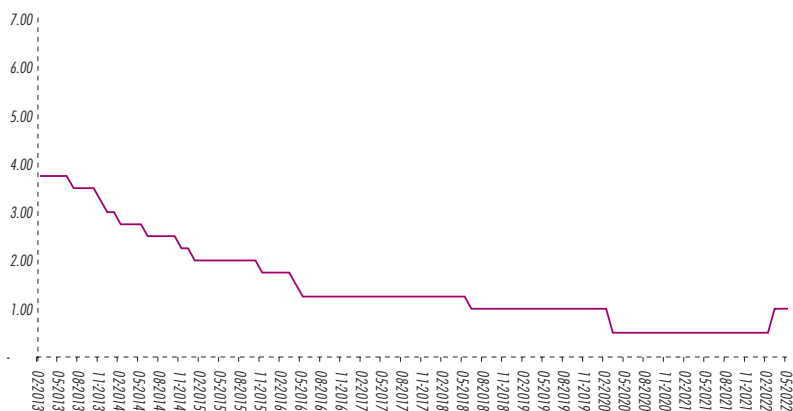
Today, on 4 May 2022, the Supervisory Council of the Bank of Albania reviewed and approved the Quarterly Monetary Policy Report.

The Albanian economy continues to be under the influence of the shock caused by the conflict between Russia and Ukraine. This shock has led to an upswing in prices of food, raw materials and energy; it has brought more uncertainties to economic agents and has been reflected in more restricted financial conditions. This complexity of factors has driven inflation upwards whereas economic growth has been downwards.

The new analysed information suggests that supply-side shocks will be stronger and more persistent over time than our previous assessments. Consequently, inflation is expected to remain above Bank of Albania's target for a longer time, while the pace of economic growth - albeit positive - will be lower than our start-of-year projections.

However, the Supervisory Council notes that the Albanian economy will preserve its monetary and financial stability. This forecast takes into account our following expectations: the conflict will not escalate; pressures in the global markets will alleviate over the next year; and economic growth with our trade partners will carry on. Also, the realisation of this prediction requires the gradual normalisation of the monetary policy in the medium-term horizon.

Chart 16 Key interest rate, May 2022



Source: Bank of Albania.

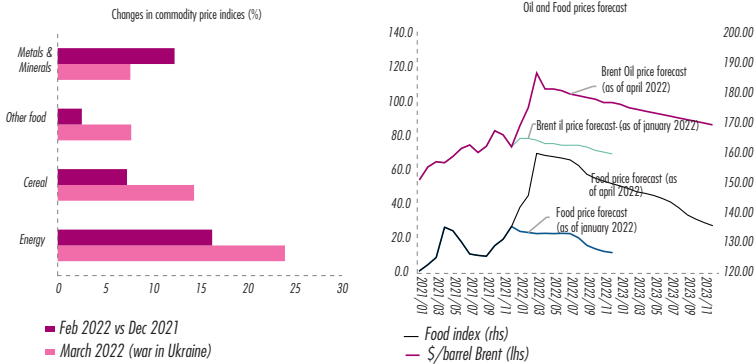
Against this backdrop, in today's meeting the Supervisory Council decided to keep the monetary policy stance unchanged.

[Let me explain in more detail the main findings of the Quarterly Report, our expectations for the future, and the reasons backing today's decision.]

The new analysed data showed that inflationary pressures in the global markets were stronger and more persistent than our previous expectations. The conflict in Ukraine and sanctions imposed on Russia caused new disruptions on the global production and distribution chains, while future uncertainties intensified. Prices in the global markets experienced a sharp hike and central banks acted aggressively as they contracted the monetary policy stance.

Domestic inflation increased during the first quarter of the year, averaging 4.4%. A particularly noticeable increase was recorded in March, where inflation jumped to 5.7%. For the most part, the inflation hike was caused by supply-side shocks which in turn were driven by the increase of prices of food and oil. However, in parallel, the upward trend of inflation has also reflected the quick economic recovery over the past year, the increase of employment and wages, as well as the upward trend of inflationary expectations.

Chart 17 Commodity prices in international markets and the related forecasts



Source: The Raw Materials Price Index, the World Bank, EIA, Bank of Albania.

The expansion of aggregate demand and the improvement of the job market have generated heightened inflationary pressures in the domestic economy. According to the INSTAT data the gross domestic product grew by 8.5% during 2021, surpassing the levels registered prior to the earthquake and the pandemic. Consumption, investments and exports supported the economic growth.

The higher demand for goods and services will be accompanied by an increase in employment, wages and production costs. As employment increased the unemployment rate fell to 11.4% at the end of 2021, which was reflected in the rapid increase of wages in the last two quarters of the previous year. The improvement of the job market will help buffer part of the shock caused by higher prices, but it also translates in more persistent pressures on inflation over time.

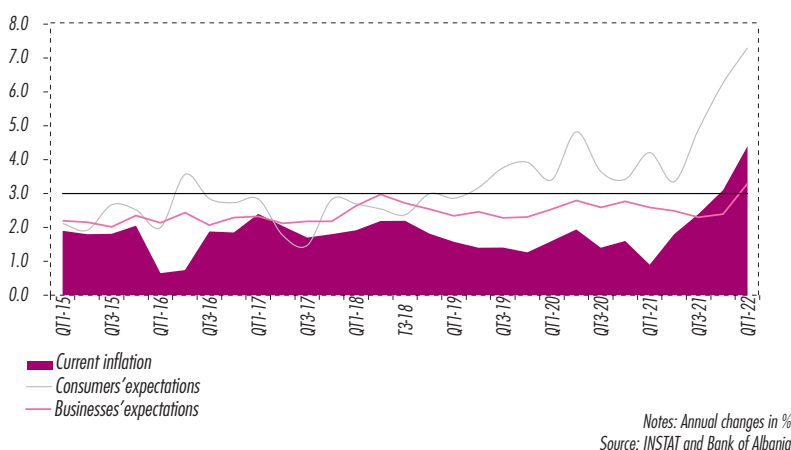
In macroeconomic terms, the expansion of aggregate demand is driven by the alleviation of restrictive measures imposed to curb the pandemic, improved confidence, higher external demand, as well as stimulating monetary and fiscal policies.

In particular, the strong monetary stimulus of the past two years has supported economic growth from the pandemic and earthquake shocks. The stimulating monetary policy has generated a stable financial environment, characterised by ample liquidity, low lending costs and a

stable exchange rate. In addition to these factors, the soundness of the banking sector and the higher demand for funds, have supported the stable credit growth. In March, the credit portfolio of the private sector increased by 12.8%, fulfilling the needs of households and enterprises for consumption, investments and working capital.

Also, in March, the higher policy rate was rapidly transmitted to the short-term segments of the monetary market. It has helped to better anchor inflationary expectations and stabilise exchange rate pressures. However, its impact on the prices of banking deposits and loans is not fully apparent yet.

Chart18 Expectations on inflation after one year of businesses and consumers



Our direct exposure to countries involved in the conflict is relatively low. However, war in Ukraine has faded the perspective for global growth, particularly in the European economies and has increased inflationary pressures.

The updates on our baseline projections suggest that domestic inflation remains relatively high during the succeeding period. The price upsurge in the global markets, the higher aggregate demand, as well as job market dynamics are expected to keep inflation close to the current level in 2022. Furthermore, it is expected to gradually decrease in 2023 and converge towards the target at the first half of 2024.

Against this backdrop, the Albanian economy is forecasted to continue growing in the medium-term horizon. The economic growth will continue to be supported by favourable financing conditions, sound balance sheets of the real and financial sector, as well as the continuation of export growth. However, the growth pace is expected to be slower compared to the beginning-of-year projections.

The risk balance around this prognostications remains shifted upwards as regards inflation and downwards as regards economic growth. It reflects the higher uncertainties caused by the conflict in Ukraine on the goods' markets, production and financial means.

Judging on the above, the Supervisory Council deemed that the monetary policy stance is adequate to meet the price stability objective and underpin the economic growth.

For these reasons the Supervisory Council decided to:

- Keep the policy rate unchanged, at 1.0%;
- Keep the overnight deposit and overnight lending rates, unchanged at 0.1% and 1.9%, respectively.

Given the available information, the current level of monetary stimulus provides the correct balance between the risk of inflation acceleration and the risk of economic growth slowdown.

However, the Supervisory Council will closely monitor the inflation dynamic and remains available to intervene at the right time and with the required force in order to guarantee the price stability objective.

The Supervisory Council deems that safeguarding this objective will require the normalisation of the monetary policy stance in the medium run. In accordance with our baseline projections, this normalisation will be a gradual process extended over the succeeding two years. However, as interest rates in Albania are quite low, the monetary policy will remain stimulating during this entire period. On the contrary, the materialisation of the risk scenarios may engender deviations from this scenario.

In any case, the monetary policy stance will be driven by the new data and the need to observe our price stability objective.

“The Supervisory Council will closely monitor the inflation dynamic and remains available to intervene at the right time and with the required force in order to guarantee the price stability objective.”

BANK OF ALBANIA INCREASES THE POLICY RATE TO 1.25%

- 6 July 2022 -

- *Inflationary pressures have been broadening.*
- *The Gross Domestic Product grew by almost 6% in the first quarter of the year.*
- *Our updated baseline scenario forecasts suggest that the Albanian economy will continue to register solid growth rates over a medium-term horizon.*
- *The balance of risks on inflation remains tilted on the upside.*

Dear media representatives,

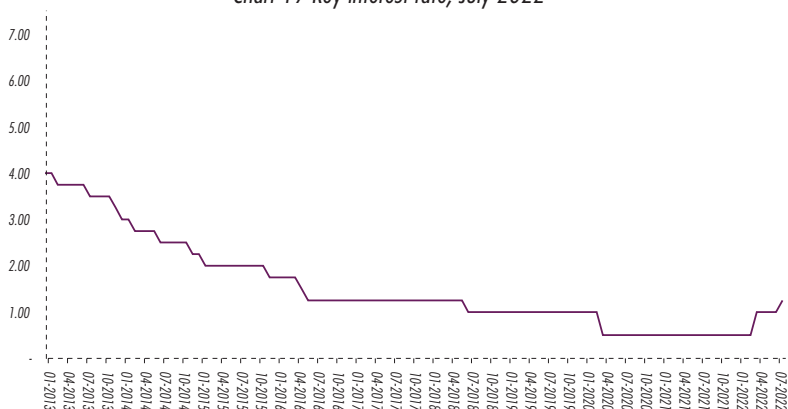
Today, on 6 July 2022, the Supervisory Council of the Bank of Albania reviewed and approved the Intermediate Monetary Policy Report.

The new information analysed continues to illustrate the impact that the military conflict in Ukraine has on the global and the Albanian economies. Surging commodity prices, tightening financial conditions and greater uncertainty have led to accelerating inflation rates and have started to weigh down on economic growth rates.

The revised analyses and our updated projections suggest inflation in Albania will continue to remain elevated during 2022. This inflation rate reflects – to the greatest extent - direct effects of the supply-side shock originating from international markets. Regardless, the impact of this shock can strengthen and be extended further in time, due to a relatively strong demand for goods and services in Albania.

Against this backdrop, the Supervisory Council judged that an accelerating inflation rate is the main risk jeopardising a sustained and long-term economic growth of Albania. In light of the above, the Supervisory Council decided to take further steps towards monetary policy normalisation. This normalisation aims at establishing adequate monetary conditions for controlling inflation in the medium term and signals our willingness to do whatever is necessary to safeguard our price stability objective.

Chart 19 Key interest rate, July 2022

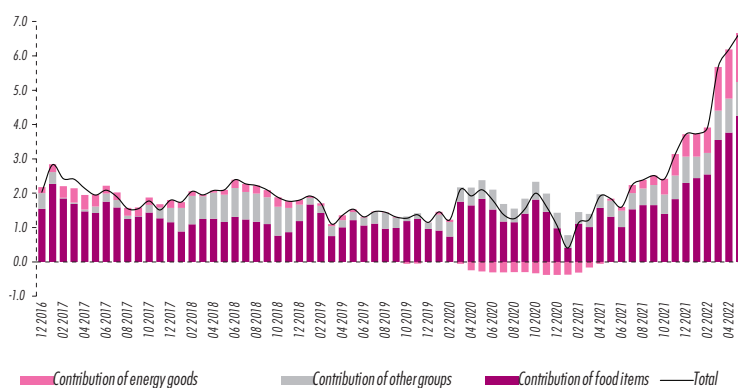


Source: Bank of Albania.

Below, I will outline today’s decision and explain in more detail the rationale behind it.

Inflation rose further in April and May, to 6.2% and 6.7%, respectively. These results were on the upper levels of our expectations. Inflationary pressures have been broadening across categories. While the inflation rate in these two months has mainly reflected surging energy and food prices, these upsurges in prices were present across most items of the CPI basket.

Chart 20 Group of processed foods and energy goods increased considerably the impact on inflation



Source: INSTAT and Bank of Albania’s estimations.

From a macroeconomic perspective, inflationary pressures continue to be affected by high inflation rates across global markets - reaching the highest levels in the past four decades – and by a strong demand for goods and services in Albania.

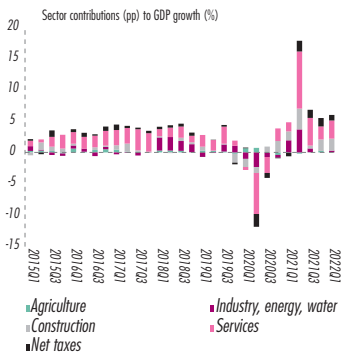
According to INSTAT data, the Gross Domestic Product of Albania grew by almost 6% in the first quarter of 2022. This growth rate outturn was on the upper levels of our expectations and reflected higher consumption, private investments and exports of goods and services. On the other hand, lower public investments and higher imports have contributed negatively to growth.

Higher demand for goods and services was reflected into a further expansion of employment and wages in the first quarter, providing an additional factor to the accelerating inflation rate. According to official data, unemployment fell to 11.3% in 2022 Q1, while wages in the private sector expanded by 10.5%. While administrative measures undertaken to increase formalisation in the labour market have positively impacted the evolution of wages, the fast wage growth rate suggests that labour force shortages in the market are exerting increasing pressures on production costs in Albania.

Going back to the macroeconomic context, the economic growth rate in the first quarter reflected the private sector’s sound financial balance sheets coupled with favourable financing conditions.

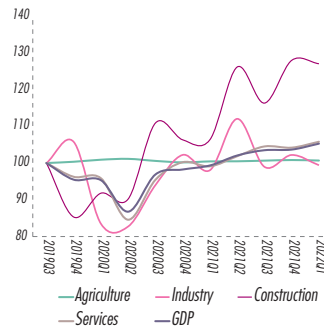
Chart 21

Economic activity accelerated in 2022 Q1



Source: INSTAT and Bank of Albania.

Production components appear over the pre-earthquake and pre-pandemic levels



Note: Value added of economy sectors, adjusted seasonally, and turned in a based index of 2019 Q3. Source: Bank of Albania.

The financial market in Albania continues to be characterised by contained risk premia, ample liquidity, a stable exchange rate and expanding credit.

Our monetary stimulus has been transmitted into low funding interest rates to the private sector. In parallel, higher demand for loans and sound banking sector balance sheets have translated into stable credit expansion. Annual credit growth to the private sector has accelerated further to 13.8% in May. This growth is present across both the enterprise and household segments and has supported the financing of consumption and investments as well as working capital needs.

Going forward, the performance of the economy remains subject of serious challenges. The combined effect of elevated prices in international markets, the tightening financial conditions, and the expected economic slowdown in the Euro Area, coupled with lower household purchasing power, is expected to weigh in opposite directions on economic growth and inflation rates in Albania.

Despite the above, our updated baseline scenario forecasts suggest that the Albanian economy will continue to register solid growth rates over a medium-term horizon. Growth rates will decelerate when compared to the first quarter of year, but will nevertheless be sufficient to preserve the Albanian enterprises and households' balance sheets.

Inflation, on the other hand, will continue to remain elevated in the coming quarters. Our baseline scenario projections indicate that the inflation rate will peak in the third quarter of the year, close to the current level, and will start decreasing progressively thereafter. Inflation is expected to return to target in the first half of 2024.

The baseline scenario projections forecast a gradual monetary policy normalisation going forward. The speed of normalisation will target an effective harmonisation of the intensity of the monetary stimulus with the intensity of medium-term inflationary pressures.

The balance of risks on inflation remains tilted on the upside. Particularly, additional strong supply shocks or strong second-round effects on prices would drive inflationary pressures to strengthen further. In contrary, a more negative economic growth in our trading partners or the conflict in Ukraine coming to an end quickly would reduce the inflationary pressures.

Judging on the above, the Supervisory Council assessed that the elevated inflationary pressures are the primary risk to a stable long-term growth of the Albanian economy.

As such, and in full concordance with safeguarding our price stability objective, the Supervisory Council decided to:

- Increase the policy rate by 0.25 percentage points to 1.25%, from 1.0%;
- Increase the overnight lending rate by 0.35 percentage points to 2.25%, from 1.9%; and
- Increase the overnight deposit rate by 0.15 percentage points to 0.25%, from 0.1%.

In the Supervisory Council's judgement, the monetary policy normalisation will create more adequate conditions to safeguard the price stability and enable the return of inflation to target within a medium-term horizon. At the same time, this normalisation will not jeopardise the conditions for economic growth in the medium term.

In addition, the Supervisory Council highlights that the materialisation of the baseline scenario will require the monetary policy normalisation cycle to continue over the coming quarters. In this scenario, the normalisation speed will be gradual, but in any case consistent with our medium-term inflation target.

The Supervisory Council will carefully monitor the inflationary pressure dynamics going forward. It stands ready to intervene in a timely manner and with the adequate force to guarantee the price stability in Albania.

“The Supervisory Council highlights that the materialisation of the baseline scenario will require the monetary policy normalisation cycle to continue over the coming quarters. In this scenario, the normalisation speed will be gradual, but in any case consistent with our medium-term inflation target.”

BANK OF ALBANIA INCREASES THE POLICY RATE TO 1.75% -3 August 2022-

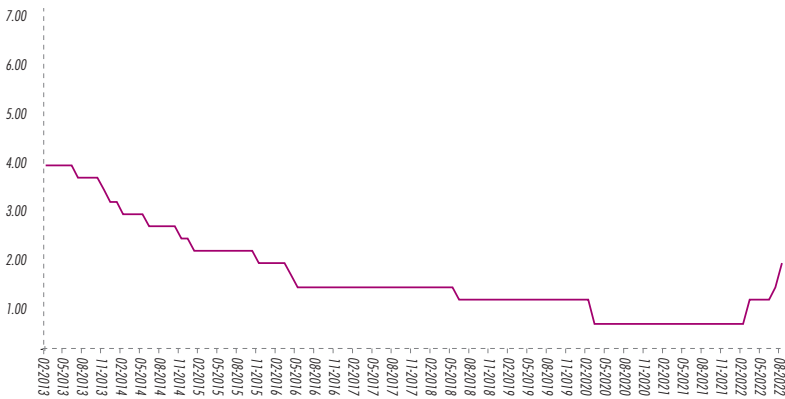
- *Inflationary pressures are broader and stronger than our previous estimations.*
- *The Supervisory Council decided to continue the process of monetary policy normalization.*
- *This normalization is necessary for the control of inflationary pressures and the return of inflation to the target within a medium-term time horizon*

Dear ladies and gentlemen,

Today, on 3 August 2022, the Supervisory Council of the Bank of Albania reviewed and approved the Quarterly Monetary Policy Report.

The new information analysed suggests that inflationary pressures are broader and stronger than our previous assessments. This reflects the rapid upswing in prices in global markets, coupled with the strong and stable demand for goods and services in Albania.

Chart 22 Key interest rate, August 2022



Source: Bank of Albania.

Against this backdrop, the Supervisory Council decided to continue the normalisation process of monetary policy. This normalisation is necessary to control inflationary pressures and for inflation to converge towards the target, within the medium-term horizon. In this manner, the monetary policy will help safeguard both the monetary and financial stability and will establish the adequate conditions for a stable and long-term growth of the Albanian economy.

[Below, I will outline today's decision and explain in more detail the rationale behind it.]

Consumer prices continued to increase in the second quarter. Inflation rose progressively during this period, peaking at 7.4% in June.

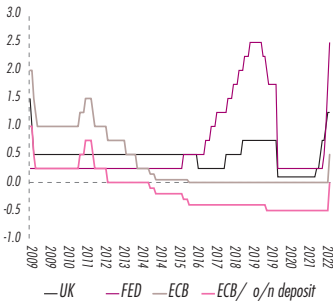
Inflationary pressures have been broadening. The increase of inflation mainly reflected surging prices of food, oil, and transportation. Nonetheless, the upswing in prices was present in a large variety of products, reflecting the transmission of supply-side shocks on the other items of the CPI basket as well.

The upward inflationary trend has reflected - to the greatest extent - the impact of the foreign demand shock. However, its spillover in the Albanian economy was favoured by a relatively strong demand for goods and services and the upward revision of inflationary expectations. The performance of inflation in the future will depend on the dynamics and interaction of these factors.

The external environment remains challenging. The conflict in Ukraine and the sanctions imposed on Russia have engendered a swift upsurge in prices in the global markets, which have started to reflect in slower economic growth rates. In parallel, the financial conditions have been tightening as central banks have increased the policy rates, and the uncertainty across economic and financial agents has remained high. The projections for the Euro area suggest that inflation will peak at the second half of the current year, but the balance of risks remains tilted on the upside.

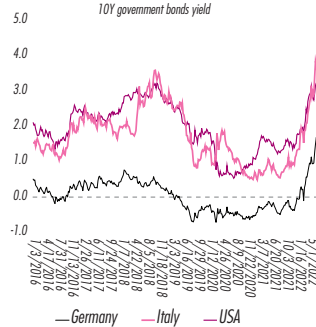
Chart 23

The high and continuous inflation rates have encouraged the acceleration of the normalization of the monetary policy



Notes: Key interest rates for large central banks with impact on international markets.
Source: Central banks.

Expectations for successive increases in the key interest rates have led to an increase in yields



Notes: 10-Year yields on government bonds.
Source: investment.

In the light of the above, the Albanian economy has shown a sustainable performance in the first half of year. The volume of economic activity grew by 6% in the first quarter of 2022, and the indirect indicators suggest a further growth in the second quarter. This performance reflects the sound financial balance sheets of households and enterprises, the operational flexibility of the private sector, and the resilience of the Albanian financial system against shocks.

Economic growth was driven by the expansion in households' consumption, private sector investments, and in the exports of goods and services. On the other hand, the upsurge in prices in international markets has increased the import bill, whereas the fiscal policy has been consolidating.

The favourable financial conditions in Albania have underpinned growth of the aggregate demand. The stimulating monetary policy has created a financial environment with low interest rates, ample liquidity, and contained risk premia. The demand for loans in Albania continues to remain high, while the banking sector continues to provide favourable lending terms and conditions. Consequently, credit growth to the private sector recorded 13.8% in June, maintaining the positive trend of the previous year. Simultaneously, credit portfolio quality remains sound, illustrated also by the non-performing loans ratio, which remains at the lowest levels over the last decade.

In parallel with these developments, lek exchange rate to euro has appreciated over the last two months. This appreciation reflects the high inflow of foreign currency as a result of the positive tourist season, while it mitigates that part of the supply shock which originates from the external market.

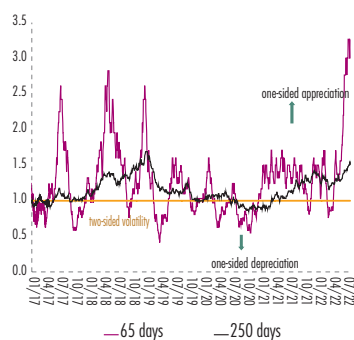
Chart 24

The lek has appreciated against the euro and has continued to depreciate against the US dollar



*Note: Data show the daily performance of ALL exchange rate against Euro and US dollar.
Source: Bank of Albania.*

The balance of pressures on the eur/lek exchange rate is on the appreciative direction



*Notes: The data present the indicator of bias for appreciation/depreciation, for more, see note 8.
Source: Bank of Albania.*

The expanded demand has led to a better utilisation of the production potential. In particular, the labour market continues to be characterised by an increase of employment, lower unemployment, and a swift increase of wages in the private sector, whereas enterprises report a higher utilization rate of production capacities. These developments are encouraging signals that the economy will continue to grow over the coming period.

The baseline scenario forecasts suggest that economic growth will remain in the positive territory over the medium-term horizon. The expansion of economic activity will continue to be underpinned by: a higher domestic and external demand; sound financial balance sheets; and an increase of employment, wages, and loans.

Inflation is expected to remain elevated over 2022 and will decline thereafter. In the absence of new shocks, price stabilisation in foreign markets is expected to mitigate inflationary pressures in Albania. Concurrently, our monetary policy normalisation will establish more adequate financial conditions for a sustainable economic growth and

for inflation edging down. Inflation is expected to converge towards our 3% target in 2024 H1.

These projections remain highly uncertain. Not least, inflationary risks remain tilted on the upside, while those related to economic growth on the downside.

Judging on the above, the Supervisory Council continues to assess that the elevated inflationary pressures are the primary risk to a stable long-term growth of the Albanian economy.

As such, and in full concordance with safeguarding our price stability objective, the Supervisory Council decided to:

- Increase the policy rate by 0.5 percentage points to 1.75%, from 1.25%;
- Increase the overnight lending rate by 0.5 percentage points to 2.75%, from 2.25%; and
- Increase the overnight deposit rate by 0.5 percentage points to 0.75%, from 0.25%.

In the Supervisory Council's judgement, the monetary policy normalisation will create more adequate conditions to safeguard the price stability and enable the return of inflation to target over the medium-term horizon. At the same time, monetary policy will remain accommodative throughout the normalisation process, and it will not jeopardise the conditions for economic growth.

The Supervisory Council highlights that the materialisation of the baseline scenario will require the monetary policy normalisation cycle to continue over the coming quarters as well. In this scenario, the normalisation speed will be gradual, but in any case, consistent with our medium-term inflation target.

"The Supervisory Council will carefully monitor the inflationary pressure dynamics going forward. It stands ready to intervene in a timely manner and with the adequate force to guarantee the price stability in Albania."

"The Supervisory Council will carefully monitor the inflationary pressure dynamics going forward. It stands ready to intervene in a timely manner and with the adequate force to guarantee the price stability in Albania."

BANK OF ALBANIA INCREASES THE POLICY RATE TO 2.25% **-5 October 2022-**

- *The new information analysed suggests that the supply-side shocks and the heightened uncertainty in international markets, are being transmitted in an elevated inflation and a slowdown of the economic growth in Albania.*
- *The rapid increase in prices remains the main risk for the monetary and financial stability of the country and for its stable and long-term growth.*
- *The Albanian economy continued to grow in 2022 H1, though the growth rates slowed down substantially in the second quarter.*

Dear ladies and gentlemen,

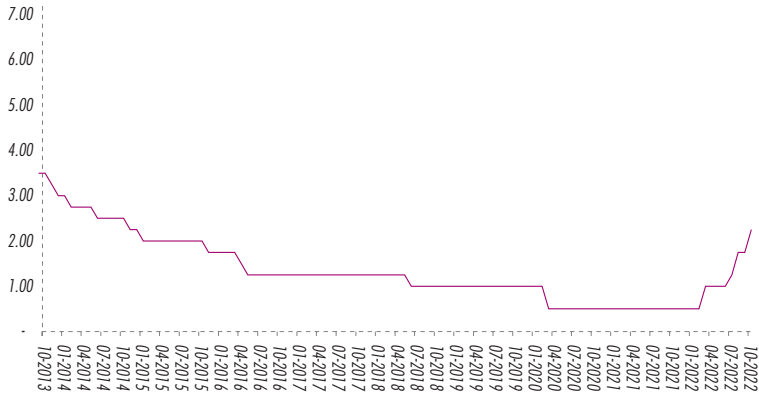
Today, on 5 October 2022, the Supervisory Council of the Bank of Albania reviewed and approved the Intermediate Monetary Policy Report.

The new information analysed in this Report suggests that the supply-side shocks and the heightened uncertainty in international markets are being transmitted in an elevated inflation and decelerated economic growth in Albania. In particular, foreign inflationary pressures, compared to our previous assessments, have turned to be stronger and more stable. In addition, these pressures are spreading across the economy owing to the soaring demand for goods and services, the dynamic labour market coupled with expectations on high inflation rates in Albania.

In light of the above, the Supervisory Council deemed that the swift upraise in prices remains the main risk jeopardising both the monetary and financial stability, as well as the sustained and long-term economic growth of Albania.

Against this backdrop, the Supervisory Council decided to continue the normalisation of monetary policy stance. This normalisation aims at establishing the necessary conditions for inflation gradually returning to the target within a reasonable horizon, and at a rather low cost for the domestic economic activity.

Chart 25 Key interest rate, October 2022

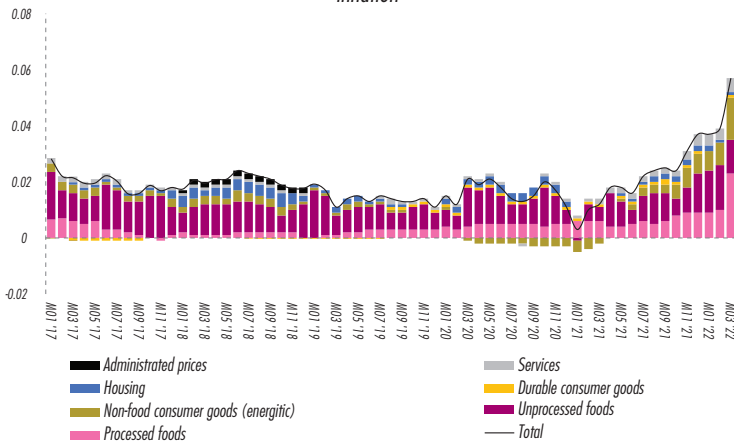


Source: Bank of Albania.

Below, I will outline today’s decision and explain in more detail the rationale behind it.

Inflation rose further to 7.5% and 8.0% in July and August, respectively. Soaring oil and food prices are still the main contributors driving up inflation. Nevertheless, prices embarked on an uprising trend are spreading across an increasing gamma of goods and services.

Chart 26 The group of processed food goods and services significantly increased the impact on inflation



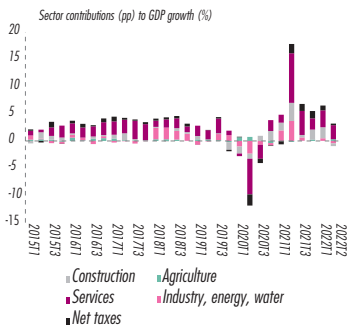
Source: INSTAT and Bank of Albania’s calculations.

The strengthened and broadened inflationary pressures reflect both the accelerated upsurge in international prices and the build-up of domestic inflationary pressures. War in Ukraine drove to a worsened existing global supply bottlenecks and arose new headwinds mainly in the markets of food items, energy and commodities. As a result, prices of these products pushed swiftly up in both global and Albanian markets. In parallel, the strengthened aggregate demand in Albania has underpinned the increased employment and wages, while has added to the domestic inflationary pressures.

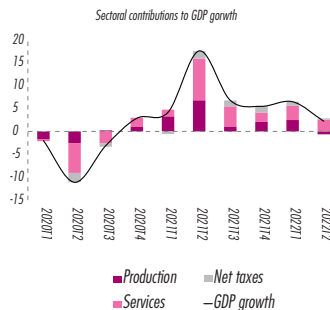
The Albanian economy continued to grow in 2022 H1, though the growth momentum slowed down substantially in the second quarter. According to INSTAT data, economic activity in Albania dropped to 2.2%, from 6.5% in the first quarter. The reduced growth rate mainly reflected the rapid decelerated activity in the sectors of construction and industry. Signs of decelerated activity were present across other sectors of economy as well.

Chart 27

Economic activity slowed down significantly in 2022 Q2



The slowdown of growth is related mainly to the annual contraction of the production activity contribution



Source: INSTAT and Bank of Albania.

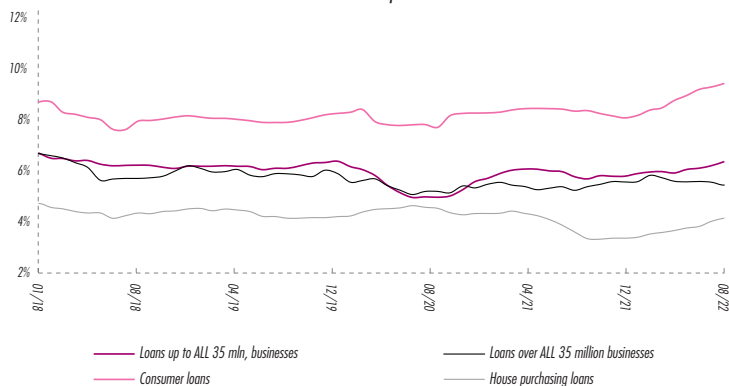
Source: Bank of Albania.

From a macroeconomic perspective, this slowdown reflected both the impact from the base effect coupled with the high costs and the heightened uncertainty negative-related effects. These factors drove to a lower growth pace of exports and investments of private sectors, dampened public sector spending and rapid increased imports of goods and services. In contrary, household consumption continued to record stable growth rates.

On a longer-term horizon, the uprising trend of the demand for goods and services has driven to an increasing full utilisation of production capacities in Albania. This trend is particularly present in the labour market, where the unemployment rate dropped to the historical minimum of 11.1% in the second quarter. The heightened demand for work and the lack of labour force are pushing up pressures in wage rises in the private sector. This performance supports the Albanian households' income in the following period, though it is a premise for inflationary pressures to stay longer.

The external monetary environment continues to remain simulating while the Albanian financial markets continue to remain calm. The increased policy rate is being transmitted in the financial market, but the interest rates are still simulating ones and close to the historical low levels. On the other hand, lek exchange rate continues to maintain appreciated positions against the European currency, by absorbing a part of supply-side shock originating from the external market.

Chart 28 Interest rates for loans in lek increased slightly for enterprises, while for households the increase is more pronounced



Note: The data indicate the monthly interest rates of new loans in lek in %, 6-months moving average. Source: Bank of Albania.

In reflection of high demand, still favourable financing conditions and the good banking sector,' soundness, bank credit has continued to finance consumption and investments. Credit to private sector grew by 13.7% in August, pursuing the trend of the recent years. This growth is present across both the enterprise and household segments and has supported the financing of spending and investments, both in lek and foreign currency. The quality of credit portfolio - alongside the increased trend

of loans - remains good, as illustrated by the stable low non-performing loans ratio.

The updated forecasts reaffirm our previous assessments that inflation will return to the target in the first half of 2024. In terms of time dynamics, inflation is expected to stay high in the next two quarters, and come down thereafter.

This forecast factorises the expectations for a progressive decrease of inflationary pressures in the external environment. Also, it calls for monetary policy normalisation to ensuring the control of second-round effects on the Albanian economy.

On one hand, the updated forecasts suggest the Albanian economy will continue to grow over the medium-term horizon, though at somewhat decelerated growth rates. The deteriorated economic outlook in Europe, the negative impact from high prices on the purchasing power of households and the reduced fiscal stimulus will drive to slower household consumption and investments of enterprises thereafter. On the other hand, the high rate of deposits, increased employment and wages, growth of credit and social subsidies are expected to support the balance sheet of private sector.

The available information suggests the balance of risks to the inflation is on the upside while the balance of risks to growth is on the downside. In particular, the war in Ukraine is the main source to uncertainty, and the escalation of the conflict may drive to higher prices of commodities, disruption of supply chains and lower economic growth, even a negative one, across the region and Europe.

Judging on the above, the Supervisory Council decided to:

- Increase the policy rate by 0.5 percentage points to 2.25%;
- Increase the overnight deposit rate by 0.5 percentage points to 1.25%;
- Increase the overnight lending rate by 0.5 percentage points to 3.25%.

In the Supervisory Council's judgement, the monetary policy gradual normalisation, from the quite stimulating position in the current form to a more neutral position is indispensable to pursue our inflation target of prices. In this view, this normalisation paves the path for the overall

economic and financial stability of Albania, the sustainable and long-term growth and the improved social welfare.

In consistence with our previous communications and with our medium-term forecast, the Supervisory Council highlights that the monetary policy normalisation cycle will continue over the coming quarters. The normalisation speed, in any case, will be data-dependent and sufficient to safeguard our medium-term inflation target.

The Supervisory Council will carefully monitor the situation to assess in a timely manner the implications to inflation performance and identify the necessary measures in a timely manner for its effective management.

“The Supervisory Council emphasizes that the normalizing cycle of the monetary policy will continue in the following quarters. In any case, the pace of normalization will be consistent with the new data and sufficient to respect our medium-term inflation objective.”

THE BANK OF ALBANIA INCREASES THE POLICY INTEREST RATE TO 2.75% -2 November 2022-

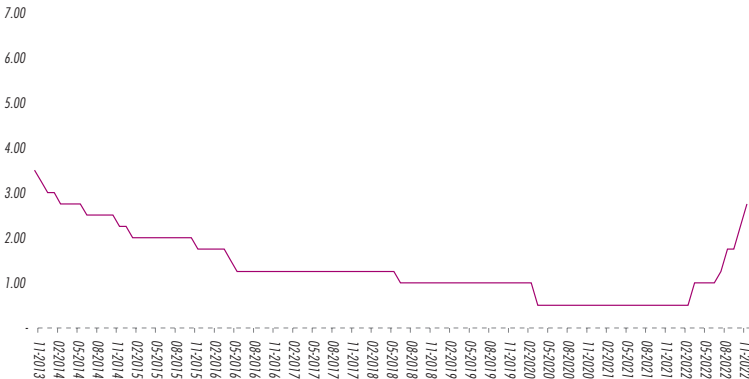
- *The consequences of the foreign supply shock in the Albanian economy are becoming more and more visible.*
- *Inflationary pressures are hiking and their base is expanding.*
- *The Supervisory Council decided to continue the process of monetary policy normalization.*
- *This normalisation is needed for controlling inflationary pressures and for inflation returning to target within 2024.*

Dear media representatives,

Today, on 2 November 2022, the Supervisory Council of the Bank of Albania reviewed and approved the Quarterly Monetary Policy Report. The Report concludes the external supply shock is increasingly weighing on the Albanian economy.

In particular, the information analysed in this Report shows that inflationary pressures are hiking and their base is expanding. This assessment is based on the continuing presence of soaring prices in global markets, the relatively strong demand for goods and services in Albania, the increasing utilisation of production capacities, and on the expected higher inflation rate from the economic agents.

Chart 29 Key interest rate, November 2022



Source: Bank of Albania.

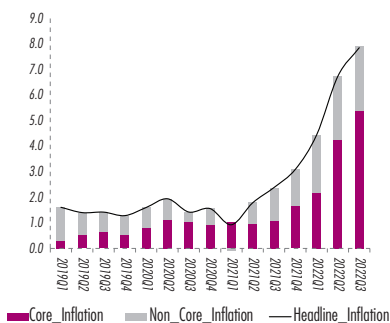
Against this backdrop, the Supervisory Council decided to continue the normalisation process of monetary policy stance. This normalisation is needed for controlling inflationary pressures and for inflation returning to target within 2024. Hence, the Bank of Albania will support the safeguarding of domestic monetary and financial stability and will establish the adequate conditions for the sustainable and long-term growth of the Albanian economy.

Consumer price inflation rose further in the third quarter, averaging 7.9% during the quarter, showing a progressive increase throughout this quarter.

In terms of consumer basket, the increased inflation reflected - at the highest degree - the upsurge in prices of food, oil and in transportation costs. These group-items generated around 80% of headline inflation in the third quarter. Nevertheless, the rise in prices has started to be present across most part of the basket, including those items whose most part of added value is created in Albania. This performance suggests the simultaneous increase in both inflationary pressures base and intensity.

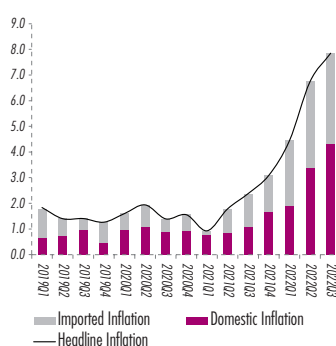
Chart 30

The increased contribution of core inflation pushed up the headline inflation



Source: INSTAT and Bank of Albania's estimations.

Imported inflation provided positive contribution in the formation of headline inflation



Source: INSTAT and Bank of Albania's estimations.

In the macroeconomic view, the rise in inflation mostly reflects the strong pressures coming from the external environment coupled with an increasing contribution from the domestic environment. Three factors drove to the he build-up of domestic inflationary pressures. First, the good cyclical position of the Albanian economy – which derives from the stable demand for goods and services and implies a high utilisation of domestic production capacities - is accompanied by a rapid increase

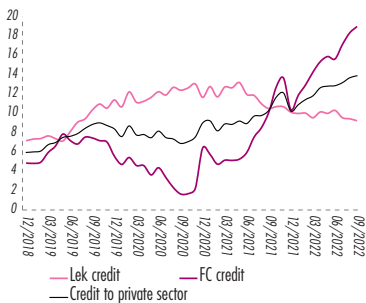
in wages. Second, high commodity, oil and energy prices, drive up the domestic production costs. Third, the upward expected inflation affects the rise in the prices of future covenants.

Despite these shocks, the Albanian economy has continued to grow during 2022. According to INSTAT data, the Albanian economy grew by 2.2% in the second quarter of 2022. Indirect data suggest economic growth has remained in positive territory in the third quarter as well, underpinned by the expansion in both private consumption and in the export of goods and services. This performance was reflected in the growth across the sectors of services, agriculture and in certain of branches of industry, as well as the further rise of employment and wages in private sector. Wages in private sector marked an annual increase of 11.9% in the second quarter, reflecting both the solid labour demand and the continuous fall in unemployment rate.

A simulating financial environment - despite the reducing intensity of monetary stimulus - supported the expansion of the economic activity. Financial markets in Albania continue to be calm, with sufficient liquidity for meeting the economy needs, with still accommodative interest rates, coupled with a strong and stable exchange rate. This financial environment has enabled the maintaining of credit growth pace to private sector. In September 2022, credit portfolio to private sector recorded an annual growth by covering the funding needs - both in lek and foreign currency - of the Albanian households and enterprises.

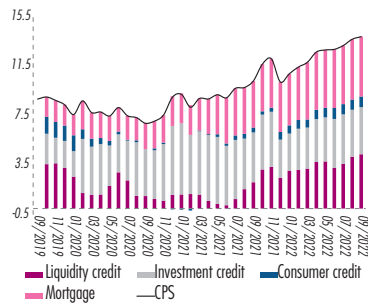
Chart 31

Credit to the private sector recorded high growth rates; the improvement in the growth rate of foreign-currency loans was offset by the deceleration in domestic-currency loans



Notes: The data represent annual changes (%) of the loan net of exchange rate cleared by the movements and off-balance sheets.
Source: Bank of Albania.

Rapid credit growth has been supported by the expansion of loans to enterprises to cover liquidity needs



Notes: The data represent annual changes of CPS and credit contribution by purpose of use.
Source: Bank of Albania.

However, economic growth showed a slowing momentum after the first quarter. This slowdown reflects the negative effects triggered by the hike in inflation in Albania and worldwide. In addition, these effects are manifested in the form of increased uncertainty of enterprises, acute tightening of financial conditions, contracted purchasing power and a larger import bill for the Albanian economy.

Our baseline projections for the coming two years, forecasts the Albanian economy will continue to grow while inflationary pressures will lower.

Inflation is expected to remain high in the fourth quarter of the current year, but progressively reduce during 2023, and return to the target in the second quarter of 2024. The ongoing normalisation process of monetary policy stance conditions this projection. In addition, it factorises our expectations for stabilised prices in international markets and further expansion of economic activity in Albania.

Economic growth in Albania is expected to remain in positive territory, though the growth pace will slow down the short run, to turn accelerating in the medium term. The sound balance sheets of households and enterprises, the further expanded Albanian exports and the decreased uncertainty in response to the expected reduced inflation will continue to fuel the economic growth. Also, a stable monetary and financial environment will continue to feed through the expansion of economic activity. In particular, the sound and liquid balance sheets of the banking sector guarantee that the latter will continue to fund the Albanian households and enterprises, in turn supporting the expansion in consumption and meeting the temporary needs for liquidity.

Nevertheless, the Bank of Albania points out that the overall environment remains challenging and heightened uncertainties surrounding projections. These uncertainties on inflation remain tilted on the upside, while on economic growth on the downside.

Judging on the above, the Supervisory Council re-affirmed its assessment that the elevated inflationary pressures are the primary risk to a stable long-term growth of the Albanian economy.

As such, and in full concordance with safeguarding our price stability objective, the Supervisory Council decided to:

- Increase the policy rate by 0.5 percentage points to 2.75%, from 2.25%;
- Increase the overnight lending rate by 0.5 percentage points to 3.75%, from 3.25%; and
- Increase the overnight deposit rate by 0.5 percentage points to 1.75%, from 1.25%.

In the Supervisory Council's judgement, the monetary policy normalisation, from its still simulating position to the current neutral one, is indispensable to safeguard our price inflation target. In this view, this normalisation paves the path for the overall economic and financial stability of Albania, the sustained and long-term economic growth and the improved social welfare.

In consistence with our previous communications and with our medium-term forecast, the Supervisory Council highlights that the monetary policy normalisation cycle will continue over the coming quarters. The normalisation speed, in any case, will be data-dependent and sufficient to safeguard our medium-term inflation target.

The Supervisory Council will carefully monitor the situation to assess in a timely manner the implications to inflation performance and identify the necessary measures in a timely manner for its effective management.

"The Supervisory Council emphasizes that the normalizing cycle of the monetary policy will continue in the following quarters. In any case, the pace of normalisation will be consistent with the new data and sufficient to respect our medium-term inflation objective."

BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 2.75%

- 21 December 2022 -

- *The Supervisory Council assessed that the Albanian economy is still suffering the external shock.*
- *Inflation is expected to converge towards its target by 2024.*
- *So far the normalisation of monetary policy stance has contributed in mitigating the inflationary pressures.*
- *The Albanian economy has continued to grow in the second half of the year.*

Dear ladies and gentlemen,

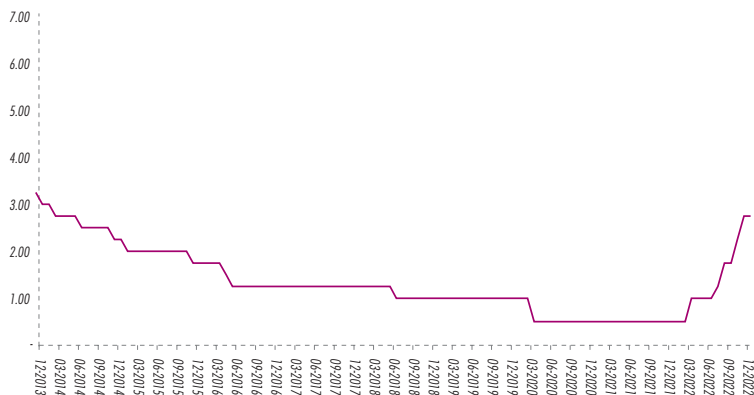
Today, on 22 December 2022, the Supervisory Council of the Bank of Albania reviewed and approved the Intermediate Monetary Policy Report.

The Supervisory Council assessed that the Albanian economy is still suffering the external shock effect. Nevertheless, inflation trajectory appears to have recorded a turning point towards reduction in the fourth quarter, while soaring prices and added uncertainty continue to weigh down on economic activity.

The updated forecasts for the future suggest that inflation will return to the target in the first half of 2024. In addition, economic growth in Albania is expected to grow in the future, though slowing the momentum in the short run, and increasing towards potential in the medium term.

The Supervisory Council assessed that so far the normalisation of monetary policy stance has contributed in mitigating the inflationary pressures, through: controlling the inflation expectations, reducing uncertainty; safeguarding stability on financial markets; and guaranteeing the stability of our national currency.

Chart 32 Key interest rate, December 2022

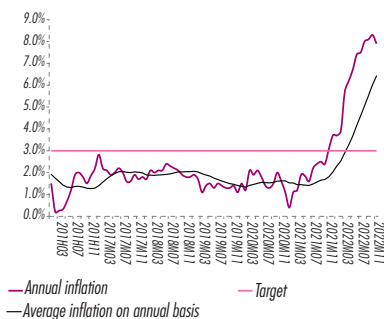


Source: Bank of Albania.

Based on these considerations, the Supervisory Council decided in the today's meeting to maintain the same the monetary policy stance. This decision factorises the reduced inflation in Albania and abroad in November 2022 and enables us to rapidly assess the speed of monetary policy normalisation, in full concordance with safeguarding our price stability objective and the positive economic growth pace.

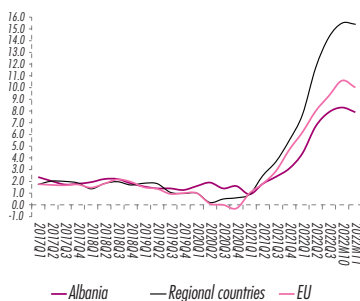
Chart 33

Inflation in Albania slowed down, as a result of the decline in the overall inflationary pressures.



Source: INSTAT and Bank of Albania's calculations.
 Note: The inflation target is the annual change in the Consumer Price Index (published by INSTAT)

The decline in costs in general, in particular those of transport, caused the inflation to decline globally.



Source: INSTAT and Bank of Albania's calculations.
 Note: Inflation rate are annual changes, in percentage.

[Below, I will outline today's decision and explain in more detail the rationale behind it.]

Inflation of consumer prices was slightly up in October and moderately down in November, settling at 8.3% and 7.9%, respectively.

In terms of consumer basket, inflation declined on the back of lower prices of oil and transportation costs, coupled with volatility in prices of food items in opposite directions. Inflation of other items of the basket showed less volatile. However, excluding the electrical energy price, the inflation rate - across almost all items in the basket - remains at high historical levels and exhibits clear signs of the impact stemming from the external shock.

From the macroeconomic perspective, the reduced direct effect of imported inflation determined the performance of inflation. This phenomenon was present in the performance of inflation in our main trading partners as well. Nevertheless, beyond the direct effect, their transmission in the cost of goods and services, along with the relatively stable demand for goods and services in Albania, which in turn ensures a high capacity utilisation rate, particularly in the labour market, continue to push up inflation.

The analysis of the available information suggests the economic activity in Albania has continued to grow in the second half of 2022. Though, similar to the second quarter, the economy has decelerated the growth pace, in a context of future uncertainties, increased production costs and dampened external demand. These consequences are manifested in the form of a larger import bill for the Albanian economy and slower public and private investments.

On the other side, labour market has performed quite positively, in 2022 Q3. Employment increased by 4.2% in annual terms, unemployment hit a new historical low of 10.6%, while average wage in private sector set to an annual growth of 12.4%. This performance shows that the aggregate demand in Albania remains solid, sufficient to generate an increase in both employment and wages. In addition, it exhibits the relatively sound basis of economic growth in Albania.

Chart 34 The continuous increase of employment has incited a further decline of unemployment rate at lower historical level



Source: INSTAT and Bank of Albania's estimations.

Financial markets continue to be calm. Lek exchange rate against the euro has trended towards appreciation, while the monetary policy normalisation, in both Albania and the euro area, is increasingly reflecting a complete pass through. Despite the interest rates applied on main financial products - deposits, loans and Government's securities have edged up, they continue to accommodate the growth. In response to them, the annual credit continues to manifest positive monthly flows, though at a decelerating pace in October, coupled with a good credit portfolio quality which has been trending towards improvement.

Our baseline projections for the next two years, suggest the Albanian economy will continue to grow, while inflationary pressures will be reducing.

Inflation is expected to reach a turning point in the fourth quarter of 2022, progressively reduce during 2023, and return to the target in the second quarter of 2024. This projection is based on: the expected reduced inflation in global environment; the progressive decreased second-round effects in Albania; and on the preservation of the positive economic growth rates over the coming period. Economic growth is expected to remain moderate in the second half of the coming year and gradually converge towards its historical rates in the next period, by providing a more balanced demand and supply ratio in Albania.

The updated projections for the future confirm our previous expectations. Nevertheless, this updating has suggested a more gradual normalisation of monetary policy stance.

Judging on the above, the Supervisory Council decided to:

- Keep the policy rate unchanged, at 2.75%;
- Keep the overnight lending rate unchanged at 3.75%.
- Keep the overnight deposit rate unchanged, at 1.75%.

The Supervisory Council re-affirms its assessment that the elevated inflationary pressures are the main risk to the stable and long-term growth of the Albanian economy. In addition, the Supervisory Council emphasises that, based on the current information, the further normalisation of monetary policy stance remains necessary to safeguard our price inflation objective. In presence of a risk balance to inflation still on the upside, this normalisation turns even more necessary.

In line with the previous statements, the Supervisory Council highlights that the speed and intensity of this normalisation has been and will continue to be data-dependent. The monetary policy stance will aim at providing the necessary conditions to safeguard price stability objective in the medium term, simultaneously paying attention to minimise their impact on curtailing the economic activity.

The Supervisory Council will carefully monitor the situation to continuously assess the inflationary pressures performance and identify in a timely manner the necessary measures for meeting the target.

“The Supervisory Council re-affirms its assessment that the elevated inflationary pressures are the main risk to the stable and long-term growth of the Albanian economy. In addition, the Supervisory Council emphasises that, based on the current information, the further normalisation of monetary policy stance remains necessary to safeguard our price inflation objective.”

Dear ladies and gentlemen,

Taking the opportunity of this public communication, which is the last one for this year, I would like - in line with the tradition - to present a brief overview of the work of the Bank of Albania throughout 2022.

This year - as already presented – triggered challenges to: the Albanian economy, in both macro and microeconomic levels; the monetary and financial stability; and to the decision-making of public and private sectors. The Bank of Albania, in capacity as the monetary authority of Albania, a key institution in safeguarding the financial stability, for developing the financial market and improving the payment systems, as well as a constitutional institution in charge of a set of functions for promoting the stable economic development of Albania, has provided a crucial contribution in dealing with these challenges.

Following, I will list some of main aspects in our work.

First, we have initiated a normalisation cycle of monetary policy stance during 2022, by raising the policy rate to 2.75% at the end of 2022, from the historical minimum of 0.5% at its beginning. This monetary policy action is similar to the one across central banks, globally. This action was taken in view of the strong and unprecedented shock of prices in external market, stemming from the unexpected military aggression of Russia to Ukraine, which jeopardised price stability worldwide.

The normalisation of monetary policy stance was a necessary and thoughtful process. It is necessary as it creates the indispensable premises to safeguard our inflation target, which is our legal mandate and, in turn the best contribution that the Bank of Albania can give for the economic growth and the welfare of the society in both the short run and medium term. The history of economy shows that the high-inflation periods are characterised by low and volatile economic growth, less jobs, lower wages and income for a considerable part of the society. At the same time, this normalisation was prudential, always driven by careful analyses of the new information, aiming for the necessary monetary measures in place to contain inflation with the lowest costs on the economic activity. This philosophy shall guide our monetary policy decision-making in the next year as well.

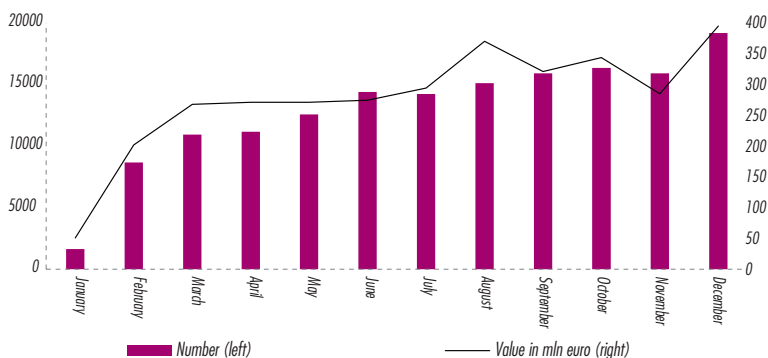
Second, the Bank of Albania has contributed in providing a sound and effective financial system, through: strengthening the legal and regulatory framework; prudential supervising the banking activity; intensively collaborating with homologue authorities; as well as through fighting money laundering and terrorism financing. In this context, we updated the annual cycle of resolution plans and carefully managed the resolution fund. The latter has been increasing continuously and provides an added guarantee to withstand financial shocks.



In parallel with our work, I am pleased to note that Albanian banks have good reserves of capital, liquidity and low non-performing loans ratio; the latter were down to 5% in October, the lowest historical level. In addition, our stress tests show that the banking system is, overall, resilient to shocks even in adverse scenario, and able to support the economy.

Third, the Bank of Albania has provided modern and effective systems for the conduction of payments and we have met the economy's demand for cash, by enhancing the confidence in our monetary and financial system. Thanks to a multi-year work, financial inclusion of the population and use of electronic payment instruments have been increasing, as shown by the higher number of Albanian citizens having a bank account and figure of electronic payments. Meanwhile, the AIPS Euro operationalization for the settlement of the domestic euro-denominated transfers within the country has considerably lowered the costs and has saved around EUR 10 million to Albanian citizens.

Chart 35 Progress of the number and value of transactions for customers processed in the AIPS EURO system

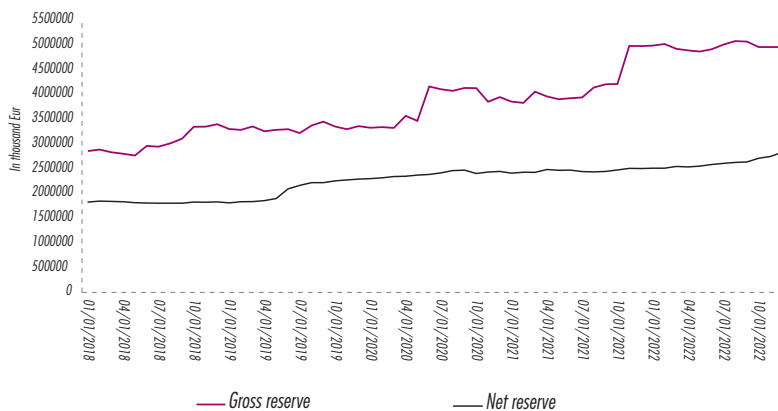


Source: BoA.

Also, in 2022, we completed the series of new banknotes with the last two denominations, of 500 Lekë and 2000 Lekë, respectively.

Fourth, the Bank of Albania has continued to manage the foreign exchange reserve of Albania, in compliance with the best criteria in the field of liquidity and security.

Chart 36 FX reserve performance



Source: BoA.

In operational view, I would like to briefly summarise the measures we have undertaken for a broader participation of individuals in the auctions of Government's securities, by reducing fluctuations in financial markets and enabling a better monetary policy pass-through in markets.

Fifth, the Bank of Albania has actively contributed in the European integration process, while enhancing the dialogue with the Albanian and foreign partners. The opening of negotiations in July 2022 marked an important step for the Albania's progress in its path towards the EU membership, while a more intensive commitment is needed. To this end, the Bank of Albania has embraced a timely and qualitative action in this regard. The latest Progress Report of the European Commission assesses that the Bank of Albania is financially independent, with sufficient instruments, competence and administrative capacity to function effectively and to conduct an efficient monetary policy. We will continue to contribute to the long-lasting aspiration of Albania, which is the integration process of the county in the European Union. In addition, we have collaborated throughout 2022, with the World Bank and other institutional partners for the establishment of two important national strategies: "The Climate Changes in Banking System"; and 2. "Financial Education and Inclusion" strategy.

Last, I would like to highlight that the Bank of Albania has worked and progressed across all other aspects of its activity: financial statistics; communication with public and with all the economic and society actors; financial education; scientific research; etc.

The cautious, coherent and professional decision-making of the Supervisory Council of the Bank of Albania has oriented and underpinned the accomplishment of our work objectives and results. This decision-making has given life to the mission, vision and values of the Bank which are presented in the Medium-Term Development Strategy of the Bank of Albania.

To ensure compliance with the law and other acts regulating the daily activity of the Bank of Albania, the Supervisory Council is regularly informed by the internal and external auditors.

Concluding, I assure you that the Bank of Albania has been fully committed and will continue to be intensively engaged for the thorough improvement of its work and in adopting the best central banking standards. Both global and domestic environments remain challenging,

but the Bank of Albania will be vigilant on the new developments to meet our legal duties for the welfare of the Albanian citizens.

I wish you a successful and prosperous year!

“The Bank of Albania has been fully committed and will continue to be intensively engaged for the thorough improvement of its work and in adopting the best central banking standards. Both global and domestic environments remain challenging, but the Bank of Albania will be vigilant on the new developments to meet our legal duties for the welfare of the Albanian citizens.”



CHAPTER IV

PRESS CONFERENCES WITH THE IMF MISSION CHIEF AND THE MINISTER OF FINANCE AND ECONOMY

- *Governor Sejko: Statement at the joint press conference, virtually, with the IMF Mission Chief for Albania and the Minister of Finance and Economy, 10 October 2022*

Press conferences with the IMF Mission and the Minister of Finance and Economy

In the framework of Article IV discussions of the IMF's Articles of Agreement, the IMF missions visit Albania and meet with representatives of its main institutions. At the conclusion of each visit, a joint press conference is held with the Governor of the Bank of Albania, the IMF Mission Chief and the Minister of Finance and Economy.

GOVERNOR SEJKO: STATEMENT AT THE JOINT PRESS CONFERENCE WITH THE IMF MISSION CHIEF FOR ALBANIA AND THE MINISTER OF FINANCE AND ECONOMY - 10 October 2022 -

Dear media representatives,

As you already informed, in the last two weeks, the Bank of Albania and the Albanian government authorities have been engaged in intensive discussions with the IMF Mission, in the framework of periodic Article IV consultations. Discussions in these meetings were focused on the current challenges to the Albanian economy in its path towards recovery, and the structural reforms which would enable a faster and more stable development of Albania in the long term.

Allow me first to thank the IMF Mission for the open exchange of views, in addition to the fruitful and transparent discussions. Overall, I see that both the Bank of Albania and the IMF share similar opinions on the challenges that lie ahead.

The swift surge in international prices following the military attack of Russia to Ukraine, triggered serious economic and social challenges to the global economies and societies, including Albania.

In Albania, inflation hit 8% in August, showing a rapid increase and with a broad base. We have already highlighted, that the Bank of Albania deems that climbing inflation is the main threat to both the macroeconomic stability and the sustainable and long-term growth of the country. This inflation is dampening the purchasing power of households; it is heightening the uncertainty for the future in each cell of the economy; it is simulating volatility in financial markets; and it is harming long-term perspectives of development. To this end, economic policies should primary focus on

“The Bank of Albania is committed to the gradual normalization of monetary policy. This normalisation is a symmetrical process with that undertaken from all central banks, across the region and globally, which are facing high inflation rates as well.”

taking coordinated measures to mitigate inflation costs and control its return to the target, in a timely manner period and at rather low costs.

Based on this judgement, the Bank of Albania has embarked on the gradual normalisation of monetary policy. This normalisation is a symmetrical process with that undertaken from all central banks, across the region and globally, which are facing high inflation rates as well. It engenders a progressive raise of the policy rate, by slowly changing the nature of the monetary policy stance from the current position, which has been stimulating, toward a more neutral position, which provides a more sustainable support for the long-term growth of Albania.

During the discussions of the past two weeks, we have gladly observed that our viewpoint is also shared by the IMF Mission and the Ministry of Finance and Economy.

Our future projections suggest that inflation will continue to remain high during the two forthcoming quarters as well. Next, the stability of prices in foreign markets and the normalisation of the monetary policy stance will induce a progressive reduction of inflation, until its return to objective in 2024 H1.

In the same vein, our projections suggest that the Albanian economy will continue to grow in the medium-term horizon. Although the economic activity will suffer from the negative consequences of inflation, the economic growth of Albania is expected to remain in the positive territory.

“Our projections suggest that the Albanian economy will continue to grow in the medium-term horizon. Although the economic activity will suffer from the negative consequences of inflation, the economic growth of Albania is expected to remain in the positive territory. Economic growth will continue to benefit from the overall financial and economic stability domestically, the sound balance sheets of enterprises and households, as well as the continuing support of the banking sector with credit and payment instruments.”

Economic growth will continue to benefit from the overall financial and economic stability domestically, the sound balance sheets of enterprises and households, as well as the continuing support of the banking sector with credit and payment instruments.

In this context, it is appropriate to emphasize that the banking sector appears sound, liquid, and well-capitalised. The continuing reforms undertaken in the past years have borne their fruits. The consolidated

banking sector, the improved credit environment, the comprehensive developed financial markets and payment systems, coupled with the initiatives to boost the use of national currency, have notably contributed in the qualitative improvement of the banking sector stability and efficiency. The growth rate of lending to the private sector recorded a progressive improvement, culminating to 13.7% in August. Also, it shows a good coverage of the need of enterprises and households for long-term financing and liquid tools. The stable growth of credit and the increase in the quality of its portfolio, are significant indicators which demonstrate the sector's support to the recovery process of Albania.

As a result, the Bank of Albania will continue to work thoroughly for: the prudential regulation and supervision of the banking activity; the development of financial market and payment system; the promotion of the financial stability of the country; as well as the enhancement of financial education and inclusion of the public. Despite the numerous challenges that lie ahead, I am confident that the banking industry will continue to remain a trusted partner to the Albanian enterprises and households.

In conclusion, the Bank of Albania strongly advocates for and actively promotes the importance of prioritizing structural reforms within the banking sector. This agenda of reforms has now found a stable anchor in the process of negotiations that we are undertaking in the framework of the European Union membership.

The continuous investment in reforms which bolster and encourage the macroeconomic stability of Albania, the improvement of business climate, the increase of efficiency and competitiveness, the strengthening of human and institutional capacities, and the comprehensive development of infrastructure, is the only path towards a more rapid economic and social progress.

“The continuous investment in reforms which bolster and encourage the macroeconomic stability of the country, the improvement of business climate, the increase of efficiency and competitiveness, the strengthening of human and institutional capacities, and the comprehensive development of infrastructure, is the only path towards a more rapid economic and social progress.”



CHAPTER V

SPEECHES AND PRESENTATIONS AT CONFERENCES

- *Governor Sejko: Address at: "Lending to and funding the Albanian agriculture sector", 26 January 2022*
- *Governor Sejko: Address at the opening ceremony of the Money Week 2022, 24 March 2022*
- *Governor Sejko: Opening remarks at the launching of the EBRD Transition Report 2021-2022, 5 April 2022*
- *Governor Sejko: Address at the signing Ceremony of the Memorandum of Understanding of the EBRD with ProCredit Bank Albania under the Albanian Agribusiness and Tourism Support Facility (AATSF), 11 April 2022*
- *Governor Sejko: Address at the International Conference "Rebound Rebuild Reinvent for a Sustainable and Equitable Development", 11 June 2022*
- *Governor Sejko: Speech at the AAB Forum: "Digitalisation vs cash", 14 June 2022*
- *Governor Sejko: Address at the promotion of the book "Towards a new crisis", 5 July 2022*
- *Governor Sejko: Address at the regional summit on "Monetary policy in an inflationary environment", Bečići, Montenegro, 1 October 2022*
- *Governor Sejko: Welcome address at the Annual Conference of the Bank of Albania 2022, 27 October 2022*
- *Governor Sekjo: Opening address to the 8th meeting of the National Payment System Committee, 9 November 2022*
- *Governor Sejko: Greeting speech to the General Assembly of the American Chamber of Commerce, 17 November 2022*
- *Governor Sejko: Welcome remarks at the 16th SEE Economic Research Workshop, 5 December 2022*
- *Governor Sejko: Address at the year - end event organised by the Albanian Association of Banks, 15 December 2022*
- *Governor Sejko: Address to the end-of-year meeting with journalists, analysts and media representatives, 20 December 2022*

Conferences and workshops

The Bank of Albania organises a range of public activities, conferences, workshops, and round tables to address important issues related to central banking and economy, relevant to the activity of the Bank of Albania. In addition, the Governor of the Bank of Albania attends other events organised by the main institutions in Albania, international financial institutions and other central banks. In these events, the Governor presents assessments and detailed analyses of the Bank of Albania and his opinion on the economic and financial developments and the role of the Bank of Albania, its experience regarding monetary policy and safeguarding financial stability in Albania, as well as challenges of the Bank of Albania regarding various issues.

**GOVERNOR SEJKO: ADDRESS AT:
“LENDING TO AND FUNDING THE
ALBANIAN AGRICULTURE SECTOR”
- 26 January 2022-**

*Your Excellency Prime Minister,
Honourable Madame Ministers,
Honourable Head of Albania for the EBRD,
Dear friends and colleagues,*

Let me first to thank you for the invitation to participate in this event, organized to discuss on lending issues of the agriculture sector in Albania and launch the initiative on Albania Agribusiness and Tourism Support Facility (AATSP) mechanism.

The Bank of Albania has continuously welcomed the transparent and constructive dialogue amid public authorities, private sector, banking industry and international partners, to address issues which serve to unclog the potential development and welfare growth of Albania.

In particular, allow me to emphasize the fact that - despite the considerable progress in the last years - the Albanian agriculture sector, overall, and branches related with it- agritourism and agribusiness - are still far from the full utilisation of both resources and potentials they have.

In figures, almost half of the Albanian population lives in rural areas and around 1/3 of labour force in the country are employed in agriculture sector. Yet, this sector generates less than 20% of value added in the economy, while productivity of labour force employed in agriculture and their income per capital are half of other branches of the economy.

In my view, the sustained and balanced development of the country clearly needs a higher attention to agriculture sector, for improving its production capacity coupled with the growing of rural area population's welfare, and in turn promoting social equity.

The agricultural sector faces many and complex problems of development. At a considerable degree, these problems are out the competence and expertise sphere of the Bank of Albania. However, I believe that the topic of our today's discussion: support with funds and loans to the agricultural sector, deserves a higher attention by the banking system.

Currently, agricultural sector benefits only 1.7% of the funding that banks provide to private business. This ratio has not change over the last decade, despite the novelties that banking system has offered to lending market, while it remains far from the real needs of this sector.

Specific lending issues to agricultural sector have been identified, from some time now, but a part of them are yet relevant. Nevertheless, I think that some of them are towards addressing, while the other obstacles should become part of a critical assessment and their solution should be an integral part of our next work agenda.

In more concrete terms, the first reason on the back of low lending rate is related to the high risk - both real and perceived - that investment in agriculture bears. However, I think this risk is being reduced. On the one hand, the improved support to agricultural production, the improved roots network and the consolidated trade chain for the supply of the inputs in the market, drive to the improvement of this sector's business. On the other hand, promoting agritourism and supporting agribusiness, grow the value added chain and profitability of investment in agriculture.

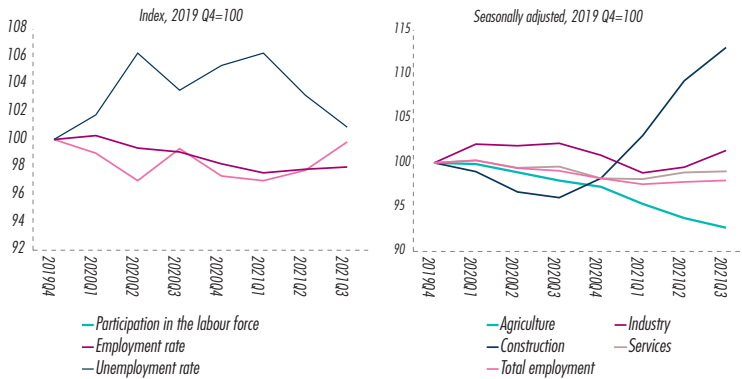
In this context, I would like to greet the Albania Agribusiness and Tourism Support Facility (AATSF), which includes the joint contribution of the Albanian Government and the European Bank for Reconstruction and Development (EBRD). This facility provides a significant contribution, around EUR 150 million, in both forms: direct loans and supportive guarantee for lending. To this end, by seeing the positive reaction that banking sector is displaying towards this scheme, with four banks already becoming part of it, I would like to encourage the other banks to adopt a more positive approach towards this sector.

Also, I would like to emphasize that global experience suggests the promotion of private insurance schemes to address risk reduction in agricultural. In future these schemes should become an integral part of this equation.

The second reason on the back of low lending rate in agriculture is related to the fragmentation of agricultural land. This fragmentation limits the potential of the economy of scale, reduces the productivity of this sector, and turns it less attractive to the banking industry. In figures, referring to the data of the European Commission, a typical Albanian farm owns averagely 1.2 ha land, compared to the average of around 14 ha in Europe. At the same time, according to INSTAT data, around

99.6% of agricultural businesses hire one to four employees. This ratio is notably higher than the average of other economy sectors.

Chart 37 Performance of labour market (left) and employment by sectors (right)



Source: INSTAT.

In this context, detaching from the negative emotions that may stem from the memory of the inefficient cooperatives during the communism period, I think that there is a need for higher awareness of the Albanian farmer about building on partnerships and collective-risk sharing scheme, based on the free initiative and common interests. These partnerships improve access of farmers to funds and loans, and in turn their possibilities to succeed.

The third reason for the low lending rate to agriculture is related to the lack of sound collateral. In many cases, the title of ownership is absent, or its value is low against the needs for funding.

The sovereign guarantee schemes provide an adequate solution - in both short and medium term - to mitigating this problem. Nevertheless, local authorities should increase their attention on this issue in the long run.

Dear banking system executives,

The Bank of Albania deems that it is time for banking sector to pay a higher attention to agriculture sector. Albania owns around 24% of its territory as agriculture land, and offers still fully unexploited possibilities in the fields of agritourism and agribusiness.

“The Bank of Albania deems that it is time for banking sector to pay a higher attention to agriculture sector. Albania owns around 24% of its territory as agriculture land, and offers still fully unexploited possibilities in the fields of agritourism and agribusiness.”

This potential should be considered a joint growth possibility to both agriculture and banking industry, as well as a possibility to diversify credit risk sources in your balance sheets.

The continuous structural improvements, modernisation of agriculture and productivity growth, the enhanced support with funds and public attention, provide a new reality in agriculture sector. In this framework, the convergence process with the European Union provides for additional opportunities.

In this light, without affecting its soundness' indicators, I am confident that banking system will know to position itself as a supporting-development agent. This sector ought to increase its attention and the financing, analysing and advisory capacities, by fulfilling its mission for the sustainable growth of the country.

Thank You!

GOVERNOR SEJKO: ADDRESS AT THE OPENING CEREMONY OF THE MONEY WEEK 2022 - 24 March 2022 -

*Honourable Minister of Education and Sports,
Dear Chairman of the Albanian Association of Banks,
Dear students, teachers, friends and banker colleagues,*

I have the pleasure to welcome you to the launching ceremony of the Global Money Week 2022. For more than a decade this global awareness-raising campaign brings together pupils, students, teachers and bankers. Each March, the Bank of Albania in cooperation with the Albanian Association of Banks, and the outstanding support of the Ministry of Education and Sports, organises educational and awareness-raising activities tailored to different age groups of pupils and students. Last year, due to the difficult situation caused from the COVID-19 pandemic, the launching ceremony and all the programmed activities in the framework of the Global Money Week, took place virtually, in compliance with the social distancing protocol. Notwithstanding these circumstances, the programme was successfully accomplished. Meanwhile, this year, the physical presence of participants, makes our educational activities more productive. For this reason, I am very happy we are back to normality, and welcoming you, as traditionally, in our historic hall, the Bank of Albania's Museum premises.

The Albanian public and particularly, young people are familiar with the Global Money Week. It is an international initiative organised by the OECD International Network on Financial Education (OECD/INFE) which aims at awareness-raising of the young generation, becoming responsible and financially capable citizens in the future. In this framework, central banks, public agencies, financial institutions and civil society organisations across the world held each year their own GMW events in the last week of March. Since its start, with an ever increasing participation, the Global Money Week is held in 176 countries across the world, and has

“The Bank of Albania, through its commitment in the field of financial education, over this decade, has shown to consider financial education of public, an integral part of its duties. Financial education enables the resilient welfare and safeguards the financial soundness of everyone, even in critical situations.”

involved over 53 million children and young people in various activities. The international theme for this year, selected by the organisers is: "Build your future, be smart about money." The theme highlights the importance of a prudential and pro-active thinking about money, as a premise for a safe and prosperous future, empowering children and youth with the adequate know-how and skills for an evolving digitalised and innovative financial market.

The Bank of Albania, through its commitment in the field of financial education, over this decade, has shown to consider financial education of public, an integral part of its duties. Financial education enables the resilient welfare and safeguards the financial soundness of everyone, even in critical situations. The unprecedented events in recent years have driven to the need for cultivating financial literacy, as part of the overall formation of everyone.

The COVID-19 pandemic and recent developments in Ukraine, events that successively hit sharply the equilibrium state in each field of life worldwide, including economy and finances, trigger challenges to: managers of public finances; families and personal finances; as well, to everybody. This "New reality" for the 21st century has shocked financial markets and the increasing geopolitical tensions are continuing to generate consequences that may vary from relatively contained to very serious ones.

Nowadays, almost the entire global economy is facing unexpected shocks, which have driven to hard and complex crisis. After a two-year pandemic period and the extraordinary measures undertaken by governments and financial authorities, the war in Ukraine has caused a new shock. These events, coupled with the implemented sanctions, have hit the global production, supply chain and public confidence, driving to an immediate effect in the upsurge of commodities prices, like oil, petrol and food. It caused a chain of consequences, leading to an immediate and strong increase of inflation in worldwide economies, including the Albanian economy as well. To this end, they will impact the direct and indirect economic and financial equilibriums which demand for time and crucial interventions from authorities.

In response, policy makers, governments and central banks across the world have already activated a set of measures for mitigating the impact of these successive and robust shocks on the economy. The supportive packages, controls over prices, and the interventions of monetary policy

have enabled and alleviated these shocks, and have kept the negative expectations of public under control. In the same spirit, Albania has remained neither affected nor indifferent. The undertaken measures to control prices and the interventions of the Bank of Albania have calmed the energy and foreign exchange markets.

Naturally, the above-stated events do affect both the present and future, by increasing uncertainty and the negative expectations. Education is the best response to fight against uncertainty. Today, more than yesterday we should properly understand the importance of financial literacy, which helps us in our everyday life, not only for well-informed decision making, also to properly comprehend and react to policy makers' messages. Thus, the supportive policies undertaken will become more effective and support more strongly the mitigation of negative shocks.

Being aware and making the right financial selections, everyone - banks, institutions, enterprises, households and individuals - may play an important role in dealing with the consequences of extraordinary situations that the world is suffering. This educational campaign of Global Money Week is an excellent event to recall certain messages that the Bank of Albania has addressed extensively, turning them into an important part of its efforts for meeting the objectives and preserving the economic and financial stability. I would like to point out three main messages, which nowadays, due to the geopolitical and financial situation become more meaningful.

“Lek plays a crucial and direct role in transmitting the positive effects of monetary policy to our economy. The higher the use of Lek, the bigger is the part of economy which feels the effects of the central bank’s policies.”

First, I would like to emphasise the importance of using the national currency against foreign currencies. Lek plays a crucial and direct role in transmitting the positive effects of monetary policy to our economy. The higher the use of Lek, the bigger is the part of economy which feels the effects of the central bank's policies. Furthermore, the use of the national currency helps to amortise the shocks that stem from external sector through minimising the shocks on income, consumption and investments. The broad use of foreign currencies alongside the national one has important negative impacts, on both the effectiveness of economic policies and financial stability. Particularly, in this period, while global developments, ambiguity and the change in monetary policy stance may give rise to additional risks to the exchange rate. These risks

destabilise and expose the balance sheets of private sector against the fluctuations of the exchange rate. In simple words, the less you use the foreign currency; the lower is the exposure to the exchange rate risk, which nowadays is even higher. The stability of financial institutions, enterprises and households contributes in the monetary policy pass through and macroeconomic stability.

Second, I would like to re-emphasise the importance of growing and promoting financial literacy as a counter-response to informality. This objective belongs to the central banks, and to all economic agents, educational institutions and media, to enhancing financial awareness and ability of public. These joint efforts, in addition to strengthening the monetary policy effectiveness, directly affect the financial inclusions of population. It means that: an increase in the number of users of safer financial products and services and at low cost drives to an increased access in financial sources, and consequently the growth of possibilities, income, and the quality of life. Formal markets are the sole possibility that public and economic agents directly benefit and in real time from the policies undertaken by governments and central bank. The effects of these policies are materialised in the financial instruments and products of formal market. The successful measures taken by both the Bank of Albania and the Government throughout the pandemic situation are a recent example of benefits from participation in formal markets. Also, the increase of formalisation and financial inclusion makes it easier and more efficient the effort of the Government to implement the helping policies over the crisis.

“The Bank of Albania, through legal and institutional changes has provided the possibility that households benefit these basic financial products at a low or no cost at all. As a result, cheaper and swifter alternatives, which compete with the existing financial products, will be available.”

Third, I would like to draw attention on social inequality and the effect that the current situation has on its deepening. The crisis, particularly pandemics and wars, mostly and more rapidly affect the population in need, which are at the same time, the part of population with the lowest level of both financial education and inclusion. For these reasons, the Bank of Albania has turned the financial literacy and inclusion in one of the important objectives of its mandate. We are proactive in developing the market and infrastructure of financial products, as well as in enhancing knowledges on these products and the overall financial literacy. It is indispensable that households with

minimum income to access and benefit the basic banking products, such as current accounts. The Bank of Albania, through legal and institutional changes has provided the possibility that households benefit these basic financial products at a low or no cost at all. As a result, cheaper and swifter alternatives, which compete with the existing financial products, will be available. At the same time, companies that will enter into these new markets will have better possibilities of profit. Education is the sole costs to know and benefit from these products. In this regard, the Bank of Albania remains the main actor for the spread and implementation of the national financial education and inclusion strategies. In this framework, the Bank of Albania is working with national and international important partners, the World Bank and EBRD. Their long experience shows that the correction and reduction of social and economic disparities is a difficult commitment, which takes time. Nevertheless, enhancing financial literacy, by spreading knowledges such are: budget drafting; its effective management; knowing risks and avoiding wrong investments; may affect the mitigation of wounds that these turbulences brings into the life of poor people, and of course to everyone; to the whole society and population and the financial situation that the moment brings about.

Turning back to the launching of the Money Week 2022, I am glad to see the ever increasing interest of youths, their teachers and professors in our educational activities. We are surprised with the particular interest of universities related to the current issues and their impact on the Albanian economy, and the large number of projects, videos and drawings that pupils and high school students have presented at the Bank of Albania. Today, we will see and award some of them. Nevertheless, I would like to point out that the participation and engagement of all participants was impressive.

Concluding, I would like to thank all participants and the collaborators of the Bank of Albania in its educational initiatives and programmes, particularly for the Global Money Week. We are grateful that in this week, as participants, you have become partner of the central bank, joining us in the work to face important challenges to the society. Also, we are aware that these themes, like prudential and proactive approach to the world of finances, are a precondition for a safe and prosperous future, and the ever increasing participation in

“The Bank of Albania, as the central institution in these fields as well, is ready and committed to collaborate with every institution aiming at bolstering the financial literacy and financial inclusion of the public.”

such annual activities makes us optimistic for this new generation being aware and interested for acquiring a better education. The Bank of Albania, as the central institution in these fields as well, is ready and committed to collaborate with every institution aiming at bolstering the financial literacy and financial inclusion of the public.

I take this opportunity to extend my heartiest thank you for your contribution, wishing all participants success in everything they do!

GOVERNOR SEJKO: OPENING REMARKS AT THE LAUNCHING OF THE EBRD TRANSITION REPORT 2021-2022 - 5 April 2022 -

*Dear Ms. Solovova,
Dear Mr. Plekhanov,
Dear guests,*

It is a special pleasure for us to host again the presentation of the Transition Report 2021-2022 by the European Bank for Reconstruction and Development. The Transition Report is an important moment of discussion and reflection on the challenges that lie ahead to regional economies in terms of convergence with the European Union standards and for the sustainable and long-term growth of their welfare.

Having this meeting in person conveys an important message. Global economy is leaving behind the worst days and the heaviest consequences triggered by the pandemic over the course of the past two years. Nevertheless, in our horizon as policy makers - also in the daily economic life of each business and household - a new challenge has emerged. The Russia's military attack on Ukraine and the implemented sanctions drove to a sharp upsurge in the prices of foods, oil,

energy products and raw materials across international markets. Amid a considerable uncertainty, the available information suggests that prices will continue to remain high, at least, even in the rest of 2022.

Availing the opportunity of this public communication, and before going through the main messages of this Transition Report, allow me to briefly present the view of the Bank of Albania on the expected impact of this shock and the measures that both the public and private authorities should take to deal with it.

As I previously highlighted, Albania and the region are facing a new reality of prices and uncertainty in global markets. As small open economies we cannot escape the consequences of this reality. Overall,

“The Transition Report is an important moment of discussion and reflection on the challenges that lie ahead to regional economies in terms of convergence with the European Union standards and for the sustainable and long-term growth of their welfare.”

the Albanian economy will experience an increased cost on households, enterprises and public sector's balance sheets, over a long-term horizon. How does this affect the Albanian Economy?

- First, the negative aspect. Based on the current information, our projections suggest inflation to remain above the target in the next part in the next two years. At the same time, profit margins of enterprises will be under pressure and debt servicing costs will climb.
- Second, the positive aspect. Even in presence of this shock, our projections suggest that the volume of the economic activity in Albania will grow during 2022. This forecast takes into account - in one hand - the assumption on the halt in the conflict aggravation, and - on the other hand - the positive moment that the Albanian economy entered 2022, the broadness and the strength of growth sources, and the continuation of a monetary and fiscal stimulating policy mix.

“The increase of policy rate in the last month signals the commitment of the Bank of Albania to safeguard the price stability in Albania. The re-calibration of monetary policy aims at minimising the consequences that price shock will have on: the costs of life; the exchange rate; and on the soundness of the banking sector, in both short run and medium term.”

In this context, authorities should have a two-fold focus. First, economic policies should protect from the shock the poorer segments of society and the most vulnerable segments of economy. This objective should be accomplished through a temporary and prudential intervention of fiscal policy, which, in every case, should maximally aim not to be translated into a strong increase of public debt. Second, the risk that the initial supply-side shock be transmitted on the cost and translated into high expected inflation in the future drives to the need

to adjust the economic policies stance. To this end, public authorities should rebalance the objective for supporting economic recovery to the risk of jeopardizing monetary and financial stability of Albania.

In our vision, the economic and financial equilibrium is a precondition for a sustainable growth. In this context, the increase of policy rate in the last month signals the commitment of the Bank of Albania to safeguard the price stability in Albania. The re-calibration of monetary policy aims at minimising the consequences that price shock will have on: the costs of life; the exchange rate; and on the soundness of the banking sector, in both short run and medium term. At the same time, it is important to

highlight, that even after this movement, the Bank of Albania continues to maintain a stimulating monetary policy stance to bolstering consumption and investments in Albania.

In parallel with public authorities, private operators should take measures to minimize the consequences of the shock. Overall, the Albanian businesses should pay more attention to operational costs and in particular to energy efficiency. I would like to point out that the direct exposure of the Albanian economy to the countries in conflict has been and continues to remain limited. It means that - in the presence of a stable economic and financial environment - the economic growth prospects remain solid, both in the medium and the long term.

Dear guests,

In the past two years, our experience with crises has illustrated that the successful tackling of shocks is not a casual outcome. In contrary, it reflects the so far achieved progress in structural reforms, the development and sophisticated degree of private sector, and the proactive reaction of economic policies.

I am pleased to see that the Transition Report that will be launched today echoes these three moments.

“In the past two years, our experience with crises has illustrated that the successful tackling of shocks is not a casual outcome. In contrary, it reflects the so far achieved progress in structural reforms, the development and sophisticated degree of private sector, and the proactive reaction of economic policies.”

The Report evidences the further though gradual progress of structural reforms in Albania and regional countries. It promotes the progress made in the last two years, when the attention and main energies were focused on overcoming the consequences from the pandemic. At the same time, the Report underlines that regional countries have achieved a substantial progress in the development of financial market, with specific-targeted reforms which have improved: the market infrastructure; the legal and regulatory framework; the financial instruments; and the market depth. The progress of financial market reforms coupled with those that enable the establishment of an operational capital market, is indispensable to enhance the diversification of financial instruments, while it is still a free potential to our economies.

Digitalisation is the common thread of the Transition Report for this year. Addressing the pandemic has accelerated the digitalisation trend that had started in many aspects of our life and work. Benefits from digitalisation, in terms of increasing productivity efficiency and access in finance, are well documented. The Report notes that this process was even faster across our region, in turn contributing to the increase of competition, the preservation of jobs throughout the pandemic and their increase once the economies were opened.

“...it has been worked on: promoting the higher use of technology in the payment system; improving and strengthening the regulatory framework for the electronic payment institutions; and the protection of consumers and borrowers.”

The Bank of Albania has assessed and promoted the application of information technology and the digitalisation in the financial system since the beginning. In this regard, it has been worked on: promoting the higher use of technology in the payment system; improving and strengthening the regulatory framework for the electronic payment institutions; and the protection of consumers and borrowers.

To further increase the technological skills and to benefit from the related technological dividend, I deem that both the Albanian and regional authorities should continue the implementation of specific structural reform, which aim to:

- support the digitalisation and technology innovation, as an instrument to increase productivity and competition, through: enhancing digital skills; increasing digital infrastructure and online services; encouraging companies to invest in new technologies; and increasing labour force training;
- further develop financial market and promote capital markets, as an instrument to: support new and innovative enterprises; diversify funding sources; and share the financial risk of entrepreneurs;
- continue the structural reforms aiming at: strengthening competition; improving government; adopting green public policies; and accelerating the integration in regional markets and beyond.

Overall, these reforms should aim at establishing the favourable legal and institutional conditions to underpin the adoption of technological development and the creation of new technologies.

Dear guests,

The Transition Report has already consolidated its credentials as a professional and visionary document. In this regard, the 2021-2022 Report, is not an exception. The Report helps all of us: decision-makers, researchers, academics and private sector operators, to perform a complete diagnosis of the so-far progress, as well as of the path and challenges that lie ahead to the economic development and the enhancement of the welfare.

Thank you for your participation and I invite you to contribute for a thoroughly analysis of the messages in this Report.

Thank You!

**GOVERNOR SEJKO: ADDRESS AT
THE SIGNING CEREMONY OF THE
MEMORANDUM OF UNDERSTANDING
OF THE EBRD WITH PROCREDIT BANK
ALBANIA UNDER THE ALBANIAN
AGRIBUSINESS AND TOURISM SUPPORT
FACILITY (AATSF)
- 11 April 2022 -**

*Honourable Madame President of the EBRD,
Honourable Madame Ministers,
Dear Representative of the European Union Delegation
Dear ProCredit Bank representatives,
Dear friends and colleagues,*

The Bank of Albania has the pleasure to open its doors on the occasion of signing the Memorandum of Understanding of the European Bank for Reconstruction and Development (EBRD) with ProCredit Bank, on the commitment of risk-sharing facility under the Albanian Agribusiness and Tourism Support Facility (AATSF).

“Thanks to this support we are able to achieve a sustainable growth and build on a real change in the life of people.”

The EBRD, the EU and the Government of Albania in partnership with the financial sector, are enhancing the financing access to companies operating in the agribusiness and tourism sectors, while addressing one of the main challenges for their development.

We all are aware on the financing difficulties to companies operating in both agribusiness and tourism fields, which are mostly organised as small and medium-sized enterprises. Also, we are aware on the huge potential these companies have as creators of value, employment promoters and an innovation source. All these are important ingredients for a successful recipe to the sustainable economic growth of Albania.

In this view, I see the commitment of these programmes very important and fruitful, which provide available funds, in addition to fostering the capacity of the banking sector to analyse, assess and further to finance. The guarantee and risk-sharing facilities ease the burden on banks in

terms of risk, in support of paving the way towards stable financing to these sectors.

I have already said earlier that both the real sector and banking industry should consider every effort to increase access to financing as a joint possibility for growth. To this end, I will continue to encourage banking industry for a larger, though prudential commitment, across potential sectors of Albania.

Today, the signing of this Agreement is a step ahead in this regard. The EBRD is committing up to EUR 100 million for financing and risk sharing facilities which will enable an additional investment of EUR 80 million from the participating financial institutions. On the other hand, the Albanian government has committed up to EUR 36 million to support this programme by covering risk of losses for the first three years. Since the launch of the programme in 2016, more than 6.100 small and medium-sized enterprises operating in agribusiness field have benefited EUR 70 million in loans.

I avail this opportunity to thank particularly our international partners, the EBRD and the EU, for their concrete support with financial investments in vital fields of economy. Thanks to this support we are able to achieve a sustainable growth and build on a real change in the life of people.

GOVERNOR SEJKO: ADDRESS AT THE INTERNATIONAL CONFERENCE “REBOUND REBUILD REINVENT FOR A SUSTAINABLE AND EQUITABLE DEVELOPMENT”

- 11 June 2022 -

Dear participants,

It is my greatest pleasure to attend today's conference where we will discuss the latest global market developments, and their impact on both the economy and monetary policy of the Bank of Albania.

Before commencing my speech, I would like to extend my gratitude to the organizers of this conference. In the 65th anniversary of the Faculty of Economics, the Bank of Albania and other institutions, should feel honoured that they share a common history with this faculty and that their respective missions are interconnected.

This faculty is the earliest institution which has provided economic education in Albania, while having significant impact on the Albanian prosperity and identity. In the course of its history, the best economists have graduated from this faculty. Their contribution is substantial to the development of economic and financial policies in Albania. As a result, I am convinced that the track record of the faculty's academic development goes parallel to the economic development of Albania.

***“. In the course
of its history, the
best economists
have graduated
from this faculty.
Their contribution is
substantial to the
development of economic
and financial policies in
Albania.”***

Honourable guests,

The selected topic is both relevant and visionary. The economic and financial developments in the last decade, particularly the shocks of the past two years, have engendered major changes to central banking, notably in regards to monetary policy and banking regulation and supervision.

I would like to use this invitation to share with you the Bank of Albania's vision on future challenges and their impact on the objectives, strategies and instruments that central banks will adopt in the future.

For the sake of being as much comprehensive and succinct as possible during my discussion, I would focus on three main topics: (i) first, I would like to share with you the current state of the monetary policy development at the Bank of Albania, and its connection to banking supervision and banking regulation; (ii) second, I will show our experience with the two crises of the previous decade, in order to identify their impact on the course of action and thinking process of the Bank of Albania over time; and (iii) third, I will shortly dwell on the role of the Bank of Albania and its contribution on the macroeconomic stability over the last years. In conclusion I will briefly discuss the extrapolated lessons and future challenges.

Let me address the first topic of discussion.

1. The Bank of Albania as a promoter of stability and development

“The stability of prices is a preliminary condition to meet the three classical functions of money, as: a medium of exchange, storage of value and unit of account.”

The Bank of Albania is the monetary authority of the Republic of Albania. Its primary legal mandate is to achieve and maintain price stability in congruence with the best global practices. This mandate is based on a broad academic and practical consensus, which decrees that maintaining price stability is central bank's most essential contribution to the stable growth of life standard. The stability of prices is a preliminary condition to meet the three classical functions of money, as: a medium of exchange, storage of value and unit of account. Therefore, a stable monetary environment supports the economy, enterprises and households to confidently plan their income, consumption, investments, and savings, thus increasing the transparency of the economic system and the efficiency of resource allocation. In practice, price stability in Albania is defined as the inflation target, set at 3%.

However, this target is achievable if the banking and financial system is stable, balanced and efficient. Also, global experience shows that a necessary, albeit insufficient requirement for a stable financial system,

which is able to efficiently carry out its task of financial intermediation and payment instrument provider, is a stable monetary environment. As a result, the Bank of Albania has also adopted a set of secondary objectives, which focus on the normal functioning of the banking sector and the money market. The fulfilment of these objectives is conducive to the financial stability of Albania and offers the second instrument which helps central banks to reach society's long-term well-being.

The Bank of Albania has adopted the inflation targeting monetary policy regime. This regime, broadly adopted by central banks, consists of three main elements.

- First, it means that the central bank uses all the relevant data available to assess the balance of inflationary pressures. The traditional Philips curve for a small and open economy like Albania, considers this balance as a function of three components: the cyclical position of the economy; price pressures springing from the external market; and, partially, rational expectations of economic agents on inflation. In practice, this data is translated in price performance projections in the medium-term, which allows the central bank to identify possible deviations of inflation from the target, and take the necessary measures in a timely manner.
- Second, inflation targeting signifies that the central bank intervenes in the financial system by employing indirect instruments, which follow market's logic. In practice, central banks set the policy rate, which guides the entire spectrum of interest rates across all the ranges of financial market instruments.
- Third, it implies a free-floating exchange rate regime in accordance with the demand and supply ratio for foreign currency. This allows the monetary policy to entirely focus on meeting the price stability objective, simultaneously providing the economy with an instrument to buffer against shocks that might originate from the external environment.

In addition to these classical elements, the Bank of Albania adopts a flexible regime of targeted inflation. This means that in the process of assessing the monetary policy stance, the Bank of Albania considers the cyclical position of the economy as well. Also, the function of monetary policy reaction gives a specific weight to cushioning the business cycles, naturally without losing sight of meeting price stability at any time.

In accordance with these features, the Bank of Albania has undertaken a public engagement to implement a consistent and stable monetary policy. Consistency requires our monetary policy stance to be the proper one at any given time, so that we can meet our inflation target within the medium-term horizon. Stability demands our monetary policy to also be a factor in elements of risk and uncertainty, which are inseparable parts of the economic forecast process and ever-present in the activity of financial markets.

To focus on the latter, I would like to emphasize that the Bank of Albania's strategy on meeting inflation target, is based both on best central banking practices and the stage of development of the Albanian economy and financial markets. As a result, we give due attention to the assessment of monetary policy transmission mechanism, as well as the stability of the banking and financial system.

“The Bank of Albania’s strategy on meeting inflation target, is based both on best central banking practices and the stage of development of the Albanian economy and financial markets.”

As a supervisor and regulator of the banking system, the dominant position of the banking system in the Albanian economy gives the Bank of Albania a unique perspective on the transmission mechanism of monetary policy and its interaction with the banking regulation - in other words - the macroprudential policy.

Although the efficient interconnection between the monetary and macroprudential policy remains an area without a clear academic and practical consensus, we have derived important lessons from our experience over the last decade.

The global financial crisis and the debt crisis in the Euro area were wake-up calls, pointing out the need to evaluate the interconnection between the monetary and financial stability. These crises shed light on the importance that a stable banking and financial system have on the overall stability and development. Prior to these crises, the philosophy of economic management was led by a silent assumption that monetary stability was, in and of itself, sufficient for the overall economic and financial stability. The financial markets were deemed efficient and self-regulatory, which implied a lack of systemic financial crises. The 2008 financial crisis was a huge shock which overturned these consensus. The worsening balance sheets of the banking sector, an increase of uncertainty, and the suspension in the circulation of financial flows hindered the normal monetary policy transmission.

In advanced economies, central banks forcefully reacted to support the economy and financial system stability. The rates rapidly went down to 0, shifting into the negative territory as well. However, the issues related to the transmission mechanism required them to adopt and apply unconventional monetary policy instruments. Quantitative and credit easing re-established, up to a certain degree, liquidity circulation in the economy, by surpassing financial intermediaries - banks and capital markets. Nonetheless, it resulted in a rapid expansion of the central banks' balance sheets and pushed them in an area unexplored by the monetary policy.

On the other hand, the use of this instrument in Albania and across the region was rendered inadequate, due to the low level of financial market development. Under these circumstances, our attention was focused on identifying the consequences of the shock on the banking sector and drafting a strategy of measures to address them as quickly as possible. In the second session, I will address the Bank of Albania's experience with the financial crises and the lessons learned.

2. The lessons derived from the financial crises of the late 2000s and early 2010s.

Albania and the Western Balkans experienced a decade of rapid and stable growth in the outbreak of the global financial crisis. The economic liberalisation in the beginning of the nineties, the ever increasing integration with advanced economies and markets of the European Union, the rapid productivity growth as a result of the introduction of foreign capital and expertise, as well as the comprehensive structural and institutional reforms, put the region on the fast development trajectory. Overall, the economies of the region advanced and left behind the status of "economies in need" and gained a new status, that of emerging economies, characterised by solid growth prospects and convergence with the European Union.

"Although Albania and the regional countries had a relatively low economic and financial exposure to the USA - the country where the crisis originated - its consequences were strongly felt in the region..."

The global financial crisis changed almost every aspect. Although Albania and the regional countries had a relatively low economic and financial exposure to the USA - the country where the crisis originated - its consequences were strongly felt in the region.

The contraction of global financial conditions and the reduction of external demand were coupled with several weaknesses of our economic and financial development model. This initial shock was quickly followed by the sovereign debt crisis in the Euro area. This shock was as serious and persistent as the global financial crisis. In particular, it caused a rapid outflow of banking capital and financial funds outside the region, which made it harder for policy-makers to react while trying to manage the consequences of the crisis.

In a few words, the consequences of these shocks were the worsening of the financial balance sheets of the public and the private sector, as well as a decade when the pace of economic growth almost halved compared with the pre-crisis period, while inflation remained below the central bank's target.

Allow me to briefly explain the features of the Albanian and the regional development, which exacerbated the consequences of the shock and the challenges we faced.

First, the economic growth model clearly veered toward domestic consumption and investments, particularly investments in the sector of residential construction. This model encouraged a non-competitive economic structure. It caused an excessive allocation of economic and financial resources in the construction sector and an unjustified increase of asset prices. The reality that we faced following the last two financial crises, emphasized the role of structural reforms as the main promoter for a stable and long-term development of the country, which also required time to collect its fruits. Also, in the central bank's view, it brought to attention the considerable role of asset prices as indicators of economic imbalances, their implications on financial stability, as well as the long time required to address them.

Second, the fast economic growth was nurtured by foreign financial flows, generally intermediated by the banking sector. This process was facilitated by ample bank equity originating from the EU countries and the region, as well as the structure of their incentives and business model. Within the banking sector, the major consequences of the crisis were the rise of non-performing loans, particularly in the segment of loans in foreign currency, and the declining attention of the European banks on the region. Not least, the high level of non-performing loans in the segment of borrowers in foreign currency unhedged from the exchange rate risk, restricted the freedom of action of monetary policy and hindered the use of exchange rate as a shock absorber.

As a result of these issues, the functioning of the monetary policy's transmission mechanism was not optimal. The Bank of Albania addressed them by engaging in a comprehensive programmes of measures to:

- lower the level of NPLs and improve the lending environment. In addition, special attention was paid to the improvement of risk management systems within commercial banks;
- consolidate the banking sector, substituting some foreign banking groups, which reviewed - voluntarily or not - their strategies of expansion in the region, with young motivated investors;
- reduce the use of the euro in the financial sector. This action aims at reducing the unnecessary use of the euro for both savings and loans, notably in the segment of borrowers unhedged against the exchange rate risk.

“The Bank of Albania addressed them by engaging in a comprehensive programmes of measures to:
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Third, imbalances in the financial sector were driven by the inability of public regulators to fully discipline the quantity and destination of financial inflows, as well as the inattentiveness of foreign regulators toward these developments. Consequently, after the pandemic period, the Bank of Albania carried out a full convergence programme of its supervisory and regulatory framework with the requirements of the Basel Committee and the European Union standards. To corroborate our work, an independent assessment conducted during last year demonstrated a high scale of convergence between our regulatory framework and supervisory policies with the ones of the European Union. In parallel to them, we have intensified the dialogue with foreign supervisors, in order to spot issues in a timely manner and devise - when possible - common intervention policies.

Fourth, when Albania entered the global financial crisis, it had one of the highest level of public debt in the region. This feature, coupled with an exorbitant increase of financial costs in foreign markets during the following period, contracted the space for a countercyclical fiscal stimulus. This challenge brought to the fore the importance that a low-level and controlled public debt has in preserving the fiscal space to respond, as well as the overall stability of the financial system.

In this context, of the three potential instruments of intervention of the government in the economy - monetary policy, macroprudential policy, and fiscal policy - the cost burden from the two financial crises of the previous decade, fell on monetary policy alone. Furthermore, this policy had a limited action space due to the negative consequences that a strong monetary policy could have had on financial stability. It also had to deal with a mechanism of transmission that was not fully functional.

“Of the three potential instruments of intervention of the government in the economy - monetary policy, macroprudential policy, and fiscal policy - the cost burden from the two financial crises of the previous decade, fell on monetary policy alone.”

While these issues dragged-out the aftermath of the shock, I must point out that Albania and the Bank of Albania were quick to identify them and provide the necessary institutional response.

The timely and energetic implementation of these reforms has increased the stability of the banking sector against shocks and improved the transmission mechanism of the monetary policy, noticeably helping our response in the following two crises.

3. The Bank of Albania against the pandemic and supply-side shocks

The pandemic and the Russian invasion of Ukraine are among the most serious shocks of the past decade. Although these two events are diametrically opposite shocks - the first being a demand-side shocks, while the second a proper supply-side one - their intensity tested the economic and financial balances of Albania and continues to do so. Fortunately, compared to the previous two shocks, we were prepared.

The response of public authorities toward the economic sphere, over the pandemic period, was an example of success. The situation demanded a quick, balanced, and coordinated response, aiming at both cushioning the impact of the shock in the short run, as well as minimizing the damage on the production capacity of the country, over the long run. The latter entails the minimisation of massive bankruptcies of businesses, the reduction of long furloughs, and, first and foremost, the preservation of the overall economic and financial stability of Albania.

The Bank of Albania launched a package of monetary, macroprudential, supervisory, and operational measures, which aimed at persevering financial markets' liquidity, reducing the costs of borrowing, and maintaining a uninterrupted flow of crediting and financial services. Our immediate and multi-dimensional reaction allowed: (i) for the reduction of borrowing cost and the continuous support to households and enterprises with bank loans (ii) the banking system to be liquid, well-capitalised, and equipped with robust practices for risk management; and (iii) for the reduction of uncertainty and higher trust for the future. Over 2021, economic recovery was solid; growth sources as well as its supportive factors, not least the stable monetary and financial environment, were broadly-based.

“The Bank of Albania launched a package of monetary, macroprudential, supervisory, and operational measures, which aimed at persevering financial markets’ liquidity, reducing the costs of borrowing, and maintaining a uninterrupted flow of crediting and financial services.”

In my point of view, success is dedicated to several factors:

- first, we were prepared. The lessons derived following the global financial crisis and the European sovereign debt crisis served to reduce the structural weaknesses of the economy, strengthen the financial sector, and increase its resilience against shocks;
- second, the response of policies was proportional to the complexity of the situation, speedy and coordinated. We activated a broad range of instruments, of unprecedented magnitudes. Monetary stimulus was simultaneously implemented with fiscal stimuli - sovereign guarantee funds - and with targeted regulatory and macroprudential accommodations;
- third, the response and the coordination of global policies were supportive in restricting the magnitude of economic downfall. The international financial institutions and the organisations and institutions of the EU took an active role in encouraging the coordination of global policies. For us, the policy-makers of the region, this ensured the international support for expansionary policies within the country, and helped in enlarging the play field.

However, the challenges remain present. The war in Ukraine has engendered a fast inflation hike across the world. In response to it, in March the Bank of Albania undertook the first step toward the normalisation of the monetary policy, increasing the policy rate by 0.5

percentage point. At the same time, we have demonstrated our will and availability to undertake any necessary monetary measure to avoid the spillover of this shock to a higher inflationary expectations in the future. Our transparent communication has been necessary to clarify the public on the monetary policy forward guidance and has helped to contain inflationary expectations in financial markets.

4. Conclusions

Dear participants!

“A responsible central bank should not be satisfied by analysing the past to use as a guide for the future. New challenges are visible over the horizon, such as financial innovation, global warming, an ageing population or adjustments to the business model borne by geopolitical tensions, and they should be appropriately addressed.”

In conclusion of my speech, allow me to share with you some lessons that the Bank of Albania has derived in face of the crises experienced over the years.

Price stability is a preliminary condition for a stable growth in the long term and the well-being of the people. In general, this stability should be the only legitimate objective of monetary policy. However, focusing on price stability shall not divaricate central bank's attention from other sources of weaknesses and risks.

In particular, financial stability should be another complementary objective of central banks, as long as it provides price stability and the efficient distribution of funds to the economy.

For a successful monetary policy, it is essential to adopt a contemporary framework. Nonetheless, this framework must have transparent objectives; use a comprehensive range of data; be consistent in the decision-making process, and flexible in adopting the operational framework. In this context, the most recent experience has shown that central banks must pay attention to the non-conventional instruments of monetary policy, such as quantitative and credit easing. However, these instruments are to be considered as options of last resort, and their use shall be conditioned by the stage of development and sophistication of financial markets.

As regards the central bank's aspect of financial stability, it must adopt - like monetary policy - an approach steered toward the future and a proactive stance. Although our role as supervisors and regulators cannot

and should not be the guarantor of the soundness of every financial intermediation, systemic weaknesses which are premises for financial and economic crises, must be identified and handled in due time.

In parallel with them, the latest experiences have shown that fiscal policy has an irreplaceable role in dealing with strong economic and financial shocks. In spite of the strength and complexity of the instruments possessed by the central bank, it cannot stand alone and efficiently face the shocks delivered to small and opened economies. As a result, the soundness of public finances should be considered a significant indicator of the country's ability to withstand crises.

Overall, these considerations will determine the philosophy of thought and action of the Bank of Albania in the future. Nonetheless, I find it appropriate to highlight that a responsible central bank should not be satisfied by analysing the past to use it as a guide for the future. New challenges are visible over the horizon, such as financial innovation, global warming, an ageing population or adjustments to the business model borne by geopolitical tensions, and they should be appropriately addressed.

I am convinced that the discussions in this conference will shed more light on the issues and challenges that I elaborated on.

Thank You!

GOVERNOR SEJKO: SPEECH AT THE AAB FORUM: “DIGITALISATION VS CASH”

- 14 June 2022 -

*Honourable Deputy Prime Minister Ahmetaj,
Honourable Minister of Finance and Economy Ibrahimaj,
Dear Chairman of the Albanian Association of Banks,
Dear guests,*

It is a pleasure to attend this Forum, which comes naturally as a further step and logical consequence of the joint discussions and round tables on digitalisation of financial services.

I would like to highlight that the support and promotion of electronic payments, both in international experiences and the Albanian context, are seen as one of the most effective and powerful mechanisms for bolstering financial inclusion and further formalizing the economy.

In this framework, there should be underscored that the Bank of Albania has already established the effective premises for the foundation of a digital revolution in the payment market, through the legal and regulatory framework in force. This framework may be considered *avant-garde* in the context of the European Union. Meanwhile, at regional level, Albania is the first country that has approved the legal and regulatory framework coupled with the promotion of “open banking” in the market.

“The Bank of Albania has already established the effective premises for the foundation of a digital revolution in the payment market, through the legal and regulatory framework in force, which may be considered *avant-garde* in the context of the European Union.”

Here, I would like to draw the attention and explain that the concept “open banking” implies the creation of technological developments, with a view that the information of banks’ clients be open to third parties. In this regard, we should keep in mind that - though digitalisation is so far desired by all of us here - this development needs rather complex investments and regulations, which promote innovation in an environment that will guarantee a maximum security. Taking into account that the need for establishing a highly prudent environment turns more meaningful in case of Albania - where both financial education and inclusion are

relatively low - the demand for market's actors to make safe steps is quite important.

Beyond "open banking" and the re-dimensioning of market through the introduction of new actors and services, I would like to mention the set of the undertaken regulatory measures and infrastructural developments, which have been focused exactly on the promotion of electronic payments in the framework of the National Retail Payments Strategy (NRPS). It is worthy emphasizing that the so far implemented measures have driven to the successful accomplishment of the objectives defined in the Strategy since 2021.

This success is a contribution of a broad gamma of actors, where banks in particular, and institutions, have played a key role. In this regard, I would like to point out that market is more aware and conscious that digitalisation is the future, as a consequence of the technological revolution taking place in each field of life, in the perspective of their strategic development, in the context of minimizing the costs and risks borne by traditional practices, and at the same time for increasing the effective productivity.

Without wishing to repeat the previous statements, I consider it worthy to point out that all market actors should be seen as our strategic partners, who in their own way have always contributed to the financial inclusion and promotion of electronic payment services. Until a few years ago, paying utility bills, fines, tax payments, customs and social security via the internet and mobile seemed a utopia. Nowadays, the general public is increasingly employing and benefiting from these services. Allow me to provide some significant figures which best converge to the materialisation of this development. In 2012, about 96% of transfers were initiated in paper form at banks' windows, while today about 50% of transfers are processed remotely. If we include in the calculations the card payments, it turns out that 79% of payments and transfers are made remotely and only 21% in bank branches. From this point of view, I deem that banks remain committed to accommodate the needs of the e-Albania platform, both in the existing conditions and after the creation of "open banking". Harmonization and coordination of this platform with those of the banking system, as well as giving priority to the necessary developments required in relation to them, will stem a facilitation coupled with a more efficient interaction, and in turn a strengthened synergy amongst all parties involved in these processes.

However, all these developments absolutely could not have happened if a number of public institutions and companies had not carried out technological developments, which enable their interaction with banks. The fiscalization process is considered a very important progress, in the light of the economy formalization, and in the context of creating the necessary preconditions for businesses to provide electronic means of payments. This starts with the possibility of using the QR code in the payment of bills or any other electronic instrument that can use the established technological infrastructure, to the flexibility created by the legislation for making large value transfers through banking channels.

On the other hand, the creation of a "central depository" of biometric data of the population, which can be used as security elements in communication and remote authentication, is a very positive step forwards the digitalization of banking services. Furthermore, the development of electronic signature and the improvement of legislation on signing distance contracts is also a supportive measure in this regard.

Despite these positive developments, we need to be aware that there is still work to be done. First, I consider that, banks and non-bank institutions should be committed for the implementation in practice of all the innovations set forth in the Law "On payment services". It is also necessary to consider and assess the possibilities of infrastructural developments endorsed in the strategy, which will enhance efficiency in the processing of payments and transfers, such as Instant Payments or the national SWITCH.

The Bank of Albania - for supporting all these developments - is working to improve and upgrade the systems it operates, in order to accommodate the market's demands. We have also paid attention to the drafting of the legal framework for the creation of the basic account. This framework aims at further promoting the financial inclusion of the population. We consider that the adoption of this Law and its implementation by the market is very important in terms of digitalization of financial services, also of the Government.

In addition to promoting financial inclusion and digitalization of services, financial education is a very important element for the materialization of measures and the achievement of intended objectives. To this end, I see our coordinated

"Particular emphasis should be placed on the problems encountered by opening accounts and signing distance contracts, which are a necessary precondition for the digitalization of services."

actions and intensified cooperation at the heart of our joint efforts and work to promoting financial education as a national reform.

In addition to the above, it remains important to overcome any issue identified during all these years by implementing the aforementioned innovations. Particular emphasis should be placed on the problems encountered by opening accounts and signing distance contracts, which are a necessary precondition for the digitalization of services.

Despite the legal and regulatory provisions regarding these issues, the implementation in practice has proven to carry technical issues. To this end, we should encourage the cooperation across all institutions and market actors to overcome the problems that may arise in relation to: prevention of money laundering; electronic signature; concluding distance contracts; promoting the use of electronic documents and necessary information during citizens' applications to banks. All this would further facilitate the digitalization, in terms of payments and other services, such as lending and investments, contributing significantly to the common objective for a formalised and sustainable economic growth.

I also assess that by exploring the experiences of our neighbours and beyond, we can identify additional measures that will promote the formalization of the economy and reduce the use of cash in the economy.

I would like to end my speech by expressing once again the full commitment of the Bank of Albania to support any necessary development, in order to achieve the intended objectives.

I take this opportunity to congratulate the Albanian Association of Banks for its huge and long-standing work, in boosting and supporting every project, initiative or need identified by the market and more broadly. Your dedication and professionalism has contributed very effectively, in fully accomplishing the intermediation role between the parties, while also serving as a catalyst to promote the achievement of objectives.

I am convinced that the discussions of this forum will be very fruitful in these areas and in addressing rather important issues.

Thank you!

GOVERNOR SEJKO: ADDRESS AT THE PROMOTION OF THE BOOK: "TOWARDS A NEW CRISIS" - 5 July 2022 -

I am very pleased to get hold of this book, the third in the volumes series by two prominent professors, also my friends, Professor Angjeli and Professor Civici. In this recent publication the authors share with us, opinions, assessments, reflections, questions and suggestions on the successive and multi-faceted crises we are tackling so far.

I appraise this book as an early publication, at global level, in response to this "third crisis" as the co-authors call it.

The book addresses a long list of issues and challenges that both the global and Albanian economies are facing. The authors, through their narrating, bring to the reader the reality of the situation we are experiencing, tracing the chronology of successive crises from the earthquake of 26 November 2019, to the pandemic, the "post-covid" period, and finally, the crisis fuelled by the war in Ukraine. The combined discussion of these developments and their effects on production and global economic and financial activity outline the main axis of the book. In this way, they manage

"The book addresses a long list of issues and challenges that both the global and Albanian economies are facing. The authors, through their narrating, bring to the reader the reality of the situation we are experiencing, tracing the chronology of successive crises from the earthquake of 26 November 2019, to the pandemic, the "post-covid" period, and finally, the crisis fuelled by the war in Ukraine."

to present a comprehensive and real analysis of geopolitical events coupled with the geo-economics developments. This full landscape is pictured through the intersection of data and event analysis with history and future challenges. Above all, a complete and comparative view of the economic, financial and monetary policies needed to tackle these challenges complement the analysis and conclusions provided in this book.

The war crisis, the food security crisis (where prices were rising progressively, even before the Russian attack on Ukraine), the energy and raw materials crisis, the overall slowdown in economic growth, inflation, and most recently, the prospect of higher interest rates, are

impacting on an already severely damaged landscape by two years of pandemic.

This book is dedicated to tracing this situation day by day and week by week, trying to answer the questions: "What will happen? Where are we going? What will change?"

The authors expose and explore in a professional manner the ambiguities, lack of clarity about the duration and consequences of the war, uncertainty, different approaches, questions, paradoxes and dilemmas, characterizing this period.

In contrasting the situation in Albania to the global one, the authors find out that no economy at the European level and beyond, was spared and cannot be spared from this war and the geopolitical challenges that define it.

To assess the possible negative effects on prices and economic activity, the projection of the analyses is placed on the Albanian economy. The current challenge that the Albanian economy faces, resulting from the sharp upsurge in the prices of energy, food and commodities in international markets, has driven the living costs for households more expensive and has increased the production costs for businesses. Also, the ambiguity over the duration and consequences of the war in Ukraine has intensified the uncertainty in financial markets and created new supply-chain bottlenecks. Hence, this shock, which has begun to be transmitted in the Albanian economy, requires a swift, effective and comprehensive reaction of the public authorities, in a situation with many unknowns and with deep economic, political and social changes.

Delving into the pages of the book, I note with pleasure that the suggestions provided for the economic and financial policies in the case

"Our transparent communication for the monetary policy has clarified the public on forward guidance and has helped to control inflation expectations in financial markets."

of Albania are in line with the current orientation of the Albanian authorities. I take this opportunity to thank the authors for appraising the monetary policy and state that: "The prudential monetary policy of the Bank of Albania in implementing a prudent policy of interest rate increase, in addition to safeguarding the stability of foreign currencies exchange rate, is a valuable support in this regard. It restricts the impact of stagflation (of the euro area) on the Albanian economy."

The Bank of Albania, as the authors affirm, is monitoring the situation on ongoing basis. In these circumstances, the focus of economic policies should be oriented towards preserving price stability, as a precondition for: the financial stability of Albania; the sustainable and long-standing growth; and helping the poorer segments of the society. In view of a rapidly uprising inflation in Albania and globally, the Bank of Albania, in its response, took a first step towards monetary policy normalization, increasing by 0.5 percentage point the policy rate.

At the same time, we have signalled our willingness and readiness to take any necessary monetary measures to avoid the transmission of this expected shock into high inflation in the future. Our transparent communication for the monetary policy has clarified the public on forward guidance and has helped to control inflation expectations in financial markets.

In response to these measures, which are appropriate and taken in a timely manner, and the continuation of monitoring and the adequacy of the stance of monetary policy, our analyses assess that the Albanian economy has sufficient premises to withstand the shock and avoid recession.

However, we continue to face unprecedented circumstances, where it is difficult to determine a time when this situation will come to an end. Uncertainty is also reflected in our forecasts. Regardless, this does not mean that we do nothing. On the contrary, the Bank of Albania is doing its best by continuously monitoring (as the authors have done during the journey of this book, day after day, week after week), the implications of the crisis in the economy, the performance of the financial markets, as well as the effectiveness of the measures taken. The Bank of Albania stands ready to use all available instruments to mitigate the effects of this crisis on both price stability and on the financial stability and economic activity.

As the authors point out, the challenges that lay ahead are very serious and should receive the proper attention. Here, I am talking about the new challenges - in addition to the current ones - that are outlined on the horizon, as digitalization and financial innovation. In this view, the authors have addressed both factors in an entire section of the book.

Global warming, the ageing of the population, or the change in the business model, resulting from geopolitical tensions, are other challenges

to deal with. In this regard, the Bank of Albania has included the above issues in the focus of medium-term and long-term institutional policies by conducting studies to understand these challenges and their implications in the economy and financial system.

A comprehensive approach, where all public actors, private sector operators, international organizations, non-government organizations and academics, collaborate by taking the right decisions, in a timely manner and in the most coordinated way, is needed to tackle these challenges.

“...the Bank of Albania has included global warming, the ageing of the population, or the change in the business model in the focus of medium-term and long-term institutional policies.”

Concluding, I am confident that, if each of us will do our best, we will be able to withstand this shock, and we will come out of this crisis stronger and better prepared for similar shocks in the future.

Thank you once again for the opportunity to express my thoughts on a book that represents a must-read for intellectuals, economists and students. This book opens a window of knowledge to see where we are going, that is, what will happen to the economy of Albania and globally in the coming years.

Thank You!

GOVERNOR SEJKO: ADDRESS AT THE REGIONAL SUMMIT ON “MONETARY POLICY IN AN INFLATIONARY ENVIRONMENT”, BEĆIĆI, MONTENEGRO

- 2 October 2022 -

1. The importance and role of central banks in new circumstances

After more than a decade of trying to bring inflation up to target, we now find ourselves in a completely different situation. Inflation has jumped up far above the target, growth prospects are weakening, and financial vulnerabilities are rising – including high public debt levels. Our top concern is inflation. The pandemic and the war in Ukraine are causing massive supply-side disruptions, at a time when post COVID19 demand is still strong. What started as a transitory phenomenon, is proving to be both broader and more persistent, increasing the likelihood of current high inflation becoming entrenched in expectations. I believe preserving price stability is the single biggest challenge to our economies and societies over the next few quarters.

In this environment, the role of central banks is crucial. As monetary authorities, they can and should act to control inflation, anchor inflation expectation and to avoid a price-wage spiral. They need to be proactive to avoid losing credibility: any entrenchment of inflation expectations will cause more shocks to the economy. The experience of the 1970s (the spike in oil prices due to the OPEC actions) is a strong reminder of the economic damage caused by leaving inflation unattended. However, since then, the institutional framework of central banks has evolved: by and large, central banks are now independent and accountable institutions, with clear mandates to control inflation. So, in line with the basic principles of inflation targeting policy – credibility and proactivity – the Bank of Albania acted promptly to anchor inflation expectations. We increased our policy rate by an accumulated 125 basis point to 1.75%, while communicating to the markets our intention to continue along this trajectory going forward. We have added a flexibility dimension to our forward guidance, by conditioning the future path of our monetary

“While almost all central banks in the world are facing the threat of high inflation, for our region the challenge is more difficult given our short history with democratic institutions and credible policy regimes.”

normalization – both speed and scale – to incoming data. Given the high uncertainty and the trade-offs associated with our decisions, I believe this flexibility is necessary to avoid undue policy errors.

While almost all central banks in the world are facing the threat of high inflation, for our region the challenge is more difficult given our short history with democratic institutions and credible policy regimes. Nevertheless, as with the previous crises, I believe we can stand up to the challenge. We can effectively anchor inflation expectations by communicating clearly our decisions, by leveraging on our credible monetary policy frameworks, and by protecting our independence. In doing so, we can reduce the amount of policy tightening required to bring inflation back to our targets.

2. Reach and limits of monetary policy measures in easing inflation with no negative effects on economic growth

“Central banks cannot single-handedly ensure growth by keeping an accommodative stance in all conditions. Structural reforms are the ultimate promoters of growth and prosperity.”

Monetary policy cannot affect high commodity prices and it cannot address supply bottlenecks. Therefore, high inflation will be with us for some time. What monetary policy can do is to ensure that monetary conditions are aligned with inflation target, that price inflation expectations remain anchored and – once supply bottlenecks loosen their grip on prices – inflation will eventually return to target. For this to happen, monetary policy must respond by raising the policy rate. When, by how much, at what pace and for how long are all good questions. The answers to these questions will determine the output cost of our decisions. Our aim here is to engineer a soft landing – bring inflation down without restraining growth sharply or causing a surge in unemployment. However, there should not be any illusion that monetary policy normalization will dampen demand and quite possibly growth.

What are the chances in Albania?

Our forecasts say that we have a good chance of a soft landing, i.e. bringing inflation back to target while avoiding recession, though this path is narrowing with every successive update of the EU economy. Our baseline outlook foresees growth to remain in positive territory and inflation to gradually decline as global bottlenecks gradually resolve and tighter monetary policy

works its way through the economy. We envision a gradual increase of the policy rate going forward, with the policy rate reaching its neutral level in about two years. This means that there is a long way to go before monetary policy becomes restrictive for growth and employment.

In addition, there are some factors that should give us a hand in navigating the narrow path.

First, the recent economic resilience and the dynamic labour market in Albania should provide some inertia in the short term. Second, the banking sector is strong and resilient against shocks. Consequently, credit supply should remain intact. And, third, the timely start of the normalization cycle is assuring the markets of the unconditional commitment of the central bank to price stability. Medium term inflation expectations in Albania remain consistent with the inflation target.

On the other hand, there are significant risks that would make the job of delivering a soft landing here in Albania and in the region much harder. First, the external environment is becoming ever more challenging, as energy crises escalates. Second, the potential emergence of price – wage spirals on the back of tight labour markets, would require faster and bigger policy rate increases.

To conclude, I would like to emphasize that central banks cannot single-handedly ensure growth by keeping an accommodative stance in all conditions. Structural reforms are the ultimate promoters of growth and prosperity.

3. Is the time of cheap money and record low interest rates definitely in the past?

In the current environment of high inflation and monetary policy normalization, we should expect higher interest rates in the coming years. But to answer the second part of the question – are low interest rates definitely in the past – we need to form an opinion about two important tenets of the monetary policy frameworks: the natural (or equilibrium) interest rate and the Philips Curve (PC).

Over the past few decades, the dominant view was that the Phillips curve was flattening and the natural rates had fallen significantly due to lower trend productivity growth, an ageing society and excess savings. This view is held by both advanced and emerging economies, with research showing the same behaviour in Albania.

This economic configuration – lower natural rate and flatter PC – has several implications for monetary policy over the medium term:

- First, while the low interest environment of the past decade might indeed be a thing of the past, we should not expect a sustained return to the high interest rate environment of the period 2000 to 2010.
- Second, monetary policy should react stronger to achieve the same results as the flatter PC implies less sensitiveness of the economy to interest rate.

“While the low interest environment of the past decade might indeed be a thing of the past, we should not expect a sustained return to the high interest rate environment of the period 2000 to 2010.”

But are these structural trends – lower natural rate and flatter PC – intact after the pandemic and the war? There is no clear-cut answer as of now. The underlying trends of global warming, the potential unwinding/decoupling of supply-chains, and geopolitical tensions might provide for a new economic environment. That is a subject for future research and empirical observations.

That said, finally and most importantly, I believe both the public and the private sector should prepare for higher debt servicing costs for the foreseeable future.

4. Can Central banks in the region look up to FED and ECB?

Most of the countries in the region, including Albania are economically linked to the Eurozone and financially exposed to it. Our economic cycles are by and large synchronized to the Eurozone while our financial systems are considerably euroized. Furthermore, our banking systems comprise banks controlled by EU banking groups, though their presence has been shrinking in the last years. This exposes us to the Eurozone macroprudential policies and risk appetite across the EU banking sector.

Against this backdrop, I would argue the ECB monetary policy stance is more relevant to our economies; it has a stronger and more direct impact in our monetary conditions and in our financial systems. On the other hand, the FED monetary policy impacts us less, mostly through indirect channels, such as oil prices and the overall global financial conditions.

The current stance of the ECB is in line with the monetary policy cycle across the region, though one can argue the ECB is somewhat lagging in its reaction with respect to other major central banks. In general, synchronized monetary policy cycles help reduce macroeconomic volatility, when faced with common shocks. In addition, by attempting to bring down inflation in the Eurozone, the normalisation of monetary policy of the ECB will alleviate foreign price pressures in Albania and in the region. Furthermore, being 'on the same page' with ECB gives us the degree of freedom to pursue our own normalisation policy, reducing thus the odds for large and abrupt exchange rate fluctuations due to interest rate differentials.

5. Stable exchange rate in unstable times - an anchor in a storm

As many of you might know, Albania operates an inflation targeting regime coupled to a fully flexible exchange rate. As a small open economy, with a relatively high level of euroization and a financial system 4 development like ours, the flexible exchange rate regime has paid off, especially in times of crisis. One example being the GFC, when the exchange rate depreciated in response to current account deterioration, thus acting like a shock absorber and facilitating the adjustment of the economy.

“In addition to the improvement of the external sector of the economy – and its sound financing sources; mostly FDIs – the psychological reactions of the market to the shocks are becoming more contained over time.”

This time around, when faced with the pandemic and the war in Ukraine, the flexibility of the exchange rate has enabled lek to reflect our country's specific economic development and the increasing trust our people have in the domestic currency. Let me elaborate further these last two episodes.

During the recent shocks – the pandemic and the war in Ukraine – lek appreciation was driven by a strong demand for tourism, at first from countries in the region, and increasing FDIs and remittances. In addition to the improvement of the external sector of the economy – and its sound financing sources; mostly FDIs – the psychological reactions of the market to the shocks are becoming more contained over time. This reflects the market achieving a higher maturity and consolidation and an increasing trust in the domestic currency. Exchange rate in Albania has been indeed a stable anchor in these turbulent times. It has saved us a lot

of headaches through not propagating risks for financial stability, while at the same time cushioning somewhat domestic inflation from foreign price pressures.

Albania is not overly exposed to short term capital inflows. However, we should remain mindful that the monetary global policy tightening will affect the flow of international capital. Any major episode of capital outflows in our economies will be reflected in weaker exchange rates and will exacerbate the inflation outlook. Therefore, we need to be attentive to the emergence of this phenomena and stand ready to deploy any and all available to mitigate their potential impact.

6. The effects of expansive fiscal policy on monetary policy

The pursuit of an expansionary fiscal policy right now is like throwing gasoline to the fire. Such a policy through stimulating demand and raising concerns about fiscal credibility – given the historically high debt levels and the need to consolidate – would end up adding to already elevated levels of inflation. It would also require a stronger tightening of monetary policy with negative implications for the broad private sector. Thus, it will be far from the best possible policy mix to our economies.

Our advice for fiscal policy has been to deliver temporary and targeted fiscal assistance to those most in need, without increasing budget deficits. Subsidies should be temporary and targeted at lower income households, which are hit hardest by inflation, and aim at ensuring the continued delivery of basic public services and key public and private sector infrastructure. On the other hand, it will require cutting back on non-priority spending, especially in the area of public sector investment. This approach will ensure that the support provided is fair and effective, while limiting its effects on the government budget and inflation.

The Albanian government has taken several measures to mitigate the effects of elevated prices on households' budgets. On the other hand, the government is following a fiscal consolidation path and fiscal deficit and debt numbers are actually on decline.

To sum up, I think the policy mix right now should be: a normalization of monetary and fiscal policies combined with temporary fiscal support. A touch of structural reforms aimed at raising the growth potential of the economy and supporting its resilience would also be beneficial.

7. Stability of the banking system in the region - what we learned from the 2008/2009 crisis

The broad set of reforms we undertook in the aftermath of the Global Financial Crises (GFC) made our banking sector stronger. A lot of reforms were undertaken and a lot of effort was put to improve the health of the banking sector.

These efforts included:

- A comprehensive plan to improve the credit environment and reduce NPLs, which proved successful in reducing credit risk. NPL actually stand at around 5.3%.
- Right-sizing and consolidating the banking sector by encouraging mergers and acquisitions, which increased the efficiency and competition in the banking system. We are seeing very positive results from this process, manifested in a higher competition and more balanced credit growth.
- A package of measures to encourage the use of the national currency in financial activity. The effects so far are encouraging. The currency structure of lending has almost reached parity between the lek and the currency, from a 3/1 ratio in favor of the currency five years ago.
- Aligning our regulatory framework to the ESCB s standards.
- Continuous dialogue with the market, bringing them together and trying to come up with solutions to the challenges that banks face in fulfilling their intermediary role in the economy.

As a result, the banking sector entered the pandemic with solid health indicators, in terms of liquidity, profitability, capitalization and operational standards. Its resilience was severely tested by the pandemic, a test which our banking sector passed with flying colours. By and large it served its role of shock absorber. The banking sector continued to provide credit and liquidity to the economy throughout the crisis. Furthermore, and just as important, it took upon itself a sizeable part of the financial cost of the pandemic, through accepting a mandatory – though temporary – moratorium on the payment of credit as well as through voluntary credit restructuring. This has been a welcome change compared to the past, where – in general – banking sectors across the region tended to act more as shock propagators.

Chart 38 Profitability and expense indicators of the banking sector



Source: Bank of Albania.

I think some of the lessons we learned are:

- The importance of prudent, coordinated and countercyclical regulation to foster financial stability;
- The importance of financial safety nets to preserve the credibility of the system and to mitigate systemic risks;
- The importance of local and international cooperation to avoid regulatory arbitrage and negative spillovers; as well as,
- The importance of proper governance and proper risk management practices amongst banks and other financial intermediaries.

Despite Albania has a rather low direct exposure to Ukraine, the new environment being characterised by high inflation rates and heightened uncertainty will turn to be a quite challenging one. The resilience of the banking system will be tested again. We will be mindful to detect the weakness that will appear in a timely manner and address them properly.

8. Preventing and limiting the growth of risky loans to an acceptable measure in uncertain conditions

I believe the best service we can do to this objective is – first – to preserve monetary and financial stability and –second – to make sure we minimize any negative impact that high inflation and our monetary policy response will have on growth.

It goes without saying if we manage to bring inflation target within a reasonable timeframe and with minor impact to economic activity, there should be no reason for a major bout of higher NPLs.

At this juncture, I believe we should avoid any temptation to engage in any facilitation of credit restructuring or credit moratoria, such as we undertook during the pandemic. Such actions will hamper the profitability of our banking sectors and will foster moral hazard and long term credit risk.

9. Priorities of monetary policy in the short and medium term

In the short term, our priority is to preserve monetary and financial stability. This translates into bringing inflation down in a sustainable and timely manner, while limiting as far as possible the cost to economic activity and to the banking sector balance sheets. Achieving this requires a delicate balancing act between conflicting objectives in a period of high uncertainty.

I would like to highlight three challenges that monetary policy is facing over the short to medium term.

“Three challenges that monetary policy is facing over the short to medium term:

- getting the timing and the pace of policy tightening right;***
- building a broad consensus on the appropriateness of our policy course;***
- being mindful of the potential adverse impact our tighter policy stance might have.”***

- First, getting the timing and the pace of policy tightening right. This is especially crucial given the adverse impact that tighter financial conditions will exert on aggregate demand, economic growth, and potentially asset quality of the banking sector. Any policy mistake might be costly, be it an overtly tight or overtly loose monetary policy. Given the high uncertainty, it is extremely important to carefully and continually review macroeconomic conditions, in order to adjust the pace of tightening accordingly. While monetary policy should not be a source of uncertainty, it also cannot be put on autopilot.
- Second, we need to build a broad consensus on the appropriateness of our policy course. We need to be sufficiently clear that an unchecked inflation is a much bigger threat to the economy than temporarily tighter financing conditions. We need to have the broad public on our side, as well as the public and financial sector.

The more accepted our monetary policy stance, the more efficient the transmission mechanism is. This can only be achieved through careful dialogue with all the relevant stakeholders in the economy.

- Third, we have to be mindful of the potential adverse impact our tighter policy stance might have. On one hand, it might deteriorate the asset quality of the banking sector, mostly through the interest rate risk channel. Strong capital cushions mean that banks are in a much better position to take the hit than they were during the GFC. However, we will continue to ensure banks' ability to withstand shocks through our ongoing supervisory efforts. On the other side, it will also raise the financing costs of the public sector, which will have an impact on public budgets for the foreseeable future. The government needs to be made properly aware of this.

Over the medium term, while being committed to deliver price stability, the BoA will continue to update and fine-tune our policy toolkit, including transparency and communication to be better prepared for the future as well as to develop further our domestic financial markets as major player for the efficient conduct of monetary policy.

10. Stimulating the growth of credit activity without endangering the stability of the banking system

Credit growth is strong in Albania; it is currently expanding at an annual rate of 13.8%. In addition to growth, lending is showing a number of positive features I would like to point out.

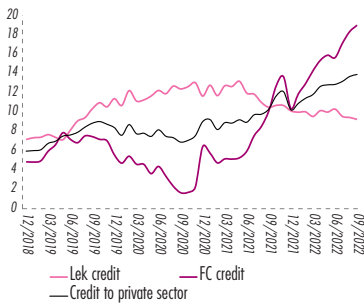
- First, bank lending is broad based, serving both businesses and households, for investment and current expenditures purposes. Especially during the pandemic, it has been instrumental in ensuring corporate sector liquidity and has helped finance the gradual pick-up in private investment and consumption.
- Second, lending in lek has been growing at a steady pace leading to the rebalancing of the credit portfolio structure. Actually, lek and FX credit are almost at par. This rebalancing is a positive development that increases the efficiency of the monetary policy transmission mechanism and lowers exchange rate risk.
- Third, the NPLs ratio has been on a declining trend suggesting an improving quality of lending.

Thanks also to our reforms – resolving NPLs issue, de-euroization – and to our ongoing supervision - banks have made significant improvements

in recent years, increasing their capital ratios and cleaning up their balance sheets. In addition, the banking sector consolidation has created conditions to increase competition and efficiency and to unlock the credit potential. Consequently, credit supply should remain intact, supporting the expansion of consumption and investments going forward.

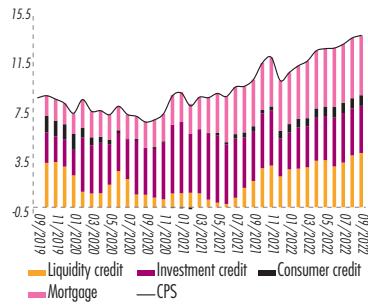
Chart 39

Credit to the private sector recorded high growth rates; the improvement in the growth rate of foreign-currency loans was offset by the deceleration in domestic-currency loans



Notes: The data represent annual changes (%) of the loan net of exchange rate cleared by the movements and off-balance sheets.
Source: Bank of Albania.

Rapid credit growth has been supported by the expansion of loans to enterprises to cover liquidity needs



Notes: The data represent annual changes of CPS and credit contribution by purpose of use.
Source: Bank of Albania.

However, there is no room for complacency, as banks are still operating in a demanding environment. The economic outlook is not optimistic and monetary policy is normalizing. In this context, I think credit quality deserves close attention.

We will continue to monitor carefully the potential adverse implications of the situation on the banking sector's balance sheets, while actively pursuing prudent regulations and continuing structural improvements in the banking sector.

11. Monetary and fiscal policies on the same mission - two sides of the same coin

Faced with another shock, monetary and fiscal policy should again align to protect people from the economic and social costs inflicted by the abrupt changes in global economic conditions. But, things need to be done differently this time around: monetary should normalize to fight inflation, while fiscal policy should provide relief to growth, through targeted and temporary measures.

We discussed at length, why the pursuit of an expansionary fiscal policy is not desirable. I would like to see it from another angle which is relevant for Albania, at least.

In the current circumstances, a general fiscal impulse should be avoided for two reasons:

- First, even though we are increasing the policy rate, the real interest rate –corrected for inflation – is negative. Based on our projections it will remain low and below the neutral rate over the coming 2 years, indicating that monetary policy will be supportive to the economy;
- Second, with very high levels of debt, fiscal policy itself is at a crossroad, trying to find the right balance between the need to restore debt sustainability with the need to shield people from raising living costs. Again, our advice to the government has been: to employ measures that are temporary and targeted at the most vulnerable strata of the society; to reprioritize spending toward the most productive investments; and to use any windfall – generated by record high revenues due to price increase – to reduce debt.

Over the medium term, the Albanian government is committed to a consolidating fiscal policy in order to put the public debt in a downward trajectory, to rebuild policy buffers and to strengthen credibility. The latter is important for both the actual and the future presence of Albania in the international financial markets, as well as for the conduct of monetary policy. We support this course of action. At the same time, the challenging environment puts a premium on commitment to push forward structural policies.

12. New challenges for central bankers

“Cryptocurrencies, big data and Fintech innovators are challenging traditional financial intermediaries’ business models, especially banks, complicating further the financial landscape for financial regulators.”

The global economy is undergoing rapid structural changes, stemming from a multitude of factors. On one hand, technological innovation has induced a revolution in financial markets. Cryptocurrencies, big data and Fintech innovators are challenging traditional financial intermediaries’ business models, especially banks, complicating further the financial landscape for financial regulators. On the other hand, the underlying

trends of global warming, global ageing and the potential reversal of globalization, will raise volatility, lower growth, and raise costs on a permanent level.

These trends pose complex challenges for central banks, including the central banks of our region.

GOVERNOR SEJKO: WELCOME ADDRESS AT THE ANNUAL CONFERENCE OF THE BANK OF ALBANIA 2022

- 27 October 2022 -

*Honourable Madam Minister,
Dear Professor Monastiriotis,
Dear representatives of the banking system, ladies and gentlemen,
Dear guests,*

It gives me great pleasure to welcome you to the 16th Annual Conference of the Bank of Albania. This conference is co-organised with the London School of Economics and Political Science (LSE). I am confident that, as in previous years, this conference will help us to better understand the origin and complexity of challenges we are facing, and identify the appropriate policies for tackling them. In this regard, I proudly note the high level of speaker expertise and the broad gamut of participants' experience, which are a solid guarantee for the success of this conference.

This year's theme will focus on the sharp upsurge of global inflation and the problems it poses to policy-makers at both macro and micro economic levels. Nevertheless, central banks, as professional and visionary institutions, will make every effort for the agenda of the day to not eclipse the task of addressing problems which relate to the future. To this end, this conference will also address the increasing challenges we face, posed by rapid structural changes in the economy, society and in the surrounding environment.

As the Governor of the Bank of Albania, in this welcome address, I would like to share with you our vision on the presented themes, focusing on inflation and the measures we have undertaken in compliance with the price stability objective and briefly describing the long-term challenges to development.

“The organisation of a conference focusing on inflation, by a central bank, may appear quite usual. Nevertheless, to a field expert, the synchronised return of attention of central banks towards identification of the necessary measures and finding the most effective instruments for reducing inflation, marks a historical moment.”

Dear ladies and gentlemen,

The organisation of a conference focusing on inflation, by a central bank, may appear quite usual. Nevertheless, to a field expert, the synchronised return of attention of central banks towards identification of the necessary measures and finding the most effective instruments for reducing inflation, marks a historical moment.

Relatively sustainable economic growth, low inflation and favourable financing conditions have characterised the global economy and financial markets for more than three decades. Economic and monetary stability - despite the occurrence of financial crises, either regional or global ones - is assumed as a fact in advanced countries, and an increasingly tangible reality in emerging economies. A period in economic history, embraced this reality and was named "The Great Moderation".

Two powerful historical promoters have boosted the consolidation of economic and financial stability. On one hand, the globalisation of markets, the integration of Asian and Eastern Europe countries in production chains, and the decrease of geopolitical tensions, drove to an increased global aggregate supply, in turn bolstering economic growth and maintaining low production costs. On the other hand, the crystallisation of economic and political consensus on the role of central banks, the institutional and operational independence which they foster, and a focus on price stability, as the primary objective of monetary policy, provided an effective and reliable mechanism for controlling inflation and mitigating business cycles.

"The strengthening of monetary stability and confidentiality of central banks, enabled the global economy to absorb an unprecedented monetary stimulus in the period of the global financial crisis and in the pandemic period."

The strengthening of monetary stability and confidentiality of central banks, enabled the global economy to absorb an unprecedented monetary stimulus in the period of the global financial crisis and in the pandemic period. Central banks lowered financing costs, down to even a negative territory in certain cases, and rapidly increased their balance sheets. Monetary stimulus was decisive in mitigating the consequences of the crisis and in establishing the preconditions for economies

to rebound. This stimulus was accompanied by increased public and private debt, but it was not translated into high inflation, once more illustrating the benefits of the Great Moderation.

Unfortunately, the military aggression of Russia against Ukraine has imposed a new reality. The geopolitical tension due to the conflict induced huge and unexpected problems in global supply chains for sensitive products, like food, commodities and energy, coupled with a fast increase in uncertainty across global markets. This shock coincided with the swift recovery of aggregate demand in the post-pandemic period and was reflected in a sharp soaring global inflation over 2022. Now, most advanced and emerging countries are facing exceptionally high inflation rates, not seen in decades.

Albania is part of this reality. Inflation surged sharply over 2022, reaching 8% in the third quarter, the highest level since 1998. Though inflation in Albania appears low, both in regional and European context, reflecting a strong and stable exchange rate and regulated prices of electrical energy to households, the inflation base has been picking up and expanding. Currently, the main basket items show an inflation rate above our 3% target. Imported goods and services are not the only items of the basket with either high or upward inflation rates, products which generate the most part of added value in Albania are also experiencing inflation hike.

The big challenge to governments, central banks, the financial markets and intermediaries, as well as to enterprises and households, is to identify the appropriate reaction against this shock.

- For governments, the economic and social tension which high inflation induces for the people with the most needs in society and on the most vulnerable segments of society, is articulated in increased demands for fiscal support. Nevertheless, meeting these demands turns into a problem, as long public finances are under pressure of uncertainty for the future and of increased costs of budget financing.
- For central banks, addressing the supply-side shocks with foreign origin poses a large dilemma, as these shocks have an adverse impact on economic activity and on price levels. In any case, the monetary policy remains aware of the fragile balance that exists between meeting the primary objective to control inflation and the secondary objective to lessen economic volatilities.
- For financial markets and financial intermediaries, high inflation rates push uncertainty up, making re-evaluation of exposure to risk and review of their development strategies necessary.
- Last, for enterprises and households, high inflation is a current

challenge to living costs and business, in addition to a long-term challenge to their financial and business plans.

In these conditions, the Bank of Albania has identified the high inflation rate as the primary risk for: the sustainable and long-term growth of Albania; the increase of social welfare; and the social cohesion. For this reason, the Bank of Albania has embarked on a gradual, but steady, normalisation of its monetary policy stance. The Bank of Albania has increased the policy rate four times during 2022, up to its current level of 2.25%, from an historical minimum of 0.5%. In our view, this normalisation is indispensable to guard the economic and financial equilibriums of Albania. It aims at establishing more adequate monetary conditions in view of our legal mandate of price stability and for inflation to return to target within a two year horizon - by simultaneously minimising the short-term and long-term volatilities in economic activity.

Three crucial considerations served us to ground this decision making. We deem that these considerations provide a consistent framework of analysis for determining the reactions of our monetary policy stance.

First, inflationary pressures in Albania appear strong and persistent. Though these pressures mostly originate from foreign supply-side shock, they have already begun to be transmitted into the cost structure of the Albanian economy and in the inflation expectations of economic agents. This conclusion is fully synchronised with the evolved thinking of almost all central banks and with the consensus of economic analysts.

The lingering and intensity of the foreign supply-side shock, the relatively stable demand for goods and services in Albania, and an increased capacity utilization rate in the labour and capital market, have induced persistent inflationary pressures. The latter is accompanied by a rapid growth of employment and wages in the Albanian economy, in turn easing the transmission of further supply-side shocks.

For that reason, the Albanian economy risks experiencing a long period of inflation hikes, in absence of a monetary policy reaction.

Second, elevated and persistent inflation creates, in an incontestable manner, negative consequences for economic and social development. These consequences tend to be larger across emerging markets, like Albania. One of the biggest ironies of stability policies' success, is that frequently economic agents forget about the motivation and benefits of

these policies. For these reasons, allow me to spend a little time in refreshing our common memory on the negative impacts of inflation.

From an economic perspective, both global theory and practice testify that high inflation reduces economic growth rates while increasing volatilities in the long term. Heightened uncertainty coupled with inefficient distribution of financial resources in the economy result in negative inflationary effects, due to reduced signaling ability in relation to market prices. The increased attention of enterprises and households on financial protection - on the back of long-term investments in physical assets - and a surge in real financing costs - in reflection of financial savings - further strengthen the above-stated consequences.

“...both global theory and practice testify that high inflation reduces economic growth rates while increasing volatilities in the long term. Heightened uncertainty coupled with inefficient distribution of financial resources in the economy result in negative inflationary effects, due to reduced signalling ability in relation to market prices.”

From a social perspective, global theory and practice show that high inflation reinforces social inequality, as it falls harder on low-income groups, and may harm the political consensus and even the democratic institutions of a country.

In the context of emerging economies, soaring inflation intensifies the negative impact on financial stability, as it damages the public's confidence in the national currency - and potentially - it hits its confidence in financial institutions.

Based on the above, persistent inflationary pressures and the long-term adverse effects of inflation compound sufficient premises for a reaction in monetary policy. In addition, decision-making in this regard is also based on a third consideration.

Normalisation of monetary policy stance will not trigger undue negative effects in the Albanian economy and in its monetary and financial stability. Our projections suggest the Albanian economy will continue to grow in the medium and long term. Also, results from our simulations suggest that the banking system is quite resilient to relatively extreme economic and financial shocks. In a metaphorical manner, we have entered into this battle convinced that our cure will fight the disease - despite being bitter and unpleasant - it will not harm the patient.

This thought is based on complete, continuous and prudential analyses. The main findings of these analyses are as follows:

First, the Albanian economy enters this fighting with a positive development inertia. Economic activity recovered rapidly over the previous year and in the first half of 2022. Growth sources appear broad, and based on both domestic and foreign demand. Enterprises and households have relatively sound balance sheets, while labour market remains dynamic, characterised by a stable rise in employment and wages. In this regard, despite an expectation of decelerated growth pace in the near future, which is normal, economic growth is expected to remain in positive territory, while recession appears as a material risk only in extreme scenarios of developments in the external environment.

Second, unlike previous experiences in facing the shock, Albania already has a consolidated financial stability. Financial markets are relatively calm, despite moderate fluctuations in certain segments. Banking sector appear liquid, well-capitalized and profitable. In addition, financial security networks have been improved considerably, while public trust in the national currency and the banking sector has climbed to their highest levels. Last, but not least important, public debt remains contained and the concrete steps of the Government towards further fiscal consolidation provides an intensified ground for its stability.

“Our monetary policy stance - throughout the normalisation process - will remain accommodative. This normalisation implies a reduction of monetary stimulus, but not a change of the simulating nature of this policy.”

In this context, I would like to highlight that the continuous reforms that both the Bank of Albania and Albanian authorities have undertaken in the financial field have yielded their results. In more concrete terms, consolidation in the system have provided for a more sound and competitive banking industry. The improved credit environment has driven banks to acquire a more positive approach towards lending, in turn becoming reliable supporters with funds to Albanian enterprises and households. In addition,

financial security networks have been further fostered, through improved coordination among responsible institutions; a strengthened role of the Albanian Deposit Insurance Agency; and adoption of the resolution function from the Bank of Albania and establishment of a special fund for this purpose. At the same time, prudential supervision and regulation of banks has led to better risk management, by reducing the banking

sector's vulnerabilities against unexpected shocks. Last, a strengthened payment infrastructure and enhanced financial education have increased the attention and participation of the public in the financial sector.

Third, I would like to emphasise that our monetary policy stance - throughout the normalisation process - will remain accommodative. This normalisation implies a reduction of monetary stimulus, but not a change of the simulating nature of this policy. In fact, our baseline scenario still does not forecast the adoption of a tightening stance in monetary policy. The monetary policy review aims at providing a better balance of risks in the economy.

Dear participants,

The analytical framework of the Bank of Albania, which I described above: the assessment of intensity and persistence of inflationary pressures, the identification of risks and assessment of their balance, coupled with an estimation of the cost and consequences of the intervention, provides a consistent guideline for decision making.

Returning once more to the historical context, I think that our task as monetary authorities is to maintain public confidence in the willingness and ability of central banks to safeguard price stability. The reaffirmation of this willingness and ability will preserve one of the two crucial premises of successful economic policies during the Great Moderation. Though other composite premises, globalisation, integration and reduction of geopolitical risk, do not fall in our control, price stability and the confidence of central banks is a relay race given to us from preceding generations and we should lead it forward.

Concluding, I would like to point out that the Bank of Albania has paid attention and will continue to be attentive to the long-term structural reforms that lie ahead. It is clear, that our analyses and projections, and in turn our policies, are incomplete and inadequate without a full assessment of the role of climate changes, demographic trends, like ageing of the population and migration, as well as of the impact of technological and financial innovation on the economy.

“...I think that our task as monetary authorities is to maintain public confidence in the willingness and ability of central banks to safeguard price stability.”

I am fully confident that in the course of this Conference, all the issues I posed above will be elaborated in greater detail.

I kindly invite you for complete and sincere discussions in this hall.

Thank you!

GOVERNOR SEKJO: OPENING ADDRESS AT THE 8TH MEETING OF THE NATIONAL PAYMENT SYSTEM COMMITTEE

- 9 November 2022 -

*Dear Minister Ibrahimaj,
Dear ladies and gentlemen,*

It is a great pleasure to open the 8th meeting of the National Payment System Committee (NPSC), fortunately in presence, while it shows that already some challenges have been overcome, while others have been generated. The latter have imposed direct and indirect pressures on our common multi-year work, which aims at bolstering financial inclusion and the use of electronic payments in the Albanian economy.

“The Bank of Albania, as the monetary, regulatory and supervisory authority, considers both financial inclusion and education, as two crucial strategic objectives for the monetary and financial stability, in turn for the formalisation and sustainable growth of the economy.”

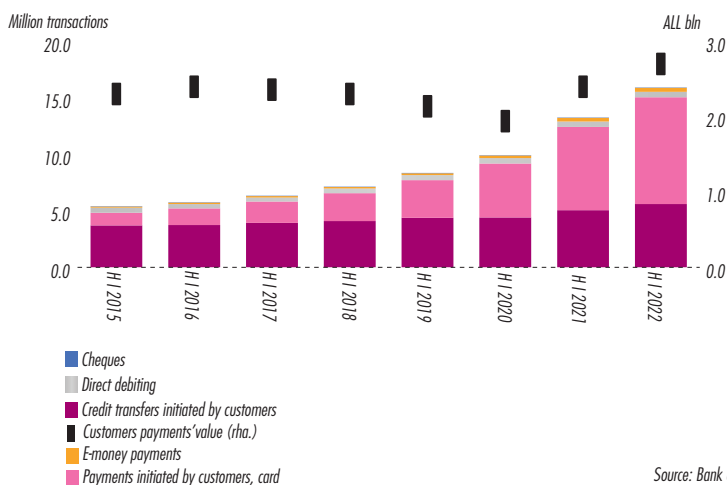
However, the Bank of Albania has strengthened the efforts for promoting the financial inclusion of the population, despite the problems triggered by the pandemic. The Bank of Albania, as the monetary, regulatory and supervisory authority, considers both financial inclusion and education, as two crucial strategic objectives for the monetary and financial stability, in turn for the formalisation and sustainable growth of the economy.

In this framework, the insofar implemented measures have reflected quite positive developments in the market, thus enabling the achievement of the targeted quantitative objectives in almost half of path of the National Retail Payment Strategy Action Plan. In more concrete terms, the use of electronic payments reached at 12.5 cashless payments per capita, exceeding the targeted objective in the Strategy of 10 payments per capita by the end of 2023. In 2022 this figure will hit at 16 cashless payments per capita.

Already, we can say that card payments and homebanking ones are increasingly becoming part of our population's daily life, while developments related to financial inclusion are rather encouraging. The volume of card payments cards have considerably edged up, particularly in the last five years (2018-2022) marking an average growth trend of around 40% per year. In addition, POS terminals have increased

considerably in the same period, by 78%. These indicators exhibit the heightened use of electronic payment instruments by consumers, which in turn positively affects the formalisation of the economy. Also, available data about the volume of homebanking transactions have marked an increase this 9-month period, of 22%, compared to the same period a year earlier, thus continuing to show the same upward trend in years.

Chart 40 Performance of payment instruments in number and value (2018 H1 - 2022 H1)



Source: Bank of Albania.

The data in the National Bank Account Register provide to the Bank of Albania a more accurate view which is easily updated on the financial inclusion of the population. These data indicate that Albanian citizens have a relatively pleasant level of financial inclusion, with almost 69% of the population owing an account. At the beginning, our objective was the financial inclusion of 70% of the population. We assess, this level will be exceeded in the short run, thus aiming to a significant approximation with the Balkans and the European Union countries.

A set of factors and analyses provides ground for this optimism. In more concrete terms, though in our public communications we have mentioned the fulfilment of most of measures laid down in the strategy, these measures are still being materialised in the market, and their expected effects will be reflected in measurable indicators upon their completeness in 2023 and ongoing. In simple words, the insofar results in terms of financial inclusion and use of electronic payments are somehow the reaction to our conveyed messages, while the real and significant effects of the strategy will be completed in the short-run and medium-term period.

In this view, we deem that the Law “On payment services” indeed is the core pillar for the innovation and promotion of competitiveness, which we have noted in the increased interest of entities aiming to enter in this market segment. The open-banking operationalisation will drive to its full materialisation. In this regard, I see it necessary to emphasise that banks and non-banks should have a maximum commitment in order these infrastructures and relevant services be realized within the terms determined by the Bank of Albania, and at a maximum security. Safe communication and interaction is needed and indispensable given the open communication imposed by open-banking and in the framework of increased risks in the field of cybernetic security we are experiencing in nowadays. This has been the main reason for the Bank of Albania in carefully putting in place standards of well-defined regulation and broadly adopted by the European Union countries, simultaneously paying attention to provide the necessary time for all market stakeholders, thus enabling them for rather efficient and safe implementation.

In addition to the legal and regulatory developments, the Bank of Albania has undertaken a set of measures, like the operation of AIPS Euro for interbank euro-denominated payments within Albania, a rather effective development. Currently, the Albanian citizens are feeling the effects of this system in their daily life, by avoiding the long queues at banks’ windows for conducting payments in the euro from a bank to another, as a reaction to the applied commissions on the transfers taking place between correspondent banks.

The establishment of this system, along with the differentiation of commissions on processed electronic payments, appears to have been quite effective. In more details, from January up to the end of October 2022, around 120.000 payments are processed in the AIPS Euro and if making approximated calculations of the applied commissions before and after its operation, it comes out that around EUR 10 million are saved to the Albanian consumers and business. In this light, this project has bring a set of factors affecting - both in a direct and indirect way - the individual welfare of the customer, bank and the entire economy. In addition, the Bank of Albania assesses that the interbank Direct Debiting regulation further accelerates the establishing of a more effective market, by providing a variety of payment services and instruments which accommodate the everyday needs of citizens.

“From January up to the end of October 2022, around 120.000 payments are processed in the AIPS Euro and if making approximated calculations of the applied commissions before and after its operation, it comes out that around EUR 10 million are saved to the Albanian consumers and business.”

In this regard, it should be highlighted that the Bank of Albania, the Ministry of Economy and Finance, National Agency of ICT and banking system, are closely collaborating since May, to create all possible alternatives for the conduction of online payments through electronic means.

We deem that the fulfilment of this objective significantly promotes financial inclusion and financial education, as well as the adaptation of the public with the electronic payments. In this view, we believe firmly, that digitalisation of government payments, - based in the experiences of other countries as well - is one of the most powerful leverage for achieving the objectives of the National Retail Payments Strategy, while coordination of efforts in this regard is the first step towards a broad gamma of measures which may be undertaken in the future.

The drafting and implementation of the draft law “On payment account with basic features” which transposes the relevant European Union directive, is another important measure undertaken in this regard. The purpose of this draft law is to establish the facilities in terms of costs for opening a bank account and its use for conducting payments to that segment of population which is not financially included or has a limited access. Alongside these measures, the draft law stipulates the offering of the basic features - account with no commission to certain categories of population, as retired people, students and persons benefiting economic aids.

The Bank of Albania to support the developments in the market is working on the improvement of payment system aimed at introducing new standards of both communication and services, which address the infrastructural needs for the implementation of the strategy. Furthermore, the Bank of Albania together with all market stakeholders will strengthen the efforts to realizing the Instant Payment project.

Last, but not less, the work has started for drafting and implementing a National Financial Education Strategy, aiming at a more efficient materialisation of the analysed measures in this strategy. We assess that both financial inclusion and financial education are entirely interconnected, while supporting joint achievements and constituting

strategic objectives of the Bank of Albania, as I mentioned it previously.

Concluding, I would like to particularly thank the Ministry of Economy and Finance, the banking system and all market actors for the continuous collaboration and coordination of efforts thus enabling the insofar realisation of this reform. Also, I would like to highlight that it is indispensable to continue with the same intensity and seriousness the accomplishment of the rest of measures set forth in the Strategy.

“...the work has started for drafting and implementing a National Financial Education Strategy, aiming at a more efficient materialisation of the analysed measures in this strategy.”

I wish you fruitful and constructive proceedings of this meeting!

GOVERNOR SEJKO: GREETING SPEECH TO THE GENERAL ASSEMBLY OF THE AMERICAN CHAMBER OF COMMERCE

- 17 November 2022 -

*Mr. President of the American Chamber of Commerce,
Honourable Minister Ibrahimaj,
Your Excellency Ambassador Kim,
Dear Ladies and Gentlemen,*

It is a real pleasure to join all of you in the General Assembly of American Chamber of Commerce (AMCHAM). Also, it is an honour to address to this Assembly and share with you opinions on the current situation and prospective of the Albanian economic development.

At the beginning, I would like to extend my consideration for the American Chamber of Commerce. This Chamber - encompassing more than 200 member companies - is one of the most important business communities in Albania. Through training activities, promotion of Albania as a business destination and participation in discussions on the development policies, it contributes in: improving the business climate and model; attracting foreign investments; and strengthening the economic relationships between the United States of America and Albania.

Nowadays, this collaboration becomes even more important, when businesses, in both sides of the ocean, are tackling complex and unprecedented challenges. After two years of the pandemic lingering, the military aggression in Ukraine triggered a new economic reality we are facing with. In addition to substantial loss of human life, this conflict caused headwinds in global markets of goods and in global supply chains. As a result, inflation and uncertainty picked up sharply across the globe, weighing heavily on those in needs, and brought about negative consequences on global growth.

Albania, as a small and open economy, is also experiencing this new created environment and in turn becoming part of it. The soaring prices in global markets drove up progressively inflation in Albania, which peaked at 8.3% in October. We deem,

“Albania, as a small and open economy, is also experiencing this new created environment and in turn becoming part of it. The soaring prices in global markets drove up progressively inflation in Albania, which peaked at 8.3% in October.”

that this high inflation is the main challenge for economic policies and operators in the private sector.

We all are aware about the harmful consequences the high inflation has on households, businesses and on the overall economy. It decreases the purchasing power of our income, deflates savings, heightens uncertainty for the future, and reduces the informing role of prices in the economy. It increases the financial cost and curtails the ability of businesses and households to take well-informed decisions on consumption, savings and investments in the future.

In this view, the priority of the Bank of Albania is the return of inflation to the target at a shorter time. For that reason, we are engaged in a normalising cycle of the monetary policy stance, by increasing the policy rate to 2.75% from 0.5% during 2022. This normalisation aims at establishing a better supply-demand equilibrium for goods and services, by inducing the adequate stimuli for both the monetary and financial stability of Albania. This stability - as we have continuously emphasized - remains the crucial precondition for the sustainable and long-term growth of the economy and for the social welfare and equality.

“Despite the growth will somewhat slow down the momentum in the short run, the stabilisation of monetary environment and the reduction of uncertainty will pave the way for a faster economic growth in both medium term and long term.”

Forward looking, projections in our baseline scenario suggest inflation will reduce in the course of the next year, and return in our 3% target in 2024. Also, these forecasts show the Albanian economy will continue to grow in the coming years. Despite the growth will somewhat slow down the momentum in the short run, the stabilization of monetary environment and the reduction of uncertainty will pave the way for a faster economic growth in both medium term and long term. Last, but not least, our forecasts suggest that financial

markets will continue to be calm, the foreign exchange rate relatively stable, and the soundness of financial intermediaries, including the banking sector, will not be jeopardized.

Allow me to highlight that this economic prognoses, first reflects the health of the private sector in the Albanian economy. In recent years, this sector has marked a distinguished progress, in terms of finding new markets, strengthening operational efficiency, improving financial soundness, and enhancing its strategic vision. The rapid rebound of the

Albanian economy after the pandemic shock best certifies this progress. I think that the qualities that helped private sector in that period: care for the employees; collaboration among businesses, both in horizontal and vertical plans; the right share of costs in all the production chain; and the operational and financial flexibility will be important elements for tackling high inflation.

In parallel, I believe that the banking sector will continue to financially support the businesses, by orienting funds towards profitable projects and most productive sectors.

Last, our prior task, as public decision makers, is to take the adequate measures to restrain the supply-side shock in causing long-term consequences in the soundness of the Albanian economy. In this context, I assure you that the Bank of Albania will continue to be entirely devoted to guarantee the price stability and financial stability of Albania.

Dear ladies and gentlemen,

While, we have paid the right attention and in a timely manner to the consecutive shocks we have suffered recently, I would like to conclude this speech by pointing out that policy-makers and private sector's operators should keep in mind that structural reforms are an indispensable instrument to strengthen the producing potential of the country and to increase the competitiveness of products "Made in Albania".

"Our prior task, as public decision makers, is to take the adequate measures to restrain the supply-side shock in causing long-term consequences in the soundness of the Albanian economy."

These reforms turn even more important while we advance in our integration path to the European Union.

I wish good proceedings to the Assembly!

Thank You!

GOVERNOR SEJKO: WELCOME REMARKS AT THE 16TH SEE ECONOMIC RESEARCH WORKSHOP - 5 December 2022-

*Your Excellency Ambassador Huber,
Dear guests and speakers from central banks, academia and research
institutions,
Dear colleagues,*

Welcome in the 16th South-Eastern European Economic Research Workshop. It is a great pleasure hosting this event in-person this year, as we hoped in the last workshop, even though only partially, after two years of holding its proceeds virtually.

One lesson learned and adopted from the pandemic, in a broader dimension, was how to operate in a virtual environment and ensure that all our participants can be fully engaged in these proceedings—whether you're here in person or joining us virtually.

I take this opportunity to extend my appreciation to all of you for your continuous dedication and precious contribution. I'm really grateful that this initiative, which has started 16 years ago, has grown and has taken such dimensions, by enforcing and extending over the years the cooperation between central bankers, academics and policymakers not only within the SEE region, but from all over the world.

"I'm really grateful that this initiative, which has started 16 years ago, has grown and has taken such dimensions, by enforcing and extending over the years the cooperation between central bankers, academics and policymakers not only within the SEE region, but from all over the world".

As in many prestigious central banks, even at the Bank of Albania, the economic research has an important role in its overall activity, by providing continuous support to both policy design and implementation processes through the novel and sophisticated empirical tools adopted for policy analysis and forecasting. High-quality research boosts the central bank's credibility and improves the quality of its policies.

The remit of this activity is the presentation and discussions of the current research projects conducted at the Bank of Albania over this year,

along with the researches performed in other central banks, prestigious international and Albanian universities, as well as in financial institutions. It is an excellent opportunity to get feedback and new insights from colleagues in homologue institutions working on the same topics and dealing with similar challenges to ours. I am pretty sure that this workshop will be worthwhile to better understand the origin and complexity of challenges we are facing, and design the right policies to address them accordingly.

“This event takes place at a particularly difficult time: while we are still facing the complexities of the gradual phasing out of the policies implemented during the pandemic, new risks have dramatically taken center stage.”

Over these years, the workshop did change and grew in many different ways, in turn so did the challenges and opportunities faced by us. This event takes place at a particularly difficult time: while we are still facing the complexities of the gradual phasing out of the policies implemented during the pandemic, new risks have dramatically taken center stage.

Despite the limited direct exposure of Albania to Russia or Ukraine, the macroeconomic scenario changed almost overnight following the Russia’s war in Ukraine

Albania is now facing the challenges arising from the surge in international prices of energy, tighter global financial conditions, which are likely to persist and the economic slowdown in Europe. Inflation reached at 8.3% in October, continuing to remain the main threat to the macroeconomic stability and to both the stable and long-term growth of Albania.

Given these circumstances, the Bank of Albania has undertaken a gradual monetary policy normalization process, ensuring that the speed of this normalization will return inflation to target within a reasonable period of time and with the lowest cost possible to the economic activity. Our efforts to control and contain inflation have also been helped by the appreciation of our currency vis-à-vis the euro. During 2022, our currency, the lek, has appreciated by 2.5% on average against the euro, due to significant revenues generated by tourism, high FDIs, and stable risk premia in our domestic financial markets. This was further strengthened by the convergence of our monetary policy cycle with that of the euro area. In parallel, the regulated energy price for Albanian households has helped in absorbing the foreign pressures. This conclusion is well documented by previous and recent research conducted by our staff at

the research and policy departments and by the econometric models that support our monetary policy.

Foreign price pressures helped by persistent domestic demand are already feeding to inflation of domestically produced goods and services, thus driving to the increase of production costs, and most importantly, of inflation expectations. This is evident in the labor market, capacity utilization rate and the capital markets, which seem to have already internalized these expectations in their decision making.

The vast body of research conducted in the area of monetary policy has documented the real risk of high and persistent inflation and inflationary expectations. It also shows that without a strong and committed monetary policy response, inflation expectations become self-fulfilling, leading to increased uncertainty, disrupted price signals, inefficient distribution of resources, reduction of economic growth and increased long term volatility.

Our experience, research and current analysis, show that under current conditions, the only responsible policy for the central bank is to respond by increasing the policy rate and reinforcing its commitment to price stability. This course of action will create the necessary monetary conditions to control inflation and inflation expectations, and will eventually help return inflation to the target within a reasonable time horizon.

Our commitment to price stability aims to preserve the purchasing power of the family incomes and the value of household savings; preserve financial stability and create optimal credit conditions; as well as help the private sector to make reliable business and sustainable investment plans.

Most importantly, our projections, which benefit from the same models and research analysis, suggest that the current round of policy rate hikes will not be recessionary. The Albanian economy will continue to grow in the medium-term horizon. In this respect, the recent increase of policy rate which aims to preserve price stability and anchor inflation expectations, is simultaneously a measure for protecting the economy; the private sector; and the households, from the negative effects of inflation. This is especially supportive and important for the low income groups, which are hit harder by the negative effects of high and persistent inflation.

However, the general public must understand that the outlook is subject to considerable uncertainty, and amidst such profound uncertainty,

amplification mechanisms may arise from multiple channels, due to the close interconnections within the global financial system. I am happy to see that all these issues will be discussed in depth during this workshop.

In fact, the agenda is quite rich and covers a vast variety of research topics related to monetary and fiscal policy, financial stability, policy coordination, risk assessment and management through macro-prudential policies, with a special focus on price dynamics and soaring inflationary pressures witnessed worldwide, and the associated challenges they poses to policymakers, at both macro and microeconomic perspectives.

We are all waiting impatiently to hearing what the respective speakers have to say about the duration and the intensity of such pressures and any potential implications for monetary policy. I am sure it will provide an excellent opportunity to gain new insights from academic research.

Looking forward, beyond the dramatic events we are currently witnessing, technology coupled with the transition to an economy with net-zero carbon emissions will continue to shape the evolution of markets and of both traditional and new financial service providers.

Therefore, additionally to the traditional issues of monetary policy and central banking, an exceptional attention during the workshop will be given to climate change related risks and green finance - which have turned into the "leitmotiv" in the communications of many central banks, and European and international institutions, - digitalization of financial services and technological improvements, and their implications for central bank objectives.

I am confident that the research papers on these "hot" topics will provide some guidance on how to approach these issues, arising from the recent economic developments. Strong cooperation would be extremely useful on this regard, also because such areas are still under-researched.

In these brief opening comments, allow me to point out that the coming months will be challenging for our societies, and the following years may see substantial structural transformations. Addressing the main challenges faced by the Albanian economy, such as, inflation, energy crisis, etc., triggers many obligations to be taken and many policy paths to be considered by the authorities. Our experience in the implementation of existing old and new policy tools and policies in such harsh and changing conditions is growing, but new risks are also emerging. Research and

discussion fora like this workshop, in which fresh ideas and experiences are exchanged among academics and policymakers, will be ever more important. It is the application of research findings and conclusions in the practical policy making that gives research its true value and meaning, for the benefit of the central bank and the society.

Before concluding, I would like to thank the Swiss Government and the State Secretariat for Economic Affairs (SECO) for their continuous support of research activity at the Bank of Albania. We have been cooperating together for 10 years to build and improve research activity to the best international standards and make it practical and useful in the context of the central bank. Our models and a significant part of research projects have been developed in cooperation or under the technical assistance of the State Secretariat for Economic Affairs as part of the Bilateral Assistance and Capacity Building Program for Central Banks. This project led, reviewed and commented research projects undertaken by our staff, and made substantial contribution to the credibility, reputation and prestige of our Research Workshop.

“Addressing the main challenges faced by the Albanian economy, such as, inflation, energy crisis, etc., triggers many obligations to be taken and many policy paths to be considered by the authorities.”

Our cooperation has been truly productive and very useful not only for the development of research activity and state of the art forecast and policy analysis modes but most importantly, for their implementation in the mainstream policy of the Bank of Albania in the areas of monetary policy, financial stability, and the analysis of demographic and climate change issues. Beyond and above these, our successful collaboration with the State secretariat for Economic Affairs extends to the areas of payment systems and financial education.

Your Excellency Ambassador Huber, we are grateful for your support and look forward to the successful implementation of our current projects. I hope we will have many other opportunities to continue our fruitful cooperation in the future.

Finally, I would like to close my remarks by thanking our speakers, discussants, the chairpersons, as well as the Bank of Albania's staff for dedicating your time and efforts to this important activity.

I kindly invite you to actively participate in and conduct a very lively and fruitful debate. I truly believe that the productive discussions which will certainly take place during these two-day workshop, will contribute to strengthening further cooperation among researchers, and between the institutions.

Thank you!

GOVERNOR SEJKO: ADDRESS AT THE YEAR - END EVENT ORGANISED BY THE ALBANIAN ASSOCIATION OF BANKS

- 15 December 2022 -

*Honourable AAB Chairman,
Dear ladies and gentlemen,*

As every year, it is a pleasure for me to joint this special meeting with banking industry, sharing our achievements and efforts made throughout the past year, the most meaningful experiences, and setting the milestones for 2023.

Let me first focus on the overall performance of the Albanian economy. The sharp upsurge of prices and inflation in international markets in the wake of Russia's war against Ukraine shaped the performance of the Albanian economy over the course of 2022. This supply-side shock caused another steep challenge for the Albanian economy, driving to the need for a review of public economic policies and business-plans in both private sector and banking industry.

"The Albanian economy was in sound positions when this shock hit, following the rapid rebound from the pandemic-related shocks in 2021. Also, the monetary and financial stability was consolidated."

In this context, I would like to highlight that the Albanian economy was in sound positions when this shock hit, following the rapid rebound from the pandemic-related shocks in 2021. Also, the monetary and financial stability was consolidated. The sound financial balance sheets of Albania, the strengthened confidence in banking system, and the reduced risk premia reflect this stability. Also, the latter is anchored in the positive experience that we both, public institutions and you, as financial sector, have gained in tackling such shocks.

In addition, the monetary policy normalisation we have embarked on has established the premises for controlling inflation and safeguarding the economic and financial stability of Albania. In this view, I would like to welcome the positive role played by the banking industry over 2022, by maintaining a positive approach towards lending to private sector and taking the necessary measures to manage added risks in your balance sheets.

I am confident that these measures, and others we may take in this regard, will pave the way for a rapid return to normality. Though risks remain present, our projections suggest inflation will return to target within the first half of 2024 and the Albanian economy will continue to maintain a positive growth pace throughout this period.

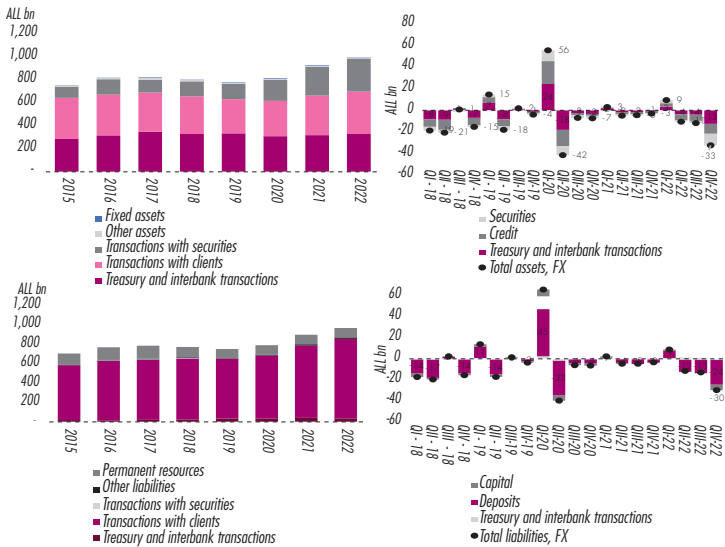
As important actors in the economic and financial life of Albania, I would like to re-emphasise that our decision making should be forward-looking, decisive and courageous. Albania has a solid economic growth prospects in both medium and long term. They have enabled the continuous expansion of economy and of the banking and financial system in the recent years, and should feed your confidence in the Albanian economy in the future. These prospects will further benefit in the framework of Albania's membership process in the European Union and from the agenda of structural reforms. For this reason, I kindly invite you to stand up for these processes. Also, I invite you to maintain your positive approach to expand financing to the Albanian economy in addition to qualitatively increasing the banking products in a quantitative manner.

Dear ladies and gentlemen,

Year 2022 as well triggered some unexpected shocks for the banking sector (the war in Ukraine, fluctuations in markets of financial instruments and recently the increase in interest rates). The banking sector, despite the lingering effect of these shocks on the profitability rate, re-affirmed once more the stability and the security this sector provides to depositors and investors.

Throughout 2022, the activity of banking sector recorded a prudential increase across all indicators, above 6% growth of total assets and similar expansion rates in main items. The funds of individual depositors, who preferred the foreign currency as the main instrument of their savings, largely underpinned this upturn.

Chart 28 Performance of the assets and liabilities in foreign currency (left) and the effect of the exchange rate on the equivalent value in lek of the main items of the assets and liabilities in foreign currency (right)



Source: Bank of Albania.

The financing manner of credit portfolio and the upsurge in the foreign currency investments in securities reflected the ample supply in foreign currency.

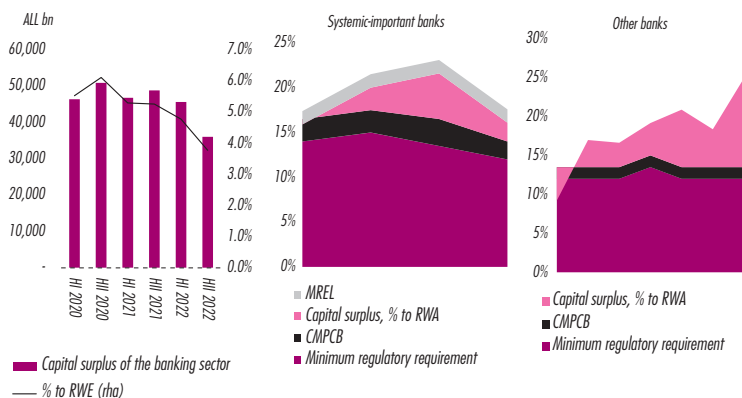
The amount of non-performing loans reduced again this year, by around ALL 2 billion, thus strengthening the stability of this multi-year trend, further down to 5%, from 5.68%.

In 2022, the portfolio of financial instruments - unlike the previous years - provided a negative contribution to the overall level of banking system profitability. The interest rate hikes and the uncertainties caused by the war in Ukraine yielded subsequent shocks to the market values of these portfolios. Banks succeeded in withstanding the first wave of these shocks, remaining at positive territory, in terms of both system level and individual level. Meanwhile, measures are gradually being taken to adequately manage investment portfolio, in line with the established conditions.

Capitalisation of the banking system has continued to grow this year as well, to 19.26%, from 18.53%, reflecting also the enhancement in the regulatory requirements on macro-prudential reserves and the minimum

requirements for own funds and eligible liabilities (MREL). Both elements have strengthened the resilience and security of the banking system.

Chart 42 Capital surplus for the banking sector and macroprudential capital buffers by groups of banks, December 2022



Source: Bank of Albania.

The purchasing and then the merger of the OTP Bank with Alpha Bank drove to the further materialised consolidation of the banking system in 2022. This development introduced another important player in the group of large banks, which share above 70% of market, and it is expected to contribute positively towards a more competitive and expanded market.

The segment of payments and the supportive infrastructure have also marked rather positive developments in terms of their processing during 2022, on the back of measures undertaken in the framework of the Albania National Retail Payments Strategy. The AIPS EURO system is already a reality, while your clients, consumers and businesses are experiencing its benefits, together with you. Based on available statistics, we see that the euro-denominated interbank transactions within Albania have considerably picked up. The implementation of this system reduces costs and the necessary time in managing cash in banks' windows, unlike the payments previously conducted in cash desks with high commissions applied on the processing between corresponding banks. Also, the use of electronic payments have recorded a positive increase. Based on the preliminary calculations by the Bank of Albania, in 2022, the Albanian citizens have conducted averagely 16 electronic payments in a year, thus considerably exceeding the 12 payments target. Absolutely,

these achievements reflect the measures taken by the banking system through significantly expanding the necessary infrastructure and services in this regard.

In view of these developments, the same intensity is needed for the realization of projects, as: open banking; instant payment, and the transition to ISO 20022 communication standards, which will digitalize and modernize the overall market and will create potentials in the framework of the integration process with the European Union markets. Last but not least, we should further intensify and enhance collaboration in the framework of the National Financial Education Strategy, which is a crucial mechanism for maximizing the expected effects and the implemented measures so far in view of financial digitalisation and inclusion.

“...the same intensity is needed for the realization of projects, as: open banking; instant payment, and the transition to ISO 20022 communication standards, which will digitalise and modernise the overall market and will create potentials in the framework of the integration process with the European Union markets.”

Dear banking system executives,

Notwithstanding the challenges and hardships caused by the soaring inflation during this year, forecasts for the Albanian economic growth remain positive. Nevertheless, tackling this challenges needs a coordinated and carefully parametrized response, by the monetary policy instruments coupled with an effective and visionary collaboration of all market actors.

Let me brief some challenges foreseen for 2023.

First, the increase of inflation and rise of interest rates to balance its impact, as well as the respective effects passed through in the economic and financial sector from this interaction, have been the remit in all recent meetings and forums with national and international partners and homologues. The structure of re-pricing credit portfolios, which are dominant in our banking system, has enabled banks to begin to transfer this effect to borrowers, while the relatively high share of non-interest bearing accounts on the liability side has provided for the increase of interest margins, at least temporary. But the increase of credit cost bears the risk of non-performing loans growing in the future, so far as borrowers' solvency has not proportionally increased with the price upsurge. The

development of abilities to foresee and assess in an objective manner the solvency of the existing clients – without being inclined to fast and short-term profits, which may harm an already established long-term relationship - will be one of the main challenges in the next year.

“The consolidation of banking system and the increase in the number of banks with a high share in the banking system impose differentiated addressing of the latter for mitigating systemic risks and the effects on the taxpayers’ money in case of possible crisis in the future.”

Second, requirements on capital (macro-prudential buffers and requirements on regulatory capital instruments and eligible liabilities) will continue to increase in compliance with the regulatory provisions and the respective gradual application programme in 2023. The implementation of these measures, beyond the approximation of our regulatory framework with the EU Acquis, ensures a stronger resilience of banking system against the above-stated shocks, and the continuation of the provided

financial services, already being integrated in the daily life of citizens and businesses. The consolidation of banking system and the increase in the number of banks with a high share in the banking system impose differentiated addressing of the latter for mitigating systemic risks and the effects on the taxpayers’ money in case of possible crisis in the future. Concluding, I take the opportunity to re-assure that the Bank of Albania, in carrying out its function as supervisor and regulator, will continue to support you and be your partner both in good and rainy days, by providing transparency, cooperation and objective assessment of your requests and proposals in every decision making.

I wish you a successful and prosperous new year!

GOVERNOR SEJKO: ADDRESS TO THE END-OF-YEAR MEETING WITH JOURNALISTS, ANALYSTS AND MEDIA REPRESENTATIVES - 20 December 2022 -

*Dear ladies and gentlemen,
Dear students,
Dear participants,*

I feel honoured and privileged to welcome in the historical hall of the Bank of Albania, media representatives and talented students who are brave in competing for "Governor's Award for the Best Diploma Theses".

In the last year event, I emphasised that we experienced an unusual 3-year period, with the hope that 2022 would be different, more vivid and more optimistic. Nevertheless, the end of 2022 is proving a really challenging one, mainly due to the huge shock on commodity prices of energy, oil and gas, in particular. The increased prices - mainly engendered from the outbreak of the Russia's war in Ukraine - has generated strong inflationary pressures worldwide, triggering a difficult time for consumption and economic growth globally.

Albania is facing the same challenges as well. In November, inflation stood at 7.9%, somewhat lower than in the previous month, though a high level which is the main threat to both the macroeconomic stability and to the sustainable and long-term growth of Albania. In this context, I would like to point out that the latest forecasts at the Bank of Albania show that inflation is expected to progressively reduce during 2023, and return to target in the middle of 2024.

In view of an increased inflationary pressures environment, we have embarked on a gradual process of monetary policy normalisation, aimed at timely returning inflation to the target and at a rather low costs to the economic activity.

"The sound position of banking system is an added guarantee for the expansion of the economic activity. The healthy and liquid financial balance sheets of the banking sector guarantee that the latter will continue to funding the Albanian households and enterprises, by supporting the expansion of both consumption and investments as well as meeting the temporary needs for liquidity."

Nevertheless, the sound balance sheets of households and enterprises, the further expanded Albanian exports, and the decreased uncertainty in response to the expected reduced inflation will continue to feed the economic growth, in turn the latter is expected to remain in positive territory.

The sound position of banking system is an added guarantee for the expansion of the economic activity. The healthy and liquid financial balance sheets of the banking sector guarantee that the latter will continue to funding the Albanian households and enterprises, by supporting the expansion of both consumption and investments as well as meeting the temporary needs for liquidity.

The coverage and transmission in an objective manner of news to public is an important factor in meeting our objectives for a stable economic and financial environment. In this light, I am pleased to see that the media coverage of the economic and financial developments in Albania and abroad has been fully in compliance with our expectations. For this purpose, I would like to thank you for the professionalism and integrity you have demonstrated throughout 2022.

“The dynamic of current developments in the global economy coerces both, the Bank of Albania in one side and the media on the other one, to be more responsible and more devoted in informing the public in a prompt, transparent and open manner.”

In addition, I reaffirm that the Bank of Albania is completely open to listen to your opinions and suggestions for further heightening our collaboration. The dynamic of current developments in the global economy coerces both, the Bank of Albania in one side and the media on the other one, to be more responsible and more devoted in informing the public in a prompt, transparent and open manner.

I wish that our cooperation, which is at the service of best public interest, will continue to follow the same model in 2023 as well. You will find that our institution remains a loyal and transparent partner, which is available to share the necessary information and clarifications. Our policies and decisions and their impact, as well as the situation regarding the financial soundness of the banking system and the financial sector, overall, will be at the heart of our ongoing communications.

Honourable participants,

Financial literacy and research are at the focus of the Bank of Albania's undertakings. They help us to successfully draft, implement, and convey policies and decisions in order to safeguard price and financial stability in Albania. Education and scientific research are conducted to understand economic events, as well as to enhance Bank of Albania's trustworthiness and expand communication with the economy, financial market, and the public. In a broader sense, researching, comprehending and interpreting the economic and financial events are a precondition to ensure the socio-economic prosperity of Albania and increase the well-being of its citizens.

“Education and scientific research are conducted to understand economic events, as well as to enhance Bank of Albania’s trustworthiness and expand communication with the economy, financial market, and the public.”

The universities and academia play a key role in both these fields. As a result, the Bank of Albania supports the scientific research and the activity of Albanian students, studying at university and other academic institutions, in Albania and abroad. In this framework, I would like to continue a cherished tradition of the Bank of Albania, the ceremony of Governor's Award for the Best Diploma Thesis.

For 16 years, the Bank of Albania selects and awards research studies conducted by Albanian students, graduating in Albania or abroad. Over the years, the focus of the presented research materials is on recent economic issues. The research follows how the needs and the economic, financial and social events affect the authorities, businesses and the society. Simultaneously, the process of setting the hypothesis, selecting and implementing the applied methodologies, is conducted in congruence with the best up-to-date research practices. This renders analysis and research investigation valid and professional.

“For 16 years, the Bank of Albania selects and awards research studies conducted by Albanian students, graduating in Albania or abroad. Over the years, the focus of the presented research materials is on recent economic issues.”

During this year's competition, there were a series of applications received, mainly focusing on topics that deal with recent phenomena taking place in the fields of economics and finance. The studies are

directly or indirectly connected with the activities of the central bank. Some of the most interesting topics of these studies were the following:

- the impact of policies on the central bank's balance sheet in the corporate bond markets;
- the impact of credit and the expansion of banking products;
- the effect of prices on the real estate market;
- the multiplier of government expenses and consumption, and their effect on the economy.

We gladly assess that the topics presented fulfil the standards of a true scientific research, correctly addressing the hypothesis, and their validation is based on the application of contemporary research methodologies, while employing the statistical data in a correct and structured manner. As a result, reaching conclusions and the implications to decision-makers are analysed based on a diligent investigation work on various economic and financial events.

After analysing the topics presented, the Assessment Commission has reached a unanimous decision on the winners of the first three prizes of "Governor's Award for the Best Diploma Thesis, 2022". Before awarding the prizes, I would like to congratulate and commend all the participants in competition for their interest, ideas, methods and conclusions, which were based on correct methodologies. The submitted materials are of a high level and the Assessment Commission was hard-pressed when selecting the winners. However, the three topics that will be presented stand out from the rest because of their importance and coherence, as well as for having fully employed the methodology, and diligently having applied and described the assessment methods, and the interesting findings. I encourage the winners and all the contestants in the competition to preserve and nurture the same passion and commitment further in their professional careers as shown in the submitted research works.

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Të paguash me kartë, pse është ende e vështirë?

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Tekstilet e këpucët "mbyten" nga kërkesat

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Turizmi, "motor" që po nxit profesione të reja

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RIMËKËMBJA PAS PANDEMISË

RECETAT E GUVERNATORIT TË BSH, GENT SEJKO



CHAPTER VI

INTERVIEWS

- *Interview with Gent Sejko, Governor of the Bank of Albania. "Monitor" Magazine, 11 January 2022*

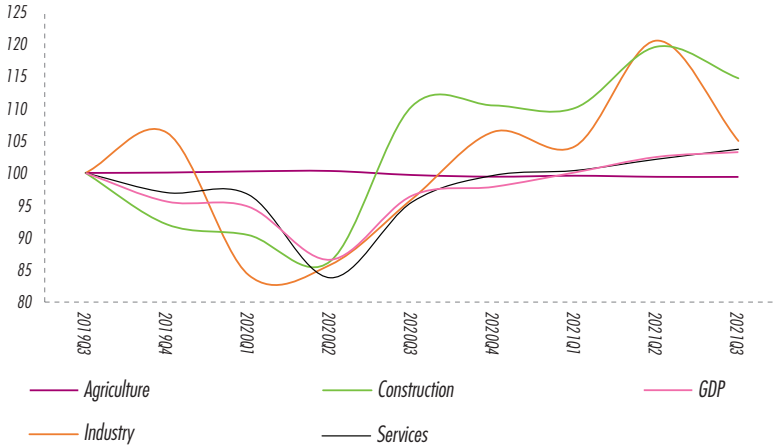
**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA.
"MONITOR" MAGAZINE
- 17 January 2022 -**

Monitor: Mr. Governor, according to your assessment what is the economic growth figure for last year, 2021, and what are the expectations for the growth rate in 2022?

Governor Sejko: As has been previously mentioned in our public communications, the Bank of Albania considers 2021 to be a year of economic recovery.

As you may know, the pandemic and the measures taken to contain it during 2020, generated a deep economic recession, assessed at around 4%. This recession affected almost all the economic sectors. At the micro level, it was felt by almost every cell of the economy and society, enterprises or households, in the form of missed income, reduced consumption, or other financial challenges. Fortunately, the response of our enterprises and households demonstrated that they had operational flexibility as well as relatively solid balance sheets. The response of authorities was successful as well. It could shield the economy from the most negative consequences of the shock such as massive enterprise bankruptcies and stable increase in unemployment, by preserving the economic equilibrium and the financial and monetary stability of the country. Both these factors ensured the premises of recovery in 2021.

Chart 43 Sectorial GDP



Source: Bank of Albania.

Fast growth rates were generated in 2021 as the containment measures were reduced, people and goods could move freely once again, and the economy continued to be stimulated. According to INSTAT, the Albanian economy grew by 10.4% during the first nine months. Our projections suggest that 2021 will close at around 8.5-9% growth rate. Naturally, this growth has a strong effect from the low comparative basis as a result of “artificial” restrictions imposed on the economic activity during last year. However, our analysis show that the recovery has gone beyond the base effect. To illustrate it, almost all the sectors of the economy have surpassed the specific levels registered before the 2019 earthquake and the pandemic. The same phenomena is observed also in: (i) the components of aggregate demand such as private consumption, investments and exports; (ii) the employment and unemployment indicators, which stand at the pre-crisis level; as well as (iii) the fast increase of wages during the third quarter.

Under these circumstances, we have assessed that economic growth has a broad base and its supportive factors appear relatively solid. This encourages us to think that the Albanian economy will continue to grow during 2022 and beyond, although the growth rate is expected to somewhat decline and return in line with its fundamental factors: the scale of growth of working-age population, the scale of capital accumulation, and the rate of productivity growth.

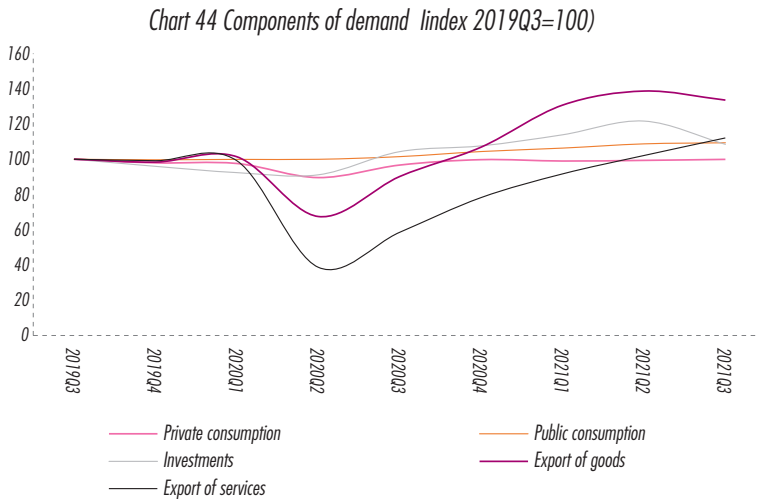
In addition to the preceding arguments I would like to emphasize that we are aware of the risks that threaten the economy in the following year. The increase of prices in global markets will drive part of the purchasing power of the Albanian economy to bear the higher import tab. Also new variants of SARSCoV2 continues to remain a source of risks and uncertainties. With the currently available information, these factors are expected to have a marginal effect on growth and a temporary one on prices. They will not deviate the economy from its road to recovery and the economic policies from their course. However, the risks exist and we shall be aware of this.

Monitor: What will the sources of growth be, and what are the effects of the COVID-19 pandemic?

Governor Sejko: Judging from the current premises, the economic growth during 2022 is expected to be broadly based.

In terms of aggregate demand, we expect a further expansion of private consumption, supported by the increase of employment and wages as well as the favourable financing conditions. Also, we expect an expansion in investments as a result of the positive cycle of the private sector and the continuation of an ambitious plan on public spending. Last, we expect a further expansion in exports of goods and services, factoring here the favourable conjuncture of prices in international markets for a series of categories of our exports, as well as an increasing interest on Albania as a tourist destination and the improvement of infrastructure in the country.

In terms of economic sectors, we assess that the expansion of demand for goods and services will drive almost all sectors of the economy upwards, although some of them will be forced to bear the higher costs of basic products and energy ones.



This outlook will continue to be maintained by a combination of stimulating monetary and fiscal policies over 2022. However, the consolidation of recovery factors and the return of the economy to equilibrium signifies the need to gradually reduce the stimuli, conducive to preserving the equilibrium and recreating the future space to react.

The normalisation of the fiscal policy is now under process; as the budget for 2022 once approved it provides a correction of the fiscal course. It will be also complemented by the gradual normalisation of the monetary policy stance during the medium-term horizon. In any case, I would like to emphasize that our monetary policy will aim to support the process of recovery and economic growth, without compromising our main inflation target of 3%.

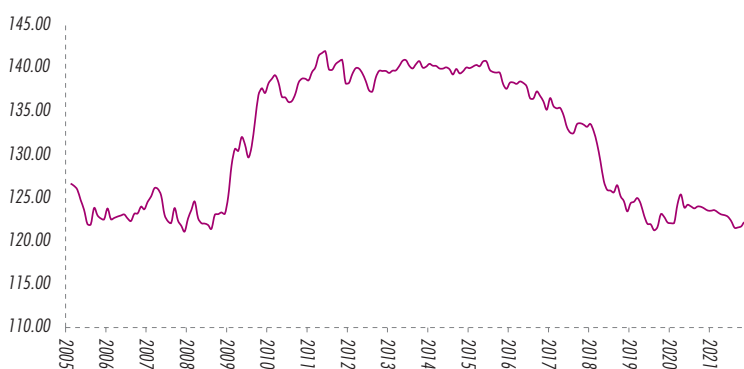
Monitor: How do you assess the risks of the internal market and the external factors in 2022, in relation to last year?

Governor Sejko: Generally I think that every policy-maker in the field of economy would prefer the position it currently holds as compared with the one it found itself one year ago.

If we look back in time, we see that Albania and the world were facing the peak of the second pandemic wave at the beginning of 2021, while both its continuing duration and effects on the economy and

the monetary and financial stability, continued to be strong sources of uncertainty. Currently, thanks to vaccines, I think that we can see the light at the end of the tunnel in terms of health emergencies. In the same vein, some of the main monetary and financial stability indicators such as: price stability, interest rates, exchange rate, non-performing loans, liquidity and credit flow, were at satisfactory or acceptable levels. All these dynamics were quite foreign at the beginning of last year.

Chart 45 EUR/ALL exchange rate



Source: Bank of Albania.

However, this is not to say that the challenges ahead of us are less significant.

First, the fast increasing trend of inflation in Albania and the world seems to be driven, for the most part, by supply-side factors, which are expected to have a transitory effect. It is worth mentioning that “transitory” means an effect that does not force enterprises and households to change their attitude or review their consumption and business plans, thus it is an effect which does not generate further consequences on prices and the economic activity. Nonetheless, public authorities must pay attention as long as the level of uncertainty remains high. By closely monitoring the economic and monetary developments, adequate decisions will be undertaken at a timely manner, in order to avoid supply-side shocks from pushing the economy off the tracks of sustainable development and monetary and financial equilibriums.

Second, although its strength is waning, the pandemic remains concerning presently as regards our daily attitude and decision-making.

The new variants of the virus, potentially resistant to vaccines, remains a distant threat albeit consequential to decision-makers.

Third, on the global scale, the effects of the pandemic, fiscal stimulus, and the injection of liquidity measures have caused high levels of public and private debt. The soundness of private sector's balance sheet, at the moment when economic stimuli will be reduced, is potentially threatened, and should be closely monitored by the authorities.

Nonetheless, despite the risks and in line with our base scenario, I would like to underline that for the moment, the speed of recovery, the width of its sources, as well as the stage of the economic and financial equilibriums in the country, make us optimistic for the future.

Monitor: The average inflation during 2021 was 2% according to INSTAT. If the indicator continues to increase beyond the 3% level in 2022, will the monetary policy course change in the direction of increasing interest rates?

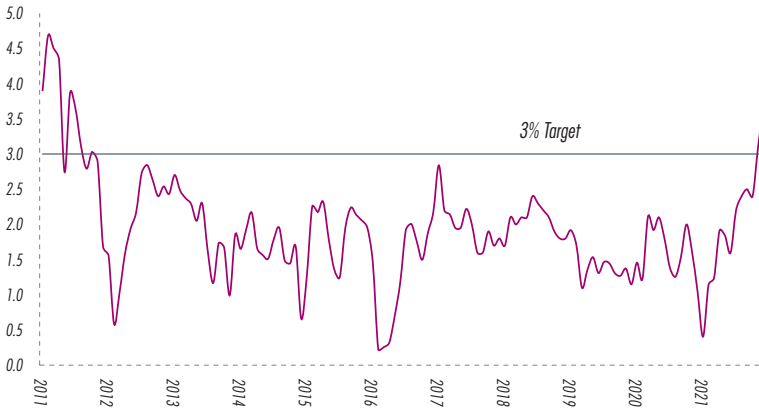
Governor Sejko: The Bank of Albania's primary objective is price stability, understood as a 3% inflation rate. This engagement is the focus of our monetary policy and it is uncompromising.

As regards the performance of inflation, our evaluation is that its increasing trend reflects the interaction between two factors.

- On the one hand, the increase of aggregate demand and the process of recovery have brought a gradual, albeit noticeable increase of employment, wages and base inflation. Responding to this trend, we have assessed that inflation is on a stable road of convergence toward the objective and this objective is expected to be achieved in the second half of 2022. Also, in response to it, we have communicated that the monetary policy stance would have to take the gradual road to normalisation during 2022. Although this assessment is conditioned by the speed and stability of recovery, it is currently still valid.
- On the other hand, during the second half of past year and particularly in the fourth quarter, we were faced with a fast increase in food prices, basic items, transportation costs and energy products in international markets. These developments were also reflected in the domestic market, bringing inflation to 3.7% in December. The information available to us suggests that markets will be normalised

during the first half of this year, and the effects of external shocks on the Albanian inflation will be transitory. As a result we currently deem that our monetary policy should not react to them.

Chart 46 Annual inflation (%)



Source: Bank of Albania.

However, as was previously said, we are monitoring the situation at close range and, if we were to realise that supply shocks have a stronger or longer than expected effect, then the normalisation of the monetary policy stance will be faster.

Monitor: The Bank of Albania is implementing a strategy on payment systems. Could you please tell us whether citizens' inclusion in banking services is expanding and at what costs?

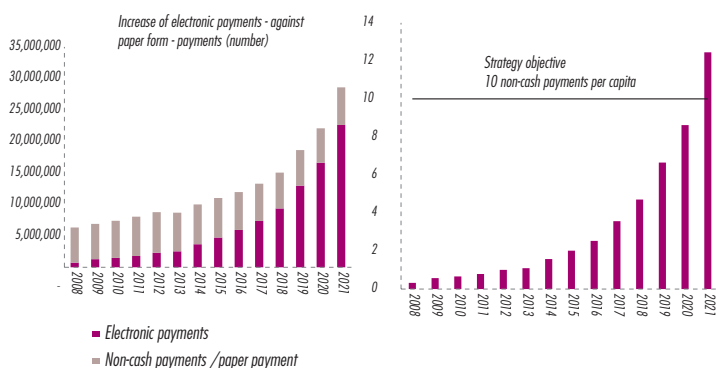
Governor Sejko: The National Retail Payment Strategy (2018-2023) aims to expand the scale of financial inclusion of people payment wise, considering it as the next important step in this direction, through two measurable objectives:

- increasing the number of adult age population that own a payment account (in order to increase this indicator by 70% in 2023, from 40% in 2014); and
- using the payment account in a more effective way, through electronic payment systems, which are less costly for the user and the economy overall, predicting an increase in the current number

of non-cash payments per person by 130% (bringing it to 10 payment per person at the end of 2023, from 4.3 payment per person at the end of 2016).

It is worth mentioning that, in the middle of trying to achieve this action plan, 70% of the predicted measures were realised and the effects materialised in the market up to this point made it possible for all the objectives to be fulfilled in 2021. Based on these developments, and awaiting the added efficiency of the undertaken measures from this point onward, we are quite optimistic in overachieving our objectives.

Chart 47 Volume of electronic and paper payment instruments in years (left) and the volume of payments per person (+15 years-old) in years (right)



Source: Bank of Albania.

The measures carried out until now, which are assessed to have an important effect on the market, are the Law "On Payment Services," the draft-law "On payment accounts for basic services," as well as the draft-regulation "On the transparency of fees related to the payment account and on the service of payment account transfer." These legal and regulatory acts will contribute in re-dimensioning the current activity of non-bank financial institutions, which provide payment services and transfers, encouraging competition in the market and promoting innovation. It also has an important impact on consumer protection, which becomes even more significant in a market with a limited financial literacy and inclusion. Presenting a product such as an account with basic features will have a direct effect in encouraging financial inclusion. This account will incur zero to minimal costs, for people who are considered not acquainted with the banking institutions, aiming thus to fully accomplish and surpass

the main objective of the National Strategy on Retail Payment Systems (2018-2023), that of encouraging the financial inclusion of the citizens. From the infrastructure development viewpoint it is worth mentioning the operationalisation of the inter-providers scheme of Payment Services on "Direct Debiting," which enables utility companies to use only one payment account to collect their clients' obligations in the entire market, in order to manage liquidity more efficiently, as well as create flexibility for clients by allowing this instrument to be used, whether the bank or the non-bank financial institution has an agreement with the utility company to which the clients chooses to carry out payments.

Another important development is the operationalisation of the AIPS EURO system for making Euro payments within Albania for banks' clients. This platform, which will run from 24 January of this year, will allow Albanian citizens to carry out Euro payments within the country with much lower costs and in a much shorter timespan compared to the current process conducted by corresponding banks. Furthermore, this project is assessed to have positive effects also as regards the management of Euro cash by banks.

Monitor: The banking system in Albania has entered a consolidating phase in the past years. Is there room for further developments in this direction?

Governor Sejko: In the past 2-3 years we experienced a consolidation of the banking sector. From 16 banks in 2015, we will have 11 of them this year, which are larger and have greater potential to support the economy of the country. In practice, we have 5 large banks, where each owns over 10% of the banking market, and 3 of which are European banks.

Table 4 Banks' ownership structure, number of banks (at period-end)

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

Source: Bank of Albania.

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

² Banks with capital origin from EU countries at the end of 2021 are from: Italy (Intesa Sanpaolo Albania), Austria (Raiffeisen), Germany (Procredit), Hungary (OTP Bank, Albania), Greece (Alpha Bank Albania) and Bulgaria (First Investments Bank Albania).

³ National Commercial Bank.

⁴ United Bank of Albania.

⁵ Majority Albanian owned banks at the end of 2021, are: Union Bank, Credins Bank, American Bank of Investments and Tirana Bank.

The process of system consolidation was calm, without disrupting its clients and contorting the market. The financial indicators of all banks included in the absorption process improved over time, both as regards the stability indicators as well as growth in business level.

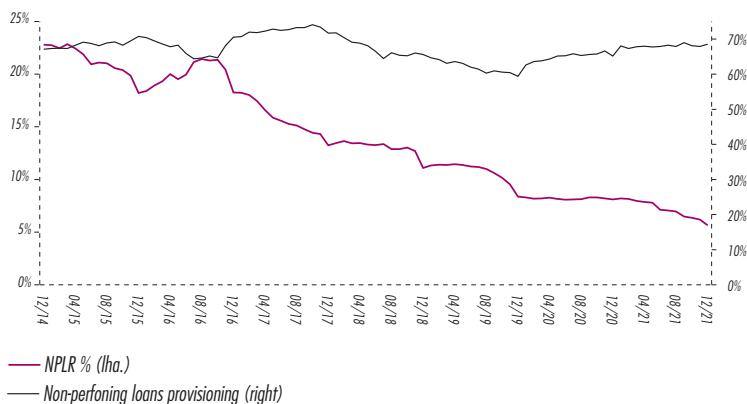
In my point of view, the process of consolidation was not about the number of banks, and the focus shall not be on that but on creating banking institutions which are efficient, sound, and competitive, capable and available to respond to market's demands, both as regards the range of provided services and their costs.

The banking sector is currently in a stage where the most important stakeholders are positioned in the market, have established their strategies, and are trying to achieve their objectives, while facing an ever increasing competition.

Monitor: *The non-performing loans indicator has systemically declined, however, does the increase of credit to some sectors such as construction, widen the exposure of the market towards risks, particularly that of NPLs?*

Governor Sejko: After reaching a maximum level of 25% in 2015, the non-performing loans indicator has continuously declined in the succeeding period, reaching the minimum of 5.65% at end of 2021.

Chart 48 Non-performing loans ratio and provisioning



Source: Bank of Albania.

The consistent decline of the non-performing loans ratio is due to the measures undertaken by the Bank of Albania in cooperation with other public stakeholders and the banking industry. These measures have aimed to address the inherited stock of non-performing loans, improve regulations and procedures with a view to reduce new non-performing loans, as well as to incessantly monitor the performance of credit portfolio.

The measures carried out had both a legal and judicial nature as well as an institutional one. The Bank of Albania heightened the awareness of state and private structures in relation to the importance of this indicator, which hinders the development of enterprises and banks in general, and increases credit in particular. The National Plan of measures developed by a common work group between the Bank of Albania and other public and private institutions, enacted a number of legal and regulatory changes. The revision of the legal framework over the years has helped banks to manage their portfolio issues, resolving thus legal hiccups or judicial interpretations as well.

The measures of a regulatory and prudential nature have provided the possibility to address internal bank issues through more effective internal restructuring or also through writing off from balance sheets lost loans which are insolvent. Meanwhile, we worked to improve the regulatory basis and the processes and procedures that carry out the assessment

and management of banking activity risk, restricting the flow of new non-performing loans.

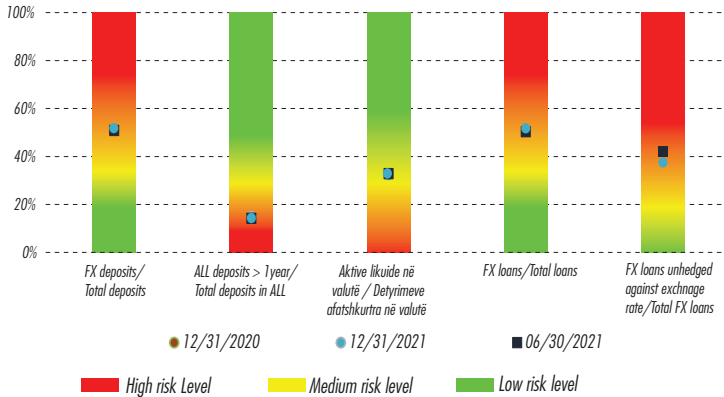
Although over these years we have experienced several events such as the Greek financial system crises, the consolidation of the banking system, or even the pandemic in the past two years, banks have continued to improve the quality of portfolios as well as enhance their activity. In spite of this, the Bank of Albania continuously monitors and guarantees so that they have the necessary infrastructure to withstand potential threats.

Monitor: The overuse of foreign currency in the economy, often as a means of payment as well, remains an important source of financial risk, which causes a reduction in the efficiency of economic and financial policies. What extra measures may be carried out to discourage its use?

Governor Sejko: It has been a while that the Bank of Albania has identified that using foreign currency for economic and financial transactions is a source of risk and inefficiency to the economy.

- Source of risk because keeping - voluntarily or involuntarily - open positions in the balance sheet of enterprises and households, increases the risk of exchange rate fluctuations on their financial soundness. The economic and financial activity of enterprises and households shall be carried out in one single currency for as much as possible. Naturally, this currency must be our domestic currency, Lek.
- It is a source of inefficiency because the high level of foreign currency use reduces the efficiency of our monetary policy, negating to the economy the full scope of one of the main instruments it has to face shocks. Also, the return on savings in foreign currency for households is lower than the one they could receive from savings in Lek, since the regulatory rates on liquidity for the banking sector might have been lower, and since the country loses a source of income from foreign currency circulation.

Chart 43 Main indicators for monitoring the level of foreign currency use in the Albanian banking sector



Source: Bank of Albania.

In response to this observation, the Bank of Albania has a package of measures underway in order to encourage the use of domestic currency in the financial activity. The hitherto effects of this package are encouraging. The foreign currency structure of lending has almost reached parity between Lek and foreign currency, in a ratio of 3 to 1 in favour of foreign currency five years ago. At the same time, these measures have avoided a strong deviation toward financial savings in foreign currency, rendering banks' foreign currency balances sounder at the same time.

However, as you reiterated, the Bank of Albania cannot accomplish its objective alone. First, I think that we must all invest more time to explain to the public the risks that borrowing in foreign currency has on enterprises, whose revenues are in Lek, or to explain the long-term advantages provided to an investor who keeps savings in the domestic currency. Second, in its sphere of activity, the government must look at the opportunities of reducing the legal or regulatory space that encourage and enable the use of foreign currency as a means of transaction.

In this direction, the Bank of Albania remains engaged in giving its contribution, both in the form of consulting, as well as additional measures if deemed necessary.

Monitor: *The Bank of Albania has issued the new series of banknotes, with the latest denomination of 10,000 Lekë being among them. What is expected by issuing this series in the market? Why was this decision taken when the tendency is toward reducing cash in the economy?*

Governor Sejko: After a 5 years of work, the Bank of Albania realised a new series of banknotes consisting of six of them: 200, 500, 1000, 2000, 5000, and 10 000 Lekë. The new series is presented to the public and the economic operators after 25 years, the last one being in 1996.

The new series contains the same theme, albeit reformatted, features enhanced colours and design, at a more appropriate (reduced) size and, most importantly, with quite advanced security elements. The state-of-art technology used to produce our banknotes is the same applied in Western countries as well.

Starting from July 2021, the Bank of Albania has issued in circulation the highest amount banknote that of 10,000 Lekë. Printing and putting into circulation these banknotes represents the economic stage of development of Albania, as well as the need to adapt the structure of banknotes with the evolution of prices and wages.





Its introduction and circulation have indeed boosted the efficiency of cash, improving the overall structure of currency in circulation. This in turn, has led to reduced costs in production, storage and distribution. Additionally, it has facilitated the creation and management of a more strategic stock. Enabling better preparedness for unforeseen spikes in market demand for physical money.

This banknote has been circulating in the market for over six months now, which clearly demonstrates its usefulness in the structure of domestic currency, thus confirming the conclusions of our research.

Despite the performance of other payment means such as the electronic ones, money in circulation and cash transactions continue to remain high. Reducing them is a process that requires time and should be preceded by the minimisation of informal economy, as well as improving the electronic payment system and increasing the financial literacy among its users.

Monitor: *There is a global trend led by banks which aims to channel financial sources towards a green sustainable economy. Has Albania started on this track and what are its available spaces?*

Governor Sejko: Halting global warming or climate changes is one of the major challenges of humanity. Countries require awareness-raising and coordinated practices in order to address it. But, the primary role naturally must be played by advanced and industrialised countries. This is because these countries have a bigger impact on global warming and second, and they possess more financial resources to bear the costs of technological and social transformation.

Albania, given its specificities, where energy production from hydro or renovated sources dominates, is among the countries with the least carbon dioxide footprint. However, this is not to say that we shouldn't keep in mind these phenomena in our development policies. We are affected by the consequences of global warming, both as regards increasing climate disruptions as well as the natural erosion that is caused by surging sea levels. Also, the regulatory politics, at the European and global level, have started to become more discriminating toward products which employ inefficient energy processes or have a high environmental impact. If we don't pay attention to these trends our economy will be suffer a competitive disadvantage.

In this context, it is the right time to emphasize that our banking sector has given considerable contribution in financing hydro power plants, and there is growing interest on renewable energy projects. We will monitor the performance of this process, with a view to steer financial funds towards this direction, without obstructing the efficiency of the financial intermediation process and the soundness of banks' balance sheets.

Last, I would like to stress out that the Bank of Albania in the Medium-term Development Strategy 2022-2024 has undertaken actual studies to assess the potential impact that climate changes may have on the economic and financial environment of Albania, in order to prepare beforehand for taking timely measures, if necessary.

Monitor: Albania continues its efforts of EU integration. As regards monetary policies, what has been achieved until now and what improvements are necessary?

Governor Sejko: European Commission Reports and also our internal analyses, indicate that the banking sector and financial system are spearheads in the process of European integration.

Let me stress out that our country is close to fulfilling the nominal convergence criteria, as were laid out in Maastricht Treaty, which refer to price stability, exchange rate sustainability of domestic currency against Euro, and long-term interest rates. In addition to these, the legal and regulatory framework of the monetary policy, the banking sector supervision and regulation, and the payment system infrastructure are in a gradual process of convergence with Acquis Communautaire. In particular, our monetary policy fulfils some essential criteria required

by the European Union legislation, where the main focus is on: price stability; drafting and implementing the monetary policy in an independent manner; and the full operationalisation of the latter with free market instruments.

However, the Bank of Albania recognizes the existing gaps that require further attention on the legal framework, and which will be an integral part of our work in the process of membership negotiation.

Until now, the Bank of Albania has satisfactorily fulfilled the engagements that spring from the National Integration Plan. We actively participate in meetings with the relevant European sub-committees, lead inter-institutional working groups for the approximation of two Acquis chapters, and take part in other working groups to adopt the other five chapters, including the one on Economic Criteria.

Monitor: The fiscal expansion of the government has increased debt to historical levels, at a time when sources available to reduce it are limited. What do you suggest to fiscal authorities in regards to managing public funds?

Governor Sejko: The position of the Bank of Albania toward fiscal policy and the level of public debt has been clear.

We have supported fiscal stimulus at the peak of the pandemic shock, deeming it a necessary instrument to avoid long-term negative effects on the economy. We have underlined the need for the gradual reduction of this stimulus and for refocusing fiscal policy toward debt reduction and consolidation of public finances, in the same vein with the consistency of economic recovery. The increase of public debt during the crisis is a widespread global phenomenon; Albania is neither exception to this, nor ranked among countries with the highest increase of public debt. This is also identified by agencies ranking public debt risk, which have kept their assessment on the Albanian debt unchanged.

However, Albania is among the countries with the highest level of public debt in the region, and this is one of the major weaknesses in our financial soundness. In this context, we judge that - unless there are other shocks comparable to the pandemic - the attention of public finances must turn to reducing the debt, at levels such that minimise the impact of financial market fluctuations on the soundness of public finances and enlarge the space for fiscal policy reaction in the future. A step toward this direction

is the adoption of a legal enjoinder to achieve and maintain a positive primary fiscal balance starting from 2023. In this context, we advise this consolidation to be based more on increasing the stability of public finances through adopting and implementing the medium-term strategy on public revenue, and less on reducing public investments.

In the longer term context, we have underscored the need to adopt a formal process of assessing the efficiency of public investments and using the funds to finance them on a priority basis, including in this process also the public and private partnership programmes.

I think that our position is clear and our recommendations - which are in line with those of our international partners - constitute a good framework for increasing the stability and efficiency of public finances.

Monitor: The Albanian economy is stuck in the low productivity mud. What does the Bank of Albania suggest regarding the economic model that should be followed in order to increase the value added to the economy?

Governor Sejko: As far as I am concerned, the Albanian economic model has been improving over the past decades.

This is reflected in the diversification of growth sources and production structure, which currently includes sectors with development potential - such as: exports, industry and tourism - as well as the development of financial system that has expanded its range of financial services and products, in response to real economy demands.

Although there is improvement to be accounted for, I think that the stable growth and economic convergence with the countries of the European Union, requires a strengthening of growth sources and a resolution of structural weaknesses, through undergoing comprehensive reforms. The latter must aim to sophisticate the structure of the economy and adjust the legal and institutional environment that determine the level and make-up of our investments.

Some of the priorities of our joint actions directed this way, should be the reforms, which venture to:

- Improve the business climate, focusing particularly on the right of ownership, the degree of honouring contracts, and increasing the

- speed and efficiency of the judicial system;
- increase the efficiency and productivity, inter alia through: (i) supporting and providing incentive to knowledge economy, further investments in education and health, and cementing the relationship between academic institutions and the job market, (ii) reducing informality and corruption, as well as, (iii) promoting competition among and across sectors;
- Continuing the work for adopting the European Union standards, despite the pace of the formal integration progress, as well as increasing the regional integration;
- further enhancing public infrastructure, both as regards its physical and digital form, as well integrate it in the regional infrastructure and beyond; and finally,
- Further expanding and sophisticating the financial system.

I ascertain that progress in these directions will increase the potential level of the Albanian economy and its competitiveness.

“The Bank of Albania has all the possibilities to become a model institution, equipped with the best standards of central banking and the European system of central banks. This approach should inform all Bank of Albania’s decision-making, as well as any attempt to internal institutional development.”

Monitor: What are the priorities of the Bank of Albania in the short and medium-term period? How is our central bank adopting with the new normal created by the pandemic?

Governor Sejko: First and foremost, let me highlight that the Bank of Albania was and continues to remain focused on fulfilling its legal obligations. These obligations refer to: first, maintaining price stability; second, banking supervision and regulation with a view to create a safe and efficient banking sector; and, last, fulfilling a set of tasks and institutional engagements, which affect almost all financial markets activities, particularly and economic activity, generally.

Allow me to be more specific.

As regards price stability, I think that the strong shocks must be carefully addressed. Although the monetary policy of the Bank of Albania will not compromise its objective of maintaining price stability, our decision-making will account for the need to support economic recovery. In the

field of banking supervision and regulation, our work will focus on the full approximation with the European Union standards and promoting a competitive and well-monitored environment in the field of banking activity. In my vision, the banking sector must remain a precursor of economic development and social progress, but also an important vector to the European Union integration. In the area of financial system, the challenge of the Bank of Albania should be the further development of payment infrastructure, of all the monetary market segments, as well as the degree of public involvement and financial literacy.

Seen from a more strategic viewpoint, an important priority of our work will be the support of the European integration process. The opening of negotiations, as a preliminary step of the membership process, will require a consequential investment of dedication and human resources. However, in my personal vision and that of the institution that I lead, the European integration process should be seen as an important investment for our future and the generations to come. Furthermore, promoting an honest and fair competition across different financial market segments, implying the harmonisation of the regulatory framework and supervision practices of the entire segments of this market, remains a challenge for the future. Finally, our everlasting ambition has been the adoption of the best standards in the field, as regards transparency and communication. This priority will promote a greater and more accurate understanding of our policies and initiatives, directly influencing in a higher probability of our success.

As regards the pandemic, I think that the experience gained will help to review parts of our work processes, mainly to increasing flexibility of our operational procedures.

In conclusion, I would like to emphasize that the Bank of Albania has all the possibilities to become a model institution, equipped with the best standards of central banking and the European system of central banks. This approach should inform all Bank of Albania's decision-making, as well as any attempt to internal institutional development.