

2018 YEAR IN BRIEF

- *The economic activity in Albania continued to improve. The Albanian economy grew by 4.3% during the first nine months of 2018, improving from the previous year. Economic growth reflected the expansion in consumption, investments and exports. Growth in electricity production also bolstered economic growth. Fiscal policy continued to be consolidated, supporting the reduction of both fiscal vulnerabilities and risk premia.*
- *Annual inflation averaged 2.0%, unchanged from 2017. Domestic factors, such as the expansion of aggregate demand, decrease of unemployment and increased production capacities contributed to the rise of inflation. On the other hand, the exchange rate appreciation and fluctuations in international prices contributed to the decrease of imported inflation.*
- *The rapid appreciation of the exchange rate, beyond the pace suggested by macroeconomic factors, characterised the first half of 2018. The continuation of this appreciation jeopardised the achievement of the medium-term objective. The exchange rate stabilised after interventions by the Bank of Albania. These interventions were considered extraordinary, and the exchange rate regime remains a free-floating one.*
- *The monetary policy enhanced the accommodative stance over 2018. The Bank of Albania reduced the policy rate by 0.25 percentage point to 1.00%, in June 2018. At the same time, for the purpose of achieving the price stability objective, the Bank of Albania decided to intervene in the domestic foreign exchange market to decelerate the rapid appreciation of the exchange rate.*
- *The monetary policy pass-through to the financial markets has been complete and the interest rates stand at low levels. Factorising the continuous positive contribution of the monetary policy to economic growth, the Bank of Albania expects a sustainable economic growth and the return of inflation to target within the medium-term horizon.*
- *The activity of both the banking sector and the financial system was stable. The ability of the financial system to withstand its activity risks remains good. Credit risk represents the main risk, but it has been downward. At end-2018, the non-performing loans ratio was down, at 11.1%, from 13.2% in the previous year.*
- *In February 2018, regulatory amendments were approved as measures to further strengthen the use of the national currency in both the financial system and the Albanian economy. A wider use of the national currency prioritises the effectiveness of the economic policies and reduces the financial risks.*
- *In September 2018, approval for the merger by absorption between Intesa Sanpaolo Albania and Veneto Banka, and between American Bank of Investments and NBG Albania was granted. The structural changes in the ownership in the banking system lowered the number of banks in the system to 14 (from 16 banks).*
- *The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) concluded the Fifth Round of AML/CFT Mutual Evaluation for measures in place in Albania, where the Bank of Albania participated actively. The effectiveness of financial institutions was rated as "substantial/considerable". In particular, banks have a good knowledge on money laundering and financing of terrorism risk, as well as on the relevant legal obligations.*
- *The regulatory framework on supervision has been amended for alignment with the Basel Committee principles and EU directives. In the framework of the national plan for reducing the non-performing loans, the Regulation "On addressing out-of-court settlement for non-performing borrowers that are exposed to more than one bank", has been drafted. In addition, improvements*



- to the Credit Registry are also under way.
- The resolution fund was established in January, in compliance with the legal requirement. The Resolution Fund is administrated by the Deposit Insurance Agency and is monitored by the Bank of Albania.
- In the framework of oversight and reformation of payment system, the regulatory framework on of electronic payment instruments was revised. The European Union Directive 2015/2366 (PSD2) was transposed into the draft-law "On payment services", which will be subject to formaladoption.
- In June, the National Payment System Committee (NPSC) approved the Albanian National Retail Payments Strategy (2018-2023).
- In the field of statistics, the Bank of Albania intensified its work for aligning the methodology of statistics with the international standards and their harmonization with the *acquis communautaire*. The financial accounts statistics of all institutional sectors were published for the first time in December, in compliance with the European System of National and Regional Accounts (ESA 2010). In November, the Bank of Albania was accepted as full institutional member of the Irving Fisher Committee on Central Bank Statistics.
- Over 2018, important Memorandums of Cooperation were signed: among others, with the ECB on banking supervision; with the Single Resolution Board (SRB) on the exchange of information and cooperation in relation with the Resolution planning; and with the EBRD on boosting lending in lek and the development of the capital market.

Two agreements: "On the establishment of a credit line in foreign currency with the Bank for International Settlements (BIS)"; and "On conducting SWAP transactions with the People's Bank of China", were signed.

- With the purpose to foster collaboration and discussion of central banking issues at regional level, a number of activities and events took place over 2018:
 - Launching of Project Greenback 2.0. One of the main components of the SECO-funded Remittances and Payments Program (RPP) in Albania, this project is a World Bank initiative for promoting accessible channels and cost-effective payment instruments for sending and receiving remittances.
 - Regional statistical seminar co-organized by the Bank of Albania and the European Central Bank (ECB). It provided an important forum for exchanging views on statistical requirements, formulating policies and discussing most recent developments on central bank statistics-related issues.
 - Conference on "Modernisation of retail payment systems in Albania". This conference was attended by representatives of international and national financial institutions as well as representatives from the business community. Its purpose was to introduce the market stakeholders with the objectives for reforming the market of retail payment systems.
 - Workshop on "Finances for Economic Growth". The experts of the World Bank have compiled a detailed diagnosis and a report with recommendations on the economic environment in which micro, small and medium-sized enterprises operate in Albania
 - Annual Conference: "Monetary Policy, Economic Integration and the "New Normal" of the Bank of Albania co-organised with the London School of Economics and Political Science (LSE). This Conference addressed experiences of emerging economies, which are part of the European Union, and those aspiring to become part of this Union in the light of the new economic and financial context.
 - Regional Conference on "Recovery and Resolution planning", co-organised with the Financial Sector Advisory Centre (FinSAC) of the



- World Bank. This Conference pointed out the work of the Bank of Albania for developing a complete framework for bank recovery and resolution.*
- *Second high-level meeting of the Bank of Albania with the Minister of State for the Diaspora, commercial banks, and non-bank financial institutions engaged in the field of money transfers. This meeting was held in the framework of the Memorandum of Understanding "On Remittances" signed last year by the Bank of Albania, the Minister of State for the Diaspora and the Ministry of Finance and Economy.*
 - *12th SEE Economic Research Workshop. This workshop aims to provide a discussion forum on innovative research for issues related to central banking.*
 - *On 3 November, six members of the Supervisory Council completed their term. The Assembly of the Republic of Albania voted and appointed the new Supervisory Council members in December.*
 - *In December, the Supervisory Council approved the Medium-term Development Strategy of the Bank of Albania for 2019-2021. In accordance with the objectives of this strategy, the Supervisory Council approved the planned medium-term budget.*

