

# ANNUAL REPORT 2023

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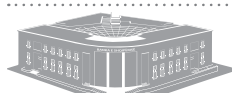
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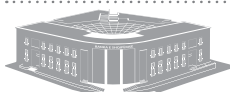
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## LEGAL FRAMEWORK

The Bank of Albania is the central bank of the Republic of Albania. Article 161 of the Constitution of Albania defines the status of the Bank of Albania and Law No. 8269, dated 27.12.1997 "On the Bank of Albania", lays down its objectives, duties, relationships with the banking system and state institutions in Albania, as well as requirements for organisation and management, financial statements, and allocation of capital and profit.

The primary objective of the Bank of Albania is to achieve and maintain price stability. The Bank of Albania is autonomous and independent from any other authority in the pursuit of its objectives and the performance of its duties.

The Bank of Albania is accountable to the Assembly of the Republic of Albania and its paid-up capital is owned exclusively by the State of Albania. The Bank of Albania is governed by the Supervisory Council, which is chaired by the Governor. The Governor also serves as the General Executive Director of the Bank.

The Bank of Albania operates in accordance with the following legislation:

- Article 161 of the Constitution of the Republic of Albania;
- Law No. 8269, dated 23.12.1997, "On the Bank of Albania", as amended;
- Law No. 9662, dated 18.12.2006, "On banks in the Republic of Albania", as amended;
- Law No. 133, dated 29.4.2013, "On payment systems";
- Law No. 55/2020, dated 30.4.2020, "On payment services";
- Law No. 52, dated 19.5.2016, "On savings and loan associations and their unions";
- Law No. 133, dated 22.12.2016, "On the recovery and resolution of banks in the Republic of Albania";
- The Statute of the Bank of Albania, approved by the Decision No. 90, dated 2.12.2015 of the Supervisory Council.





*GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA*



## FOREWORD BY THE GOVERNOR

Dear reader,

Welcome to this annual meeting with the Annual Report of the Bank of Albania. Traditionally, this report provides a complete overview of our activity and results achieved throughout the year.

2023 was another challenging year for the Albanian economy. The significant surge in prices in the domestic and foreign environment over the past two years, the lift in financing costs as well as the geopolitical tension, have been hindering factors for economic growth and have tested the economic and financial stability of all the countries across the globe.

However, even in this unfavourable context, the Albanian economy has experienced a positive performance.

The volume of economic activity has grown coupled with employment and wages edging up. At the same time, the financial balances of businesses and households have improved, public and external debt have decreased, while the main soundness indicators of the banking sector: liquidity, capitalization and profitability, have improved.

In parallel with them, consumer price inflation recorded a considerable decline during the year, in turn mitigating its negative impact on family budgets and reducing uncertainty for businesses.

The activity of the Bank of Albania has provided a significant contribution in this picture of developments.

We continued to normalize the monetary policy stance during 2023, through the increases in the policy rate and for establishing the necessary financial premises for respecting our objective of price stability. However, the speed of normalisation decelerated significantly during the year, aligning with the gradual reduction of inflation, as well as with fiscal policy stance and the significant strengthening of the exchange rate. Current signs are encouraging. The appropriate response and in a timely manner of our monetary policy has considerably contributed to inflation coming down.

Based on current trends, monetary policy appears to be successfully fulfilling its mission: the rapid return of inflation to the target with minimum costs on economic activity.

Also, the Bank of Albania has continued the work for the supervision and prudential regulation of the banking sector, for the development of financial regulations and payment systems, as well as for strengthening the safety nets in the system. The continuous investment we have made over the years has strengthened the resilience of this sector against shocks and has enabled it to continue to meet the demands for funds of the economy.

In particular, during the past year, the Albanian financial sector marked three important achievements: Albania's removal from the list of jurisdictions under



increased monitoring, otherwise known as the “grey list” of countries, regarding the development of infrastructure for the prevention of money laundering and the fight against terrorism; the application to the European Banking Authority for the recognition of equivalence with the European standards of banking supervision and regulation, as well as the initiation of work for Albania’s membership in the Single Euro Payments Market (SEPA), as an integral part of the agenda of the Berlin process.

All these achievements pave the way for the development of the quantitative and qualitative expansion of the range of financial instruments in the economy, the reduction of costs and the increase of their efficiency, bringing the country closer to the best contemporary standards.

Finally, I would like to highlight the considerable work done and results we have achieved in various areas of our activity, such as: supplying the economy with quality coins and banknotes; managing the international reserve; supporting the processes of European integration; strengthening financial education of the public; expanding knowledge on the economy and the Albanian financial system; as well as the continuously dialoguing with national and international partners.

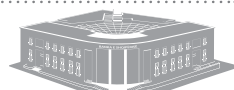
In this context, I would like to emphasize that - during 2023 - the Bank of Albania approved two important projects: The Medium-Term Green Strategy 2023-2025 for “The Management and Supervision of Climate-Related Financial Risks in the Financial Sector” in cooperation with the World Bank, as well as the Bank of Albania’s Strategy for Education and Financial Inclusion, which aims to promote financial education of public and enhance its financial inclusion.

Dear reader,

The activity of the Bank of Albania relies on a clear vision: fulfilling our legal duties through the adoption of the best practices in the field of central banking. This vision is documented in the Medium Term Strategy of the Bank of Albania and a talented and dedicated staff engages every day for its successful implementation.

I strongly believe that this coherent and consistent approach will help us in accomplishing our mission and successfully addressing all challenges in the future.

  
Gent SEJKO  
GOVERNOR



## 2023 YEAR IN BRIEF

- *The Albanian economy performed positively throughout 2023, despite the numerous domestic and external challenges. Economic activity in Albania grew by 3.3% in the first three quarters of year, enabling the increase in employment and wages and the decrease to the historical minimums of the unemployment rate. In parallel, the key economic and financial stability indicators of Albania: private debt, public debt and external debt, declined considerably and remain under control.*
- *Inflation have been coming down during 2023, dropping to 4% at the end of year from 7.4% at the beginning of 2023. The fall in inflation in foreign markets, the exchange rate appreciation and the normalisation effect from our monetary policy stance underpinned this performance. Nevertheless, the domestic inflationary pressures remained relatively strong, reflecting the relatively high demand for goods and services and the fast growth in wages and production costs.*
- *The Bank of Albania, in response to above-target inflation, raised the policy rate twice during 2023, up to 3.25% from 2.75%. This normalisation pace was slower than in the previous year, due to the consolidating stance of fiscal policy and the strengthening of the exchange rate. The normalisation of monetary policy over the past two years helped anchor inflation expectations, enabled a better demand and supply balance between, and created premises for inflation to return to the target.*
- *Financial markets have been relatively calm in 2023. The still stimulating interest rates and the banks' positive approach to lending encouraged a rapid and stable growth of credit during the year. On the other hand, the lek exchange rate against the euro strengthened considerably, as the balance of trade and financial exchanges with abroad improved swiftly, while the euro supply in the domestic foreign exchange market increased.*
- *The Albanian banking sector closed the year 2023 with a positive financial result, with a high level of liquidity and capitalization indicators of the activity, and with improved indicators of credit quality. It showed resilient against shocks and with contained risks.*
- *The Bank of Albania continued the progress towards further completing the regulatory framework of banking supervision, aiming at its alignment with the EU Acquis and the Basel documents; of the regulatory framework for the implementation of the Law "On payment services"; as well as the framework for the compilation of the financial statistics. Also, new methodologies and guidelines have been approved for strengthening resolution and completing the macroprudential policy framework.*
- *In October 2023, the FATF removed Albania from the list of jurisdictions under increased monitoring, or the FATF "grey list". This important evaluation was a result of the commitment and policy reforms undertaken to fulfil the necessary criteria by the institutions in Albania, including the Bank of Albania.*
- *In 2023, the work for Albania's membership in the Single Euro Payments Market (SEPA), an integral part of the agenda of the Berlin process, began.*



*This membership is an opportunity to integrate our payment and e-commerce platforms with the European market.*

- *Year 2023 recorded a higher use of the infrastructure of the payment processing systems, AIPS, AIPS EURO and AECH. In parallel, the improved regulatory framework of payments infrastructure has driven to the increased use of electronic payment instruments.*
- *The Bank of Albania has developed the Medium-Term Green Strategy 2023-2025 for "The Management and Supervision of Climate-Related Financial Risks in the Financial Sector" in cooperation with the World Bank (FinSAC).*
- *The Bank of Albania has drafted the strategy on Financial Education and Inclusion, the first institutional document promoting financial education, in bolstering financial inclusion, welfare and sustainability. Some of the main objectives incorporated in this strategy are: the well management of personal finances and sound borrowing; planning and saving for the future; and consumer protection.*



## SUPERVISORY COUNCIL OF THE BANK OF ALBANIA



*In front, left to right:*

*Ms. Suela Popa, Member  
Ms. Natasha Ahmetaj, Member  
Mr. Gent Sejko, Chair  
Ms. Luljeta Minxhozi, Deputy Chair  
Mr. Anastas Angjeli, Member*

*In the back, left to right:*

*Mr. Arian Hoxha, Member  
Mr. Ridvan Bode, Member  
Ms. Edlira Luçi, Member  
Ms. Violeta Staka, Member*



## 1. SUPERVISORY COUNCIL OF THE BANK OF ALBANIA

*The Supervisory Council is the highest decision-making and supervisory body of the Bank of Albania. The Supervisory Council: (i) approves the monetary policy and exchange rate policy, as well as financial stability and macroprudential policy; (ii) supervises the process of budgeting, financial reporting, internal controls and auditing in the Bank of Albania; (iii) approves all normative acts issued by the institution; and (iv) approves the medium-term strategy, the appointment of department heads and the organizational structure of the Bank of Albania.*

*The Council exercises its powers independently and in a transparent manner, in line with the organic law and internal procedural rules.*

*The monitoring of the financial reporting process and of the internal audit system are delegated to the Audit Committee.*

The Council held 15 meetings in 2023, as scheduled in the approved schedule of meetings. Eight of these meetings focused on the monetary policy. Four meetings were dedicated to financial stability and supervision. The other meetings addressed: (i) the annual programme of the Supervisory Council; (ii) the Annual Report of the Bank of Albania; and (iii) the annual and medium-term budget.

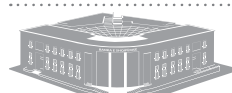
The Council has been informed regularly on: (i) the institution's management policies; (ii) the performance of international reserve management; and (iii) the findings and recommendations from internal and external audits, on the effectiveness and quality of internal control systems, risk management and Bank of Albania's management.

Also, the Council was informed on the annual supervision report, which analyses the activity of the banking system and its supervision from the Bank of Albania over 2022, provides statistics and information on licensed entities and analyses issues related to the performance of banking system.

The Bank of Albania has regularly reported to the Assembly of Albania on the fulfilment level of recommendations presented in the resolution on the assessment of its activity, in compliance with the obligations as an independent constitutional institutions.

### **THE SUPERVISORY COUNCIL - THE HIGHEST DECISION-MAKING BODY OF THE BANK OF ALBANIA**

*The Supervisory Council has the power to approve all the decisions, regulations and guidelines of general application, issued by the Bank of Albania.*



During its activity throughout 2023, the Council approved 53 decisions, of which 39 were acts approved for the first time and 14 were amendments to existing acts.

These acts were issued in accordance with the legal duties of the Supervisory Council, such as: (i) monetary stability; (ii) licensing, regulation and supervision of banks and other financial institutions; (iii) provision of financial infrastructure (currency issue, interbank market); and (iv) financial system stability.

### ***Management and internal organisation***

*The organic law defines the Supervisory Council as the body responsible for: (i) approving the Statute and internal regulations of the Bank of Albania; (ii) determining organisational structure; and (iii) approving appointments of the heads of departments and defining employment conditions at the Bank of Albania.*

In November, the Council approved the Medium-term Development Strategy of the Bank of Albania 2024-2026, keeping the Bank of Albania's mission, vision and values unchanged. The Medium-term Strategy updates the existing strategy, extends the implementation deadline of this document beyond 2025 and sets out the objectives for the next medium-term period. The budget of the Bank of Albania was drafted in accordance with the objectives set forth in the strategy

In May, the Council approved the Strategy-roadmap on "Management and supervision of climate-related financial risks in the financial sector in 2023-2025" (see Box 4). The tasks outlined in this document relate to some of the main directions in the activity of the institution, such as: banking supervision, financial stability, monetary policy, financial statistics, and research.

### ***Budget***

*The Supervisory Council decides on the budget of the Bank of Albania, the management policies and the procedures on using financial assets to carry out the operational activity of the institution, pursuant to the Law on the Bank of Albania.*

The Council approved the budget of the Bank of Albania for 2024 and the planned medium-term budget for 2025-2026. The budget was drafted in accordance with the Medium-term Development Strategy of the Bank of Albania, and departmental projections on medium-term incomes and expenditures.

The budget aims at the normal conduct of the activity of the Bank of Albania, and the independent fulfilment of its duties laid down in the organic law, such as: (i) cautious management of international reserve; (ii) preservation and improvement of the quality of currency in circulation; (iii) enhancement of the catalyst role of payment systems; and (iv) retention of efficient and competitive human resources.





The capital expenditures and the projections included in the budget were preliminarily approved by the Capital Expenditures Committee.

### **THE SUPERVISORY COUNCIL - THE HIGHEST SUPERVISORY BODY 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.*

#### **Internal audit**

The internal audit is an activity independent of the management, which provides evaluation, reporting and objective certainty, as well as includes the compliance, internal auditing, and risk management functions.

#### **1. Control over management**

The administrators (the Governor and the two Deputy Governors) inform the Supervisory Council on monthly basis about the economic, financial and monetary developments in accordance with the legal obligations.

The Supervisory Council has been also informed about the institution's management policies and the use of financial assets for the realisation of the operational activity of the Bank of Albania. The Governor is accountable to the Supervisory Council for the implementation of the approved decisions, as well as for the guidance, control and oversight on the management and operations of the Bank of Albania.

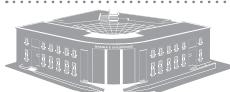
The Inspector General has submitted to the Council quarterly information on the tasks conducted by the Control Department and on the results of the internal auditing carried out in the Bank of Albania.

#### **2. Activity of the Audit Committee**

*The Committee has the mandate to reinforce the internal and external control lines, in order to improve the decision-making of the Supervisory Council and of the Administrators of the Bank.*

*In order to increase efficiency and in-depth in specific areas, the functions of internal audit are delegated to the Audit Committee, which exercises its duties to support the strengthening of internal and external control lines. The Audit Committee is responsible for: (i) the financial reporting process; (ii) the internal control system; (iii) the internal and external audit; and (iv) compliance with the legal and sub-legal acts which are in force.*

The Committee is composed of three members of the Supervisory Council, respectively: Ms Suela Popa (Chair), Mr Ridvan Bode and Ms Edlira Luçi. Members are elected from the Council, for a four-year term, with the right to be re-elected only once. Administrators may not be members of the Committee. The Chair of the Committee shall be chosen by the members.



In 2023, the Audit Committee met seven times and addressed issues such as: (i) the audit plan and analysis of Committee activity; (ii) activity of internal audit; (iii) the financial result of the Bank of Albania; (iv) financial statements and the opinion of the external auditor; (v) cybernetic security at the Bank of Albania and the banking system, along with the business continuity programme; (vi) the opinion addressed to the management for the year ended on 31 December 2022; (vii) the annual and mid-term budgeting and budget realisation; and (viii) operational risk management.

The Committee has informed the Council regularly on its activity and the implementation of its responsibilities.

### **3. Internal audit**

The Inspector General and the Control Department, periodically and independently: (i) assess the accounts and the accounting records, the management and operational procedures of the Bank of Albania, in order to ensure the implementation of the legal and sub-legal acts; and (ii) offer reasonable assurance on the efficiency of the control system, risk and processes managements, for the fulfilment of the institutional objectives.

The Inspector General has reported regularly to the Council on the realisation of this plan and the result of the auditing engagements. The plan is based on the international standards for internal auditing and the updated risk assessment of the identified functions in the revised audit universe.

### **4. Operational risk management and business continuity**

The Council has approved the operational risk management and monitoring policy at the Bank of Albania and the level of tolerance to this risk. Administrators are responsible for addressing the operational risk, in accordance with the above framework.

The Audit Committee has a supporting role, regularly discussing, with the Inspector General and the external auditor, the risks identified and the actions to deal with them, as well as recommending to the Council measures to improve the control systems.

During the year 2023, the Council has paid special attention in this regard to cyber security risks for the continuity of the daily activity of the Bank of Albania and for the functioning of the banking and financial system in Albania.

For this purpose, the Council has been regularly informed by: (i) Inspector General and the on the implementation of the program for business continuity management; (ii) Information Security Committee regarding the implementation of information security policy; and (iii) supervision on cybernetic risk addressing from banks and other financial institutions which are supervised by the Bank of Albania.



### *External audit*

The organic law provides that the Bank of Albania's accounts and records may be checked by external auditors of internationally-recognised auditing institutions appointed by the Council. The external auditor expresses his opinion if the reports prepared by the Bank of Albania represent fully and fairly the financial situation of the institution, in accordance with generally-accepted international accounting standards

The financial statements of the Bank of Albania are audited so as to offer a reasonable reassurance that they are not inaccurate, as a result of errors or fraud. This provides the external auditor with a key role in maintaining the trust of financial markets and of the public in financial statements of the Bank of Albania.

The Audit Committee reviews the Bank's financial statements and assesses whether they are drawn up in accordance with International Financial Reporting Standards and in accordance with the external auditor's opinion.

Prior to submitting the opinion on the financial statements, the Committee meets with the external auditor, without the presence of the administrators, where the progress of the audit process is discussed.

### **ACCOUNTABILITY AND TRANSPARENCY**

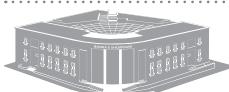
In accordance with the organic law, the Supervisory Council approves all reports and recommendations that the Bank of Albania presents to the Assembly or the Council of Ministers, as well as the annual and financial reports of the Bank of Albania. Upon approval by the Council, these reports are published.

### *Approval of the Annual Report*

In March, the Supervisory Council approved the Annual Report 2022 and sent it to the Assembly and the Council of Ministers. The report describes the economy and financial situation in Albania and the activity of the Bank of Albania over the reporting period

The financial statements audited and certified by the external auditor Ernst & Young Albania and its opinion are an integral part of the Annual Report. In the opinion of EY Albania, the financial statements give a fair view of the Bank of Albania's financial position as at 31 December 2022, and of its financial performance and cash flows in accordance with International Financial Reporting Standards.

Pursuant to the requirements in the Annual And Periodic Monitoring, the information on the implementation level of the recommendations provided in the Resolution of the Parliament for 2021 was part of this Report, as well as a detailed information on the implementation of rules laid down in the manual on the reporting of independent constitutional institutions, in general and of the



Bank of Albania, in particular.

***Other reporting to the Assembly and the Council of Ministers***

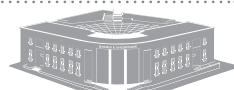
*In accordance with the organic law, the Bank of Albania has to publish: (i) a detailed opinion on the situation of the economy, quarterly; and (ii) a statement of threats to the stability of the financial system, half yearly:*

Through the compilation and publication of these quarterly and half-yearly reports, the Supervisory Council has regularly fulfilled the accountability obligations of the Bank of Albania to the Parliament and the transparency obligations to the public, financial system and media.

The Supervisory Council, in February, May, August and November, approved the quarterly monetary policy reports, which constitute the main instrument of accountability and transparency in this regard. These reports present a comprehensive description of the latest macroeconomic developments and the factors that affect the performance of consumer prices in Albania.

In April and September, the Supervisory Council approved the half-yearly financial stability reports. These reports present the overall assessment of risks and threats to the Albanian financial system and its infrastructure, and the assessment on the ability of this system to withstand these risks.

The reports have been sent to the Assembly of the Republic of Albania, the Council of Ministers and other central institutions.



## 2. THE ACTIVITY OF THE BANK OF ALBANIA

### 2.1. MONETARY POLICY

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

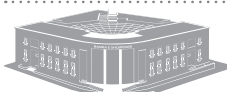
*The Supervisory Council of the Bank of Albania makes monetary policy decisions. These decisions are based on the contemporary framework of analysis and forecast, which makes use of all available information, and is based on tested econometric models and the best practices of central banking.*

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

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

#### 2.1.1 MONETARY POLICY IN 2023

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



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

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

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

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

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

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

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

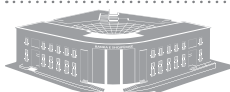


- considerably improving the payment solvency of the country.
- **Albania's fiscal position improved as well**, reflected in the simultaneous reduction of the budget deficit and public debt, which dropped to their over-more-than-a-decade minimum levels of 1.4% and 59.2% of GDP, respectively. This improvement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

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

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

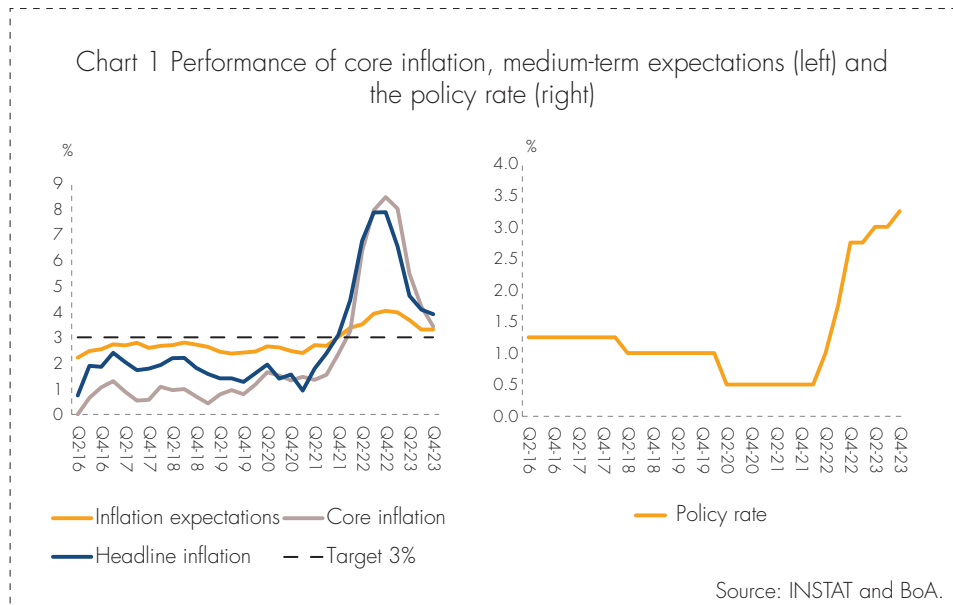
**The Bank of Albania dampened the normalisation pace of the monetary policy stance over 2023, increasing the policy rate by 0.5 p.p., from the 2.75 p.p. rise recorded in 2022.** This deceleration was driven by the consolidation of fiscal policy and the strengthening of the exchange rate. Not least,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



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

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

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





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

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

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

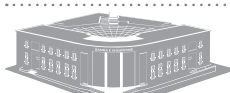
**After reflecting on the results achieved and lessons learned from dealing with latest shocks, while simultaneously aiming to adopt the best international practices, the Bank of Albania will continue to work toward:**

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

## 2.1.2 ECONOMIC ACTIVITY

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

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

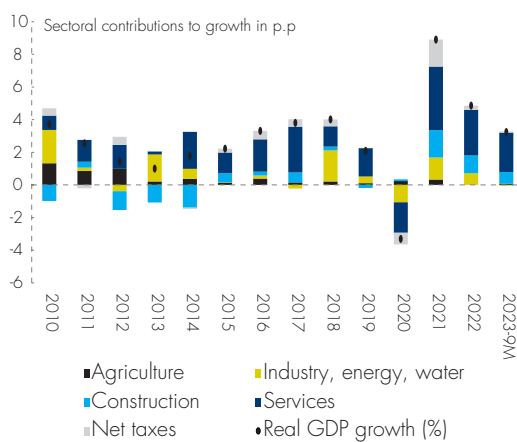


*Our assessments show that the Albanian economy finds itself on a positive stage of the business cycle, reflected in both the shortages noticed in the labour market and the still high inflationary pressures coming from the domestic economy.*

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

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

Chart 2 Economic activity by sector



Source: INSTAT and BoA.

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

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

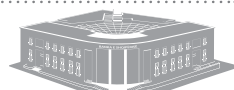


Table 1 Sectorial contributions to economic growth (in p.p.)

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

Source: INSTAT and Bank of Albania calculations.

### DOMESTIC DEMAND GROWTH WAS BROADLY BASED

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

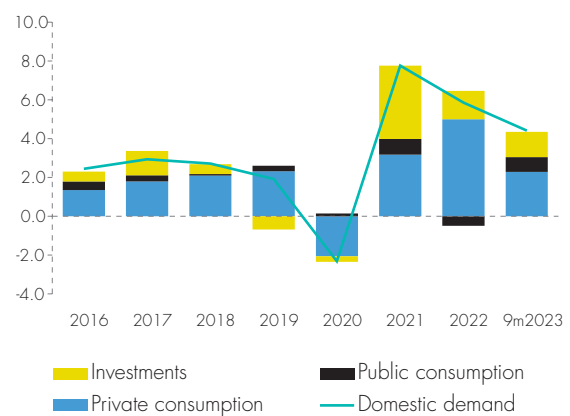
### PRIVATE CONSUMPTION GREW BY 3.2% DURING THE FIRST THREE QUARTERS OF 2023

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

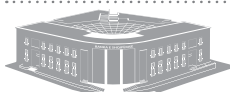
### INVESTMENTS GREW BY 6.7% DURING THE FIRST THREE QUARTERS OF 2023

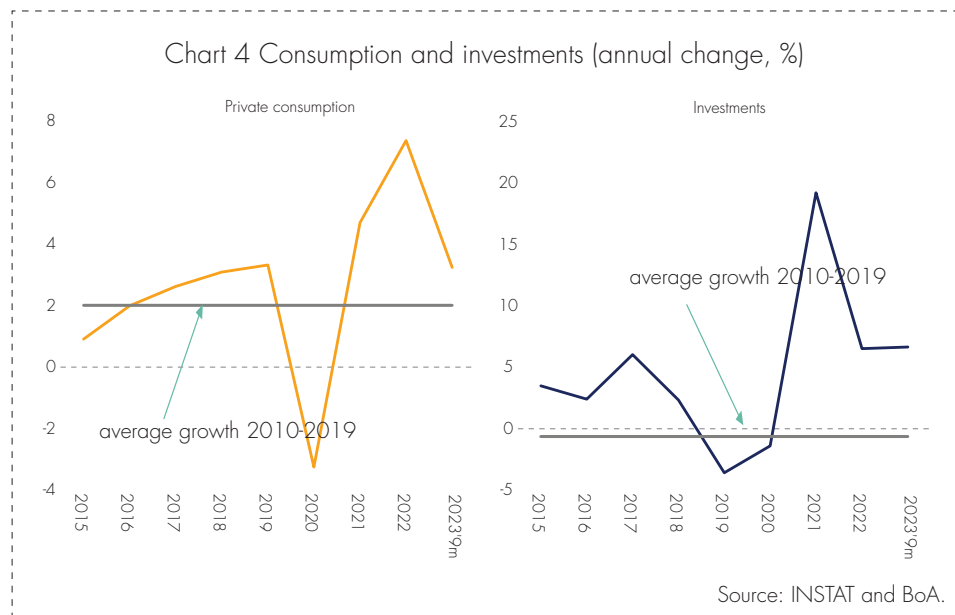
The volume of investments continued to expand in 2023. According to indirect data, this expansion was mainly backed by the growth in private investments, whereas public investments made a lower contribution, albeit positive and upward. The increase in private investments was driven by the higher capacity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

Chart 3 Annual change of domestic demand by components



Source: INSTAT and BoA.

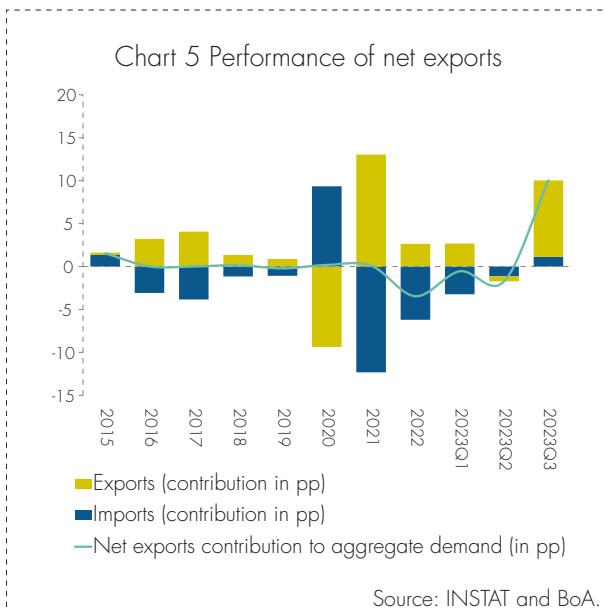




**REAL TRADE DEFICIT REDUCED BY 34.7% DURING THE FIRST THREE QUARTERS OF 2023**

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

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



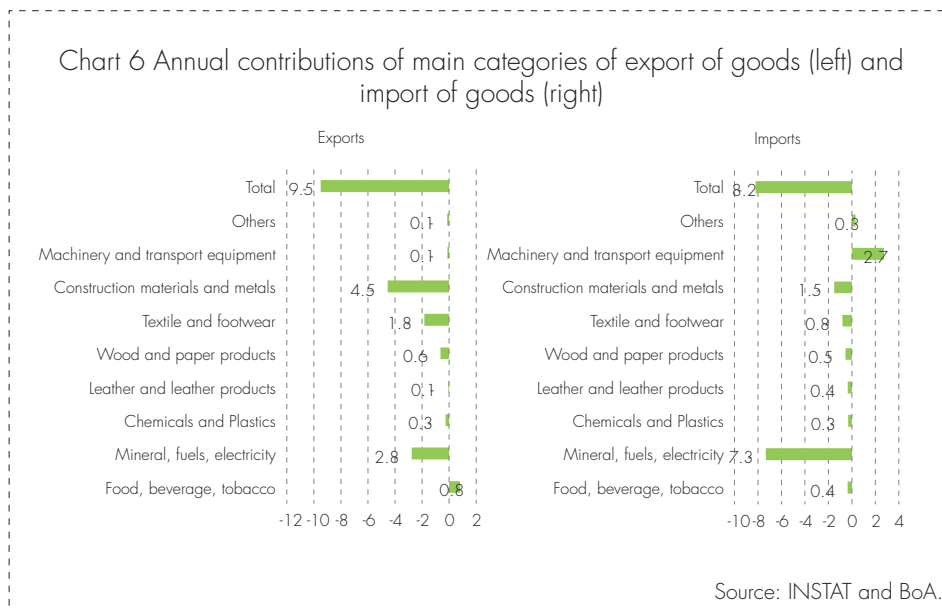
**In nominal terms, the export and import of goods declined in 2023.** This performance was driven by a slowdown in the volume of the international trade, the drop in commodity and energy prices, some specific issues affecting our export sector, as well as the exchange rate effect.

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

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



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



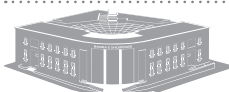
On the other hand, the import of goods reduced by 8.2%, where the main contributors were the categories of “Minerals, oil, electricity”, “Textile and clothing” and “Machinery, equipment and spare parts”, whereas the declining contributions of the other categories were relatively low.

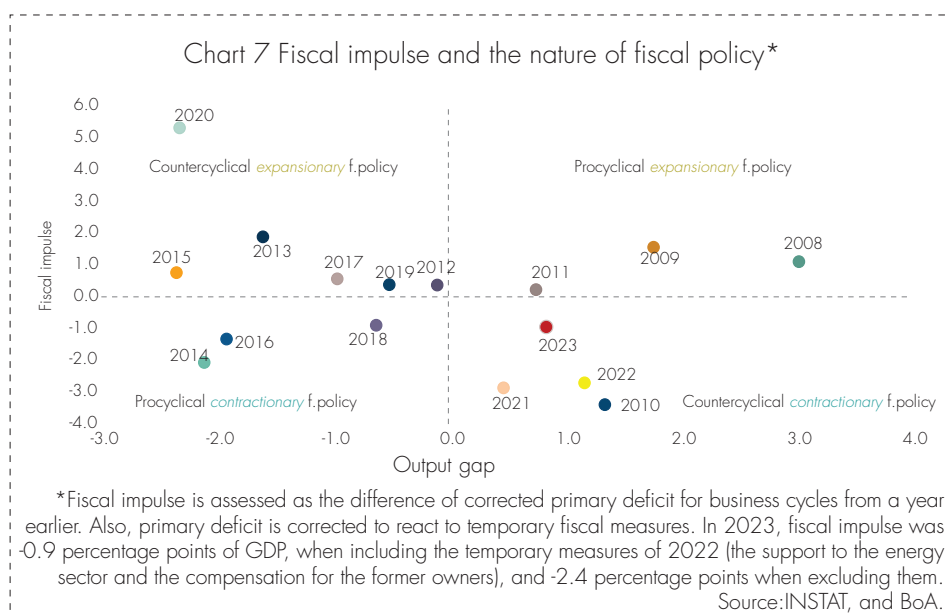
### *FISCAL POLICY CONTINUED TO MAINTAIN ITS CONSOLIDATING NATURE IN 2023 AS WELL*

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

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

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





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

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

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

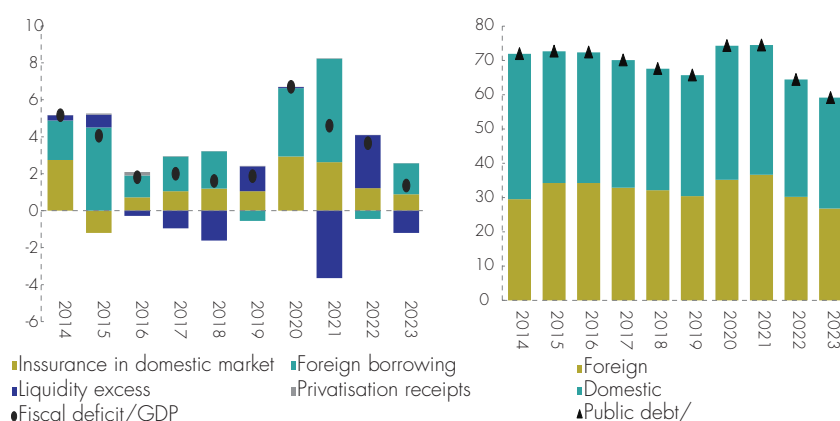
**The financing of deficit in the domestic market was ALL 20.7 billion, from ALL 25 billion that was planned out.** In contrast to last year, the additional borrowed amount was realised through long-term securities. The growth in this portfolio offset the ALL 21 billion reduction in the T-Bills portfolio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

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



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

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



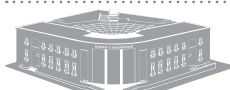
\*Data on public debt are available until the third quarter.  
Source: INSTAT, MFE and BoA's staff calculations.

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

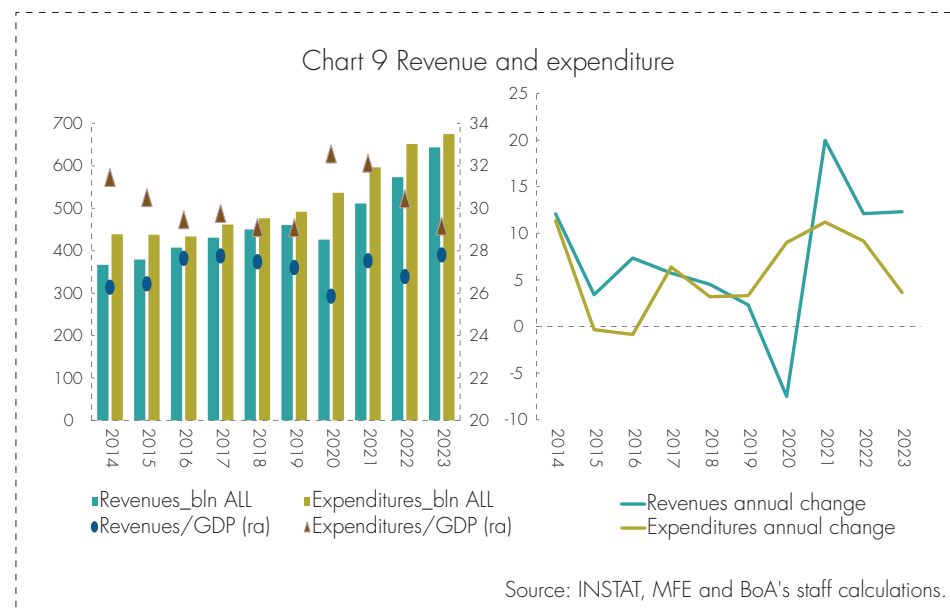
**Public investments reached ALL 120 billion, or around 5.2% of GDP.** In annual terms, investments grew by 6.7%, improving the structure of budget expenditures, and accounting for around 18% of total expenditures. In this aspect, the Reconstruction Fund, which continued to be part of the budget in 2023,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

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

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



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



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

### 2.1.3 LABOUR MARKET

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

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

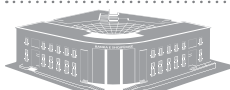
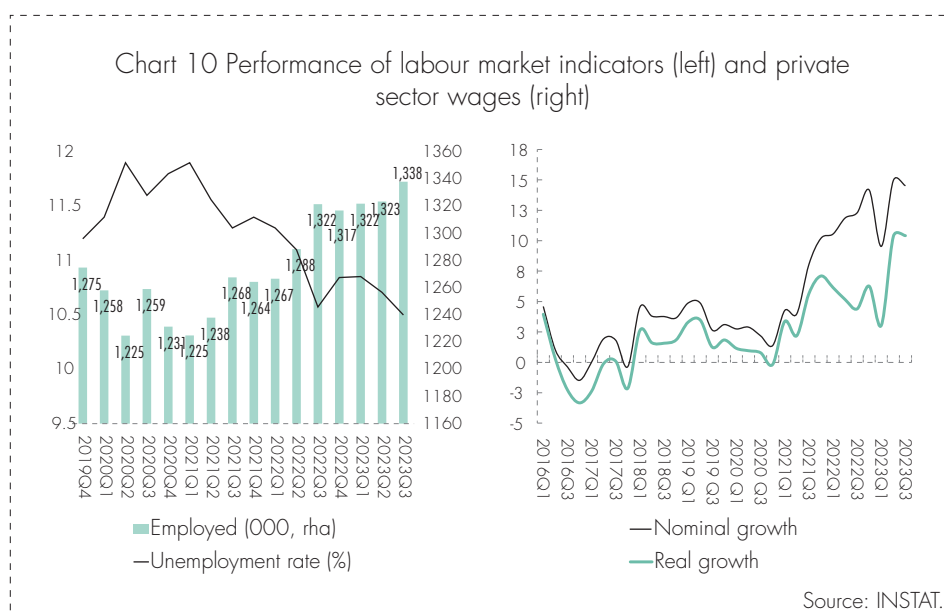




The growth of employment was reflected by the increase in the labour force participation rate, and the decrease in the inactivity rate.

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

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



## BOX 1

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

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

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

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

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

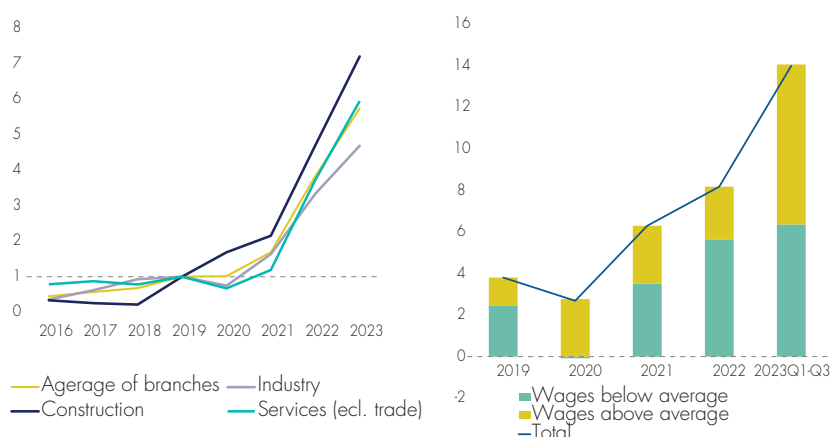
Economic and labour market indicators	2019	2020	2021	2022	2023 Q1-Q3
1. GDP growth (y/y)	2.1	-3.3	8.9	4.9	3.3
2. Employment growth (y/y)	2.8	-1.7	0.5	4.0	2.8
3. Unemployment rate	11.2	11.8	11.4	10.8	10.5
-Unemployment rate (15-29 years-old)	21.4	21.7	20.6	21.5	22.0
4. Long-term unemployment rate	7.3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

Source: INSTAT.

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



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



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

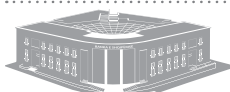
**The rise in wages and employment have supported economic growth, in terms of both demand and supply, but they also drive up production costs and create the premises for the rise of inflation.** This factor remains on the focus of the Bank of Albania, in order to promptly assess its impact on price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

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

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

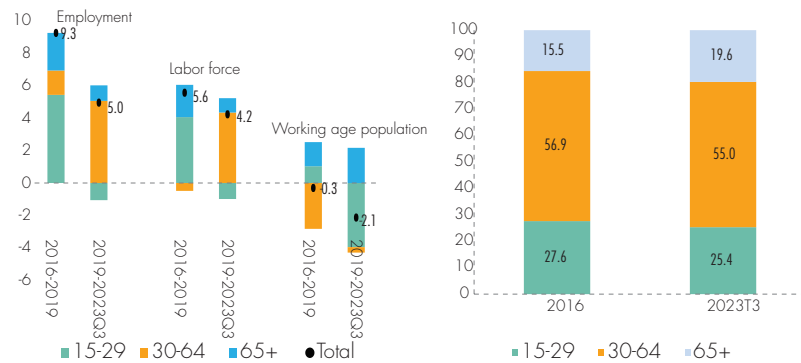
**The demographic situation in Albania has been marked by rapid structural changes in the past two decades.** Population has been declining due to several factors such as a lower fertility rate, population ageing and emigration.<sup>III</sup> In parallel to the fall in population, its average age in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

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



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

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



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

Source: INSTAT and Bank of Albania calculations.

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

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

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

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

## 2.1.4 INFLATION AND ITS DETERMINANTS

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

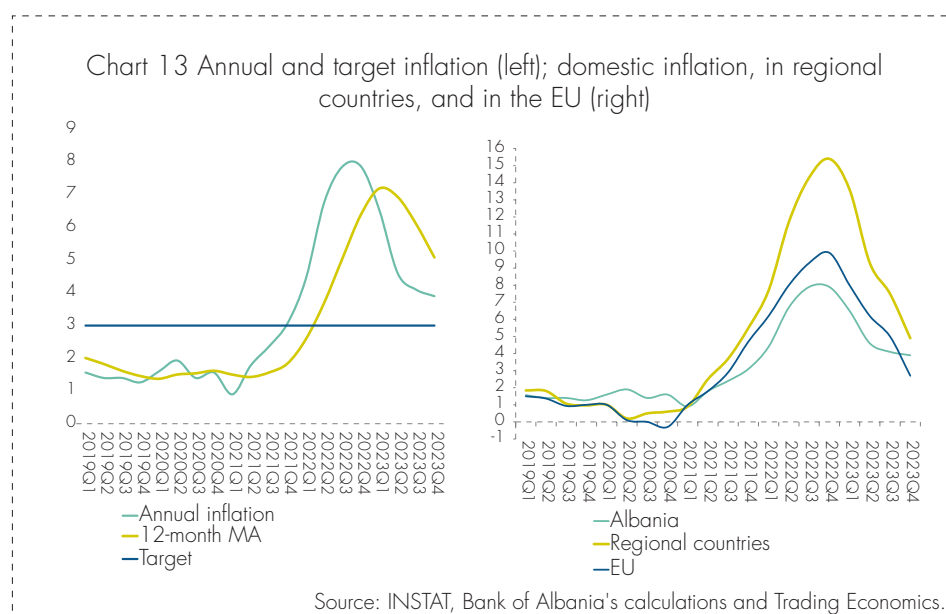
*However, the pace of the falling inflation decelerated over the year, reflecting the high domestic inflationary pressures persisting over labour costs and consumer prices.*

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



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

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



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

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

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

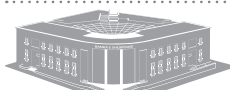
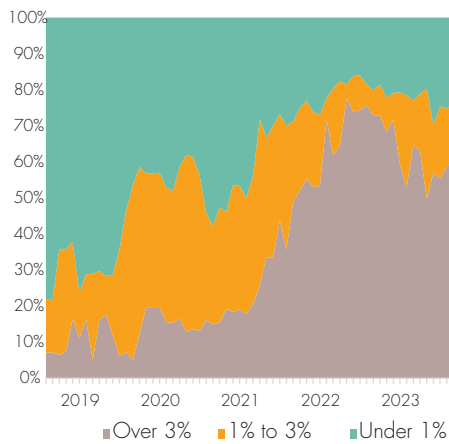


Chart 14 The structure of CPI basket items by inflation range



Source: INSTAT and Bank of Albania's calculations.

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

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

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

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

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

Source: INSTAT and BoA.

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

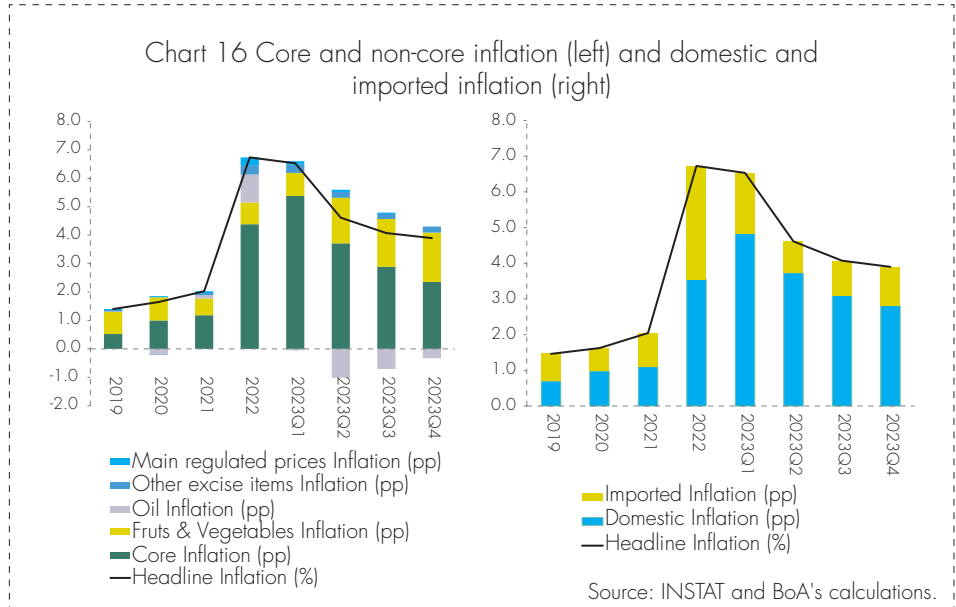
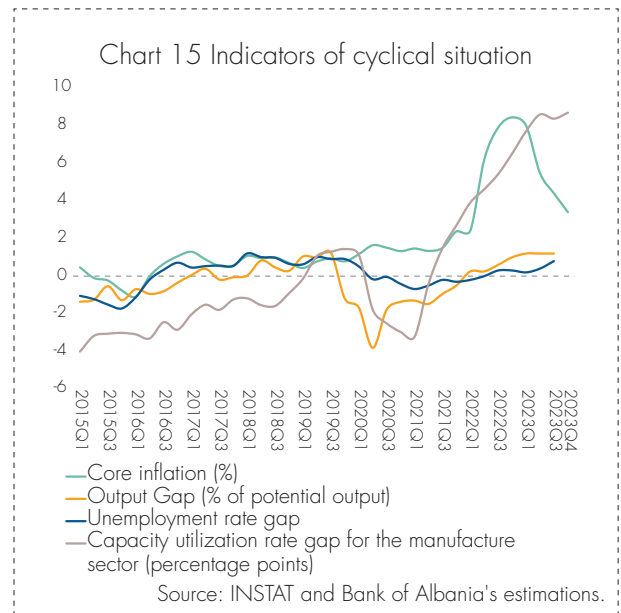
The stable increase in the demand for goods and services has pushed the Albanian economy on a positive stage of the business cycle. This was apparent



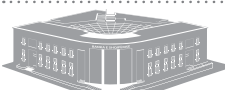
as employment continued to increase, unemployment recorded its minimum historical levels, private sector wages shot rapidly upwards, and the capacity utilisation rate as reported by businesses was high. Consequently, although decelerating, core inflation has remained at relatively high historical levels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

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

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



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

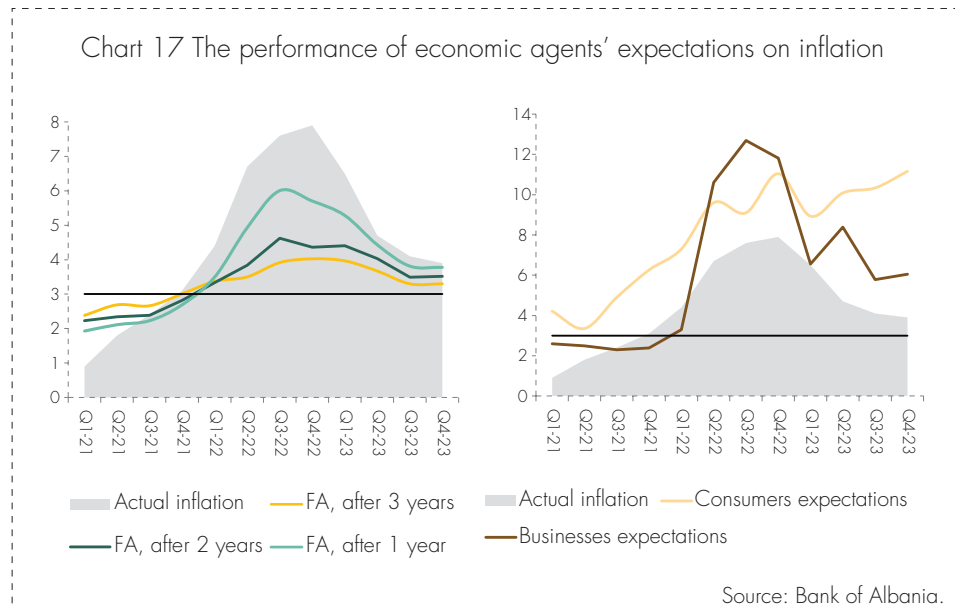


The normalisation of the monetary policy stance during 2022-2023, helped to gradually mitigate pressures from the demand in economy and to control inflation expectations.

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

*EXPECTATIONS ON INFLATIONARY HAVE DECREASED IN 2023*

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



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





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

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

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

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

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

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

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

### FOREIGN DIRECT INVESTMENTS INCREASED AT A CONSIDERABLE RATE

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



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

*EXTERNAL DEBT INDICATORS CONTINUED TO IMPROVE OVER 2023*

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

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

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

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

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

Source: BoA.

**2.1.6 FINANCIAL MARKETS AND MONETARY INDICATORS**

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

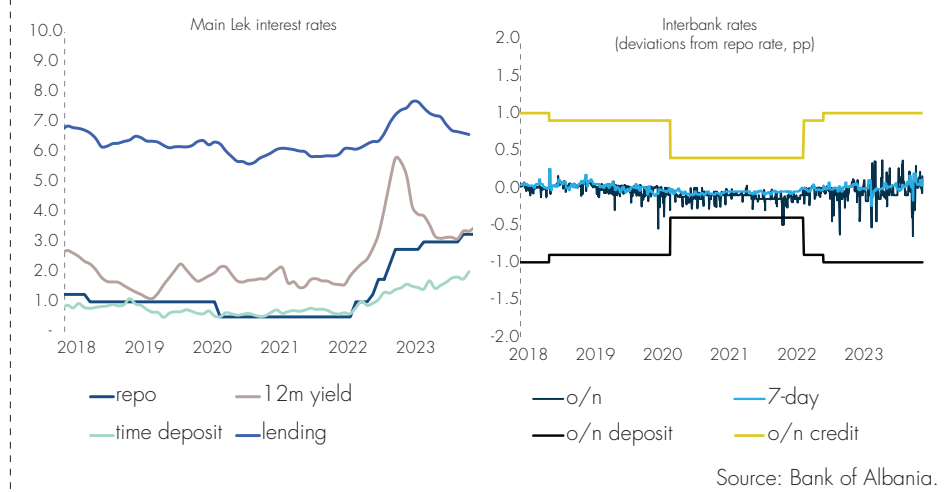
*However, markets have experienced higher interest rates on both savings and loan instruments than two years ago, in both ALL and foreign currency. Nonetheless, monetary conditions and credit supply from the banking system appear accommodative. In response, lending to the private sector increased at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



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

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

Chart 18 Key interest rates in lek (left) and interbank market interest (right)



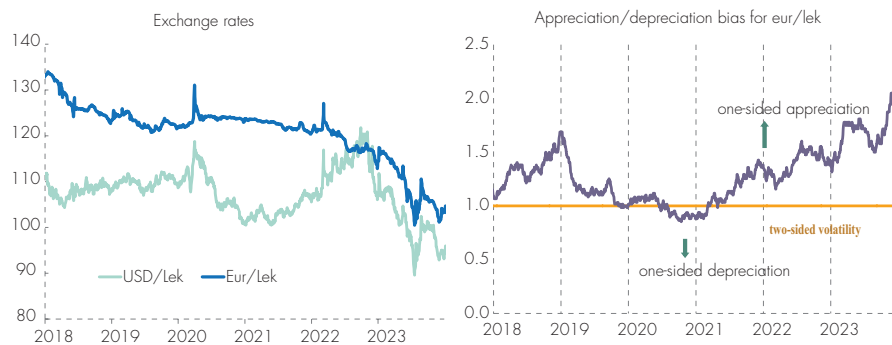
Interest rates in the interbank market remain anchored to the policy rate, in accordance with the operational target of monetary policy. They reflected the rapid rise of the policy rate, while maintaining a minimum difference from it and being slightly volatile. The liquidity situation in the banking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



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

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

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



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

Source: Bank of Albania.

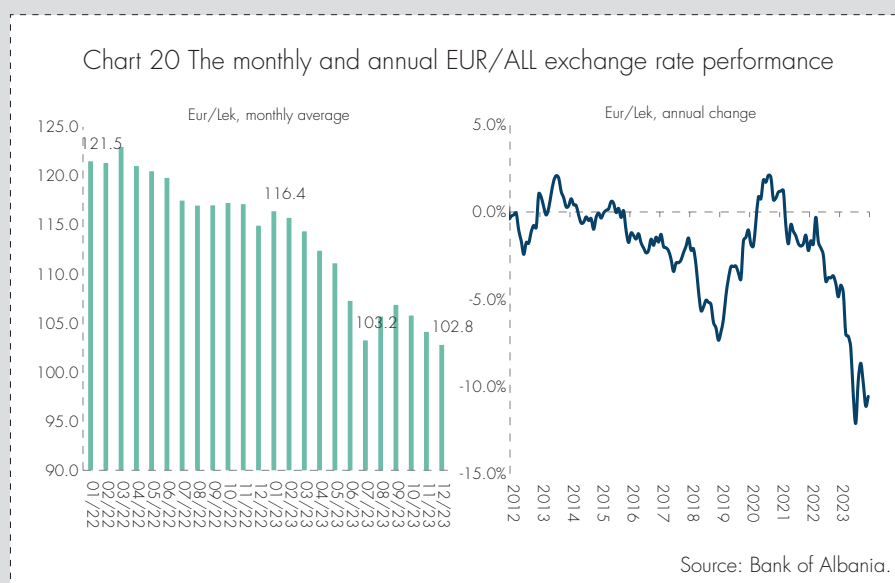
The strengthening of the exchange rate of lek against the euro reflected the significant improvements in the external sector of the economy, the increase in the activity of tourism, and the upward trend of foreign direct investments and remittances. The high level of foreign currency flows increased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



## BOX 2:

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

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

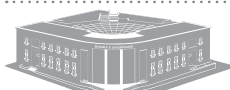


#### Why did lek appreciate?

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

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

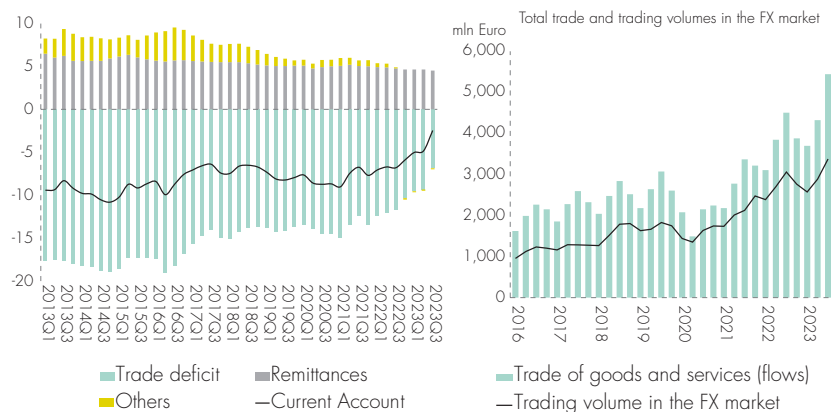
As regards 2023 developments, the strengthening of the exchange rate seems to be driven by a considerable supply surplus in the domestic foreign exchange market. The available data shows that the abovementioned surplus reflects the



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

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

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



Source: Bank of Albania.

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

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

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



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

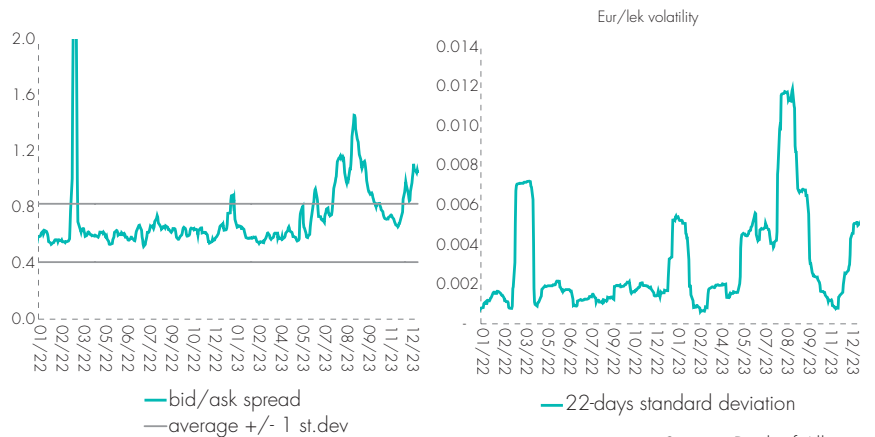
On the other hand, the impact of the appreciation of the exchange rate on specific sectors varies depending on their exposure to exchange rate fluctuations, their financial and operational flexibility, as well as foreign demand conjecture related to the sector. In this regard, the appreciation of lek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

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

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

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

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



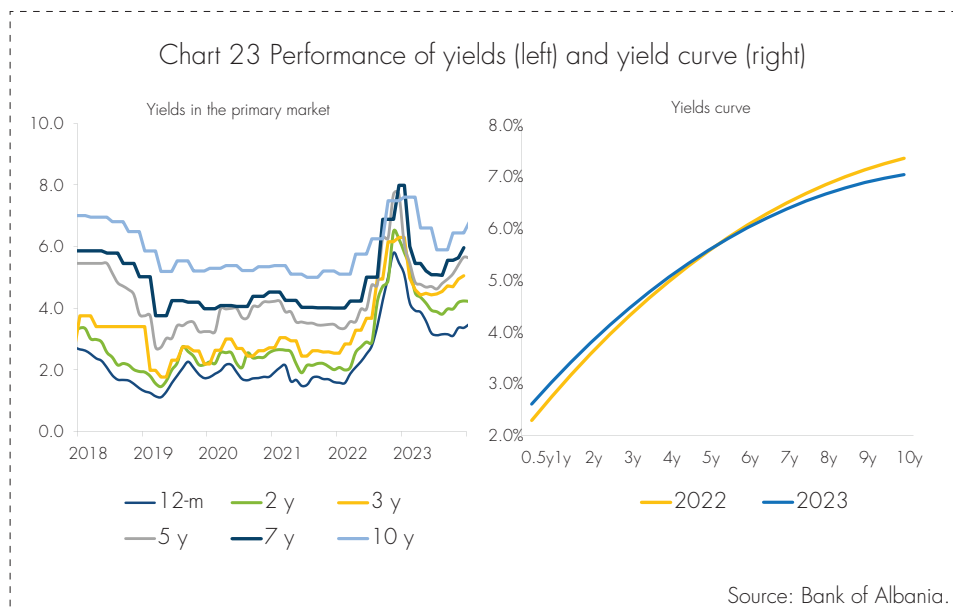
Note: the range of spreads ALL 0.4-0.8 is calculated as an average (ALL 0.6) +/- 1 standard deviation. Source: Bank of Albania.



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

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

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

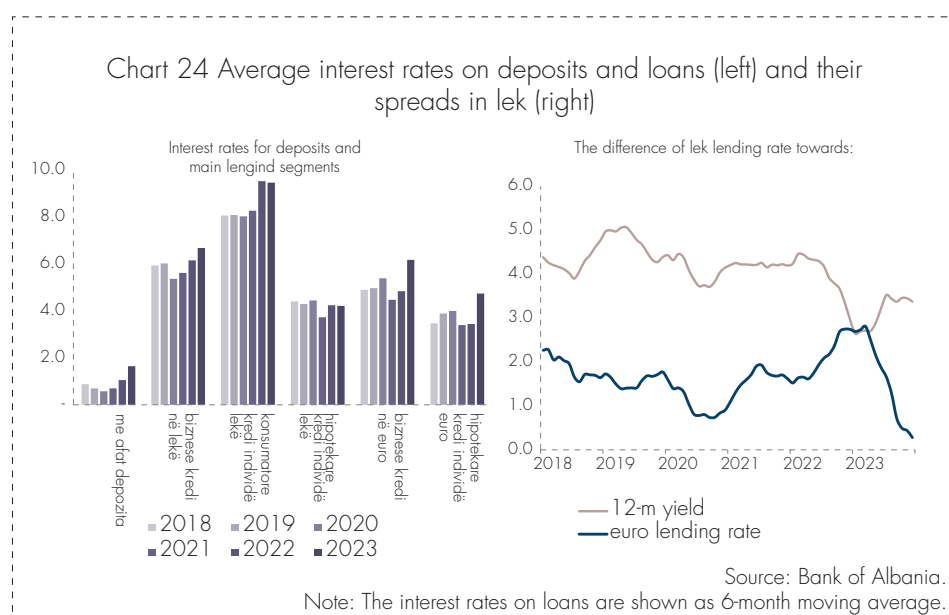


**Yields recorded yet another hike in the fourth quarter of the year, in keeping with direction of the monetary policy,** although their spreads toward policy rate remained low. On average terms, the level of yields over 2023 did not essentially change compared to the previous year, but their curve flattened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





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

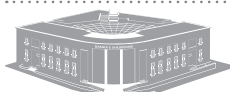


Overall, taking after the yields on government securities, interests on loans increased at a lower rate than the signals of the monetary policy, as a result of lower risk premia and higher competition. On one hand, the good liquidity situation of the banking system has engendered a slow rise of interest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

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

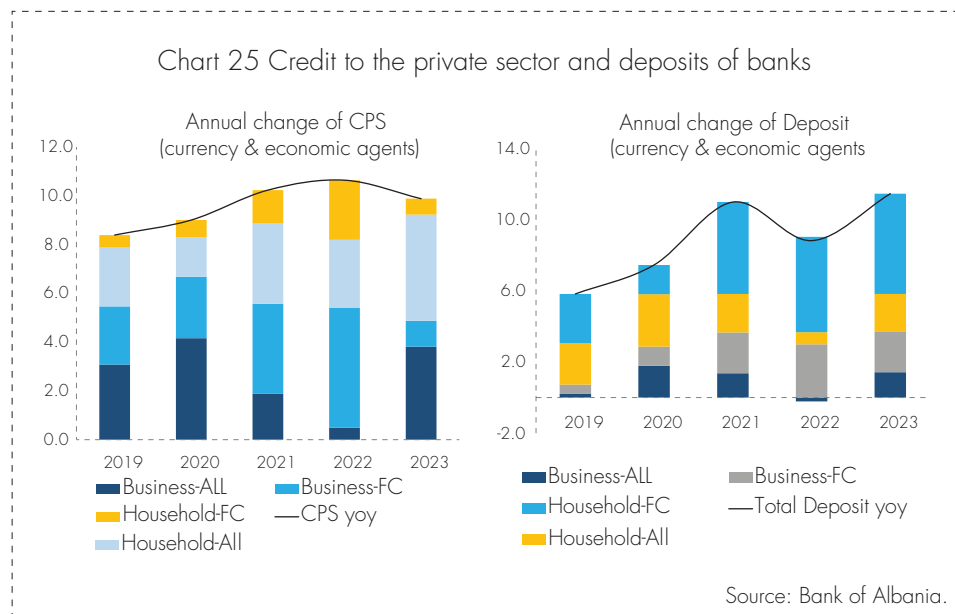
Credit to the private sector increased at a fast pace, driven by the high demand for financing, as well as the yet accommodative financial conditions<sup>9</sup>

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

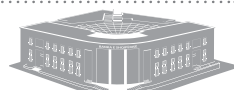


**Credit portfolio to private sector increased by 9.9% in 2023, at almost the same rate as the previous two years.** The growth of credit in 2023 has been in line with the higher demand for funds by households and enterprises, reflecting the expansion of economic activity, the improved confidence and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

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



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



## BOX 3

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

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

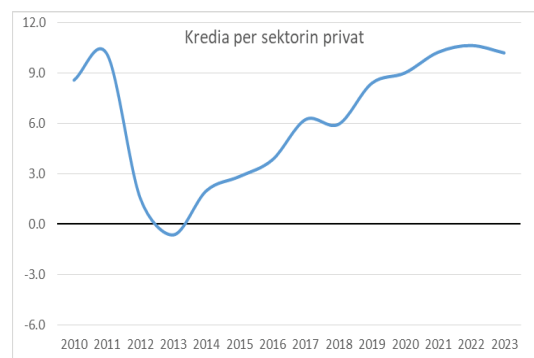
**Credit to private sector has followed a positive trend in the past years, in terms of both quality and quantity.**

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

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

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

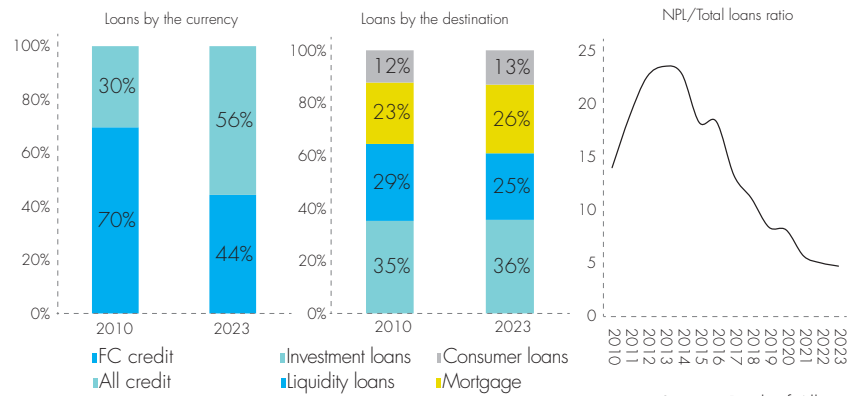
Chart 26 Annual growth rate of loans to the private sector (in %)



Source: Bank of Albania.

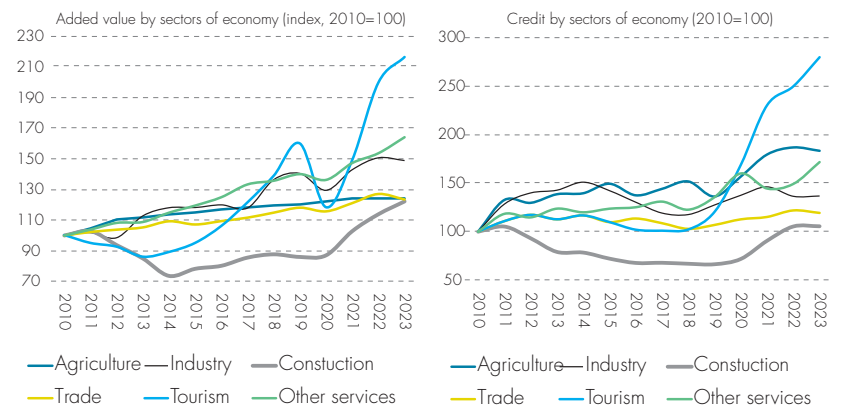


Chart 27 The structure of loan portfolio in terms of foreign currency composition (left in bln ALL) and destination (centre, in ALL bln), as well as the non-performing loans ratio (right, in percentage)



Source: Bank of Albania.

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



Source: Bank of Albania and INSTAT.

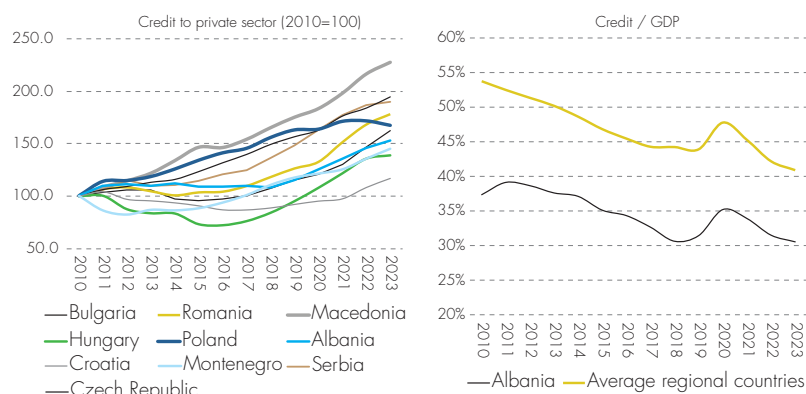
In the regional context, the dynamic of credit performance in Albania is similar to that across regional countries, in terms of both the growth rate (chart 4, left panel) and credit ratio to GDP.

This chart analysis suggests two important conclusions:

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



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

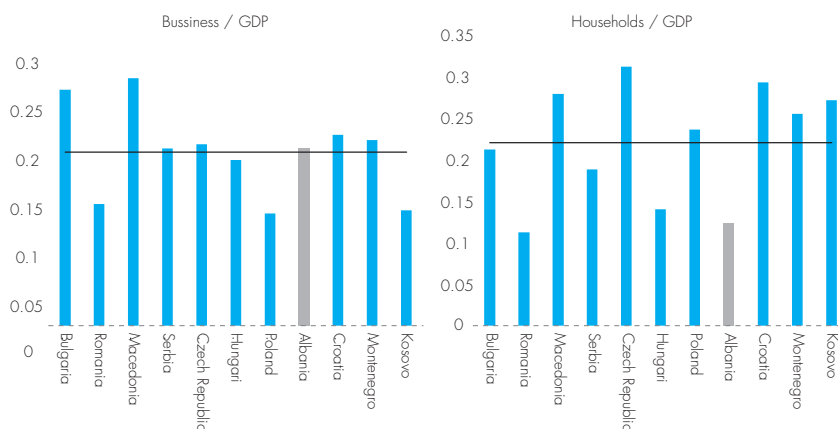


Source: Bank of Albania, Eurostat, central banks of the region.

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

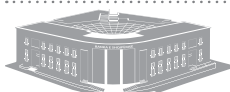
*Also, credit-to-GDP ratio in Albania was lower than the countries of the region. At a closer look, the scale of lending to enterprises in Albania is comparable to the countries of the region, in fact it is above their average (Chart 5, left panel). On the other hand, lending to households is significantly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

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



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

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



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

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

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

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

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

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

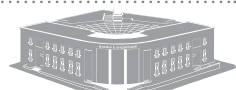


Table 5 Main macroeconomic and financial indicators

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

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

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

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

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

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

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



## 2.2. MONETARY OPERATIONS

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

### OPEN MARKET OPERATIONS AND LIQUIDITY NEEDS MANAGEMENT

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

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

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

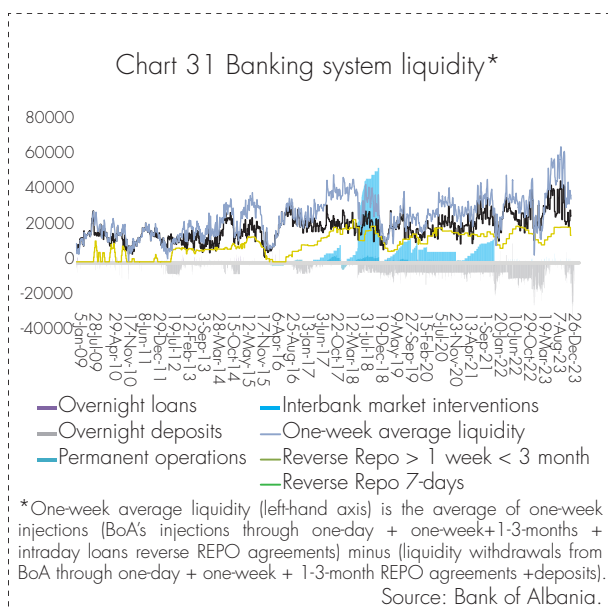


Table 6 Structure of liquidity injection operations by the Bank of Albania

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

Source: The Bank of Albania.

### STANDING FACILITIES

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





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

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

### REQUIRED RESERVES

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

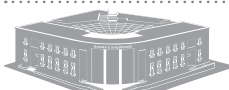
During 2023, banks used the opportunity to average the balance of the required reserve account in lek, maintaining the minimum daily level of 30% of the required reserve, with a frequency similar to 2022. The remuneration rate on required reserves in lek for commercial banks has remained 100% of the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

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

## 2.3. FINANCIAL STABILITY AND MACRO-PRUDENTIAL POLICY

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

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

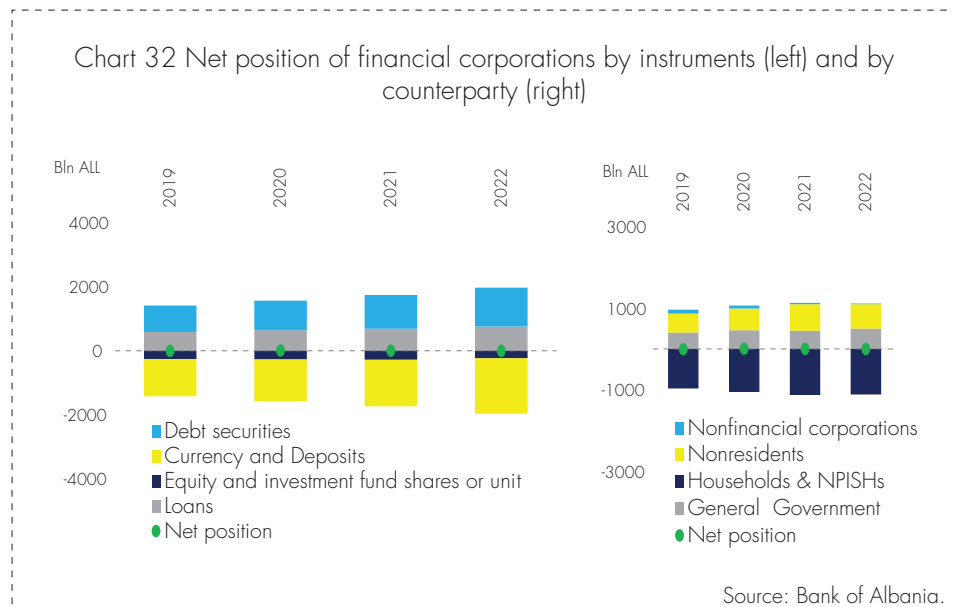


nature, which assists in the preservation, stability and development of financial markets in the Republic of Albania.

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

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

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



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

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

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



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

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

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

Table 7 Financial system activity indicators

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

Source: Bank of Albania. \* September 2023

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



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

### 2.3.2. SYSTEMIC RISK ASSESSMENT AND MACROPRUDENTIAL POLICIES

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

#### ASSESSMENT OF SYSTEMIC RISKS

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

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

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



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

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

Source: Bank of Albania

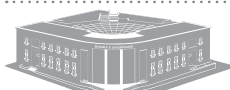
Indicators related to credit growth, liquidity position, fluctuations in the foreign exchange market, concentration of exposures and activity of the financial system denote contained risks. The hottest areas of the Macroprudential Map of Systemic Risks are related to the indicators of loans in foreign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

### MACRO-PRUDENTIAL MEASURES

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

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

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



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

### 2.3.3. REGULATORY AND METHODOLOGICAL FRAMEWORK

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

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



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

#### BOX 4

##### GREEN FINANCE

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

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

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

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

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

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



## 2.4. SUPERVISION

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

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

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

### 2.4.1. ON-SITE EXAMINATIONS

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

Table 9 Number of examinations by topic in 2023

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

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

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

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

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





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

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

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

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



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

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

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

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

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

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

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



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

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

#### 2.4.3. LICENSING FRAMEWORK AND APPROVALS

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

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

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

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

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

Source: Bank of Albania.

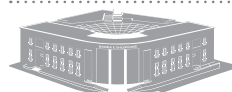
<sup>1</sup> "Majority" is in any case the simple majority of 50% plus 1 vote.

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

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

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

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



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

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

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

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

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

Source: Bank of Albania.

#### 2.4.4. OTHER DEVELOPMENTS

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

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

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



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

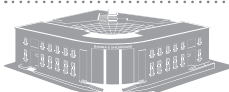
Delisting Albania from the FATF grey list paves the way for the return of discussions with the European Banking Authority (EBA) on the equivalence assessment process. At the beginning of 2022, EBA published a new assessment methodology. The Bank of Albania has carried out an independent assessment of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

### *Drafting the guideline on financial reporting*

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

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

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



## BOX 5

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

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

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

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

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

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

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

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



### *Green finance*

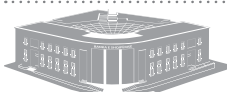
In the framework of green finance and the strategy drafted for its inclusion in the supervisory processes, the Bank of Albania is committed to increasing the knowledge of similar processes undertaken by other counterpart institutions, best as international practice, and to document the typologies that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

### *Cyber risk*

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

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

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



## 2.5. RESOLUTION

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

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

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

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

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

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

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

#### *Resolution plans*

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





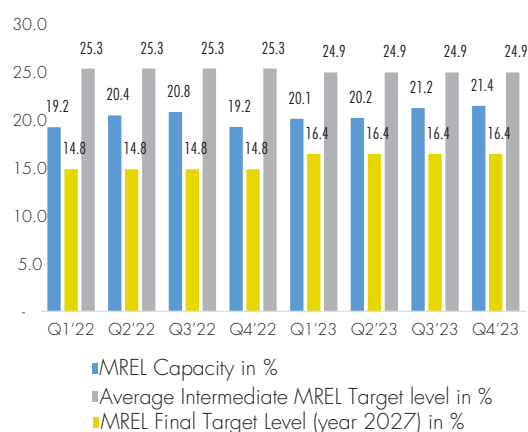
As part of the annual process of drafting plans, in 2023 the following were made possible: the identification and evaluation of the economic functions of critical importance for the Albanian banking sector, the assessment of the public interest for all banks, the preferred strategy for resolution as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

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

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

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

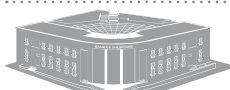
Chart 33 MREL capacity, for the period 2022-2023, in percentage of risk-weighted assets



Source: Bank of Albania.

### Inspections in banks

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



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

**BOX 6**

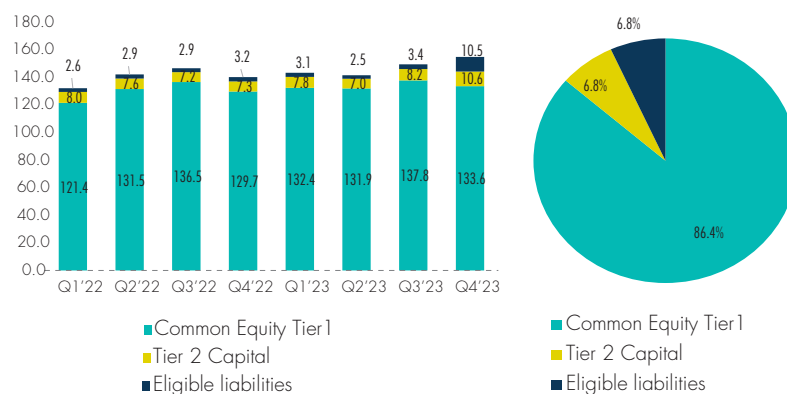
**SOURCES OF FINANCING MREL REQUIREMENT DURING 2023**

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

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

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

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



Source: Bank of Albania.



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

## 2.5.2. PREPARING A RESILIENT FRAMEWORK FOR RESOLUTION

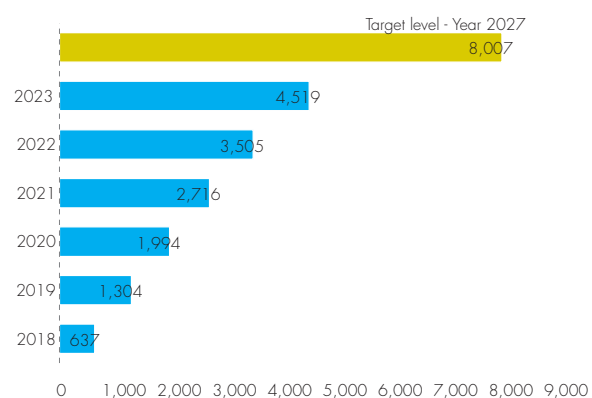
Aiming to establish a resilient framework for resolution, the Bank of Albania has drafted several methodological and guiding documents, which support banks in fulfilling the recommendations of the Bank of Albania. Thus, in accordance with the provisions laid down in Regulation No. 78/2020 “On the minimum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

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

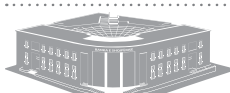
## 2.5.3. RESOLUTION FUND

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

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



Source: Bank of Albania.



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



## 2.6. CURRENCY ISSUE

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

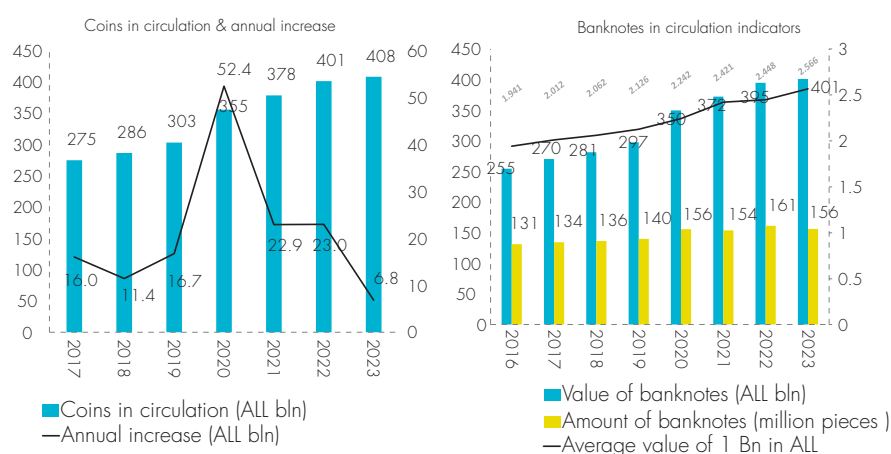
One of the main responsibilities of the Bank of Albania is to meet the needs of the economy for cash, through the issuance of modern and qualitative banknotes and coins that communicates security and stability to the users of the Albanian lek.

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

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

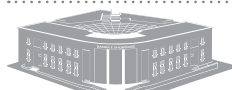
The domestic currency in circulation at the end of 2023 reached ALL 408 billion, up by ALL 6.8 billion compared to the end of 2022 (+1.7%). At the end of 2023, there were around 156 million notes in circulation, worth around ALL 401 billion. Compared to 2022, the number of banknotes in circulation decreased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

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



Source: Bank of Albania.

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

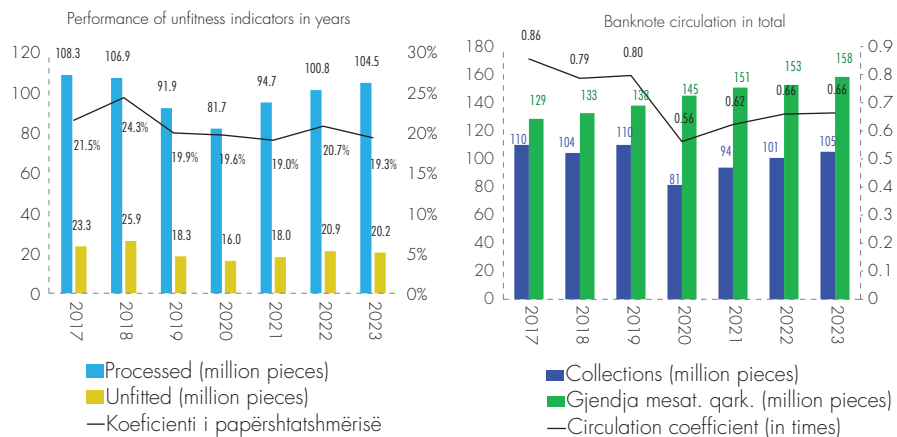


In regard to coins, their number in circulation reached 273 million pieces against 257 million at the end of 2022, up by around 16 million pieces or +6.2%. The average value of a coin in circulation at the end of 2023 reached 25.2 ALL/coin compared to 25 ALL/coin in 2022.

### Cash recycling, banknote quality and its circulation

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

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



Source: Bank of Albania.

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

### Protecting banknotes and coins against counterfeiting

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

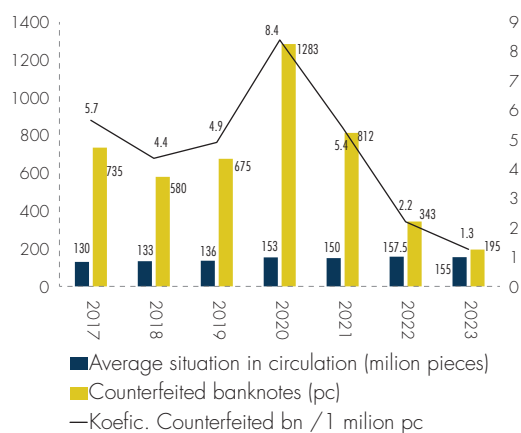
<sup>18</sup> Ratio of the number of banknotes received at the Bank of Albania cash desks to the average annual number of banknotes in circulation.



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

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

Chart 38 Performance of counterfeited banknotes in circulation



Source: Bank of Albania.



## 2.7. PAYMENT SYSTEMS

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

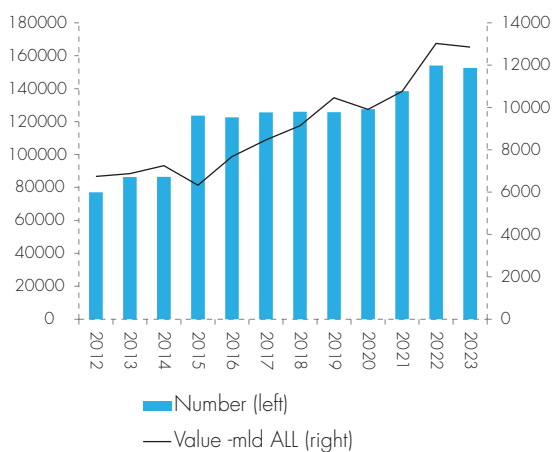
*In fulfilment of these responsibilities, the Bank of Albania, beyond the stable operation of payment systems, has paid particular attention to the oversight and catalysing role in the fulfilment of the National Retail Payments Strategy.*

### 2.7.1. PERFORMANCE OF PAYMENT SYSTEMS

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

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

Chart 39 Number and value of transactions processed in



Source: Bank of Albania.

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

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

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

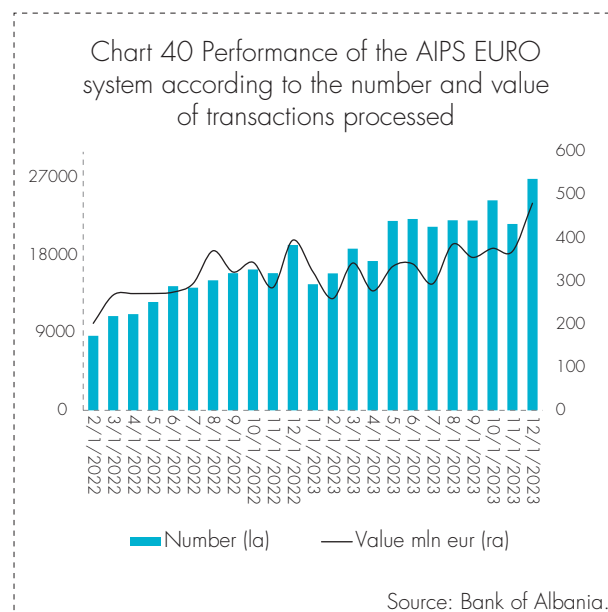




payments operation. The ratio of the value of ILFs to the total value of the activity of the AIPS system remain low (4%-5%), indicating that the system's exposure to liquidity risk of participants is low.

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

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



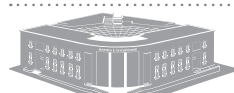
Albanian consumers and enterprises are estimated to have saved around EUR 37 million in 2023 from using AIPS Euro system. Expanding its use helps bolstering financial inclusion and promoting electronic payments in the country. Through this system, payments in euro within the country are completely regulated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

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

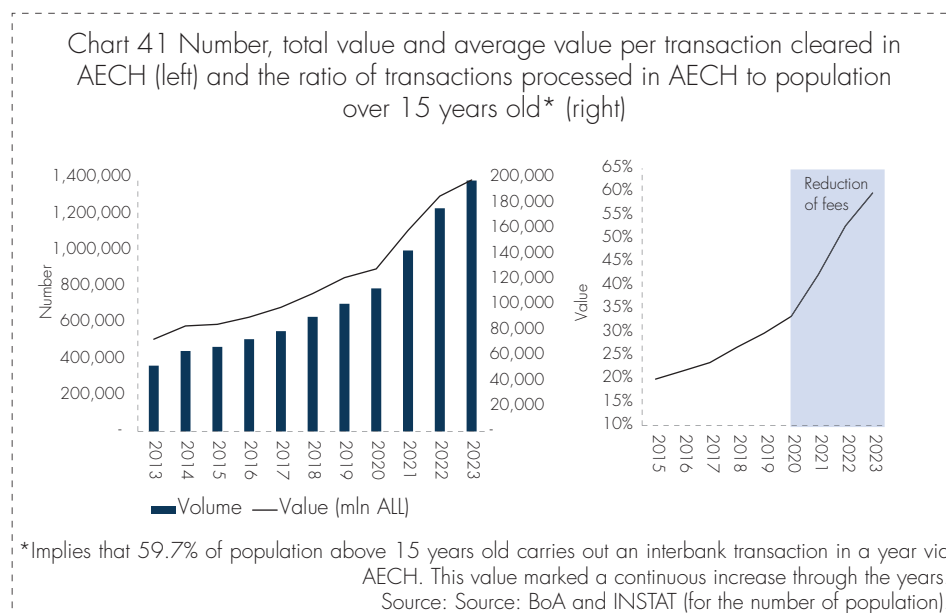
The AECH is an automated clearing system for small value payments. It is fully integrated with AIPS. The use of this system mainly reflects the use of bank transfers by households and enterprises, mainly medium-sized and small ones.<sup>19</sup> The activity in the system has continuously increased and,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

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

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



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



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

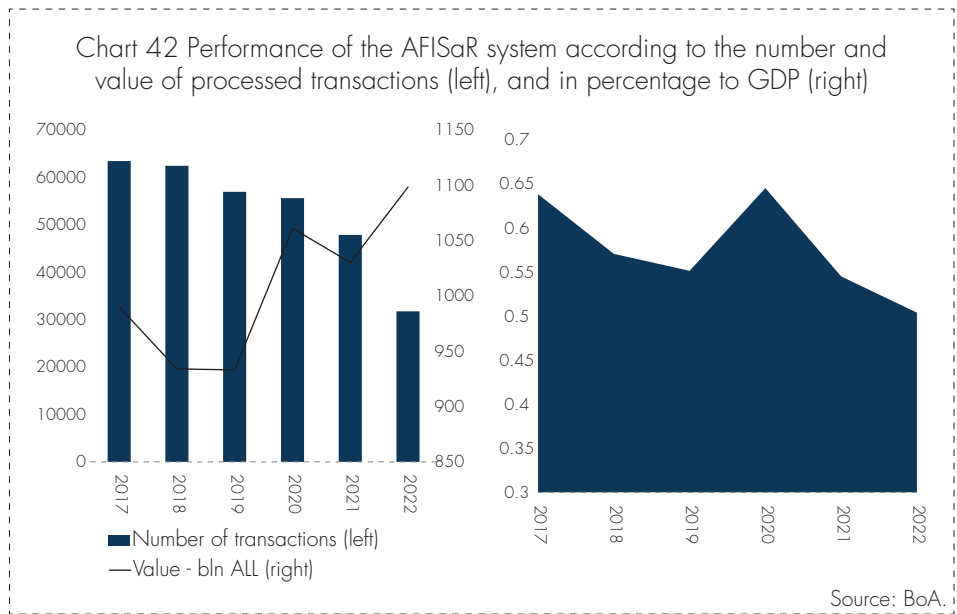
The AFISaR system is the central system for the settlement and registration of transactions with government securities. This system is operated by the BoA in the capacity of fiscal agent. Through the AFISaR system, the Bank of Albania offers the issuer (Ministry of Finance and Economy) and the market,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

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

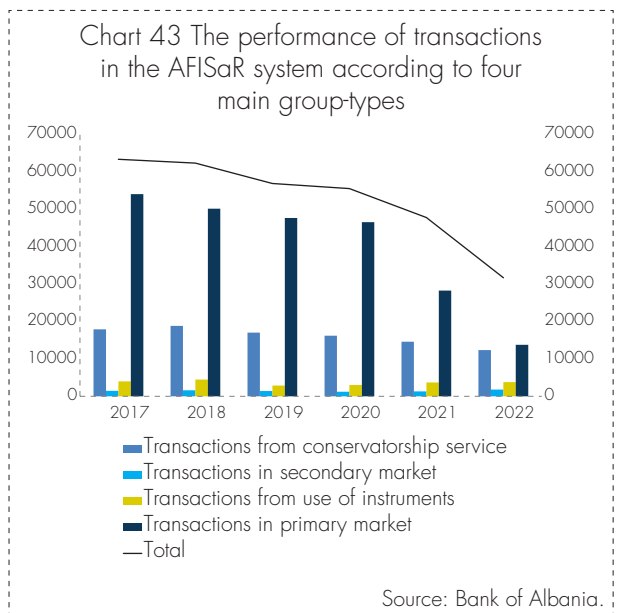
<sup>20</sup> The regulatory amendment for the use of the system (2020), provides for the elimination of commissions for retail payments initiated electronically (home-banking) up to the amount ALL 20,000 as well as the differentiation of fees for the other part of payments initiated electronically up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



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

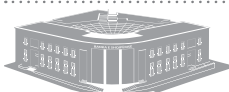


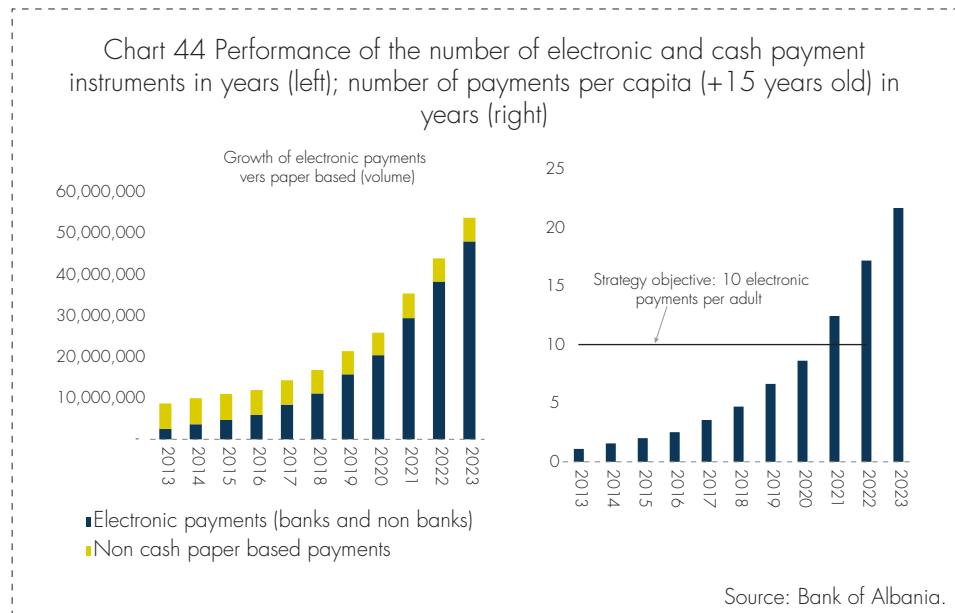
Using the AFISaR system for four general types of transactions, shows that transactions in the primary market and custody transactions (tax collection, coupons payments, etc.) decreased by 16.5% and 45%, respectively. Transactions in the secondary decreased by around 8%. There was a significant increase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



### 2.7.2. PAYMENT INSTRUMENTS

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





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

### PAYMENTS PROVIDED BY THE BANKING SYSTEM

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

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

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

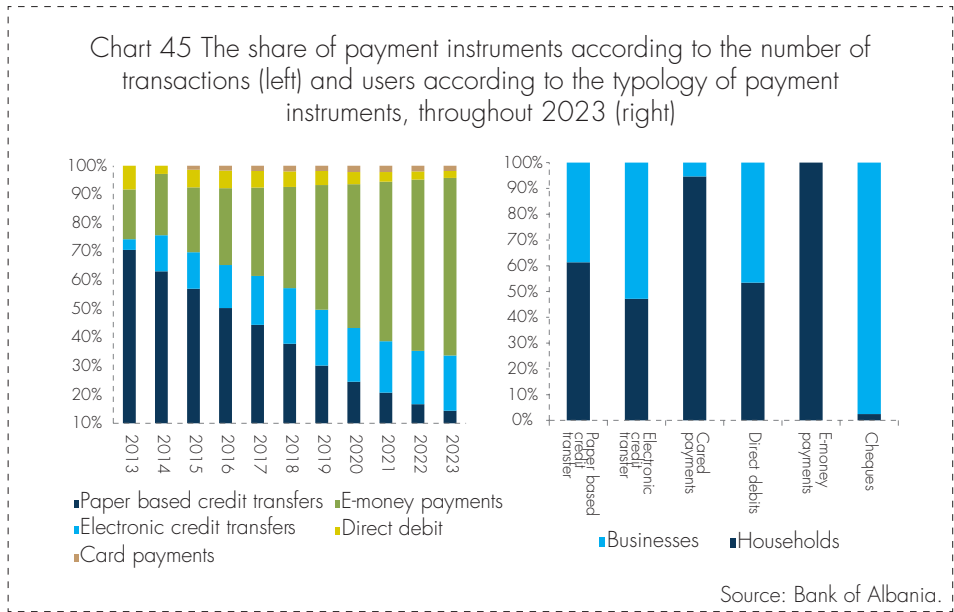
<sup>21</sup> In 2014, less than 40% of the population owned a payment account.

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



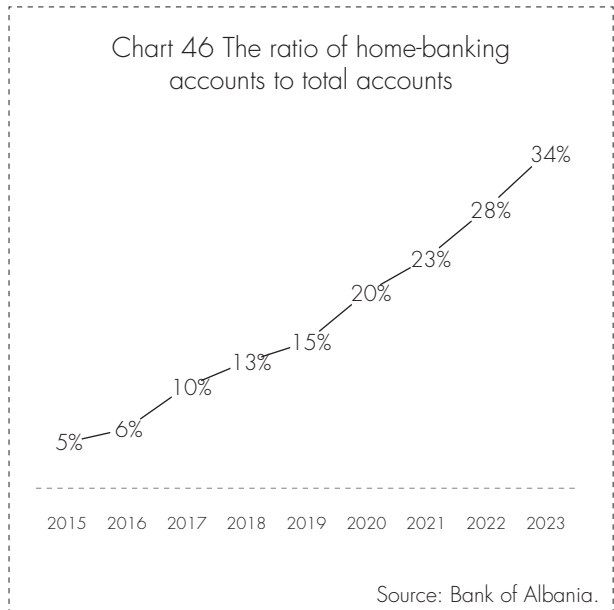
increased by 36.7% compared to 2022. Their value reached ALL 336 billion, up by 25.8% annually.

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

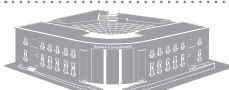


### HOME BANKING

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



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

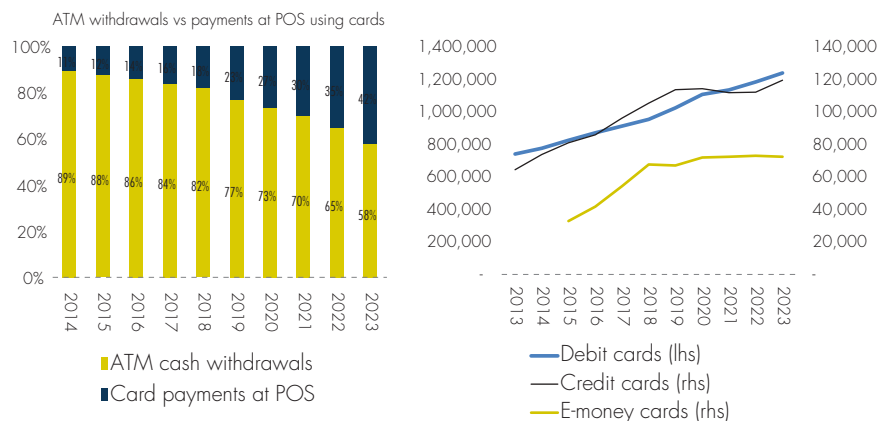


*BANK CARDS AND THE INFRASTRUCTURE FOR THEIR USAGE*

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

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

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



Source: Bank of Albania.

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

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

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

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

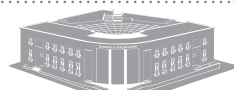
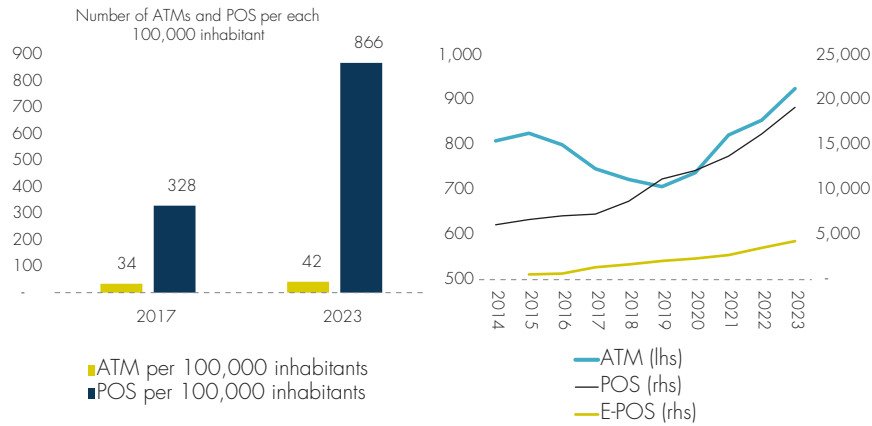


Chart 48 Number of ATMs and POS terminals for 100.000 adults (left) and number of ATMs and POS terminals (right)

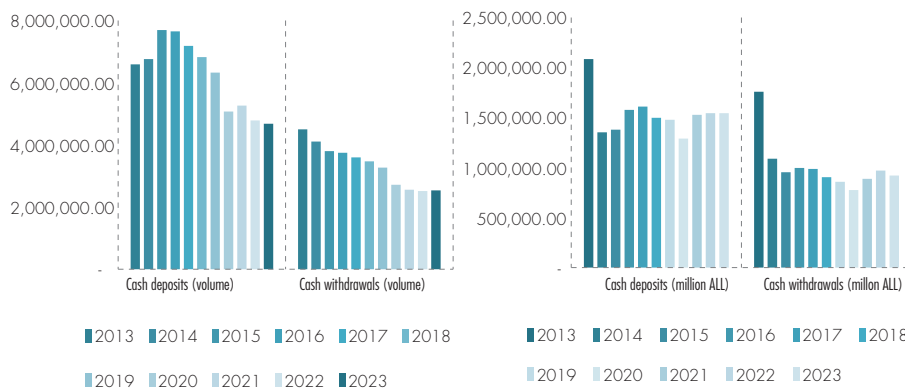


Source: Bank of Albania.

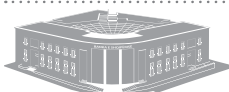
### CASH TRANSACTIONS

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

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



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



### 2.7.3. ELECTRONIC MONEY INSTITUTIONS

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

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

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

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

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

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

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

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

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





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

#### **BOX 7:**

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

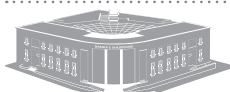
*The criteria for expanding the geographic scope of the Single Euro Payments Area (SEPA) are defined by the European Payments Council (EPC), and the assessment of compliance with the criteria for participation in SEPA is undertaken by the same entity. The criteria for participation in SEPA have been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

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

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

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

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



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

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

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

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

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

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

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

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



## 2.8. INTERNATIONAL RESERVE MANAGEMENT

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

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

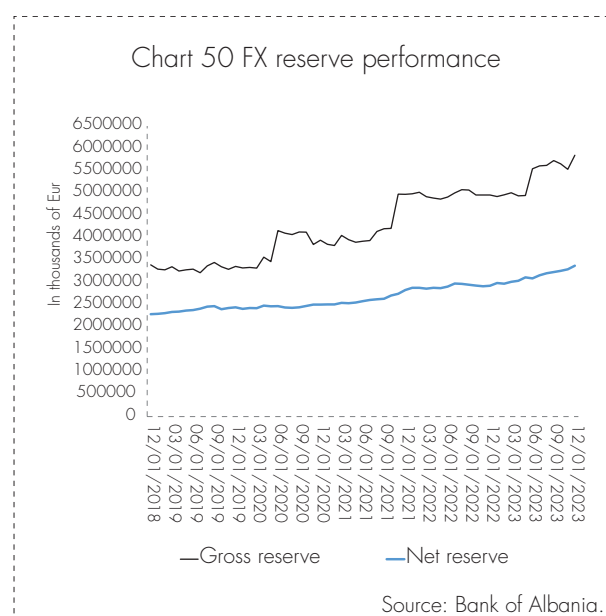
The regulation "On the policy and management of the international reserve", approved by the Supervisory Council, defines liquidity and security as the primary objectives of the exchange reserve management process. Ensuring returns from reserve funds management represents a third objective, as long as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

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

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

### COMPOSITION OF THE INTERNATIONAL RESERVE PORTFOLIO BY CURRENCY

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



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

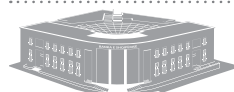
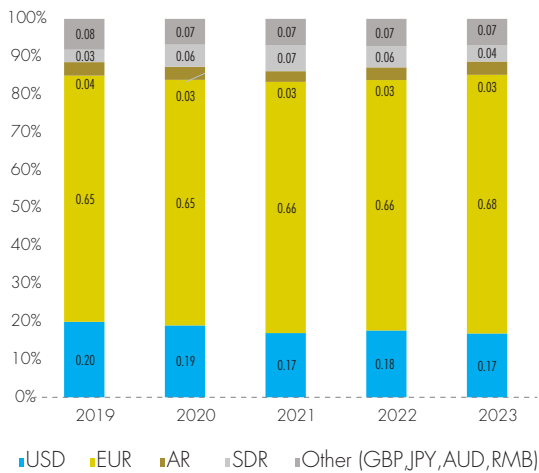


Chart 51 Composition by currency of the gross foreign exchange reserve



Source: Bank of Albania.

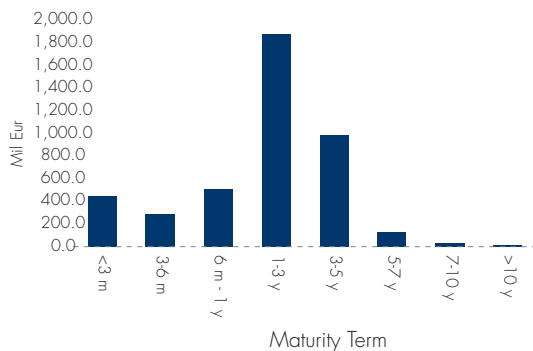
below shows the performance of the composition by currency of the gross foreign exchange reserve, where the euro currency continues to have the main share in the portfolio.

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

### COMPOSITION OF INTERNATIONAL RESERVE PORTFOLIO BY MATURITY TERM

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

Chart 52 Distribution of reserve by maturity of instruments\*



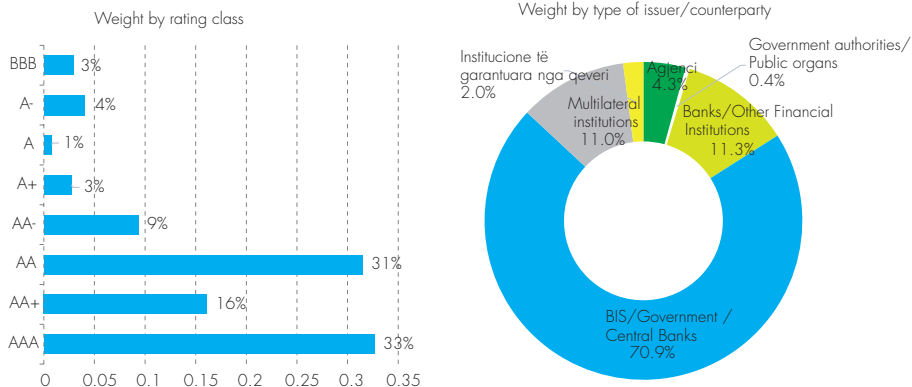
\*The chart does not reflect the funds held in the current account, as well as the part of the reserve in monetary gold and SDR. The balance of current accounts at the end of the year is about EUR 1.1 billion.  
Source: Bank of Albania.

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

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



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



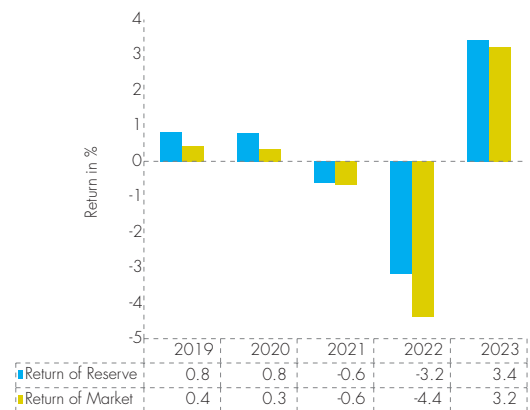
Source: Bank of Albania.

### RETURN ON THE INVESTMENT OF RESERVE PORTFOLIO

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

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

Chart 54 Return of Foreign Exchange Reserve\*



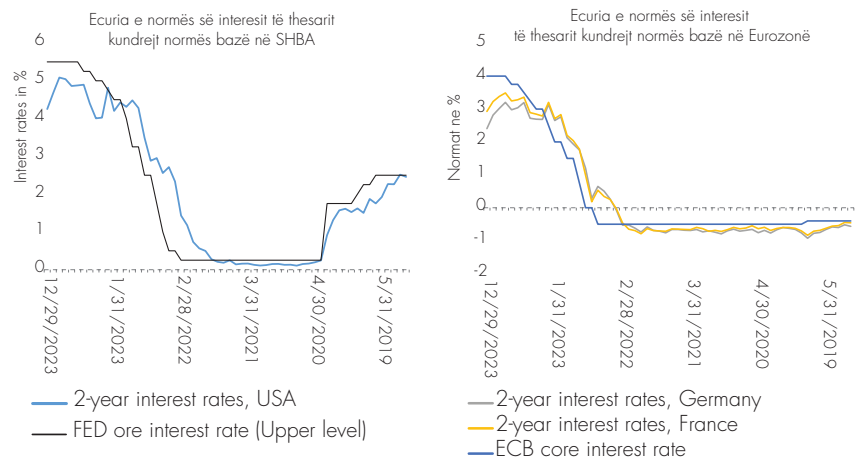
\*The return estimation does not account for the exchange rate effect.

Source: Bank of Albania.

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



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



Source: Bloomberg.

**OTHER DEVELOPMENTS RELATED TO THE INTERNATIONAL RESERVE**

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

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

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

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



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

## BOX 8

### FLAWS AFFECTING INTERNATIONAL RESERVE IN 2023

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

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

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



## 2.9. STATISTICS

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

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

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

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

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

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





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

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

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

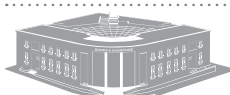
3. Harmonization with the regulatory framework of the European Central Bank, regarding the balance sheet of other financial institutions

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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



## 2.10. RESEARCH

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

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

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

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

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



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

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

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

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

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



## 2.11. EUROPEAN INTEGRATION AND INTERNATIONAL COLLABORATION

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

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

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

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

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



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

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

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

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

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

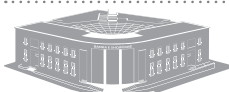
Albania's relations with the IMF continue to be focused on Article IV consultations. On 12 January 2024, the Executive Board of the IMF concluded the Article IV consultations with Albania, at the end of which it published the assessments on the performance of the Albanian economy and made the relevant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

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

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

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

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



### **TECHNICAL COOPERATION**

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

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

### **OTHER ACTIVITIES**

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

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

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





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



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

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

### **MEMORANDUMS OF COOPERATION**

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



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



## 2.12. TRANSPARENCY AND PUBLIC COMMUNICATION

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

### AN OPEN AND TRANSPARENT CENTRAL BANK

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

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

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



## BOX 9

## ACTIVITIES WITHIN THE COUNTRY

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

## A RESPONSIBLE AND ACCOUNTABLE CENTRAL BANK

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

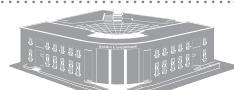


and after, in June to the Assembly of Albania, responding to MP's interest in related matters. As every year, the Governor presented in November 2023, in a special hearing session to the CEF, the opinion of the Bank of Albania regarding government' draft-budget for the upcoming year (2024).

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

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

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



## 2.13. FINANCIAL EDUCATION

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

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

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

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

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

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

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

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



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

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

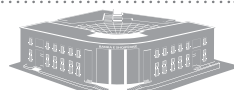
The National Council of Museums approved, after 9 years of valuable contribution to the numismatic and banking history of our country, in October 2023: the recognition and registration of the Museum of the Bank of Albania in the National Register of Museums of the Republic of Albania.

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

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

### *EDUCATIONAL PUBLICATIONS*

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





### ORGANIZATION OF EDUCATIONAL ACTIVITIES

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



### 3. HUMAN RESOURCES AND INFRASTRUCTURAL CAPACITIES

*The Bank of Albania aims to develop its human resources in accordance with its objectives and strategy, as well as in the implementation of relevant policies. Among our objectives is the creation of an adequate and motivating work environment for employees, serving not only the growth of their professionalism, but also the continuous improvement of the organisation’s administrative processes.*

#### 3.1. HUMAN RESOURCES

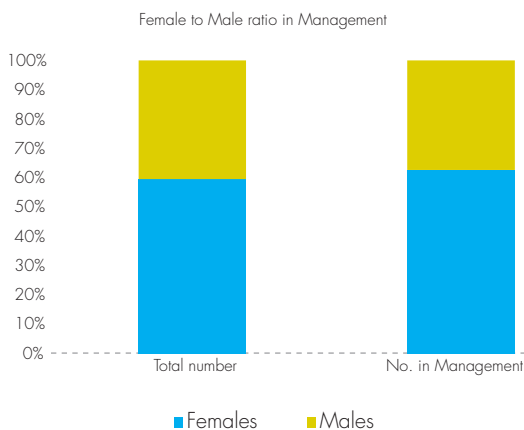
In accordance with the medium-term strategic objectives of the institution, the administration of human resources has aimed to follow the best practices and examples in this field. Our orientation is towards the professional growth of the staff, strengthening and maintaining a motivating and accountable work environment for employees, as well as improving the regulatory basis and organizational structure of the Bank. This achievement has been made possible through the ongoing adoption and implementation of best practices in human resource management, drawn from similar institutions within the European Union.

Effective management of human resources requires a constant updating and adaptation of the institution’s regulatory infrastructure in accordance with the best standards, offering continuous opportunities for the promotion of employees with professional experience. Through policies aimed at increasing professional skills, the aim is to maintain staff stability and identify new talents. Establishing policies for staff employment, management and career promotion, is vital

for sustaining an efficient, professional and well-structured organizational framework. Furthermore, the rationalization of the organizational structure and the improvement of the institution’s performance, in accordance with its strategic objectives and the relevant regulatory framework, are the main goals of these policies.

The ratio of women to men in total employees is 59% - 41%, while this ratio at the management level is 62% - 38%. Special attention is given to the combination of the professional staff to the new one. The average age of the staff is 45 years old. 88% of employees in the Bank have higher education. 58% of employees have completed postgraduate studies at the Master / PHD level, and have obtained internationally-recognised professional certificates.

Chart 56 Male/female ratio at the Bank of Albania



Source: Bank of Albania.



Indeed, another crucial aspect of human resources policies is ensuring the provision of high-quality professional training, both domestically and internationally, to facilitate the successful implementation of new work processes. Participation in these specialized training, organized by various central banks and international financial institutions (IFIs), besides increasing the professional knowledge, serves the staff of the Bank also to exchange professional and managerial experiences with representatives of these institutions.

#### AGREEMENTS AND COLLABORATION

During 2023 several activities were organized within the cooperation agreements of the Bank of Albania with homologue institutions such as: SECO (State Secretariat for Economic Affairs), European Commission, ECB and Bank of Germany, EBA (European Banking Authority), etc. 23 different activities with the participation of 81 employees are realised in the framework of these agreements, aiming at acquiring the targeted and specific information.

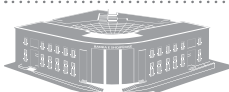
### 3.2. INFRASTRUCTURE IMPROVEMENTS

During 2023, the Bank of Albania underwent continuous improvements in information technology systems and infrastructure, paying special attention to cybersecurity.

**Information security** and **cyber security** in particular have always been the focus of the institution. Cyberattacks targeting Albania against public and private institutions continued. The national risk level remains high, prompting the Bank of Albania to elevate protective and monitoring measures, both technical and procedural, aligning with international standards and best practices. This activity has been accompanied by a sustained and highly intensive process of **educating and raising awareness** among all employees about cyber risks and appropriate response measures.

Additionally, the Bank of Albania has upheld ongoing communication with various national and international institutions. They are focused on improving security and aligning with international standards, as well as aiming for better coordination and faster exchange of information, in order to be resilient against possible cyber-attacks for the systems of the Bank of Albania and for the banking system. In the implementation of the project on a global scale CSP (Customer Security Program), undertaken by SWIFT for all financial institutions, the Bank of Albania has met all technical and procedural requirements in compliance with the highest security standards above all the infrastructure of this system.

In addition to the above, work continued on: **improvement of the electronic services** that the Bank of Albania offers to third parties, where some projects relating to payment systems can be identified; the **further automation of the Bank's internal processes**, responding to the needs of operational activities



in order to increase efficiency and effectiveness; as well as the **expansion and improvement of the network infrastructure**, as a continuous process aimed at the optimization and virtualization of central equipment for a better management of them, improved costs and services, as well as the adoption of new technologies for the protection of the environment and energy efficiency.



## 4. INTERNAL AUDIT

*Internal audit at the Bank of Albania is carried out by the Control Department. The main objective of the Control Department is to ensure compliance with the laws and by-laws in the activity of the Bank of Albania. The internal audit function ensures periodically and independently to the Bank's Administrators and the Supervisory Council the verification and evaluation of internal audit systems by testing the effectiveness of the established controls and procedures.*

### 4.1. IMPORTANT DEVELOPMENTS IN THE INTERNAL AUDIT ACTIVITY

#### A. Implementation of the Internal Audit Policy

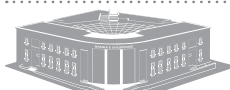
The Annual Internal Audit Plan at the Bank of Albania was reviewed and approved in accordance with International Standards on Auditing. The annual plan for 2023 was drafted by the Department of Audit and the Inspector General and it was submitted for review by the Audit Committee. Furthermore, agreed by the Audit Committee, the plan was presented to the Supervisory Council, and was approved by its Decision No. 54 dated 07.12.2022.

#### B. Internal Audit Quality Assessment Programme

The International Standards for the Professional Practice of Internal Auditing (Standards) require that an external quality assessment (EQA<sup>34</sup>) of the internal audit activity to be performed at least once every five years by a qualified, independent appraiser or evaluation team from outside the institution. The standards also require a periodic self-assessment to be performed every 2 years.

During 2023, AB self-assessment procedure was carried out in compliance with the requirements of the Standards. This commitment follows the external assessment carried out by the Internal Audit Department of the Central Bank of the Republic of Turkey (CBRT) in December 2020.

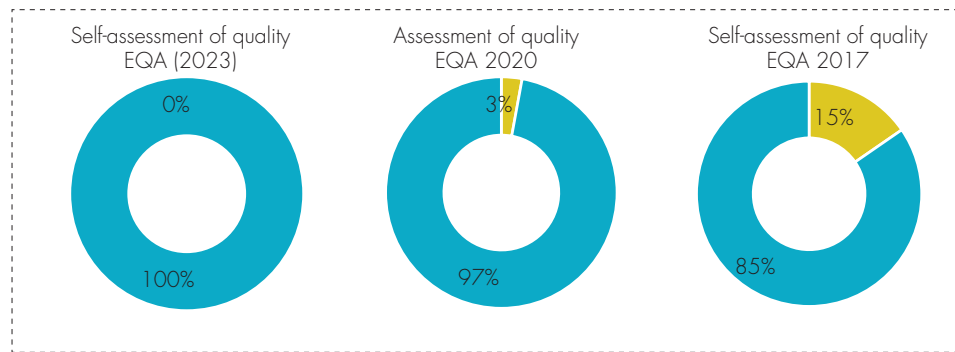
<sup>34</sup> Abbreviations of terms: General Inspector; Audit Department; Institute of Internal Auditors; Operational Risk Management; EQA – External Quality Assessment; IPPF – International Professional Practice Framework; ACCA – Association of Chartered Certified Accountants; CIA – Certified Internal Auditor; CISA – Certified Information Systems Auditor; BCM – Business Continuity Management; KRI – Key Operational Risk Indicators; High Inspectorate of Declaration and Audit of Assets and Conflict of Interests.



The general opinion of self-assessment is that BoA's Internal Audit Activity is "Overall Compliant"<sup>35</sup>, as the highest rating with the Standards of the Institute of Internal Auditors (IIA) and the Code of Ethics according to the IIA Quality Assessment Manual. This level of compliance demonstrates a clear goal and commitment to achieving the Essential Principles for the Professional Practice of Internal Audit and the Definition of Internal Audit.

The following highlights the improvements in the Internal Audit practice of the Bank of Albania according to the last self-assessment, the EQA 2020 assessment and the self-assessment carried out in 2017.

Compliance levels according EQA	Standards assessed during EQA (2023)	Standards assessed during EQA (2020)	Standards assessed during IQA (2017)
Non compliant	0	0	0
Partially compliant	0	3	16
Overall compliant	104	101	88
Overall assessment	Overall compliant	Overall compliant	Partially compliant
TOTALI	104	104	104



The observations addressed by the evaluation team are divided into two categories: Successful Internal Audit Practices and Opportunities for Continuous Improvement. The evaluation team identified four areas in which the AB is operating successfully in its internal audit practice and four opportunities for continuous improvement in the future.

## 4.2. ABOUT THE AUDIT DEPARTMENT

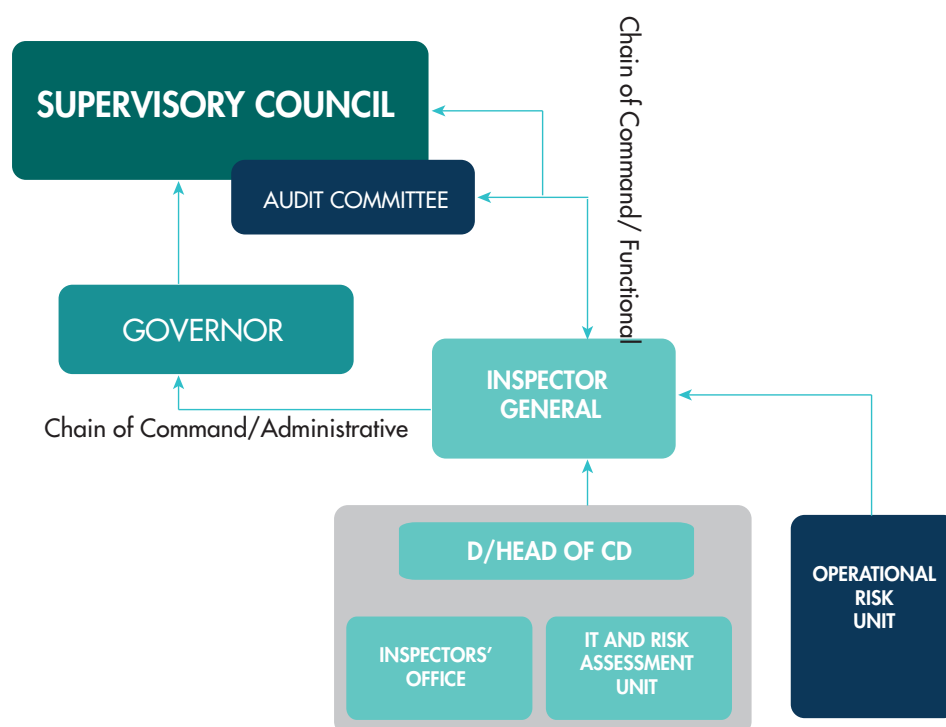
In accordance with the Law "On the Bank of Albania", the status of the Bank of Albania, the policy and regulation of the Internal Audit and the regulation of the Audit Committee, the structure of Audit Department is presented in the following chart, with the purpose the preserving of the objectivity, independence, integrity of information, efficient use of the resources and effectiveness of internal audit systems at the Bank of Albania.

<sup>35</sup> The IIA Quality Assessment Manual suggests a three-point scale, "Overall compliant", "Partially compliant" and "Non-compliant".



### A. ORGANIZATIONAL STRUCTURE OF AUDIT DEPARTMENT

Following is provided the organizational structure managed by the Inspector General:

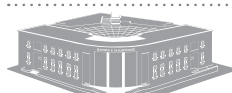


### B. PROFESSIONAL CAPACITY BUILDING AND CONTINUOUS TRAINING

In order to meet the strategic objective regarding capacity building of internal audit staff members, the audit inspectors have participated in on-line training programmes for internal audit and risk management provided by central banks. The audit inspectors own the ACCA, CIA, CISA certification titles, and have attended the minimum mandatory classes for upholding those titles. During 2023, two inspectors of the Audit Department have been included in the training program offered by the Ministry of Finance to earn the title "Public Internal Auditor". This title will professionally enhance the performance of auditors.

## 4.3. ENGAGEMENTS AND MAIN FINDINGS IN 2022

Audit engagements conducted during 2023 are focused on: providing an opinion on the adequacy of the internal controls established by the Management for the audited functions/processes, including supporting applications for carrying out activities.



During 2023, in total, **28 recommendations** resulted from **11 audit engagements** for security. The recommendations mainly addressed the need for improving the processes, especially in the context of increasing cybersecurity (52%); the review of the regulatory base (21%) and others on the implementation of the regulatory base (27%).

The findings and recommendations for each of the audits carried out during this period were first addressed to the heads of the units and then to the Bank of Albania's Administrators and the Audit Committee.





## 5. THE OPERATIONAL RISK MANAGEMENT

The main objective of Operational Risk Management is to: better manage uncertainties of the activity of the Bank; inform at any time the Administrators; assisting in the decision-making process on possible risks that may hinder the achievement of Bank of Albania's objectives or have adverse financial and/or reputational impacts.

The Operational Risk Management Unit, as one of the second control lines in the Bank of Albania, has continued its activity aimed at strengthening and increasing its role. From the annual reports of the Bank's structures, it emerged that the internal controls set up by the structures are generally effective in minimizing/avoiding damage/risks deriving from accidents that have occurred. Examining the possibility of the emergence of new risks related to global events has been the constant focus of assessments and analyses of the Bank's exposure to operational risk.

### A. ASSESSMENT OF OPERATIONAL RISK MANAGEMENT BY INTERNATIONAL EXPERTS

#### *Methodology used by IORWG*

The growth and strengthening of the unit's activity is reflected in the latest assessment carried out by the international experts of the IORWG (International Organization Risk Working Group).

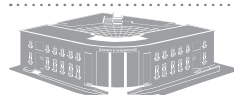
The Bank of Albania, as a member of the above-mentioned organization, participated in the periodic assessment conducted by this organization, which included 102 central banks, as well as supervisory and monetary authorities (such as BIS, ECB, FMN). The final assessment is as follows:

***For 2022, the assessment by the IORWG for the Bank of Albania was 84.45%, upward from the last assessment, which was 76.1%. The progress for these years has always been positive and is currently fully in line with the medium-term objectives of the ORM at the Bank of Albania, "Managed".***

AD-HOC	BASIC	MANAGED	ADVANCED	MATURED
<61%	≥61%	≥69%	≥86%	≥94%

The assessment is done periodically based on the IORWG assessment matrix, based on 5 main pillars:

- the level of design of processes and control systems covering these processes;
- the way and structure of the organization of the risk management



- function;
- c) the level of accurate and timely reporting;
- d) results after risk management; and
- e) risk culture, which is a challenge that requires awareness and continuous training from the Bank's units.

This assessment conducted by the IORWG was carried out for all member central banks for 2022, following the annual survey. It certifies the level of maturity from an independent international organization, of Operational Risk Management at the Bank of Albania, the awareness and education of the population, which has influenced and will influence the good functioning and continuous improvement of basic and supporting functions, in the framework of risk management.

### *B. BUSINESS CONTINUITY MANAGEMENT (BCM<sup>36</sup>)*

The "Business Continuity Management" aims to enhance the Bank's responsiveness in the event of a prolonged operational interruption or crisis/emergency. Its purpose is to ensure the continuation of critical processes and facilitate the Bank's recovery to normal operations as soon as possible. The Supervisory Council of the Bank of Albania has approved a complete framework regarding Business Continuity Management. An integral part of this regulatory framework are the individual succession plans for each function, the strategies that are followed as well as the tasks and responsibilities of each participant.

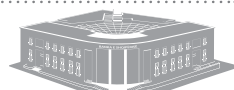
Crises expose the strengths and weaknesses of any organization's governance, as well as their ability and flexibility to manage through the crisis. In recent years, the Bank of Albania has successfully overcome several challenges, including pandemic, cyber-attacks, and a destabilized global situation, with valuable lessons learned for risk management and continuation of activity at the Bank of Albania. Risk prevention, business continuity planning and improvement in the management of major shocks are essential to ensure the sustainability of the Institution.

During 2023, we have seen an increase in cyber-attacks targeting several public institutions and commercial banks. According to the data available from the functions responsible for cybersecurity, there have been no significant attacks at the Bank of Albania that have compromised protective measures or impacted the Bank's critical systems.

Based on these developments measures were taken to improve the Bank's responsiveness against cyber-attacks, operational and regulatory.

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<sup>36</sup> BCM - Business Continuity Management.



*C. WHISTLEBLOWING FUNCTION AT THE BANK OF ALBANIA*

The consolidation of whistleblowing function has helped the Operational Risk Management as well. In compliance with the Law No.60/2016 "On Signalling (Whistleblowing) and Protection of whistleblowers", this unit aims to:

- a) prevent and fight corruption at the Bank of Albania;
- b) promote alerts on suspected corruption actions or practices;
- c) protect whistle-blowers who signal suspected corruption actions or practices at their workplace.

The bank operated with the full regulatory basis, in addition to all the guidelines (annexes) and necessary tools to provide staff the possibility to signal suspicious cases. For 2023, no suspicious cases or actions have been reported.



## 6. MEDIUM-TERM DEVELOPMENT STRATEGY OF THE BANK OF ALBANIA 2024-2026

The Medium-Term Strategy of the Bank of Albania 2024-2026, updates the existing strategy, extending the deadline for its implementation beyond 2025. The medium-term objectives serve as a basis in the budgeting process, forecasting expenses and income for the fulfilment of the functions assigned by the organic law.

The objectives of the Strategy also include the recommendations of the Assembly Resolution for the evaluation of the activity of the Bank of Albania.

In accordance with tasks determined in the organic law, the priorities in the activity of the Bank of Albania are:

- a) Strengthening the efficiency and effectiveness of monetary policy and the quality of decision-making by increasing the accuracy of forecasts and integrating them with alternative/risk scenarios, and by evaluating monetary policy response options and identifying the most effective alternatives.
- b) Preventing systemic risks and increasing the resistance of the financial system, focusing on (i) approving the methodology for implementing the capital supplement for systemic risk; (ii) the completion of the regulatory framework on the requirements for the banking sector to ensure an adequate cyber protection, (iii) the design of a methodology for the exercise of proof of resistance to the impact of climate change for the banking sector; (iv) the alignment of Basel III and (v) the drafting of technical manuals for the preparation of contingency plans, in the capacity of the Resolution Authority.
- c) Promoting the smooth operation of payment system through: (i) updating systems to accommodate developments in the field of retail payments; (ii) supporting interbank initiatives to promote electronic payments; (iii) supporting the participation of new actors; (iii) participation in the EURO Payments Market; and (iv) developing the Instant Payment project with the Bank of Italy.
- d) Ensuring public trust in Albanian banknotes and coins while addressing the increasing demand for cash suitable for circulation within the economy.
- e) Implementing the new system for managing the foreign exchange reserve currency, to support the implementation of monetary policy and payment and transfer services.
- f) Harmonizing the government financial statistics with EU requirements



and improvement of legal and quality aspects for regulatory reporting of banking supervision data.

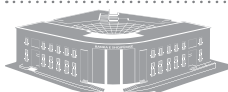
- g) Updating the general accounting framework, network and cyber protection infrastructures, as well as strengthening of the internal control system.





## **BANK OF ALBANIA**

### **FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2023** *(WITH INDEPENDENT AUDITORS' REPORT THEREON)*





Building a better  
working world

## INDEPENDENT AUDITORS' REPORT

*To the Supervisory Council of Bank of Albania*

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### OPINION

We have audited the financial statements of Bank of Albania (the "Bank"), which comprise the statement of financial position as at 31 December 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

#### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements section of our report*. We are independent of the Bank in accordance with *the International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code") and with Institute of Authorizes Chartered Auditors of Albania Code of Ethics ("IEKA Code"), together with the ethical requirements of the Law No. 10091, dated 5 March 2009 "On the statutory audit and the organization of the statutory auditors and chartered accountants professions", amended, that are relevant to our audit of the financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.





## **OTHER INFORMATION INCLUDED IN THE BANK OF ALBANIA 2023 ANNUAL REPORT**

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS**

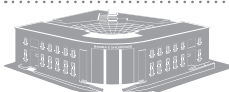
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

## **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank of Albania's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves true and fair presentation.

We communicate with those charged with governance of the Bank of Albania regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Ernst & Young Certified Auditors*  
Ernst & Young Statutory Auditors,  
Branch in Albania

*Mario Vangjel*  
Mario Vangjel  
Statutory Auditor

27 March 2024  
Tirana, Albania

Nikolay Garnev  
Country Managing Partner


*Nikolay Garnev*



## STATEMENT OF FINANCIAL POSITION

In ALL million	Note	31 December 2023	31 December 2022
<b>ASSETS</b>			
Cash and balances with banks	9	128,980	90,273
Trading assets	13	13,041	14,313
Monetary gold	10	21,039	18,900
Accounts with the International Monetary Fund	11	41,043	47,697
Loans to banks	12	44,755	51,088
Investment in debt securities	14	486,787	485,221
Property, equipment, right-of-use and intangible assets	15	21,574	21,376
Other assets	16	3,335	3,502
<b>TOTAL ASSETS</b>		<b>760,554</b>	<b>732,370</b>
<b>LIABILITIES</b>			
Currency in circulation	17	407,968	401,129
Due to banks	18	224,111	217,692
Deposits and borrowings from third parties	19	1,997	2,007
Due to Government and public institutions	20	105,024	63,491
Due to the International Monetary Fund	11	37,156	41,932
Other liabilities	21	983	1,021
<b>TOTAL LIABILITIES</b>		<b>777,239</b>	<b>727,272</b>
<b>CAPITAL AND RESERVES</b>			
Statutory Capital and Realized Reserves	22	40,721	40,721
Unrealized Revaluation Reserves	22	(56,974)	(32,300)
Retained earnings	20	(432)	(3,323)
<b>TOTAL CAPITAL AND RESERVES</b>	<b>81</b>	<b>(16,685)</b>	<b>5,098</b>
<b>TOTAL LIABILITIES, CAPITAL AND RESERVES</b>		<b>760,554</b>	<b>732,370</b>

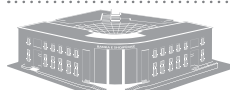
The financial statements were authorized for issuance by the Supervisory Council of the Bank of Albania and signed on 20 March 2024 on its behalf by:


Gent Sejko  
Governor

Ledia Bregu  
Director, Payment Systems, Accounting and Finance Department

The notes on pages 137 to 200 are an integral part of these financial statements.



## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In ALL million	Note	2023	2022
Interest income calculated using the effective interest method	23	15,716	4,857
Interest expense	23	(2,166)	(1,259)
<b>Net interest income</b>		<b>13,550</b>	<b>3,598</b>
Fee and commission income		184	150
Fee and commission expense		(47)	(45)
<b>Net income from fees and commissions</b>		<b>137</b>	<b>105</b>
Net trading income	24	882	35
Net losses from sales of financial assets at FVOCI	25	(2,772)	(4,165)
Net other income		130	24
Net losses from changes in the fair value of monetary gold	10	(128)	(98)
Net foreign exchange gains/losses	22	(36,020)	(14,473)
<b>Total income from banking operations</b>		<b>(24,221)</b>	<b>(14,974)</b>
Impairment losses on financial instruments, net		(6)	(18)
Employee benefit expenses	26	(1,639)	(1,507)
Depreciation and amortization	15	(360)	(356)
Other general and administrative expenses	27	(826)	(795)
<b>Net loss for the year</b>		<b>(27,052)</b>	<b>(17,650)</b>
<b>Other comprehensive income:</b>			
<i>Items that cannot be reclassified to profit or loss at a future point in time</i>			
<i>Items that can be reclassified to profit or loss at a future point in time</i>		11,526	(13,567)
Debt instruments at FVOCI – net change in fair value	22	11,526	(13,567)
<b>Other comprehensive profit /(loss) for the year</b>		<b>11,526</b>	<b>(13,567)</b>
<b>Total comprehensive loss for the year</b>		<b>(15,526)</b>	<b>(31,217)</b>

The notes on pages 137 to 200 are an integral part of these financial statements.



## STATEMENT OF CHANGES IN EQUITY

In ALL million	Statutory Capital and realized Reserves			Unrealized Revaluation Reserves			Retained earnings / (Accumulated losses)	Total
	Capital	Legal reserve	Other reserves	Revaluation reserve	Fair value reserve	Other reserves		
As at 1 January 2022	2,500	12,500	19,701	(5,995)	(355)	2,241	(296)	30,296
<b>Total comprehensive income</b>								
Net result for the year	-	-	-	-	-	-	(17,650)	(17,650)
<b>Other comprehensive income</b>	-	-	-	-	-	-	-	-
Fair value reserve (debt instruments FVOCI)	-	-	-	-	(13,567)	-	-	(13,567)
<b>Other comprehensive income, net of tax</b>	-	-	-	-	(13,567)	-	-	(13,567)
<b>Total comprehensive income</b>	-	-	-	-	(13,567)	-	(17,650)	(31,217)
Transfers to reserves (Note 22)	-	-	-	(14,571)	-	(53)	14,623	-
<b>Contributions and distributions</b>								
Capital deficit reserve (Note 22, 14)	-	-	6,020	-	-	-	-	6,020
Distribution to Government of Albania (Note 20)	-	-	-	-	-	-	-	-
<b>Total contributions and distributions</b>	-	-	6,020	(14,571)	-	(53)	14,623	6,020
As at 31 December 2022	2,500	12,500	25,721	(20,566)	(13,922)	2,188	(3,323)	5,098
<b>Total comprehensive income</b>								
Net result for the year	-	-	-	-	-	-	(27,052)	(27,052)
<b>Other comprehensive income</b>	-	-	-	-	-	-	-	-
Fair value reserve (debt instruments FVOCI)	-	-	-	-	11,526	-	-	11,526
<b>Other comprehensive income, net of tax</b>	-	-	-	-	11,526	-	-	11,526
<b>Total comprehensive income</b>	-	-	-	-	11,526	-	(27,052)	(15,526)
Transfers to reserves (Note 22)	-	-	-	(36,147)	-	(53)	36,200	-
<b>Contributions and distributions</b>								
Compensation of security for 2022 capital deficit (Note 22, 14)	-	-	-	-	-	-	(6,257)	(6,257)
Distribution to Government of Albania (Note 20)	-	-	-	-	-	-	-	-
<b>Total contributions and distributions</b>	-	-	-	(36,147)	-	(53)	29,943	(6,257)
As at 31 December 2023	2,500	12,500	25,721	(56,713)	(2,396)	2,135	(432)	(16,685)

The notes on pages 137 to 200 are an integral part of these financial statements.



## STATEMENT OF CASH FLOWS

In ALL million	Note	2023	2022
<b>Cash flows from operating activities</b>			
Net result for the period		(27,052)	(17,650)
Adjustments for:			
Depreciation and amortization	15	360	356
Net impairment loss on financials instruments		6	18
Net interest income	23	(13,550)	(3,594)
Net trading income	24	901	(131)
Net loss on sale of investments in debt securities	25	(2,772)	(4,165)
Net gain from changes in the fair value of monetary gold	10	128	98
Net realized losses from foreign exchange	22	34,238	14,566
		<b>(7,741)</b>	<b>(10,502)</b>
Changes in:			
Trading assets		384	582
Monetary Gold	10	(2,270)	(1,892)
Accounts with the International Monetary Fund	11	6,194	10,426
Loans to and deposits with banks	12	6,359	(9,471)
Other assets		166	180
Currency in circulation		6,838	22,987
Due to banks		18,431	36,265
Deposits and borrowings from third parties		4	(766)
Due to Government and state institutions		45,205	(40,121)
Due to the International Monetary Fund		(4,735)	(1,676)
Other liabilities		66	(310)
Reserve		(57)	(28)
Other		171	18
		<b>69,015</b>	<b>5,692</b>
Interest received		14,486	4,125
Interest paid		(2,208)	(1,277)
<b>Net cash flows from operating activities</b>		<b>81,293</b>	<b>8,540</b>
<b>Cash flows from investing activities</b>			
Acquisition of investment securities		(323,294)	(390,008)
Proceeds from sold and matured investment securities		286,900	200,151
Acquisition of property, equipment and intangible assets		(560)	(700)
<b>Net cash used in investing activities</b>		<b>(36,954)</b>	<b>(190,557)</b>
<b>Cash flows from financing activities</b>			
Distributions to Government	20	-	-
<b>Net cash flows from financing activities</b>		<b>-</b>	<b>-</b>
<b>Increase in cash and cash equivalents</b>		<b>44,339</b>	<b>(182,017)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>90,273</b>	<b>274,725</b>
Effect of movements in exchange rates on cash held		(5,632)	(2,435)
<b>Cash and cash equivalents at the end of the year</b>	9	<b>128,980</b>	<b>90,273</b>

The notes on pages 137 to 200 are an integral part of these financial statements.



## NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2023

*(Amounts in ALL million, unless otherwise stated)*

### 1. GENERAL

The Bank of Albania (the 'Bank') is the central bank of the Republic of Albania established pursuant to the Law No. 8269, dated 23 December 1997 'On the Bank of Albania', as amended.

Pursuant to this Law, the Bank's main responsibilities include:

- formulating, adopting and executing the monetary policy of Albania, which shall be consistent with its primary objective;
- formulating, adopting and executing the foreign exchange arrangement and the exchange rate policy of Albania;
- issuing or revoking licenses and supervising banks that engage in the banking business in order to secure the stability of the banking system;
- holding and managing its official foreign reserves;
- acting as banker, adviser to, and fiscal agent of the Government of the Republic of Albania; and
- promoting an effective operation of payment systems.

The Bank is subject to the regulatory requirements of the Assembly of the Republic of Albania and the Law 'On the Bank of Albania', as amended.

#### *Macroeconomic and geopolitical uncertainty*

##### *The war in Ukraine and in the Middle-East*

Volatility in international markets due to the war in Ukraine has subsided in 2023. Overall commodity prices decreased throughout the year and both securities and foreign exchange markets were less volatile. The monetary policy normalisation drive of the major global central banks continued, resulting in decreased credit flows, subdued activity, slowdown of private consumption and investments. The start of the conflict in the Middle-East was accompanied with fears of renewed volatility in international markets, decoupling of global supply-chains and new inflationary waves. By the end of 2023, the latter were not materialised owing partly to tight global financial markets, reduced demand and the localised nature of the conflict.

The domestic market was characterised by appreciation of the local currency to the euro due to strong tourism inflows, declining inflation and higher interest rates. Economic activity has proved resilient as private consumption and investments continued to expand.



### ***Inflation, interest rate, foreign currency fluctuations and the current economic environment***

The Bank is an institution mandated by the Law to draft the monetary, regulatory and macroprudential supervision policies, in support of price and financial stability.

With the aim of efficiently fulfilling these tasks, the Bank has a high level of operational and financial independence. This means that: (i) the Bank has the opportunity and obligation to follow those policies and use those instruments which it deems most appropriate for the fulfillment of its objectives, without (ii) being limited by their impact on the financial result of the Bank.

As a result of stressed international market conditions, with strong and rapid developments, the monetary policy normalisation was deemed necessary, in order to control the increase in inflation and to support the overall economic and financial stability of the country. The Bank of Albania continued its monetary policy normalisation drive in 2023, with two additional policy rate hikes of 0.25 percentage points each. These hikes were aimed at avoiding the disanchoring of inflation expectations, reducing domestic inflationary pressures and avoiding potential wage-price spirals in the light of a very tight labour market and fast wage growth.

The strengthening of the exchange rate reflecting primarily structural improvements of the external position of the economy has brought - as a whole - positive consequences to the soundness of public balances and has helped monetary and financial stability. The former has helped cushion foreign inflationary pressures, led to a more measured policy normalisation drive, increase in the domestic currency credit stock and further decrease of non-performing loans in foreign currency.

On the other hand, the strengthening of the local currency has decreased the value of the foreign reserves in local currency terms, while in original currency terms the foreign currency reserves have increased by 17.9 %. The Bank by its nature has an open exposure to foreign currency risk due to its obligation of maintaining these reserves, and a strengthening local currency will cause a negative impact in profit and loss, and the capital of the Bank (see Note 8(I)).

## **2. STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with the International Financial Reporting Standards ('IFRS'), as issued by the International Accounting Standards Board (IASB).

## **3. FUNCTIONAL AND PRESENTATION CURRENCY**

These financial statements are presented in Albanian Lek ('ALL), which is the





Bank's functional currency. All amounts have been rounded to the nearest million, except when otherwise indicated.

#### 4. BASIS OF MEASUREMENT

These financial statements have been prepared on a historical cost basis, except for the following items:

Items	Basis of measurement
Monetary gold	Fair value
Financial instruments at FVTPL	Fair value
Financial assets at FVOCI	Fair value

#### 5. USE OF ESTIMATES AND JUDGMENTS

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Bank's material accounting policy information and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

##### A. Judgments

Information about judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Applicable to 2023 and 2022:
  - Note 7(A)(ii) and Note 8(A)– classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding;
  - Note 8(E)(vi)(a): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECLs;
  - Note 7(B) – currency in circulation: classification of cash in circulation as a financial liability;
  - Note 7(G) – monetary gold: measurement of monetary gold at fair value with changes in fair value recognized in profit or loss; and
  - Note 7(V) - The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.



## B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2023 is included in the following notes:

- Applicable to 2023 and 2022:
  - Note 8(E)(vi)(a) and Note 7(A)(vii) – impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information and key assumptions used in estimating recoverable cash flows;
  - Note 7(A)(vi) – determination of the fair value of financial instruments with significant unobservable inputs; and use of fair value models.

## 6. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

### *New and amended standards and interpretations.*

The Bank has not early adopted any new standards, interpretation or amendments that have been issued but are not yet effective in these financial statements.

**The amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2:** Disclosure of Accounting policies provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. As a result of these amendments the Bank has re-assessed its accounting policies disclosure and the amendments had no impact on the measurement, recognition and presentation of the items in the financial statements.

Other amendments and interpretations apply for the first time in 2023, but do not have an impact on the Bank's financial statements.

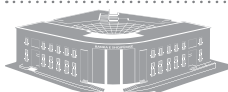
*The following amendments are effective for the periods after 31 December 2023 and are not expected to have a material impact on the Bank.*

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments).** The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the



meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The Bank will analyze and assess the impact of the new amendments on its financial position or performance.

- **IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure - Supplier Finance Arrangements (Amendments).** The amendments supplement requirements already in IFRS and require an entity to disclose the terms and conditions of supplier finance arrangements. Additionally, entities are required to disclose at the beginning and end of reporting period the carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented as well as the carrying amounts of financial liabilities and line items, for which the finance providers have already settled the corresponding trade payables. Entities should also disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. Furthermore, the amendments require an entity to disclose at the beginning and end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements. The Bank will analyze and assess the impact of the new amendments on its financial position or performance.
- **IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)** The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted. The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments



note that an entity can use an observable exchange rate without adjustment or another estimation technique. No impact is expected from the amendment as the Bank rarely enters in currency transactions with lacking exchange rate.

## 7. ACCOUNTING POLICIES

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

The Bank may recognise a financial asset or liability in its balance sheet if, and only if it becomes a party to the contractual terms of the financial instruments used. The Bank derecognises a financial asset from its balance sheet:

- when it loses control over the contractual rights that constitute the financial asset;
- when the obligation stated in the contract is extinguished, cancelled or expired.

### A. Financial instruments

#### (i) Recognition and initial measurement

The Bank initially recognises loans and advances and deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Financial assets and liabilities are recognised in off-balance-sheet accounts from the trade date to the date of their settlement and are recorded in the Bank of Albania's balance sheet at the settlement date (value date). The initial recognition is at acquisition cost, i.e. the fair price paid on acquisition. Transaction costs are included in the acquisition cost of all assets and liabilities, except for financial assets and financial liabilities recorded at FVPL, where transaction costs are added to, or subtracted from, this amount. From that moment on, any changes in their fair value are recognised by the Bank as income or expense.

#### (ii) Classification

On initial recognition, a financial asset is classified as measured at either one of the following categories:

- amortised cost (AC);
- fair value through other comprehensive income (FVOCI); or
- fair value through profit or loss (FVTPL).



A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The business model of financial assets held to collect contractual cash flows includes all current accounts and deposits of the Bank with foreign correspondents, and the cash flows under the model used for these assets represent only principal and interest payments.

These financial assets are measured at amortised cost.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The business model of financial assets held to collect contractual cash flows and for sale includes: securities and investment. Assets in this group are measured, as follows:

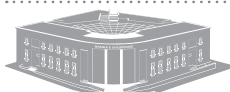
- debt securities: at fair value in other comprehensive income.

All other financial assets are classified as measured at FVTPL.

#### *Business model assessment*

The Bank makes an assessment of the objectives of a business model in which an asset is held at a portfolio level, because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks



- are managed; how managers of portfolios are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank’s stated objective for managing the financial assets is achieved and how future cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL, because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

*Assessment whether contractual cash flows are solely payments of principal and interest (“SPPI”)*

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms; and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

*Reclassifications*

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

**Financial liabilities**

The Bank classifies its financial liabilities as measured at amortised cost. For details, refer to (B), (D) and (H).



**(iii) Derecognition****Financial assets**

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of: (i) the consideration received (including any new asset obtained less any new liability assumed), and (ii) any cumulative gain or loss that had been recognised in other comprehensive income ('OCI'), is recognised in profit or loss.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them.

In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

**Financial liabilities**

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

**(iv) Modifications of financial assets and financial liabilities****Financial assets**

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value.



If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (refer to (vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as a separate line as an "interest income" (refer to Note 7(L)).

### ***Financial liabilities***

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss.

### **(v) Offsetting**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under the IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

### **(vi) Fair value measurement**

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as "active" if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.





If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period, during which the change has occurred.

#### **(vii) Impairment**

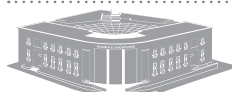
The Bank recognizes loss allowances for expected credit losses “ECL” for financial assets that are debt instruments and are not measured at FVTPL.

The Bank measures loss allowances at an amount equal to lifetime ECL except for the following for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments for which credit risk has not increased significantly since initial recognition.

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment-grade’.

12-month ECLs are the portion of ECLs that results from default events on a financial instrument that are possible within the 12 months after the reporting



date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

#### ***Measurement of ECLs***

ECLs are a probability-weighted estimate of credit losses and are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

For more details, refer to Note 8(D)(vi)(b).

#### ***Credit impaired financial assets***

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and
- the disappearance of an active market for a security because of financial difficulties.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

- the market's assessment of creditworthiness as reflected in the bond yields;
- the rating agencies' assessments of creditworthiness;
- the country's ability to access the capital markets for new debt issuance;
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and



- the international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

### ***Presentation of allowance for ECLs in the statement of financial position***

Loss allowances for ECLs are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

### ***Write-off***

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

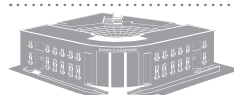
Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

## ***B. Currency in circulation***

Currency in circulation includes banknotes and coins in circulation and is presented under liabilities as a net of nominal value of all the banknotes and coins issued and the nominal value of the banknotes and coins on hand as at the reporting date.

## ***C. Cash and cash equivalent***

Cash and cash equivalents include banknotes and coins on hand in foreign currency and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.



Cash and cash equivalents are carried at amortized cost in the statement of financial position.

#### ***D. Financial assets and liabilities at fair value through profit or loss (Trading assets and liabilities)***

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position, with transaction costs recognized in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

#### ***E. Financial assets and liabilities at fair value through other comprehensive income***

Financial assets and liabilities at fair value through other comprehensive income represent those for which the Bank expects to collect contractual cash flows by either holding or selling the instrument. Investment securities include debt securities measured at FVOCI; gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECLs and reversals; and
- foreign exchange gains and losses.

When a debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

#### ***F. Loans and receivables***

Loans and receivables include loans measured at amortised cost (refer to Note 7(A)(ii)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method. When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

#### ***G. Monetary Gold***

The Bank of Albania as a central bank maintains particular volumes of gold as part of Albania's international reserves. In compliance with the requirements



of the Law on the Bank of Albania, the Bank may take any necessary action in connection with the acquisition, possession and sale of gross international reserves, including monetary gold. Consequently, monetary gold as part of international reserves may be immediately used by the Bank without further constraints which determines it as a monetary asset. Pursuant to the requirements of the 'General Provisions for Defining the Valuation Basis in the Financial Statements' to the IFRS, the Bank defines the recognition and valuation of the monetary gold as an asset reported at fair value through profit or loss as the most reliable and appropriate base for a subsequent valuation of this monetary asset. Gold is measured at market value based on the London Bullion Market fixing in US dollar at the reporting date. Gold in standard form (monetary gold) is initially recognised at acquisition cost.

Monetary gold is valued at its fair value being the market value based on the official London Bullion Market price at the reporting date. Changes in the fair value are recognized in profit or loss and accumulated in the "Revaluation Reserve" in Capital and Reserves in accordance with Article 64 (a) of the Law 'On the Bank of Albania'. Unrealised gains and losses on the revaluation of the monetary gold and other gold instruments of the Bank are recognised in the income statement.

#### *H. Deposits and borrowings*

Deposits and borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

#### *I. Printing and minting costs*

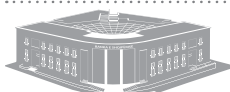
The costs of printing banknotes and minting coins, which have not yet been put into circulation, are initially recognized as assets at acquisition cost and subsequently amortized on a straight-line basis over 5 years and 10 years, respectively.

#### *J. Intangible assets*

Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Bank and the cost of the asset can be measured reliably. Intangible assets are comprised of computer software and licenses.

Intangible assets acquired by the Bank are stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.



Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use. Work in progress is not amortized.

The estimated useful lives are as follows:

-	Software and licenses	4 years
-	Other intangible asset	6.6 years

## K. Property and equipment

### (i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

The cost of certain items of property and equipment was determined by reference to fair value at 31 December 2014, which the Bank elected to apply as deemed cost as part of the transition to IFRS (refer to Note 22). Adjustments to the accounting records, as well as the relevant recognition records in the revaluation reserve are reported in accordance with International Financial Reporting Standards.

### (ii) Subsequent costs

The cost of replacing a part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised.

The costs of the maintenance of property and equipment are recognised in profit or loss as incurred.

### (iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land, work in progress, and numismatic coins and objects are not depreciated.

The estimated useful lives are as follows:

•	Buildings	25 - 70 years
•	Installations	4 - 20 years
•	Vehicles	5 - 10 years
•	Furniture and equipment	4 - 20 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.



## L. Interest

### **Effective interest rate**

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows by considering all contractual terms of the financial instrument, but not future credit losses.

For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

### **Amortised cost and gross carrying amount**

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount recognized and the maturity amount and for, financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

### **Calculation of interest income and expense**

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the



amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, refer to Note 7(A) (vii).

As at 31 December 2023 and 31 December 2022 there are no credit-impaired financial assets.

### **Presentation**

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- interest on debt instruments measured at FVOCI calculated on an effective interest basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income (refer to Note 7(O)). Profits and losses, arising from changes in the fair value of financial instruments reported at fair value through profit or loss, are recognised in the income statement.

Interest income and expense are recognised on an accrual basis in accordance with the Bank's interest rate policy and concluded agreements with international financial institutions and customers of the Bank. Interest income and expense are recognised in the income statement. Interest income and expense also include the amortisation of the discount and premium calculated on the basis of the effective interest rate.

Interest income on foreign securities held in the Bank of Albania's portfolio includes interest rates on interest coupons of securities issued. Interest income on deposits includes interest income on deposits in foreign currency and in gold.

Other financial income/expenses include income and expenses from sales and changes in the fair value of financial assets and liabilities held for trading and assets available for sale.

Net gains/losses from financial assets and liabilities include net gains from operations in securities, net gains from operations in foreign currency, net revaluation gains on securities, net gains from gold revaluation, net gains from revaluation of futures, and net gains from revaluation of assets and liabilities denominated in foreign currency.





### *M. Fees and commissions*

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, fund transfer fees, placement fees and credit registry fees are recognised at the moment the related services are performed.

In accordance with IFRS 15, revenue from contracts with customers is recognised when the Bank has fulfilled its performance obligations by transferring the promised services to the customer. Revenue is recognised at an amount reflecting the consideration expected to be received in return. No changes in the valuation and recognition of fees and commissions have occurred as a result of the entry into effect of IFRS 15. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

### *N. Transactions in foreign currency*

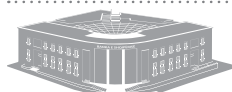
Transactions in foreign currencies are translated into the functional currency at the spot exchange rates at the date of the transactions. The exchange rates of the major foreign currencies as of 31 December 2023 and 31 December 2022 are disclosed in Note 8 F(ii).

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on translation and those arising from available-for-sale investments are recognised in profit or loss.

According to the Law No. 8269, dated 23 December 1997 'On the Bank of Albania', and the Decision No. 104 dated 27 December 2006 of the Supervisory Council, the net gains/(losses) from foreign exchange that are



recognised in profit or loss in the period are accumulated to the 'Revaluation reserve' included in Capital and Reserves. According to Article 64 (b) in the above mentioned law, the Government of Albania issues debt securities at market interest rates to cover any negative balance of the revaluation reserve arising from the Bank's activity.

#### **O. Net trading income**

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, and foreign exchange differences.

#### **P. Taxation and profit distribution policy of the Bank**

Based on the Law 'On the Bank of Albania', the Bank is not subject to income tax. The Bank's policy of distribution of profit from banking operations is defined in the Law 'On the Bank of Albania'. According to Article 10(2) of this Law, the Bank allocates all the realised profit to the State Budget after having fulfilled its requirement for the reserve fund and government security compensation pursuant to the Article 10(1) of the Law and as determined by the Supervisory Council of the Bank.

According to Article 11 of the Law 'On the Bank of Albania', no transfer, redemption or payment under Articles 8, 9 or 10 of this Law shall be made if the assets of the Bank are less than the sum of its liabilities and paid-up capital. If such conditions arise, based on Article 7 of the Law 'On the Bank of Albania', the Ministry of Finance shall transfer interest bearing negotiable government securities to the Bank, in such amount as would be necessary to remedy the deficiency (refer to Note 14).

#### **Q. Employee benefits**

##### **(i) Defined contribution plans**

Obligations for contributions to defined contribution plans are recognized in profit or loss as the related service is provided and included in personnel expenses.

##### **(ii) Social and health contributions**

The Bank makes compulsory social security and health contributions in a fund operated by the Albanian state that provide pension, health and other social benefits for employees. Obligations for such contributions are recognized in profit or loss when they are due and included in personnel expenses. The Albanian state provides the legally set minimum threshold for such contributions.



**(iii) Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognized for the amount expected to be paid under short-term cash bonus if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**R. Leases**

The Bank assesses at contract inception whether a contract is, or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank applies a single recognition and measurement approach for all leases, except for the short term leases and leases of low-value assets.

The Bank recognises lease liabilities to make lease payments and Right-of-use assets representing the right to use the underlying assets.

**Right-of-use asset**

The Bank recognises right-of-use assets at the commencement date of the lease. Right-of use assets are measured of cost, less any depreciation or impairment losses, and adjusted for any remeasurement of lease liabilities.

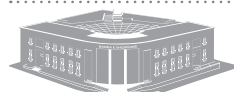
The cost of the right-of-use assets include the amount of the lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated in a straight-line basis over the lease term.

The right-of-use assets are presented within Note 15 "Property, equipment, right-of-use and intangible assets".

**Lease liabilities**

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any incentive receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalty for terminating the lease, if the lease reflects exercising the option to terminate.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.



As at 31 December 2023, the Bank does not have any lease contracts except for a short-term lease.

### *S. Impairment of non-financial assets*

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the highest of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if a change has occurred in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### *T. Provisions*

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised as a provision is measured as the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

### *U. Grants*

Grants are recognized initially as deferred income when there is reasonable assurance that they will be received and that the Bank will comply with the conditions associated with the grant. Grants that compensate the Bank for expenses incurred are recognized in profit or loss on a systematic basis over the period in which the related expenses are recognized. Grants that compensate the Bank for the cost of an asset are recognized in profit or loss on a systematic basis over the expected life of the asset.



## 8. FINANCIAL INSTRUMENTS: CLASSIFICATION, RISK MANAGEMENT AND FAIR VALUES

### A. *Classification of financial assets and financial liabilities*

The Bank's accounting policies on the classification of financial instruments under IFRS 9 are set out in note 7(A)(ii).

- (a) The Bank has classified the exposures with the IMF as debt instruments measured at amortised cost, given the long-term strategic objective of the Bank to hold these instruments and their contractual cash flows meeting the SPPI criteria.
- (b) Investment debt securities are held by the Bank in separate portfolios to meet everyday liquidity needs. The Bank seeks to minimise the costs of managing those liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Bank considers that under IFRS 9, these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. See accounting policies in Note 7(A)(ii).
- (c) Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. This category includes derivative instruments and trading assets administered by "IBRD".

The following table provides reconciliation between line items in the statement of financial position and categories of financial instruments.



31 December 2023	FVTPL	FVOCI – debt instruments	Amortised cost	Total carrying Amount
<b>ASSETS</b>				
Cash and balances with banks	-	-	128,980	128,980
Trading assets	13,041	-	-	13,041
Accounts with the International Monetary Fund	-	-	41,043	41,043
Loans to banks	-	-	44,755	44,755
Investment securities FVOCI	-	486,787	-	486,787
Other assets	-	-	2,158	2,158
<b>Total financial assets</b>	<b>13,041</b>	<b>486,787</b>	<b>216,936</b>	<b>716,764</b>
<b>LIABILITIES</b>				
Currency in circulation	-	-	407,968	407,968
Due to banks	-	-	224,111	224,111
Deposits and borrowings from third parties	-	-	1,997	1,997
Due to Government and state institutions	-	-	105,024	105,024
Due to the International Monetary Fund	-	-	37,156	37,156
Other liabilities	-	-	880	880
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>777,136</b>	<b>777,136</b>

31 December 2022	FVTPL	FVOCI – debt instruments	Amortised cost	Total carrying Amount
<b>ASSETS</b>				
Cash and balances with banks	-	-	90,273	90,273
Trading assets	14,313	-	-	14,313
Accounts with the International Monetary Fund	-	-	47,697	47,697
Loans to banks	-	-	51,088	51,088
Investment securities at FVOCI	-	485,221	-	485,221
Other assets	-	-	2,298	2,298
<b>Total financial assets</b>	<b>14,313</b>	<b>485,221</b>	<b>191,356</b>	<b>690,890</b>
<b>LIABILITIES</b>				
Currency in circulation	-	-	401,129	401,129
Due to banks	-	-	217,692	217,692
Deposits and borrowings from third parties	-	-	2,007	2,007
Due to Government and state institutions	-	-	63,491	63,491
Due to the International Monetary Fund	-	-	41,932	41,932
Other liabilities	-	-	921	921
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>727,172</b>	<b>727,172</b>

## B. Risk management framework

The financial instruments of the Bank are mainly used for the purposes of the foreign reserve management and monetary policy implementation. The Bank has exposure to the liquidity risk, credit risk, market risk, legal risk and operational risk from investments in financial instruments.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk.

Pursuant to the legal requirements, the Bank holds and manages the foreign reserves of the Republic of Albania. The Supervisory Council has the overall responsibility for the establishment of the risk management framework and reserve management policies.



The Supervisory Council has approved the regulation 'On the functions of the management structure in the decision-making process of the management of the reserves'. This regulation defines the responsibilities of: the management; the Supervisory Council; the Governor; the Investment Committee; and the Monetary Operations Department, in managing the foreign reserves.

The Supervisory Council is responsible for approving the regulation 'On the policy and management of the foreign reserve'; the Investment Committee is responsible for approving the document 'Operational Guidelines for Investment'; while the Governor approves other guidelines to ensure a more comprehensive regulation of the reserve management function.

The regulation 'On the policy and management of the foreign reserve' defines the objectives of the portfolio management ranked by priority, and the principles and qualitative criteria used as the basis of the risk management.

The Investment Committee approves the quantitative criteria based on the limits set forth by the Supervisory Council and monitors the compliance with the restrictions for permitted level of risk and foreign reserve investment portfolio performance.

In accordance with the decisions of the Supervisory Council on the eligible instruments, the reserve is invested in fixed income securities, in deposits or certificates of deposit, and in derivative instruments related with these instruments.

The remaining foreign reserves are held in Special Drawing Rights ("SDR") and in monetary gold. Monetary gold is managed in accordance with the regulation 'On the policy and the management of gold', approved by the Supervisory Council.

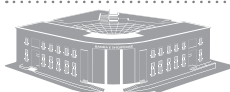
Following the review of the accounting policy for monetary gold (see Notes 5(A) and 7(G)) in 2016, the Bank concluded that monetary gold is not a financial instrument.

### **C. Liquidity risk**

Liquidity risk is the risk that:

- a) the Bank will encounter difficulty in meeting obligations associated with its financial liabilities in due time; and
- b) the Bank will not be able to sell a financial instrument within a specific time frame without causing significant loss compared to the market value.

Liquidity is amongst the primary objectives of the foreign reserve management and is defined as the goal to insure the availability at all times of sufficient funds to meet the liquidity needs associated with:



- implementing the monetary policy and the exchange rate policy of the Bank; and
- maintaining financial stability and meeting the needs of the country in periods of crisis.

The implementation of these objectives is performed through the breakdown of the foreign reserve in certain tranches that, within the context of a prudent management of the liquidity risk, serve specific purposes and carry specific features.

The foreign currency liability tranche represents investments in assets that are financed by the liabilities in foreign currency, which are mainly composed by the funds deposited by commercial banks as part of the reserve requirement and by the government.

The net reserve is composed of:

1. the working capital tranche: designed to meet the monthly liquidity needs arising within one month;
2. the liquidity tranche: designed to meet the liquidity needs arising within one year;
3. the investment tranche: it represents the remaining balance as surplus and is designed to meet the liquidity needs arising beyond the timeframes described in the first two tranches.

The selection of the financial instruments in which the majority of each tranche is invested, (the 'benchmark portfolios') and the duration of each benchmark portfolio are determined in line with the use of each tranche to meet the liquidity needs of the Bank and with the objectives determined by the Supervisory Council.

The tables below set out the remaining contractual maturities of the Bank's financial liabilities and financial assets. The Bank's expected cash flows on these instruments may vary from the contractual cash flows.





31 December 2023	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 12 months	1 to 5 years	Over 5 years	Undefined maturity	Total
<b>Financial assets</b>								
<b>Non-derivative assets</b>								
Cash and balances with banks	124,898	3,549	267	266	-	-	-	128,980
Trading assets	-	383	428	1,129	11,101	-	-	13,041
Account with the IMF	23,450	-	-	-	-	-	17,593	41,043
Loans to banks	37,785	6,970	-	-	-	-	-	44,755
Investment securities	15,974	37,379	52,199	76,864	288,374	15,997	-	486,787
Other assets (note 1c)	2	-	-	-	37	2,119	-	2,158
	<b>202,109</b>	<b>48,281</b>	<b>52,894</b>	<b>78,259</b>	<b>299,512</b>	<b>18,116</b>	<b>17,593</b>	<b>716,764</b>
<b>Derivative assets</b>								
Exchange rate forward contracts								
Interest rate future contracts	-							
<b>Total financial assets</b>	<b>202,109</b>	<b>48,281</b>	<b>52,894</b>	<b>78,259</b>	<b>299,512</b>	<b>18,116</b>	<b>17,593</b>	<b>716,764</b>
<b>Financial liabilities</b>								
<b>Non-derivative liabilities</b>								
Currency in circulation	-	-	-	-	-	-	407,968	407,968
Due to banks	213,731	-	10,380	-	-	-	-	224,111
Deposits and borrowings from third parties	1,997	-	-	-	-	-	-	1,997
Due to Government and state institutions	104,524	-	-	-	-	-	500	105,024
Due to the IMF	14,316	-	-	-	-	-	22,840	37,156
Other liabilities	880	-	-	-	-	-	-	880
<b>Total financial liabilities</b>	<b>335,448</b>	<b>-</b>	<b>10,380</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>431,308</b>	<b>777,136</b>
<b>Asset-liability maturity mismatch as at 31 December 2023</b>	<b>(133,339)</b>	<b>48,281</b>	<b>42,514</b>	<b>78,259</b>	<b>299,512</b>	<b>18,116</b>	<b>(413,715)</b>	<b>(60,372)</b>



31 December 2022	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 12 months	1 to 5 years	Over 5 years	Undefined maturity	Total
<b>Financial assets</b>								
<b>Non-derivative assets</b>								
Cash and balances with banks	90,273	-	-	-	-	-	-	90,273
Trading assets	20	-	969	1,500	11,822	-	-	14,311
Account with the IMF	27,818	-	-	-	-	-	19,879	47,697
Loans to banks	40,262	10,826	-	-	-	-	-	51,088
Investment securities	9,167	29,866	65,919	95,381	278,281	6,607	-	485,221
Other assets (note 16)	2	-	-	-	27	2,269	-	2,298
	<b>167,542</b>	<b>40,692</b>	<b>66,888</b>	<b>96,881</b>	<b>290,130</b>	<b>8,876</b>	<b>19,879</b>	<b>690,888</b>
<b>Derivative assets</b>								
Exchange rate forward contracts	-	1	-	-	-	-	-	2
Interest rate future contracts	-	-	-	-	-	-	-	-
<b>Total financial assets</b>	<b>167,542</b>	<b>40,693</b>	<b>66,888</b>	<b>96,882</b>	<b>290,130</b>	<b>8,876</b>	<b>19,879</b>	<b>690,890</b>
<b>Financial liabilities</b>								
<b>Non-derivative liabilities</b>								
Currency in circulation	-	-	-	-	-	-	401,129	401,129
Due to banks	205,252	-	12,440	-	-	-	-	217,692
Deposits and borrowings from third parties	2,007	-	-	-	-	-	-	2,007
Due to Government and state institutions	62,991	-	-	-	-	-	500	63,491
Due to the IMF	16,174	-	-	-	-	-	25,757	41,932
Other liabilities	921	-	-	-	-	-	-	921
<b>Total financial liabilities</b>	<b>287,345</b>	<b>-</b>	<b>12,440</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>427,386</b>	<b>727,172</b>
<b>Asset-liability maturity mismatch as at 31 December 2022</b>	<b>(119,803)</b>	<b>40,693</b>	<b>54,448</b>	<b>96,882</b>	<b>290,130</b>	<b>8,876</b>	<b>(407,507)</b>	<b>(36,282)</b>



## D. Credit risk

Credit risk is the risk of financial loss to the Bank, if counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector's risks).

The risk in respect of changes in value in trading assets arising from changes in market spreads applied to debt securities and derivatives is managed as a component of market risk (see ( D) below).

### (i) Settlement risk

Foreign reserve management activity may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed. The Bank minimizes settlement risk through implementation of best practices for the recognition and ongoing monitoring of settlement procedures and conditions.

### (ii) Custody risk

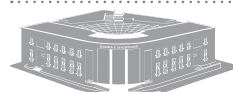
Custody risk is the risk of a loss of assets placed in custody in the case of insolvency, negligence, fraud, mismanagement or inadequate portfolio maintenance practices by the custodian. The Bank minimizes this risk by selecting for securities' custody services reputable international financial institutions with a minimum of USD 1,000 billion in assets under custody.

### (iii) Management of credit risk

The following table sets out the carrying amounts of the financial assets that are exposed to credit risk as at 31 December 2023 and 31 December 2022:

	31 December 2023	31 December 2022
<b>Assets</b>		
Cash and balances with banks (excluding cash on hand -Note 9)	128,956	90,254
Accounts with the IMF (Note 11)	41,043	47,697
Loans to banks (Note 12)	44,755	51,088
Trading assets (Note 13)	13,041	14,313
Investment securities (Note 14)	486,787	485,221
Other financial assets (loans to employees) (Note 16)	2,158	2,298
<b>Total</b>	<b>716,740</b>	<b>690,871</b>

**Assets denominated in foreign currencies** - For the management of credit risk related to foreign exchange reserve exposures the Supervisory Council has established base criteria of exposure to counterparties, and by type of



investment, issuer, credit rating band, market liquidity, with the governments and central banks issues prioritized. The evaluation and monitoring process of the credit rating of the eligible issuers is based on the analysis and the rating determined by the principal rating agencies, including Standard & Poor's, Moody's and Fitch, as well as in the reviewing processes, on a daily basis, of the performance of several market indicators of the quality of the credit rating of the issuer. In accordance with the limits imposed by the Supervisory Council, the Investment Committee and then the Director of the Monetary Operations Department are authorized to establish other qualitative and/or quantitative limits on the exposure level for the issuer/financial institution on an individual basis, category, or combined category and instrument basis. Depending on the market environment and conditions, the Bank may decide to adapt even more conservative limits for an issuer/financial institution.

Assets denominated in foreign currency that are part of the foreign exchange reserve, include cash and balances with banks (excluding cash on hand), trading assets, account with the IMF and investment securities denominated in foreign currency. The investment of the foreign exchange reserve is limited to: government/central bank issues with minimum credit ratings of A- ( BBB- for governments of the euro area); sovereign agencies, multilateral institutions and public entities with a minimum credit rating of AA-; and banks and other financial institutions with a minimum credit rating of A-.

The credit rating refers to the credit rating of an issuer/financial institution, and if such rating is not provided, the credit rating of the long-term debt of the financial institution is used. For the purpose of the reserve management implementation operations and for payments, the Bank may operate through current accounts opened with banks with a minimum credit rating of BBB. For the purpose of the management of foreign reserves portfolio, as a first step the Bank monitors economic developments in the economies in which Bank is exposed through investments in securities. The extent of monitoring and the level of management input vary. For major currencies, the Bank considers that the rating agencies' credit ratings and other public information are reflected in the prices and data for Expected Credit Losses (ECLs). In addition, the portfolio manager and the risk unit monitors the creditworthiness of each borrower using market research and other sources such as public financial statements. The PDs associated with each grade are determined based on long time historical realized default rates updated on an annual basis, as published by the rating agency.

During 2023 the global economy was characterized by a high degree of uncertainty, though in a lower scale compared to 2022 . Events such as the ongoing military conflict between Russia and Ukraine, the conflict in Middle East between Palestine and Izrael and the crises on the American and European banking sector with the failure of the Sillicon Valley Bank and Credit Suisse AG have resulted in a high volatility of interest rates in the main global economies. Inflation has fallen significantly during the year but was still far from the objective



of the central banks. This has resulted in many central banks maintaining the base interest rates steady during the second half of the year in order to keep monitoring the inflation, but also to contain any eventual upcoming recession.

In terms of potential losses from credit risk, the Bank of Albania's well diversified and high quality portfolio has been neutral.

#### ***Assets denominated in domestic currency***

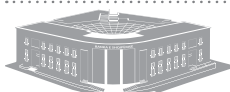
Assets denominated in domestic currency include loans to banks, investment debt securities issued by the Albanian Government and loans to employees included in other financial assets.

The Bank does not actively manage the credit risk for assets denominated in domestic currency, as they are largely originated for the purposes of the monetary policy implementation operations. For the monitoring of credit risk for these assets the Bank uses both external and internally developed analysis and information, which includes also information available to the Bank due to its role as regulator and Central Bank.

For loans to domestic commercial banks (overnight loans and reverse repo transactions), the Bank mitigates the credit risk through the collateral, which consists of debt securities issued by the Albanian Government. The collateral value for each transaction is not lower than the value of the granted loan plus a certain margin. If the value of the security placed as collateral drops under a defined level, Bank of Albania asks commercial banks to place additional collateral, based on the revaluation of the securities.

The risk grading model used by the Bank for the assessment of ECLs for loans to domestic commercial banks is based on criteria that are similar to those used for supervisory purposes, such as the capital adequacy, credit growth, liquidity and profitability of the counterparties. The risk grades and the methodology are subject to regular reviews by the Bank. Investment securities denominated in domestic currency consist of Treasury Bills issued by the Albanian Government, with maturity of up to one year. This portfolio is originated as the Bank of Albania intervenes in the money market through outright transactions, intended to manage the liquidity structure of the banking system with potential impact in the short-term interest rates in this market.

The credit risk of the portfolio of investment securities denominated in domestic currency is assessed based on historical data and assessment of the ability of the Albanian Government to meet its contractual cash flows obligations in domestic currency in the near term. For loans to employees the Bank assesses ECLs based on historic loss ratios, adjusted for forward-looking macroeconomic information.



(iv) Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. Explanation of the terms: 'Stage 1', 'Stage 2' and 'Stage 3' are included in Note 7(A)(vii). The credit ratings show the second best rating amongst Standard & Poor's, Moody's and Fitch.

	2023				2022
	Stage 1	Stage 2	Stage 3	Total	Total
<b>Cash and balances with banks at amortised cost</b>					
Rated AAA	38,947	-	-	38,947	50,946
Rated AA- to AA+	74,833	-	-	74,833	25,616
Rated A- to A+	11,885	-	-	11,885	10,799
Rated BBB+ and below	-	-	-	-	-
Albanian Government B+ *	-	-	-	-	-
BIS Basel	3,303	-	-	3,303	2,899
	<b>128,968</b>	-	-	<b>128,968</b>	<b>90,260</b>
Loss allowance	(12)	-	-	(12)	(6)
<b>Carrying amount</b>	<b>128,956</b>	-	-	<b>128,956</b>	<b>90,254</b>
<b>Accounts with the IMF**</b>					
Unrated	41,043	-	-	-	47,697
	<b>41,043</b>	-	-	<b>41,043</b>	<b>47,697</b>
Loss allowance	-	-	-	-	-
<b>Carrying amount</b>	<b>41,043</b>	-	-	<b>41,043</b>	<b>47,697</b>
<b>Loans to banks at amortised cost</b>					
Grade: Low-fair risk	-	-	-	-	-
Grade: Low risk	44,755	-	-	-	51,088
Grade: Average risk	-	-	-	-	-
Grade: Moderately high risk	-	-	-	-	-
Grade: High risk	-	-	-	-	-
	<b>44,755</b>	-	-	<b>44,755</b>	<b>51,088</b>
Loss allowance	-	-	-	-	-
<b>Carrying amount</b>	<b>44,755</b>	-	-	<b>44,755</b>	<b>51,088</b>
<b>Debt investment securities at FVOCI</b>					
Rated AAA	97,236	-	-	97,236	157,025
Rated AA- to AA+	241,969	-	-	241,969	155,931
Rated A- to A+	32,914	-	-	32,914	33,338
Rated BBB+ and below	17,293	-	-	17,293	8,144
Albanian Government (B+)*	68,639	-	-	68,639	74,065
BIS Basel	28,736	-	-	28,736	56,718
<b>Carrying amount – fair value</b>	<b>486,787</b>	-	-	<b>486,787</b>	<b>485,221</b>
Loss allowance	(43)	-	-	(43)	(47)
<b>Carrying amount – fair value</b>	<b>486,787</b>	-	-	<b>486,787</b>	<b>485,221</b>
<b>Other financial assets at amortised cost</b>					
Unrated	2,164	-	-	2,164	2,304
	<b>2,164</b>	-	-	<b>2,164</b>	<b>2,304</b>
Loss allowance	(6)	-	-	(6)	(6)
<b>Carrying amount</b>	<b>2,158</b>	-	-	<b>2,158</b>	<b>2,298</b>

\* The Albanian Government is rated as B+, positive, based on the credit rating of Standard & Poor's and B1, stable, based on the credit rating of Moody's.

\*\* The currency value of the SDR is determined by summing the values in the US dollar, based on market exchange rates, of a basket of major currencies (US dollar, Euro, Pound sterling, Chinese yuan and Japanese yen). The SDR currency value is calculated daily and the valuation basket is reviewed and adjusted every five years.



The following table sets out the credit quality of trading debt securities. The analysis has been based on the second best rating amongst Standard & Poor's, Moody's and Fitch ratings.

	2023	2022
<b>Bonds of foreign agencies</b>		
Rated AAA	999	776
Rated AA- to AA+	1,960	2,350
	<b>2,959</b>	<b>3,126</b>
<b>Bonds of foreign governments and multilateral institutions</b>		
Rated AAA	447	10,015
Rated AA- to AA+	9,635	1,170
	<b>10,082</b>	<b>11,185</b>
<b>Total trading debt securities</b>	<b>13,041</b>	<b>14,311</b>

(v) *Collateral held and other credit enhancements*

The Bank holds collateral and other credit enhancements against certain credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

	Note	Percentage of exposure that is subject to collateral requirements		Principal type of collateral held
		31 December 2023	31 December 2022	
<b>Loans to banks</b>				
Reverse repurchase agreements and overnight loans	12	100	100	Albanian Government debt securities
<b>Other financial assets</b>				
Loans to employees	16	100	100	Mortgage or contract guarantees

At 31 December 2023, the Bank held loans to banks of ALL 44,755 million (31 December 2022: ALL 51,088 million), for which no loss allowance is recognised because of full collateral coverage.

(vi) *Amounts arising from ECLs*

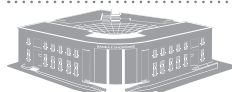
(a) **Inputs, assumptions and techniques used for estimating impairment**

For more details refer to accounting policy in Note 7(A)(vii).

**Significant increase in credit risk**

When determining whether the risk of default of the invested amount on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and credit risk specialists assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:



- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

### **Credit risk grades/ratings**

For assessing the risk of default, at initial recognition, the Bank assigns to each exposure in foreign currency the second best rating amongst Standard & Poor’s, Moody’s and Fitch for that particular counterparty.

The Bank, at initial recognition, allocates each exposure to banks to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade/rating. The monitoring typically involves use of the following data.

Foreign currency exposures	Domestic currency exposures	Other assets
– Data from credit rating agencies, press articles, changes in external credit ratings	– Internally collected data on banks and supervisory indicators	– Repayment history – this includes overdue status and financial situation of the borrower
– Quoted bond prices for the counterparty, where available	– Existing and forecast changes in business, financial and economic conditions	– Existing and forecast changes in financial and economic conditions
– Actual and expected significant changes in the political, regulatory and technological environment of the counterparty or in its business activities	– Affordability metrics	

### **Generating the term structure of probability of default “PD”**

Credit risk grades/ratings are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by counterparty as well as by credit risk grading/ratings.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. The methodology for determining PDs for investments in domestic commercial banks is based on the main risk indicators used for supervisory purposes whereas the areas considered by this system include the capital adequacy, credit risk, liquidity and profitability of





the counterparty. This analysis includes the identification and calibration of relationships between changes in country's key macro-economic factors and the capital resilience of the domestic institution. Key macro-economic indicators include: GDP growth, exchange rates, benchmark interest rates and credit growth. The PDs are calculated as the average weighted PDs for each factor, where the weights are determined based on the importance of the factor.

For assets denominated in foreign currency, Bank uses 12-month PDs for sovereign and non-sovereign issuances, estimated based on transition matrices published by S&P which indicate a possibility of bankruptcy over 12 months for issuers per each respective rating category. For the sovereign issuance, a long-term transition matrix is used.

For non-sovereign issuance, two matrices are used, a long-term transition matrix of financial institutions (base scenario) and the transition matrix of a financial crisis year (alternative recession scenario), weighted against respective probabilities of the different scenarios happening in the future.

For exposures to the Albanian Government in domestic currency, the estimated PD considers the short-term maturity of such exposures, the absence of historical defaults and detailed assessments of the ability of the Albanian Government to fulfil its contractual cash flow obligations in the short-term which consider also the macroeconomic indicators over the assessment period.

#### ***Determining whether credit risk has increased significantly***

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure in foreign currency is deemed to have increased significantly since initial recognition if:

- the credit rating from all the three rating agencies (Standard & Poor's, Moody's and Fitch) falls below BBB- (or its' equivalent); or
- the credit rating from one of the above agencies is downgraded to BB-;
- or
- there is a delay in the repayment of an obligation to the Bank by more than or equal to 30 days. In this case the credit risk will be deemed to have significantly increased for all exposures to that issuer.

The credit risk of a particular exposure in domestic currency for commercial banks is deemed to have increased significantly since initial recognition if one of the following criteria is met:

- a commercial bank receives Emergency Liquidity Assistance (ELA) loan and the PD is over 30%;
- the PD is higher than 40% in the reporting period;
- the PD is higher than 25%, and it has increased by more than 5



- percentage points in the reporting period compared to the initial recognition period; or
- there is a delay in the repayment of an obligation (excluding ELA) to the Bank by more than or equal to 30 days. In this case the credit risk will be deemed to have significantly increased for all exposures to that counterparty.

Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which due instalment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

For exposures toward Albanian Government the credit risk is considered to be increased significantly since initial recognition if there is delay of 30 days or more in the repayment of an obligation to the Bank.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that the criteria are capable of identifying significant increases in credit risk before an exposure is in default.

#### ***Definition of default***

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative – e.g. breaches of covenants;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources i.e. one-year PD transition matrix at reporting as per latest report available and one-year PD transition matrix relevant to the latest financial crisis obtained by S&P, weighted according to a given probability, and;
- LGD specified for the uncollateralized senior debt of sovereign, corporate and bank issuers and deposits. and current accounts at central banks obtained from Moody's.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

#### ***Incorporation of forward-looking information***

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECLs.



For exposures in domestic currency, the Bank formulates a “Baseline scenario” view of the future direction of relevant economic variables (GDP growth, exchange rates, benchmark interest rates and credit growth) as well as a representative range of other possible forecast scenarios “moderate scenario”, considering the relative probabilities of each outcome by comparing the results of previous stress tests with financial agents’ economic indicators during the reference period. The base scenario represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and forecasting. The other scenarios “moderate scenario” represents more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

For non-sovereign issuances in foreign currency, forward-looking information is incorporated in the assessment of the probability of defaults, as the probability of the normal scenario and alternative scenario is calculated based on the probability of recession of major economies (as one of the main indicators of increased probability of default for non-sovereign issuers), to which additional quality factors may be applied. For sovereign issuances in foreign currency forward-looking economic variable are incorporated in the determination of the PD through respective rating in transition matrices published by external rating agencies. These variables are reviewed periodically and in case of significant market changes by the credit rating agencies.

### ***Modified financial assets***

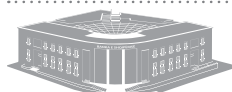
The contractual terms of a financial asset may be modified for a number of reasons, including changing market conditions and other factors not related to a current or potential credit deterioration of the counterparty. An existing asset whose terms have been modified may be derecognised and the renegotiated asset recognised as a new one at fair value in accordance with the accounting policy set out in Note 7(A)(iv).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset’s credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

### ***Measurement of ECLs***

The key inputs into the measurement of ECLs are the term structure of the following variables:



- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are derived from internally developed statistical models, globally recognized external developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Transition matrixes data are used to derive the PD for foreign counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates, or parameters calculated by rating agencies and regulatory institutions such as BIS Basel, of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. EAD estimates are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance. Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.



The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. For the portfolios in foreign currency based on bank's investment policy are used the ratings of the three main rating agencies as a key input to evaluate portfolios.

The portfolios for which external benchmark information represents a significant input into measurement of ECL comprise financial assets in foreign currency as follows:

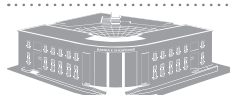
In ALL Million	Exposure	External benchmarks used	
		PD	LGD
Cash and balances with banks (current accounts and deposits)	128,381	2nd Best Rating (from: S&P, Moody's and Fitch)	Moody's recovery studies
Investment securities in foreign currency	418,148	2nd Best Rating (from: S&P, Moody's and Fitch)	Moody's recovery studies

## (b) Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Explanation of the terms: 'Stage 1', 'Stage 2' and 'Stage 3' and credit-impaired assets are included in Note 7(A)(vii).

	2023				2022
	Stage 1	Stage 2	Stage 3	Total	Total
<b>Cash and balances with banks</b>					
Balance at 1 January	6	-	-	6	15
Net remeasurement of loss allowance	6	-	-	6	(9)
<b>Balance at end of the period</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>12</b>	<b>6</b>
<b>Other assets at amortised cost</b>					
Balance at 1 January	6	-	-	6	6
Net remeasurement of loss allowance	-	-	-	-	-
<b>Balance at end of the period</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>6</b>
<b>Investment debt securities at FVOCI</b>					
Balance at the beginning of the period	47	-	-	47	22
Net remeasurement of loss allowance	(4)	-	-	(4)	25
<b>Balance at end of the period</b>	<b>43</b>	<b>-</b>	<b>-</b>	<b>43</b>	<b>47</b>
<b>Total</b>					
Balance at the beginning of the period	59	-	-	59	43
Net remeasurement of loss allowance	2	-	-	2	16
<b>Balance at end of the period</b>	<b>61</b>	<b>-</b>	<b>-</b>	<b>61</b>	<b>59</b>

For debt investment securities measured at FVOCI, the allowance for ECL does not reduce the carrying amount in the financial statement position, which remains at fair value.



(c) Credit-impaired financial assets

For more details refer to accounting policy in Note 7(A)(vii).

As at 31 December 2023 and 31 December 2022, the Bank had no credit-impaired financial assets.

(vii) Concentrations of credit risk

The Bank monitors concentrations of credit risk by geographic location and by counterparty type. An analysis of concentrations of credit risk is shown below. Concentration by location for investment securities is based on the country of domicile of the issuer of the security. Concentration by counterparty type is based on the customer's country of domicile.

A segregation of the financial assets by geography is set out below:

31 December 2023	Germany	France	Other EU countries	Switzerland	United States of America	Republic of Albania	Other	Total
Accounts and deposits with financial institutions (Note 9)	33,108	31,988	1,173	8,565	8,439	-	45,683	128,956
Trading assets	846	887	1,182	57	9,186	-	883	13,041
Accounts with the IMF	-	-	-	-	-	-	41,043	41,043
Loans to banks	-	-	-	-	-	44,755	-	44,755
Investment securities	53,243	85,673	155,525	28,736	69,120	68,639	25,851	486,787
Other assets (Note 16)	-	-	-	-	-	2,158	-	2,158
<b>Total</b>	<b>87,197</b>	<b>118,548</b>	<b>157,880</b>	<b>37,358</b>	<b>86,745</b>	<b>115,552</b>	<b>113,460</b>	<b>716,740</b>

31 December 2022	Germany	France	Other EU countries	Switzerland	United States of America	Republic of Albania	Other	Total
Accounts and deposits with financial institutions (Note 9)	40,297	9,064	55	2,899	10,647	-	27,292	90,254
Trading assets	972	1,007	1,361	73	9,428	2	1,470	14,313
Accounts with the IMF	-	-	-	-	-	-	47,697	47,697
Loans to banks	-	-	-	-	-	51,088	-	51,088
Investment securities	71,262	57,188	140,861	56,718	56,309	74,064	28,819	485,221
Other assets (Note 16)	-	-	-	-	-	2,298	-	2,298
<b>Total</b>	<b>112,531</b>	<b>67,259</b>	<b>142,277</b>	<b>59,690</b>	<b>76,384</b>	<b>127,452</b>	<b>105,278</b>	<b>690,871</b>



A segregation of the financial assets by counterparty type is set out below:

31 December 2023	Accounts and deposits with financial institutions	Trading assets	Accounts with the IMF	Loans to banks	Investment securities	Other assets	Total
Central Banks	85,421	9,046	41,043	-	-	-	135,510
Bank for International Settlements ("BIS Basel")	3,302	-	-	-	28,736	-	32,038
Foreign governments and multilateral institutions	-	677	-	-	322,393	-	323,070
Foreign agencies	-	2,885	-	-	34,937	-	37,822
Commercial Banks	40,233	433	-	44,755	32,082	-	117,503
Albanian Government	-	-	-	-	68,639	-	68,639
Other assets	-	-	-	-	-	2,158	2,158
<b>Total</b>	<b>128,956</b>	<b>13,041</b>	<b>41,043</b>	<b>44,755</b>	<b>486,787</b>	<b>2,158</b>	<b>716,740</b>

31 December 2022	Accounts and deposits with financial institutions	Trading assets	Accounts with the IMF	Loans to banks	Investment securities	Other assets	Total
Central Banks	70,846	9,461	47,697	-	-	-	128,004
Bank for International Settlements ("BIS Basel")	2,898	-	-	-	56,718	-	59,616
Foreign governments and multilateral institutions	-	667	-	-	280,893	-	281,560
Foreign agencies	-	3,358	-	-	34,502	-	37,860
Commercial Banks	16,510	825	-	51,088	39,044	-	107,467
Albanian Government	-	2	-	-	74,064	-	74,066
Other assets	-	-	-	-	-	2,298	2,298
<b>Total</b>	<b>90,254</b>	<b>14,313</b>	<b>47,697</b>	<b>51,088</b>	<b>485,221</b>	<b>2,298</b>	<b>690,871</b>

## E. Market risk

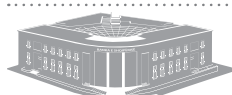
Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank of Albania's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The key elements of price risk affecting the Bank are:

- Interest rate risk associated with fluctuations in the fair value of financial instruments due to changes in market interest rates; and
- Currency risk associated with fluctuations in the fair value of financial instruments due to changes in foreign exchange rates.

The Bank's exposure to currency risk is monitored on a continuous basis. Financial assets and liabilities denominated in foreign currencies are disclosed in the relevant notes of the financial statements.

For the purpose of foreign reserve management, function performed by the Monetary Operations Department, Supervisory Council has established a set



of criteria for the currency composition of the foreign reserve, in accordance with the objectives of holding the reserves. This serves as a reference for the management of the exchange rate risk. As a result, the Bank is passive in the management of the exchange rate risk. The Investment Committee defines a set of narrow ranges of the currency composition of some of the tranches of the foreign exchange reserve. The limits are monitored by the Monetary Operations Department, which carries out the necessary rebalancing operations in order to preserve the required weights of the currencies' composition.

**(i) Interest rate risk**

The Bank's operations are subject to the risk of interest rate fluctuations, which affect the prices of interest-earning assets (including investments) and interest-bearing liabilities.

The Monetary Operations Department of the Bank monitors the interest rate risk. The Bank mitigates such risks by maintaining a significant excess of interest-bearing assets over liabilities. The Bank maintains a portfolio of interest-bearing financial assets and liabilities, in such a manner, that the net interest income is significantly higher than operating needs, in order to minimize the potential adverse effects of interest rate fluctuations. Interest rates applicable to financial assets and liabilities are disclosed in the relevant notes to the financial statements.

The interest rate risk management, for the purpose of foreign reserve management, in its core process includes the selection of the portfolio/duration benchmark for each market (currency) in which the foreign reserves are held. The benchmark selection is reviewed at least annually or whenever changes in market conditions require a reassessment. Besides determining the benchmark portfolio, the Investment Committee, in accordance with the limits imposed by the Supervisory Council, determines limits for active management at the tranche level. The limits for active management at portfolio level are established by the Director of the Monetary Operations Department.

The principal tools used to measure the interest rate risk for individual portfolios within the foreign exchange reserve are Duration and Value at Risk ("VaR").

- Duration measures the sensitivity of the price of a fixed-income security due to the volatility of the interest rates in the market.
- The VaR is defined as the estimated maximum loss that will arise on a portfolio over a specified time horizon due to its exposure to the risk factors with a specified confidence interval.

For the purposes of foreign reserve management, the calculated VaR includes only the exposure to the risk of changes in interest rates for all positions, including benchmark instruments and non-benchmark instruments.





For benchmark instruments, the data used encompasses changes in interest rates for treasury issues or high quality agency issues, depending on the specific benchmark for each currency and for non-benchmark instruments the data used encompasses changes in interest rates for issues rated as AA, given that this rating constitutes the major share of non-benchmark instruments of the reserve portfolios.

The following is a summary of the VaR (95%) position of the Bank's portfolios at 31 December 2023 and 2022:

	31 December 2023	31 December 2022
VaR (95%) in ALL million	(14,191)	(10,592)

Furthermore, an important method to measure market risk is the sensitivity analysis of the value of the reserve to hypothetical changes in market factors. The data used in the sensitivity analysis calculations include the duration of portfolios and weight of each currency. The duration of the portfolio shows the degree of change in the market value of the portfolio, assuming a parallel shift of the yield curve based on interest rates for all the instruments within the portfolio.

Assuming an immediate parallel increase (decrease) in interest rates by 50 basis points and 100 basis points and a correlation equal to 1 between the curves, and based on the duration of the aggregate foreign exchange reserves, the estimated loss (gain) in OCI for each scenario is as follows:

Estimated effect on OCI in ALL million	2023		2022	
	100 bp	50 bp	100 bp	50 bp
Increase	(9,828)	(4,914)	(7,859)	(3,930)
Decrease	9,828	4,914	7,859	3,930

Assets and liabilities with variable interest rates carry the risk of changing the base that serves to determine interest rates.

The position of the Bank's sensitivity to interest rate by contractual repricing is presented in the following table, showing the carrying amounts of financial instruments classified by contractual repricing or maturity date.



31 December 2023	Total	Floating rate instruments	Fixed rate instruments			Non-interest bearing instruments
			Up to 1 month	From 1 to 3 months	Over 3 months	
<b>Interest-earning assets</b>						
Cash and balances with banks	128,979	114,349	9,950	3,549	533	598
Trading assets	13,041	241	-	383	12,417	-
Accounts with the IMF	41,043	23,450	-	-	-	17,593
Loans to banks	44,755	-	37,785	6,970	-	-
Investment securities	486,787	-	15,973	37,380	433,434	-
Other assets (Note 16)	2,159	-	2	-	2,157	-
<b>Total</b>	<b>716,764</b>	<b>138,040</b>	<b>63,710</b>	<b>48,282</b>	<b>448,541</b>	<b>18,191</b>
<b>Interest-bearing liabilities</b>						
Currency in circulation	407,968	-	-	-	-	407,968
Due to banks	224,111	-	213,731	-	10,380	-
Deposits and borrowings from third parties	1,997	-	1,997	-	-	-
Due to Government and state institutions	105,024	500	-	-	-	104,524
Due to the IMF	37,156	22,840	-	-	-	14,316
Other liabilities	880	-	-	-	-	880
<b>Total</b>	<b>777,136</b>	<b>23,340</b>	<b>215,728</b>	<b>-</b>	<b>10,380</b>	<b>527,688</b>
<b>Interest-bearing financial instruments gap</b>	<b>(60,372)</b>	<b>114,700</b>	<b>(152,018)</b>	<b>48,282</b>	<b>438,161</b>	<b>(509,497)</b>

31 December 2022	Total	Floating rate instruments	Fixed rate instruments			Non-interest bearing instruments
			Up to 1 month	From 1 to 3 months	Over 3 months	
<b>Interest-earning assets</b>						
Cash and balances with banks	90,273	79,636	10,054	-	-	583
Trading assets	14,313	-	20	-	14,292	1
Accounts with the IMF	47,697	27,819	-	-	-	19,879
Loans to banks	51,088	-	40,262	10,826	-	-
Investment securities	485,221	-	9,167	29,866	446,188	-
Other assets (Note 16)	2,298	-	2	-	2,296	-
<b>Total</b>	<b>690,890</b>	<b>107,454</b>	<b>59,505</b>	<b>40,692</b>	<b>462,776</b>	<b>20,463</b>
<b>Interest-bearing liabilities</b>						
Currency in circulation	401,129	-	-	-	-	401,129
Due to banks	217,692	-	205,252	-	12,440	-
Deposits and borrowings from third parties	2,007	-	2,007	-	-	-
Due to Government and state institutions	63,491	500	-	-	-	62,991
Due to the IMF	41,932	25,757	-	-	-	16,175
Other liabilities	921	-	-	-	-	921
<b>Total</b>	<b>727,172</b>	<b>26,257</b>	<b>207,259</b>	<b>-</b>	<b>12,440</b>	<b>481,216</b>
<b>Interest-bearing financial instruments gap</b>	<b>(36,282)</b>	<b>81,197</b>	<b>(147,754)</b>	<b>40,692</b>	<b>450,336</b>	<b>(460,753)</b>

### Future contracts

A future contract is a standardized contract to buy or sell a financial or non-financial asset, at a certain date in the future and at a market determined price. To minimize the credit risk, depending on the type of instrument, the investor should post a margin to the clearing house. This margin or performance bond is valued every day according to the prices in the market (mark to market), which means that every change in value is shown in the account of investor at the end of each trading day until the expiry day.



The net fair value of future contracts as at 31 December 2023 is ALL 0 million (2022: ALL 0 million) (see Note 13).

The nominal value of these contracts as at 31 December 2023 is composed by the following:

- buy contracts in the amount of ALL 0 million (2022: ALL 0 million); and
- sell contracts in the amount of ALL 0 million (2022: ALL 0 million).

## (ii) Exchange rate risk

Exchange rate risk results from the difference between the currency structure of assets and liabilities. From an accounting point of view, the Bank is exposed to currency risk due to its principal central bank functions.

This risk can affect the size of its capital. In order to manage this type of exposure, over the years, action is taken to increase capital, inflow of funds and, in exceptional cases, when the balance of the revaluation reserve is negative, debt instruments of the Republic of Albania were issued in compliance with the provisions of the law 'On the Bank of Albania' (Note 7(N), 14 and 22) and a bilateral agreement with the Government of Albania. The creation of special reserves from distributable profit is a measure that the Bank can take to safeguard its Capital. However, the Bank is only reflective of fluctuations of the exchange rate and this is due to the free regime of the exchange rate it follows. The Bank does not foresee to reduce its foreign exchange reserve and therefore will not materialize these losses. In cases where the Bank will be forced to sell currency in the market (due to the currency market not functioning normally), it will do so in the conditions when there will be a rapid depreciation of Lek. Such events will indirectly reduce the balance of the revaluation account and increase the rate at which the reserve will be sold as well.

## Forward contracts

Trading derivatives include forward exchange contracts that are entered into by the Bank with the Albanian Government. These instruments are not usually closed out before contractual maturity.

The fair value of foreign exchange forward contracts at 31 December 2023 is ALL 0 million (2022: 2 million) (see Note 13).

The following significant exchange rates have been applied.

ALL	Average		Year-end spot rate	
	2023	2022	2023	2022
United States Dollar (USD)	100.64	113.04	93.94	107.05
European Union Currency Unit (EUR)	108.8	118.98	103.88	114.23
British Pound (GBP)	125.01	139.60	119.47	128.92
Special Drawing Rights (SDR)	134.26	151.2	126.04	142.47
Japanese Yen (JPY)	0.72	0.86	0.66	0.81
Chinese Yuan (offshore) (CNH)	14.22	19.79	13.19	15.46



### Sensitivity analysis

A reasonably possible strengthening (weakening) of the EUR, USD, GBP or other currencies by 10% against ALL at 31 December 2023 would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

The Bank's exposure to foreign currency risk as at 31 December 2023 and 31 December 2022 is as follows:

31 December 2023	ALL	USD	EUR	GBP	SDR	Other	Total
<b>Assets</b>							
Cash and balances with banks	-	9,480	106,524	498	-	12,454	128,956
Trading assets	-	13,041	-	-	-	-	13,041
Accounts with the IMF	14,316	-	-	-	26,727	-	41,043
Loans to banks	44,755	-	-	-	-	-	44,755
Investment securities	68,639	80,337	308,828	11,633	-	17,350	486,787
Other assets	2,158	-	-	-	-	-	2,158
<b>Total assets</b>	<b>129,868</b>	<b>102,858</b>	<b>415,352</b>	<b>12,131</b>	<b>26,727</b>	<b>29,804</b>	<b>716,740</b>
<b>Liabilities</b>							
Currency in circulation	407,968	-	-	-	-	-	407,968
Due to banks	71,126	15,901	137,084	-	-	-	224,111
Deposits and borrowings from third parties	1,990	-	7	-	-	-	1,997
Due to Government and state institutions	24,274	125	80,542	-	83	-	105,024
Due to the IMF	-	-	-	-	37,156	-	37,156
Other liabilities	140	507	233	-	-	-	880
<b>Total liabilities</b>	<b>505,498</b>	<b>16,533</b>	<b>217,866</b>	<b>-</b>	<b>37,239</b>	<b>-</b>	<b>777,136</b>
<b>Net statement of financial position exposure</b>	<b>(375,630)</b>	<b>86,325</b>	<b>197,486</b>	<b>12,131</b>	<b>(10,512)</b>	<b>29,804</b>	<b>(60,396)</b>
<b>Sensitivity analysis</b>							
Profit/(loss) effect: Strengthening (10%)	-	8,633	19,749	1,213	(1,051)	2,980	-
Weakening (10%)	-	(8,633)	(19,749)	(1,213)	1,051	(2,980)	-

31 December 2022	ALL	USD	EUR	GBP	SDR	Other	Total
<b>Assets</b>							
Cash and balances with banks	-	11,312	66,759	764	-	11,438	90,273
Trading assets	2	14,311	-	-	-	-	14,313
Accounts with the IMF	16,174	-	-	-	31,523	-	47,697
Loans to banks	51,088	-	-	-	-	-	51,088
Investment securities	74,064	74,483	307,902	11,063	-	17,709	485,221
Other assets	2,298	-	-	-	-	-	2,298
<b>Total assets</b>	<b>143,626</b>	<b>100,106</b>	<b>374,661</b>	<b>11,827</b>	<b>31,523</b>	<b>29,147</b>	<b>690,890</b>
<b>Liabilities</b>							
Currency in circulation	401,129	-	-	-	-	-	401,129
Due to banks	71,231	18,391	128,070	-	-	-	217,692
Deposits and borrowings from third parties	2,000	-	7	-	-	-	2,007
Due to Government and state institutions	28,542	250	33,744	-	955	-	63,491
Due to the IMF	-	-	-	-	41,932	-	41,932
Other liabilities	259	580	82	-	-	-	921
<b>Total liabilities</b>	<b>503,161</b>	<b>19,221</b>	<b>161,903</b>	<b>-</b>	<b>42,887</b>	<b>-</b>	<b>727,172</b>
<b>Net currency position</b>	<b>(359,535)</b>	<b>80,885</b>	<b>212,758</b>	<b>11,827</b>	<b>(11,364)</b>	<b>29,147</b>	<b>(36,282)</b>
<b>Sensitivity analysis</b>							
Profit/(loss) effect: Strengthening (10%)	-	8,088	21,276	1,183	(1,136)	2,915	-
Weakening (10%)	-	(8,088)	(21,276)	(1,183)	1,136	(2,915)	-



## **F. Fair value of financial instruments**

### ***i) Determination of fair values***

The determination of fair values of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques described in the accounting policy. For financial instruments that are traded infrequently and whose price is not transparent, the fair value is less objective and requires an expert's judgement depending on liquidity, concentration, market factors uncertainty, pricing assumptions, and other risks affecting the particular instrument.

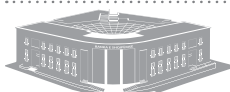
### ***ii) Valuation of financial instruments***

The Bank measures the fair value of financial instruments using the following hierarchy of methods:

- Level 1: Quoted market price or closing price for positions for which there is a reliable market.
- Level 2: Valuation techniques based on observable market information about the yield curve. This category of methods is used to measure debt securities for which there is no reliable market.
- Level 3: Valuation techniques, where inputs on financial assets and liabilities are not based on observable market data.

The fair values of financial assets and liabilities traded in international financial markets for which there is available market information are based on market quotations or closing market prices. The use of observable market prices and information reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. The availability of actual market prices and information varies depending on products and markets and changes because of specific events and the general conditions of financial markets.

The Bank determines the fair values of all other financial instruments for which there are no current market quotes by using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond, foreign currency exchange rates, and expected price volatilities and correlations. The net present value is computed by means of market yield curves and credit spreads, where necessary, for the relevant instrument. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.



The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty where appropriate. Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and yields ranges of possible inputs and estimates of fair value, and management judgment is required to select the most appropriate point in the range. For all other financial instruments, the Bank determines fair values using valuation techniques.

Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

### *Financial instruments measured at fair value – Fair value hierarchy*

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the statement of financial position.

31 December 2023	Note	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>					
Non-derivative trading assets	13	13,041	-	-	13,041
Derivative trading assets	13	-	-	-	-
Investments in securities	14	388,176	98,611	-	486,787
<b>Total</b>		<b>401,217</b>	<b>98,611</b>	<b>-</b>	<b>499,828</b>

31 December 2022	Note	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>					
Non-derivative trading assets	13	14,311	-	-	14,311
Derivative trading assets	13	-	-	2	2
Investments in securities	14	369,774	115,447	-	485,221
<b>Total</b>		<b>384,085</b>	<b>115,447</b>	<b>2</b>	<b>499,534</b>

### *Financial instruments not measured at fair value*

The fair value of balances with/due to banks balances with/due to the IMF, liabilities to banks and other financial institutions and of liabilities to government institutions is approximately equal to the reporting value as they are short-term.



The following table sets out the fair values of certain financial instruments not measured at fair value by the level in the fair value hierarchy into which each fair value measurement is categorised. Other financial assets consist of loans granted to employees (see note 16) pursuant to Article 4 point (b) of the Law No. 8269 "On the Bank of Albania", as amended.

	Note	31 December 2023		31 December 2022	
		Fair value Level 2	Carrying amount	Fair value Level 2	Carrying amount
<b>Assets</b>					
Balances with banks	9	128,980	128,980	90,254	90,254
Loans to banks	12	44,755	44,755	51,088	51,088
Accounts with the IMF	11	41,043	41,043	47,697	47,697
<b>Liabilities</b>					
Due to the IMF	11	37,156	37,156	41,932	41,932
Due to banks	18	224,111	224,111	217,692	217,692
Deposits and borrowings from third parties	19	1,997	1,997	2,007	2,007
Due to Government and state institutions	20	105,024	105,024	63,491	63,491
Other liabilities	21	880	880	921	921

### G. Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations. Operational risk management is supported by the internal control systems on several activities of the Bank of Albania and standards for the management of operational risk and a wide range of common policies, staff management regulations and obligatory requirements.

### H. Maturity analysis of assets and liabilities

The Bank's assets and liabilities, analysed by residual term to maturity from the date of the statement of financial position to the date of any subsequent agreement or contractual maturity, are as follows:



31 December 2023	< 12 months	>12 months	Undefined maturity	Total
<b>ASSETS</b>				
Cash and balances with banks	128,980	-	-	128,980
Trading assets	1,940	11,101	-	13,041
Monetary gold	-	-	21,039	21,039
Accounts with the International Monetary Fund	23,450	-	17,593	41,043
Loans to banks	44,755	-	-	44,755
Investment securities	182,416	304,371	-	486,787
Property, equipment, right-of-use and intangible assets	-	-	21,574	21,574
Other assets	2	2,156	1,177	3,335
<b>TOTAL ASSETS</b>	<b>381,543</b>	<b>317,628</b>	<b>61,383</b>	<b>760,554</b>
<b>LIABILITIES</b>				
Currency in circulation	-	-	407,968	407,968
Due to banks	224,111	-	-	224,111
Deposits and borrowings from third parties	1,997	-	-	1,997
Due to Government and state institutions	104,524	-	500	105,024
Due to the International Monetary Fund	14,316	-	22,840	37,156
Other liabilities	983	-	-	983
<b>TOTAL LIABILITIES</b>	<b>345,931</b>	<b>-</b>	<b>431,308</b>	<b>777,239</b>
<b>Net</b>	<b>35,612</b>	<b>13,257</b>	<b>(65,554)</b>	<b>(16,685)</b>

31 December 2022	< 12 months	>12 months	Undefined maturity	Total
<b>ASSETS</b>				
Cash and balances with banks	90,273	-	-	90,273
Trading assets	2,491	11,822	-	14,313
Monetary gold	-	-	18,900	18,900
Accounts with the International Monetary Fund	27,818	-	19,879	47,697
Loans to banks	51,088	-	-	51,088
Investment securities	200,333	284,888	-	485,221
Property, equipment, right-of-use and intangible assets	-	-	21,376	21,376
Other assets	2	2,296	1,204	3,502
<b>TOTAL ASSETS</b>	<b>372,005</b>	<b>299,006</b>	<b>61,359</b>	<b>732,370</b>
<b>LIABILITIES</b>				
Currency in circulation	-	-	401,129	401,129
Due to banks	217,692	-	-	217,692
Deposits and borrowings from third parties	2,007	-	-	2,007
Due to Government and state institutions	62,991	-	500	63,491
Due to the International Monetary Fund	16,175	-	25,757	41,932
Other liabilities	1,021	-	-	1,021
<b>TOTAL LIABILITIES</b>	<b>299,886</b>	<b>-</b>	<b>427,386</b>	<b>727,272</b>
<b>Net</b>	<b>72,119</b>	<b>299,066</b>	<b>(366,027)</b>	<b>5,098</b>

## I. Capital Management

The Bank of Albania is accountable to the Assembly of the Republic of Albania and its paid-up capital of ALL 2.500 million is owned exclusively by the State





of Albania. The paid-up capital may be increased by the proposal of the Bank of Albania and approval by the Ministry of Finance. The entire paid-up capital shall be subscribed and owned exclusively by the State of Albania. This paid-up capital shall not be transferable or subject to encumbrance. The profit allocation policy is described in Note 7 G),N),P) and Note 22.

The shortfall of the value of assets below the sum of paid capital and liabilities is caused by the significant appreciation of the Lek and its impact on the foreign currency reserves held by the Bank, which have also substantially increased in volume, thus increasing the exposure to the currency risk. The Bank aims to hold its foreign currency reserves, hence the unrealized losses due to Lek appreciation are not expected to be realized as discussed in note 8E(ii).

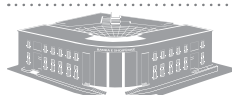
Under these circumstances, the Bank does not require any additional capital to meet its operational needs as its assets on the balance sheet date significantly exceed the liabilities that are expected to come due. In particular, it is not expected that the liabilities towards the IMF and Government of Albania accounts will be repaid in full in the foreseeable future.

As a result, the Bank and the Government of Albania, represented by the Ministry of Finance and Economy, in consultation with the IMF, amended the bilateral agreement dealing with profit distribution and recapitalization of the Bank.

As provisioned in Article 7 of the Law "On the Bank of Albania", whenever on the balance sheet of the Bank of Albania the value of its assets falls below the sum of paid-up capital and its liabilities, the Minister of Finance shall transfer to the Bank of Albania negotiable government securities, bearing interest at market rates, in such an amount as shall be necessary to remedy the deficiency.

The bilateral agreement between the Bank of Albania and Ministry of Finance and Economy dated 16.01.2015 and amended on 29.12.2023, defines that the term "liabilities" referring to Article 7 of the Law, does not include any liabilities towards the Albanian Government or the IMF, as their role is to guarantee or support the financial stability. Consequently, those liabilities are not expected to be repaid in circumstances of liquidity or capital shortfall.

While the Bank of Albania is recognizing exchange rate revaluation losses, it remains well capitalized on a realized equity basis though current appreciation has eroded its overall equity. Revaluation gains (losses) are volatile and subject to economic factors outside the direct control of the BoA and may reverse as global economic conditions change. The accumulated revaluation loss is as a result of the appreciation of the ALL to the EUR since 2019.



## 9. CASH AND BALANCES WITH BANKS

	31 December 2023	31 December 2022
Cash	24	18
Current accounts	114,934	80,206
Deposits maturing within three months	13,500	10,054
Less impairment loss allowance	(12)	(6)
<b>Cash and cash equivalents</b>	<b>128,446</b>	<b>90,273</b>
Deposits with maturity over 3 months	534	-
<b>Total</b>	<b>128,980</b>	<b>90,273</b>

The interest rates for current accounts are as follows:

In %	EUR	USD	GBP	AUD	JPY	CNY	CNH
31 Dec 2023	0.00 – 3.99	0.00 – 5.30	4.50 – 5.10	0.00 – 3.95	(0.35) – 0.00	0.00 – 0.10	0.00 – 0.10
31 Dec 2022	0.00 – 2.00	0.00 – 4.30	2.25 – 3.32	0.20 – 2.85	(0.35) – 0.00	0.70 – 1.20	0.30 – 1.80

The annual interest rates for short-term deposits are as follows:

In %	EUR	USD	CNH
31 December 2023	3.90 – 4.02	5.30	2.79 – 3.33
31 December 2022	-	4.30	-

## 10. MONETARY GOLD

	31 December 2023	31 December 2022
Deposits	-	18,900
Current Account	21,039	-
<b>Total</b>	<b>21,039</b>	<b>18,900</b>

The monetary gold is placed in current accounts (2022: deposits) with foreign banks. The increase of ALL 2,139 million compared to the previous year is a result of buying of the monetary gold (ALL 2,267 million) during the year as well as revaluation of monetary gold with market price at the reporting date (revaluation loss ALL 128 million), which is recognized in profit or loss, and accumulated to the revaluation reserve (see Note 22).

## 11. ACCOUNTS WITH/DUE TO THE INTERNATIONAL MONETARY FUND (IMF)

Accounts with the IMF	31 December 2023	31 December 2022
Quotas with IMF	17,593	19,879
Special Drawing Rights ("SDR") held	23,450	27,818
<b>Total assets</b>	<b>41,043</b>	<b>47,697</b>

Due to the IMF	31 December 2023	31 December 2022
SDR allocations	22,682	25,639
IMF securities account	12,465	14,083
IMF account No. 1	1,851	2,091
IMF account No. 2	1	1
Accrued interest	157	118
<b>Total liabilities</b>	<b>37,156</b>	<b>41,932</b>



Quotas with the IMF of ALL 17,593 million or SDR 139 million (2022: ALL 19,879 million or SDR 139 million) originate from the membership of the Republic of Albania in the IMF, according to the Law No.8269, dated 23 December 1997 'On the Bank of Albania', as amended.

The SDR holdings of ALL 23,450 million or SDR 186 million (2022: ALL 27,818 million or SDR 195 million) represent deposits with the IMF.

During 2020, in response to the two events, the earthquake that hit the country and the Covid – 19 pandemic situation, the Government of Albania requested and obtained an emergency financing from the IMF in the amount of SDR 139 million, corresponding to the purchase of 100% of Albania's quota under the Rapid Financing Instrument (RFI). The SDR holdings bear interest, which is determined on a weekly basis. The interest rate at 31 December 2023 is 4.103% p.a. (2022: 2.916% p.a.).

SDR Allocations of ALL 22,682 million or SDR 180 million (2022: ALL 25,639 million or SDR 180 million) represent amounts borrowed from the IMF with two tranches in August and September 2009, whose purpose is to provide immediate response to the short-term and long-term liquidity needs of the member countries. The SDR Allocations bear interest, which is determined on a weekly basis and is payable on a quarterly basis.

The IMF pays remuneration to members with remunerated reserve tranche positions, at 4.103% p.a. (2022: 2.916% p.a.). The reserve tranche position is calculated as the difference between Quotas in the IMF and the currency holdings in the IMF accounts, excluding holdings acquired as a result of the use of the Fund credit and holdings in the IMF account No.2. In August 2021, the IMF decided to have a SDR allocation to all Fund members to help build reserve buffers, smooth adjustments, and mitigate the risks of economic stagnation in global growth. The allocation of SDRs was distributed in proportion to members' paid Fund quota shares. To Albania, were allocated an amount of SDR 133 million or ALL 19,640 million. Based on the concept of SDR allocation the member has a high degree of flexibility of using it. If the member decides to use these (Bank of Albania or the Ministry of Finance), will bear the cost of using it (normally interest rate and not principal).

### ***Direct budget support provided by the IMF***

Funds provided for direct budget support by the IMF to the Government of Albania which are initially deposited in the Government accounts at the Bank, are not recognised as a liability of the Bank to the IMF. The Government assumes the obligation to repay the funds to IMF whereas the Bank processes such repayments on behalf of the Government. The IMF disbursed such funds in tranches during the years 2014 - 2017, as part of the EFF facility program approved by the IMF in favour of Albania and in the year 2020 in one payment, as part of RFI facility due to the Covid-19 pandemic situation. These tranches are used to provide direct budget financing to the Government of



Albania represented by the Ministry of Finance. The borrowing is repayable within 3 years, by the Albanian Government through the accounts of the Bank with the IMF. The Albanian Government shall deposit in its accounts at the Bank sufficient funds to repay all principal, interest and any other expenses associated with the above tranches as such repayments fall due. In relation to this borrowing, the Ministry of Finance issued promissory notes in favour of the IMF. The Government started to repay the facility in October 2018 and July 2023. As at 31 December 2023, the facility amounted to ALL 26,679 million (2022: ALL 42,143 million).

## 12. LOANS TO BANKS

	31 December 2023	31 December 2022
Reverse repurchase agreements	44,755	51,088
<b>Total</b>	<b>44,755</b>	<b>51,088</b>

At 31 December 2023 and 2022, reverse repurchase agreements between the Bank and local commercial banks have original maturities from one week to three months (2022: from one week to three months). No overnight loans to Banks as at 31 December 2023 and 2022.

## 13. TRADING ASSETS

Trading assets	31 December 2023	31 December 2022
Non-derivatives:		
Bonds of foreign agencies	2,959	3,127
Bonds of foreign governments and multilateral institutions	10,082	11,184
Derivatives:		
Interest rate future contracts	-	-
Foreign exchange forwards	-	2
<b>Total</b>	<b>13,041</b>	<b>14,313</b>

Trading assets are administrated by the International Bank for Reconstruction and Development ('IBRD') as stated in the agreement 'On the administration and technical assistance on investing the foreign reserve of the Bank of Albania' (Reserves and Advisory Management Program) signed between the Bank of Albania and IBRD on 23 September 2005. Investments in this portfolio are denominated in USD.

The annual interest rates for non-derivative assets as at 31 December 2023 and 31 December 2022 are as follows:

In %	31 December 2023	31 December 2022
USD	0.125 – 5.375	0.125 – 4.750



## 14. INVESTMENT SECURITIES

	31 December 2023	31 December 2022
Investment securities measured at FVOCI	486,787	485,221
<b>Total</b>	<b>486,787</b>	<b>485,221</b>
Expected Credit Losses (ECL)	(43)	(47)

Investment securities by type of issuer and security are presented as follows:

	31 December 2023	31 December 2022
Treasury Bills of foreign governments and multi-lateral institutions	-	27,519
Certificate of Deposit	-	6,225
Bonds of foreign banks and other institutions	32,082	35,953
Bonds of foreign agencies	34,937	33,441
Bonds of foreign governments and multilateral institutions	351,129	308,019
Treasury Bills of the Albanian Government	68,639	74,064
<b>Total</b>	<b>486,787</b>	<b>485,221</b>

Expected Credit Losses (ECL) by type of issuer and security are presented below:

	31 December 2023	31 December 2022
Treasury Bills of foreign governments and multi-lateral institutions	-	(1)
Certificate of Deposit	-	(17)
Bonds of banks and other institutions	(17)	(7)
Bonds of foreign agencies	(5)	(5)
Bonds of foreign governments and multilateral institutions	(21)	(17)
Treasury Bills of the Albanian Government	-	-
<b>Total</b>	<b>(43)</b>	<b>(47)</b>

The annual yields for each currency at 31 December 2023 and 2022 are as follows:

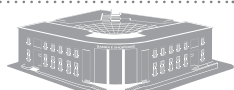
In %	ALL	USD	GBP	AUD	CNH	EUR	JPY
31 December 2023	3.25 – 3.36	0.00 – 7.38	3.30 – 5.54	3.61 – 4.71	2.45 – 3.06	1.88 – 4.43	(0.21)
31 December 2022	2.75 – 5.46	3.86 – 6.09	2.41 – 4.47	3.30 – 4.40	1.67 – 2.81	1.83 – 3.93	

Investment securities in ALL at 31 December 2023, represent Albanian Government treasury bills with a maturity period up to 12 months (2022: up to 12 months).

On December 31, 2022 the Bank has registered a security issued by the Ministry of the Finance with a nominal value of ALL 6,020 million, because as of 31 December 2022, the Bank's total of paid up capital and liabilities of the bank exceeds the assets by All 3,433 million. This transaction is done based on Article 7 of the Law No. 8269, dated 23 December 1997 'On the Bank of Albania', as amended, requiring the Bank and the Ministry of Finance and Economy to transfer negotiable securities to the Bank whenever the assets of the Bank decrease below its liabilities and Paid-in Capital.



Based on the Decision of the Supervisory Council of the Bank of Albania No. 14 , dated 06 March 2024, under the conditions that on December 31, 2023 the Bank assets doesn't fall below the sum of paid-up capital and its liabilities (liabilities to third parties excluding its sovereign and the IMF), this security has been compensated by the profit of the financial year, pursuant to Article 10, point 1, of the Law "On the Bank of Albania", which stipulates that after passing the amount of 25 per percent of the net profit in the general reserve fund according to Article 9, the remaining from the net profit for the financial year will be used to compensate the securities that have been given to the Bank of Albania in accordance with Article 7 of this Law.



## 15. PROPERTY, EQUIPMENT, RIGHT-OF-USE AND INTANGIBLE ASSETS

	Land, buildings and installations	Furniture and equipment	Vehicles	Work in progress	Numismatic coins and objects	Total property and equipment	Total Right of Use	Computer Software	Work in progress	Total intangible assets	Total
<b>Cost or deemed cost</b>											
At 1 January 2022	9,416	2,868	291	1,492	10,532	24,599	100	819	-	819	25,518
Additions	3	133	-	565	-	701	-	18	-	18	719
Transfers	-	-	-	(18)	-	(18)	-	(139)	-	(139)	(157)
Disposal	-	(46)	-	-	-	(46)	(100)	-	-	-	(146)
<b>At 31 December 2022</b>	<b>9,419</b>	<b>2,955</b>	<b>291</b>	<b>2,039</b>	<b>10,532</b>	<b>25,236</b>	<b>-</b>	<b>698</b>	<b>5</b>	<b>698</b>	<b>25,934</b>
Additions	-	69	-	484	-	553	-	3	-	3	561
Transfers	2,497	-	-	(2,497)	-	-	-	-	-	-	-
Disposal	-	(40)	-	-	-	(40)	-	(1)	-	(1)	(41)
<b>At 31 December 2023</b>	<b>11,916</b>	<b>2,984</b>	<b>291</b>	<b>26</b>	<b>10,532</b>	<b>25,749</b>	<b>-</b>	<b>700</b>	<b>5</b>	<b>705</b>	<b>26,454</b>
<b>Accumulated depreciation/amortization</b>											
At 1 January 2022	1,015	2,378	266	-	-	3,659	100	728	-	728	4,487
Depreciation/amortization	145	158	9	-	-	312	-	44	-	44	356
Disposal	-	(46)	-	-	-	(46)	(100)	(139)	-	(139)	(285)
<b>At 31 December 2022</b>	<b>1,160</b>	<b>2,490</b>	<b>275</b>	<b>-</b>	<b>-</b>	<b>3,925</b>	<b>-</b>	<b>633</b>	<b>-</b>	<b>633</b>	<b>4,558</b>
Depreciation/amortization	151	169	9	-	-	329	-	34	-	34	363
Disposal	-	(40)	-	-	-	(40)	-	(1)	-	(1)	(41)
<b>At 31 December 2023</b>	<b>1,311</b>	<b>2,619</b>	<b>284</b>	<b>-</b>	<b>-</b>	<b>4,214</b>	<b>-</b>	<b>666</b>	<b>-</b>	<b>666</b>	<b>4,880</b>
<b>Carrying amounts</b>											
At 31 December 2022	8,259	465	16	2,039	10,532	21,311	-	65	-	65	21,376
At 31 December 2023	10,605	365	7	26	10,532	21,535	-	34	5	39	21,574



## 16. OTHER ASSETS

	31 December 2023	31 December 2022
<b>Financial assets</b>		
Loans to employees, net	2,158	2,298
	<b>2,158</b>	<b>2,298</b>
<b>Non-financial –assets</b>		
Numismatics (banknotes and coins)	347	348
Deferred printing and minting costs	757	787
Inventory	21	22
Other	52	47
	<b>1,177</b>	<b>1,204</b>
<b>Total</b>	<b>3,335</b>	<b>3,502</b>

Loans to employees at 31 December 2023 are net of allowance for impairment of ALL 6 million (2022: ALL 6 million) (see Note 8(E)(vi)(b)).

## 17. CURRENCY IN CIRCULATION

The Bank is vested with the exclusive right of issuing Albanian currency. Currency in circulation comprises domestic banknotes and coins in circulation issued by the Bank.

The Bank has increased the operating capacities to guarantee the uninterrupted supply with coins and banknotes to economy. It has taken all the necessary decisions and has engaged all its structures to meet the market requests for cash, by simultaneously providing a sufficient stock with the purpose to counter the increasing needs of the economy. The following banknotes and coins were in circulation as at 31 December 2023 and 2022:

Nominal value ALL	31 December 2023		31 December 2022	
	Number in thousand	Total ALL (million)	Number in thousand	Total ALL (million)
Notes:				
100	3,396	340	3,399	340
200	16,538	3,308	15,920	3,184
500	19,456	9,727	20,176	10,088
1,000	27,216	27,216	31,261	31,261
2,000	35,943	71,887	38,813	77,626
5,000	49,803	249,013	48,890	244,450
10,000	3,960	39,600	2,774	27,740
Coins (1-100)		6,877		6,440
		<b>407,968</b>		<b>401,129</b>

## 18. DUE TO BANKS

	31 December 2023	31 December 2022
Reserve requirement and current accounts	206,731	189,602
Deposits	7,000	15,650
Reserve requirement – cash on custody	10,380	12,440
<b>Total</b>	<b>224,111</b>	<b>217,692</b>





In accordance with the Decision of the Supervisory Council No. 39, dated 25.06.2014, amended with Decision No. 11, dated 07.02.2018, the remuneration rate for the reserve requirement in ALL is 100% of the rate of the repurchase and reverse repurchase agreements, approved by the Supervisory Council as on the last day of the base period.

As at 31 December 2023, the interest rate is 3.25% (2022: 100% of the base rate or 2.75%). Based on the Decision No. 11, dated 07.02.2018 the remuneration rate for the reserve requirement in EUR held in EUR is equal to the deposit rate defined by the European Central Bank (ECB). As at 31 December 2023, the remuneration rate is 0% (2022: 0%).

As at 31 December 2023 the reserve requirement in USD is not remunerated (2022: not remunerated). Based on the Decision of the Supervisory Council, No. 29, dated 16 May 2012 "On the minimum reserve requirement held at the Bank of Albania by commercial banks", amended by the Decision No. 75, dated 06 July 2016, the Bank allows the commercial banks to maintain the reserve requirement in the form of cash in custody with the Bank.

## 19. DEPOSITS AND BORROWINGS FROM THIRD PARTIES

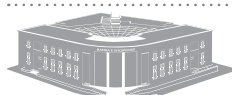
	31 December 2023	31 December 2022
Deposits from the Deposit Insurance Agency	1,872	1,974
Deposits from the pension fund	110	18
Deposits from individuals for participation in Treasury Bills auctions	15	15
<b>Total</b>	<b>1,997</b>	<b>2,007</b>

Deposits from the pension fund relate to the pension plan scheme, which is based on employees' contributions and employer's contributions. Based on the Decision No. 17, dated 26 February 2014 of the Supervisory Council the pension fund reports its financial statements separately from the Bank.

## 20. DUE TO GOVERNMENT AND PUBLIC INSTITUTIONS

	31 December 2023	31 December 2022
Profit to be distributed to the Government	-	-
Accounts and deposits of the Government	102,169	59,769
Due to state institutions	2,855	3,722
<b>Total</b>	<b>105,024</b>	<b>63,491</b>

Based on the agreement between the Bank and the Ministry of Finance and Economy, the Bank of Albania pays interest only for the time deposits placed by the Government of Albania, as well as for a guarantee deposit of ALL 500 million (2022: ALL 500 million) for which the interest rate is based on the decisions of the Supervisory Council. For these deposits the remuneration rate on 31 December 2023 is 1% (2022: 1%).



Profit to be distributed to the Government of Albania is detailed as follows:

	Note	31 December 2023	31 December 2022
<b>Net result for the period</b>		<b>(27,052)</b>	<b>(17,650)</b>
Transfer to reserves	22	36,147	14,571
<b>Profit/(Loss) of the year for distribution</b>		<b>9,095</b>	<b>(3,079)</b>
Distribution from other reserves	22	53	53
<b>Total to be distributed</b>		<b>9,148</b>	<b>-</b>
Total to be transferred for compensation of security (article 10 of the Law)	14	(6,257)	
<b>Total to be transferred to the Retained earnings/(Accumulated losses)</b>		<b>2,891</b>	<b>(3,026)</b>
<b>Total to be distributed to the Government</b>		<b>-</b>	<b>-</b>

## 21. OTHER LIABILITIES

	31 December 2023	31 December 2022
<b>Financial liabilities</b>		
Due to international financial institutions	523	603
Due to third parties	324	290
Accrued expenses	33	28
<b>Total financial liabilities</b>	<b>880</b>	<b>921</b>
<b>Non-financial liabilities</b>		
Provisions for claims and litigations	101	97
Grants	2	3
<b>Total non-financial liabilities</b>	<b>103</b>	<b>100</b>
<b>Total</b>	<b>983</b>	<b>1,021</b>

Balances due to international financial institutions include amounts payable to IBRD, International Development Agency ('IDA'), Multilateral Investment Guarantee Agency ('MIGA'), and Islamic Development Bank ('IDB').

## 22. RESERVES

	31 December 2023	31 December 2022
Paid-in Capital	2,500	2,500
Reserve for the Balance of Payments	7,209	7,209
Reserve of gold and precious metals	7,042	7,042
Reserve for capital deficit (Note 14 )	6,020	6,020
Legal reserve	12,500	12,500
Equity Adjustments on Transition to IFRS	5,450	5,450
<b>Net Realized Statutory Capital and realized Reserves</b>	<b>40,721</b>	<b>40,721</b>

Reserve for the Balance of Payments represents financial assistance provided by the European Community during the years 1992 and 1993. There have been no movements in such reserve since 1995.

The reserve for capital deficit represent a security issued by the Ministry of the Finance with a nominal value of ALL 6,020 million, because as of 31 December 2022, the Bank's total of paid up capital and liabilities of the bank exceeds the assets by All 3,433 million.



The reserve of gold and precious metals represents the reserve created based on the Law No. 9862, dated 24 January 2008 'On the transfer of ownership of gold and other precious metals from the Albanian Council of Ministers to the Bank of Albania'.

The legal reserve is created based on the requirements of Article 9 of the Law 'On the Bank of Albania', according to which, the Bank sets aside 25% of the net profit for the year into a Legal Reserve until the reserve amounts to 500% of the capital. The Bank achieved compliance with this requirement as at 31 December 2011 with its legal reserve amounting to ALL 12,500 million.

The Equity Adjustments on Transition to IFRS reserve of ALL 5,450 million (2022: ALL 5,450 million) was originally created based on the Decisions of the Supervisory Council of the Bank of Albania No. 19 and No. 20, dated 15 March 2018, as a result of the reallocation and allocation of the transition reserve.

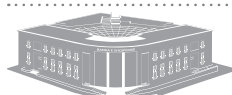
Net unrealized reserves represent exchange rate revaluations, fair value revaluation of securities and unrealized reserve for property revaluation, of amount ALL 2,135 (2021: ALL 2,188), created at the first time adoption of IFRS. For the year 2023, the amount of ALL 53 million is added to the year 2023 result and transferred to the "Losses carried forward (2022: the amount of ALL 53 million was added on reducing the accumulated losses)

	31 December 2023	31 December 2022
Exchange rate Revaluation Reserve Account	(56,713)	(20,566)
Fair value reserve (investment securities)	(2,396)	(13,922)
Revaluation Reserve for property and equipment	2,135	2,188
<b>Net Accumulated Revaluation Gains (Losses)</b>	<b>(56,974)</b>	<b>(32,300)</b>

Based on the point "a" and "c", Article 64 of the Law "On the Bank of Albania", the movement in the exchange rate revaluation reserve, results from the following items, which are initially recognized in profit or loss and then transferred to revaluation reserves:

	2023	2022
<b>Opening at 1 January</b>	<b>(20,566)</b>	<b>(5,995)</b>
Net foreign exchange losses, other than from trading assets and liabilities	(34,237)	(14,566)
Net foreign exchange losses from trading assets and liabilities	(1,783)	93
Net loss from changes in the fair value of monetary gold (Note 10)	(128)	(98)
<b>Closing at 31 December</b>	<b>(56,713)</b>	<b>(20,566)</b>

The decrease of ALL 36,148 million (2022: decrease ALL 14,571 million) in revaluation reserve is a result of the depreciation of the foreign currencies EUR, USD, GBP and the monetary gold versus the functional currency (see Note 8(E) (ii)).



*Negative revaluation reserve*

Given the negative balance of the revaluation reserve at 31 December 2023 and, pursuant to the requirements of clause "b", Article 64 of the Law 'On the Bank of Albania' (Note 7(N)) and a bilateral agreement with the Government of Albania, the latter shall issue debt securities upon request to cover the negative balance of the revaluation reserve after issuance of the external auditors' report on these financial statements.

Movements in Fair Value Reserve (investment securities) are reflected as below:

	31 December 2023	31 December 2022
<b>Balance at 1 January</b>	<b>(13,922)</b>	<b>(355)</b>
Change in Fair Value of Securities	11,526	(13,567)
<b>Balance at 31 December</b>	<b>(2,396)</b>	<b>(13,922)</b>

### 23. NET INTEREST INCOME

	2023	2022
<b>Interest income calculated using the effective interest method</b>		
Investment securities	11,147	3,243
Loans to banks	1,416	565
Deposits and current accounts with banks	2,064	268
Accounts with the IMF	1,067	415
Negative remuneration for reserve requirement	-	46
Negative remuneration for excess reserve requirement	-	274
Other	22	13
Negative remuneration for settlement account in AIPS EUR	-	33
<b>Total interest income</b>	<b>15,716</b>	<b>4,857</b>
<b>Interest expense</b>		
Reserve requirements	961	375
Due to the International Monetary Fund	898	321
Due to the Albanian Government	77	10
Deposits from third parties	222	99
Negative interest from deposits and current accounts with Banks	8	454
<b>Total interest expense</b>	<b>2,166</b>	<b>1,259</b>
<b>Net interest income</b>	<b>13,550</b>	<b>3,598</b>

Interest income from investment securities includes ALL 2,758 million (2022: ALL 1,307 million) of income from treasury bills issued by the Albanian Government and ALL 8,389 million (2022: ALL 1,936 million) of income from security lending and foreign reserve investment securities after accounting for the amortization of premium/discount.

Negative interest from deposits and current accounts with banks of ALL 8 million (2022: ALL 454 million) represents charges arising from negative yielding deposits and accounts placed with foreign banks.



## 24. NET TRADING INCOME

	2023	2022
Interest income from trading assets	196	145
Gain on sales from the trading assets	28	12
Loss on sales from the trading assets	(133)	(372)
Unrealized fair value changes	508	(335)
Net profit from forward and future contracts	283	585
<b>Total</b>	<b>882</b>	<b>35</b>

## 25. NET INCOME FROM SALES OF FINANCIAL ASSETS AT FVOCI

See accounting policies in Notes 7(A)(iii) and 7(E).

	2023	2022
Gain on sale of FVOCI debt investment securities	278	274
(Loss) on sale of FVOCI debt investment securities	(3,050)	(4,439)
<b>Net other income</b>	<b>(2,772)</b>	<b>(4,165)</b>

## 26. EMPLOYEE BENEFIT EXPENSES

	2023	2022
Employee salaries and compensations	1,354	1,254
Contributions for health and social insurances	141	124
Contribution for pension fund (see Note 19)	144	129
<b>Total</b>	<b>1,639</b>	<b>1,507</b>

As at 31 December 2023, the Bank had 609 employees (2022: 609 employees).

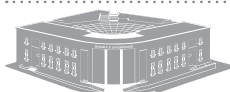
## 27. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	2023	2022
Repair and maintenance expenses	193	205
Amortization of currency printing and minting costs	249	248
Information expenses	116	114
Fees for third-party services	119	133
Other staff expenses	61	46
Transportation fees	32	25
Publication and membership expenses	15	13
Other expenses	41	11
<b>Total</b>	<b>826</b>	<b>795</b>

## 28. CONTINGENCIES AND COMMITMENTS

### (i) Reverse repurchase agreements

Reverse repurchase agreements, as at 31 December 2023, represented collateralized loans (see Note 12). The nominal value of the securities used as collateral as at 31 December 2023, was ALL 49,800 million (2022: ALL 62,000 million).



**(ii) Capital commitments**

As at 31 December 2023, the Bank has entered into capital commitments of ALL 0 million (2022: ALL 135 million) for the reconstruction of one of its buildings.

**(iii) Credit commitments and collaterals received from employees**

The total value of registered collateral for long-term loans extended to employees (see Note 16) at 31 December 2023 is ALL 3,059 million (2022: ALL 3,164 million). At 31 December 2023, unused credit commitments for employees amount to ALL 92 million (2022: ALL 98 million).

**(iv) Legal proceedings**

Claims against the Bank may be raised in the normal course of business. In two cases brought by third parties, although liability is not admitted, if the defence is unsuccessful, then certain amounts and legal costs would be paid by the Bank. The outcome of these actions and the amounts claimed by third parties has not yet been determined. The Bank estimates that no material losses will be incurred in respect of claims, in excess of provisions that have been made in these financial statements (see Note 21).

## 29. MANAGED ASSETS

At 31 December 2023, the Bank acts as custodian for short-term treasury bills with maturities from 3 to 12 months, with total nominal value of ALL 222 billion (2022: ALL 242 billion) and for long-term securities with maturities varying between 2 and 15 years, with nominal value of ALL 518 billion (2022: ALL 478 billion). These securities are issued by the Albanian Government.

## 30. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial and other decisions.

Considering each possible related party relationship, attention is directed to the substance of the relationship and not merely to the legal form.

The related parties of the Bank of Albania include the directors and members of the Supervisory Council. As at 31 December 2023 and 2022, balances with related parties comprised:



	2023	2022
<b>Loans to directors</b>		
Directors	116	123
<b>Total</b>	<b>116</b>	<b>123</b>

Loans to directors follow the terms and conditions applied to all employees of the Bank based on the policy and regulations in force. The mortgage loans are collateralized.

	2023	2022
<b>Administrative expenses</b>		
<i>Directors and Supervisory Council members:</i>		
Telephone expenses	5	5
Salaries and bonuses	169	154
Per diems	3	3
<i>Directors:</i>		
Fuel compensation	3	3
Contribution to pension plan scheme	16	14
<b>Total of administrative expenses for related parties</b>	<b>196</b>	<b>179</b>

Balances with/(due to) the Albanian Government and public institutions are disclosed in Notes 14 and 20, and related interest income from securities and interest expenses are included in Note 23. Promissory notes issued by the Albanian Government in favour of the IMF are detailed in Note 11, whilst securities issued by the Albanian Government and managed by the Bank are detailed in Note 28.

### 31. SUBSEQUENT EVENTS

There are no other significant events after the reporting date that may require adjustment or disclosure in the financial statements.



