

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 and improvement 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.

2021 was the year of economic rebound. This recovery was present in: the increased economic activity; the improved balance sheets of enterprises; the expanded employment; rise of wages; and the strengthened domestic inflationary pressures. In reflection, inflation pursued a gradual climbing trend over 2021. On the other hand, inflation picked up rapidly in the middle of fourth quarter, due to the price rises in international markets.

A range of factors, such as: reduced containment measures; improved business and consumer’s confidence, increased foreign demand, and the support with stimulating fiscal and monetary policies, underpinned the economic recovery. Particularly, the stimulating monetary policy enabled the reduction of financing costs and the stable growth of bank credit.

The economic outlook is positive. The consolidation of recovery factors, the gradual return of economy to equilibrium and of inflation to target, drive to the need for gradually reducing the macroeconomic stimuli and the normalisation of monetary and fiscal policy. Reduction of monetary stimuli will serve to safeguarding price stability, a crucial precondition for enabling a sustainable economic growth in the medium and long term.

2.1.1 MONETARY POLICY IN 2021

The Albanian economy recovered swiftly throughout 2021. According to INSTAT data, the domestic economic activity grew by 10.4% in the first nine



months of year, after the 4% contraction over 2020. This rapid growth rate was also affected by the low comparative base of 2020; in this period the Albanian economy was subject to restrictive measures in place to contain the spread of COVID-19 pandemic. Nevertheless, our analysis show that the recovery has gone beyond the base effect.¹ The increased volume of economic activity, in terms of both aggregate demand and sectoral framework, beyond the pre-pandemic and pre-earthquake levels illustrate this performance. It also shows the low impact of these shocks on the production capacities of Albania.

Economic recovery was broadly based. In terms of aggregate demand, it reflected the increase in consumption and private investments, expansion of exports and services, and the positive contribution of public expenditures. In sectoral terms, it reflected the simultaneous expansion in the activities of construction, industry and services.

Economic growth was accompanied by the increase in employment and wages. INSTAT data show, the number of employed persons rose by around 36,187 persons, or by 2.9%, during the first nine months of year. Excluding agriculture, the increase of employment was present across all other sectors of the economy. In parallel with these developments, unemployment rate dropped at 11.3% in the third quarter. The increase of the labour demand was reflected in the 5.6% rise of average wage during the first nine months of year.

Inflation has been climbing during 2021, in reflection of the domestic inflationary pressures and the upswing in prices in the international markets. In 2021, annual inflation averaged 2.0%, from 1.6 % in the previous year. Its upward trend reflected the growth of the demand, which drove to a gradual rise in employment, wages and core inflation². This inflation increased from 1.3% in December 2020, to 2.6% in December 2021. In parallel, the foreign inflationary pressure has been edging up in the second half of year, particularly in its last months, due to the sharp rise in food and energy products prices in international markets. These supply-side shocks drove inflation pushing up at 3.7% in December. Based on the available information, our analyses and projections suggest markets will normalise in the first half of 2022, and foreign shocks on inflation will have a transitory effect.

A broad gamma of factors underpinned the recovery of economy. The easing of containment measures due to the improved pandemic situation, progress in vaccinations, increased confidence, the improved external environment, and the relatively solid balance sheets of private sectors, paved the way for a rapid expansion in consumption, investments and Albanian exports.

¹ According to our calculations, the comparison with the low base of the economic activity during 2020 has yielded a positive statistical effect of four percentage points on the economic growth in the first three quarters of 2021.

² Core inflation is defined as an inflation estimate which omits the short-term fluctuations and one-time supply-side shocks. It represents the most stable part of inflation that is affected by the demand-side factors and consequently of monetary policy.

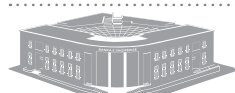
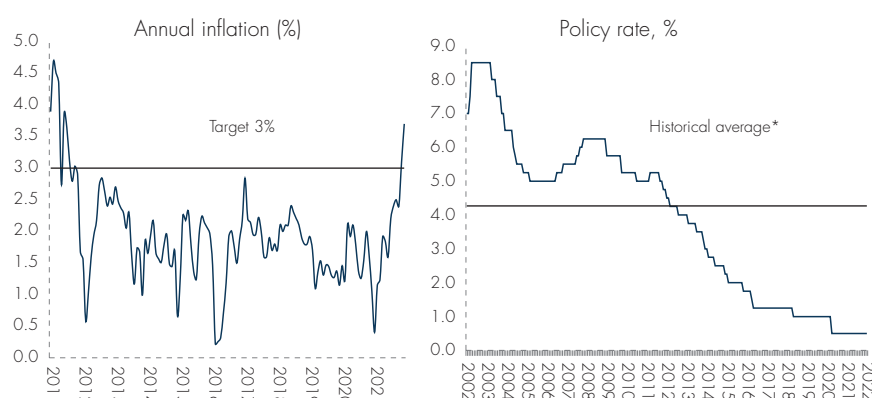


Chart 1 Inflation and policy rate (in %)



* Calculated by excluding the last two years, when the policy rate was cut at extremely low levels.

Source: INSTAT and BoA.

Particularly, the monetary stimulus have provided a vital support to the recovery process, in terms of both economic growth and safeguarding monetary and financial stability.

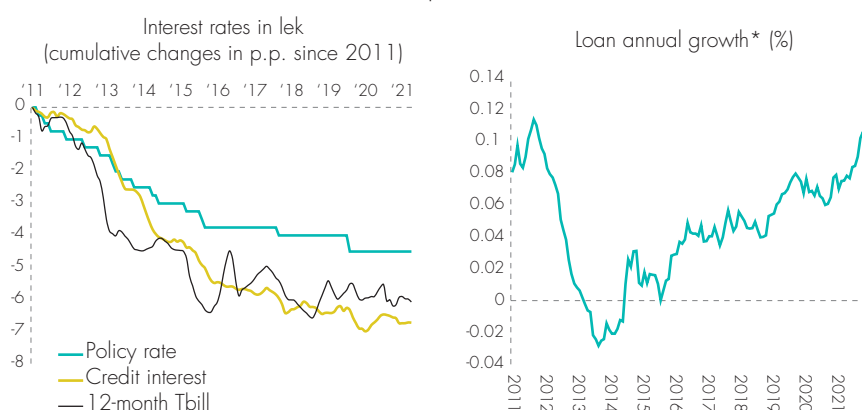
The monetary stimulus was managed through the conventional instruments of monetary policy. The policy rate remained at its historic lowest levels, of 0.5%, while the liquidity volume injected into the system increased. In parallel with them, the Bank of Albania continued to use forward guidance in the monetary policy stance.

The simulating monetary policy has continued to be transmitted in low financing costs and adequate lending conditions. Financial markets have functioned smoothly, lending costs to both public and private sectors have remained low, while the banking sector balance sheets appear sound. Also, the lek exchange rate appeared stable, reflecting a balanced ratio between the demand and supply in the market.

The monetary stimulus has enabled a rapid and sustained increase in lending to the economy. The volume of credit to private sector rose averagely by 8.4% over 2021, the highest growth rate since 2012. Its growth reflected the improved demand and the positive approach of banks to lending. In addition, lending structure has maintained certain positive features. First, credit expansion was relatively balanced towards beneficent, both businesses and households, and towards financing of investments and covering the short-term liquidity needs. Second, credit in lek continued to show high growth pace, which in turn helps increasing the monetary policy effectiveness and financial stability of the banking system. Third, the quality of credit portfolio to private sector has been improving, as illustrated by the progressive fall in the non-performing loans ratio. The latter dropped at 5.65% in December, by recording the lowest rate in the last decade.



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



*Reported credit adjusted for the foreign exchange rate movements and the written off loans.

Source: Bank of Albania.

Economic outlook for Albania remains positive. The economic activity is expected to growing, supported by: a favourable financial environment; relatively solid balance sheets of the private sector; and the further rebound in the global economic activity. Economic growth close to potential will provide for the increase of employment in line with market supply and rise of wages in line with our inflation target. Inflation is likely to remain temporary elevated, owing to developments in global markets, and to settle durably at the 3.0% target in the course of 2023, upon the normalisation of the situation in international markets.

Nevertheless, the upsurge in prices in the international markets constitutes a risk factor, to both inflation rate and growth momentum over the course of 2022.

BOX 1 MONETARY POLICY CONTRIBUTION IN ECONOMIC ACTIVITY AND INFLATION*

This box aims to provide an assessment of the impact of monetary policy on both economic activity and inflation throughout the period 2017-2021. Results from the assessment show an increasing effect of averagely 0.9 p.p. per year on economic activity and 0.7 p.p per year on inflation. In summary, conclusions are as follows:

- *The accommodative monetary policy stance has made a positive contribution during the period under review, with an average impact assessed at around of 0.9 p.p per year on the economic growth. The positive effect is a result of the low interest rates, low risk premia, uninterrupted lending to economy and increased competition of the Albanian exports.*
- *In 2021, the positive effect of monetary policy is assessed to be similar to that in the previous year, at around 1.3 p.p.*
- *The positive impact of monetary policy is translated into a higher trajectory of real GDP compared with its expected level in absence of monetary stimulus. Thus, the monetary stimulus has generated a volume of economic activity around 4.5 p.p. higher in 2021 Q3, from the expected level.*
- *Cumulative volume of real GDP for the 5-year period is assessed at 7.2 p.p. higher, as a result of the positive impact of monetary policy.*

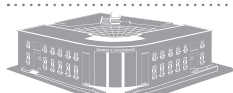
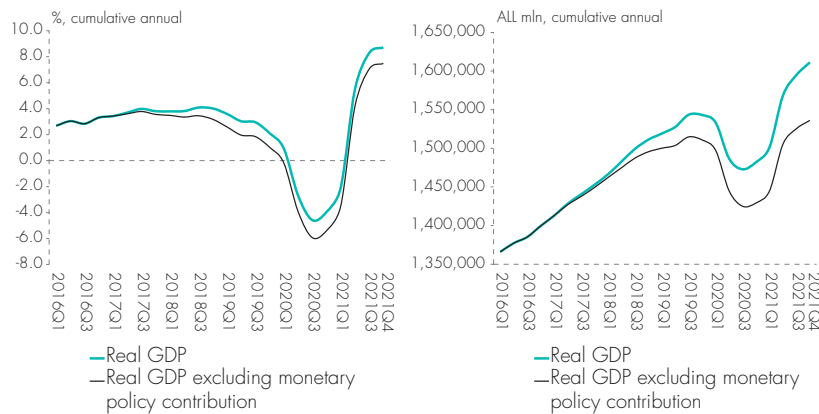
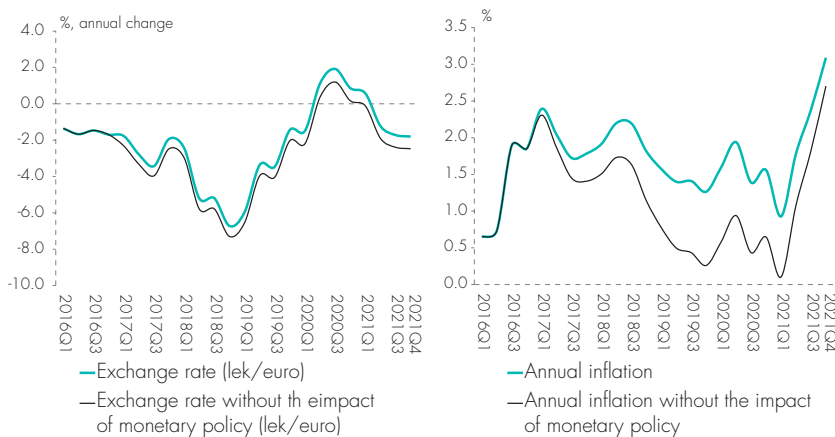


Chart 3 Cumulative economic growth, real and excluding monetary policy contribution (left); cumulative annual GDP, real and excluding monetary policy contribution (right)



- The accommodative monetary policy stance has curbed the appreciating trend of the exchange rate, with an average impact around 0.6 p.p per year, throughout the period.
- The monetary policy contribution for a higher economic activity and a more depreciating exchange rate has generated higher inflationary pressures. Annual inflation for 2017-2021 was assessed to be higher, by 0.7 p.p., on average, due to the impact of the monetary policy.

Chart 4 The exchange rate lek/euro (left) and annual inflation (right), real and without the contribution of the monetary policy



* A more detailed theoretical description of the channels of monetary policy impact on economy and the methodology implemented to assess the impact is addressed in the previous publications on measurements of the monetary policy impact^{**}. These assessments were carried out through the monetary policy model (MPM) used by the Bank of Albania for medium-term projections.

** For a more detailed discussion on the impact channels and methodology see "Box 1: Monetary policy in Albania and its contribution to economic growth", Annual Report 2017, page 27; and "Box 1: Monetary policy and its impact on the economy", Annual Report, 2019, page 24.

¹ For more information about MPM model, see: Hledik, T.; Kika, E. & Mitre, O. (2021), The Albanian medium term projection model, Bank of Albania Working Paper, 45(84) https://www.bankofalbania.org/rc/doc/Hledik_Kika_Mitre_The_Albanian_Medium_Term_Projection_Model_18790.pdf



In 2021, the Bank of Albania has continued the work on strengthening the analysing, forecasting and research capacities in the monetary policy field. Investment in this regard aims at heightening the effectiveness and flexibility of monetary policy and helps its rapid adoption with a dynamic and complex economic and financial environment. In 2021, an increased attention was paid on:

- improving the quality of economic and financial analyses, through the interconnection with a broad gamma information argued by experts and empirical results from research work;
- increasing the accuracy of forecasts and their completion with alternative and risk scenario, through enriching the forecasts models and application of new assessing methods;
- improving the monetary policy report. This, report has already a new structure, a concise content and a simpler language. This report is a product of the twining project " Enhancing Bank of Albania's alignment with EU Acquis";
- close collaboration with national and international partners, for a better coordination of the implemented policies and increase of their effectiveness.

In the next year, our priorities will aim at further improving the economic and financial analyses quality; boosting financial markets; and strengthening communication with public. Progress in these regards, will contribute in formulating and effective; efficient and coherent monetary policy.

2.1.2 ECONOMIC ACTIVITY

The economic activity rebounded rapidly during the first three quarters of 2021. The economic growth was rapid and broadly-based. In sectoral terms, almost all economic sectors grew swiftly and exceeded the activity volume generated before the shocks. On the demand side, economic growth has reflected the expansion across all its components: consumption and private investments; exports of goods and services; and public investments.

GDP expanded by 10.4% in the first three quarters of 2021, after the contraction by 4.0% in 2020³. Economic growth was particularly high in the second quarter (18.4%), also affected by the effect of the low comparative base of the same quarter in the previous year, and slower in the third quarter (7.0%). Growth rates are expected to be contained in the last quarter of 2021, which is assessed to not be affected by the effects of the comparative base.

³ The information published by INSTAT on gross domestic product by the method of production and expenditures cover developments to the third quarter 2021, published on 26 December 2021.

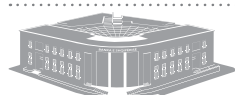
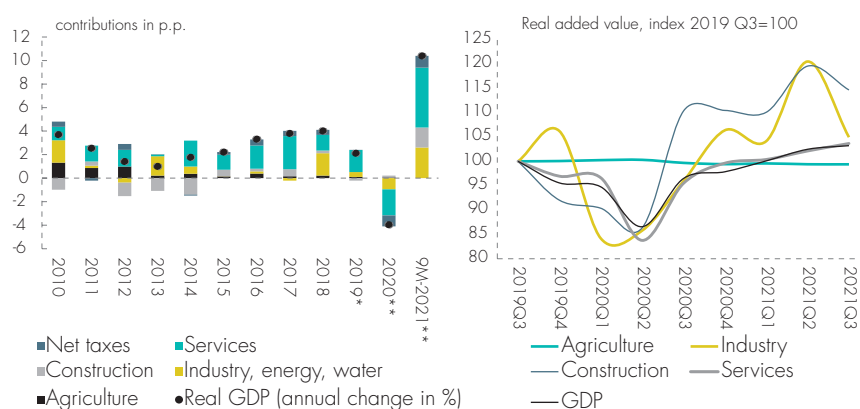


Chart 5 Economic activity by sectors (left) and real value added (right)



Source: INSTAT and BoA.

Note: *Year 2019, semi-final data ** Years 2020 and 2021, first assessment.

Economic growth has been broadly-based, underpinned by the expansion in both production and services.

Production sector, whose recovery started relatively earlier, has generated a contribution of 4.3 percentage points in the growth. In this regard, sectors of "Industry" and "Construction" provided a strong impact, while "Agriculture" had no contribution in the growth.

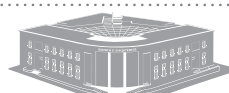
Services⁴ provided more pronounced contributions since the second quarter of 2021, in reflection of the considerably alleviated restrictive measures on the international movement of travellers, thus affecting the growth in tourism. Overall, the contribution of services in economic growth is estimated at 5.1 percentage points, particularly the branch of "Trade, transport, accommodation and food service", which includes the services related to tourism, as, bar-restaurants and hotels. Also, other branches of services provided positive impacts.

Table 1 Real growth (in %) and contributions of components (in percentage points)

	2016	2017	2018	2019	2020	2021 Q1	2021 Q2	2021 Q3
Agriculture	0.4	0.2	0.2	0.1	0.1	0.0	-0.2	0.0
Industry, energy, water	0.2	-0.2	1.9	0.4	-1.0	2.6	4.2	1.1
Construction	0.2	0.6	0.2	-0.2	0.2	1.3	3.5	0.4
Services	2.0	2.8	1.2	1.8	-2.3	2.0	9.1	4.2
Net taxes	0.5	0.5	0.4	0.0	-0.9	-0.2	1.8	1.3
Real growth	3.3	3.8	4.0	2.1	-4.0	5.6	18.4	7.0

Source: INSTAT and BoA.

⁴ The main branches of services are: "Trade, transport, accommodation and food service", "Information and communication", "Financial and insurance activities", "Real estate activities", "Professional activities and administrative services", "Public administration, education and health", "Art, entertainment, recreation and other service activities".



Both consumption and investments have boosted the recovery of the domestic demand.

Domestic demand expanded by 8.2% in the first nine months of 2021, by considerably recovering the contraction recorded at the peak of the pandemic during 2020. This growth has reflected the simultaneous expansion in investments, private consumption and public consumption. The gradual reduction of restrictive measures, the accommodative macroeconomic policies and the improved confidence underpinned the consumption growth of enterprises and households.

Table 2 Real growth (in %) and contributions of demand components (in percentage points)

	2016	2017	2018	2019	2020	2021 Q1	2021 Q2	2021 Q3
Private consumption	1.6	1.9	2.4	2.4	-1.8	1.3	9.5	2.6
Public consumption	0.5	0.4	0.1	0.3	0.2	0.8	1.4	0.9
Investments	0.6	1.5	0.6	-0.9	-0.5	3.8	8.0	0.9
Net exports	0.0	0.0	0.2	-0.2	1.0	-2.7	4.1	2.4
Inventories and statistical discrepancy	0.6	0.1	0.8	0.6	-2.8	2.4	-4.7	0.2
Real growth	3.3	3.8	4.0	2.1	-4.0	5.6	18.4	7.0

Source: INSTAT and BoA.

Private consumption grew by 5.2% during the first three quarters of 2021.

Over the course of 2021, the private consumption recovered the pre-pandemic levels over 2021, thus becoming the main contributor in the expansion of aggregate demand. Consumption expansion was reflected in a strong increase of spending for services and in the normalisation of spending for long-term consumer goods. The reduced restrictions, the decreased uncertainty, the increased employment and wages and the favourable financing conditions underpinned the consumption growth in 2021.

Investments grew by 21% during the first three quarters of 2021.

The strong upsurge in investments, started since in the second half of 2020, continued also over the first nine months of 2021. The increased capacity utilisation rate, due to the expansion in consumer demand and exports, the favourable financing conditions, and the strengthened business confidence, resulted in the growth of investments of private sector. In parallel with them, the continued reconstruction programme and other infrastructural projects drove to the expansion of public investments.⁵ Expansion in “residential construction” continues to affect the investments of private sector. This Conclusion is based on the indirect data for the construction permits.⁶ On the other hand, statistics on the import of goods display the positive impacts from investments in “Machinery and equipment”.

⁵ INSTAT does not publish investment data divided into public and private component. The analysis of these components is based on the indirect assessments from the statistics published by the Ministry of Finance and Economy, detailed for the local and central government.s

⁶ Data available till 2021 Q3 (INSTAT).

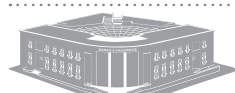
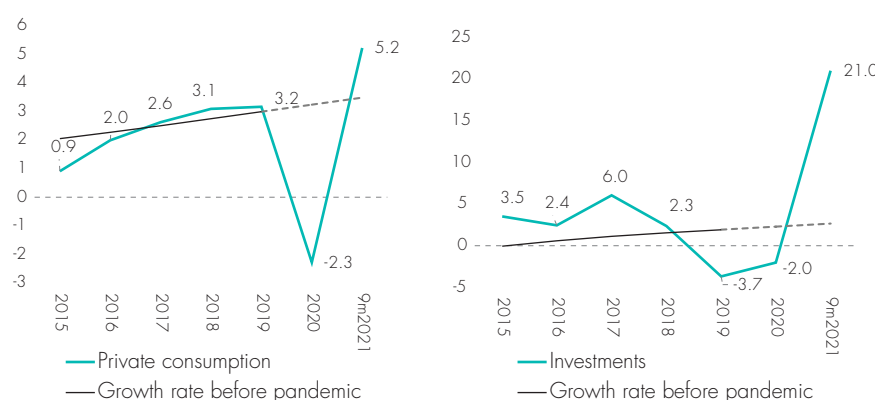


Chart 6 Consumption and investments (annual change)



Source: INSTAT and BoA.

Note: The growth trend is calculated for the increasing annual rates of consumption and investments for the 10-year period 2010-2019.

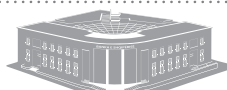
Fiscal deficit consolidated slightly in 2021, by generating a negative fiscal stimulus in the economic growth.

Both current and capital spending grew in the course of 2021. Nevertheless, the rapid expansion of revenues and the incomplete realisation of spending plan resulted in a lower budget deficit than the planned and recorded level in the previous year. These developments resulted in high liquidity surplus of the Government and contained the growth of public sector's net debt.

Year budget 2021 projected a positive fiscal stimulus, in the form of rapid growth in current spending and public investments, and reflected in a deficit value being projected at around 6.8% of GDP. Nevertheless, budget deficit was at 4.7% of GDP at the end of year, or ALL 86 billion from the planned ALL 120 billion, recording a fall from the previous year level. This performance - on one hand- reflected the fast increase in revenues, which were affected by the recovery of both consumption and economic activity on Albania, the improved labour market indicators, and the upsurge in prices of main commodities in international markets, and - on the other hand - the lower increase than planned of public expenditures. Thus, fiscal incentive had a negative value, assessed at around 1.3 percentage points of GDP.

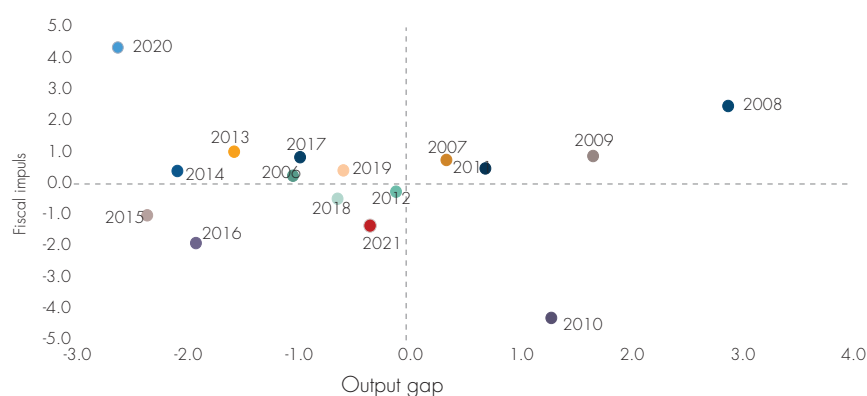
The increase of borrowing in the domestic market and external market enabled debt financing. In line with the schedule approved at the beginning of year, the portfolio of Government securities issued in the domestic market grew by around ALL 49 billion. The expanded borrowing in long-term instruments - dominated by bonds with maturity of 3 -and 10-year - provided the main share in this growth, around 97%.⁷ During the year, the bond with maturity of 15-year, amounting ALL 1.1 billion, was added to the gamma of debt instruments in the domestic market. In 2021, the issuance of 10-year Eurobond (amounting EUR

⁷ The increase of borrowing in 3-and 10-year bonds formed around 71% of total borrowing in the domestic market.



650 million), budget support from international partner (at around EUR 350 million), and other long-term loans designated for projects, were the main three sources enabling the foreign borrowing. Borrowing above the budget deficit has created high excess liquidity of Government, at around 4% of GDP, which were transferred to be used during 2022.

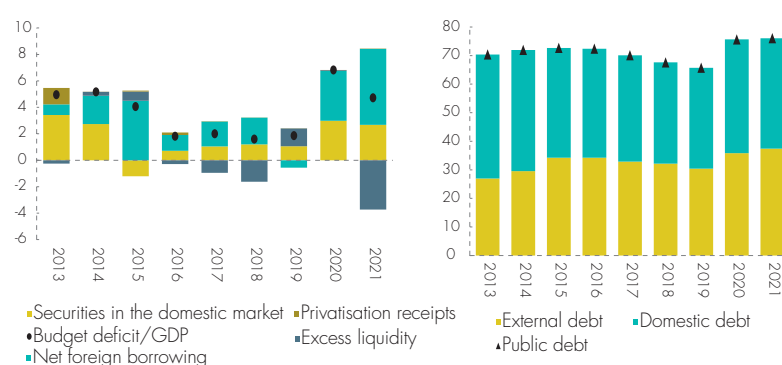
Chart 7 Fiscal impulse and the nature of fiscal policy*



*For the methodological details, refer to the "Fiscal policy and business cycles" box in the Bank of Albania's Annual Report for 2017. Fiscal impulse presented in vertical axis, is assessed as the difference of corrected primary deficit for business cycles from a year earlier. Source: Ministry of Finance and Economy, INSTAT, and BoA's calculations.

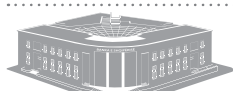
Public debt ratio to GDP⁸ reached at 76.1%, as at end of 2021, slightly up by 0.4 percentage point from the previous year. Foreign public debt in terms of GDP increased by around 1.6 percentage points, assessed at around 37.4% of GDP. Domestic public debt ratio to GDP reduced by 1.2 percentage points.

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



*The data of debt is referred to the nominal values of debt in the Debt Statistical Bulletin publication of MoFE for 2021 Q4. Source: INSTAT, MFE and BoA's staff calculations.

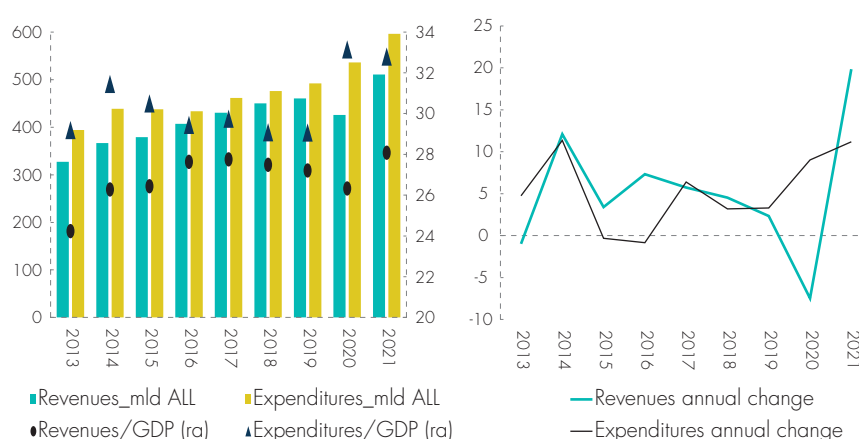
⁸ GDP as published by INSATAT for the three first quarters and BoA's estimations are employed to construct the ratios in terms of GDP. GDP annual level according to this assessment is different from the one used by the Ministry of Finance and Economy, which is referred to the recent assessments of GDP by the IMF in the World Economic Outlook, October 2021. GDP publication for the third quarter by INSTAT was still unavailable by the time WEO was published.



Budgeted expenditures in 2021 resulted around ALL 596 billion, expanding by around 11.2% from the previous year. Public investments and Reconstruction Fund affected 48% of their growth⁹. Special fund item, in reflection of increased expenditures for health system and pension scheme in Albania, provided a 3.7 percentage points impact on the increase of total expenditures.

In 2021, fiscal revenues amounted ALL 510 billion, assessed at 28.1% of GDP, the highest rate recorded in years. Annual growth of revenues in 2021 was around 20%. VAT revenues contributed by around 7.3 percentage points in total growth. Also, other revenue items, both tax and non-tax revenue, provided a positive impact on total growth, reflecting the low comparative base of the previous year, coupled with the favourable macroeconomic conditions.

Chart 9 Revenues and expenditures



Source: INSTAT, MFE and BoA's staff calculations.

BOX 2 DETERMINANTS OF PUBLIC DEBT TRAJECTORY IN ALBANIA

The COVID-19 pandemic notably worsened the fiscal positions across all countries in the world. The fall in budget revenues and the simulating fiscal policies, being implemented to: cope with expenditure on health; support employment and sectors being affected from the pandemic; in both forms, direct spending and sovereign guaranties, were translated into high fiscal deficit and increased public debt. Beyond the upswing in debt stock, its ratio to GDP pushed up due to the reduced value of GDP.

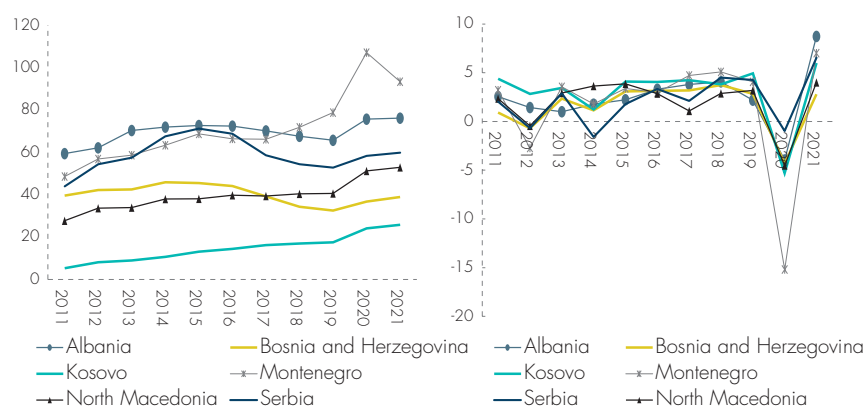
Similarly to global experience, public debt across regional countries experienced a rapid upsurge in 2020 and somewhat slower in 2021. In figures, public debt to GDP ratio in Albania climbed by around 10 percentage points in 2020, and 0.4 percentage point in 2021, reaching at 76.1%. Also, the average of public

⁹ Around ALL 30 billion from public budget were allocated for the construction of building and public infrastructure damaged from the earthquake of November 2019.



debt in regional countries is assessed at around 58% of GDP in 2021, around 10 percentage points higher than the pre-pandemic level, in 2019.

Chart 10 Public debt in % of GDP (left), and real economic growth (right)

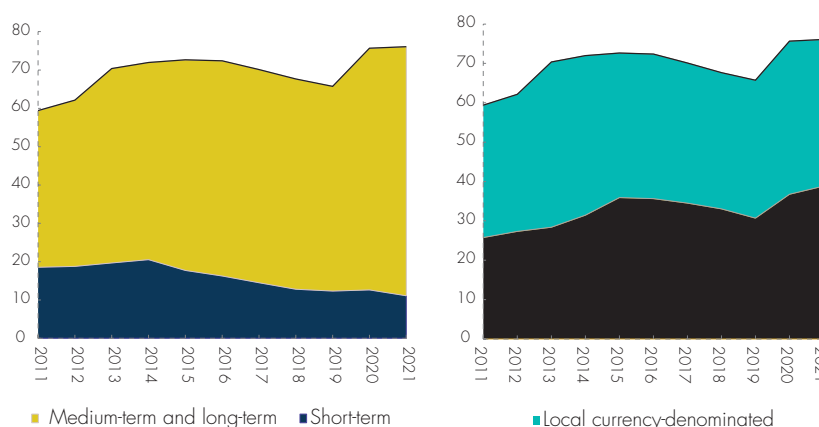


Source: FMN, WEO October 2021 database, MFE, INSTAT.

The following provides an analysis of the factors backing the public debt growth in Albania in the last 10 years.

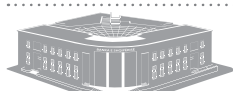
Excluding the period 2017-2019, public debt in Albania has shown an increasing trend in the last decade (Chart 11). The debt financing structure shows an increase in the share of medium-term and long-term debt, by reducing the risk of re-financing and interest rates, also a rise of external debt share, by heightening the exchange rate risk.

Chart 11 Structure of public debt by maturity (left) and currency (right)

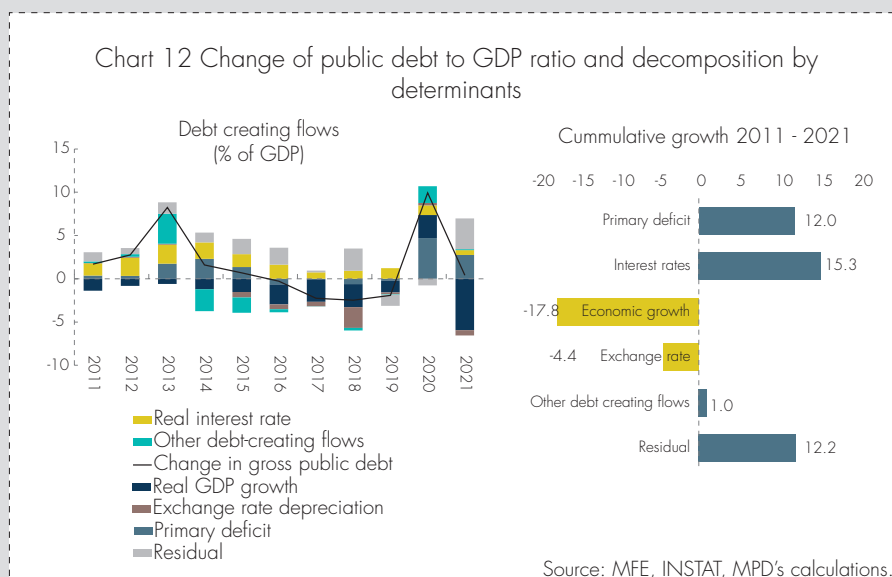


Source: Ministry of Finance and Economy, MPD calculations.

Chart 12 illustrates the contribution of various factors in the dynamic of public debt to GDP ratio in years. The increase by around 0.4 percentage point of public debt to GDP ratio in 2021, was affected by: (i) the relatively high level



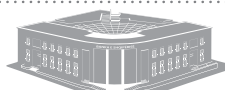
of primary deficit (around 2.7 percentage points); (ii) excess funds of external borrowing which were transferred to be used in 2022 (around 3.5 percentage points); and (iii) the real interest rate effect on debt (around 0.6 percentage point). By contrast, the reduction of public debt to GDP ratio was affected by: (i) economic growth momentum (around 5.9 percentage points); and the lek appreciation against the euro (around 0.6 percentage point).



The right panel of Chart 12 shows the cumulative effect of each factor on public debt level in the period 2011-2021. The 18.4 percentage points cumulative increase of public debt to GDP ratio is mainly attributed to real interest rates paid on debt (15.3 percentage points); the negative primary deficits, which were dominant during the period (12 percentage points); and by the residual term (12.2 percentage points), which represents excess liquidities of government, change of GDP deflator from inflation; and the impact of financial markets fluctuations, which are not explicitly modelled in this methodology, in the value of public debt. At the same time, the GDP growth and the exchange rate strengthening have contributed in the reduction of public debt to GDP ratio by 17.8 and 4.4 percentage points, respectively.

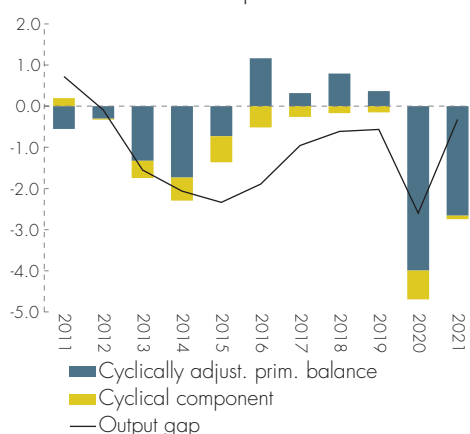
Fiscal sustainability is crucial to the economic and financial balance of a country. This indicator becomes considerably important in conditions when public finances suffer the temporary deterioration of fiscal positions coupled with the unfavourable perspective of demographic trends.

For this reason, a full analysis of the role that fiscal policy stance has on the public debt dynamic is needed. To conduct this analysis, it is important to distinguish the discretionary component and nondiscretionary component of fiscal policy. Discretionary component implies the fluctuations in the level of public revenue and expenditure, and consequently in primary deficit, over the course of business cycles. In an intuitive manner, if the economy is below its potential, public income tend to reduce and social protection spending (for example, unemployment payments) tend to increase. If the economy is above its potential. Budget revenues tend to be higher, expenses lower, and primary deficit also tends to be lower. On the other hand, discretionary component of fiscal policy includes the dynamic of deficit, which is independent form the fluctuations of fiscal indicators during the business cycles. The increase or decrease of public



investment volume and either temporary tightening or easing of taxes are typical examples of discretionary policy.

Chart 13 Decomposition of primary balance into discretionary component and cyclical component



Source: MPD's calculations.

To make the difference, we have calculated the fluctuations of cyclically-adjusted primary deficit of business (discretionary component) and their impact on primary deficit (nondiscretionary component).¹

Chart 13 shows that nondiscretionary component of fiscal policy has affected the increase by 3.3 percentage points of public debt to GDP ratio in the last decade. In other words, the insufficient utilisation of production capacities in economy has resulted in lower public income and higher fiscal expenditures compared with a "normal" situation, where the economy functions in equilibrium. Nevertheless, this component explains only around 25% of the total contribution of 12 percentage points that fiscal policy has had in the growth of budget level. The rest represents a discretionary fiscal stimulus, which - it should be emphasised - is generated at the most part to help economy return to equilibrium.

The above analysis suggests that fiscal policy in Albania has sufficient space to undertake discretionary fiscal policies, oriented towards the reduction of public debt. The convergence of economy close to its potential level should open the way to more active fiscal policies in this regard.

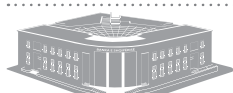
¹ The decomposition relies on the approach applied by the International Monetary Fund (2013) to analyse the macroeconomic determinants of debt dynamic.

² Gazidede A., 2013 "An alternative method of assessing the fiscal position in Albania: The budget balance corrected for business cycles" (2013).

The balance of trade exchange with abroad improved by 6.5% in real annual terms during the first three quarters of 2021¹⁰.

Foreign trade provided a positive impact on GDP growth during this period, mainly driven by the increase in the export and services. Net exports have generated a positive contribution in the economic growth in the first nine months of 2021. The 55.0% growth of total exports - affected by the 54.6% increase in the export of services and the 56.1% increase in the exports of goods - determined this performance. The flows of income from tourism urged the expansion in the export of services. Also, the export of goods continues the recovery trend started since the second half of 2020, by showing a broadly-based growth in the exports items. On the other hand, imports also showed a high annual growth (31.2%). In this regard, the import of goods, with an annual growth of 28.2%, provided the main contribution. Meanwhile, the growth in the import of services remains low.

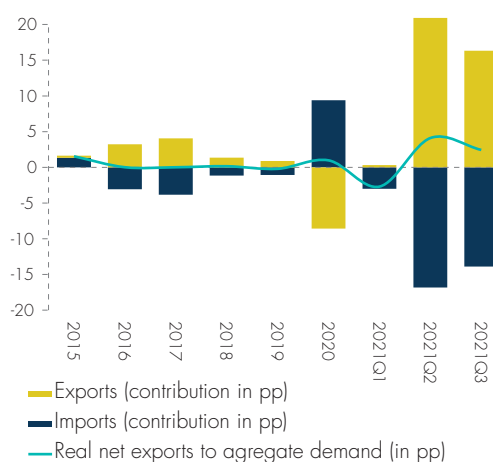
¹⁰ Statistics in real terms of trade balance originate from "National accounts" and are relevant to the first nine months of 2021.



Trade exchange of goods with abroad grew rapidly during 2021¹¹. The recovery from the pandemic, coupled with the considerable upraise in prices in international markets, particularly during the second half of year, affected this growth. Both exports and imports have been characterised by high annual growth rates. The highest share that imports have in the trade balance of goods has driven the deficit of this balance expanding by 29.6% in annual terms.

In 2021, the annual growth in the export of goods resulted at 35.6%. The categories "Construction materials and metals", and the category "Minerals, fuels and electricity" provided the main contributions in this growth. In both cases, the upsurge in international prices of these products, particularly in the second half of year, are assessed as important factors driving to this growth. Category of "Textile and footwear", which has the main share in the export of goods, has continued to face difficulties in terms of recovery over 2021, thus standing below the pre-pandemic levels

Chart 14 Net exports



Source: INSTAT and BoA.

Chart 15 Annual growth of exports (left) and imports (right) of goods with contribution of categories



Source: INSTAT

Imports of goods grew by 32.3% in annual terms during 2021. In this case, categories provided broad-base contributions. The increase in international prices of fuels and electricity has driven the category "Minerals, fuels and electricity" to lead the contributions of imports. The categories related to the domestic construction sector - as the latter has been quite active throughout 2021 - have also provided significant increasing contributions. In addition, pharmaceuticals products, mainly related to the continuation of vaccines import, has also provided positive contributions in this regard.

¹¹ Data on the trade of goods throughout 2021 are in nominal terms, consequently they are different from those which are analyzed in the previous paragraph.



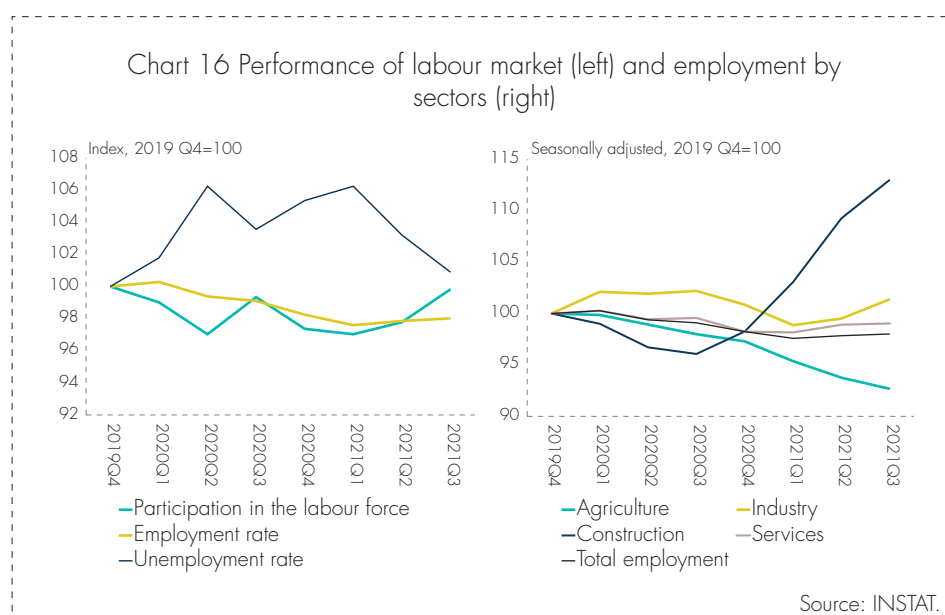
The map on the geographical dissemination of trade exchanges shows that the share of trade with Italy has declined, mainly due to the yet non-good performance of "Textiles and wear". Meanwhile, exports with other neighbors, like: Greece, Kosovo, North Macedonia, have been more stable, even with slightly positive contributions.

2.1.3 LABOUR MARKET

The fall in unemployment rate, the gradual rise in wages and the increase of employment after 2021 Q1, characterised the performance of labour market in 2021.

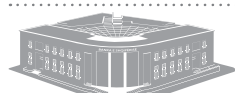
Employment, after the frequent fluctuations throughout 2020 and in 2021 Q1, returned to the positive increasing rates during the second and third quarter of 2021. Nevertheless, employment decreased averagely 0.3% in annual terms for the first nine months of 2021¹². Employment recovery in the second and third quarters was pronounced in the sectors of industry, construction and services. In contrary, agriculture pursued a reducing trend.

Expansion of employment was accompanied with the fall in unemployment rate during 2021. As at end of 2021 Q3, unemployment rate stood at 11.3%, from 11.9% in 2021 Q1. The number of unemployed persons is approaching to the pre-pandemic level. At the same time, participation in labour force has been increased, and inactivity rate has been reduced, reversing the performance in 2020¹³.



¹² Based on INSTAT publication "Quarterly Survey on Labour Force" - 2021 Q3.

¹³ The mitigation of the pandemic situation, during 2021, affirmed the return at the job placed of the most part of persons being categorised as "inactive".

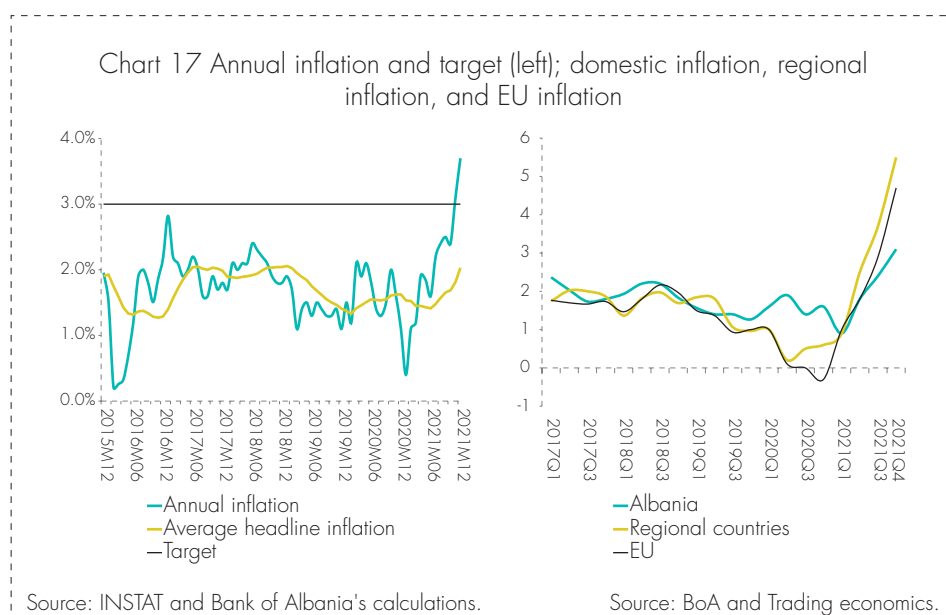


The increased demand of enterprises for work and the decreased unemployment rate have built up pressures on the increase of wages. Annual average increase of nominal wage is calculated at 5.6% in the first three quarters of 2021. Adjusted with the inflation rate, the annual growth of real wage is calculated at 3.9%. All sectors of economy have provided positive contributions in this regard. A pronounced acceleration is noted in the third quarter. The annual increase of wages reached at 6.9%, mainly affected by the private sector.

2.1.4 INFLATION AND ITS DETERMINING FACTORS

Annual inflation averaged 2.0% in 2021, from 1.6% a year earlier. The increase in inflation was driven by domestic-origin factors of the demand and external origin supply factors. Domestic inflationary pressures strengthened gradually, following the recovery of the demand and increase in employments and wages. On the other hand, the acceleration in the prices of commodities, foods and the higher production and transport costs in international markets, built-up the supply-side inflationary pressures, particularly in the last quarter.

The gradual hiking trajectory of inflation during 2021 reflected the gradual strengthening of the domestic inflationary pressures, in response to the recovered demand, coupled with the increased costs of production and services. Improvements in labour markets and the increase in wages, although contained, are assessed to have generated upward domestic inflationary pressures. Meanwhile, acceleration in prices of foods, energy and transportation costs in international markets, during 2021, have increased the supply-side pressures.



Inflation is expected to remain above the target in the short run, by reflecting the pressures from the increased operating costs chain in prices of both domestic



and imported products and services. Meanwhile, inflation, in a longer term, is expected to gradually decline towards the target, in reflection of the mitigated supply-side chocks and gradual closure of the output gap.

Group of foods and energetic goods mainly determined the value of inflation.

Group of “foods” continued to provide a considerable contribution (70%) in determining inflation. In this group, “Processed foods” provided the largest contribution during 2021. The upswing in foods prices in international markets affected the increase of prices in this category. The sub-group “Bread and grains” dominated their increased contribution. The category of “Unprocessed foods” provided a lower contribution from the previous years, but highly volatile during the year.

*Table 3 Contribution of key items to annual inflation (p.p.)**

	Average contributions by year					Average contributions by quarter - 2021				Annual inflation 2021 (%)
	2016	2017	2018	2019	2020	T1	T2	T3	T4	
Processed food	0.3	0.2	0.2	0.5	0.6	0.6	0.4	0.6	0.9	3.2
Unprocessed foods	1.2	1.0	0.9	0.9	0.8	0.3	0.9	1.0	1.0	4.2
Services	0.2	0.1	0.1	0.1	0.2	0.1	0.2	0.2	0.3	1.3
Goods with regulated prices	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Housing lease	0.1	0.3	0.1	0.2	0.1	0.1	0.1	0.2	0.2	0.7
Non-food consumer goods	0.2	0.3	0.1	-0.2	0.2	-0.3	0.1	0.3	0.6	1.5
Durable consumer goods	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	1.1
Inflation (%)	2.0	2.0	1.4	1.6	2.0	0.9	1.8	2.4	3.1	2.0

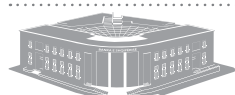
Source: INSTAT and BoA.

*The table shows some of the main groups of items.

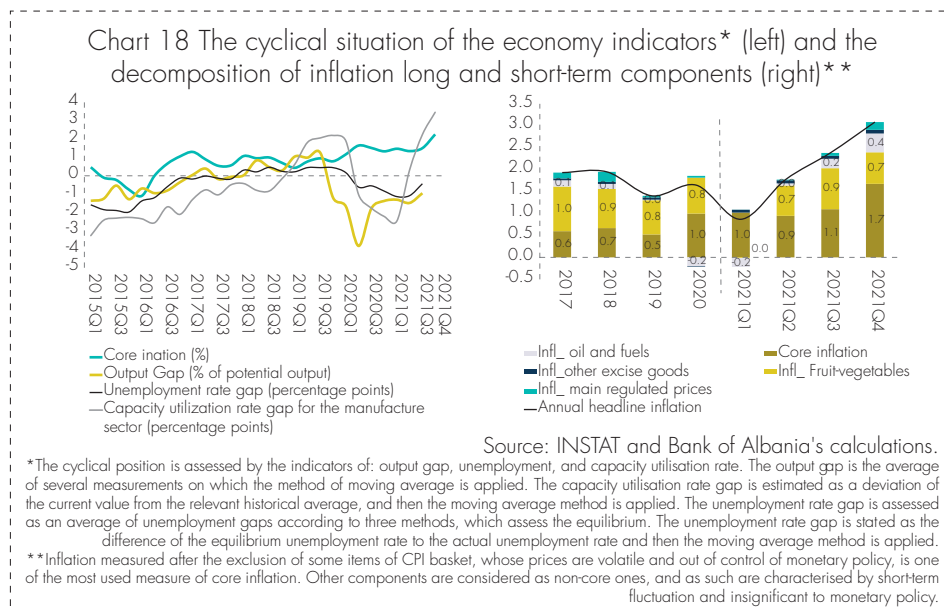
The other categories maintained almost the same contribution of the previous year. However, prices significantly fluctuated during the year within these categories as well. In particular, the “Non-food items” category resulted with higher price fluctuations. This development was caused almost entirely from oil prices in the domestic market. While the contribution of oil prices to total inflation was downward in the first months of the year, this contribution changed sides and increased at a progressive rate, starting from May. This performance reflected the significant increase of oil prices in international markets. The acceleration of prices in this category of goods, together with the steep increase of food prices in global markets, drove inflation up at the end of the year, surpassing the Bank of Albania’s target. Due to higher commodity prices, prices of other more stable components of inflation - such as services, shelter, and long-term consumption - recorded an upward trend during the year as well. More particularly, the additional contributions from the inflation of services were driven by the upsurge in the prices of hotels, tourist packages, and communication. This development was affected by the recovery of consumer demand throughout 2021.

The cyclical improvement of economy has affected the strengthening of core and domestic pressures of inflation.

Economic recovery in 2021 has affected the gradual narrowing of output and unemployment rate’s negative gaps. The eased measures coupled with



a broad vaccination roll out, established the conditions towards a rapid re-activation of factors in the production and labour markets. The utilisation of production capacities improved considerably in the course of 2021, by exceeding the pre-pandemic levels. Also, labour market reacted on the same direct. Increase of employment and reduction of unemployment rate, impacted the approaching of factual unemployment rate to the natural rate. These developments have been reflected in the gradual increase of the core and domestic inflationary pressures during 2021. Core inflation resulted around 1.7% in annual average terms, standing around 0.3 percentage point above the average of 2020. It has continued to be the main a stable contributor to the formation of headline inflation in 2021, affected by the improved demand and the narrowed negative output gap. Meanwhile, the swift increase of inflation in the last quarter reflected both the gradual increasing impact of core inflation and both the direct and indirect effect of the increased prices in international markets.



2.1.5 BALANCE OF PAYMENTS AND EXTERNAL POSITION OF THE ECONOMY

Current deficit contracted considerably during the first three quarters of 2021, mainly in reflection of the swift recovery in exports and secondary income. Financing flows related to direct investments have re-gained territory in deficit funding. At the same time, foreign debt has pursued a downward trajectory (in terms of ratio to GDP) and is accompanied by an improvement in sustainability indicators.



The current deficit to GDP ratio dropped to 6.1% during the first three quarters of 2021, from 8.8% throughout 2021.

The contraction of current deficit has reflected the rapid recovery of trade flows and particularly of services. The annual nominal growth of services export in the first nine months of 2021 was 61.2%. Exports of travelling services provided the main impact in this regard (a growth by 101.4%), which benefited from the gradual alleviation of containment measures on the international mobility of travellers, particularly since the second quarter of 2021. In addition, these flows exceeded the pre-pandemic level in 2021 Q3. At the same time, export of goods also showed a rapid annual growth (62.2%). The recovery in these flows has started earlier compared with services. For this reason, the exports of goods are regularly higher compared with the pre-pandemic period.

The growth in aggregate demand has urged the rapid recovery of imports. This is notable in case of goods import, due to the high intensity characterising our economy in this regard. In case of services, the recovery of tourist outflows was slower than exports, due to the asymmetry in easing the restrictive measures on the international mobility.

Beyond trade flows, remittances grew by around 14.6% in annual terms during the first three quarters of year. On the other hand, the increase in the employee compensation income inflows remains slow, due to the restrictions still in place on the mobility of seasonal employees. Last, income outflows of investments continue to be characterised by increasing rates compared with 2020.

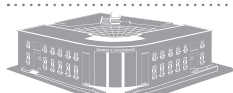
Foreign Direct Investments increased the share in current account deficit funding.

The narrowing of current deficit has reduced the need for financing. At the same time, FDI flows to Albania grew only by 1.1% in annual terms, by improving the degree of current deficit covering. In parallel with them, the share of borrowing flows till the third quarter has been reduced considerably compared with the previous year, when the increased need for financing caused by the growth in public spending was accompanied with the issue of an Eurobond amounting EUR 650 million.

External debt sustainability indicators have been improved considerably after the shock suffered from the pandemic

External debt stock is estimated at EUR 8.972 billion at the end of 2021 Q3, with an annual growth 1.4%. Its ratio to nominal GDP stands at 61.8% from 65.4% at the end of 2020. "General Government" continues to be the main holder of external debt, having a share of 46.2% to total. In terms of time structure, the long-term debt is dominant, accounting for around 92.0% of total.

The expansion in both exporting flows and fiscal revenues has enabled an improvement of solvency indicators. The ratio of debt stock to the exports of goods and services dropped to 183.0% at the end of 2021 Q3, from 243.6%



at the end of 2020. Also, the ratio of foreign debt stock to fiscal revenues reduced to 233.0%, from 243.6% at the end of 2020.

At the same time, the stock of foreign currency reserve was sufficient to counter the short-term pressures of external debt. As at end -December 2021, the reserve was sufficient to cover 9.6 months of imports of goods and services or 400% of the 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/ Q1-Q3
Current deficit	11.3	8.6	7.6	7.5	6.7	7.9	8.8	6.1
Trade Deficit	20.6	17.3	16.8	15.1	13.7	13.7	14.8	11.3
Exports	28.0	27.3	29.0	31.6	31.6	31.3	23.1	32.2
Imports	48.6	44.6	45.8	46.7	45.3	45.0	37.9	43.5
Remittance inflows	7.7	5.8	5.7	5.5	5.2	5.1	5.2	4.9
FDI inflows	9.2	8.7	8.8	7.8	7.9	7.8	7.2	6.5
External debt	45.6	74.4	73.5	68.7	65.0	59.9	65.4	61.8

Source: Bank of Albania.

2.1.6 FINANCIAL MARKETS AND MONETARY INDICATORS

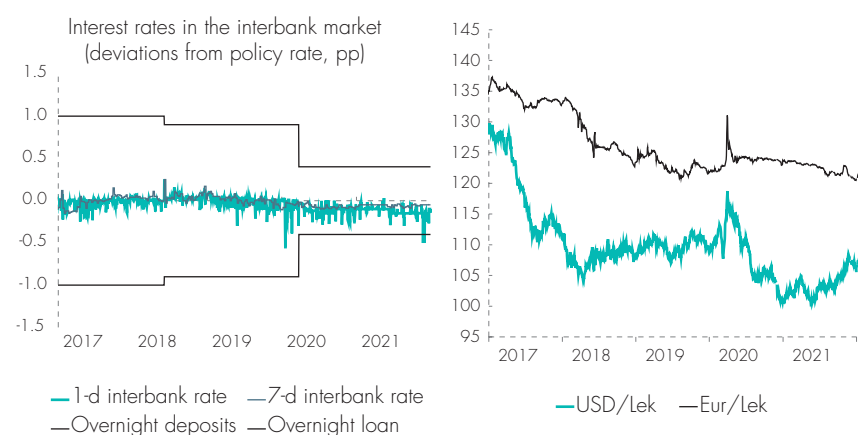
Financial markets have performed positively over 2021. The optimal liquidity situation, the sound balance sheet of banks, the recovery of the economy, and the re-established confidence, has resulted in contained risk premia. The monetary stimulus has been materialised in low financing costs for all market segments. The foreign exchange market has also been calm, characterised by low exchange rate fluctuations and a smooth market activity. Banks have significantly increased credit, supporting the rapid rebound of the economy. Also, bank deposits have grown at an accelerated pace, despite the low interest rates.

The interbank rates ranged close to the policy rate and showed low fluctuations in accordance with the operational target of the monetary policy.

The interbank market is characterised by contained liquidity premia, reflecting the sound balance sheets of banks and the low liquidity risk premia. The trading volume in this market has maintained the average level of the previous year for the 7-day segment and has recorded a decline for the 1-day one. Meanwhile, interest rates continued to fluctuate close to the policy rate. In parallel with the increase of bank financing to both the private and public sectors, the system's demand for liquidity has been slightly upwards compared to the previous year, particularly in the second half of the year. This has been fulfilled by increasing the 7-day injections, whereas 3-months maturity injections have maintained the same level as last year.



Chart 19 Performance of the interbank market (left) and the foreign exchange market (right)



Source: Bank of Albania.

The foreign exchange market appeared calm in 2021, characterised by low fluctuations and foreign currencies traded within normal market parameters.

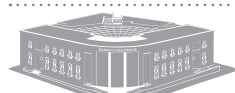
Lek appreciated slightly against the euro, reflecting the recovery of tourism after economic reopening and the restrictions on travelling. The strengthening of lek started in the second quarter of the year and was more apparent in the third quarter, in line with the seasonal behaviour of the euro/lek exchange rate. In 2021, the euro was averagely quoted at 122.4 lek/euro, with a lek appreciation of 1.1% from the previous year. Euro trading has been stable and has reflected the normal market conditions - low volatility and quotation spreads close to the historical average. In particular short-term volatilities, mainly on the appreciating side of lek, have not impeded the expectations and positions of agents in the market.

Lek depreciated against the US dollar during 2021, by reflecting the strengthening of the latter against euro in the international market. The usd/lek exchange rate increased to 106.8 lek/usd in December, from 101.6 lek/usd in previous December, with a lek appreciation of 5.2%.

Developments in the government securities market show contained risk premia

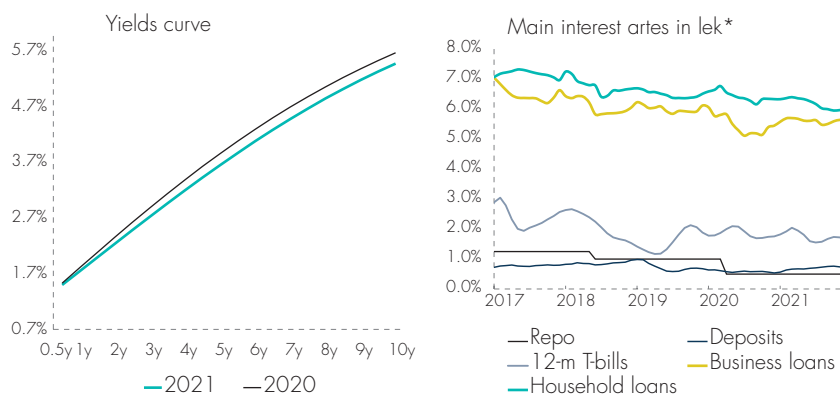
In 2021, yields on government securities have slightly decreased.¹⁴ Government's demand for funding has faced a high market engagement, confirming its positive approach towards risk taking. The rate of coverage in this year's auction has been higher, particularly for large maturities. This has caused a higher reduction of yields on these segments, by 0.23 p.p. on average, against the 0.10 p.p. reduction in yields on securities with maturity up to two years. As a result, the curve of yields was slightly flatter than in the previous year.

¹⁴ The comparison with 2020 takes into consideration yields after the policy rate change enacted in March of current year.



In November 2021, the Ministry of Finance and Economy issued 15-year bonds for the first time, in order to test the market regarding this maturity. Its demand was high and the yield was low, confirming the contained risk premia in the domestic market. In November, the government issued an Eurobond in the international market, with a 10-year maturity and 3.7% yield, which also peaked foreign investors' interest.

Chart 20 Performance of yields in the primary market and interest rates in lek



Source: Bank of Albania.

* In the interest rate chart, the interest rates on loans are shown as 6 month moving average, and the interest rates on deposits as 3 month moving average.

Interest rates on loans continued to transmit monetary stimulus to the economy and boosted the increase in consumption and investments.

The positive approach of banks on lending was reflected, inter alia, in low credit interest rates. The average interest rate on loans to enterprises was 5.6%, close to the 5.4% level of the previous year¹⁵. Households have also benefited from low interest rates from banks during this year, of 6.1%, on average, from 6.4% in the previous year. Interest rates on mortgage loans to households have significantly declined. This lending segment was dynamic and competitive, as regards both demand and supply.

Bank lending has significantly grown, playing a more active role in financing the economy.

Credit to the private sector recorded high growth rates during 2021, backed by a strong recovery of demand and a more active role of banks in intermediation, as is also shown by the low interest rates and the continuous easing of lending standards and conditions. Thus, during the year, credit¹⁶ rose by 8.4%, on average, or up by 1.6 p.p. compared to the previous year. The acceleration of the growth rate of credit is noticeable across almost all the segments, but the

¹⁵ The low interest rate on loans to enterprises during 2020 is also driven by the impact of sovereign guarantee schemes, in the absence of which the interest would not have been this low.

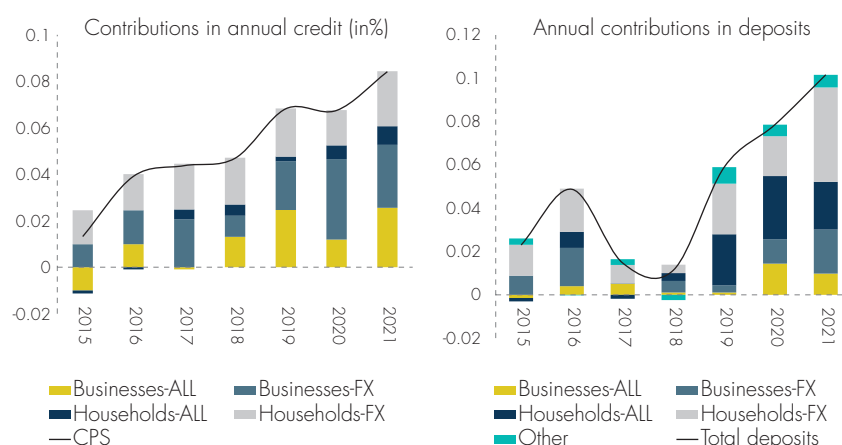
¹⁶ Credit data are adjusted for the effect of loan write offs from the banks' balance sheet and the exchange rate fluctuations.



key contributors remain lending in lek and financing of enterprises. Credit to enterprises grew by 8%, slightly up from 7.1%¹⁷ in the previous year, contributing by 5.3 p.p. to the annual credit growth. Enterprises used this financing mainly for investments, but in the second half of the year, there was a revitalisation of credit demand to cover liquidity needs. Meanwhile, credit to households experienced higher growth rates, up by 9.3% on average. Mortgage loans provided the highest contribution in this growth.

The positive lending dynamics were also noticed in the portfolio performance by currency. Credit in lek provided a higher contribution, by 5.1 p.p., on average, to the expansion of credit to the private sector. In 2021, lending in foreign currency, mainly in euro, increased compared to the previous year.

Chart 21 Credit to the private sector and deposits of banks

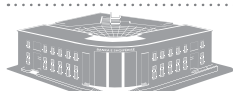


Source: Bank of Albania.

Deposits expanded with high growth rates, reflecting the improved liquidity in the economy.

Deposits in banking sector recorded an average annual growth of 8.5% in 2021. The acceleration of their growth rate was affected by the expansion of financial intermediation of banks, the increased foreign currency flow from external activity, and a high level of external sources financing budget deficit. The recovery of economic activity in Albania brought about higher liquidity levels for enterprises - as their deposits increased by around 20% year-on-year - considerably higher than in the previous year. Meanwhile, households' deposits showed similar growth rates, of around 6.4% year-on-year. In contrast to the previous year, time deposits provided a positive contribution to the expansion of total deposits in 2021 H2. The upsurge in time deposits, particularly of over-two-years deposits in foreign currency, reflects households' behaviour as they

¹⁷ Private sector enterprises was the segment that benefited the most from the 2020 measures adopted by the authorities - both the BoA which adopted the credit moratorium, restructured loans etc., as well as the government with the sovereign guarantee schemes.



search for higher profits in an environment with low interest rates and limited investment options for savings.

Table 5 Main macroeconomic and financial indicators

	2017	2018	2019	2020	2021*
Annual average inflation					
Headline inflation (in %)	2.0	2.0	1.4	1.6	2.0
Core inflation (in %)	0.8	0.9	0.7	1.4	1.7
Economic growth					
Real GDP growth (annual, in %)	3.8	4.0	2.1	-4.0	10.4
Labour Market ¹					
Participation rate in the labour force	66.8	68.3	69.6	69.1	68.9
Unemployment rate (15+)	13.8	12.3	11.6	11.7	11.6
Fiscal sector					
Budget balance (including grants, % of GDP)	-2.0	-1.6	-1.9	-6.8	-4.7
Budget revenues (as a percentage of GDP)	27.8	27.5	27.2	26.3	28.1
Budget expenditure (as a percentage of GDP)	29.8	29.1	29.1	33.2	32.8
Public debt (as a percentage of GDP)**	70.2	67.7	65.8	75.7	76.1
External sector					
Current account (official transfers exempted in % of GDP)	-8.1	-7.3	-8.4	-8.6	-6.6
Imports of goods (fob, as a percentage of GDP)	31.3	30.0	29.4	28.9	32.0
Exports of goods (fob, as a percentage of GDP)	6.9	7.7	6.6	6.1	8.3
FDIs (as a percentage of GDP)	7.8	7.9	7.9	7.8	7.2
Monetary and financial sector					
Repo rate (end of period)	1.25	1.00	1.00	0.5	0.5
M3 aggregate (annual growth, end of period)	0.3	-0.2	4.3	10.5	8.7
Credit to the private sector (annual growth, end of period) ²	3.3	1.9	6.9	8.2	8.1
Deposit/GDP ³	71.4	68.5	70.2	79.1	77.6
Credit/GDP ³	36.4	35.2	36.4	41.2	39.6
12-month average yield	2.4	2.0	1.6	1.9	1.8
ALL/USD average exchange rate	119.1	108.0	109.9	108.7	103.5
ALL/EUR average exchange rate	134.2	127.6	123.0	123.8	122.4
NEER	105.2	96.8	92.0	89.9	86.3
Banking Sector					
Non-performing loans ratio/total loans (%)	13.2	11.1	8.4	8.1	5.6

Source: INSTAT, BoA, Minister of Finance and Economy (MFE).

*Data on economic growth for labour market and the external sector are from the first 9 months of 2021.

**Statistical Debt Bulletin, MFE, 2021 Q4, on debt data and BoA's assessment on GDP.

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

2/ The data is adjusted for written off loans.

3/ GDP assessment for 2021. Data as a ratio to GDP are calculated on this assessment, except for differently specified.



2.2. MONETARY OPERATIONS

The Bank of Albania implements its monetary policy by using indirect market instruments. These include open market operations, standing facilities, and a required reserve. The main market operations are the repurchase and the reverse repurchase agreement of seven-day maturity, whose interest rate represents the policy rate.

OPEN MARKET OPERATIONS AND LIQUIDITY SHORTFALL

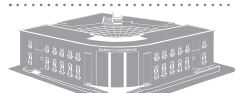
Open market operations are made up of three sub-items: main operations; fine-tuning operations; and structural operations. These are used for short-term management of liquidity in the money market, mainly aimed at accomplishing Bank of Albania's operational objective - orienting short-term interbank interest rates close to Bank of Albania's policy rate, and limiting their fluctuations.

In its response to the coronavirus (COVID-19) pandemic the Bank of Albania has continued the one-week injection auctions in the form of "fixed price" against the normal form of "variable price" during 2021 as well. This decision, adopted on 11 March 2020, has aimed at reducing liquidity risk to commercial banks. Since March 2020, the number of banks participating in injection auctions has been on average 6.5, compared to the 2.1 average of the first two months of 2020. The interest rate in the interbank market has been stably near, albeit below the policy rate.

During 2021, the average interest rate in the overnight interbank market was 0.02 percentage points under the policy rate, in contrast to an average of 0.11 percentage point under the policy rate in 2020 and 0.02 percentage point under the policy rate in 2019. Due to the form of "fixed price" auction, the interest rate in the one-week interbank market was 0.06 percentage point under the policy rate, both in 2021 and 2020, against the average 0.01-0.02 percentage point above the policy rate in the two previous years. Trade in longer maturities than one week continued to be quite rare.

The average liquidity shortfall, during 2021, increased to ALL 38.1 billion, compared to ALL 35.1 billion, on average in 2020. The growth of currency in circulation was the main factor urging the increase of liquidity shortfall in the banking system. The share of injections with longer than seven-day maturity was 41% in 2021, compared to 44% in 2020, and 39% in 2019.

In 2021, the Bank of Albania has permanently withdrawn liquidity amounting to ALL 2.2 billion, through the decrease of securities portfolio, after the increase by ALL 12.1 billion in 2020.



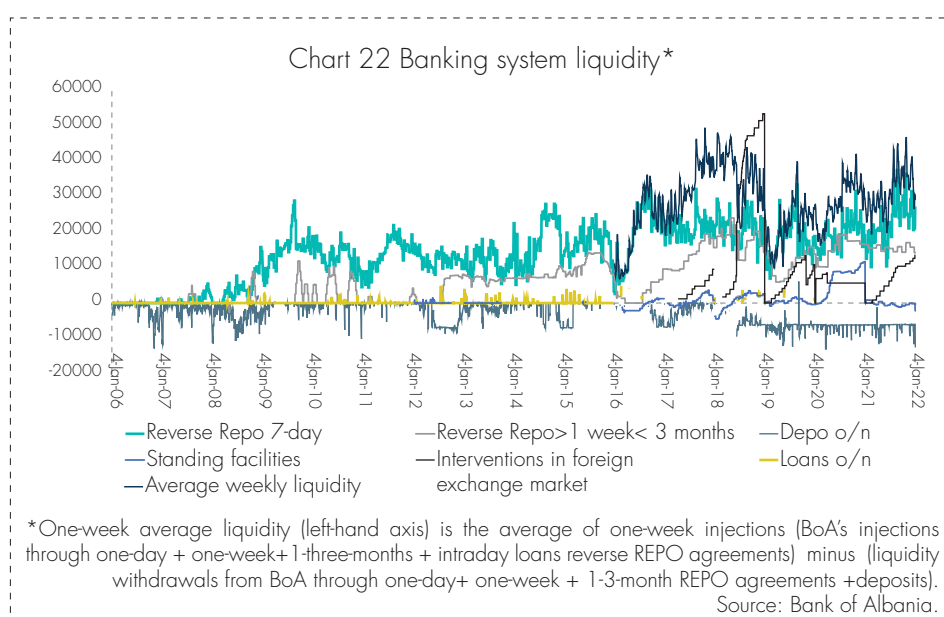


Table 2. Structure of liquidity injection operations by the BoA

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Main instrument	55%	60%	64%	55%	80.7%	61.6%	54%	61%	55.9%	59.2%
Long-term liquidity	45%	40%	36%	45%	19.3%	39.4%	46%	39%	44.1%	40.8%

Source: BOA.

At the end of 2021, the Bank of Albania has notified commercial banks that it will change the form of auction more to "fixed price auctions", starting from the auction of 23 February 2022.

STANDING FACILITIES

Standing facilities - overnight deposits and overnight loans at the Bank of Albania - are instruments available to commercial banks to manage liquidity on a daily basis and define a corridor in which interest rates fluctuate in the interbank market. After reducing the base interest rate to a record low level of 0.50%, the Bank of Albania has maintained the interest rate for the overnight deposit facility unchanged at 0.10%, and has reduced the interest rate for the overnight lending facility to 0.90%, by creating a quite narrow corridor of the interest rates.

The overnight deposit instrument has been used daily, over 2021, with an average of ALL 6.6 billion compared to an average of ALL 6.58-6.74 billion in 2019 and 2020, and ALL 4.55 billion on average in 2018.

In 2021, the use of overnight loans was absent, compared to 1 case in 2020, 16 cases in 2019, and 42 cases in 2018. The adjustment of the auction form, the increase in forecast quality and the decrease in the cost of excess liquidity affected the non-use of this instrument.



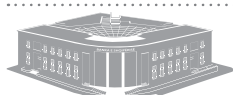
REQUIRED RESERVE

The required reserve is an instrument through which the Bank of Albania aims to adjust money supply, liquidity situation in the system and manage the interest rates in the interbank market. It implies the placement of a certain amount of reserve in Lek and in foreign currency with the Bank of Albania.

No amendments took place in the Regulations on the required reserve. We recall here, that the 1-year temporary period, when the regulatory amendments of 2018, aimed at de-euroization, were implemented, ended in 2019. The Bank of Albania decreased the remuneration rate applied on the required reserve in lek to 5.00% and 7.50%, from 10% in the previous year, and increased the remuneration rate for the required reserve in foreign currency to 12.5% and 20.0%, by applying a higher rate for banks which have a higher exposure from liabilities in foreign currency. The remuneration rate on required reserves in lek was decided to be equal to the policy rate, from 70% of policy rate it was previously.

No regulatory changes have taken place in the remuneration rate on required reserves in foreign currency and on the surplus reserves of banks at the Bank of Albania. Starting from September 2016, banks pay for the required reserve in euro an interest rate equal to the overnight deposit rate of the European Central Bank, which in 2021 remained unchanged, at -0.50%. The remuneration rate on the required reserves in US dollars has been 0% since 2011.

The remuneration rate on the surplus reserves in lek and US dollars have continued to remain 0% during 2021. The interest rate remuneration of the euro surplus remained at the level set in 2016, at 0.25 percentage point lower than the ECB's deposit interest rate.



2.3. FINANCIAL STABILITY AND MACRO-PRUDENTIAL POLICY

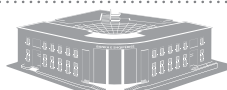
The Bank of Albania fulfils its mission of promoting financial stability through identifying and implementing the rules and instruments to prevent and manage risks to the financial system and particularly to the banking system. As a result, it naturally assumes a leading role in implementing the macro-prudential policy, which is related to supervising and preventing cyclical and structural systemic risks, and strengthening the resilience of the financial system.

The macro-prudential policy aims to prevent unfavourable developments associated with: i) risks stemming from the excess increase of lending and borrowing; ii) concentration of exposures; iii) inadequate liquid assets and lack of liquidity in the market; and iv) the contribution of systemically- important financial institutions to systemic risk. To address them, there are instruments used, mainly of a prudential nature, that aim to strengthen the financial system capacities to cope with these risks with as little loss as possible. In practice, the purpose of macro-prudential measures is to prevent the transformation of a limited risk into a systemic risk.

2.3.1. SYSTEMIC RISK ASSESSMENT AND MACROPRUDENTIAL POLICIES

For the systemic risk assessment, the Bank of Albania analyses regularly the indicators of the real economy, the banking sector and the financial indicators, as well as carries out regular surveys to evaluate the financial situation of economic agents and the performance of specific markets. Results show that financial activity was stable and was reflected in higher lending, investments, and improvement of asset quality. These helped the banking sector to heighten profit levels and productivity rates. The measures undertaken by public authorities and the banking sector to mitigate the pandemic shocks enabled the soundness of the financial activity and the performance of the banking sector.

In spite of the rapid expansion of the banking activity, macroprudential analysis shows that risks are contained and the capitalisation situation of the banking sector is satisfactory. Indicators related to credit expansion and the level of borrowing, or to liquidity situation, suggest that the situation is on an even keel. However, the surge in real estate prices over the past years requires close-up monitoring and assessment of risks related to the potential acceleration of the lending cycle from high prices. Foreign exchange market volatility has been low, and market liquidity is assessed at satisfactory and stable levels. Concentration levels in the banking sector activity signal limited systemic risk. Exposures to large borrowers, economic sectors and by currency do not indicate an exacerbation of risks. The indicators used to monitor the risks



related to systemically-important financial institution suggest that concentration in the banking sector structure remain in contained levels.

The resilience of the banking sector against risks is regularly tested through stress-tests. They continue to demonstrate that the ability of the banking sector to withstand losses stemming from the materialisation of unfavourable shocks on the real and financial sector, remains robust.

The above-mentioned developments have not required interventions with additional macroprudential measures. Macro-prudential capital buffers and the ones that aim to discourage the use of foreign currency in the banking system activity, continued to be adopted in 2021. The measures of a macro-prudential nature that eased banks' obligations on the classification and provisioning of restructured loans, which were adopted to mitigate the pandemic effects on borrowers and banks, ended at the end of March 2021. They were not accompanied by undesirable developments in the bank credit portfolio. The Bank of Albania maintained the requirement on the suspension of bank profit distribution during 2020-2021. In the framework of implementing the macroprudential policy the work regarding the operationalisation and expansion of macroprudential instruments, has continued.

Macro-prudential measures

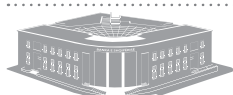
Up to the end of 2021, the Bank of Albania has implemented two groups of macro-prudential measures that aim at:

- a) increasing the use of domestic currency in the Albanian financial system activity; and
- b) strengthening the resilience of the banking system against systemic risks.

The first group of measures¹⁸ aims to reduce the use of foreign currency in the banking sector and evaluates the overall performance of selected indicators. To this end, the Bank of Albania prepares and publishes a specific semi-annual report. The report published in February 2022 remarks that although foreign currency use remains high, there is a decline observed in 2021, particularly in the activity of the banking sector. Credit portfolio of in foreign currency exposed to exchange rate has slightly shrank, and its share to the total credit of the banking sector has been decreasing. The other indicators have remained stable.

The second group consists in implementing the measures set forth for in Regulation No. 41 "On Macroprudential capital buffers." This Regulation provides the method of implementation by banks of reserved capital buffers, countercyclical capital buffers, capital buffers for systemic banks and capital buffers for systemic risk. The progress towards achieving optimal levels on

¹⁸ There were no changes made to this group of measures in 2021.



these buffers extends over a multi-annual time frame. In accordance with this Regulation, the Governor has taken decisions on a quarterly basis, which are published in the website of the Bank of Albania¹⁹.

Although the above measures are considered adequate, in 2021, the Bank of Albania has also worked on:

- a) the operationalisation of capital buffers for systemic risk. This buffer, stipulated in the above Regulation, provides an additional instrument to address the structural dimension of systemic risk. In December 2021, the methodology on the implementation of this buffer was concluded. However, given the pandemic situation, this instrument is not expected to be implemented in the short run;
- b) the operationalisation of macroprudential measures aimed at borrowers. The focus of the work has been on drafting a sub-legal act (Guideline) that will unify current banks' practices in relation to the implementation of the criteria for the "loan amount/collateral amount" indicator. This indicator will serve as a macroprudential instrument that restricts banks' exposure to unfavourable developments in the real estate market and to borrowers with lower solvency.

2.3.2. BANKING SYSTEM ACTIVITY

Year 2021 (henceforth the Period) was a good one for the financial system compared to 2020. Overall, all the financial system segments, including pension and investment funds, insurance companies, savings and loan associations, non-bank financial institutions, and the banking sector, have reported an expansion of their balance sheets and better income from their activities. This is reflected in the increased share of the financial system to GDP by 1.4 percentage points compared to the previous year, in addition to the strong GDP growth in 2021. Among the non-bank segments of the financial system, both pension and investments funds and savings and loan associations display a considerably high growth. Financial system assets expanded by around 12% in annual terms, where the growth of banking sector's balance sheet provided the main contribution. All the main indicators of the banking activity have improved significantly during the period. The growth in the assets of the banking sector is attributed to the expansion of credit portfolio and investments in securities, whereas the increase in liabilities was determined almost entirely by the growth in the stock of deposits held in commercial banks.

¹⁹ For more, see https://www.bankofalbania.org/Financial_Stability/Macro-prudential_policies/Instruments_of_Macroprudential_Policy/Instruments_and_Decisions/



Table 7 Financial system activity indicators

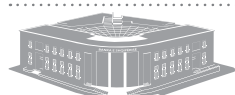
FINANCIAL SYSTEM	2021	BANKING SECTOR	2021	2020
Non-bank financial institutions (% annual changes)	8	Deposits (% annual changes)	11	8
Insurance companies (% annual changes)	4	Credit (% annual changes)	10	6
Savings and loan associations (% annual changes)	10	Operations with securities (% annual change)	21	19
Pension funds (% annual changes)	18	Net result (% annual change)	31	(12)
Investment funds (% annual changes)	11	Return on assets (%)	1.3	1.1
Banking sector (% annual changes)	12	Non-performing loans ratio (%)	5.6	8.1
Financial system assets (% to GDP)	111	Capital adequacy ratio (%)	18.0	18.7

Source: BOA.

The banking sector concluded 2021 with a positive financial result of ALL 22 billion, from ALL 17 billion in the previous year. The improvement of the financial result was reported by all banks of the sector. Interest incomes were higher, whereas interest expenses decreased compared to the previous year. This drove the net interest income up by 7%. Banks reported income also from other activities related to commissions and investments in financial instruments. The decline in loan loss provisions to non-performing loans portfolio²⁰ provided the main contribution to the improvement of the financial result in this sector, meanwhile provision expenses on other financial instruments were slightly upwards. At the end of the year, capital adequacy ratio of the banking sector was 18%.

Credit quality continued to improve during the period, recording a lower level since the 2008 financial crisis. The non-performing loans ratio dropped at 5.65% at the end of 2021, from 8.11% a year earlier. The performance of this indicator was affected by both the increase of outstanding credit by 10.2% and the contraction of non-performing loans portfolio by 23%, where the latter provided the main contribution. Banks have increased their efforts to address non-performing loans and have collected some of them. At the same time, they have continued the write-off of some lost loans from their balance sheets and the reclassification of non-performing loans to more qualitative classes. These measures have managed to considerably shrink the outstanding non-performing loans portfolio across all its classes, but the larger decline - nominal and relative - was registered in credit classified as "doubtful loans."

²⁰ This item decreased by around 9 times compared to 2020.



2.4. BANKING SUPERVISION

The supervisory function of the Bank of Albania has as its main objective the early identification and control of major risks (credit risk, liquidity risk, operational risk, interest rate risk, capital and profitability risk, reputational risk and money laundering etc.), as well as the assessment of internal control and efficient 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 - preserving the soundness of financial entities.

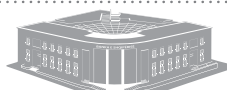
2.4.1. MAIN DEVELOPMENTS

Managing the pandemic situation

In 2021, the financial activity of banks developed under the effect of the pandemic and the measures undertaken to cope with it. Banks, economic agents, and the uncertainty about the future developments were the main factors that drove the decision-making of the Bank of Albania to extend the regulatory measures imposed in 2020 for managing the situation. This extension consisted in providing extra time for addressing the classification and provisioning of restructured credit with easier criteria, up until March 2021. The decision-making was also completed by postponing the entry into force of more restrictive regulatory criteria to 1 January 2022, from 1 January 2021. In order to facilitate the restructuring process, the final deadline of the regulation on the out-of-court treatment of distressed borrowers was extended to 31 December 2021, as the initial deadline was 31 December 2020. In the same vein, the entry into force of the Regulation on managing large exposures was postponed to 1 January 2022, initially planned on 1 June 2021.

In conclusion to these measures, special attention was paid to the performance of portfolios through both off-site analyses and on-site examinations in domestic banks, in order to identify possible negative developments with a material impact and to address them in an early stage. The situation was managed in such manner that the indicator of credit portfolio quality improved and non-performing loans ratio dropped.

The Bank of Albania decided to suspend the distribution of dividend of banks' profits during 2020, and the ones that would be generated in 2021, up



to December 2021. These measures were undertaken with a view to create capital sources for banks to cover potential capital requirements in case of negative developments, as a result of the pandemic or its secondary effects.

The equivalence assessment of the Albanian supervision regulatory framework with the requirements adopted in the EU

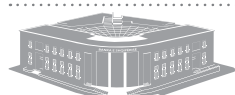
The equivalence assessment of the supervision regulatory framework in accordance with the methodology published by the European Banking Authority (EBA), aims to ensure a cross-border effective cooperation of a prudent approach among European financial institutions and those of third countries (non-EU members), for as long as the latter aspire to full EU membership and the adoption of the same standards which are in force in Member countries. Consequently, the recognition and equivalence of the supervision regulatory framework provides advantages to both the banking and financial institutions that operate in the EU and those that operate outside of it.

In this context, in 2021, the European Bank for Research and Development (EBRD) and PriceWaterhouseCooper (PwC) carried out an independent assessment of the current supervisory framework, adopting a comprehensive approach, based on the methodology and the questionnaire drafted by the EBA for this purpose. This analysis, which ended in December 2021, reached the conclusion that the procedural and regulatory framework, as well as the supervisory practices, are at a high degree of equivalence and approximation with the applicable standards of the EU countries. This approximation is assessed particularly high in relation to capital requirements, applicable mitigation techniques, large exposures, liquidity, financial leverage, macroprudential supervision, professional secrecy, and international cooperation.

BoA continues to be entirely dedicated to finalise this process. At the beginning of 2022, the BoA has required the European Commission to consider the equivalence assessment for Albania in accordance with the European Directive No. 575/2015.

Compilation of the draft Regulatory framework on Payment Services

Upon the approval of the Law no.55/2020 "On Payment services" and its entry into force in January 2021, the BoA worked on drafting the entire regulatory framework pursuant to this Law. The regulatory framework aims to ensure alignment with the EU acquis and the best practices of advanced countries, guaranteeing on the one hand adherence to the obligations on the approximation of the regulatory and legal framework, and on the other hand, enabling payment services providers and their clients the possibility to adopt the same standards with EU countries as regards these services.



Currently, a substantial part of sub-legal acts has been approved pursuant to the Law "On Payment services," which allow new entities that require licensing as electronic payment institutions or registering as payment service providers that benefit from exceptions according to law stipulations, to commence their activity.

Implementations of recommendations of assessment report by Moneyval Committee and ICRG/FATF action-plan

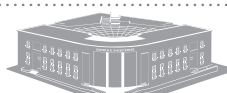
In the framework of implementing the recommendations from the Committee of experts of CoE on the evaluation of Anti-Money laundering Measures and counter terrorist Financing (MONEYVAL), the Bank of Albania is included in the implementation of the national plan of measures, in the direction of improving the regulatory framework and strengthening the effectiveness of the supervisory process, in order to address the primary issues identified in the report. In this framework, the number of on-site examinations has been increased, focusing particularly on terrorism financing issues and implementation of the international sanctions, especially on more vulnerable entities such as non-bank financial institutions (NBFIs) and foreign exchange bureaus (FEBs). Related to the identified violations, in addition to the recommendations for specific entities, also supervisory measures, such as "warnings" and "fines" are implemented. In 2021, a total of 109 examinations were carried out in the field of money laundering prevention and terrorism financing, which comprised 5 banks, 13 non-bank financial institutions, 1 SLA and 90 FEBs (of which 15 FEBs underwent the process of implementing recommendations as a result of deficiencies observed in previous examinations). Nine of these examinations were carried out in collaboration with the General Directorate for the Prevention of Money Laundering (GDPML), respectively in 2 banks, 6 non-bank financial institutions, and 1 foreign exchange bureau.

2.4.2. SPECIAL IMPACT DEVELOPMENTS

The change of reference indices for interest rates on loans

One of the consequences of the international financial crisis was the wavering of international market's confidence in respect to reference indices on interest rates for bank and interbank products, broadly issued as IBORs (for e.g. LIBOR, EURIBOR etc.), due to their potential elements of manipulation noted in them. This event has given rise to the need for their entire review and substitution. The European Supervision Authorities have presented regulatory interventions to address this market disruption, where certain indices might not have quotations from now on.

In 2021, to address particularly reference indices related to clients, BoA undertook regulatory amendments in the Regulation No. 59, dated 29.8.2008 "On Transparency for banking and financial products and services." These



amendments aim at safeguarding transparency in rate selection, as well as establishing a legal basis for client relationship, when contracts are changed. The stress is put on providing the borrower with full notification and information, and receiving a documented agreement on the necessary changes.

Adjusting interest rates on consumer loans

In the rapid expansion of consumer credit market, where non-bank financial institutions have been important contributors, the Bank of Albania undertook an initiative to regulate these loans by implementing regulatory amendments in the Regulation No. 48, dated 1.7.2015 "On consumer and mortgage loans." These amendments introduce for the first time the concept of Maximum Effective Interest Rate (Maximum EIR), which is the maximum possible threshold of the effective interest rate that is applicable to clients of consumer credit, and which is calculated by the BoA based on the semi-annual average adopted by the market on products and certain amounts of consumer loans. In order to carry out these amendments, the BoA followed the best EU practices.

The purpose of these amendments is to protect the consumer through regulating the Maximum EIR, which in many cases is identified to be at high burdensome levels for the consumer. The designated thresholds allow for a 33% above-the-average margin, therefore a relative limit subject of change in periodical intervals. In this context, this is not an inflexible threshold, but rather has an indicator that continuously adapts to market conditions. Its goal is to cushion the large differences and asymmetries between costs charged on consumers by various institutions, for products of similar features.

2.4.3. ON-SITE EXAMINATIONS

A considerable part of time and supervisory resources were dedicated to assessing the management of the pandemic situation and its impact, especially concerning credit portfolio. The conclusions reached in this assessment reconfirmed the ones of the previous examinations with the same focus - banks have adopted a cautious approach oriented towards supporting regular clients. Providing facilitations for customers facing problems has been conditioned by their track record in implementing the agreements.

In total, 14 full-scope and partial examinations were performed, with a higher trend toward partial examinations, due to the health guidelines on reduced staff numbers, as well as to achieve a thorough assessment of weightier risks on the activity of bank and non-bank institutions.

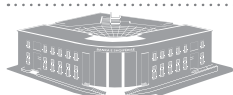


Table 8. Number of examinations by years and subject

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

Source: Bank of Albania.

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

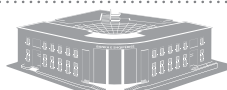
** In 2020, 74 examinations were carried out at Foreign Exchange Bureaus on Reputational Risk and 14 other examinations regarding this risk were carried out in banks and non-bank financial institutions. Among these, examinations on 2 banks, 1 non-bank financial institutions and 1 Foreign Exchange Bureau,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

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

The examinations performed in 2021 while mainly focusing on the credit risk, have also considered other aspects of the banking activity. Special attention was paid to operational risk and information technology risk, as well as financial risks (liquidity risk, interest rate risk, market risk).

Operational risk and information technology risk are always present in the activity of licensed entities, but in the last two years, due to the significant increase in the number of electronic transactions and the fast orientation of banks towards e-banking services, ensuring business continuity and a quick response to operational interruptions and incidents, has become indispensable. Therefore, the examinations' main objective has been to assess the availability of systems and organisational structures to promptly react to incidents, as well as assess the efficiency of the measures undertaken to guarantee work continuity. The relevant recommendations are oriented toward possible procedural improvements, as well as identifying the need for investments in high-quality technology and supportive systems.

Examinations of non-bank financial institutions focused mainly on entities that carry out the activity of lending, leasing and microcredit, by combining full-scope and thematic examinations to verify the implementation of recommendations. Examinations identify that non-bank entities are generally involved to address structural and organisational weaknesses, with a view to increase the quality of governance and the functioning of control systems. Other issues that need to be better addressed by these entities are related to reporting accuracy,



improvement of information technology systems, prevention of fraud cases, strengthening of the risk management function, client transparency etc.

In accordance with the plan and supervisory priorities, the examination of recently licensed SLAs were also in focus during 2021. The main purpose was to address in a timely manner the issues and weaknesses that new SLAs may manifest, since these entities have a broad base of participants.

2.4.4. LICENSING FRAMEWORK AND APPROVALS

In 2021, the Albanian banking sector continues to be dominated by foreign banking group subsidiaries with capital originating from the EU. The number of banks that were operating at the end of 2021 continued to be 12 (banks).

Table 9 Banks' ownership structure, number of banks (at period-end)

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

Source: Bank of Albania.

¹ "Majority" is in any case the simple majority of 50 per cent plus 1 vote.

² Banks with capital origin from EU countries at the end of 2021 are from: Italy (Intesa Sanpaolo Albania), Austria (Raiffeisen), Germany (Procredit), Hungary (OTP Bank, Albania), Greece (Alpha Bank Albania), and Bulgaria (First Investments Bank Albania).

³ National Commercial Bank.

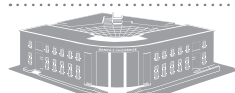
⁴ United Bank of Albania.

⁵ Majority Albanian owned banks at the end of 2021, are: Union Bank, Credins Bank, American Bank of Investments and Tirana Bank

In 2021, the Bank of Albania issued preliminary approval for: changes in the ownership of the qualifying holding of shares of banks; opening new representations; increasing the financial activity; amendments to capital, management or bank statutes etc.

In 2021, the number of bank branches and agencies decreased by 4 compared to the previous year, reaching 421 at the end of the year. More specifically, in 2021, 2 new bank branches were opened, while 6 existing branches and agencies were closed.

Based on submission of applications, the Bank of Albania licensed: 4 electronic financial institutions (PAYSER Ltd, eReja Ltd, RPAY Ltd and SOFT & SOLUTION Ltd); and one non-bank financial institution for the exercise of the financial activity of leasing (ANTIGONE FINANCIAL ENTERPRISE Ltd). At the end of 2021, there were 35 non-bank financial institutions, microcredit institutions, and electronic money institutions exercising their financial activity.



In 2021, there were new savings and loan associations licensed: "FAST CREDIT ALBANIA" in Tirana and "RRUSHKULL ONE" in Durrës, as well as preliminary approvals were issued for the appointment/reappointment of the Chairmen of the Steering Council, the Chairmen of the Control Council and the administrators of 4 SLAs.

During 2021, 41 new foreign exchange bureaus were licensed, while licences were revoked for 23 existing foreign exchange bureaus. As of the end of 2021, 538 foreign exchange bureaus were operating in the foreign exchange market.

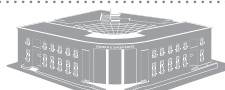
Table 10 Number of banks, non-bank financial institutions, savings and loan associations and foreign exchange bureaus licensed by the Bank of Albania (end-period)

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

Source: Bank of Albania.

REVIEW OF THE LEGAL AND METHODOLOGY FRAMEWORK

- I. In the framework of drafting and reviewing the regulatory acts with a view to further the approximation with the European Union acquis and the best European practices the following were approved:
 - Amendments to the Regulation "On the net stable funding ratio of banks", which consist mainly in the addition of the reporting forms and explanatory guidelines to fill them, as well as revisions on some requirements in compliance with the EU Regulation 2019/876/EU (CRR2);
 - Amendment to the Regulation "On liquidity coverage ratio", which consists in the revision of the definition "significant currency", in compliance with the EU Regulation 2019/876 (CRR2). The revised concept shall be applicable to both the regulation in question as well as the Regulation "On the net stable funding ratio of banks";
 - Amendments to the Regulation "On Consumer Credit and Mortgage Credit", which ensure approximation with the best European practices (taking after the models adopted by the Bank of Portugal, France and Belgium) to determine i) the limitations on the Effective Interest Rate (EIR), as a comprehensive indicator of known credit costs, based on the calculation of the market average for this indicator, as well as ii) a limit for penalties and late fees, which are paid by borrowers. Amendments aim at providing fair practices



- in the market related to the interest rate level, late payments, and implemented penalties, particularly from non-bank financial institutions for the consumer credit;
- Amendments to the Regulation "On the functioning of Credit Registry at the Bank of Albania, and the conditions and procedures on the information, use and revision of data being administered in this Registry" were realised as a result of the amendments in the Regulation "On Consumer Credit and Mortgage Credit", aimed at data reporting by entities, which is conducive to the calculation of the maximum effective interest rate by the BoA;
 - Amendments to the Regulation "On Transparency for banking and financial products and services", which consists in the change/substitute of reference rates (reference indices/IBOR-s) and the presentation of the "clause of changing the orienting index" with a view to mitigate the risks of adopting the new reference rates in the most normal and effective manners. These amendments spring from the reform adopted on reference indices around the world including the European Union²¹, as the banking system in Albania is affected by such reforms. The same processes were applied in other countries or economic environments. Currently, this process is reaching its conclusive phase in order to fulfil the good management of transferring to new reference indices;
 - New Guideline "On the internal capital adequacy assessment process". The purpose of this Guideline is to set out supervisory requirements relating to the strategies, strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk so as to ensure that the banks maintain adequate levels of liquidity buffers. The Guideline was drafted in accordance with the requirements of the European Directive 2013/36/EU on the internal liquidity adequacy assessment process (ILAAP)²² and the Guidelines²³ of the European Banking Authority (EBA)²⁴, which specify the common procedures and methodologies for the supervisory review and evaluation process (SREP)²⁵, supervisory stress testing, as well as the draft-methodology for the liquidity and funding risk assessment, etc.;
 - Amendments in the Regulation "On capital adequacy ratio", based

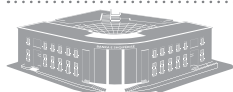
²¹ Regulation 2016/1011 of the European Parliament and of the Council of 8 June 2016, also known as "Benchmark Regulation", which entered into force in 1 January 2018, aims to improve the process of governing "critical indices," improve data quality that serve as input, based on considerable transaction volumes, improve their calculation methodology, protect the consumer, and increase transparency for various investors.

²² Internal Liquidity Assessment Process.

²³ EBA/GL/2014/13, dated 19 December 2014 "On common procedures and methodologies for the supervisory review and evaluation process (SREP)" and EBA/GL/2016/10 dated 03 November 2016 "Guidelines on ICAAP and ILAAP information collected for SREP purposes".

²⁴ European Banking Authority.

²⁵ Supervisory Review and Evaluation Process.



on the provisions laid down in the European Regulation CRR (2013/575/EU) and CRR2 (2019/876/EU), in order to further comply with the EU standards, which predict new requirements in relation to credit risk, mainly on banks' exposures to collective investments enterprises and small and medium enterprises (SMEs) etc.;

- Amendments in the Regulation "On Consumer Credit and Mortgage Credit", which aim to achieve a greater harmonisation with the European Union Directive 2008/48/BE in order to further improve the requirements of the regulatory authority on consumer protection.

II. In the framework of the measures taken due to the Covid-19, the following were approved:

- Decision "On the Suspension of the Profit Distribution from Banks", which stipulates, up to the end of December 2021, the suspension of the distribution by banks of the 2020 profits and the profits that will be realised during 2021;
- Amendment to the Regulation "On credit risk management from banks and branches of foreign banks" which stipulates that the classification and provisioning of restructured loans up to 31 March 2021 will maintain the same classification and provisioning they had prior to restructuring;
- Extending on 1 January 2022 the entry into force of the amendments to Regulation "On the risk management from large exposures of banks" and Regulation "On the consolidated supervision," approved in September 2020;
- Amendments to the Regulation "On capital adequacy ratio" which aim to provide a more favourable treatment for risk weights applied to exposures of banks to Albanian government securities in foreign currency issued during 2021, as well as for the 2021 credit to OSHEE, guaranteed by the Albanian government.

III. With a view to fulfil the regulatory framework on the implementation of the Law "On Payment Services" the following were approved:

- Regulation "On licensing payment institutions and electronic money institutions, as well as registering payment services providers", which sets out the conditions, requirements, time frame, documentation and procedures for licensing the providers of payment services and electronic money institutions and for registering in the public registrar the payment service providers in the Republic of Albania, which benefit from exceptions in accordance with the Law "On Payment Services," for granting approvals by the Bank of Albania and the obligation of notification by entities to the Bank of Albania, during the exercise of their activity;
- Amendments to the Regulation "On licensing and activity of



- non-bank financial institutions”, which consist in repealing from this Regulation all the requirements related to non-bank financial institutions, which provide payment services and money transfers, electronic money institutions, as well as their agents, since from now on these requirements are stipulated in accordance with the new legal and regulatory requirements provided for in the specific acts;
- Amendments to the Regulation “On granting the license and the exercise of banking activity of banks and branches of foreign banks in the Republic of Albania,” which consist mainly in adding some requirements on the agents of banks, when the latter operate with agents who only serve as payment services providers;
 - Amendments to the Regulation “On licensing and activity of savings and loan associations and their Unions” which aim to ensure compliance with the new legal and regulatory requirements. The Savings and Loans Associations (SLAs), which will carry out the financial activity of payment services, will be granted with a special license as payment institution in addition to the SLA license.
 - Amendments to the Regulation “On minimum security requirements regarding premises where banking and financial activities are conducted and transportation of monetary values” which mainly consist in including the payment institutions and electronic money institutions as entities subject to this Regulation. Whereas as regards banks, they are responsible to verify the compliance with the requirements of the regulation from their agents, when the latter provide payment services through agents.



2.5. RESOLUTION

In accordance with the Law No. 133/2016 “On the recovery and resolution of banks in the Republic of Albania”, the Bank of Albania is the Resolution Authority for banks and branches of foreign banks operating in Albania.

In 2021, in capacity of the Resolution Authority and supporting the medium-term strategy, the Bank of Albania oriented its annual activity toward:

1. Concluding the full cycle of drafting the resolution plan and strengthening resolution in banks;
2. Communicating the “Minimum requirement for regulatory capital instruments and eligible liabilities”;
3. Developing the regulatory and methodological framework in accordance with best European practices;
4. Completing and consistently monitoring the Resolution Fund.

In the course of this year, the dialogue between the BoA and the banking industry has been stable, conducive to developing the resolution framework. The Bank of Albania has also cooperated with various domestic institutions and homologue institutions in Europe. The BoA has been invited by the Resolution Colleges of European banking groups with subsidiaries in Albania, in the framework of the annual cycle of the Resolution Plan.

2.5.1. STRENGTHENING RESOLUTION IN BANKS

In the role of Resolution Authority, the Bank of Albania must ensure higher capacities for resolution in banks, in order to make it possible to implement the resolution for insolvent banks, which will minimise their impact on the real economy, public finances, and the financial stability of Albania. In order to achieve this goal, a considerable amount of work has been dedicated to drafting the resolution plans, determining the final and intermediary objective regarding the minimum requirement of capital and eligible liabilities (MREL), and identifying potential obstacles to the capacity for resolution.

Resolution plans in 2021

Over 2021, in congruence with the legal framework on resolution, the Bank of Albania completed the drafting of resolution plans for all banks operating in the Albanian market. This process was fully finalised by drafting the plans for systemic and non-systemic banks and communicating their executive summary to each bank.



The plan prepared in the previous year was updated and enriched with the analysis of critical functions and the assessment of public interest test for each bank. Then, in 2021, an important element was added to the resolution plans that of the “minimum requirement for regulatory capital instruments and eligible liabilities” (MREL), which guarantees the financial resources that a bank must allocate in order to implement the resolution plan.

Upon concluding the annual cycle of the resolution plan and communicating it to each bank, the latter were required to carry out a self-evaluation process regarding their ability to effectively implement the resolution plan and handle potential impediments identified. This process was also carried forward by conducting on-site examinations in banks and following BoA's recommendations.

BOX 3 PUBLIC INTEREST EVALUATION

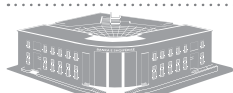
Every year, the Bank of Albania assesses the presence of public interest to implement resolution in banks, as part of drafting the resolution plan. This assessment is based on the provisions laid down in the Law no.133/2016 “On the recovery and resolution of banks in the Republic of Albania” and the regulatory framework for drafting the resolution plans.

More specifically, pursuant to Article 21, paragraph 1 (c) of this Law “the Resolution Authority initiates the resolution of the bank when it shall establish that the following conditions are met:

- a. the bank is considered to be close to a situation of insolvency;*
- b. there is no possibility that any other measure taken by the bank, the banking group or the shareholders of the bank, a supervisory or early intervention measure taken by the Supervisory Authority pursuant to the legislation in force on banks in the Republic of Albania or pursuant to this law, to restore the bank within a reasonable period in good financial conditions and within the supervisory indicators;*
- c. the bank's resolution is necessary in the public interest.*

Pursuant to Article 21, paragraph 4 of the Law no.133/2016 resolution shall be deemed to be in the public interest if it is considered necessary for protecting financial stability and for achieving one or more resolution objectives.

The assessment of the public interest is carried out annually during the drafting of the resolution plans, as well as at the moment when the bank is deemed insolvent. During the phase of drafting the resolution plans, the Bank of Albania conducts a preliminary assessment if there is public interest to initiate resolution in banks by implementing resolution instruments and competencies. This preliminary assessment is constituent of the resolution plan for the bank. It is specifically included in the part that evaluates the credibility of liquidity according to compulsory liquidity or according to resolution. If the BoA is in the decision-making stage of whether to implement the resolution scheme on the insolvent bank, it will carry out a final public interest assessment. The starting point of the final assessment is the assessment that was carried out in the



resolution plan, taking into consideration the developments that have occurred at the decision-making time.

In general, public interest assessment includes three stages:

- a. realising whether any of the resolution's objectives is affected if the bank is deemed insolvent;*
- b. testing the resolution strategy against the resolution objectives;*
- c. comparing resolution with compulsory liquidity.*

In order to determine whether the resolution's objectives are under threat, if the bank is close to insolvency, the Bank of Albania assesses the impact of bank's insolvency through two approaches:

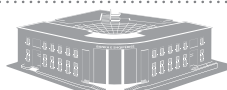
- 1. Initially, the BoA assumes an insolvency scenario for the bank which causes its abrupt exit from the market. To this end, the BoA evaluates whether the bank carries out a critical function such that its suspension will have a negative impact on financial stability or other resolution's objectives.*
- 2. Then, the BoA evaluates the potential impact of the compulsory liquidity procedure on the bank, third parties, and resolution objectives laid out in the Law no. 133/2016. To this end, the Bank of Albania assesses the credibility and ability to implement the bank's compulsory liquidation, while taking into consideration whether compulsory liquidation fulfils resolution objectives at the same measure as resolution.*

The public interest assessment comprised in the resolution plan determines the preferred strategy for resolution as well. In cases when the act of undertaking resolution is also corroborated by public interest, the Bank of Albania identifies the adequate strategy and specific instruments to fulfil resolution objectives, taking into account the structure and business model of the bank.

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

During 2021, entered into force the Regulation no.78/2020 "On the minimum requirement for regulatory capital instruments and eligible liabilities", which provides a new regulatory requirement (MREL) for the banking sector and is communicated as part of draft resolution plans. In accordance with the legal and regulatory framework on resolution, the Bank of Albania determines "the minimum requirement for regulatory capital instruments and eligible liabilities" (MREL) in order to ensure that a bank, at all times, holds adequate and sufficient instruments that enable the implementation of the preferred resolution strategy and the alternative strategy stipulated in the plan.

The BoA estimates and communicates every year "The minimum requirement for regulatory capital instruments and eligible liabilities" as part of the annual cycle of drafting the resolution plans for each bank. In 2021, the Bank of Albania calculated the MREL for each bank, by communicating the intermediary



requirement that must be fulfilled within 2022 and the final requirement that must be fulfilled within 2027, in compliance with the regulatory framework in force.

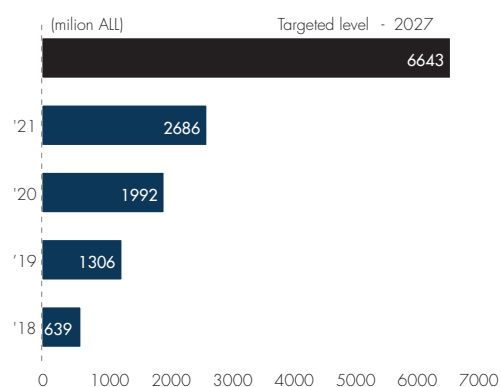
Potential obstacles to resolution

In 2021, the BoA has identified potential obstacles to resolution for each bank, which banks will include in their working plan to strengthen the ability to implement resolution. Following this process, the BoA continuously monitors the performance of the measures undertaken by banks to eliminate potential obstacles to the implementation of resolution plans. The monitoring process was also realised by carrying out on-site examinations in banks and issuing periodical reports regarding the fulfilment of recommendations.

In 2021, the Bank of Albania completed the full examination of systemic banks regarding resolution. Overall, the examination's objective was to assess the infrastructure banks had dedicated to resolution, evaluate the ability to implement resolution in banks, and improve the quality of information required in drafting the resolution plans. In 2021, the focus of examination concentrated on the following issues: assessing bank's funding resources and the capacities of information and data generation systems; assessing operational continuity and access to the financial market infrastructure etc. During the examination, attention was also paid to the forms reported for the purpose of resolution plans, in order to ensure correct and full information in relation to the process of resolution planning.

In conclusion of the examination process, specific recommendations were left to each bank. The fulfilment of these recommendations will continue be monitored by the Bank of Albania.

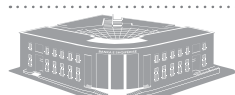
Chart 23 The Resolution Fund build up throughout the years and the targeted level for 2027 (ALL million)



Source: Bank of Albania.

2.5.2. RESOLUTION FUND

The Resolution Fund was established in 2018 through the financial contribution of all banks operating in Albania. It will be gradually built up until 2027 to reach 0.5% of the total liabilities of the banking sector (after deducting the regulatory capital). In 2021, the BoA estimated both the target level of the fund for 2027 and the annual contribution that banks must pay, at ALL 6.64 billion and ALL 664 million, respectively. In spite of the COVID-19 pandemic situation, the banking sector has fully paid the financial contribution to the Resolution Fund.



Pursuant to Law No.133/2016, the Resolution Fund is managed by the Deposit Insurance Agency (DIA). The DIA determines the method of investment and the instruments where the financial assets of the Resolution Fund may be invested, in accordance with the approved BoA's policy.

At the end of 2021, the size of portfolio of²⁶ the Fund's financial assets was around ALL 2.7 billion. The financial assets of the Resolution Fund are held in deposits, current accounts, and Albanian government securities, abiding by the thresholds laid down in the Fund's management policy.

LEGAL AND METHODOLOGY FRAMEWORK

The approved regulations

In 2021, the Bank of Albania finalized Regulations pursuant to Law no.133/2016 "On recovery and resolution in banks in the Republic of Albania." Following this process, as well as in accordance with the National Plan for European Integration 2021-2023, in order to ensure harmonisation with the European legislation, in 2021, the following regulations were drafted and approved:

1. **Regulation 20/2021 "On the contractual recognition of write-down and conversion powers"**, which lays down the content of contractual terms as regards the contractual recognition of write-down and conversion powers and the liabilities to which the exclusion from the obligation to include the contractual term applies.
2. **Regulation 33/2021 "On the organization and functioning of the assets management company"**, which lays down the conditions for the establishment and functioning of the Assets Management Company, as a resolution tool.
3. **Regulation 34/2021 "On the criteria for setting the rate of conversion of liabilities to capital"**, which lays down the criteria and principles of the Bank of Albania for setting of the conversion rates of liabilities to capital, when exercising the write-down and conversion powers or while applying the bail-in tool.
4. **Regulation 35/2021 "On classes of arrangements to be protected in a partial transfer"**, which lays down the conditions regarding the types of arrangements which are protected during the partial transfer of assets, rights and liabilities of a bank under resolution.

These Regulations were drafted through active consultation with the banking sector and the FINSAC programme of the World Bank, which has incessantly supported the development of the resolution fund framework of the Bank of Albania.

²⁶ According to the preliminary data of the Resolution Fund's portfolio in 2021.



Methodological documents

In accordance with the regulatory requirements, the Bank of Albania develops and updates, on a regular basis, the specific methodologies and policies to fulfil "the minimum requirement of regulatory capital instruments and accepted liabilities" and publishes them. In 2021, the Bank of Albania drafted the methodological document "On the methodology, policies and the manner of fulfilling the minimum requirement for regulatory capital instruments and eligible liabilities." The technical methodology was drafted in accordance with the European practice drafted by the Single Resolution Board (SRB) and in a widespread consultation with the banking sector, and was published on the official website of the BoA. This methodology describes the calculation method of MREL requirement for 2021, determines the BoA's stance on the additional capital requirements, and explains the method of distribution, across the years, of the intermediary and final MREL.



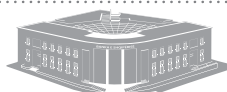
2.6. CURRENCY ISSUE

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 forms, measures, weights, model, and other characteristics of Albanian banknotes and coins of legal tender in Albania, as well as coins and banknotes to be minted/printed for numismatic purposes.

The Bank of Albania's objectives for banknotes and coins include improving the quality of banknotes in circulation, higher engagement with regard to protection against counterfeiting, and reviewing themes, design and security features in the series of Albanian banknotes with legal tender.

One of the main responsibilities of the Bank of Albania is to continuously ensure public confidence in the national currency. The central bank fulfils this responsibility by issuing a banknote that communicates security and stability to the Albanian public. Banknotes represent the most tangible form of money and are at the service of all citizens

To fulfil its constitutional and legal mission of putting into circulation the national currency and safeguarding its credibility, the Bank of Albania has continued to print the two latest denominations of the new and improves series of Albanian banknotes of legal tender. After putting into circulation the 1000 Lekë and



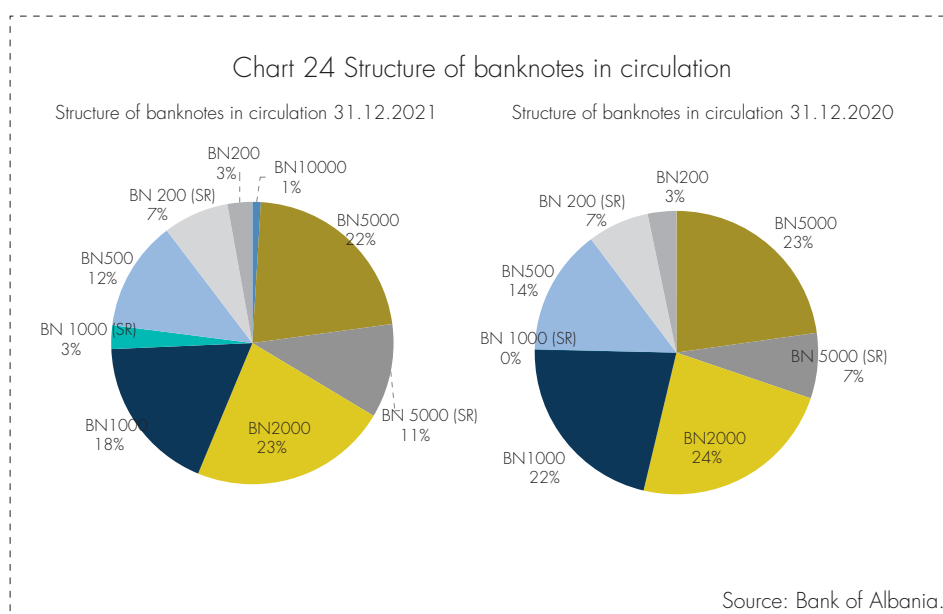
10000 Lekë banknotes in 2021, the work to complete the new series of 500 Lekë and 2000 Lekë denomination banknotes has continued.

Completing the new series of banknotes with contemporary and sophisticated security features, has endowed the Albanian banknote with more durability, quality and credibility, and has given it a modern appearance.

The number and value of banknotes and coins in circulation²⁷ increased in 2021.

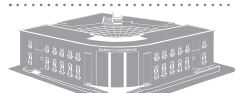
At the end of 2021, there were about 1.54 million notes in circulation worth about ALL 372.2 billion. Compared to 2020, the number of banknotes decreased by 2.2 million notes (1.4%), while in value there was an increase of ALL 22.5 billion (6.4%). The change in this indicators is attributable to the trend of the structure of banknotes in circulation in favour of banknotes with a nominal value of 5000 Lekë and 2000 Lekë, and the issue in circulation of the new series of banknotes that of 10,000 Lekë and 1000 Lekë. The average value of a banknote in circulation at the end of 2021 reached ALL 2,421, from ALL 2,242 at the end of 2020.

At the end of 2021, there were 241 million coins, from 226 million at the end of 2020. The value of coins at the end of 2021 reached ALL 5.96 billion, from ALL 5.58 billion at the end of 2020.



The speed of cash recirculation decreased and the quality of banknotes in circulation is kept under control.

²⁷ It is the number and value of banknotes put into circulation by the Bank of Albania.



In 2021, around 94.7 million banknotes were processed, which were checked for authenticity and fitness for recirculation. The sorting rate²⁸ was 19% compared to 19.6% in 2020. Unfit banknotes were replaced case-by-case with new banknotes fit for circulation.

The²⁹ banknote circulation coefficient for 2021 was 0.61, implying that a banknote is returned to the cash desks of the Bank of Albania, on average less than once a year. This rate is higher for 500 Lekë and 1000 Lekë banknotes (around 1.27 and 0.94, respectively) and lower for 5000 Lekë, around 0.16 respectively, which shows that the latter are returned more rarely at the cash desks of the BoA.

Bank of Albania aims to increase and strengthen technological and administrative capacities dedicated to protecting banknotes from counterfeiting.

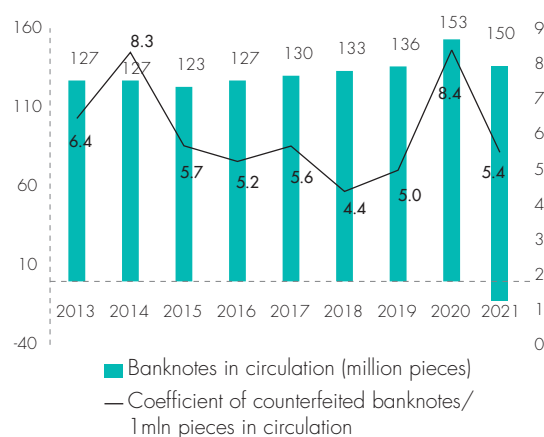
In view of safeguarding the currency from counterfeiting, the Bank of Albania has complemented the regulatory framework by approving two new regulations: "On medals and tokens similar to euro coins" and "On the criteria for the reproduction of banknotes and/or coins in the Republic of Albania." A cooperation agreement was signed with the ECB this year, in the field of safeguarding euro from counterfeiting, increasing the scale of approximation of our regulatory framework with that of the European Union. Also, actions designed to prevent counterfeiting have continued to be organised for professional staff and other money handlers.

In 2021, the quantity of counterfeited banknotes in circulation decreased. The coefficient of counterfeited banknotes per 1 million banknotes in circulation remains low (5.4 in 2021).

By structure the 5000 Lekë and the 1000 Lekë denominations have the main share in the total counterfeit banknotes, followed by the 2000 Lekë and the 500 Lekë denominations. Amongst counterfeit coins, the 50 Lekë denomination continues to be the most counterfeited, in insignificant amounts compared with the genuine coins.

From the technical and/or technological aspect of counterfeiting Albanian banknotes, colour digital printings dominate, mainly ink-jet accompanied by the use of additive artisanal and technological methods to imitate security elements.

Chart 25 Counterfeited banknotes statistics



Source: Bank of Albania.

²⁸ Ratio of unfit banknotes and coins to the total number of banknotes and coins sorted during one year.

²⁹ Ratio of the number of banknotes returned to the Bank of Albania cash desks to the average annual number of banknotes in circulation.



Security feature imitations in counterfeit banknotes, readable by authenticating/sorting equipment has not been encountered in any case. The Bank of Albania recommends the public to be careful during the exchange of banknotes, checking their authenticity using the “Feel, Look and Tilt” method published on the BoA’s website.



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 in lek. 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 AIPS AND AECH SYSTEMS

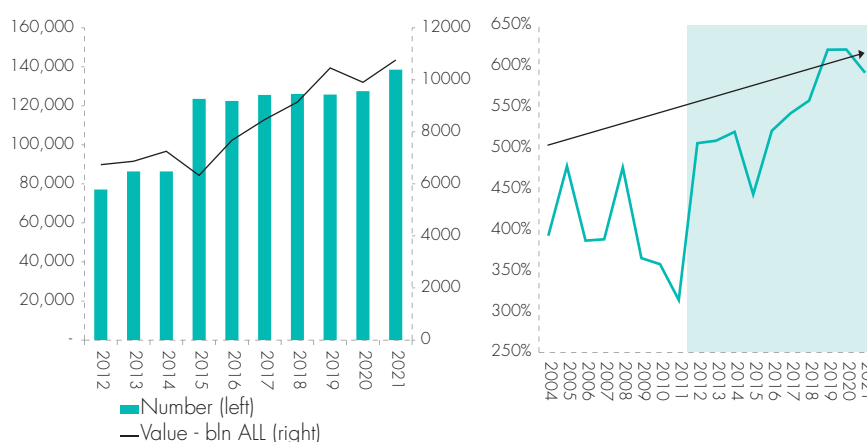
AIPS and AECH systems are managed and operated by the Bank of Albania. Both these systems are considered as the main infrastructure for processing interbank payments in Albania: AIPS system is considered the core infrastructure for the settlement of payments in the national currency, the settlement of transactions of financial markets, as well as the implementation of the monetary policy. On the other hand, the AECH system, which accommodates the clearing of interbank transactions with small value - lower than ALL 1.5 billion - is the only system in the Albanian market that clears payments of banks' clients (households and enterprises). The safety and well-functioning of these systems is of crucial importance for the operation of financial markets and the economy overall. Both systems have run smoothly and in accordance with the rules and schedules provided in the respective regulations, offering maximum availability. In the role of the payment system reformer and in compliance with the National Strategy for Small-Value Payments, the Bank of Albania has worked to put into operation the AIPS-EURO system, which is a system that settles euro payments domestically.

Albanian interbank payment system for large-value payments (AIPS)

A volume of 138,548 transactions was settled during 2021, with a total liquidity circulating in the system of ALL 10,758 billion. Compared to the previous year, the volume and the value of settled transactions reflected an annual increase by 8.67% and 8.61%, respectively. The value of transactions processed in AIPS as a ratio to the GDP is also assessed upwards, indicating an ever increasing use of the system. As regards transaction distribution by typology, the item "Payments for Clients" (with main share of payments in terms of figures, 67.6%) continues to register increasing rates in AIPS system.

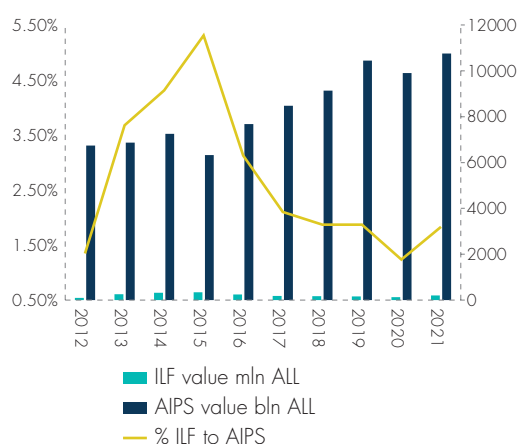


Chart 26 Number and value of transactions processed in AIPS (left) and as a percentage to GDP (right)



Source: Bank of Albania.

Chart 27 Intraday Loan Facility (ILF) ratio to total value settled in AIPS



Source: Bank of Albania.

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 ILF ratio to total AIPS system activity was 2.04%, reflecting a decline in the share of funding this system's activity with BoA's liquidity and of the exposure of the system to liquidity risk.

Albanian electronic clearing house for retail payments (AECH)

The activity of the AECH continued to increase in 2021. In annual terms, the number and value of AECH payments have increased by 26.4% and 23.6%, respectively.

The level of AECH transactions as a ratio to the population has also increased. The continuous increase of the use of AECH transactions, mainly payments for bank clients³⁰, indicates the efficiency of the measures taken by the Bank of Albania on commissions applied by banks (in 2011 and also in 2020³¹) on the final user in order to expand the use of this system. These measures have

³⁰ 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 AECH system, dominating the transactions initiated by other participants (Ministry of Finance and economy, the Bank of Albania).

³¹ The Regulatory amendments in 2020 provide the elimination of commissions for retail payments initiated electronically through home banking services for up to 20,000 Lekë and the differentiation of commission for the other payment part initiated through home banking for up to 50% of commissions applied for paper format payments.

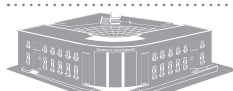
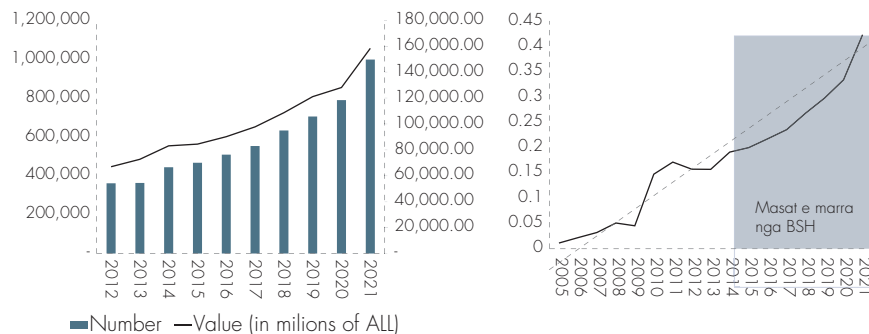


Chart 28 Number of AECH transactions in years (left) and the ratio of transactions processed in AECH in relation to population over 15 years old* (right)

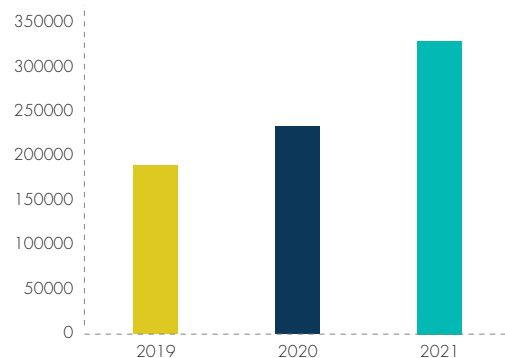


*Implies that 42.28 % of the population over the age of 15 conducts an interbank transaction through the AECH system. This value marked a continuous increase which becomes relevant when taking into consideration the fact that in Albania around 40% of the population (Findex 2014 assessment, World Bank) possesses a bank account for carrying out interbank payments.

Source: Bank of Albania.

caused payments below ALL 20,000 to increase more rapidly, showing that electronic transfers are being used daily by the wider public.

Chart 29 Increase in transactions number below ALL 20,000 in AECH



Source: Bank of Albania.



BOX 4 THE AIPS EURO SYSTEM FOR THE SETTLEMENT OF THE DOMESTIC EURO DENOMINATED TRANSFERS WITHIN ALBANIA

In the framework of the National Strategy for Small-Value Payments in Albania (2018-2023) and its implementation plan, the Bank of Albania and other important stakeholders such as the Ministry of Finance and Economy and the banking and financial system, through the National Payment System Committee (NPSC), aim to create a modern and comprehensive market of small-value payments in Albania, supported by a secure and efficient infrastructure. In line with this, among the strategic fields and actions is the implementation of the settlement of domestic euro transfers by the Bank of Albania.

This project was conceptualised since 2016, where the possibility and the need to create a national infrastructure for euro settlements was analysed, in the framework of the NPSC recommendations. The study carried out by the Bank of Albania in cooperation with the Albanian Association of Banks, identified a cost of ALL 718 million for the banking system from the current method of conducting transactions. Based on this analysis and market research, this project was included in the Strategy's action plan, in order to reform and modernise payment systems.

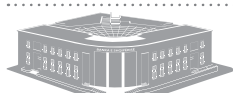
The Bank of Albania toiled at an intensive pace in 2021 to finalise the project on payment of domestic transfers for clients in Euro. This project is realised through developing the necessary infrastructure and creating a regulatory framework for the operation and functioning of AIPS-EURO system. The system is functional since 24 January 2022. The AIPS-EURO system will be used to settle only "transfers for clients" of banks and will allow Albanian citizens to conduct euro payments domestically, at very low costs and for a shorter time period compared with the previous process of corresponding banks.

Also, this project has a wider impact on several economic factors, as the considerable commissions that were held by corresponding banks will be kept in the domestic economy, and financial and monetary stability will be safeguarded, with all the necessary monitoring mechanisms available to this segment of the market.

Indirectly, this project has also an impact on the well-being of clients, banks and overall economy. Since payments are now processed domestically, it would be much easier to resolve issues in case of an error in payment processing. Furthermore, another positive fact is that domestic euro payments are regulated by the prudential legal and regulatory framework on consumer protection, laid down in the Law "On Payment Services".

The project is assessed to have quite positive effects also as regards banks' management of cash in euro, as well as to have a positive impact on the formalisation of the economy, encouraging financial inclusion, and the reduction of cash.

Reducing commissions for banks' clients, beyond the natural reflection of lower costs due to the elimination of time-consuming cycles of processes of corresponding banks, also reflects the BoA's policies on the limits of commissions applied by banks to clients. The main objective of this regulation was to encourage the formalisation of euro payments, as well as promote more efficient payments processes for clients in Euro, but simultaneously giving priority/encouragement to payments in Lek, which continue to be cheaper, based on the ceiling values.



The following table summarizes the commission applied before 24 January and the ones applied once the operation of AIPS-EURO commenced.

	Until 24 January 2022	After 24 January 2022	
	Paper-based payments and non-paper based/ electronic payments	Paper-based payments	Electronic payments
OUTGOING TRANSACTIONS ►			
MIN-Euro per transaction	Max 30 Euro	Max 6 Euro	Max 3 Euro
% above the amount	Max 3%	Max 0.2% Up to 10,000 euro	Max 0.1% Up to 10,000 euro
MAX-Euro per transaction	Max 300 Euro	Max 50 Euro	Max 25 Euro
INCOMING TRANSACTIONS ◀			
MIN-Euro per transaction	20.00	0	0
% above the amount	0.2 %	0	0
MAX-Euro per transaction	200.00	0	0
Swift Commission MAX-Euro per transaction	10.00	0	0

2.7.2. PAYMENT INSTRUMENTS

In 2021, the use of electronic payment instruments increased by 29.51% in annual terms, reaching a total of 28.6 million payments. In terms of value, it increased by 20.62% or ALL 5,291 compared to the previous year. The increase of electronic payments is reflected in a continuous contraction of credit transfers in paper form, which in 2021 accounted for around 20.65% of the total payment volume.

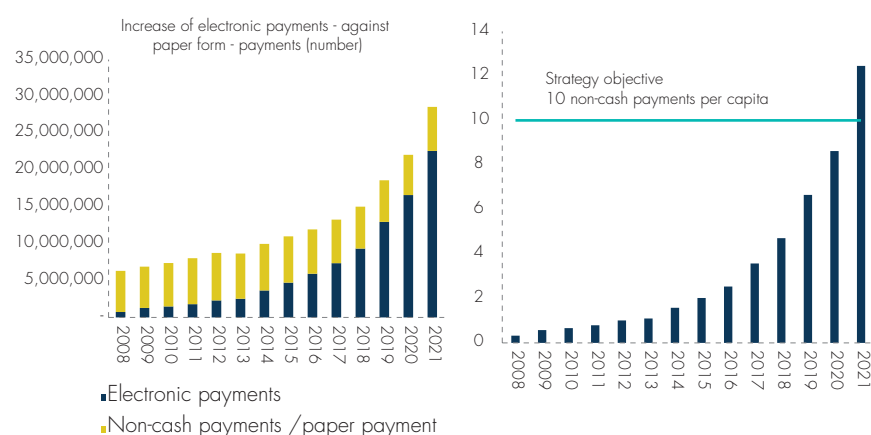
Card payments are the main payment instruments accounting for 55.57% of the volume, surpassing for second consecutive years credit transfers in paper form, the most frequently used payment instruments throughout years.

It is encouraging to see the fast upward trend in the use of the electronic payment instruments of home banking, singling out the number of payments conducted through mobile banking, which reached 1.7 million transactions, up by 46.78% compared to the previous year. The value of these transactions reached ALL 219 billion, with an annual growth of 47.36%. Also, an upward trend is noted in the use of E-money, an instrument offered by banks and electronic money institutions.



Developments in electronic payments throughout 2021 have contributed in meeting the quantitative objectives of the National Strategy for Small-Value Payments (2018-2023). The use of electronic payments reached 12.5 per capita, from the 10 payments objective outlined in this strategy. Furthermore, positive developments were also recorded in the framework of expanding the share of the population that owns a payment account. Thus, in 2021, around 69%³² of adult population owns a payment account, considerably approaching the 70% objective outlined in the strategy.

Chart 30 Volume of electronic and paper payment instruments in years (left) and the volume of payments per person (+15 years-old) in years (right)



Source: Bank of Albania.

Home Banking

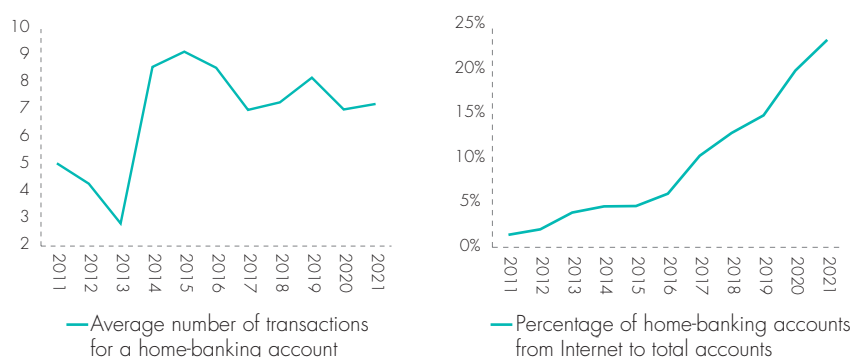
The initiation of credit transfers in electronic form is realised through "home banking"³³ services, which are provided by 11 banks and are increasingly widespread in the Albanian market. In 2021, there is a noticeable increase in the volume of payments and transaction value of "home banking", by 24.5% and 15.45%, respectively, compared to the previous year. Contributions to the upward trend of "home banking" transactions were assessed to be: the measures undertaken by the Bank of Albania in 2020 (outlined above); the expansion of possibilities to access internet; and, familiarisation of banks' clients with this instrument. Also, the policies of banks for promoting these alternative payment means, were assessed to have played a positive role, being reflected in an increase in remote accessible accounts by 20.98%, compared with the same period in 2020. Online accessible accounts to total accounts of clients account for 23.25% in 2021.

³² Based on the Credit Registry National of Accounts data.

³³ These products provide remote access to the bank account, via on-line, telephone or software that the bank makes available to its clients.



Chart 31 Volume of home banking transactions to total accounts and online accessible account*



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

Source: Bank of Albania.

Bank cards

At the end of 2021, all the banks that operate in the Republic of Albania were licensed as card issuers, of which seven were licensed also as card accepters. The infrastructure provided by these banks has trended upward in terms of the number of POS terminals (increasing significantly by 13.12% compared with 2020). A positive development can be considered the increase of the gradual distribution of POS terminals in other regions in the territory of the Republic of Albania, beyond the District of Tirana, which has had and continues to have a dominant position (at 82.77%)

Meanwhile, the number of ATMs has significantly increased by 11.38%, compared with 2020. Despite the fact that ATMs are mainly used for cash withdrawals, during 2021 we have an expansion of the function of ATMs that enable deposits, a function which is used at higher levels than in 2020 (both in number and in value).

Terminals for the use of electronic money cards also recorded positive developments. They showed an upward pace at 16.03% compared with end-2020. The promotion of the use of the electronic money instruments is assessed to have effected the financial inclusion of the population, by providing access to bank services (opening of an electronic money account and the owning of a pre-paid card) to categories of population who may not access other services, i.e they do not receive a wage.

Debit card issuance increased slightly by 2.4%, while credit card issuance decreased by 2.12%. The end of 2021 marked an increase of 0.61% of cards functioning as electronic money, compared to the previous year. Developments in terms of infrastructure and cards in circulation are reflected in an increase in

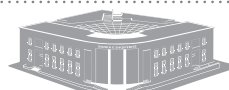
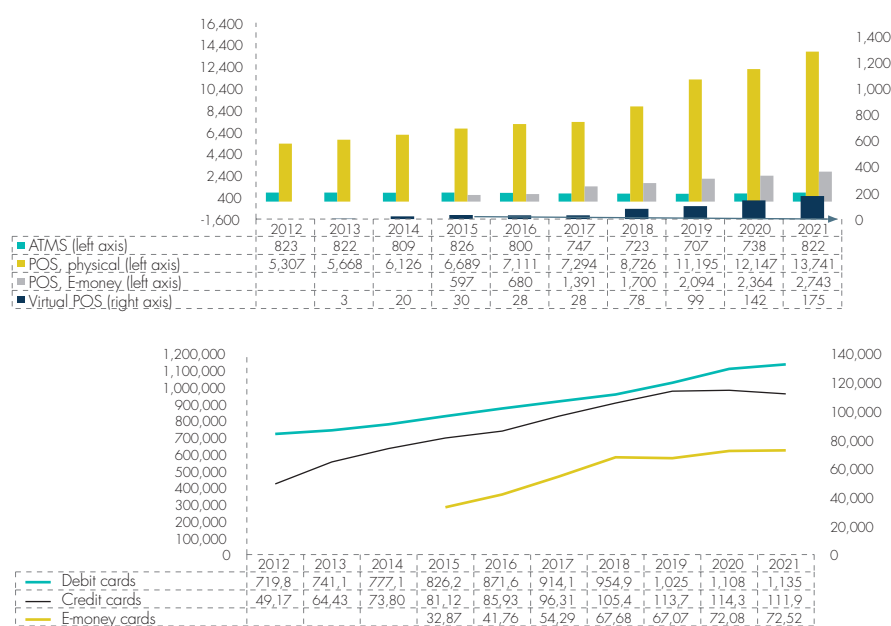


Chart 32 Developments related to ATMs and POS (left), as well as related to debit, credit and pre-paid cards (right)



Source: Bank of Albania.

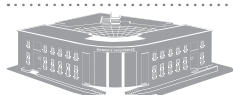
the number and value of card payments in 2021, respectively by 43.63% and 49.87%, compared to 2020.

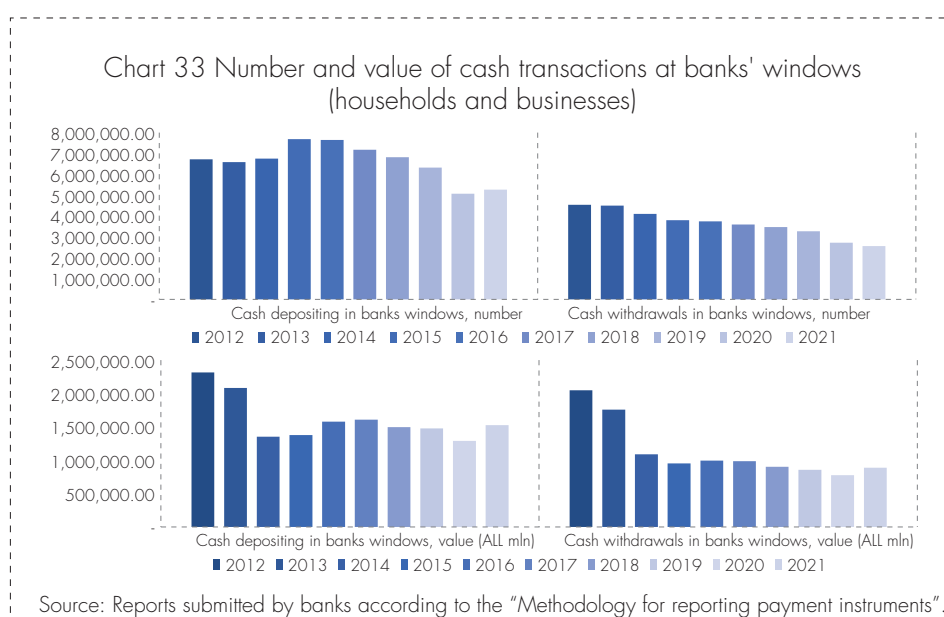
Despite the positive developments, the use of bank cards in ATM and POS terminals shows that the main share of card transactions is carried out by cash withdrawals from ATMs. In 2021, the number and value of card payments in physical and virtual POSs increased by 35.8% and 36.93%, respectively. In relative terms, the payments through via pre-paid cards point at 5.75% of payments through debit and credit cards.

Cash transactions

Regarding cash transactions conducted by customers at banks' cash windows, in 2021, we observe an increase in number and value compared with the previous year. This year cash deposit transactions increased both in number and value, respectively by 3.86% and 18.31%, compared with the previous year.

The use of cash in the Albanian economy still remains a prevailing phenomenon, which carries high costs for various stakeholders and the economy in general. In this framework the coordination of efforts at market level to encourage the use of efficient instruments at low costs is of special importance and one of the priorities of the Bank of Albania.





2.7.3. ELECTRONIC MONEY INSTITUTIONS

Electronic money products are also offered by non-bank financial institutions, licensed as electronic money institutions. During 2021, 7 electronic money institutions operated in the Albanian market, from which only 3 managed to still operate at by end of 2020. The increase in the number of electronic money institutions is a result of the adoption of the law "On payment services" in 2020. In total, the number of electronic money payments has significantly increase in both, number and value during 2021, respectively by 79.04% and 44.8%. Although the volume of electronic money payment transactions has reached almost 24% of the total of all payments passing through the banking system, in value they cover less than 0.5% of the total value of payments made by electronic money institutions and banks that emit electronic money. During 2021, these institutions together have carried out a volume of around 6.8 million electronic money payments, with a value of ALL 15.63 milliard.

The increase in number of electronic money institutions has led to the increase of terminals in the territory of the Republic of Albania, providing facilities in the form of increased flexibility for carrying out payments, as well as a lower cost for payments such as fines, monthly utility bills, etc.

2.7.4. PAYMENT SYSTEM OVERSIGHT AND THE REFORMATORY ROLE

In the role of the catalyst / reformer of payment systems, the BoA has continued its efforts to implement the action plan of the National Retail Payments Strategy (2018-2023), in order to modernize this market and expand the financial inclusion of population and use of the electronic payments in the Albanian



market. In this regard, during 2021 a series of legal and regulatory measures have been taken, as well as infrastructural developments. From the point of view of legal and regulatory improvements, during this year a series of legal acts have been drafted to supplement the regulatory framework in implementation of the requirements of law 55/2020 "On payment services".³⁴

From the infrastructural developments point of view, we can mention the operationalization of the payment service provider scheme for "Direct Debit". This scheme enables utility companies to use only one payment account to collect the liabilities of their customers throughout the market, in order to more efficiently manage liquidity. From the clients' point of view, this scheme creates flexibility, thus enabling the use of the instrument, regardless of whether the bank / non-bank financial institution has an agreement with the utility company in which the client wants to make payments. Also, the Direct Debit Regulation and the Law on Payment Services create a prudent framework for consumer protection. The regulation and operationalization of this scheme marks another step towards integration with the Single Euro Payment Area.

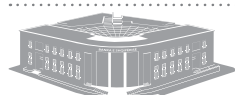
Another important development is the operationalization of the AIPS EURO system for the settlement of payments in euro in the country for bank customers, analyzed in Information Box 4, above.

For the purposes of continuing the project for fast payments, during this year, a report was finalized regarding "Fast Payments in Albania". This report aims to identify the needs that the project will address, the areas that require intervention, and the preliminary measures to create a solution for fast payments, as well as the various options for the implementation of this project. The study identifies the most feasible option for the Albanian market. This report has been prepared with the technical assistance of the World Bank in Albania and will serve as a guide for the implementation of the project in the Albanian market.

The BoA has taken an important step in promoting financial inclusion. During 2021, was worked on compiling drafts-acts which transpose Directive 2014/92 / EU of the European Parliament and of the Council, dated 3 July 2014, "on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features". In this regard, the draft regulation "On transparency of fees related to the payment account and on payment account switching" , has been drafted. This draft regulation has been adapted to our regulatory framework. Its purpose is to determine the requirements for transparency and comparability of fees charged to customers for their payment accounts, as well as to determine the requirements for the transfer of payment accounts between payment service providers.

During this year, the draft law "On the account of payments with basic services" was drafted. The object of this draft law is to determine the rules and

³⁴ The list of approved acts is mentioned in the sub-chapter "Banking supervision".



conditions for opening and using the account of payments with basic services for households in the Republic of Albania, including especially consumers and households not covered by banking services, regardless of income level, employment status and solvency history.

In the framework of fulfilling its catalyst role, the Bank of Albania has supported and organized a series of meetings and consultations with various actors, in order to implement the action plan of the National Strategy for Low Value Payments (2018-2023). Also, BoA organized the VII meeting of the National Payment Systems Committee in December 2021, in order to further promote the ongoing projects.

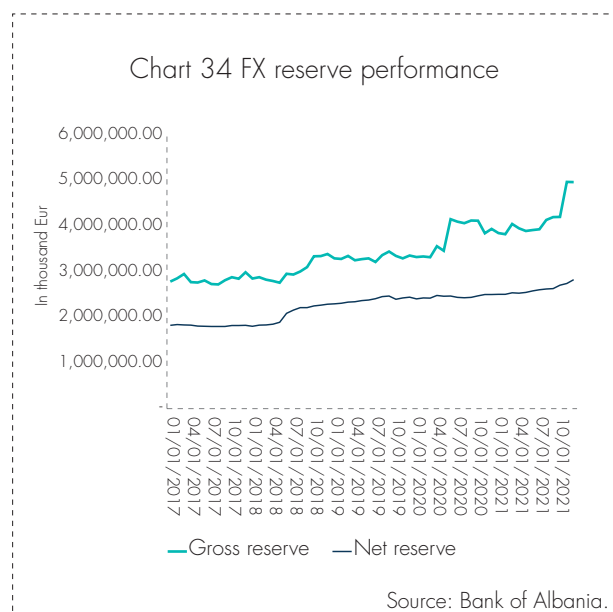


2.8. FOREIGN RESERVE MANAGEMENT

The Bank of Albania is the authority responsible for maintaining and managing the international reserve 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.

The Regulation "On the policy and management of the foreign reserve", approved by the Supervisory Council, lays down the purposes of maintaining the foreign reserve. In compliance with the best international practices, the purpose of maintaining the international reserve is implementation and support of monetary policy and exchange rate policy, as well as safeguarding of financial stability. The primary objectives of international reserve management are liquidity and security. Ensuring returns from reserve funds management represents a third objective, as long as it does not infringe the objective for liquidity and security.

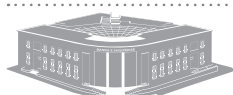
The Supervisory Council also approves the qualitative principles and criteria for the development of international reserve management. In order to implement these criteria, the Investment Committee approves the quantitative indicators and follows the application of the investment policy through the periodical publications.



The Investment Committee approves the names of entities where foreign reserves may be invested. These names include the governments of the USA, Japan, United Kingdom and those in the euro area, which are generally rated at least A- (for euro area governments the accepted minimum rate is BBB³⁵). The entities allowed for investment also include agencies or institutions related to governments, multilateral institutions or other institutions rated at least AA-, (for banks / other financial institutions the minimum accepted level is A-).

At the end of December 2021, the stock of gross foreign currency reserve was EUR 4,974.02 million, including monetary gold, (about 88.2 thousand ounces or 2.5 tons).

³⁵ 22 Names/instruments listed up to BBB- are included in the category "For investment" (investment grade).



Composition of the reserve portfolio by currency

At the end of December 2021, the composition of the gross international reserve was: USD 17.0%; EUR 66.4%; GBP 2.1%; JPY 1.9%; AUD 1.0%; SDR 6.9%; Gold 2.9%; RMB 1.9%. Exposure in the currencies AUD (Australian dollar) and RMB (Chinese renminbi) reflects the decision of the Supervisory Council to invest part of the reserve in accordance with the SDR basket. The share of the currency RMB is allocated in two currencies, RMB and AUD, in accordance to a ratio approved by the Investment Committee.

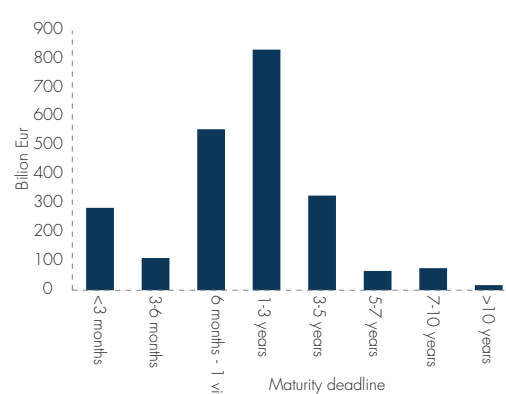
The composition of reserve portfolio by maturity term

Around 85% of the international reserve portfolio resulted invested in names with high quality rating (class AAA and AA including exposures in current accounts). By type, exposures of issuer/counterparties are represented by governments/central banks (74%), followed by multilateral institutions (9.8%), banks/other financial institutions (7.5%), agencies (5.9%), government-guaranteed institutions (1.4%) and government authorities/public bodies (1.4%).

Composition of the reserve portfolio by rating and type of issuer/ counterparty

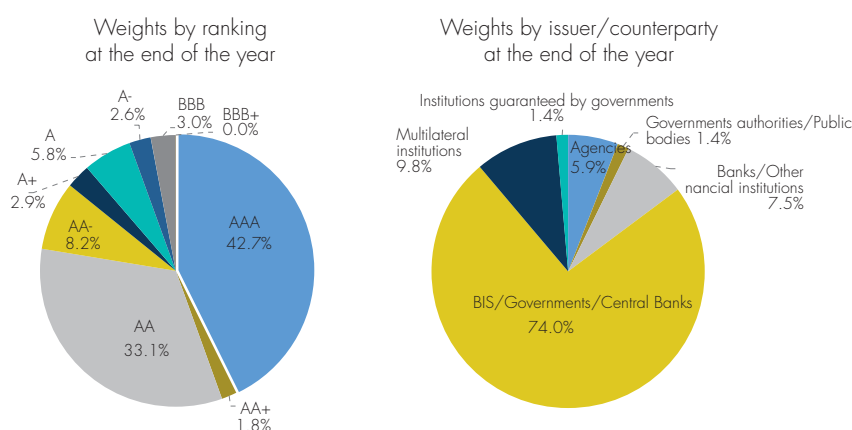
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Chart 35 Distribution of reserve by maturity of instruments*



*The Chart does not reflect the funds kept in current accounts. The current account balance at the end of 2021 is EUR 2.07 billion.
Source: Bank of Albania.

Chart 36 Composition of the reserve portfolio by evaluation (left) and counterparty (right)



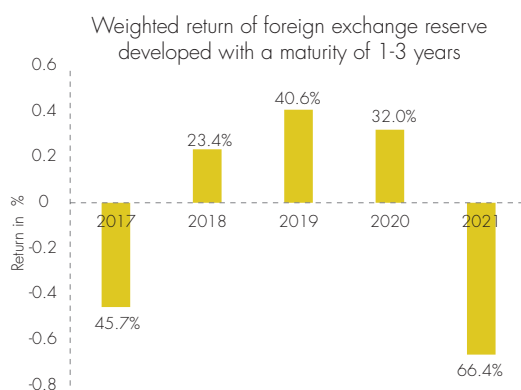
Source: Bank of Albania.



Return on the investment of reserve portfolio

The absolute return of reserve in total (excluding the fund managed by the World Bank as external administrator), was a negative, at $-0.64\%^{36}$, in 2021. The return created by the active management of the reserve portfolio was positive.

Chart 37 Return of Foreign Exchange Reserve*



*The return estimation does not account for the exchange rate effect.
Source: Bank of Albania.

The absolute return of foreign reserve again at negative levels reflects the continuation of an environment still with low interest rates, in the main currencies/ market where the foreign reserve portfolio is invested. Interest rates on treasury bills in Euro continue to remain in negative territory. At end-2021, the situation in the current account was around 42.0% of the total reserve portfolio, reflecting the efforts to minimise investment costs. Investments in securities in the portfolio in euro resulted with a negative interest rate that varies from -0.3 basis point to -80 basis point. The contribution in the return of the USD and other reserve currencies was also mainly negative, as a result of the sharp rise in interest rates, especially at the end of the year, in response to the recovery of major economies, increase of inflation expectations and expectations for monetary tightening by central banks.

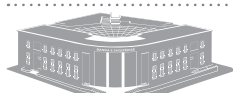
The increase of interest rates has given the main contribution to the negative value of the absolute return of the reserve, but at the same time has created room for the realization of new liquidity investments with a higher interest rate, although still negative.

Other developments related to the international reserve**Management function**

Considering the primary objectives of the foreign exchange reserve management process, which are liquidity and security, new agreements have been concluded or existing agreements have been renewed to keep some mechanisms available to the BoA, in order to provide the necessary liquidity to maintain and support the country's financial stability. In 2021, the signing of a new agreement with the European Central Bank, through the Bank of France, for the establishment of a collateralized credit line for the amount of 400 million euros was finalized. Also, the Repo-based agreements and the SWAP agreements were renewed, respectively with the Bank for International Settlements (BIS), for the amount of EUR 500 million, and with the People's Bank of China, for the amount of RMB 2 billion.

The regulatory framework and infrastructure that supports the foreign exchange reserve management activity has been updated in order to create opportunities

³⁶ Including the fund administered by the World Bank, the absolute return for 2021 is estimated at 0.61%.



to start investing in new classes of instruments, such as MBS (mortgage-backed securities), and to establish new business relationships, to enable the resumption of investment in futures contracts. Also, a code of ethics has been adopted dedicated to the performance of duties and responsibilities in accordance with the highest principles that guide the process of foreign exchange reserve management.

In the framework of the periodic revaluation of the share of monetary gold in the foreign exchange reserve, during 2021 there were no new sale-purchase actions in this part of the portfolio.

BOX 5 FLOWS AFFECTING INTERNATIONAL RESERVE IN 2021

Gross international reserve, increased by around EUR 1,028.73 million, in 2021, standing at EUR 4,974.02 million as of the end of December. The main factors that have affected the gross reserve are grouped below:

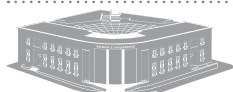
- > *Transactions with the Ministry of Finance and Economy provided a positive impact, estimated at EUR 642.44 million, according to the following items:*
 - *net inflows from extension of various loans from the IMF and the World Bank and the EC at EUR 627.34 million;*
 - *inflows from the issue of foreign currency debt in the foreign market, at EUR 635.83 million;*
 - *outflows for debt service and other, in the amount of EUR 620.73 million.*
- > *Commercial banks and other entities' transactions provided a positive impact, at EUR 42.12 million, according to the following items:*
 - *Commercial banks' inflows at their accounts with the Bank of Albania to fulfil the required reserve, management of balance sheet exposures etc., at EUR 2,238.47 million;*
 - *transfers (outflows) from commercial banks, in the amount of EUR 2,201.68 million;*
 - *net income on behalf of other entities (ADIA etc.), in the amount of EUR 5.33 million.*
- > *Bank of Albania's transactions provided a positive impact, estimated at EUR 298.23 million, according to the following items':*
 - *Buying foreign currency from commercial banks and other institutions, at EUR 292.01 million:*
 - *by commercial banks, at EUR 116.80 million;*
 - *From the Ministry of Finance and Economy, at EUR 163.7 million;*
 - *by other institutions, at EUR 11.51 million;*
 - *Inflows from interests, coupons, etc. (calculated in cash) generated from international reserve investments, at around EUR 18.86 million;*
 - *Outflows transfers amounted at EUR 12.64 million.*
- > *Market factors provided a positive impact, estimated at EUR 45.94 million, according to the following items:*



- *fluctuations of the foreign exchange rate of currencies composing the international reserve affected positively the gross reserve reported in EUR, at around EUR 82.51 million;*
- *The portfolio re-valuation effect, as a result of interest rate volatility, is estimated at a negative value of EUR 36.57 millio^{II};*

^I *The net effect of SWAP transactions carried out with the Ministry of Finance and Economy for 2021 is positive, at EUR 129.5 million, reducing the position in SWAP compared to 2020, while the total volume (considered purchase-sell) is EUR 2,214 million.*

^{II} *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

The BoA creates, collects, compiles and shares a wide range of statistics and data needed to support its functions: monetary policy, safeguarding of financial stability, banking supervision and the proper functioning of payment systems. These statistics are also used by other public authorities, international organizations, financial market participants, media and the general public, as well as help the Bank of Albania in increasing the transparency of its work.

The statistical function in the BoA is continuously adapted to an organizational level that meets the requirement of independence and ensures its interaction and cooperation with other departments of the bank and other institutions with responsibilities in the field of statistics, such as INSTAT, MFE, the European Commission (Eurostat), Organization for Economic Co-operation and Development, IMF or other central banks.

The statistical function of the BoA has seen significant progress during 2021. In the context of the consistency of statistics, as well as the meeting of the regulatory framework for EU membership, the BoA, as an integral part of joint projects with national and international institutions, achieved several important objectives, from which we would highlight:

- *The approximation of Regulation No. 1071/2013 of the European Central Bank on the balance sheet of monetary and financial institutions within the National Plan for EU Integration Program (2021-2023).*

This regulation, approved in December 2021, completes the framework for compiling monetary statistics in approximation to international standards. The adoption of this act enabled the fulfilment of one of the BoA commitments in the approximation of the regulatory basis with the EU acquis in the field of statistics (full approximation of regulation (EU) No. 2021/379 of the ECB, on the balance sheet of the monetary financial institutions sector (reviewed) (ECB / 2021/2).

This regulatory basis aims to adapt and standardize the reporting system of financial institutions for the compilation of monetary statistics. The BoA is the only institution that collects, compiles and publishes monetary data. This data have of particular importance for the fulfilment of its main function, the drafting and implementation of monetary policy. Furthermore, they play an important role in macroeconomic analysis and policies, as well as help to prepare comparative analyses on a regional and basis and beyond, due to their high level of standardization.



- *Compliance with reporting standards in accordance with EC regulation³⁷ in regard to the Balance of Payment statistics*

During 2021, the BoA has achieved a high degree of compliance in the transmission of PB data to Eurostat, with the 6th edition of the PB Manual and the Investment Position. According to the assessment of the European Commission³⁸, the BoA has significantly improved the timely transmission of data, in number of indicators and in accuracy, as a reflection of its reporting system, in accordance with the requirements of internationally accepted standards.

- *Successful completion of the 2-year project for the development of macroeconomic imbalance indicators (MIP indicators) for Albania*

In cooperation with INSTAT and with expertise from the EU, it was possible to complete the very important project "Identification of Macroeconomic Imbalances" (MIP), - part of the regulatory package aimed at improving EU economic governance. MIP is an instrument for assessing and preventing macroeconomic imbalances of member states and the EU as a whole. Identifying Macroeconomic Imbalances is an obligation stemming from the country's EU membership process.

The project was finalized in August 2021, at the end of which the BoA identified and sent to Eurostat all indicators that fall within its area of competence. It was also possible for the BoA to report to Eurostat the quality document of financial accounts data and Balance of Payments statistics, the production of which is under the BoA responsibility.

- *Implementation of the Project between the BoA and the Bank of Portugal "Integrating micro-databases in the data warehouse for statistical purposes"*

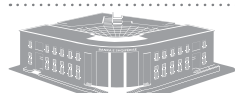
During 2021, with the assistance of the Bank of Portugal, the project of integration of micro-databases in the data warehouse system for statistical purposes came to life. At its conclusion, the project enabled the research and design of the main elements that will serve in a second phase to increase professional capacity and find appropriate technological solutions for the integration of granular information in the process of compiling statistics.

- *Harmonization of Government financial accounts with other government statistics, within the project "On government finance statistics - Excess Deficit Procedure (EDP) and government financial accounts according to methodological standards and international best practices"³⁹*

³⁷ (Regulation (EC) No 184/2005 of the European Parliament and of the Council of 12 January 2005 on Community statistics concerning balance of payments, international trade in services and foreign direct investment (OJ L 35, 8.2.2005, p. 23).)

³⁸ European Commission Progress Report for Albania, October 2021.

³⁹ In cooperation with INSTAT, MFE and the IMF expertise.



The Excessive Deficit Procedure (EDP) is one of 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). Starting from November 2014, Albania regularly reports the EDP tables to Eurostat. During 2021, some very important improvements were made regarding the GFS statistics, as follows:

- EDP notification tables for 2017-2020 have been reported, where for the first time the data of extra-budgetary units have been included;
- the compilation of Maastricht debt data on accrual basis has been finalized, with quarterly periodicity for budgetary data, and annual periodicity for budgetary and extra-budgetary data (including extra-budgetary units).



2.10. RESEARCH

The Bank of Albania aims to base its decision-making process on the solid foundation of a body of knowledge tested 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 methodologies and required knowledge to guarantee the macroeconomic equilibriums of Albania.

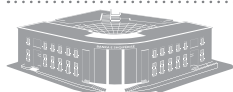
The focus of scientific research at the Bank of Albania in 2021 was mainly towards identifying and assessing the structural consequences of COVID-19 on economics and the financial market, and their implications for monetary policy and financial stability. Other research papers addressed issues on development economics, increasing financial literacy, and banking challenges in the future. In accordance with its medium-term strategy, scientific research continued to support the decision-making process for drafting and implementing the policies of the Bank of Albania, testing new empirical methodologies and enriching the portfolio of econometric models on which decision-making is based.

Research projects in function of monetary policy decision-making and / or financial stability are focused on the efficiency of monetary policy actions transmitted through the key interest rate; in the mechanism of monetary transmission through the bank credit channel in Albania and in some countries of Central, Eastern and South-eastern Europe; in measuring the (imbalance) of inflation risks; as well as in assessing a hypothesis on the possible stalemate in the credit market in Albania, especially after the global financial crisis.

The assessment of the real natural interest rate shows that the monetary policy in the last decade has operated in conditions of slowing down the real equilibrium interest rate in Albania, influenced by a number of factors, such as demographic changes, increased demand for financial instruments to invest savings of the population or and slowing down of the potential growth of the economy in the long run. The lower real interest rate in equilibrium means a reduction of the monetary policy response, makes it possible to reach the lower limit of the key interest rate, and increases the need to use unconventional monetary policy instruments.

The BoA pays special attention to assessing the effectiveness of various monetary policy instruments in the transmission mechanism. A recent study in this regard attempts to measure the empirical validity of the importance of money as an informative indicator. Preliminary results conclude that monetary indicators, especially the broad money indicator, show satisfactory links with prices and the exchange rate, but not much with economic activity.

Monetary transmission is analysed through the credit channel in financial



institutions with different characteristics such as size, capitalization, etc., for CEE countries, during the period 2010-2018. Preliminary results suggest that monetary expansion stimulates lending in all CEE countries, but the magnitude of the effect varies among them. The level of capitalization affects the lending behaviour of banks mainly in countries with moderate and high banking development, while the size of banks is important for other countries.

The study on the demand and supply of bank loans presents an empirical analysis of the hypothesis of “rationing” in the credit market in Albania during the period after the global financial crisis. The main results do not support the hypothesis of a strong credit market imbalance in the country.

The central bank’s assessment of inflation risks may affect agents’ expectations and, consequently, their consumption and investment decisions. In this perspective, the study of inflation risks tries to assess the asymmetries in the impact of macroeconomic factors along different intervals of inflation distribution in Albania, using a new method with quantitative regression. The analysis shows that during January 2010 - December 2021 there are significant changes in the form of inflation distribution over time, and nonlinearity in the impact of explanatory indicators.

Other research projects have focused on the challenges posed by new developments in financial technology, in terms of a financial literacy of households, still far from developed countries. Innovations in the field of digital currencies pose new risks to the stability of the financial system, arising from the wider use of FinTek (financial technology) products and services. These innovations bring a lot of uncertainty in a country with insufficient financial literacy such as Albania, as it results from the Survey on Measuring the Financial Literacy of the Population conducted by the BoA in 2019. As a result, financial education has become a strategic priority for the BoA and, during 2021, efforts have been made to gather information on current and expected initiatives under the National Financial Education Strategy.

These and other studies have been discussed in activities and conferences organized by the BoA or other institutions in the “15th Regional Research Meeting for Southeast Europe”, on 6-7 December 2021, organized by the Bank of Albania. This annual on-line event served as a platform to enhance regional cooperation in South-east Europe and beyond, increasing the central bank’s potential contribution to financial markets, the economy and society.

A more complete and detailed information on the research papers of the Bank of Albania is found at 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” informs about the newly completed research materials or about those in process, materials presented in the “Friday Seminars”, or in other activities organized by the Bank of Albania throughout the year.



2.11. EUROPEAN INTEGRATION AND INTERNATIONAL COLLABORATION

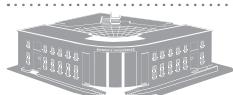
The Bank of Albania has continued to contribute to the fulfilment of the obligations stemming from the Stabilization and Association Agreement, the Progress Reports of the European Commission, joint EU-Albania subcommittees and the National Plan for European Integration. It chairs two Inter-institutional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

Albania has continued to implement the obligations stemming from the Stabilization and Association Agreement (SAA) as well as from bilateral EU-Albania meetings. On 25 March 2020, the Council of the European Union approved the proposition of the European Commission on opening Albania's membership negotiation. Albania has continued to show commitment in carrying out reforms and achieving concrete and sustainable results. In the annual report of 2021 of the European Commission it is estimated that Albania has met all the conditions for holding the First Intergovernmental Conference.

The Bank of Albania has continued to contribute to the fulfilment of the obligations stemming from the Stabilization and Association Agreement, the Progress Reports of the European Commission, joint EU-Albania subcommittees and the National Plan for European Integration.

The Bank of Albania has continued to chair Two Inter-institutional Work Group for chapters of the EU acquis: Chapter 17 - "Economic and Monetary Policy" and Chapter 4 - "Free Movement of Capital". At the same time, the Bank of Albania has continued to actively contribute to other chapters, where we mention: Chapter 9 - Financial Services; Chapter - Economic Criteria; Chapter 18 - Statistics and Chapter 32 - Financial Control. The BoA periodically prepares reports on the progress of the areas covered by the above-mentioned chapters, and has contributed to the drafting of the PKIE 2022 -2024, identifying the measures envisaged for further alignment with the EU acquis.

The Bank of Albania was 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 as well as 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 October 2021, the European Commission published the Progress Report 2021 for Albania, which describes the progress made by Albania during June 2020 - June 2021. The report assesses the work of the BoA in terms of monetary policy formulation, aimed at maintaining price stability, in terms of maintaining financial stability; approximation of legislation in the field of banking supervision; extraordinary intervention and systems of payments etc.

RELATIONS WITH THE INTERNATIONAL MONETARY FUND

The Republic of Albania continues to have SDR 139.3 million quotas and owns 2,858 votes or 0.06% of the total sum of the votes of all members of the IMF. It is in the same constituency with Italy, Greece, Portugal, Malta, and San Marino. This constituency has a total of 207,948 votes (or about 4.13% of total votes of all IMF members). The total amount allocated and disbursed up to 31 December 2021 is SDR 344.44 million.

Albania's relations with the IMF continue to be focused on Article IV consultations. On 6 December 2021, 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 started its work in Albania in 1991 and has supported a number of projects aiming at immediate poverty alleviation and the provision of sustainable and long-term development tools to drive further growth.

Albania is part of the constituency composed by Greece, Italy, Portugal, Malta and Timor-Leste. Governor Sejko reiterated his appreciation especially as regards the contribution of the WB in the area of resolution and more concretely in the operationalization of the regulatory framework approximated to that of the European Union. Thus, during 2017-2021, progress has been made towards the sub-legal framework related to resolution, through the drafting of 15 regulatory acts in accordance with Law 133/2016 "On recovery and resolution in banks in the Republic of Albania"

TECHNICAL COOPERATION

Also, the 2-year project titled "Programme for capacity strengthening programme in the Western Balkans focused on integration into the European System of Central Banks" has continued. The project consists of two pillars. The first component includes a series of trainings by experts of central banks from the ESCB and the ECB, while the second component consists of bilateral cooperation. The areas covered by this project are those of banking supervision, financial stability, recovery and resolution, monetary policy, payment systems, statistics, compliance and EU integration, governance, accountability and internal auditing policies.

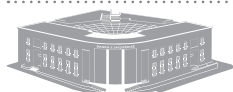


Due to the situation created by the Covid-19 pandemic, this project was initially suspended only to continue on-line. However, during 2021, some of the planned activities were also carried out in the "on-site" format. Areas of activity developed during 2021 were related to financial supervision, European integration, internal audit, monetary policy, payment systems, recovery and resolution, statistics, etc.

Participation in international conferences, forums and seminars

The following is a summary of international activities, attended by the Administrators of the Bank of Albania:

- On 12-14 January 2021, the Governor of the Bank of the Bank of Albania attended the Central and Eastern European Forum (CEE). It is an annual Euromoney event that brings together renowned figures of politics, economy and finance from CEE countries to discuss the latest economic developments in European countries and beyond. The proceedings of this forum took place virtually due to Covid-19 pandemic.
- On 9 February 2021, the Governor of the BoA participated in the Scientific Conference "Pandemic and Recovery - Coping Strategies and Expectations", organized by the Albanian Parliament and the Albanian Academy of Sciences.
- In the framework of post-program monitoring, in March, June and September 2021,, Governor Sejko and other representatives of the BoA held concluding online meetings with the IMF Mission in Albania, represented by Ms. Yan Sun, Mission Chief for Albania. Issues discussed were macroeconomic developments, expectations for economic recovery, inflation, exchange rate, developments in the banking and financial sector, as well as the proper orientation of economic policies to meet the objectives of sustainable development of the country.
- On 2-12 April and 13-20 October 2021, Governor Sejko participated in the Annual Meetings of the International Monetary Fund (IMF) and the World Bank Group (WBG), virtually. In these meetings, the senior decision-makers of the IMF and the WB, the governors and the finance ministers of the member countries, discuss the latest developments and the expectations for the future of the world economy.
- On 15 September 2021, Governor Sejko participated in a round table organized by the British Embassy in Tirana. Governor Sejko attended the roundtable organized by the British Embassy in Tirana, in order to discuss the main issues that Albania is currently facing, such as: the challenges posed by rapid climate change; economic difficulties stemming from the country's history; the situation created due to the COVID-19 pandemic; as well as governance challenges.



- On 7 October 2021, Governor Sejko delivered a public lecture, virtually, hosted by the London School of Economics and Political Science (LSE), on: "Planning for the Post-COVID world: central bank policies in emerging economies". The presentation focused on the experience of the countries of the South-east European region in dealing with the most recent three crises: the global financial crisis, 2008-2009; European sovereign debt crisis, 2010-2012; and the current COVID-19 pandemic crisis.

COOPERATION AGREEMENT

In order to cope with possible emergencies for liquidity in euro by non-euro area countries, including Albania, the ECB decided to extend the term of use of liquidity lines in euro by nine more months, until March of 2022. For the BoA this line is available in the amount of EUR 400 million.

Despite the fact that so far this collateralized loan agreement (REPO) has not been needed to be used, the BoA considers that this reserve instrument remains useful in the framework of being aware of the effects of the pandemic on the financial market.

The Bank of Albania and the European Central Bank signed the cooperation agreement on the exchange of information in the field of the protection of the euro against counterfeiting. This agreement aims to regulate and facilitate the cooperation procedures between the two central authorities in the field of protection of the euro against counterfeiting in the territory of Albania. The agreement shall standardise the technical information in order to strengthen the technical capacities for the monitoring and prevention of counterfeiting euro banknotes in Albania.



2.12. CONSULTING AND COORDINATION WITH OTHER PUBLIC INSTITUTIONS

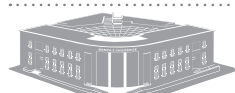
The Bank of Albania is independent in formulating and implementing its monetary policy. In addition to its primary objective, the Bank of Albania is committed to helping the sound and sustainable development of the country's economy. To realize these commitments, it coordinates its work with various public institutions, international ones and other interested parties. In order to harmonize its decision-making with other economic and financial policies, the Bank of Albania has exercised its role as an advisor by providing opinions and suggestions on the policies of partner institutions.

During 2021, the Bank of Albania has given its opinion on the Medium-Term Debt Management Strategy, 2021-2023. In addition to its continued emphasis on public debt consolidation to ensure the maintenance of macroeconomic stability in the country, the opinion given by it also focused on reducing the weight of short-term debt to improve the risk indicators of its management. The concrete steps for the implementation of this strategy are subject to the work of the Internal Debt Committee. The BoA is represented in this committee and contributes with its opinion regarding the management of liquidity in the internal market, with the lowest possible cost and efficient distribution, coordinating the work to avoid difficult situations.

The BoA continued its active engagement in the projects undertaken for the development of the primary and secondary securities market, giving its opinion on the laws and draft regulations drafted by the MFE, as well as by the AFSA. The issuance of reference securities through selected financial intermediaries has continued to be the main project undertaken in terms of promoting the trading of securities in the primary and secondary markets, which will contribute to competitiveness and the correct price-setting in these markets.

Pursuant to its medium-term strategy, the BoA is committed to supporting the development of financial instruments in the domestic foreign exchange market. With the help of the IMF technical mission, it has established an action plan to take a series of measures over a period of several years. These measures aim to encourage domestic foreign exchange market actors to develop and use hedging financial instruments for exchange rate risk. The use of these instruments is also integrated in the relevant BoA regulations on foreign exchange market interventions.

The Bank of Albania is a member of the Financial Stability Advisory Group (FSAG). During 2021, the exchange of information between the participating institutions and the cooperation in the processes defined by the legal framework



has been ongoing. The focus of the cooperation has been on improving data on financial markets, liaison between financial institutions and developing infrastructure for the repayment of non-public debt securities. At the meeting of the FSAG held at the end of 2021, the participating authorities were acquainted with the latest analysis of developments in the respective markets, the challenges encountered and the improvements in the legal basis, positively assessing the stability of markets and the financial system against the effects of the pandemic. FSAG highlighted the importance of monitoring the financial developments, as both the economic situation and the public health are continuously faced with challenges.

As chair of the National Payment System Committee (NPS), and in fulfilling its reform / catalytic role in the field of payment systems, the BoA has continued its efforts to complete the action plan of the National Retail Payments Strategy (2018-2023). In this regard, it is worth noting that the measures taken so far by the NPSC have contributed to a very satisfactory fulfilment of the quantitative objectives targeted by this strategy, thus in 2021, using electronic payments per capita 12.5 by 10 payments that is the target of this strategy, and expanding the percentage of the population that owns a bank account to about 69% from the target of 70% set in the strategy.



2.13. TRANSPARENCY AND PUBLIC COMMUNICATION

Public communication constitutes an important link in the Bank of Albania's activity, in fulfilling the obligation to provide maximum transparency of its decision-making and effectiveness, as well as to achieve the permanent objective of increasing the confidence in this central institution. In this framework, to the Bank of Albania the interacting communication with the public is a primary issue of strategic importance, to transmit its monetary policy directly and comprehensively to the public.

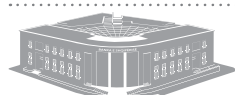
AN OPEN AND TRANSPARENT CENTRAL BANK

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 increasing the effectiveness of policies pursued by the Bank of Albania, prompting the public to understand the decisions taken by it in time and clearly, and also to be able to fairly evaluate them.

In this context, Bank of Albania uses a variety of communication channels, in order to explain the role and its main objective more clearly, to maintain price stability as well the way of its realisation.

Year 2021 was a difficult and challenging year for the Albanian economy due to the situation created by the pandemic and communication with the public has responded to the challenges created by this situation. In this context, the communication with the public aimed to inform it with the immediate and continuous measures taken by the Bank of Albania to minimize the consequences of the pandemic on the Albanian economy and financial system in particular and to support citizens and businesses affected by the aggravated financial situation created by pandemic.

Monetary Policy strategy is based on a defined decision-making cycle in an annual calendar of 8 meetings of the Supervisory Council. Governor press conference is held after each meeting. Its aim is to explain the decision taken by the Supervisory Council and the analysis used to support this decision, to the public. Relevant press conferences were organized in response to this cycle, in 2021, during which the Governor has responded to the media interest on various issues related to the Bank of Albania. Press conferences were followed by the publication of the Governor speeches, and the related Q&A in Albanian and English.



Also, during 2021, each meeting was followed by a publication of a brief summary of the main decisions taken by the Supervisory Council of the Bank of Albania. 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 published in full in the Official Bulletin of the Bank of Albania, in 12 issues of this publication.

Bank of Albania's communication is further complemented continuously and in real time with a number of periodic reports, observations, analyses, data, evaluations and opinions of the Bank of Albania on the macroeconomic situation of Albania and the role of the Bank in supporting its financial stability.

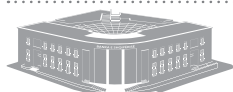
Communication with the public is directed toward the interest, academic level and professional training of targeted groups of the Bank of Albania, among which, media has an important role. In this framework, the media is continuously informed and sensitized on issues related to BoA and on economic and financial performance of Albania. During 2021 as well, communication with the media has continued through press conferences, speeches, presentations and press releases held in activities organized by the Bank of Albania or other domestic and foreign institutions. It has continued through interviews or participation in dedicated TV programmes, expression of views on specific issues of interest to the Bank of Albania or other public activities of the Governor and its other representatives. During 2021, the activity of the Bank of Albania is presented to the public primarily through 100 public announcements, press releases, speeches, interviews and participations in TV shows. Seven presentations of its periodic reports were held "off the records" for the media during this year. These meetings aim to direct the media toward a correct understanding of the decision-making of the Bank of Albania and are seen as effective means of communication with the public.

To promote interaction with the public, in 2021, we introduced the digital communication through the social networks Twitter (information), Facebook (financial education), YouTube (video and Flickr (photo) to present the general activities of the Bank of Albania to the public, in a timely and comprehensive manner.



ACTIVITIES WITHIN THE COUNTRY

- Today, on 18 January 2021, it was held virtually the closing ceremony of the Twinning Project "Enhancing Bank of Albania's alignment with EU Acquis" The project was implemented by the Bank of Albania, Banca d'Italia and Deutsche Bundesbank. Meanwhile, certain components were implemented by Banque de France and National Bank of Romania. Its primary goal was the improvement of work practices at the Bank of Albania and their alignment with the practices of the European System of Central Banks (ESCB). Thanks to the training provided to the Bank of Albania's experts, it brought the EU expertise and the experience of central banks of two EU founder countries to the benefit of the Albanian banking system, thus helping the economic integration of Albania with the EU.
- On 11 June 2021, the BoA held the presentation ceremony for two consecutive denominations of the new series of Albanian banknotes, 1000 Lekë and 10000 Lekë, respectively. The printing and putting into circulation for the first time of the new banknote with the largest value, 10000 lek, represents in itself, the adoption of the banknotes' structure to the evolution of the structure of prices and wages, the development of the electronic payments, and of the other indicators related to the management of currency.
- On 17 November 2021, the Bank of Albania launched the awareness campaign, in a ceremony organised for this occasion at its premises. This initiative of the Bank of Albania aims at making the public aware on the elimination of the outdated terms "new lek" - "old lek" in their financial interactions. The use of this terminology continues to originate confusion over times.
- On 6-7 December 2021, the Bank of Albania organizes the 15th SEE Economic Research Workshop. This workshop, organised for the 15th year in a row, aims at providing a discussion forum on the research work and projects carried out by the Bank throughout 2021, as well as on the research works by the colleagues and researched from other central banks and prestigious universities in Albania and abroad.
- On 16 December 2021, the BoA hosted the 7th Meeting of the National Payment System Committee, virtually. As a result of the work of this Committee, the following have been realized: drafting of the law "On payment services", approval of the regulatory framework for direct debit, drafting of the draft law "On the basic account", finalization of the project "On settlement of euro payments within the country" " In this meeting it was stressed the importance of financial education in order to materialize in the most effective way the measures taken so far and for achieving the following objectives.
- On 20 December 2021, Governor Sejko, held the ceremony for the "Governor's Award for the Best Diploma Thesis - 2021", virtually. This years the winners were: first prize award Ms Ervi Kosta, student of Master of Sciences at the Faculty of Economics and Agribusiness, Agriculture University of Tirana, elaborating on the topic of: "Diversification of income and its impact on the financial performance of commercial banks." The second prize was awarded to Ms Marina Poppa, student of Master's



Degree on Economy Development at City University, London, for the study on: "Assessing the role of the macroeconomic and institutional environment in the performance of micro-financial institutions in Albania." The third prize was awarded to Ms Kristjana Proko, student of Master of Sciences at the Faculty of Economy at the University of Tirana, for the study on: "Optimal taxation on wage revenues – the Albanian case."

A RESPONSIBLE AND ACCOUNTABLE CENTRAL BANK

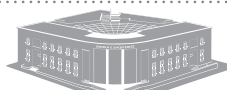
Bank of Albania aims to inform citizens, and in particular the Parliament, on all its activities. Institutional relations with the Assembly develop in several directions, where the most significant ones are the Governor's hearing sessions in the Parliamentary Commission of Economy and Finance (CEF) and plenary sessions of the Assembly. In April 2021, the Governor presented the Annual Report of the Bank of Albania to CEF and after August to the Assembly of Albania, responding to MP's interest in related matters. As every year, the Governor presented in November 2021, in a special hearing of the CEF, the opinion of the Bank of Albania regarding government's draft-budget for the upcoming year (2022).

More comprehensive and up-to-date information on the financial and economic situation as well as on main macroeconomic developments, the role and the contribution of the Bank of Albania in this regard, can be found on the official website www.bankofalbania.org. During 2021, the Bank of Albania continued its regular update of its website, which had around 1.5 million visitors, who visited our website around 4 million times and browsed in total around 6.7 million sections.

Our website is constantly enriched with a broad statistics system for many sector of the Albanian economy, such as: banking sector, fiscal sector, real sector and external sector, which are published according to a defined schedule that is updated semi-annually. Bank of Albania's statistics are also found in the monthly statistical reports and in quarterly monetary policy reports.

Bank of Albania publications provide detailed and updated information on Albanian and global economy developments in the banking and financial system, currency and financial stability, amendments and enrichment of the banking legislation and its regulatory framework, as well as other relevant issues. Bank of Albania publications are consolidated sources of accurate and reliable information for the public.

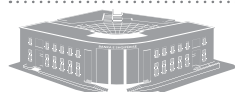
Periodic and non-periodic publications, in 2021, consisted of about 3400 pages of analyses, statistics and research in both Albanian and English. The set of periodic reports was the same as in the previous year: Annual Report, Quarterly Monetary Policy Report (quarterly), Financial Stability Report (semi-



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.

During 2021, the Bank of Albania continued to distribute free all its publications, taking into account the social responsibility regarding reducing paper publications.

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. During 2021, were answered 60 official request directed to the coordinator for the right of information, around 425 e-mails directed to the public e-mail address of the Bank of Albania and around 270 comments with request for information directed at our page on Facebook.



2.14. FINANCIAL LITERACY

Public financial literacy 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 periodic and non-period 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.

Educational publications

During 2021, the distribution of textbooks "Personal finances in your hands" for 3 high schools, which have chosen to develop the subject (a total of 255 textbooks) has continued as well as the distribution of brochures and educational materials prepared in previous years mainly for Museum visitors.

BoA Museum

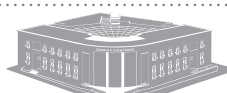
Since October 2015, the museum of the Bank of Albania has served as a promoter of the communication between the Bank and the public. Tour guides, exhibits, interactive games, as well as the information published at the Museum acquaint the visitor with the history of monetary circulation over the centuries, as well as with concepts of financial literacy. In this Museum, those who are passionate about the field of numismatics and financial and economic history also find themselves. During 2021, due to the COVID-19 pandemic, the Museum of the Bank of Albania was visited by a small number of around 610 visitors. However, all measures have been taken to keep the Museum open, implementing anti-COVID measures.

Promotion of the numismatic collection of the Bank of Albania:

At the Museum of the Bank of Albania, visitors and the general public can buy the numismatic collection of Albanian coins and banknotes. The number of people interested in purchasing this collection remained high even during 2021. The prices of the numismatic collection for sale are published on the official website of the Bank of Albania. To whom it may interest, the "Catalogue of Numismatic Collection" was published at the e BoA Museum online Store, which presents numismatic items for sale with pictures, information on emissions and related prices.

National Strategy for Financial Education

The year 2021 marked the beginning of the BoA's efforts in cooperation with decision-making authorities and other market actors to design and implement a national strategy for financial education, which will aim to improve the culture and financial inclusion of the general public. In close collaboration with academic and financial market actors, it will focus on developing and



coordinating research and analytical work on goal setting, designing education and financial inclusion programs, communication, creating implementation instruments, monitoring and evaluation of the progress of the strategy, communication, measuring the effectiveness of financial education programs at the national level and finally, it will focus on the adaptation and implementation of a "National Strategy for financial education".

Awareness campaign "Neither old nor new, I am simply Lek!"

The monetary reform in 1965 replaced the earliest banknotes Lek with new ones, in ratio of 10 to 1, by changing at the same degree the expression of prices, wages and of any other financial operation. Since that time, most of citizens have not been adopted yet with this change and communicated with the notion "old lek", driving to confusion in the communication of prices of goods and services and in the right reading of both economic and financial indicators.

For all these reasons, the Bank of Albania has undertaken this awareness campaign, which will extend in time and will aim at being a comprehensive one, affecting various groups of interest. However, the fact that this misuse of the words been used in everyday speech for over 55 years, proves that a joint and coordinated commitment is needed between the central institutions of the country, the media and other relevant actors to fix this phenomenon. Particularly, the role of media is important in this campaign, which through the transmission power to the public, has the skill to affect the mentality and communication pattern of the public. School, is an other crucial factor in establishment and cultivation of a new mentality. School may help in disruption of this 55-year chain and not transmitting it to the new generation.

The campaign has just started. However, since its beginning, it has been supported by the entire banking industry, various companies and the public. The BoA has openly expressed its commitment to conduct educational and awareness-raising activities, which will invite the public to abandon once and for all the use of this wrong terminology in economic and financial relations, to finally turn it into something of the past.

Educational activities

On March 23, 2021, the opening ceremony of Global Money Week for 2021 (22-26 March 2021) was organized on-line, and its theme was "Take care of yourself, take care of your money!" The Bank of Albania participated for the seventh time in this celebration, where in cooperation with the Albanian Association of Banks, with the support of the Ministry of Education, Sport and Youth, and the Deposit Insurance Agency (ASD), held educational and awareness activities. The opening activity of Money Week 2021 was greeted by Governor Sejko, the Minister of Education, Sports and Youth, Ms Evis Kushi, and the Chairman of the Albanian Association of Banks, Mr Silvio Pedrazzi, who stressed the importance of financial literature and called for raising awareness of the younger generation to be financially responsible citizens in



the future. Despite difficulties as a result of complying with COVID-19 pandemic restraining measures, the organized activities directly involved around 4,500 pupils and students, and indirectly around 300,000 individuals.

