

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. Price stability is defined as an annual increase of 3% in the consumer price index over the medium term. Through the fulfilment of this objective, the Bank of Albania contributes to the stable development of the economy, the assurance of financial stability, and improvement in the welfare of Albanian citizens.

The Supervisory Council of the Bank of Albania makes monetary policy decisions, 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. For more information on the objectives, principles, and strategy of monetary policy, you can see the Monetary Policy Document. Meanwhile, the Monetary Policy Reports provide a comprehensive analysis of the economic and financial situation in the country, future forecasts, the stance of monetary policy, and its contribution to economic development.

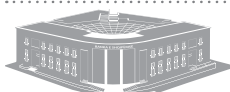
The Bank of Albania managed to bring inflation under control during 2024, following high levels in the previous two years. The reduction of inflation brought significant benefits to Albanian households and enterprises, increasing their purchasing power, reducing uncertainty, and stimulating consumption and investments. At the same time, the economy maintained a positive development trajectory, reflected in the growth of economic activity, employment, and wages, as well as the improvement of other indicators of the country's economic and financial soundness.

The monetary policy of the Bank of Albania has played an important and positive role in this progress. The prudential, consistent, and proactive approach to the continuous shocks of recent years has enabled the preservation of the country's monetary stability, fostering sustainable economic growth and the increase of societal well-being.

2.1.1 MONETARY POLICY IN 2024

The Albanian economy closed 2024 with a positive balance sheet.

In the face of a challenging external environment, economic activity continued to grow at a steady pace, exceeding our initial expectations. Gross domestic product (GDP) increased by 4% during the first three quarters of the year,



following a 3.9% growth in 2023. Economic growth was largely driven by the expansion of household consumption, business investments, and the export of tourism services. On the other hand, the export of goods declined, whilst the fiscal policy continued a consolidating trend. This profile of demand led to expanded activity in the sectors of services and construction, while activity in the sectors of industry and agriculture went down.

The expansion of economic activity enabled an improvement in key labour market indicators: employment and wages. During the first three quarters of the year, the number of employees in the private sector, according to administrative data, increased by 1.8%, while the average wage rose by 8.3%.

Consumer price inflation fell to an average level of 2.2% in 2024, down from 4.8% in 2023 and 6.7% in 2022, fully recovering from the price shocks in international markets. This trend was supported by the cautious normalization of monetary policy during 2022–2023, a decline in inflation among our trading partners, and a strengthening of the lek exchange rate, in turn accommodating an anchoring of inflation expectations.

The decline in inflation during 2024 was faster than our expectations, mainly due to falling food and oil prices in global markets. These developments, combined with the strengthening of the exchange rate, significantly reduced imported inflation, while domestic inflationary pressures eased more gradually. However, the latter are approaching their historical averages, providing a premise for stabilizing inflation near our medium-term target of 3%.

Other indicators of the country's economic and financial soundness improved significantly as well. In particular, external and public debt fell to 40.8% and 53.8% of GDP, respectively, while Albania's foreign exchange reserves reached approximately EUR 6.3 billion. Additionally, the stability and intermediation indicators of the banking sector were consolidated, while the quality of the loan portfolio continued to improve. Reflecting these positive developments, Albania experienced an improvement in its sovereign credit rating from international rating agencies, contributing to lower financing costs for both the public and private sectors in foreign markets.

The improvement in macroeconomic indicators is the result of various factors, with the monetary policy of the Bank of Albania playing a significant role. It has brought inflation under control without harming positive economic growth trends or the country's financial stability.

Following a period of normalization during 2022–2023, monetary policy took a more accommodative stance in 2024 H2. This approach was incited by the need to maintain control over inflation expectations in the future, given the rapid decline in inflation during the first half of the year. Monetary easing was achieved through a reduction in the key interest rate, which was lowered to 2.75% from 3.25% at the beginning of the year, as well as through increased



foreign currency purchases in the domestic market, supporting greater exchange rate stability.

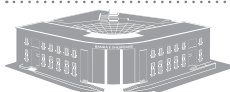
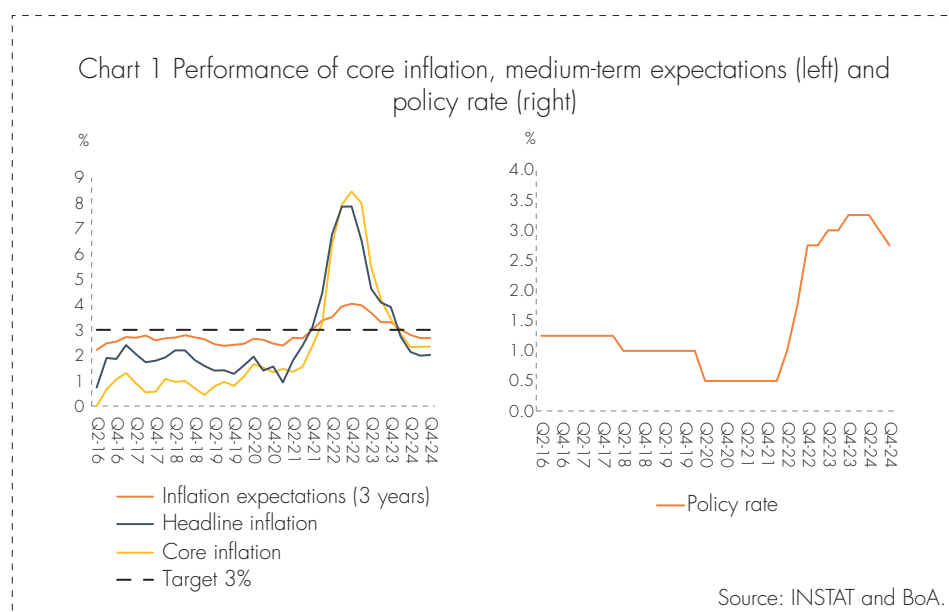
As a result of the easing of monetary policy, financing conditions for households and enterprises improved. The interest rates on financial instruments in lek decreased, while loan interest rates also benefited from lower risk premiums and the positive approach of banks toward lending to the economy. Additionally, the strengthening of the lek has slowed down, further easing financial conditions in the economy.

Private sector lending accelerated during 2024, driven by improved lending conditions and strong demand. Its annual growth reached 15.7%, up from 9.7% the previous year. The increase in credit has financed the needs of households and enterprises for consumption and investments, by maintaining a balanced currency composition and portfolio quality.

Overall, the monetary policy of the Bank of Albania has served to maintain price stability. The normalization process during 2022–2023, followed by an easing of monetary conditions in 2024, has carefully balanced addressing short-term inflation risks by creating the conditions for its sustainable return to the target in the medium term. This policy has contributed to the smooth functioning of financial markets, management of inflation expectations, and reduction of domestic inflationary pressures.

Projections for the future remain positive, on both short-term and medium-term horizons. Economic activity is expected to grow in line with its potential in the medium term, while inflation is projected to return to the 3% target in 2025.

The Bank of Albania will remain committed to respecting its price stability objective, by implementing an appropriate and prudent monetary policy.



BOX 1: MONETARY POLICY IMPLEMENTED IN 2024 AND ITS OUTCOMES

Throughout 2024, the overall macroeconomic environment was characterized by a downward trend in external inflationary pressures, a gradual stabilization of the demand-supply ratio in the economy, and calm financial markets marked by low interest rates and the continued strengthening trend of the exchange rate. The average inflation rate dropped to 2.2%, down from 4.8% in 2023, while economic growth remained stable at around 4.0%.

The Bank of Albania responded to these developments by easing monetary conditions in the economy. This easing took the form of: (i) a reduction in the key interest rate, from 3.25% at the beginning of the year to 2.75% by the end of the year; (ii) increased presence of foreign currency purchases in the domestic market, slowing the pace of exchange rate appreciation; and (iii) a consistent forward guidance on monetary policy direction. These developments were similar to—and partially influenced by—those in Albania’s trading partners.

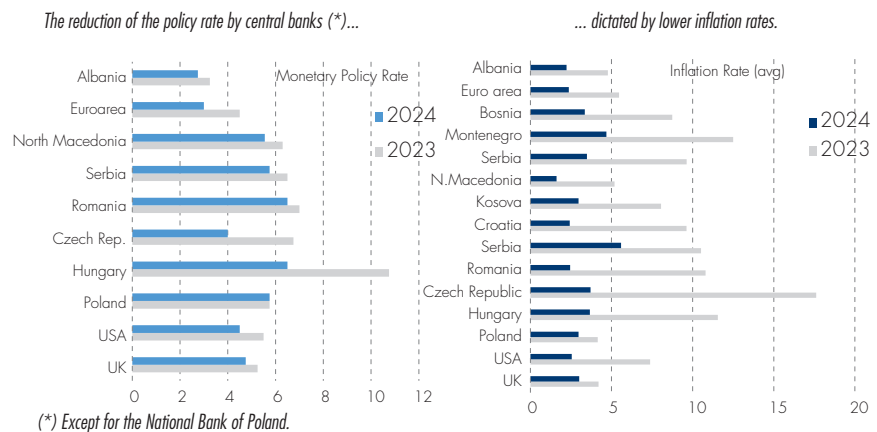
External Macroeconomic Environment and Monetary Policy in the euro area and the region

The weak economic performance in the euro area remained a growing concern for the European Central Bank (ECB) and regional economies. The inflation rate in the euro area reached its lowest of 1.7% in September, while economic growth stood at 0.7% for 2024. Economic growth and inflation have consistently been lower than financial market forecasts. Despite inflation rebounding to 2.4% by the end of 2024, the ECB remains concerned regarding the weak demand and expectations of sluggish economic growth continuing into 2025.

In European Union countries, not members of the euro area, the average inflation rate fluctuated within slightly higher ranges, in some cases due to internal economic challenges or large fiscal deficits. The downward trajectory of inflationary pressures was more pronounced in the Western Balkans countries (WB). The region's average inflation rate hit its lowest level of 1.8% in September, followed by a slight increase at the end of the year.

Monetary policy in both the euro area and the region was geared toward further easing monetary conditions. The central banks of the euro area and regional countries reduced their policy interest rates by at least 0.5 percentage points during 2024.

Chart 2 Inflation and Monetary Policy in partner economies



Source: Relevant central banks, staff's calculations. Source: Statistical institutions; staff's calculations.



The monetary policy of the Bank of Albania in 2024

The reduction of foreign inflationary pressures turned out to be stronger than initially expected at the beginning of the year. Along with the continued strengthening trend of the exchange rate, this development led to a rapid decline in imported inflation and headline inflation in the Albanian economy. On the other hand, domestic inflationary pressures continued to decline, but this decline was much more gradual, and their level remains consistent with the Bank of Albania's objective for price stability. In response to these developments, the Bank of Albania reduced the policy interest rate twice: in July, from 3.25% to 3.0%, and in November, from 3.0% to 2.75%.

The impact of the accommodative monetary policy on financial markets and the economy

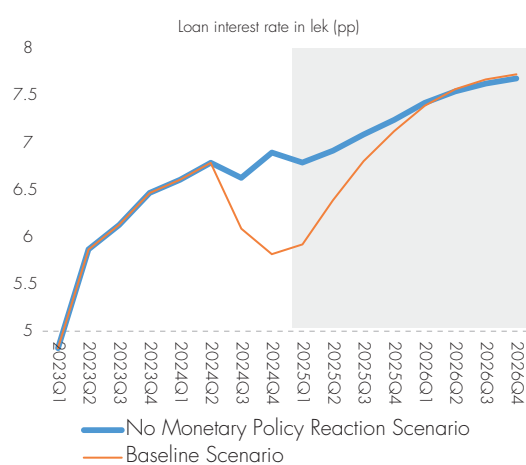
The effects of the policy rate reduction in 2024 H2 will materialize in the real economy mainly during 2025-2026, in line with the time lags of monetary policy response. However, the impact of the policy rate reduction on monetary conditions has already been reflected in the second half of 2024. The expected impact of the monetary policy was assessed by comparing the differences in projections of key economic indicators in the current scenario of monetary policy response with the hypothetical scenario of maintaining the policy interest rate unchanged.¹

The comparison of projections shows that the impact of the accommodative monetary policy through the reduction of the policy interest rate has materialized in the domestic financial market since the second half of last year. The interest rate on loans for 2024 is about 0.4 percentage point lower than it would have been if the policy rate had not been reduced. The impact of the policy rate on the reduction of loan interest rates in 2025 is estimated to be 0.6 percentage point and 0.5 percentage point, respectively.

Delays in the transmission of monetary policy suggest a stronger impact of the policy rate cut on the real economy during 2025². Simulation results indicate that in the absence of a monetary policy response:

- inflation would be approximately 0.4 p.p. lower than the baseline scenario projections for 2025, and
- economic growth would be about 0.3 p.p. lower than the baseline scenario projections for 2025.

Chart 3 The impact of the accommodative stance of monetary policy on financial markets



Source: Bank of Albania and staffs' calculations.

¹ Alternative projections are empirical simulations of the Medium-Term Projection Model (MPM), the baseline model for macroeconomic projections that inform monetary policy decision-making at the Bank of Albania. (see Hledik, T.; Kika, E. & Mitre, O. (2021), The Albanian medium term projection model, Bank of Albania Working Paper, 45(84)

² The effects of the policy rate cut on inflation and economic growth in 2024 would be 0.05 p.p. and 0.06 p.p., respectively.

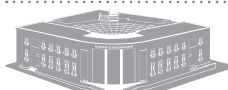
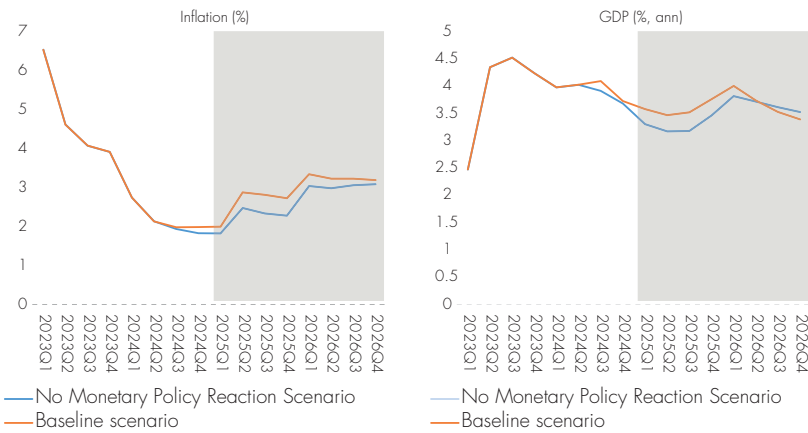


Chart 4 The expected impact of the monetary policy easing on inflation and economic growth

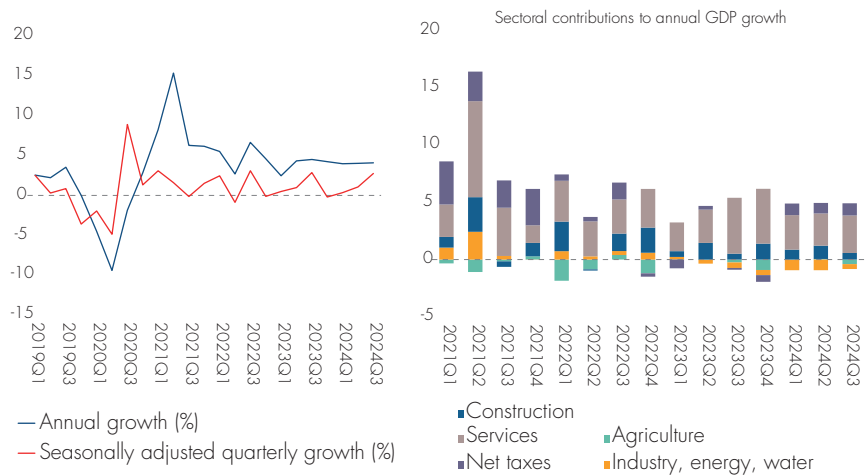


Source: Bank of Albania, staff's calculations

2.1.2 ECONOMIC ACTIVITY

Economic activity grew steadily during 2024, supported by solid private sector balances, a positive confidence climate, and accommodative financial conditions. These factors have driven growth in consumption and private investments, which were the main contributors to the economic growth of the year. In parallel, the growth in service exports has had a positive contribution, while a decline in goods exports, an increase in imports, and fiscal consolidation have had a dampening effect.

Chart 5 GDP performance and the contribution of economic activities by sectors



Source: INSTAT and Bank of Albania.



Gross Domestic Product (GDP) expanded by 4.0% in annual terms during the first nine months of the year, following a 3.9% increase in 2023³. Economic growth has been steady throughout the quarters, both in terms of level and sectoral structure.

Economic growth was primarily driven by expansion of the services sector, which contributed an average of around 3.0 percentage points to overall growth in the first nine months of the year. Specifically, the expansion of activity was notable in the sectors of "Trade, Transport, and Accommodation," driven by growth in tourism revenues, as well as in the sectors of "Public Administration, Defence, Education, Healthcare" and "Administrative and Support Activities." On the other hand, the manufacturing sector did not contribute positively to economic growth. While the expansion of construction activities had a positive effect, this was offset by a contraction in the industrial and agricultural sectors, which limited the overall impact of the productive sectors on economic growth.

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

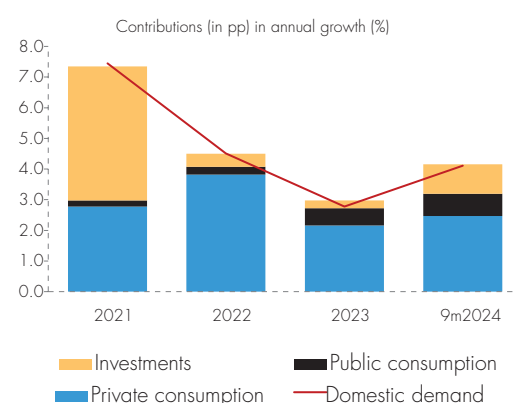
	2019	2020	2021	2022	2023	2024Q1	2024Q2	2024Q3
Agriculture	0.4	0.3	-0.3	-0.8	-0.3	0.0	0.0	-0.4
Industry, energy, water	0.3	-0.9	0.9	0.5	-0.3	-0.9	-0.9	-0.4
Construction	-0.2	0.2	1.2	1.6	1.1	0.9	1.2	0.6
Services	1.8	-1.8	4.2	3.3	3.8	3.0	2.8	3.3
Net taxes	-0.2	-1.2	3.0	0.4	-0.3	1.0	0.9	1.1
Real growth	2.1	-3.3	9.0	4.8	3.9	4.0	4.0	4.1

Source: INSTAT and Bank of Albania calculations.

Domestic demand grew by 4.1% in annual terms during the first nine months of 2024, compared to growth of 2.8% in the previous year. The expansion of domestic demand reflected both growth in private consumption, which is the main component of domestic and aggregate demand, and acceleration of investment and public consumption growth rates during the year.

Private consumption grew by 3.7% during the first three quarters, supported by the increase in disposable income, favourable financing conditions and consumer confidence. Growth in income reflected an increase in employment and wages, while the gradual decrease in inflation during the year increased purchasing power. In addition, bank credit has supported the expansion of consumption, financing both household consumption and investment. In parallel, the consumer uncertainty indicator has been declining and has supported household decisions to increase expenditures. The

Chart 6 Annual change of domestic demand by components



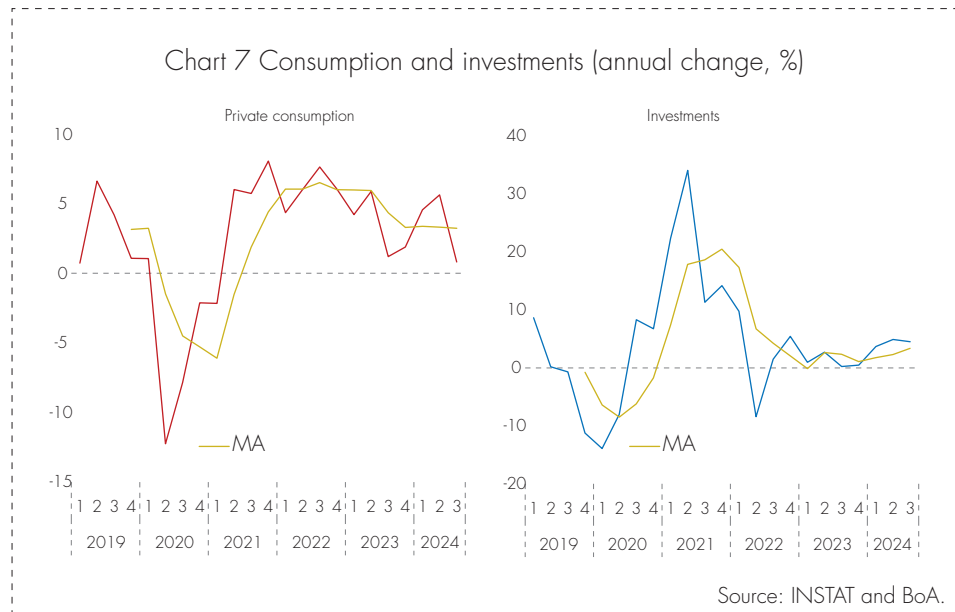
Source: INSTAT and BoA.

³ The information published by INSTAT on gross domestic product following the production and expenditures method cover developments up to 2024 Q3, published on 24 December 2024.



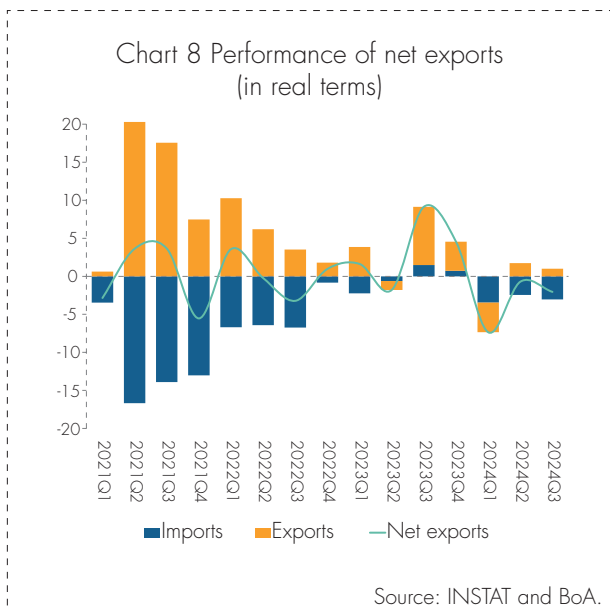
expansion of consumption reflected increased expenditures in all component categories.

Investments grew by 4.4% during the first three quarters, supported mainly by private investment. The factors that have influenced this performance are an increase in demand for goods and services, high levels of utilization of production capacities, positive expectations for the future, as well as favourable financing conditions and the expansion of credit for investment purposes.



The trade balance with foreign countries has continued to be negative and has not contributed to economic growth. According to data from the Bank of

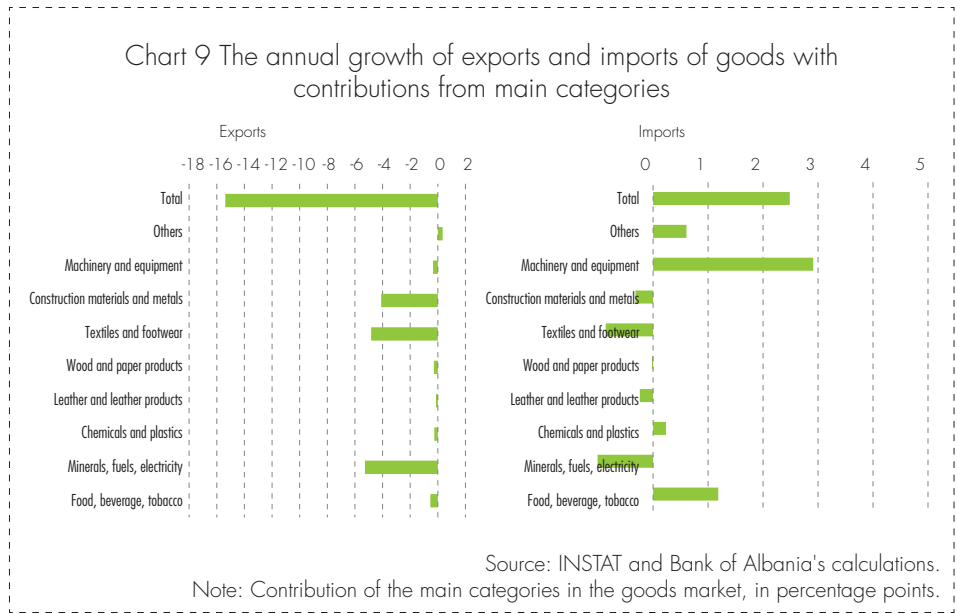
Albania, total exports of goods and services-expressed in nominal terms and in euro-grew by 9.9% during the first three quarters of the year. This trend reflected a 13.5% increase in service exports and a 3.5% decline in goods exports. However, the positive impact of the growth in exports was offset by a faster increase in imports, driven by higher domestic demand for goods and services. Total imports, in euro, grew by 13.5% during the same period, resulting in an expanded trade deficit. The latter increased both in nominal and real terms, contributing negatively to economic growth.



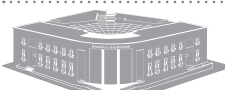
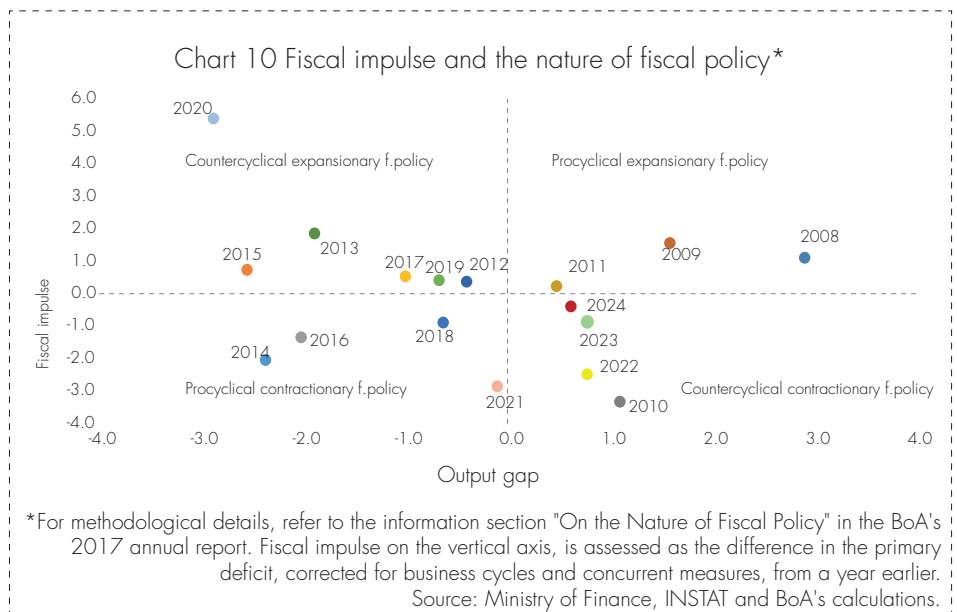
Data from INSTAT for trade in goods for 2024 shows an expansion of the trade deficit by 20.7% in nominal terms. Exports of goods decreased by 15.4%, primarily influenced by a decline in categories such as "Minerals, fuels, and electricity," "Textiles and footwear," and "Construction materials



and metals". Their downward trend during 2024 was closely linked to the drop in prices of energy and food products in foreign markets (including exchange rate effects), as well as other structural factors. On the other hand, imports of goods in lek increased by 2.5% during the same period, primarily due to increased imports of "Machinery, equipment, and spare parts".



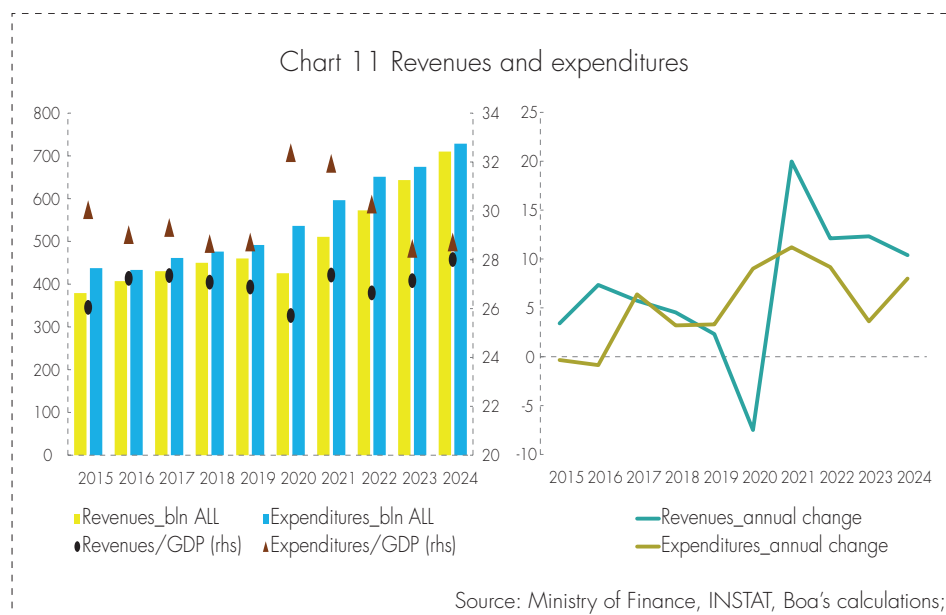
The fiscal policy maintained its consolidating character throughout 2024, for the fourth consecutive year. The fiscal impulse was negative, at -0.7 percentage points of GDP, as a result of a positive primary balance, estimated at around ALL 36 billion, or 1.4% of GDP. This consolidation had a countercyclical nature, contributing positively to the reduction of public debt and increasing the fiscal space for a stance in the future, while also enhancing the flexibility of monetary policy in addressing inflationary pressures.



The consolidating nature of fiscal policy was reflected in a reduction of the budget deficit and a further decrease in public debt. By the end of 2024, the budget deficit stood at approximately ALL 18.3 billion, from ALL 57 billion that was initially planned, or around 0.7% of GDP, compared to 1.3% in the previous year.

Budgeted expenditures for 2024 amounted to approximately ALL 728.6 billion, or around 28.7% of GDP. Compared to the previous year, expenditures grew by around 8%. The main contributors to this increase were expenditures for the social security fund (3.7 percentage points) and personnel expenses (1.8 percentage points), due to salary increases in the public sector. Unlike the previous year, public investments negatively impacted expenditure performance, reducing it by around 0.5 percentage point.

Fiscal revenues reached ALL 710.3 billion, or around 28% of GDP, increasing annually by 10.4%. The main contributors to this overall revenue growth were VAT revenues (3.3 percentage points)⁴, non-tax revenues (3.3 percentage points) social insurance contributions (2.7 percentage points), and personal income tax revenues (1.3 percentage points). On the other hand, the annual change in revenues also reflected a negative contribution of around 3.5 percentage points, due to the base effect of the increase in profit tax⁵ for energy sector companies in 2023 and grant revenues.



⁴ VAT revenues accounted for approximately one-third of total revenue growth, supported by both the collection of VAT on domestic production of goods and services (2.1 p.p.) and VAT on imported goods (1.2 p.p.).

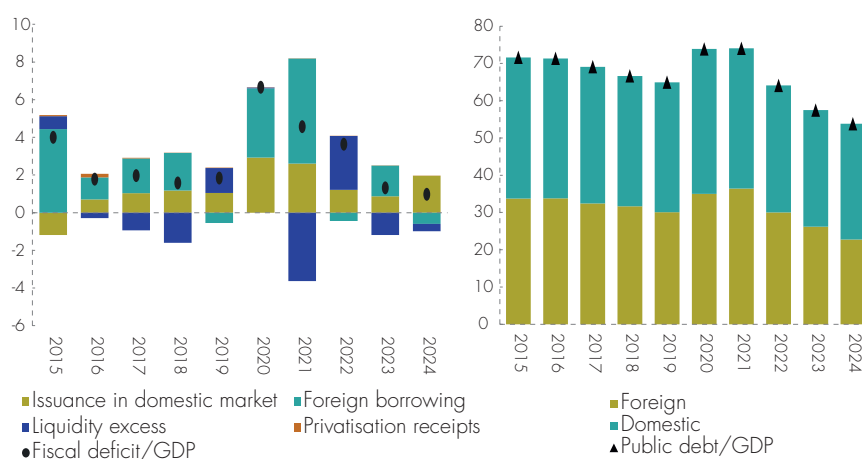
⁵ In 2023, companies involved in electricity trading paid a special profit tax due to the relatively high revenues collected the previous year as a result of rising electricity prices.



The budget deficit was financed exclusively from domestic sources. The primary source for financing the deficit was provided by an increase of about ALL 50 billion in borrowing from the government securities market. This increase consisted solely of long-term debt securities, which compensated for a reduction in short-term borrowing, in line with the Medium-Term Public Debt Management Strategy. The main holders of domestic debt remained commercial banks, accounting for around 60%. In 2024, non-resident investors also joined the base of government securities' holders, financing about 28% of domestic borrowing in the form of treasury bills and bonds denominated in lek. On the other hand, borrowing in foreign markets decreased by around ALL 15.2 billion, as foreign debt repayments exceeded new borrowings.

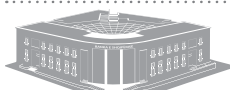
The public debt-to-GDP ratio⁶ fell to 53.8% at the end of 2024, down from an estimated 57.5% in 2023. Fiscal consolidation contributed around 1.4 percentage point to the reduction of public debt. The remaining contribution came from real economic growth and appreciation of the domestic currency against the euro, contributing by 2.2 and 1.4 percentage points, respectively. The domestic debt stock accounted for around 31.1% of GDP, slightly down by 0.2 percentage points compared to the previous year. Foreign debt, as a ratio to GDP, was estimated at 22.7%, from 26.2% at the end of 2023.

Chart 12 Budget deficit and financing (left) and public debt to GDP (right)



Source: Ministry of Finance, INSTAT and BoA's calculations.

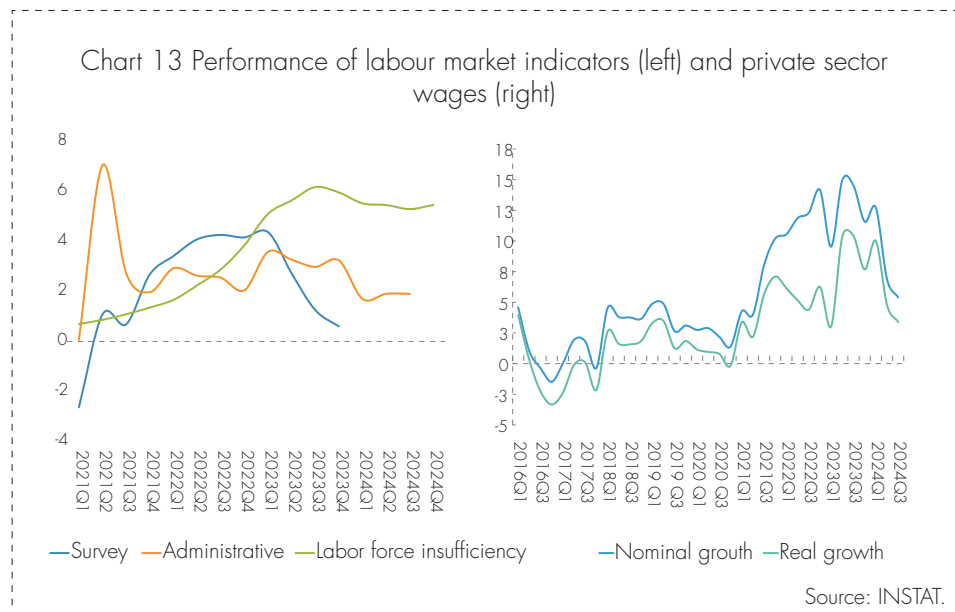
⁶ Ratios to GDP for 2024 were calculated based on INSTAT's publication for the first three quarters and the BoA's forecasts for the last quarter of the year.



1.2.3 LABOUR MARKET

Economic growth was followed by an increase in employment and wages. However, the growth dynamics of these indicators show a slowdown compared to the previous year. Labour market conditions remain tight, and enterprises continue to face difficulties in filling vacant positions.

The labour market continued to be characterized by employment and wage growth, albeit at a slower pace than the previous year. Labour market data from the Labour Force Survey are unavailable for 2024. In their absence, alternative indicators from administrative data suggest a 1.8% increase in employment during the first three quarters of the year, compared to 3.3% in the previous year. Additionally, survey indicators suggest generally tight labour market conditions, as shown by historically high levels of the importance of the "Labour Force Shortage"⁷ in expanding economic activity across all sectors.



Wages in the economy continued to rise throughout 2024, both in the public and private sectors, although their growth rate slowed down. In the private sector, wages increased by 8.3% during the first nine months, compared to 12.6% in 2023. However, when adjusted for inflation, wages in the economy grew by 6.1% during this period, supporting household purchasing power and contributing to the growth of private consumption. The slowdown in private sector wages is primarily linked to base effects generated by an increase in the minimum wage in 2023. As a result, this slowdown has been most evident in the lower-wage category.

⁷ This indicator assessed by the Bank of Albania is based on the results of the Business Confidence Survey in industry, construction, and services. One of the limiting factors for business activity is also the "Labour Force Shortage," which is listed alongside other constraints. Its aggregated calculation represents an approximate measure of the importance of the "labour force shortage" factor for the non-agricultural private sector, using respective GDP shares. The base year for this calculation is 2019. Lastly, a four-term moving average has been applied to highlight its trend.

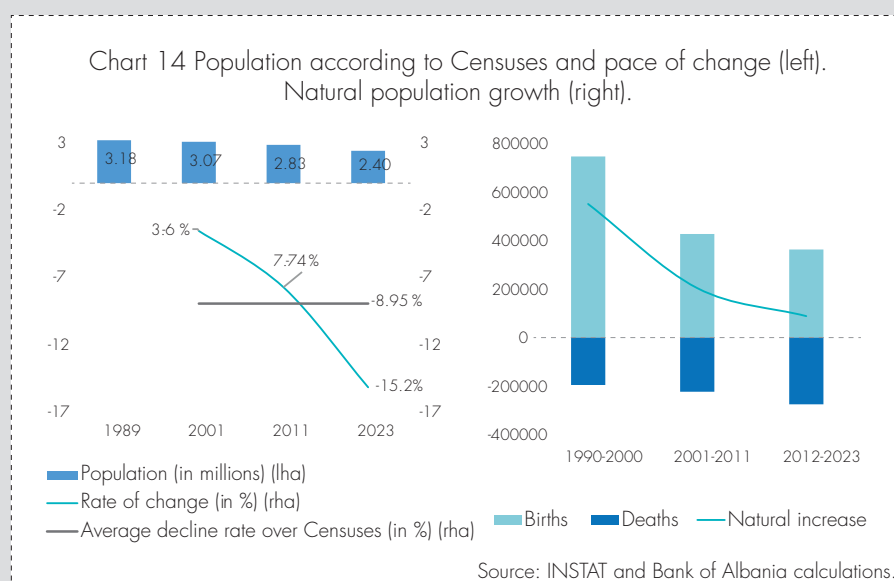


BOX 2: DEMOGRAPHIC TRENDS IN ALBANIA AND THEIR IMPACT IN THE ECONOMY

Albania's demographic developments over the past three decades have been characterized by two significant and interrelated trends: a declining population and continuous ageing. This performance was driven by two groups of factors. Similar to other developing countries in the region and Eastern Europe, it has reflected emigration, which has particularly affected the younger population. At the same time, akin to developed countries, it has also been influenced by a slowdown in natural population growth due to a declining birth rate.

These demographic trends were confirmed by the Population and Housing Census conducted on 18 September 2023⁸. This census, the third in the post-transition period, suggests that the country's population has continued to decline, even at an accelerated pace over the last decade. The population in 2023 was 2,402,113 inhabitants, a decrease of 420,000 people compared to 2011 and 780,000 people compared to 1989. (Chart 1, left).

The primary cause of the population decline is emigration. According to INSTAT estimates, Albania lost an average of 50,000 inhabitants per year due to emigration from 2001–2023.⁹ Beyond this phenomenon, and partially linked to it, the population shrinkage has also been driven by a decline in natural growth, mainly as a result of a decreasing number of births (Chart 1, right).

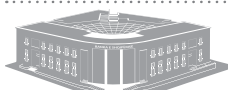


Demographic trends have affected age groups transversally, and are reflected in an increase in the average age and changes in the population (age) pyramid. The gradual rise in the average age, from 30.6 years in 2001 to 35.3 years in 2011 and 42.5 years in 2023, is a synthetic indicator of the population ageing phenomenon over the past two decades. This ageing is also reflected in a decline of population in all age groups under 55 years old and an increase

⁸ INSTAT, 2024.

⁹ "Census of Population and Housing in Albania, 2023," pages 7, 16, and 17. INSTAT, 28 June 2024.

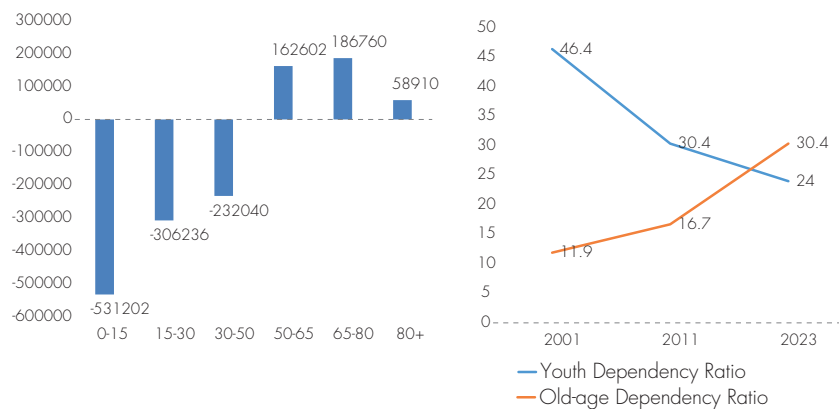
<https://www.instat.gov.al/al/publikime/librat/2024/censi-i-popullsise-C3%AB-dhe-banesave-n%C3%AB-shqip%C3%ABri-2023/>



in population in age groups over 55 years old (chart 2, left). This phenomenon has been accompanied by a narrowing of the base of the population pyramid and an expansion of the elderly dependency ratio, from 11.9% in 2001 to 30.4% in 2023 (Chart 2, right).

Beyond these trends, the results of the last two censuses also highlight internal migration of the population, from rural areas to urban ones and from less developed areas to more developed ones. For instance, in 2023, about 31.6% of the population resided in Tirana, 4.8 percentage points higher than in 2011. On one hand, this shift has reduced the population in the country's less developed areas, but on the other hand, it has contributed to the growth of labour productivity in larger cities and in the Albanian economy overall.

Chart 15 Population change by age group 2023 versus 2001 (left) and dependency ratios (right)



Source: INSTAT and Bank of Albania calculations.

These demographic developments, in varying forms and intensities, are present in most Eastern European countries. Population ageing and decline have significant implications for economic and social development. An IMF study highlights¹⁰ three main action channels. First, population decline is accompanied by a contraction of the labour force. Second, population ageing has fiscal implications, in the form of increased relative expenditures on the health sector and – potentially – on the pension scheme. Third, population ageing is associated – as a rule – with slower growth in labour productivity and overall productivity. All three of these factors, by themselves and in interaction with each other, tend to slow the pace of economic growth and the pace of convergence of average per capita income with that of the European Union.

At different levels, these phenomena are present in Albania as well, although with a relatively low intensity. Hence:

- According to the Census data, the decline in population was accompanied by a decrease in the working-age population (15–64 years old). This category was reduced from 1.93 million in 2001, to 1.9 million in 2011, and 1.55 million in 2023. The decline in the working-age population has not affected – so far – the ability of the Albanian economy to generate

¹⁰ Demographic Headwinds in Central and Eastern Europe, IMF Departmental Paper Series, No. 19/12.

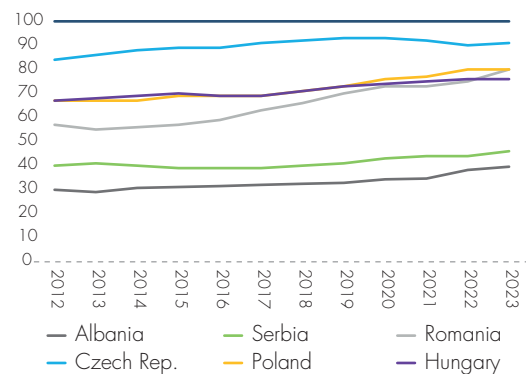


new jobs. On the contrary, according to INSTAT data, the number of employed citizens increased from 1.14 million in 2012 to 1.33 million in 2023. However, the impact of the shrinking and ageing population will become an increasingly limiting factor in the labour market in the long term.

- At the same time, public expenditures on healthcare have remained relatively constant during this period, fluctuating between 9-10% of total expenditures. Meanwhile, the deficit of social insurance schemes, with the pension system being the main pillar, is close to 2% of GDP for 2024-2025, trending slightly downward over the last three years. However, just like with employment indicators, unfavourable demographic trends suggest a potential increase in this deficit without intervention.
- Finally, the productivity of the Albanian economy has grown—mainly in response to the shift of the workforce from sectors with low added value to those with higher value—and has made progress in convergence per capita with the European Union countries (see Chart 3). However, both of these indicators are still far from the European Union average, and the unfavourable demographic trends make their achievement more difficult.

This preliminary analysis suggests that public authorities and the private sector should closely monitor demographic developments, identify potential consequences in a timely manner, and address these consequences with structural reforms and appropriate development policies. Among other things, the reform should aim to: (i) mitigate the decline of the workforce by discouraging emigration, increasing the labour force participation rate, and, where necessary, attracting foreign workers; (ii) increase productivity by improving education and training, encouraging investments in machinery, equipment, and more efficient technological processes; and (iii) prioritize the implementation of pension system reform to enhance fiscal sustainability.

Chart 16 Average income per capita as a percentage of the European Union average, in terms of Purchasing Power Parity (PPP)



Source: Eurostat and Bank of Albania's calculations (for Albania, the data is corrected with the results obtained from the most recent Census).

2.1.4 INFLATION AND ITS DETERMINANTS

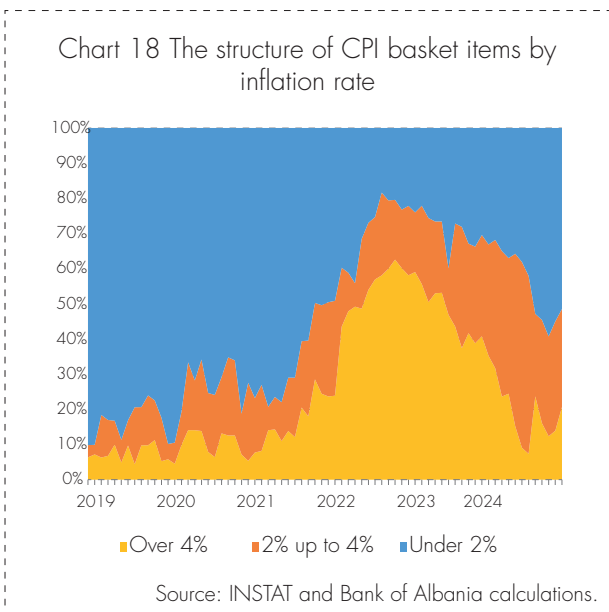
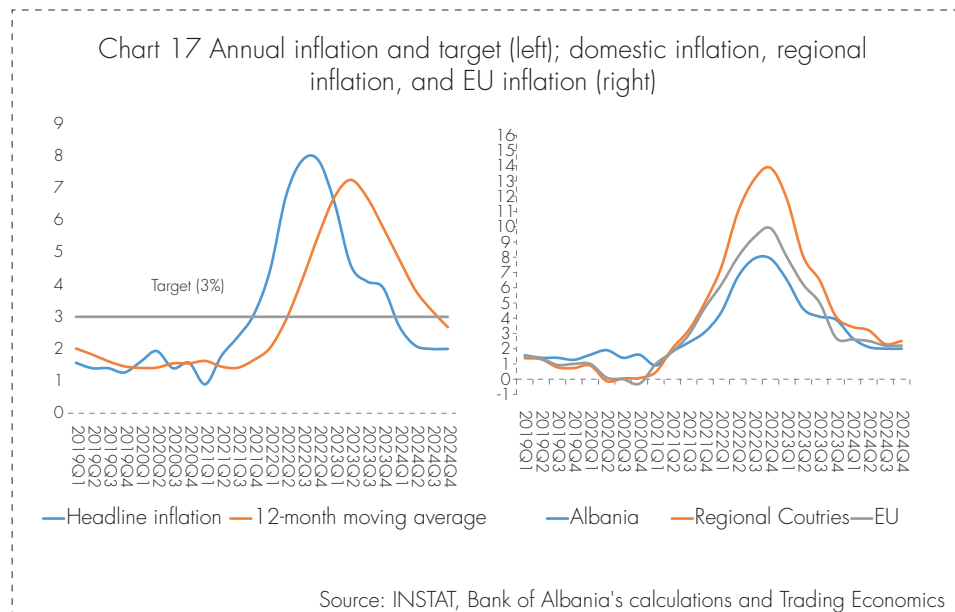
Inflation of consumer prices declined to an average level of 2.2% in 2024. The decrease in inflation reflected the reduction of inflation in the external environment, the appreciation of the exchange rate, and the reduction of pressures from the domestic economy. However, the latter showed greater resilience and remain consistent with our objective of price stability.

The return of inflation to the target is expected to be supported by the stability of domestic inflationary pressures, reflecting a more balanced trend in supply and demand in goods, services, and labour markets, the anchoring of inflation expectations, and an increase in imported inflation toward its historical average. Consumer price inflation averaged 2.2% in 2024, declining significantly from



4.8% recorded in the previous year. Inflation experienced a rapid decline in the first half of the year, reflecting a decrease in food prices in both foreign and domestic markets, reductive effects of the exchange rate appreciation, and high comparative base effects from the previous year. Domestic pressures also declined, but this decrease was gradual, and these pressures remain dominant, influenced by high demand for goods and services as well as cost and labour market pressures. As a result, service inflation remained more stable, strengthening even more in the second half of the year. Alongside a more contained reduction in imported inflation, also influenced by the slower pace of exchange rate appreciation, this trend was reflected in the stabilization of overall inflation in the second half of the year.

The inflation profile in Albania appears similar to that of regional and EU economies, driven by a sharper slowdown in food prices during the first half of the year.



The decline in inflation during 2024 reflected a significant reduction in the share of high-inflation basket items (above 4%). Their share dropped to 19% in 2024, compared to 48% in the previous year. Meanwhile, items with an inflation rate of 2–4%, which are close to our price stability target, accounted for about 37% of the consumption basket, while those with a low inflation rate (less than 2%) made up around 44% of the basket.

The downward trajectory of inflation was driven 95% by a slowdown in food price inflation. The inflation rate for "Unprocessed Food" category reached one of its lowest historical values during the first half of the year, exerting a strong downward effect on headline inflation. The contribution of this category decreased



by approximately 1.6 percentage points compared to the previous year¹¹. Similarly, the contribution of the "Processed Food" category declined by around 0.9 of a percentage point over the year, reflecting the slowdown in food prices in foreign markets.

Prices in other categories exhibited small and balanced fluctuations throughout the year. Notably, the "Non-Food Goods" category increased its contribution averagely by 0.3 of a percentage point, reflecting changes in energy commodity prices in both foreign and domestic markets. On the upward side, the category of regulated-price goods also contributed to inflation, due to an increase in the price of water supply in several cities and the price of pharmaceutical products. On the other hand, prices of more stable inflation components, including services, housing, and durable consumer goods, had a lower contribution to inflation formation than in the previous year.

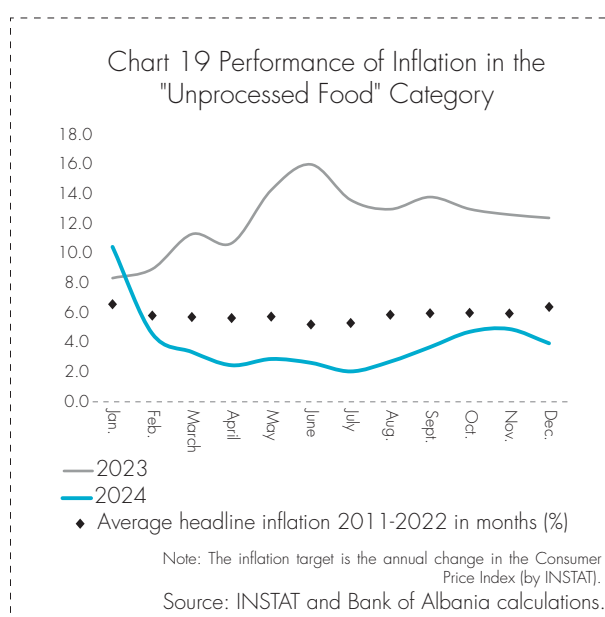


Table 2 Contributions of key categories to annual inflation (in p.p.)

	Average contributions by year					Average contributions by quarter - 2024				Annual inflation 2024 (in %)
	2019	2020	2021	2022	2023	Q1	Q2	Q3	Q4	
Processed food	0.5	0.6	0.6	2.8	1.4	0.5	0.4	0.5	0.6	1.8
Unprocessed foods	0.9	0.8	0.8	1.6	2.2	0.9	0.3	0.4	0.7	4.0
Services	0.1	0.2	0.2	0.5	0.5	0.4	0.4	0.3	0.3	2.1
Goods with regulated prices	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	1.6
Housing lease	0.2	0.1	0.1	0.3	0.4	0.4	0.4	0.3	0.2	2.6
Non-food consumer goods	-0.2	0.2	0.2	1.3	-0.2	0.1	0.2	0.1	-0.1	1.2
Durable consumer goods	0.1	0.1	0.1	0.2	0.5	0.3	0.3	0.3	0.2	3.5
Inflation (%)	1.6	2.0	2.0	6.7	4.8	2.7	2.1	2.0	2.0	2.2

Source: INSTAT and BoA

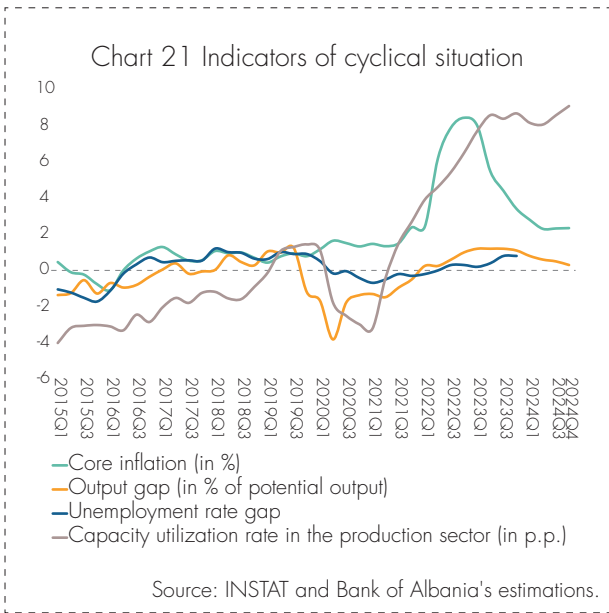
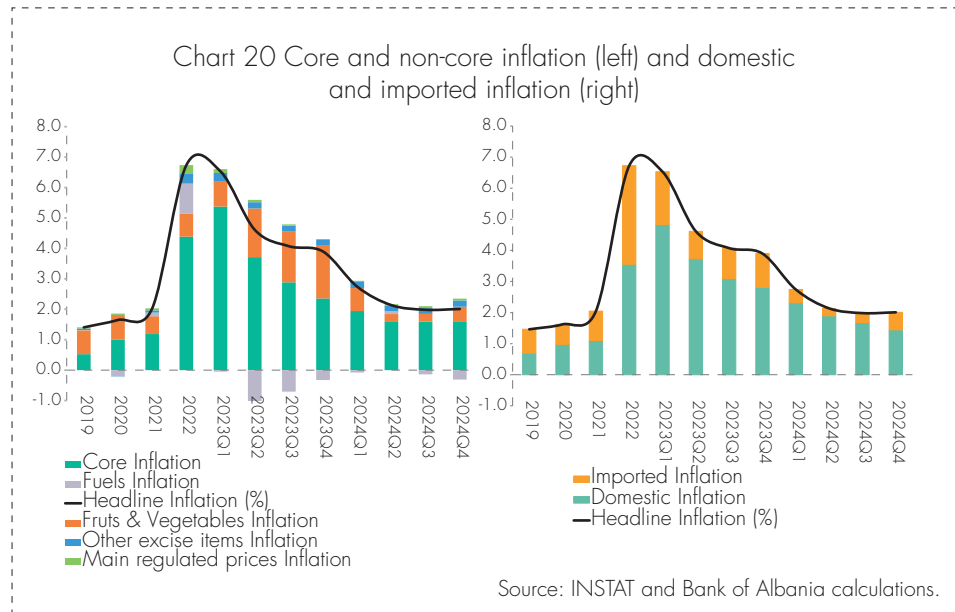
From a macroeconomic perspective, the decline in inflation reflected lower inflation in trade partners, strengthening of the exchange rate, and easing of inflationary pressures from the domestic economy.

Imported inflation dropped to historically low levels in 2024. This decline was influenced by a downward trend in raw material and energy prices in foreign markets, further reinforced by the reductive effect of appreciation of the domestic currency. As a result, imported inflation averaged 2.1% compared to 6% the previous year, contributing approximately 18% to the formation of headline inflation in 2024. From a long-term perspective, this component's contribution to inflation is around 45%.

¹¹ Therefore, this led to a decrease in the contribution of this category to headline inflation, from 46% to 26%.



Domestic inflationary pressures also continued to ease, though they remained the dominant factor in regard to the headline inflation formation. Core inflation, net core inflation, and domestic inflation averaged respectively at 2.5%, 2.6%, and 2.2%, remaining higher than headline inflation and close to their long-term historical averages. Consequently, the contributions of core and domestic inflation remained high, at 77% and 82%, respectively, and fluctuated less than in the previous year. (Chart 14).¹²



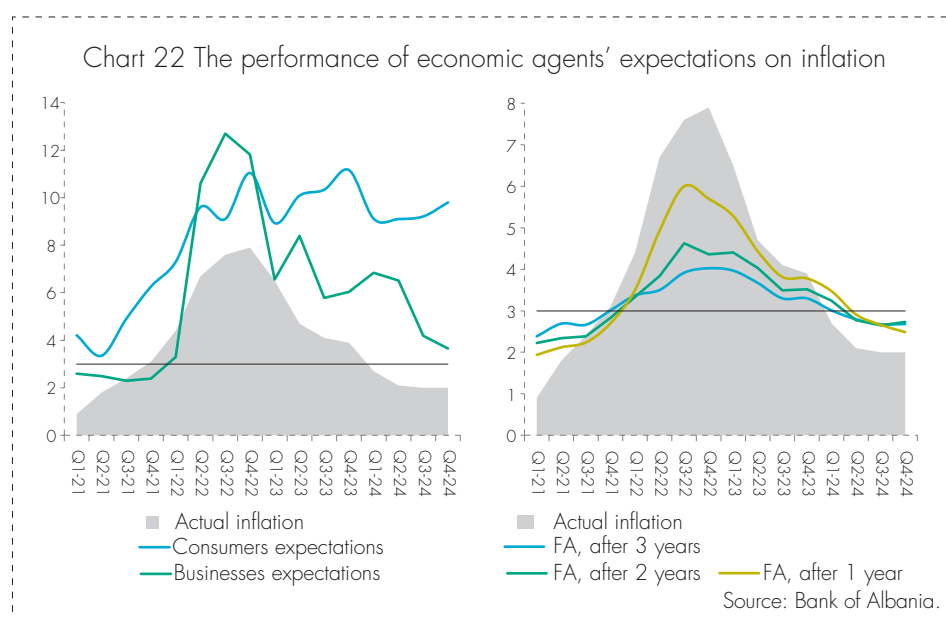
This performance has been driven by increased demand for goods and services, as well as the expansion of wages and labour costs. The Albanian economy remained in a positive business cycle throughout 2024. The volume of economic activity stood above its potential, although the gap between aggregate demand and supply showed a narrowing tendency over the year. As a result, the capacity utilization rate remained above the long-term average, while labour shortages continued to be a significant limiting factor for further economic expansion. Although labour force survey data for 2024 are not yet available, the existing data indicate continued wage growth and rising unit labour costs, albeit at a slower pace. These developments have been reflected in core inflation rates, which remain above the headline inflation level for 2024.

¹² Net core inflation excludes the sub-group of processed foods (including bread and grains) from the measurement of core inflation. Net core inflation takes into account 46% of the CPI basket of 2024.



The accommodative stance of monetary policy in 2024 has helped better anchor medium-term inflation expectations toward the 3% target. Inflation expectations¹³ among enterprises, consumers, and financial agents declined over the year, although they remain above the target and the official inflation rate.

The expectations of enterprises and financial agents are closer to the target compared to the expectations of consumers. At the end of 2024, businesses and financial agents expect inflation to be 3.7% and 2.5%, respectively, after one year. The medium-term expectations of financial agents stood at 2.7% by the end of the year. On the other hand, consumers' short-term expectations remained high, around 9.0% in 2024, approximately 1.0 percentage point lower than the previous year.

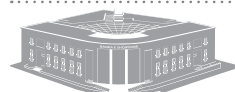


2.1.5 BALANCE OF PAYMENTS AND EXTERNAL POSITION OF THE ECONOMY

The Albanian economy has experienced a structural improvement in its international trade and financial balance in recent years. The dynamic growth of tourism exports and remittances has helped reduce the current account deficit. At the same time, the steady increase in foreign direct investments has played a key role in fully financing this deficit, thereby strengthening the country's macroeconomic stability. Improvement in the external position has contributed to the strengthening trend of the exchange rate.

The current account deficit remained at historically low levels during 2024. As a ratio to GDP, this deficit stood at 1.3% in the first three quarters of the year, compared to 1.2% in the previous year.

¹³ Inflation expectations are measured through direct surveys conducted with businesses, consumers, and financial agents.



Total exports grew by 9.9% in the first three quarters, driven primarily by the rapid expansion of tourism service exports, which reached EUR 3.9 billion, increasing annually by 20%. In parallel, a 17.3% increase in income from seasonal work and a 14.3% rise in remittances also contributed positively to narrowing the current account deficit. On the other hand, goods exports declined by 3.5%, mainly due to an unfavourable external environment in terms of demand and export prices.¹⁴ Additionally, specific sectoral factors and appreciation of the exchange rate have constrained the expansion of exports in certain goods categories.

Meanwhile, imports of goods and services increased by 13.9%, driven by rapid expansion of domestic demand. Specifically, goods imports rose by 14.6% in the first three quarters of the year, while service imports increased by 12.6%.

The rapid increase in imports led to a slight rise in the current account deficit during 2024. However, this indicator remains at historically low levels, and its expansion throughout the year reflects an overall improvement in domestic demand, driven by increased consumption and investments. From this perspective, the rise in the current account deficit in 2024 not only indicates higher demand for imported goods and services but also highlights the structural needs of the Albanian economy for investments in infrastructure and key sectors.

Foreign direct investments (FDIs) have fully financed the current account deficit, reinforcing the country's macroeconomic stability. These inflows grew by 5.1% in the first three quarters of 2024 and served as an important financing source for key sectors such as manufacturing, real estate, and financial and insurance services. However, the ratio of FDIs to GDP declined to 6.3%, down from 7% in the previous year, reflecting a faster growth rate of the economy compared to investment inflows.

Albania has strengthened its resilience to potential external shocks. The external debt-to-GDP ratio fell to 40.8% at the end of the third quarter of 2024, reducing by 5.3 percentage points compared to the end of 2023. The debt structure remains stable, with 90.2% of it concentrated in long-term debt.

Meanwhile, the country's repayment capacity has further improved, and foreign exchange reserves have increased. Among the key repayment capacity indicators, the debt stock-to-exports ratio fell to 96% by the end of 2024 Q3, down from 102.3% at the end of the previous year, while the debt stock-to-fiscal revenue ratio dropped to 143.9%, from 163.0% in 2023. At the same time, reserve assets covered 7.1 months of imports of goods and services or

¹⁴ Trade statistics of goods, as reported in the balance of payments data from the Bank of Albania, differ methodologically from those reported by INSTAT. These changes relate to the classification of exports, where some categories classified as goods by INSTAT are considered services in the Balance of Payments, as well as the reporting currency, with INSTAT presenting figures in the domestic currency while the Balance of Payments presents them in euro.



363% of the gross short-term external debt at the end of the year, ensuring financial stability and high solvency.

Table 3 Main indicators of balance of payments and external debt (in % to GDP)

	2019	2020	2021	2022	2023	2024:Q1-Q3
Current account	-7.8	-8.6	-7.6	-5.9	-1.2	-1.3
Trade of goods and services	-13.5	-14.4	-13.3	-10.3	-5.4	-5.7
Exports	31.0	22.6	31.2	37.2	38.4	37.9
Imports	44.5	37.0	44.5	47.5	43.8	43.7
Remittance inflows	5.0	5.0	5.0	4.6	4.2	4.2
FDI inflows	7.7	7.0	6.8	7.6	6.8	6.3
External debt	59.9	64.2	64.3	54.0	46.1	40.8

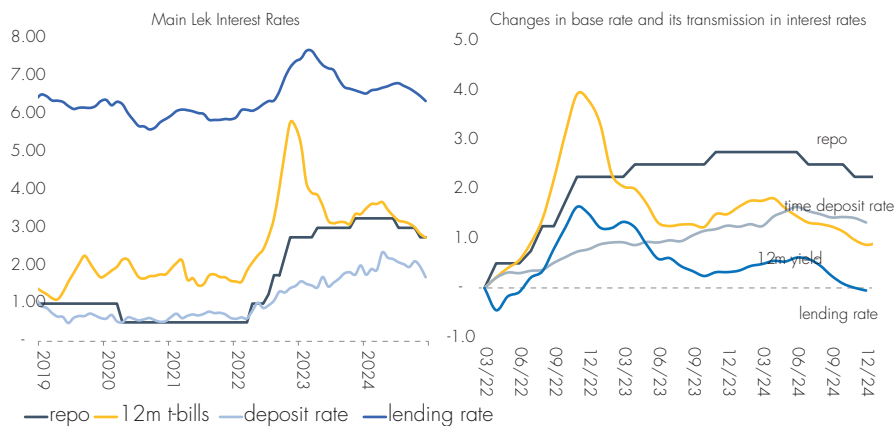
Source: Bank of Albania.

2.1.6 FINANCIAL MARKETS AND MONETARY INDICATORS

The financial market in 2024 was characterized by a stable liquidity situation, low risk premiums, and a strengthening of the exchange rate. Accommodative monetary conditions, banks' positive approach to lending, and expansion of demand have been reflected in a relatively rapid and stable growth of lending. Credit expansion has been particularly focused on financing investments, both for businesses and households. At the same time, households' savings in the form of bank deposits also increased.

Interest rates in the financial market have been declining, following monetary policy signals and the narrowing of risk premiums. The two key interest rate cuts in July and November were transmitted across all segments of the financial market. Low liquidity, inflation, and credit risks have resulted in historically insignificant interest rate spreads between financial products and the policy interest rate. Reflecting these developments, government bond yields have fallen beyond the policy rate reductions.

Chart 23 The key interest rates in lek (left) and interbank market interest (right)

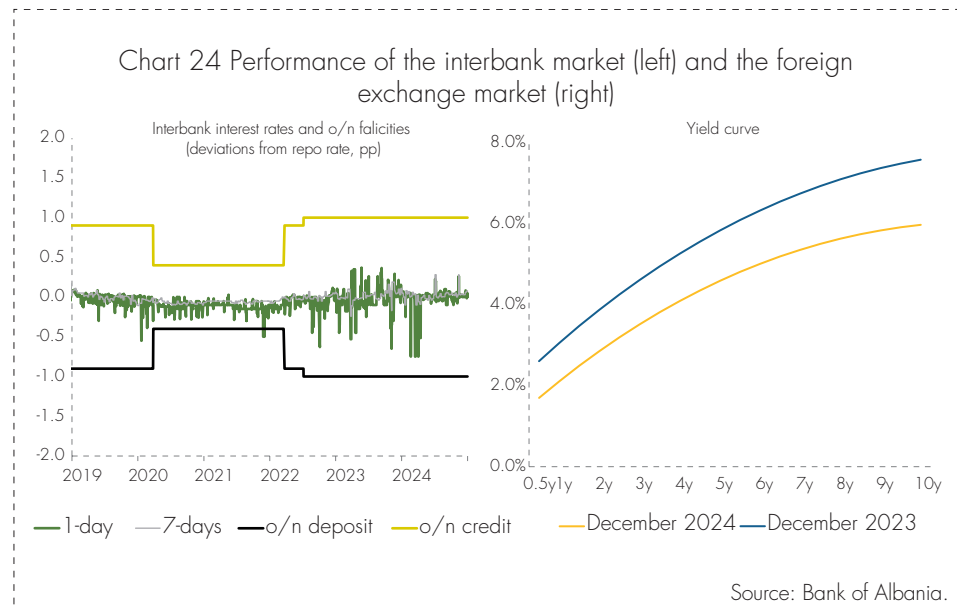


Source: Bank of Albania.

Note: The cumulative adjustment to credit rate are expressed in three-quarters moving average.



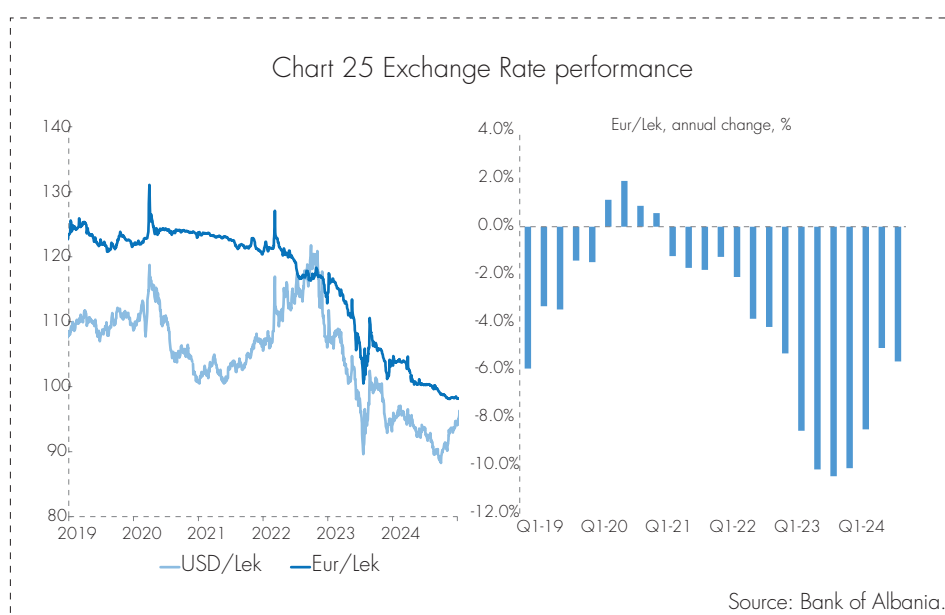
Interbank market interest rates quickly and fully transmitted monetary policy movements, remaining anchored near the policy rate. Its reduction was immediately reflected in the interest rates applied by banks in the money market. The Bank of Albania continued to inject liquidity, through its main instrument of one-week repo. In addition to one-week Repo injections, 3-month Repo injections have also been carried out. The total amount of liquidity injected during this year was slightly lower than the previous year, while the significant expansion of credit to the private sector and the increase in the government securities portfolio on banks' balance sheets were financed by the higher growth of deposits in lek.



The yields on government securities fluctuated at lower levels compared to the previous year, reflecting not only the monetary policy stance but also declining risk premiums in a calm environment with no pressure on debt financing. The 12-month yield averaged 3.3%, down from 3.7% in 2023. In the last months of the year, the yields on long-term bonds decreased to levels similar to those of 2-3 years ago when the policy rate was much lower than current levels. The yield spread against the policy rate further narrowed during the year, confirming a positive market climate and subdued risk premiums in the domestic market. A contributing factor to the downward trend in yields was the high participation of banks in the primary market, as the government did not face increased pressure for funds. These developments were reflected in downward pressure on long-term bond yields and a flattening of the yield curve.

The exchange rate continued to strengthen, albeit at a slower pace in 2024, while appreciation pressures on the lek continued to be present yet more moderate. During 2024, one Euro was quoted at an average of ALL 100.7, compared to ALL 108.7 in the previous year. Annual appreciation of the lek against the Euro averaged 7.4%, with a noticeable slowdown in the second half of the year to 5.3%. Similarly, the exchange rate of the lek against the US



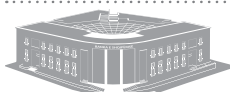


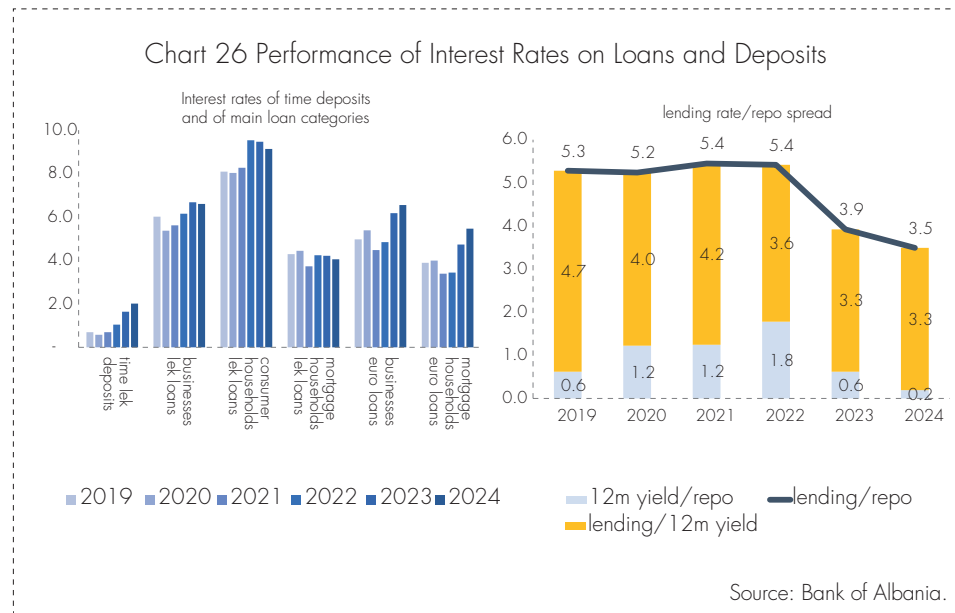
Dollar averaged 93.0 ALL/USD, with an annual strengthening of the lek by 7.5%. Despite a lower intensity than in the previous year, the positive trade and financial balance with our trading partners continued to produce a surplus of foreign currency supply in the domestic market throughout 2024. The current account deficit remained low, significantly below historical levels, while its coverage by foreign direct investment flows remained high. Box 3 presents a more comprehensive analysis of the factors behind the performance of the exchange rate and response of the Bank of Albania.

Interest rates on loans in lek decreased during 2024, especially for households.

This segment benefited from a proactive approach to lending by banks and increased competition among them, resulting in lower interest rates and more favourable lending conditions. Interest rates on loans to households started to decrease in the second quarter of the year. This trend was most notable on consumer loans, where the average interest rate dropped to 8.5% in the fourth quarter, about 1.0 percentage point lower than the steady average of 2023. Similarly, the average interest rate for mortgage loans fell to 3.7% in the last quarter, down from 4.2% in the previous year. Meanwhile, interest rates on loans to enterprises fluctuated more in 2024, decreasing insignificantly. On average, they stood at 6.6%, down from 6.5% in the previous year, trending downward in the second half of the year.

The performance of interest rates on loans in lek showed low credit risk premiums and low intermediation margins. As in 2023, the spread between the loan interest rate and the 12-month yield remained historically low, at 3.3 percentage points, reflecting banks' perception of low credit risk levels. The narrowing of the average loan interest margin compared to the policy rate was further aided by the reduction in yields beyond the signals of monetary policy during the year. On the other hand, interest rates on deposit markets fluctuated





at minimum levels, keeping funding costs low for banks. The average interest rate on time deposits in lek stood at 2.0%, slightly higher than in 2023, but in line with the policy rate reduction in the second half of the year. The difference between the average loan interest rate and deposit rates, representing the intermediation margin of the banking sector, narrowed to 4.5%, decreasing by 1.0 percentage point compared to the average of the past five years.

Interest rates on loans in euro increased during 2024. For enterprises, the interest rate on loans stood at 6.6%, while for mortgage loans to households, it was 5.5%, both around 0.4–0.5 of a percentage point higher than the previous year. After continuing the upward trend that began in 2023 into the first half of the year, interest rates started to decrease in the second half, following the easing of monetary policy in the Euro area. The spread between the interest rate on loans in lek and loans in foreign currency is positive but small for enterprises, while it remains negative for mortgage loans to households.

Credit to the private sector¹⁵ grew by 15.7% in 2024, driven by positive confidence in current and expected developments, low credit interest rates, increased demand for financing, and a positive approach by banks toward financing the private sector. The credit growth rate was 9.7% in the previous year.

The rapid expansion of credit was balanced, with credit portfolios increasing for both enterprises and households. However, there was a notably rapid increase in loans to enterprises, growing annually by 15.5%, nearly double compared to the previous year, particularly loans in foreign currency to

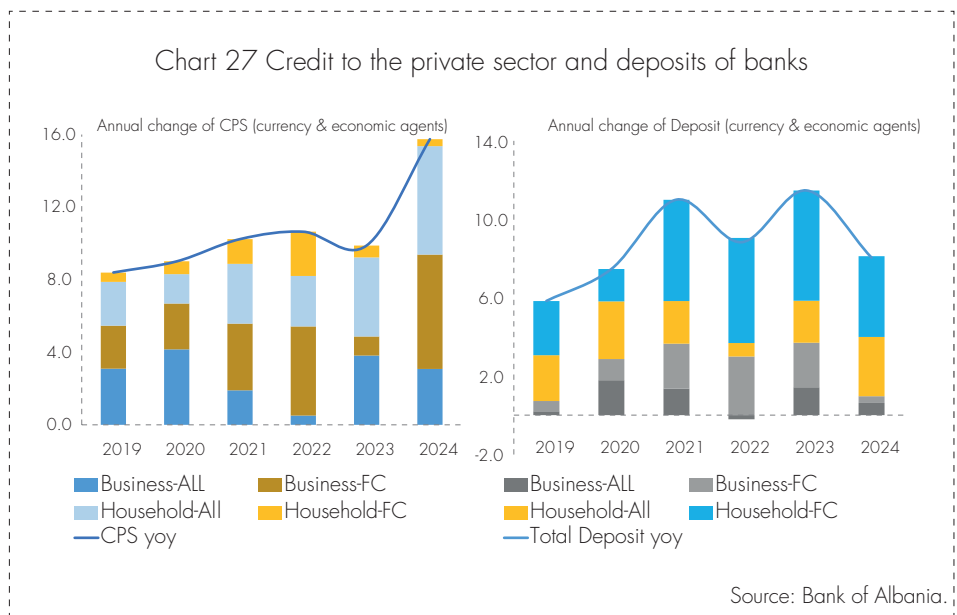
¹⁵ These credit data are based on monetary statistics from bank balance sheets, referring to financing for the private resident sector. Since 2022, in line with the ECB methodology, the analysis of the credit portfolio is based on "real" credit flows, adjusted for exchange rate movements and credit written off the balance sheet.



enterprises. These loans grew by 20% in 2024, up from 3% in the previous year, driven by a sharp decline in the interest rate spread between the two currencies, as well as the profile of credit based on enterprise size and usage purpose¹⁶ dominated by loans to large enterprises and for investment purposes.

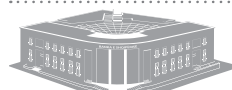
Meanwhile, loans to households increased steadily throughout the year, dominated by an increase in the lek-denominated portfolio. Loans to households increased by 16%, supported by growth in both consumer loans and mortgage loans. In 2024 mortgage loans in lek increased at a more rapid pace compared to mortgage loans in foreign currency, influenced by the still negative spread between the lek and the euro interest rates, as well as banks' policies on mortgage loans in line with regulatory requirements aimed at reducing exchange rate risk in lending.

Overall, loans grew similarly in both currencies. Loans in lek increased by 19%, while loans in foreign currency grew by about 15% during 2024. The share of loans in lek to total loans reached 57%, improving by 2 percentage points compared to the previous year. Growth of lending in the domestic currency enhances the effectiveness of monetary policy and simultaneously reduces the exposure of economic agents to exchange rate risk.



Bank deposits increased by 8% in 2024, compared to 11.4% in the previous year. This performance was influenced by a slowdown in the growth rate of foreign currency deposits to enterprises by 3%, due to the use of accumulated funds over the years to cover liquidity needs. The growth of foreign currency deposits to households also slowed down, to around 10%, albeit at a more

¹⁶ In 2024, the business credit growth was largely driven by loans to large enterprises, which grew significantly annually by around 29%, as well as loans for investment, which increased by 20%. These loans were concentrated in several large loans linked to specific infrastructure or energy projects.



contained pace. Overall, foreign currency deposits grew by 8.3% during the year, down from 15.3% in 2023.

On the other hand, deposits in lek increased by 7.7%, slightly higher than in the previous year. Households' decision to deposit their savings in lek was a key factor in this performance, driven by low returns on government securities, in particular for the 12-month instrument, and the shift in government financing toward long-term instruments, which are less preferred by households. These developments caused the growth of households' deposits in lek to accelerate at 7.8%, or 2 percentage points higher than in 2023. Meanwhile, the growth of enterprises' deposits slowed down, reflecting their liquidity needs beyond bank credit.

The performance of deposits by maturity showed a slowdown in growth rates for **both demand deposits and time deposits, reflecting increased liquidity needs,** interest rate trends, and a preference for maintaining high returns, evident in the trend of placing savings in time deposits with maturities over two years. As a result, demand deposits grew by 7.3% annually, while time deposits increased by 8.9% in 2024. Meanwhile, deposits with maturities over two years continue to show sharp double-digit growth (around 14%); their share to total deposits reached 18.4%, or 1.1 percentage point higher than in the previous year.

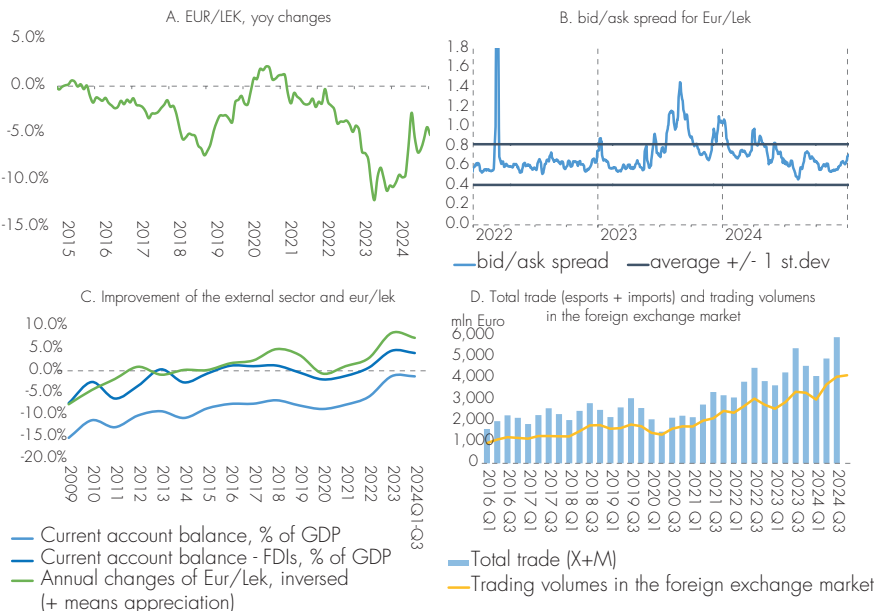
BOX 3: STRENGTHENING OF THE EXCHANGE RATE: REASONS, CONSEQUENCES, AND THE RESPONSE OF THE BANK OF ALBANIA

The strengthening of the lek exchange rate against major currencies remained present throughout 2024, although the appreciation pace was more moderate compared with the previous year. The strengthening of lek peaked in 2024 Q4. The annual appreciation of lek against the euro gradually diminished during 2024, declining to 5.3% in the second half of the year (Chart 1, Panel A). The foreign exchange market was calmer in 2024. The exchange rate volatility decreased significantly, while the spread between the bid/ask quotation spreads returned to normal levels (Chart 1, Panel B). Additionally, trading volumes continued to increase in line with the growth in foreign trade volumes in goods and services (Chart 1, Panel D).

As we have stated in previous analyses, the strengthening trend of the exchange rate is the result of a supply surplus of foreign currency in the economy. This supply surplus largely stems from improvements in the balance of economic and financial exchanges with our trading partners. In particular, it reflects the growth in tourism service exports, which has significantly reduced the current account deficit over the past two years. At the same time, foreign direct investments (FDIs), which are the primary source of financing the current account deficit, have continued to grow and, in the last two years, have significantly exceeded the deficit itself (Chart 1, Panel C). Foreign exchange inflows from foreign direct investments to the current account deficit has been above four over the past two years, generating a continuous surplus of foreign currency in the domestic market.



Chart 28 EUR/ALL exchange rate (Panel A), trading conditions in the foreign exchange market (Panel B), the current account deficit (Panel C), and foreign exchange market trading volumes (Panel D)



Source: Bank of Albania.

The bid/ask spread interval of 0.4–0.8 ALL has been calculated as a long-term average (0.6 ALL) \pm 1 standard deviation.

From a macroeconomic point of view, appreciation of the nominal exchange rate of the lek reflects the trend of income and price convergence between Albania and our trading partners in the Euro area. This trend is seen in a strengthening of the real exchange rate, the dynamics of which are calculated as the product of the inflation gap between Albania and the Euro-area combined with changes in the nominal exchange rate. The strengthening of the real exchange rate, explained in theory by the Balassa-Samuelson effect, is a typical phenomenon for developing economies in the process of converging toward more developed economies and serves as evidence of the success of this process.¹⁷ In general terms, the convergence trend of per capita income in developing countries is accompanied by a convergence tendency toward price level between these countries and their trading partners. In more technical terms, the Balassa-Samuelson effect reflects a faster productivity increase in the tradable goods and services sector compared to the non-tradable sector. This increase (i) is reflected in the expansion of exports and the improvement of the trade balance and (ii) leads to a rise in the relative prices of non-tradable goods and services compared to tradable ones.

For this reason, the strengthening of the real exchange rate is a phenomenon happening in almost all Central and South-eastern European countries, following the opening of their economies after the 1990s (Chart 2, Panel B).¹⁸ The economic

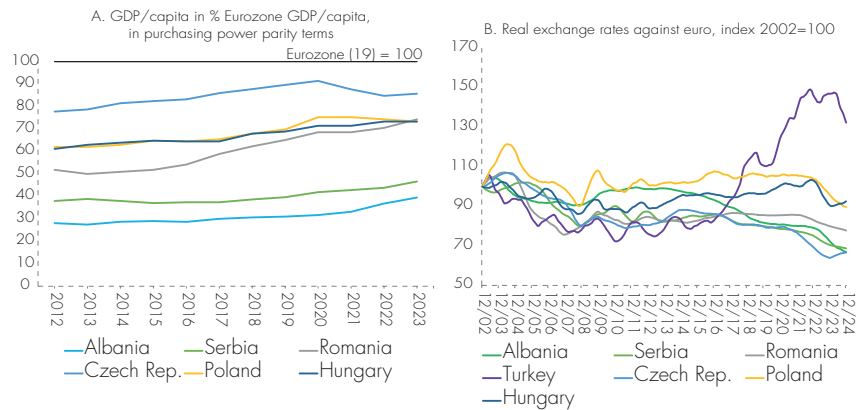
¹⁷ A detailed analysis of the Balassa-Samuelson effect can be found in: 1) Balassa, Bela, 1964, "The purchasing-power parity doctrine: a reappraisal", *Journal of Political Economy* 72.6: 584-596; and 2) Samuelson, Paul A., 1964, "Theoretical notes on trade problems", *The Review of Economics and Statistics*: 145-154.

¹⁸ See Meshulam, Dan and Peter Sanfey, 2019, "The determinants of real exchange rates in transition economies", *EBRD WP228*.



recovery process in these countries has been accompanied by rapid growth in investments, productivity, and per capita income (Chart 2, Panel A).

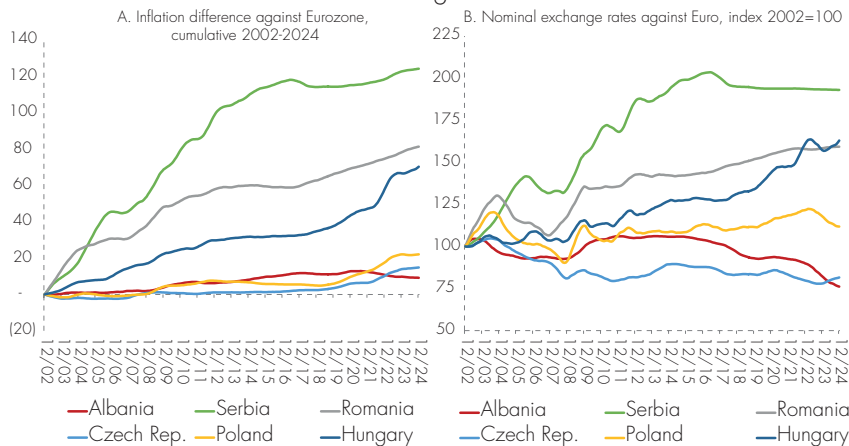
Chart 29 The evolution of per capita income convergence in Albania and regional countries as a ratio to the euro area.



Note: Per capita incomes of the regional countries (Panel A) are constructed as a ratio of the euro area average, taking into account real purchasing power. In Panel B, negative values in the change of the real exchange rate reflect its strengthening. Source: Eurostat and Bank of Albania's calculations (for Albania, the data is corrected with the results obtained from the most recent Census).

The trend of real exchange rate strengthening, in response to price convergence, has significant implications on key monetary indicators in developing countries: price levels, exchange rates, and interest rates. This trend can be accommodated in three ways: (i) A faster increase in prices as a ratio to developed economies (or, in other words, a higher inflation rate compared to them); (ii) A strengthening of the nominal exchange rate of developing countries; or (iii) A combination of the two mechanisms above. This phenomenon is widely illustrated by the evolution of inflation and exchange rates in Eastern European countries. Some countries, such as Serbia, Romania, and Hungary, have absorbed the strengthening of the real exchange rate in the form of significantly higher inflation compared to the Euro-area (see Chart 3, Panel A). Other countries, such as Albania and the Czech Republic, have primarily absorbed it through the strengthening of the nominal exchange rate (see Chart 3, Panel B), while some countries, like Poland, have absorbed it through a combination of these two variables.

Chart 30 The Performance of Inflation and the Nominal Exchange Rate in Albania and Regional Countries



Source: Eurostat and Bank of Albania's calculations.



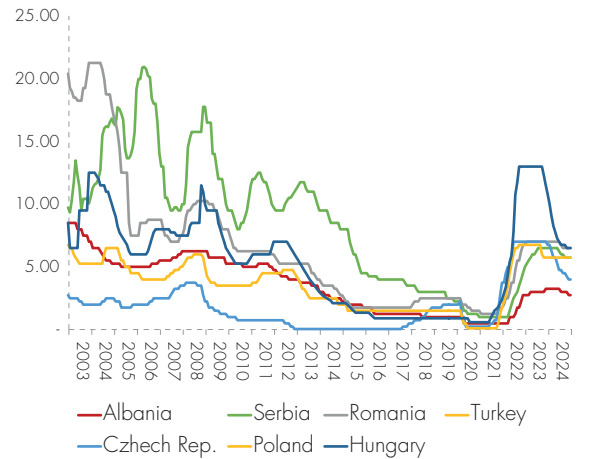
This choice also has implications on the monetary policies pursued by central banks, the primary mandate of which is to maintain price stability. Higher inflation rates require a more aggressive approach in regard to interest rates, by increasing the cost of financing the economy. In this regard, the choice of a free-floating exchange rate regime has enabled the Bank of Albania to achieve low and stable inflation rates with lower policy interest rates compared to many similar countries. At the same time, the free-floating exchange rate has served as a buffer against external shocks to the economy and as a mechanism for price convergence (Chart 4).

This management philosophy guided the decision-making of the Bank of Albania throughout 2024. During this year, two simultaneous phenomena were observed. First, the external sector of the economy continued to generate a surplus of foreign currency supply, exerting appreciation pressures on the lek. Second, inflation fell below the Bank of Albania's target during the first half of the year due to positive supply shocks in global food prices. This lasted beyond initial forecasts, posing a risk to the anchoring of inflation expectations in Albania. In these conditions, the continued strengthening of the nominal exchange rate at a comparable pace to last year could have exerted additional downward pressure on inflation.

In line with its objective to maintain price stability, the Bank of Albania reduced the policy rate and increased its presence in the foreign exchange market, beyond the initially planned interventions aimed at strengthening foreign exchange reserves. In total, the Bank of Albania withdrew approximately EUR 939 million from the financial system in 2024, compared to EUR 251 million purchased in 2023. This approach helped reduce uncertainty and volatility in the foreign exchange market, as well as control potential disinflationary pressures resulting from appreciation of the exchange rate. The Bank of Albania will continue to carefully analyse exchange rate developments and their implications on inflation, ensuring an appropriate response in line with its primary objective: achieving and maintaining price stability.

* This figure includes an additional EUR 25.5 million of purchases with a forward value date of 6 January 2025

Chart 31 Policy rate performance in Albania and regional countries



Source: Eurostat and the Bank of Albania.



Table 4 Main macroeconomic and financial indicators

	2019	2020	2021	2022	2023	2024*
Annual average inflation						
Headline inflation (in %)	1.4	1.6	2.0	6.7	4.8	2.2
Core inflation (in %)	0.7	1.4	1.7	6.5	5.3	2.5
Economic growth						
Real GDP growth (annual, in %)	2.1	-3.3	9.0	4.8	3.9	4.0*
Labour Market¹						
Labour force participation rate	69.6	69.1	69.3	73.2	75.9	
Unemployment rate (15+)	11.6	11.7	11.5	11.0	10.7	
Fiscal sector						
Budget balance (including grants, % of GDP)	-1.8	-6.7	-4.6	-3.6	-1.3	-0.7
Budget revenues (as a percentage of GDP)	27.1	26.9	25.7	27.4	26.6	28.7
Budget expenditure (as a percentage of GDP)	28.7	32.4	31.9	30.3	28.5	28.0
Public debt (as a percentage of GDP)**	65.0	73.9	74.1	64.1	57.5	53.8
External sector						
Current account (official transfers exempted in % of GDP)	-8.3	-8.4	-8.0	-6.1	-1.3	-1.6*
Imports of goods (fob, as a percentage of GDP)	29.1	28.2	33.4	34.3	29.1	29.0*
Exports of goods (fob, as a percentage of GDP)	6.5	5.9	8.3	10.7	8.4	7.0*
FDIs (as a percentage of GDP)	7.7	7.0	6.8	7.6	6.8	6.3*
Monetary and financial sector						
Repo rate (end of period)	1.00	0.50	0.50	2.75	3.25	2.75
M3 aggregate (annual growth, end of period)	4.3	10.5	8.6	5.2	6.4	7.4
Credit to the private sector (annual growth, end of period) ²	8.4	8.9	10.3	10.6	10.2	15.7
Deposit/GDP ³	69.3	77.3	75.5	69.7	66.6	66.3
Credit/GDP ³	31.1	35.0	33.7	31.4	29.9	31.5
12-month average yield	1.6	1.9	1.8	3.2	3.7	3.3
ALL/USD average exchange rate	109.9	108.7	103.5	113.0	100.7	100.7
ALL/EUR average exchange rate	123.0	123.8	122.5	119.0	108.7	93.0
NEER	92.0	89.9	86.4	78.6	67.9	60.0
Banking Sector						
Non-performing loans ratio (%)	8.4	8.1	5.6	5.0	4.7	4.17

Source: INSTAT, Bank of Albania, Ministry of Finance.

*Data on economic growth and the external sector are from the first 9 months of 2024.

1/ "Labour force survey results", published by INSTAT (2024 not included).

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

3/ GDP assessment for 2024. Data as a ratio to GDP are calculated on this assessment, except when differently specified.



2.2 MONETARY OPERATIONS

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

OPEN MARKET OPERATIONS AND LIQUIDITY NEEDS MANAGEMENT

Open market operations include the main operation, which is refinancing in the form of reverse repurchase agreement of 7-day maturity; fine-tuning instruments of 1-day or 8-days and up to 3-months maturity; and structural operations consisting of outright transactions in secondary markets.

These operations are mainly aimed at accomplishing the Bank of Albania’s operational objective: orienting short-term interbank interest rates close to the Bank of Albania’s policy rate, and limiting their volatilities.

In 2024, the average number of banks participating in one-week injection auctions was 5, the same as that of the last three years. The average liquidity amounted to ALL 44 billion, slightly down compared to the previous year, but remaining in line with the upward trend observed in recent years. Liquidity demand was 74% for weekly injections and 26% for those with a maturity of up to 3 months.

The average interest rate on weekly injections fluctuated within a range of +2.81 to +6.6 basis points above the policy rate. These values decreased compared to the previous year, reflecting, among other factors, the cautious approach of banks and the Bank of Albania in regard to liquidity management, aimed at preventing unexpected fluctuations in the system. The highest spreads were recorded in the first and fourth quarters of the year.

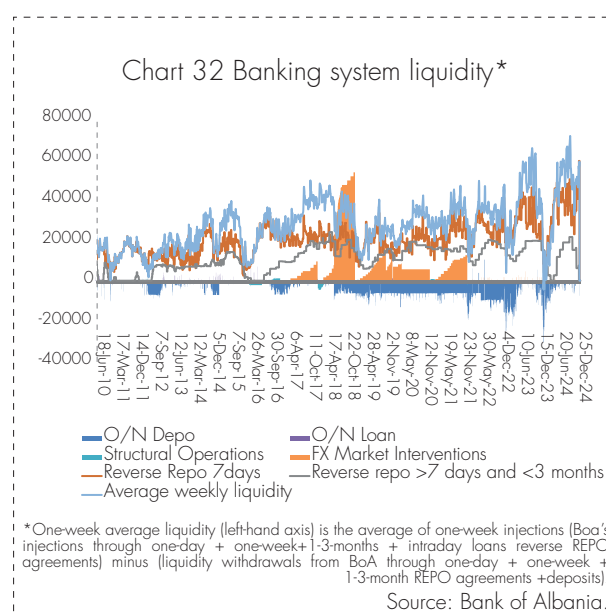
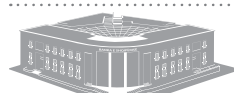


Table 5 Structure of liquidity injection operations by the Bank of Albania

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Main instrument	55%	80.7%	61.6%	54%	61%	56%	59%	63%	65%	74%
Long-term liquidity	45%	19.3%	39.4%	46%	39%	44%	41%	37%	35%	26%

Source: Bank of Albania.



STANDING FACILITIES

Standing facilities - overnight deposits and overnight loans at the Bank of Albania - are instruments available to commercial banks to manage unexpected liquidity on a daily basis. These facilities define a limit within which interest rates fluctuate in the interbank market.

In 2024, the Bank of Albania lowered the policy rate twice, along with the overnight deposit and overnight loan. At the end of the year, the policy rate and the overnight facility rates stood at 2.75%, 1.75%, and 3.75%, respectively.

The interest rate corridor remained symmetric, with a width of +/- 100 points from the policy rate, unchanged from the previous year. The overnight deposit facility was used 549 times, with an average daily volume of ALL 7.2 billion, decreasing from ALL 8.86 billion in 2023 and ALL 9.1 billion in 2022. The overnight lending facility was used 39 times, down from 54 times in 2023, with an average volume of ALL 1.83 billion.

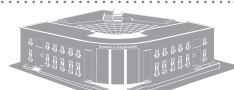
REQUIRED RESERVES

The required reserve in lek is a monetary policy instrument used by the Bank of Albania that aims to adjust liquidity in the banking system and stabilise the interest rate. The reserve requirement ratios for lek and foreign currency liabilities at the Bank of Albania have remained unchanged from the previous year.¹⁹

Throughout 2024, banks utilized up to 70% of their required reserves in lek, as needed, while always maintaining a minimum daily level of 30%.

In accordance with the regulatory framework, the remuneration rate on required reserves in lek for commercial banks has remained 100% of the policy rate. The remuneration rate on required reserves in US dollar and the euro is 0%.

¹⁹ The last regulatory adjustment occurred in 2018 as part of the de-euroization program, where the required reserve rate decreased to 7.5% for the reserves in domestic currency and increased to 12.5% for the reserves in Euro, from the undifferentiated level of 10% adopted one year prior.



2.3 FINANCIAL STABILITY AND MACRO-PRUDENTIAL POLICY

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

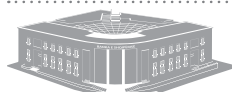
The regular reports and survey analyses published by the Bank of Albania provide information on developments in the banking sector and the financial system. These reports provide an elaboration of the potential risks and those identified during the analyses, the instruments implemented to mitigate and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

The Albanian banking sector closed the year 2024 with a positive financial result, a high level of capitalization and activity indicators, and improved indicators of credit quality. Systemic risks in the financial system are considered to be under control, and the resilience of the banking sector to potential shocks is strong.

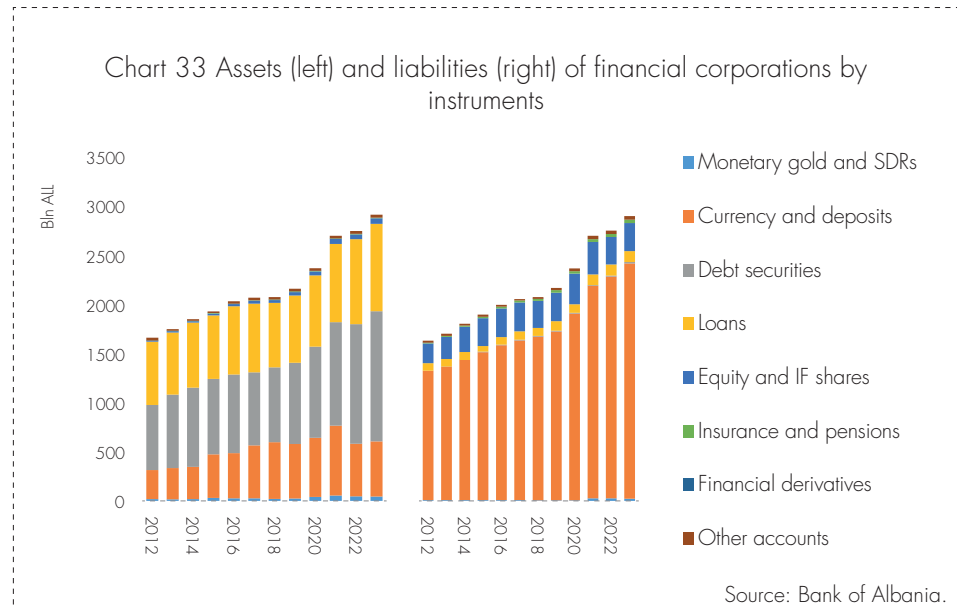
2.3.1 HIGHLIGHTS IN THE FINANCIAL SYSTEM AND BANKING SECTOR

In 2024, the assets of the financial system, predominantly dominated by banking sector assets, expanded at a rate comparable to the growth of Gross Domestic Product (GDP). As a result, the ratio of financial entities' assets to the annual GDP (for 2024 Q3) was approximately 92%, a level comparable to the previous year. The total assets of the financial system have expanded by around 8%²⁰. All segments of the financial system expanded their assets. The

²⁰ This rate reflects a weighted average of the growth rates of the activities within the various segments of the financial system (Table 6), with each segment's growth rate weighted according to its share in the financial system.



assets of non-bank financial institutions (18%), insurance companies (16%), and pension and investment funds (about 20%) grew the fastest. The indicators of asset quality and profitability of financial entities remain at good levels. Net exposures within the financial system and between the financial system and the resident and non-resident sectors are balanced.



The banking sector expanded its activity in 2024, while maintaining good asset quality, improving financial results and preserving high levels of capitalization. Specifically, the assets of the banking sector grew by 7%, with equal contributions from lending activities and investment in securities, which increased by approximately 1.3%. Bank loans in domestic currency and foreign currency (in original currency) increased by around 1.5% annually with growth observed across all segments by maturities and sectors. A rapid expansion of bank loans and a slight decline in non-performing loans resulted in an improvement in credit quality and a decrease in non-performing loans ratio to 4.17% (from 4.7% in the previous year). On the liability side, the expansion of activity was supported by a 5% annual increase in deposits. The growth was primarily driven by current accounts and term deposits, mainly from households, and included contributions from deposits in both lek and foreign currency.



Table 6 Financial system activity indicators

	2020	2021	2022	2023	2024
Main indicators of the banking system's financial soundness					
Regulatory capital to risk-weighted assets (%)	19	19	19	19	20
Non-performing loans ratio to total loans (%)	8.1	5.7	5.0	4.7	4.2
Return on equity (ROE) (annual basis, %)	10.4	12.6	11.8	16.9	18.2
Liquid assets to short-term liabilities (%)	47	46	41	43	42
Deposits/Loans (%)	211	214	212	217	202
Net open position in foreign exchange to regulatory capital (%)	7.9	8.9	4.8	6.1	8.6
Weight of assets to GDP (%)*					
Banking sector	97.8	93.9	87.8	84.5	82.4
NFBIs and SLAs	4.9	4.7	4.5	4.4	4.7
Insurance companies	2.4	2.2	2.0	2.0	2.2
Pension and investment funds	4.4	4.3	2.2	2.3	2.5
Financial system	109.5	105.1	96.5	93.1	91.9

Source: Bank of Albania. * September 2024.

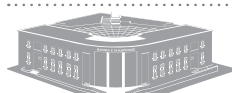
The profit of the banking sector amounted to around ALL 37.4 billion, 17% higher than in the previous year. This result reflected a greater increase in revenues from operations with customers, investment in securities interests, and financial asset investments, compared to a rise in banks' expenses for interest paid on deposits account holders and operational costs. The slight increase in interest rates of households' deposits and their volumes was reflected in the growth of expenses for paid interest. Meanwhile, income from loans in lek and foreign currency increased significantly, primarily due to growth in the loan base, while the average interest rate on new loans declined. Non-performing loans provisioning were comparable to the previous year, while operational costs increased slightly. In light of these developments, the banking sector's capital adequacy ratio at the end of the year stood at 20%.

2.3.2 SYSTEMIC RISK ASSESSMENT AND MACROPRUDENTIAL POLICIES

ASSESSMENT OF SYSTEMIC RISKS

Mitigating and preventing the spread of systemic risks is the main objective of macroprudential policies and a fundamental condition for maintaining financial stability. For this reason, identifying the sources of these risks, assessing their intensity, and analysing their transmission channels require a significant commitment of time and resources from the Bank of Albania, as the macroprudential authority. The Macro-prudential Map of Systemic Risks, monthly reports on financial soundness indicators for the banking sector and quarterly assessments of the banking sector's resilience, along with stress-test exercises, serve as the foundation for macro prudential discussions and decision-making. Meanwhile, published materials such as the Financial Stability Report and survey-based analyses also support the Bank of Albania's transparency and accountability toward the public and the financial system.

Analyses carried out in 2024 show that systemic risks in the financial system remained contained, and the resilience of the banking sector to potential



macro-financial shocks was robust. Indicators related to the overall growth of credit, liquidity position, fluctuations in the foreign exchange market, and the concentration of exposures and activities within the financial system reflected a balanced situation and risk levels comparable to historical averages. However, some activity indicators, such as unhedged foreign currency loans and the short-term mismatch between banks' assets and liabilities, exceeded established thresholds. Nonetheless, these were assessed to be under control, due to regulatory measures or the downward trend observed in recent periods.

MACRO-PRUDENTIAL MEASURES

By the end of 2024, the set of macroprudential measures implemented by the Bank of Albania included the capital requirements defined in Regulation 41/2019 "On Macroprudential Capital Buffers".

The Bank of Albania considers that the implementation of these measures, combined with the fulfilment of new requirements related to the bank resolution function, has contributed to strengthening the resilience and soundness of the domestic banking sector.

Throughout 2024, in line with the regulation, all domestic banks met the capital conservation buffer at its full level of 2.5%. Meanwhile, four systemically important banks fulfilled an additional capital buffer ranging between 0.5% and 1.5%, known as the systemic risk buffer.

In June, the Bank of Albania increased the countercyclical capital buffer (CCyB) for Albania for the first time, at 0.25%. By the end of December, the buffer was raised again to 0.5%. According to regulatory requirements, these buffers are to be met during 2025. The decision-making for this instrument is based on the performance of the credit-to-GDP ratio gap, the primary indicator in the relevant methodology, alongside the Complementary Early Warning Indicator (CEWI) and other indicators reflecting credit growth in specific segments.

Although the primary indicator remained below the levels that would justify a positive CCyB rate, the performance of the CEWI highlighted a positive financial cycle, supported by strong overall credit growth and in particular segments (e.g., residential real estate loans). Such positive financial cycles are typically accompanied by strong financial performance from economic agents and financial institutions. However, they may also contribute to lower credit standards, increased concentration of lending in specific sectors, rising debt levels among enterprises and households, and a deterioration in credit quality, ultimately weakening banks' resilience to shocks.

The activation of the countercyclical capital buffer aims at mitigating the financial cycle and prevent the transmission of risks. Moreover, higher capital levels strengthen banks' ability to absorb shocks and decrease volatility in lending activity during the downturn phase of the financial cycle.



2.3.3 LEGAL AND METHODOLOGY FRAMEWORK

Throughout 2024, the Bank of Albania worked on improving the macroprudential policy framework by focusing on reviewing the methodology for identifying systemically important banks, refining the approach to determining the countercyclical capital buffer, and establishing, for the first time, a detailed database on lending standards in the real estate sector. At the same time, efforts continued toward implementing the objectives set out in the Bank of Albania's strategy "On the Management and Supervision of Climate-Related Financial Risks in the Financial Sector for 2023–2025." The key areas of focus are listed below:

- In February, the Bank of Albania published an updated version of the methodology "On the Calculation and Adjustments of Banks' Systemic Importance and the Corresponding Macroprudential Capital Buffer". The review aimed to strengthen the Bank's oversight in identifying systemically important banks, particularly when a bank changes its status, either entering or exiting this category. Moreover, the methodology addresses structural changes in the banking sector, such as mergers, demergers, or other developments that directly affect the number and size of banks.
- During 2024, in cooperation with experts from the International Monetary Fund and the European Central Bank, the Bank of Albania also explored the feasibility of introducing a positive neutral rate for the countercyclical capital buffer in Albania. This project, expected to be completed during 2025, aims to develop a conceptual framework for the potential implementation of this instrument, calibrate it to the specific context of Albania, and conduct a comparative analysis with similar economies that have adopted a positive neutral rate regime for the countercyclical capital buffer.
- Following the approval of Regulation No. 44/2023 "On data reporting, identification and monitoring of indicators related to real estate lending and investments", the Bank of Albania began collecting the banking data required by this regulation: quarterly data on new loans and annual data on outstanding loan balances. The data were presented in a distribution analysis on key lending standards indicators such as the loan-to-value (LTV), the borrower's debt-to-income (DTI) ratio and the debt service-to-income (DSTI) ratio. Each indicator was compiled based on borrower categories and the characteristics of the loan and collateral, as defined by the Regulation. They will be continuously monitored and analysed as part of the Bank of Albania's regular systemic risk assessments in the real estate market.
- The Bank of Albania's work has continued toward implementing several activities set out in its strategy "On the management and supervision of climate-related financial risks in the financial sector for 2023-2025". One of these activities involved drafting a questionnaire aimed at collecting information from the largest companies in the country



regarding their assessment of climate change impacts, their budgets and resources to ensure sustainability, challenges faced, and their management of physical risks. This questionnaire is expected to be launched in 2025. As part of the Strategy, and with technical support from the World Bank’s Financial Sector Advisory Centre (FinSAC), the Bank of Albania has also focused on evaluating the impact of climate risks on the financial sector through a dedicated climate stress-test exercise. This exercise focuses on the banking sector’s exposure to transition risks, aiming for a position where climate-sensitive exposures are identified and managed, and seeks to assess the impact of the transition to a more climate-resilient economy on non-performing loans.

BOX 4:

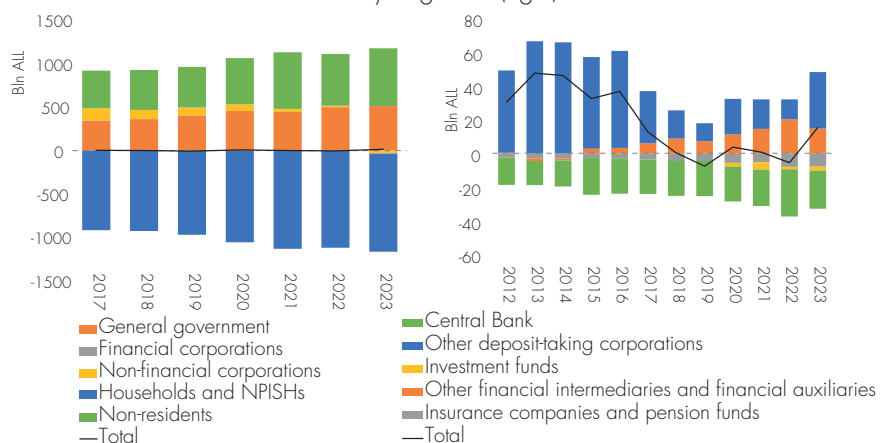
FINANCIAL POSITION AND CROSS-SECTORAL EXPOSURES

Cross-sectoral exposures in the system of national accounts are important for understanding the financial position and dynamics of specific sectors, as well as their contribution to the overall resilience or vulnerabilities of the economy.

Data from the national accounts system for 2023 show that (i) the assets of the financial system increased to around ALL 2,900 billion; (ii) they are primarily dominated by debt securities and loans; while (iii) approximately 80% of the financial institutions’ liabilities are in the form of deposits.

The net position of the financial sector remains balanced, as the financial assets and liabilities of these institutions are of comparable value. Compared to other institutional sectors, financial corporations are positioned as net borrowers from households and net lenders to both non-residents and the general government. These positions expanded slightly during 2023. During 2017–2023, deposit-taking corporations (the banking sector), along with other financial intermediaries and auxiliaries, held a modest net creditor position, while insurance companies and pension and investment funds consistently maintained net debtor positions.

Chart 34 Net Position of Financial Corporations by Counterpart Sector (left) and by Segments (right)



Source: Bank of Albania.



2.4. BANKING SUPERVISION

The main objective of supervision at the Bank of Albania is to identify at an early stage and take the necessary measures to reduce risks to banking sector activity such as credit risk, liquidity risk, operational risk, interest rate risk, capital and profitability risk, reputational and money laundering risk. Banking supervision also aims to evaluate the efficiency of internal audit and corporate governance as they are important risk-mitigating factors in the whole sphere of the activity of banks in particular, as well as non-bank financial institutions and other institutions licensed by the Bank of Albania in general.

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

The activity of the banking sector was stable in 2024 as the level of capitalisation and liquidity was high and the quality of assets improved. The Bank of Albania continued to work toward the approximation of its own regulatory framework to the EU acquis and reviewed the legislation on consumer protection and liquidity risk.

2.4.1. ECONOMIC HIGHLIGHTS

MAIN INDICATORS OF THE BANKING SECTOR FINANCIAL SOUNDNESS

The capital adequacy ratio stood at 19.82% in December 2024, from 19.93% last year. The non-performing loans ratio reached 4.17% at the end of the year, from 4.75% in the previous year. This indicator was positively affected by a 0.67% drop in the volume of non-performing loans and 12.8% hike in the loan portfolio. Liquidity level remains high, where the liquidity coverage ratio and the net stable funding ratio are 273.4% and 182% respectively, against their regulatory minimums of 100%.

The system's financial result was ALL 37.4 billion, up by ALL 5.5 billion compared with the previous year. Profitability indicators, ROA and ROE, appear to have improved as well by 1.86% and 18.21%, respectively.

CONSUMER PROTECTION

An important development of the Supervision Department during 2024 was the revision of the regulatory framework regarding the protection of individual borrowers in case of default on loan obligations. These regulatory amendments



adopted new financial analysis criteria on individual borrowers from non-bank financial institutions. The purpose of this analysis was not solely to assess a borrower's ability to cover debt obligations, but also to include a guarantee that the borrower is able to pay for other necessary expenses without significantly affecting their overall financial situation.

These requirements include setting a debt service cap to prevent over-indebtedness and avoid irresponsible lending practices to consumers. Additionally, restrictions have been placed on loan agreements, excluding individuals with certain characteristics, such as those who have been listed in financial institutions' registers for not being allowed to take loans; individuals with disabilities; or those who are restricted in their legal capacities, in cases where this prevents them from repaying the loan. Furthermore, the regulatory amendments determine the time frame within which loan agreements might be devised, and restrict the number of consumer loans that an individual can take.

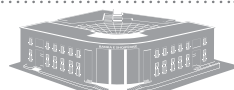
CREDIT RISK MANAGEMENT

The regulations which shall undergo changes in order to respond to the new requirements on financial reporting of the International Accounting Standards, were identified. The main regulation that will be subject to change is that pertaining to credit risk management. To this end a working group was created that will review the entire existing regulatory framework and will adapt it to the new standards.

In the context of this project, work is being done to build a model that calculates the failure probability of borrowing entities. This model will help create prudential supervisory filters regarding the classification and provisioning of loans according to international and European accounting standards.

REVIEWING THE OPERATIONAL RISK MANAGEMENT FRAMEWORK

The regulatory framework for operational risk management was reviewed with the aim of improving and clarifying supervisory expectations on institutions which are subject to this regulation; updating to market standards and best practices; as well as strengthening off-site supervision. Consequently, the new Regulation "On the operational risk management by banks, payment institutions and electronic money institutions" was drafted and approved, which follows the reviewed standards of the Basel Committee on operational risk management. The entities subject to this regulation are banks and branches of foreign banks, payment institutions and electronic money institutions, licensed by the Bank of Albania, according to the supervisory assessment. Simultaneously, some amendments were approved on the existing regulation "On operational risk management" pertaining to non-bank financial institutions and savings and loan associations. These amendments aim to harmonise regulatory requirements with the financial activity of the entities subject to this regulation, by also reflecting the revised standards of the Basel Committee.



The abovementioned amendments to the regulation are also accompanied by new reporting requirements, which include early warning indicators and the registry of operational risk events. As a result, amendments to the Regulation "On the reports at the Bank of Albania according to the Unified Reporting System," were also approved.

GREEN FINANCE

In the context of green finance and the strategy drafted for its inclusion in the supervisory processes, in 2024, the guideline on supervisory expectations for the inclusion of climate-related risks in the internal bank processes was drafted and published for the first time. This guideline sets out general requirements for banks related to developing internal bank processes for managing risk, building the necessary capacities for climate issues and preparing the adequate products to address this phenomena. This guideline is in the form of orientation and serves as a preliminary step for preparing the banking sector for future regulatory changes. In accordance with this guideline, banks are expected to conduct a self-assessment on their level of compliance with the supervisory expectations. This report will be realised in 2025.

2.4.2 ON-SITE EXAMINATIONS

In 2024, eleven on-site examinations were carried out, including three full-scope examinations in banks, five in non-bank financial institutions, two examinations in electronic money institutions and one examination took place in a Savings and Loan Association (SLA).

Table 7 Number of examinations by topic in 2024

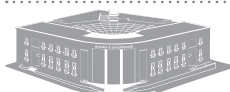
Examined institutions	Strategic Risk	Organisational Risk	Credit Risk	Liquidity risk	Interest Rate Risk	Market Risk	Information and Communication Technology	Operational risk	Reputational Risk	Profitability	Capital
2022	8	9	12	12	8	8	8	8	82*	8	12
2023	8	8	8	8	4	8	7	7	61**	8	8
2024	11	10	9	11	3	11	8	8	48***	11	11

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

** In 2023, examinations were carried out in 50 Foreign Exchange Bureaus on Reputational Risk and 11 other examinations for this risk were carried out in banks and non-bank financial institutions.

*** In 2024, examinations were carried out in 37 Foreign Exchange Bureaus on Reputational Risk and 11 other examinations for this risk were carried out in banks and non-bank financial institutions.

In 2024, examinations were carried out in one systemic bank and two non-systemic ones. The main focus of the examinations was risk management, with main priority given to credit risk as it is the risk with the highest weight in banks' profiles. In this framework, the appropriate division of duties and reporting



lines, effective assurance of independence for key positions of control, and the effective supervision by senior management were critically assessed.

In regards to governance, in addition to compliance with legal and regulatory requirements, banks must ensure a stable culture for a qualitative implementation of the principles of “good governance.” This culture implies that senior management should be actively involved in the compilation and harmonisation of business development documents and those related to maintaining acceptable risk exposure levels to the extent that they can be absorbed by the bank's available capital. Operational risk related to rapid digital developments and the interaction of various systems and technologies used in banks’ activities had a significant place as well.

In 2024, the examination of non-bank entities and SLAs focused on covering various areas of activity, such as electronic money lending and microcredit entities. The examinations focused on business models, governance systems, credit risk, market and operational risks, accuracy of reports to the Bank of Albania, transparency with customers and the risk of money laundering. This examination has identified that the activity of these entities generates stable income which has continuously supported capital. Overall, the internal organisational and regulatory framework is congruent with the size and complexity of the relevant entities. Meanwhile, new entities entering the market, particularly those in the business of electronic money payment have some deficiencies and require improvements and enhancements in line with the current level of activity, principles of corporate governance, accuracy of reporting according to the requirements of the Bank of Albania, transparency with clients and prevention of money laundering.

For the breaches that have been identified, the Bank of Albania has taken the relevant supervisory measures. It has revoked the licences to two non-bank financial institutions, suspended the activity of two non-bank entities and two SLAs, imposed fines and issued warnings to the administrators of a bank, drawn the attention of one FEB, issued an administrative measure (fine) to twelve FEBs and has revoked the license of one FEB.

After revoking the licences of two entities, MCA and Final, the Bank of Albania has worked hard to address the grievances of their borrowers. To this end, a dedicated staff has been assigned to provide clarity to borrowers on how to maintain a relationship with the entities, on the continuation of their loan obligations under the new circumstances, and the transferring of these two entities over to the Agency for Sequestered and Confiscated Property Management.

2.4.3 REVIEW OF THE LEGAL AND METHODOLOGY FRAMEWORK

In 2024, the Bank of Albania has continued to complete and improve the supervisory regulatory framework, by approving several new regulatory acts



and reviewing some existing ones, furthering its approximation with the EU acquis, while simultaneously taking into account the developments of the banking and financial system in Albania.

The following are some of the main changes to the regulatory framework during 2024:

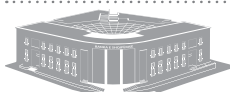
I. In the framework of regulating the activity and supervision of payment service providers, the Supervisory Council approved:

- The Guideline "On major incident reporting" aims to define the criteria to be adopted by payment service providers for classifying operational or security incidents as major incidents. This also includes reporting templates and procedures that payment service providers must use to notify the Bank of Albania in the event of a major incident of an operational or security nature.
- Some amendments to the regulation "On the comparability of the fees related to payment accounts and payment accounts switching service", which include some new requirements in accordance with the legal provisions of Law No 100/2023 "On payment account with basic features." These amendments guarantee that the requirements of this regulation are implemented in the same manner for both payment accounts and payment accounts with basic features. These requirements relate to comparability, transparency of fees and switching of accounts, and provide the methodology for calculating the reasonable fees charged for the services provided by this type of account.
- The Regulation "On information accompanying transfers of funds", which sets forth the rules on the information needed from payers and payees accompanying transfers of funds, in euro, in the context of the Single Euro Payments Area (SEPA), where at least one of the payment service providers involved is established and licensed in Albania.

II. With the view of reviewing the regulatory framework on operational risk management, in 2024, the Supervisory Council approved the following:

- The Regulation "On operational risk management by banks, payment institutions and electronic money institutions", which defines the minimum requirements and rules for the management of operational risk in banking and/or financial activities by banks, payment institutions and electronic money institutions. The drafting of this Regulation was based on the revised Basel Committee standards on operational risk management.
- Some amendments to the Regulation "On operational risk management"²¹, which aim to adapt the regulatory requirements to the activities of non-bank financial institutions, as well as savings and loan

²¹ The approved amendments include changes to the title of the Regulation to "On the operational risk management by non-bank financial institutions, savings and loan associations and their Unions."



associations and their unions. This adjustment is necessary since only these entities will now implement the requirements of this regulation, given that banks, and payment and electronic money institutions will be subject to newly approved regulation.

- Some amendments to the Regulation "On reports at the Bank of Albania according to the Unified Reporting System", which consist in the presentation of new forms with quarterly frequency related to early warning indicators and the operational risk register, in accordance with the new or revised reporting requirements, based on the typology of the supervised entities. Amendments to the reporting system of the entities include the addition of an important form with quarterly periodicity, which aims to secure information regarding the structure of shareholders/partners in the capital of the reporting entities (i.e., banks, non-bank financial entities, payment institutions and electronic money institutions).

III. In the framework of improving and strengthening the licensing and supervisory requirements and addressing risk management in non-bank financial entities, the following were approved:

- Some amendments to the Regulation "On licensing and activity of non-bank financial institutions"²², which aim to further strengthen the regulatory framework of non-bank financial entities, mainly in regards to license revocation, as well as the processes that accompany the liquidation of their loan portfolios.
- Some amendments to the Regulation "On licensing, exercise of activity, revocation of licences and liquidation of credit portfolio created from the financial activity of non-bank financial institutions", which stipulate changes to the legal form of non-bank financial entities, from a limited liability company to a joint stock company, applicable for entities that will be licensed following the entry into force of these amendments as well as those that currently operate in the market. These amendments also include some additional and improved regulatory requirements related to capital growth and changes to the structure of the capital of non-bank financial institutions, and documents required for the approval of the chairs of the entities' steering bodies.
- Some amendments to the Regulation "On risk management of the activity of non-bank financial institutions", which include the addition of new requirements for assessing borrowers' repayment capabilities in consumer loan agreements compiled by non-bank financial institutions and microfinance institutions. These amendments also include the requirement imposed on non-bank financial entities which purchase non-performing loans with the aim of classifying them as performing loans. The instalments repayment of purchased loans should not be made through another loan.

²² The approved amendments also include changes to the title of this regulation to the Regulation "On licensing, exercise of activity, revocation of licences and liquidation of credit portfolio created from the financial activity of non-bank financial institutions."



2.4.4 LICENSING FRAMEWORK AND APPROVALS

In 2024, the number of banks operating in Albania remains eleven, unchanged from the previous year. The banking sector continues to be dominated by foreign banking group subsidiaries with capital originating mainly from the EU.

The Bank of Albania issued preliminary approvals for ownership of the qualifying holding of shares of two non-bank financial institutions; amendments to the statutes of two banks, issuance of subordinated debt from two banks and settlement from one bank; as well as the approval of authorised chartered auditors (statutory auditors) for auditing the financial statements of all banks in 2024.

The Bank of Albania issued approvals for 56 bank administrators, including 21 members of steering councils, 8 members of audit committees, and 27 executive and internal audit directors of banks.

In 2024, the network of banks within the territory of the Republic of Albania expanded with eleven new branches, while banks have issued a notification for the closure of one branch/agency within Albania. By the end of the year, banks operated with 400 branches/agencies.

Table 8 Banks' ownership structure, number of banks (at period-end)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Banks in Albania, of which:	16	16	14	12	12	12	11	11	11
I. Majority foreign owned ¹	13	13	11	8	8	8	6	6	6
• EU-based banks	9	9	7	6	6	6	5	5	5 ²
• Turkish based	1	1	1	1	1	1	1	1	1 ³
• Majority owned by an international financial institution (Saudi Arabia)	1	1	1	1	1	1 ⁴			
II. Majority Albanian owned	3	3	3	4	4	4	5	5	5 ⁵

Source: Bank of Albania.

¹ "Majority" is, in all cases, the simple majority of 50% of the votes plus 1 vote.

² Banks with capital originating from EU countries, at the end of 2023, are from: Italy (Intesa Sanpaolo Albania), Austria (Raiffeisen), Germany (Procredit), Hungary (OTP 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 2023, are: Union Bank, Credins Bank, American Bank of Investments, Tirana Bank, and United Bank of Albania.

Based on the applications received, the Bank of Albania approved an additional financial activity (payment initiation service and account information service) for one electronic money institution.



Over 2024, the Bank of Albania updated the licences and annexes of licences of five payment institutions and electronic money institutions, as well as one savings and loan association which also carries out payment activities/services. By the end of the year, there were 37 non-bank financial institutions (including microcredit institutions), payment institutions and electronic money institutions exercising their financial activity. Non-bank financial institutions also received preliminary approvals for 8 administrators, 4 Chairman of Steering Council, and 1 Chairman of Audit Committee.

Additionally, approvals were granted for the appointments of authorised chartered auditors to audit the financial statements for the end of 2024 for Payment Institutions and Electronic Money Institutions, as well as the approval for the issuance of subordinate debt by one non-bank financial institutions and one savings and loan association.

During 2024, 46 new foreign exchange bureaus were licensed, while licenses were revoked from 25 existing bureaus. By the end of 2024, there were 642 foreign exchange bureaus.

Table 9 Number of banks, non-bank financial institutions, savings and loan associations and foreign exchange bureaus licensed by the Bank of Albania (end-period)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Banks	16	16	14	12	12	12	11	11	11
Non-bank financial institutions	28	31	30	32	30	35	38	39	37
Foreign exchange bureaus	428	426	463	503	538	556	583	621	642
Unions of savings and loan associations	2	1	1	1	1	1	1	1	1
Savings and Loan Associations	13	13	13	14	14	16	16	16	16

Source: Bank of Albania.



2.5 RESOLUTION

The law "On Recovery and Resolution in banks in the Republic of Albania" grants the Bank of Albania the competence of the Resolution Authority in Albania.

This legal mandate aims to ensure an organized resolution of banks in case of insolvency, avoiding negative impact on the real economy and the financial system by minimizing the use of taxpayers' money, as well as guaranteeing the protection of customers' assets and insured deposits.

The year 2024 was an important one for the Bank of Albania in its role as the Resolution Authority, since it marked a series of achievements during its activity. The Bank of Albania's approach was guided by the objectives set forth in the 2022-2024 Medium-term Development Plan, which aims to fully approximate to the resolution standards of the European Union.

Its main achievements were the following:

1. Strengthening the ability for resolution in banks;
2. Compliance with regulatory requirements for regulatory capital instruments and eligible liabilities;
3. Continuous fulfilment of the resolution regulatory and methodological framework;
4. Operationalization of the Resolution Fund.

In the context of drafting the Resolution Plans, the Bank of Albania has maintained a stable dialogue with the banking sector by means of which it has regularly monitored the fulfilment of the annual working programme for the development of banks' capacities, as part of the recommendations identified over the annual inspection process.

The results derived from assessing resolution capabilities indicate that banks have made significant progress in successfully supporting resolution. All banks with resolution strategies met the intermediate level of the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) for 2024 by issuing eligible bonds in the domestic market for this purpose. The development of local banks' capacities for resolution, especially for those that are part of cross-border banking groups, should be established within the context of relevant developments across the entire banking group. For this purpose, based on the cooperation agreement signed with the Single Resolution Board (SRB) in 2024, the Bank of Albania participated in the Extraordinary Resolution Colleges meetings for two European banking groups operating in Albania through their subsidiaries.



In accordance with the legal framework requirements, the Resolution Fund has been established and has been growing through the annual contributions by banks. In 2027, this Fund will reach a level equal to 0.5% of the total banking sector's liabilities. After all banks paid their annual contribution which amounted to ALL 982 million, the Resolution Fund reached ALL 5.7 billion at the end of 2024, accounting for approximately 0.3% of the banking sector's liabilities.

In parallel to building the regulatory framework, work has been ongoing for the operationalization of resolution instruments. This processes has been facilitated by international institutions, such as World Bank (FinSAC Project) and EBRD, which have supported the Bank of Albania in preparing the guidelines and manuals for the purpose of increasing the level of implementation of resolution in order to preserve financial stability in Albania.

2.5.1 STRENGTHENING THE ABILITY FOR RESOLUTION IN BANKS

RESOLUTION PLANS

Pursuant to the respective legal and regulatory framework, the Bank of Albania updates each year the resolution plans for all banks operating in Albania. During the 2024 annual cycle, BoA updated the resolution plans according to the information reported periodically by banks, and the results and information obtained from onsite inspections carried out during May 2024.

As part of the annual process of updating the resolution plans, in 2024 the following were made possible: the identification and evaluation of the economic functions of critical importance and the assessment of public interest for all banks. This test evaluates whether the resolution objectives have been fulfilled by all those banks which carry out at least one critical function. During the resolution planning annual cycle, the measures that the bank should undertake to render it capable to implement the preferred strategy for resolution, have also been assessed. In conclusion, the executive summary of the resolution plan was communicated to each bank, focusing on assessing the bank's capacity to efficiently implement the preferred strategy for resolution.

Over the 2024 cycle, banks have progressed towards fulfilling the objective of governance, as well as increasing capacities for absorbing losses and recapitalizing them. They have also made positive steps in ensuring operational continuity and maintaining access to the market, in case the banks are subject to resolution. In fulfilment of the priorities for the 2024 planning cycle, banks have submitted to the Bank of Albania their methodology for the identification and allocation of collateral, and the plan for communicating the event of resolution. Furthermore, in alignment with the priorities from the previous cycles and continuing the recommendations of the Bank of Albania, banks have completed the methodology for measuring and reporting liquidity in the event of resolution.



The Bank of Albania has established and communicated to banks the **2025 priorities**, including drafting of the operational manual for internal recapitalisation and preparing the information needed for conducting assessment in the event of resolution. The annual priorities set out within the framework of the resolution plans' updating cycles will be up for review until 2027, which is the deadline for when capacity for the implementation of resolution is set to be fully reached.

INSPECTIONS IN BANKS

In the framework of assessing the ability for resolution in banks, inspections were carried out in May 2024 in banks that provide critical functions for the economy. These inspections focused on evaluation of the fulfilment of recommendations communicated during the 2023 cycle, and the priorities for the 2024 resolution planning cycle.

Compared to 2023, inspections identified the progress achieved in regards to measures undertaken by banks to increase their ability to implement resolution.

More concretely, the following were identified: establishment of governance structures and processes for resolution, including the engagement of the audit unit; the drafting of annual plans focused on the priorities communicated by the Bank of Albania; enhancement of the quality of information required during resolution events; and establishment of sufficient financial resources for implementing the preferred strategy for resolution by meeting the annual intermediate MREL requirement.

Following this examination cycle, the Bank of Albania prepared individual reports for each bank with respective evaluations and recommendations. Banks use a specific plan of communication to inform the Bank of Albania regarding the implementation of its recommendations.

2.5.2 THE MINIMUM REQUIREMENTS FOR REGULATORY CAPITAL INSTRUMENTS AND ELIGIBLE LIABILITIES (MREL)

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

In compliance with the regulatory framework, the full level of MREL must be achieved within 2027. However, during the transitory period, BoA communicates with banks on an annual basis regarding the intermediate level of MREL that they must fulfil.

In 2024, the banking sector met the MREL intermediary level of requirements by using regulatory capital instruments and eligible liabilities. In December 2024, the aggregate MREL capacity reached 22.9% of risk-weighted assets,

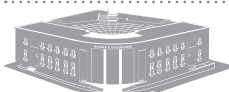
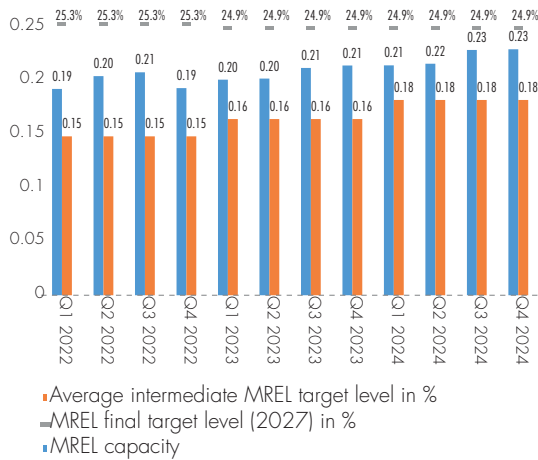


Chart 35 MREL capacity, for the 2022-2024 period, in percentage of risk-weighted asset



Source: Bank of Albania.

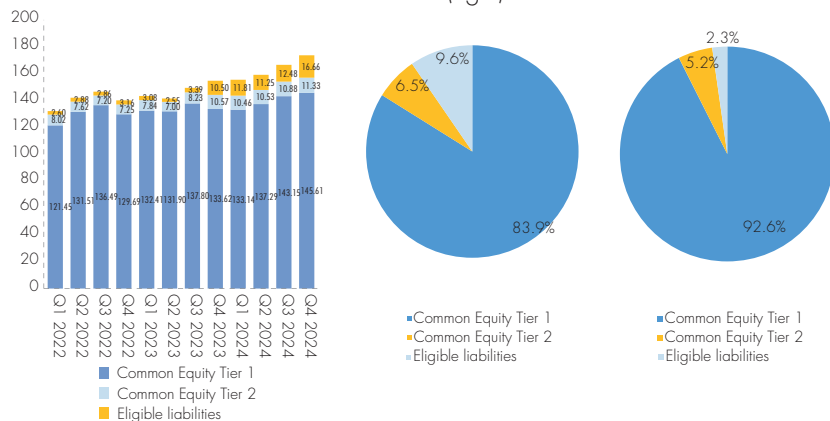
against the intermediate annual target of 18.2% set out by the Bank of Albania and those banks that are subject to MREL.

Furthermore, by the end of the year, communication was sent to banks regarding the decision on the intermediate level of MREL that must be fulfilled in 2025. The ongoing accomplishment of the objective constitutes an important step toward achieving full financing, which is also the final goal according to this regulatory requirement. The Bank of Albania periodically monitors the capacity of the banking sector to fulfil MREL as part of the annual resolution plan drafting process.

BOX 5: SOURCES OF FINANCING MREL IN 2024

Fulfilment of the intermediate level of MREL (i.e., the Minimum Requirement for Own Funds and Eligible Liabilities) was supported by banks' abilities to find funding in the domestic capital market. In 2024, the banking sector successfully issued "unsecured" bonds, accepted for MREL purposes, in lek, euro and US dollars. New issuances totalled ALL 6.3 billion, up by around ALL 3 billion compared to 2023. The diversification of MREL financing sources with instruments other than the regulatory capital was rendered possible in 2023. The stock of "eligible liabilities" in the banking sector balance reached ALL 16.7 billion at the end of 2023, from ALL 10.5 billion recorded in the previous year. Following the continued strengthening of the regulatory capital position through the increase in the tier 1 capital and new issuances of subordinated debt for tier 2 capital purposes, the banking sector recorded a significant improvement in providing the financial means imposed by MREL.

Chart 36 MREL financing sources in ALL billion for the group of banks subject to this requirement (left) and MREL structure, in December 2024 and December 2022 (right)



Source: Bank of Albania.



In reflection of these developments, the structure of MREL in 2024 consisted of around 90.4% regulatory capital instruments and 9.6% eligible liabilities, compared to 92.5% and 7.5% in 2023, and 97.8% and 2.3% in 2022, respectively.

These developments reflect continuous compliance with the regulatory requirements in the banking sector and the stability achieved through diversifying the financing sources of banks' activities. The realisation of these criteria increases financial stability and strengthens banks' balance sheets.

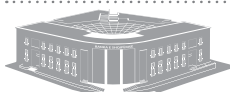
2.5.3 COMPLETING THE REGULATORY AND METHODOLOGICAL FRAMEWORK ON RESOLUTION

The development of the regulatory and methodological framework for resolution represents an important objective in the work of the Bank of Albania.

In 2024, work was done to complete the regulatory and methodological framework for the operationalization of resolution instruments and the development of banks' capacities to implement resolution.

Specifically, work was done in the following areas:

- a. In the beginning of the year an agreement was signed with the Ministry of Finances and the Deposit Insurance Agency "On the use of public financial support for resolution and deposit compensation to maintain financial stability." This agreement outlines the coordination mechanisms among institutions when utilizing public financial support for resolution and deposit compensation to maintain financial stability;
- b. In compliance with the legal and regulatory framework, the Bank of Albania conducted a process to select an independent appraiser and signed a three-year framework agreement for the provision of assessment services during resolution.
- c. In accordance with the provisions laid down in Regulation No. 78/2020 "On the minimum requirements for regulatory capital instruments and eligible liabilities" and following the annual consultation cycle, the Bank of Albania sent to banks the document on "The methodology, policies and the way of fulfilling the minimum requirement for capital instruments regulatory and eligible liabilities", for the cyclical year 2024. In the context of the ongoing dialogue held annually with banks, the methodology used for calculating MREL did not change in 2024;
- d. The methodology for measuring and reporting liquidity during resolution was developed, outlining the requirements for banks subject to the resolution strategy to report liquidity data;
- e. In cooperation with the European Bank for Reconstruction and



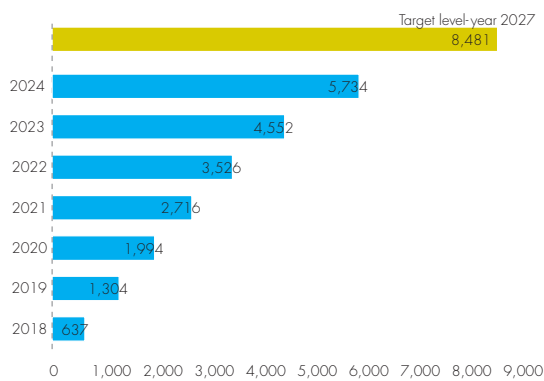
Development (EBRD) and a grant from the Monarchy of Luxembourg, the manual for the operationalization of the business sales instrument and the corresponding contracts for the sale of shares and the transfer of commercial activity, was compiled;

- f. Additionally, in the framework of cooperation with the EBRD, the Bank of Albania was involved in the regional project for the analysis of the regulatory gap of resolution in Albania, focusing primarily on the minimum requirement for regulatory capital instruments and eligible liabilities.

In 2015, the Bank of Albania has provided for the drafting of a series of methodological manuals and documents which will help banks to fulfil their annual priorities and improve the implementation of resolution strategy and resolution instruments laid down in Resolution Plans.

2.5.4 OPERATIONALIZATION OF THE RESOLUTION FUND

Chart 37 The Resolution Fund* build up throughout the years and the targeted level for 2027 (ALL million)



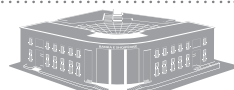
*The preliminary data on the Resolution Fund value by the end of 2024.
Source: Bank of Albania.

In accordance with legal and regulatory requirements, banks pay annual contributions to the Resolution Fund, in order to meet the target level of the Fund.

The target level of the Fund for 2027 stands at 0.5% of the banking sector’s total liabilities.

Based on the latest assessments for 2024, which is also the seventh year during which the banking sector has made contributions to the Resolution Fund, the target level of the Fund is ALL 8.5 billion. After adding the banks’ annual contribution to the Fund of ALL 982 million, in April 2024, the Resolution Fund reached ALL 5.7 billion by the end of the year. Therefore reaching 67.6% of the target level aimed for 2027.

The Bank of Albania regularly monitors the performance of the financial assets of the Resolution Fund, based on the periodic reports of the Deposit Insurance Agency, which acts as the Fund’s Administrator pursuant to the investment policy approved by the Bank of Albania.



2.6 CURRENCY ISSUE

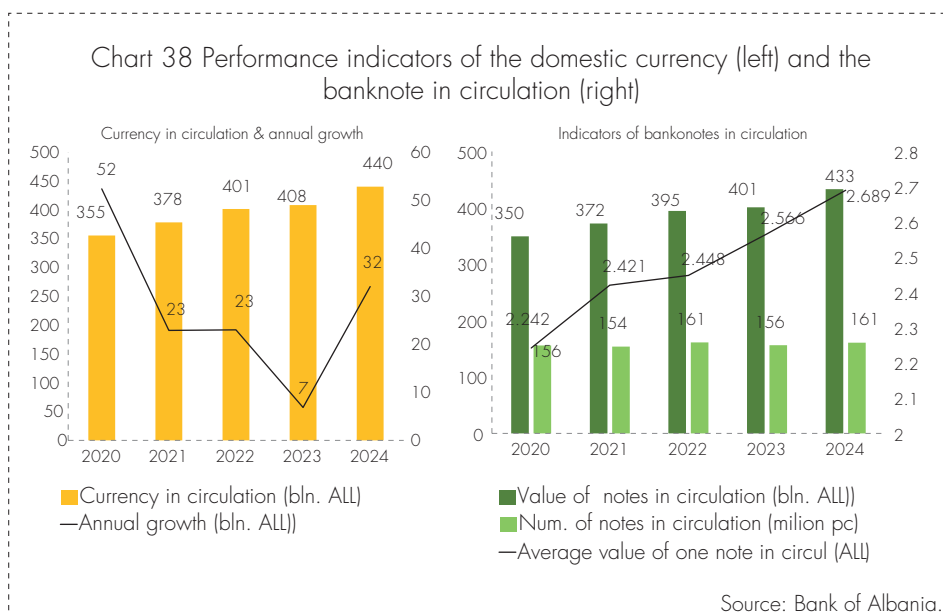
The Bank of Albania has the exclusive right to issue and put into circulation the national currency – the Albanian lek. The Bank of Albania determines the form, measure, weight, model, and other features of Albanian banknotes and coins of legal tender in Albania.

One of the main responsibilities of the Bank of Albania is to meet the needs of the economy for cash, ensuring the continued public trust in our national currency, the lek. This is made possible through the issuance of modern and quality banknotes and coins that communicate security and stability to the users.

This goal was also achieved by the preparation and putting in circulation of the new series of 200 Lekë and 500 Lekë denomination banknotes, which marked the 5th year since their first issuance in 2024.

BANKNOTES AND COINS IN CIRCULATION²³ AND THEIR VALUE

The domestic currency in circulation at the end of 2024 reached ALL 440 billion, up by ALL 32 billion compared to the end of 2023 (+8%). At this amount, there were about 161 million notes in circulation worth about ALL 433 billion. Compared with 2023, the number of banknotes in circulation increased by around 4 million banknotes (+2.5%). The increase in the number and value of banknotes in circulation reflects their structural shift in favour of large denomination, mainly 10,000 Lekë and 5,000 Lekë. Consequently, the



²³ It is the number and value of banknotes put in circulation by the Bank of Albania.

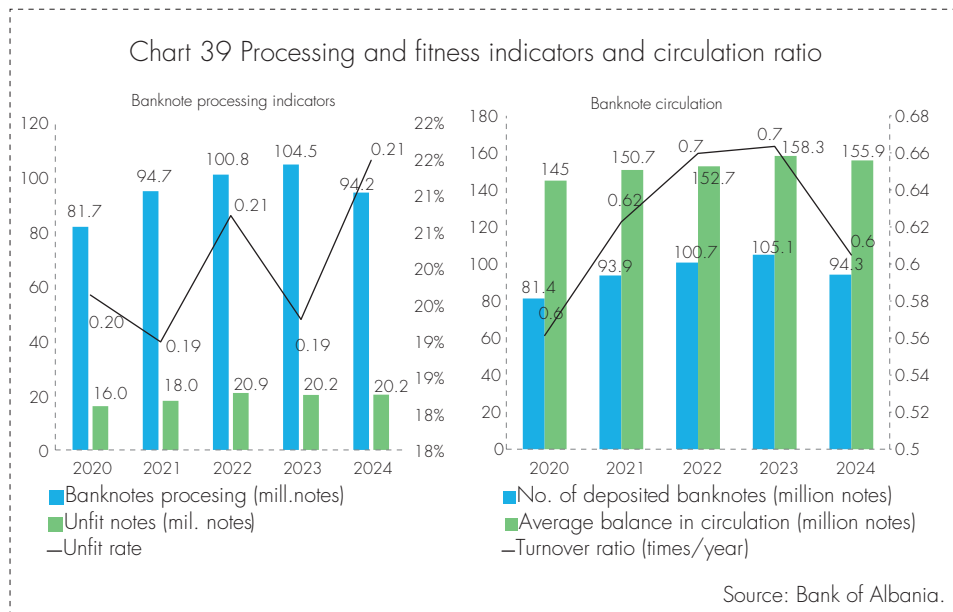


average value of one banknote in circulation at the end of 2024 reached ALL 2,689 compared to ALL 2.566 at the end of 2023.

In regard to coins, their number in circulation reached 291 million pieces compared to 273 million at the end of 2023, up by around 18 million pieces or +6.2%. The average value of a coin in circulation at the end of 2024 reached ALL 25 per coin.

CASH RECYCLING, BANKNOTE QUALITY AND ITS CIRCULATION

During 2024, after being checked for authenticity and fitness for recirculation, about 94.2 million banknotes were processed compared to 104.5 million in 2023. The sorting rate²⁴ was 21.5%, compared to 19.3% in 2023. Over the year, unfit banknotes were replaced case-by-case with new banknotes fit for circulation.



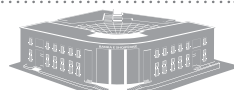
The²⁵ banknote circulation coefficient for 2024 was 0.6, implying that a banknote is returned at the cash desks of the Bank of Albania on average less than once a year. This coefficient is higher for 500 Lekë and 1,000 Lekë denominations (around 1 time) and lower for 5,000 Lekë and 10,000 Lekë denominations (around 10.000 and 0,728, respectively).

PROTECTING BANKNOTES AND COINS AGAINST COUNTERFEITING

There were 156 counterfeit national banknotes sequestered in 2024, compared to 195 in 2023. As well, 50 counterfeit national coins were removed from circulation. The coefficient of counterfeit banknotes per 1 million banknotes in circulation continues to decrease significantly, dropping to 1 for 2024

²⁴ Ratio of unfit banknotes to the total number of banknotes sorted during one year.

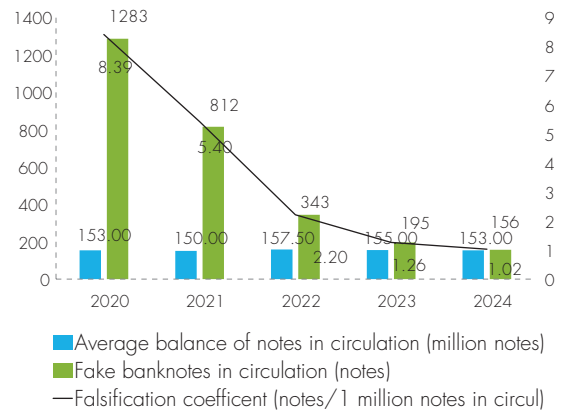
²⁵ Ratio of the number of banknotes received at the Bank of Albania cash desks to the average annual number of banknotes in circulation.



compared to 1.3 in 2023. This indicator reached the lowest historical value in 2024, demonstrating the high quality of our banknotes, particularly the ones belonging to the new series.

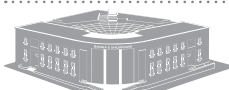
By structure, the 1,000 Lekë and the 2,000 Lekë denominations have the main share in the total counterfeited banknotes, followed by the 5,000 Lekë denomination. Amongst counterfeit coins, the 50 Lekë denomination continues to be the most counterfeited, although at a very low and quite insignificant amount. The largest share of counterfeited banknotes belongs to the old denominations with 133 banknotes, accounting for 85% of the total, compared to the new series of banknotes, which have a high quality and include strong security features.

Chart 40 Performance of counterfeited banknotes in circulation



Source: Bank of Albania.

As regards the technical and/or technological aspect of counterfeiting domestic banknotes, they are reproductions using commercial digital equipment, mainly ink-jet, as well as technological artisanal methods to imitate security elements. Whereas, security feature imitations in counterfeit banknotes, readable by authenticating/sorting equipment has not been encountered in any case.



2.7 PAYMENT SYSTEMS

Operation, oversight and reform of payment systems are some of the main functions of the Bank of Albania. Their implementation guarantees the security, sustainability and efficiency of the basic infrastructure of payments. This is a crucial precondition for transmitting the monetary policy, safeguarding financial stability and overall economic growth. In addition to ensuring the stable operation of payment systems, the Bank of Albania has paid particular attention to the supervisory and catalytic role in the implementation of the National Retail Payments Strategy.

The year 2024 marked a historic moment for the Bank of Albania and Albanian citizens. On November 21, the European Payments Council (EPC) approved the inclusion of Albania in the geographical scope of the Single Euro Payments Area (SEPA) payment schemes.

This achievement also fulfils one of the objectives of the 2024-2027 New Growth Plan approved by the European Commission for Albania and the regional countries of the Balkans. For those countries aspiring to join the EU, being approved into SEPA is an instrument toward European integration and it precedes official EU membership. EU integration brings a number of benefits to our economies as regards market expansion, a higher level of formalisation, and reduction of the costs of cross-border transactions²⁶.

2.7.1 PERFORMANCE OF PAYMENT SYSTEMS

The Bank of Albania plays a key role in promoting the normal functioning of payment systems through the operation and administration of three main infrastructures for processing interbank payments and one infrastructure for the settlement of securities. The AIPS system is considered the sole infrastructure for the settlement in real time of large-value payments in lek. This infrastructure enables the settlement of various segments within the internal financial market as well. The AECH system enables the clearing of interbank transactions with a value of less than ALL 1.5 million for bank clients (households and enterprises). The AIPS EURO system, enables real-time gross settlement of payments in euro within the territory of Albania.

Additionally, the Bank of Albania operates the central system of settlement and registration of transactions with government securities, i.e., AFISaR. All systems have been fully engaged, are operating smoothly and are compliant with the rules and operating schedules laid down in the relevant regulations.

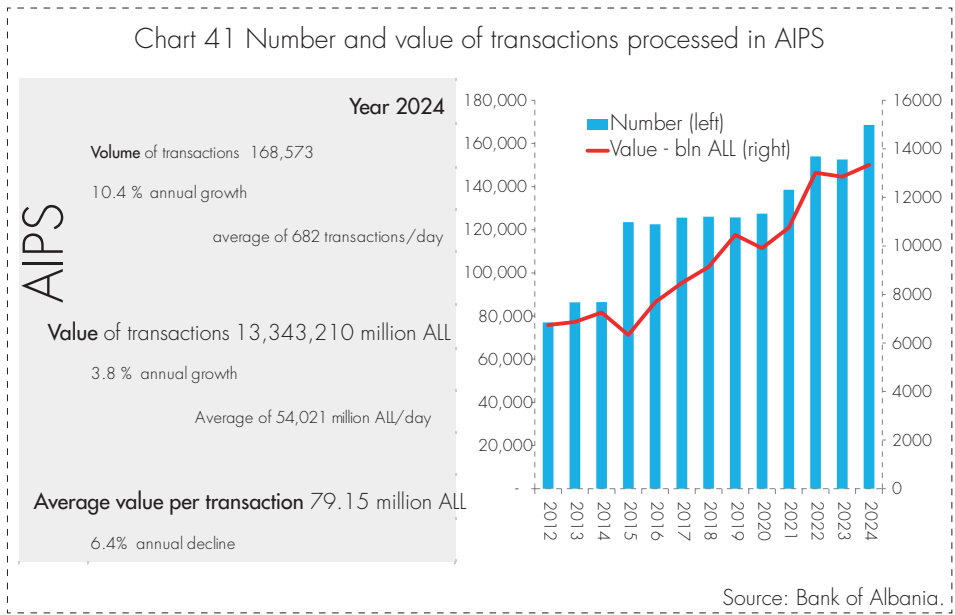
²⁶ For a more comprehensive treatment of the benefits derived from receiving SEPA membership refer to Box "The participation of Albania in SEPA" from the 2023 Annual Report of the Bank of Albania. Whereas, for more information on the accession process to the EU and the role of BoA concerning it, please refer to the following Box 6.



AIPS - ALBANIAN INTERBANK PAYMENT SYSTEM FOR LARGE-VALUE PAYMENTS

The large-value payment system is crucial in maintaining the stability of the financial system as it ensures the normal circulation of liquidity in markets and the economy. Every bank operating in Albania, the Bank of Albania and the Ministry of Finance (as an indirect participant) are participants in the AIPS system. The total volume of liquidity circulated in the system was ALL 13,343 billion over 2024. In relation to GDP, this amount is around 5.3 times higher.²⁷

The system has demonstrated high efficiency, with funds circulating smoothly, enabling real-time transaction settlements. The intraday loan facility (ILF) is an instrument denoting the system’s liquidity. The intraday loan facility (ILF) is an AIPS system instrument offered by the Bank of Albania to participating banks to ensure the normal continuation of interbank payments operation. This instrument value to the total value of payments settled in the AIPS system remains low, indicating that the system’s exposure to liquidity risk of participants is low.



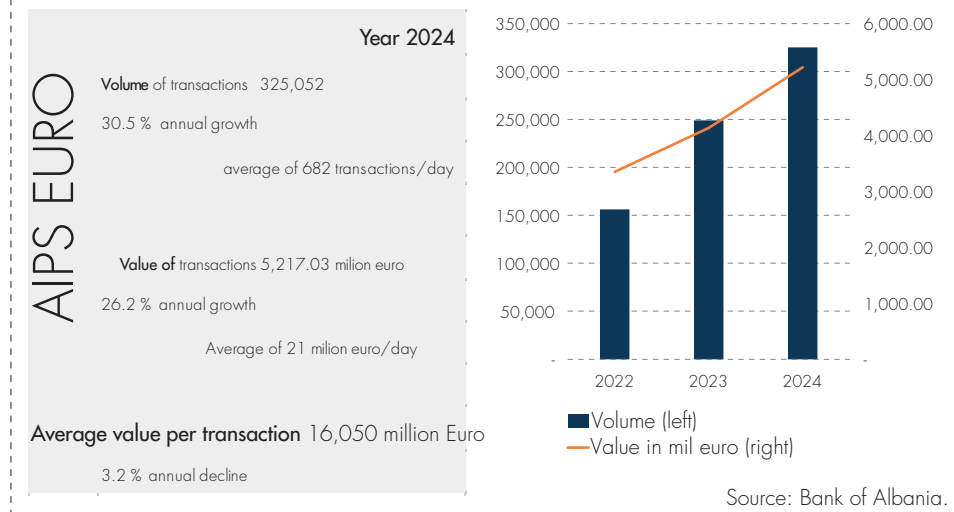
ALBANIAN INTERBANK PAYMENT SYSTEM FOR DOMESTIC CUSTOMER PAYMENT ORDERS IN EURO CURRENCY, WITHIN ALBANIA (AIPS EURO)

The AIPS EURO system was established on 24 January 2022. The main purpose behind AIPS Euro was to enable Albanian citizens to make payments in Euro domestically, at a lower cost and within a shorter time-period. This process was previously carried out through correspondent banks. The activity of this system has increased progressively. Data show that it is being increasingly used for small-value payments, indicating a higher familiarity of households with the system.

²⁷ The GDP for 2024 is calculated by the Bank of Albania.



Chart 42 Number and value of transactions processed in AIPS EURO

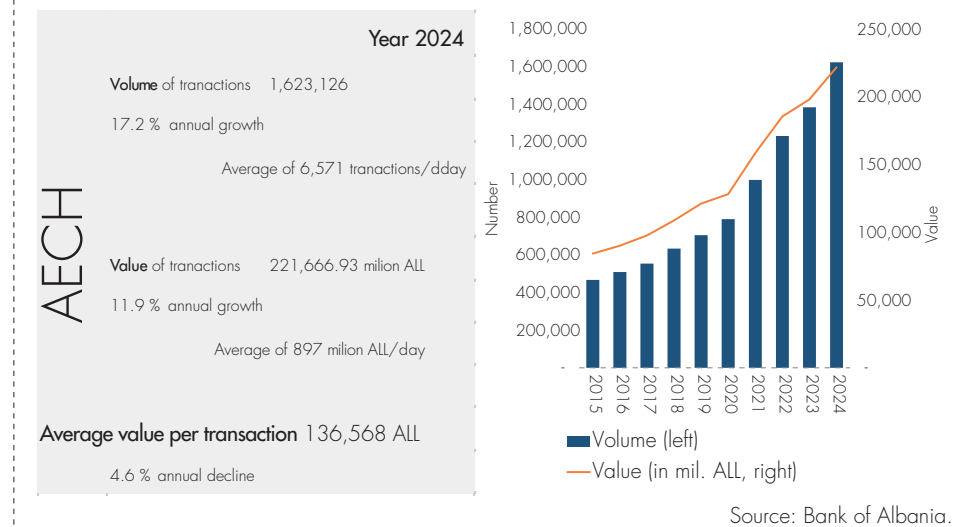


Expanding its use helps bolster financial inclusion and promotes electronic payments in the country. Furthermore, by using this system, payments in euro carried out domestically are completely regulated by the legal and prudential regulatory framework on customer protection, thus avoiding relations with correspondent banks.

ALBANIAN ELECTRONIC CLEARING HOUSE FOR RETAIL PAYMENTS (AECH)

The AECH system enables the clearing of interbank transactions of a small value, while clearing results are settled in AIPS system. The use of this system reflects for the most part the use of bank transfers by households and enterprises, mainly medium-sized and small ones.

Chart 43 Number and value of transactions cleared in AECH



Activity in the system has continuously increased over the years in both nominal terms and in relation to the population. Meanwhile, a decrease in the average value per transaction indicates an increase in the use of electronic payments for low-valued transactions, needed for daily life chores. This performance has been encouraged by the removal of fees on transactions up to ALL 20,000. The share of these transactions account for 37% of total AECH transactions, from 27% in 2020. Additionally, there has been a differentiation of commissions applied by banks, favouring retail payments carried out electronically²⁸.

SECURITIES SETTLEMENT SYSTEM (AFISAR)

The AFISaR system, which has been running since 2015, is the central system for the settlement and registration of government securities transactions. This system is operated by the BoA in the capacity of the fiscal agent. Through the AFISaR system, the Bank of Albania offers the issuer (i.e., the Ministry of Finance and Economy) and the market, the organization of auctions for the issuance of Albanian State securities in the domestic market, in both lek and euro, as well as the settlement and registration of transactions with these securities in the secondary market. In this system, the collateral is the securities of the Albanian State or the reverse repurchase agreements, where these securities are the subject. In addition to the above, the system also provides tax collection services for securities income and interest payment events. It also informs account holders in this system about the balance and movements in these accounts.

At the end of 2024, the AFISaR system registered fourteen financial institutions as direct participants, including one issuer (Ministry of Finance and Economy) and one central bank (BoA), six indirect participating financial institutions with accounts through the Bank of Albania, and connection with one Private Stock Exchange. By the end of 2024, there were 19,840 individual accounts in the AFISaR system opened through the Bank of Albania.

At the end of 2024, the total nominal value of Albanian securities issued in the domestic currency in the AFISaR system, was ALL 788.51 billion, up by 7.68% compared to the end of 2023. By the end of 2024, there were no securities issued in the euro currency in the AFISaR System recorded.

²⁸ The regulatory amendment for the use of the system (2020), provides for the elimination of commissions for retail payments initiated electronically (home-banking) up to the amount of ALL 20,000 as well as the differentiation of fees for the other part of payments initiated electronically up to 50% of those initiated in paper form.

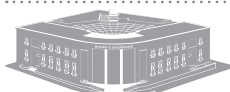
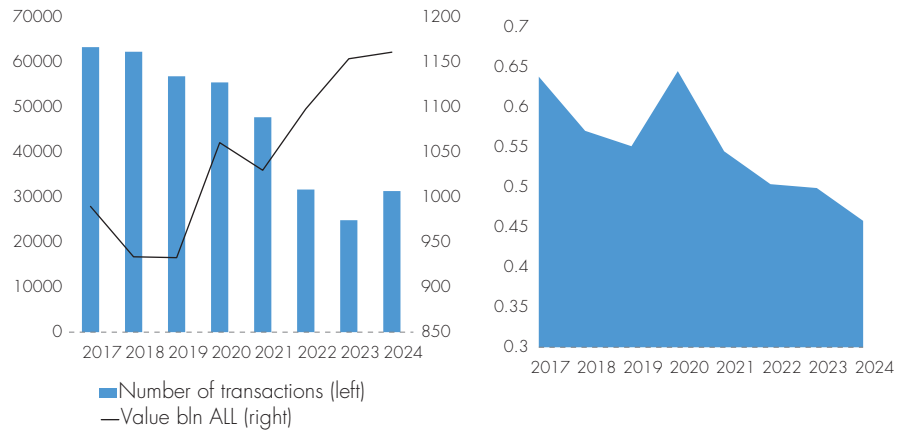


Chart 44 Performance of transactions processed through the AFISaR system (left) and in percentage to GDP (right)



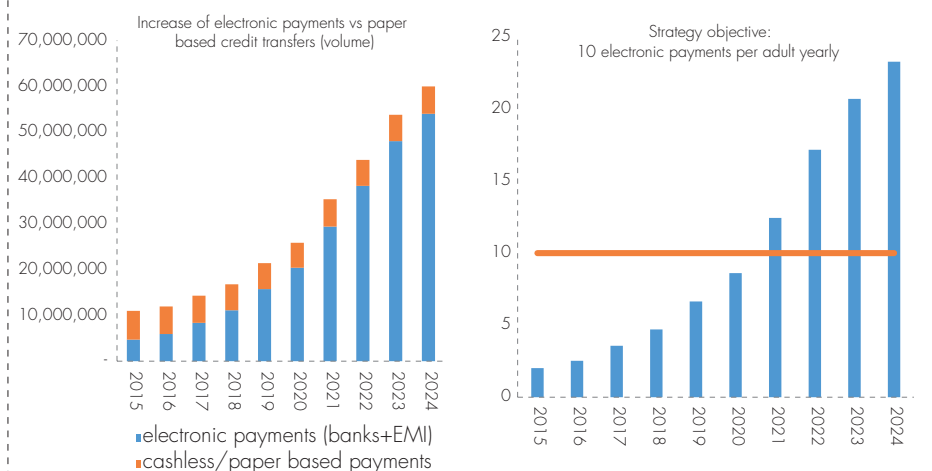
Source: Bank of Albania.

2.7.2 PAYMENT INSTRUMENTS

In 2024, electronic payments have trended upwards. The number of electronic payments carried out through banks amounted to ALL 42.3 million, reaching a total value of ALL 2,802 billion. Their number was up by 24.4% compared to the previous year, whereas their value increased by 17.8%.

The positive developments of electronic payments have elevated the indicator which measures their use, as it reached twenty-three e-payments payments per capita. The “payments per capita” indicator which was set to reach 10 payments per capita in 2023 by the framework of the National Strategy of Retail Payments, was reached since 2021. This indicator reflects the progress made in improving access to electronic payments and the adoption of modern payment instruments. The progress in this area reflects the growing trend of

Chart 45 The number of electronic and cash payment instruments over the years (left); number of payments per capita (+15 years old) over the years (right)



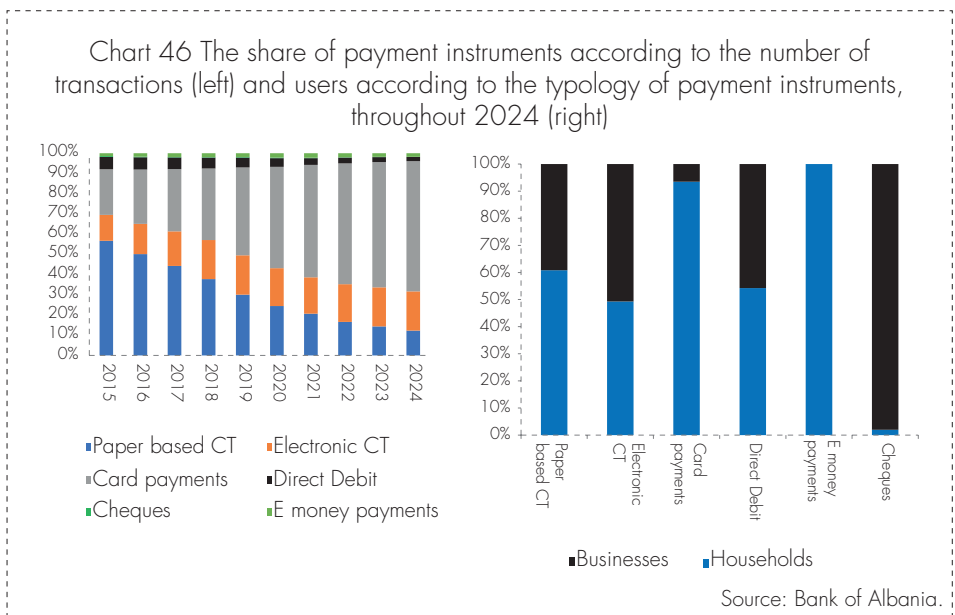
Source: Bank of Albania.



digitalization in financial services and the facilitation of e-transactions for both households and businesses.

PAYMENTS PROVIDED BY THE BANKING SYSTEM

Banking institutions are the main providers of payment services. In recent years, they have been active in promoting digital payment instruments following clients’ preferences for a fast, safe and easier approach to financial services. Thus, “home banking” applications are offered by all banks and are being widely adopted by the Albanian users. In addition to their basic features, such as providing information on the account balance, they are being used for online payments as well. The share of the number of remote credit transfers has gone up by 61% of total transfers.

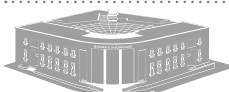


In 2024, the number of payments and the value of “home banking” transactions increased by 22.1% and 19%, respectively. The upward progress of online transfers was also driven by a series of factors such as the measures taken by the Bank of Albania to reduce commissions for this type of transaction²⁹, developments in infrastructure, expansion of internet access, as well as the familiarization of bank customers with the use of this instrument.

The number of accounts accessible remotely increased by 23.2% in 2024, accounting for 39.1% of the total of all customers’ accounts in banks. Given the ongoing innovations and the automation of services, the use of Home Banking is expected to continue rising, offering an ever more efficient and personalised experience to its clients.

Electronic money payments have gone up by 18.6% number-of-transaction wise, and by 11.8% value wise, compared to last year, reflecting the increasing

²⁹ Referring to the differing commissions between on-line payments and those in-person in bank branches.



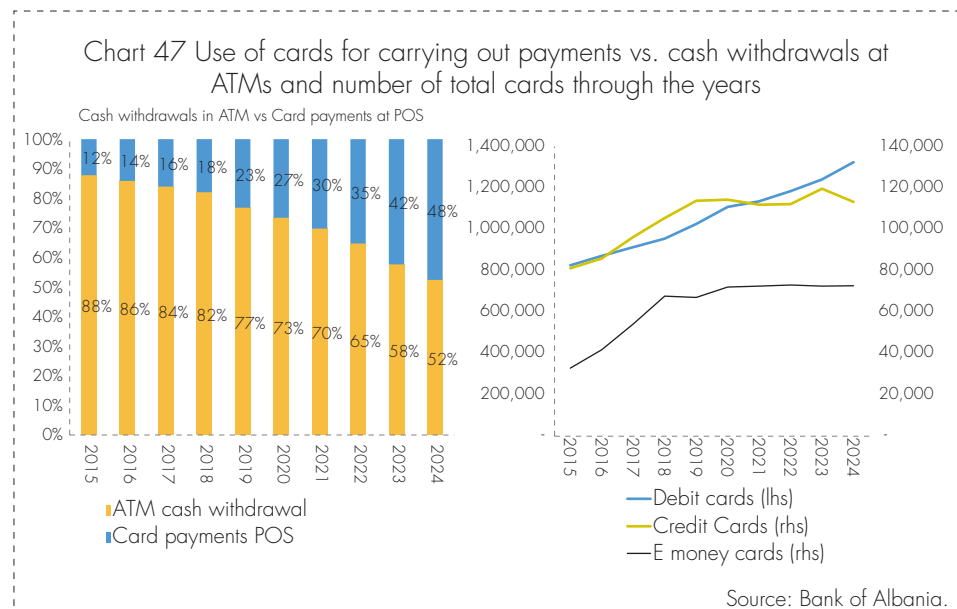
trend in the digitalisation of payments. These payments, which are carried out electronically or as pre-payments, are primarily used by households.

BANKS CARDS AND THE INFRASTRUCTURE FOR THEIR USE (ATM & POS)

Almost 64% of the total number of payments through banks were carried out with debit and credit cards. Compared to the same period last year, the number of card payments has increased by 26.3%. Households recorded the highest use of cards (93.5% of card payments).

All eleven banks that operate in the Republic of Albania are licensed as card issuers, of which nine of them are licensed also as card accepters. At the end of 2024, there were 1,510,606 active cards in circulation, a number which has gone up by 5.4% from last year. Almost all the cards available feature a payment as well as a cash option. The use of debit cards dominates at 87.7%, with an ALL 6,746 average value per transaction. The rest of card payments are carried out through credit cards, which usually record a higher average value per transaction.

The use of cards for purchases at POS terminals has continuously increased, as a result of a combination of factors, one of them being the spread of more POS terminals over the course of the years, the increase in the number of cards issued, and lately a heightened financial awareness among people ³⁰ regarding the use of these cards at terminals.



³⁰ In January 2024, the Bank of Albania approved the "Strategy of the Bank of Albania for Financial Education and Inclusion 2024-2025," which promotes financial inclusion as a public good, further reinforcing financial inclusion, consumer protection, an increase in the financial wellbeing of households and overall sustainability of the financial system.

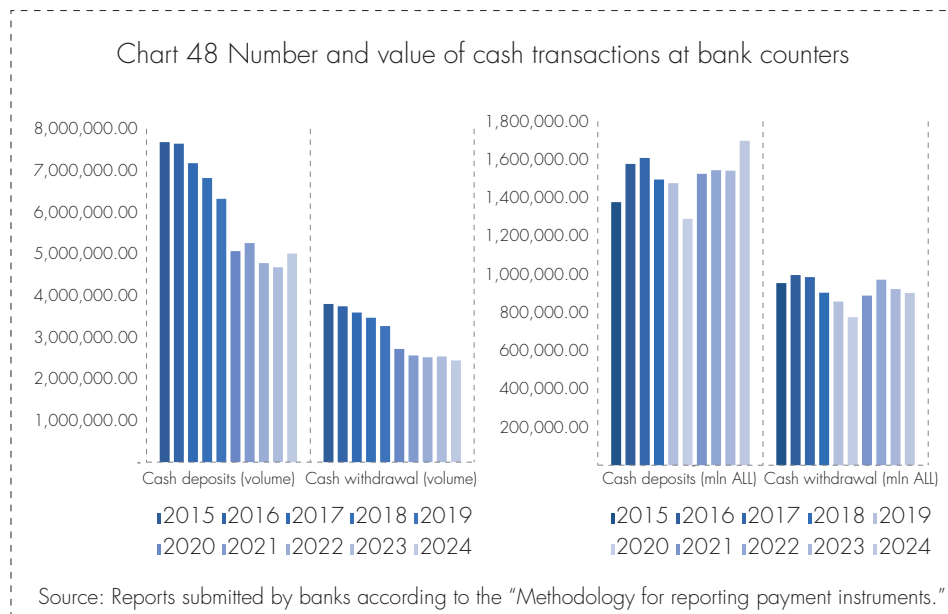


The POS infrastructure offered by commercial banks has been considerably on the rise, which shows that businesses are becoming more familiar with the provision of POS services. They have a positive reaction when clients request to pay with cards. Their number was up by 27.61% compared to 2023. Over the year, the number of virtual POS systems has increased, indicating that e-commerce has become more prominent in Albania.

The number of ATMs rose by 9.3% over the year. This was due to the higher level of tourism, offering foreigners remote services. Although ATMs are primarily used for cash withdrawals, in 2024, there was a rising number of ATMs offering other services, as well. Twenty-six ATM terminals are now offering cash deposits, and 144 offer transfer orders. These functions allows bank clients to use alternative means to manage savings and make payments.

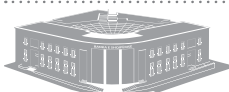
CASH TRANSACTIONS

Cash deposits at bank counters have increased in both number (by 7.1%) and value (by 10.1%) in 2024. On the contrary, transactions of cash withdrawals continue to follow a downward trend over the years. The use of physical cash in the Albanian economy remains a predominant phenomenon, causing high costs to the economy.



2.7.3 ELECTRONIC MONEY INSTITUTIONS

Electronic money products are offered by non-bank financial institutions licensed as electronic money institutions. There are ten electronic money institutions operating in the Albanian market, offering a variety of solutions for different consumer groups. The use of electronic money provides convenience mainly to that group of the Albanian population that does not own a bank account. The advantages for this group consist in higher flexibility when conducting



payments, considering the spread of these institutions across the country through agents, as well as lower costs on small-value payments, such as fines, monthly utility bills, etc.

Over the first nine months of 2024³¹, these institutions have processed close to 11.7 million electronic money payments in total, up by 12.5% compared to last year.

2.7.4 PAYMENT SYSTEM OVERSIGHT AND THE REFORMATORY ROLE

Beyond the operation of the payment systems, the Bank of Albania oversees their supervision and the use of payment instruments. As a result, it continues to improve and strengthen the regulatory framework and payment infrastructure in compliance with the European standards.

The payment services activity is laid down on the Law “On payment services” and its regulatory framework, which has transposed the Payment Services Directive (PSD2) of the EU. This law has opened the payment market for a variety of services and institutions, in favour of increasing competition, reducing costs and increasing transparency for the consumer.

At the end of 2023, the Law “On the payment account with basic features” was approved, with its effects entering into force in April 2024. This Law lays down the terms and conditions for opening and using a payment account with basic services for consumers and households, including in particular those who are not covered by banking services, regardless of income level, employment status or history of repayment capability within the Republic of Albania. The Law is also expected to positively affect the use of payment services and increase the number of citizens that own and use a payment account. Up until the end of 2024, there were 1007 new accounts opened at banks by pensioners, recipients of government assistance/invalidity claims, and students.

INFRASTRUCTURE DEVELOPMENT

For the purpose of developing the infrastructure, the Bank of Albania has worked meticulously throughout 2024 on:

- The project to upgrade the AIPS, AIPS euro and AECH systems, which aims to implement international standards for message processing (SEPA/ISO 20022). These standards render transactions more secure as well as ensure uniformity in the exchange of data at a global level. This project is expected to be completed by 2025.
- The project for the development of the instant payments infrastructure. “Instant payments” are small-value settlement of electronic payments available 24/7/365, meaning that interbank transactions are settled immediately or almost immediately. By ensuring that the movement

³¹ Data on electronic money is available until September 2024. Annual data will be generated after March 2025.

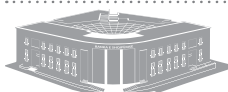


of funds is carried out in real-time, instant payments increase the availability and safety of funds for the users and support the efficiency of the financial system. Instant payments are also valuable because they help to extend the use of electronic payments and financial inclusion among people.

The project for the development of infrastructure for instant payments has become ever more important over the past year to the benefit of economic interactions between the countries of the Western Balkans and the integration of Albania into the EU markets. The Bank of Italy (BdI) has been engaged in the process of developing an instant payment system identical to TIPS of the ECB for Albania, and the other regional countries of the Balkans (referred to as TIPS Clone). This will enable the development of instant payments at a national and cross-border level between the countries of the region. In January 2025, the Bank of Albania together with the other regional central banks signed the Letter of Interest during an official ceremony held at the Bank of Italy.

NATIONAL PAYMENT SYSTEM COMMITTEE

In order to increase the efficiency and reliability of the payment markets and their respective infrastructure, the Bank of Albania plays the role of a catalyst in the field of payments. The Bank of Albania uses its expertise in the field of payment systems and shares it with the market players through regular consultations and coordinated meetings with representatives of the private and public sectors. Within this role, it leads the National Payment Systems Committee. The annual meeting of the National Payments System Committee was organised on 5th December 2024, which corresponded with the 10th anniversary of the Committee's establishment. Priority projects in the field of payments were discussed during this meeting such as open banking, SEPA membership of payment service providers, and the development of the instant payment system in Albania. The experience of other countries and services related to instant payment transactions were presented during this meeting. There was particular emphasis put on the topic of financial education, where the Bank of Albania has played a key role in organising educational activities on the use electronic payment instruments and promoting more affordable and efficient cross-border payments through SEPA schemes.



BOX 6: THE PROCESS OF SEPA MEMBERSHIP AND THE ROLE OF THE BANK OF ALBANIA

SEPA – the Single Euro Payments Area – aims to harmonise the method used to carry out payments in Euro in electronic form (cashless) between member countries³². It is the next step toward realisation of economic and financial market integration within the European Union, and is supported by the European payment industry, governments of EU countries, the European Commission, the Eurosystem and other public authorities. Taking into consideration the principle of one single market, the standardisation of euro payments aims to increase their efficiency through low costs and speedy transactions.

On 12 June, the Bank of Albania, on behalf of the Albanian financial community, submitted an official request to join the SEPA geographical area, marking an important step towards integrating the Albanian financial system into the European market. Albania became the first country in the Balkan region that applied to receive SEPA membership. The Bank of Albania led the application process, however this process came as a result of close and synergistic collaboration with other government authorities.

The work dedicated to the application for SEPA membership has been ongoing for years. The Bank of Albania has undertaken a series of measures to approximate national legislation with the *acquis communautaire* of the EU in the field of payment services, in order to fulfil the regulatory criteria needed for membership. These criteria aim to evaluate approximation with the European standards related to the supervision of payment services, financial system supervision, supervision of the activities for preventing money laundering and preventing financial terrorism, ensuring the principles of competitiveness, protection of personal data, free movement of capital and lastly, the coordination of European foreign politics with national politics.

The Bank of Albania has worked closely with the World Bank to realise legal changes in due time, and has received good feedback on its readiness to become a SEPA member. The transposition of the European Payment Services Directives 2 and exiting the “grey list” were crucial to the fulfilment of these criteria. However, there is still work being done in order to address unfulfilled criteria. On 3 April 2024, the Regulation “On determining the requirements for credit transfers and direct debit in euro” was approved. The approval of this regulation fulfilled one of the legal obligations required by SEPA membership.

Another point which indicated a meeting of the requirements was the strengthening of some legal aspects related to the prevention of money laundering and financing of terrorism. The Regulation “On information accompanying fund transfers,” which was drafted in cooperation with the Financial Intelligence Agency, addressed some of the main shortcomings as regards compliance with SEPA membership criteria.

The decision to accept countries into SEPA system is made by the European Payments Council, an institution based in Brussels, which is responsible for the standardisation and improvement of the payments system in Europe. In its meeting, on 21 November 2024, the EPC decided to accept Albania into the

³² The SEPA geographical area comprises 36 countries, where, in addition to the European Union countries, the other member countries include the United Kingdom, Iceland, Norway, Liechtenstein, Switzerland, Monaco, San Marino, Andorra, the Holy See, and from November onward, Albania and Montenegro, as well.



geographical area of SEPA. During the same meeting, the EPC approved the membership of Montenegro as well, which had applied a little after Albania.

Following the approval of Albania in the geographical area of SEPA, each institution providing payment services in Albania must apply individually to become member of schemes managed by the EPC. This also implies that some technical conditions must be developed by our institutions so that they can adopt their infrastructure to the operationalization of SEPA payment schemes.

Albanian institutions may start their application to get memberships in these schemes starting from April 2025. The Bank of Albania is collaborating with the World Bank and the EPC to guide these institutions in the application process and adherence to the schemes.



2.8 MANAGEMENT OF THE INTERNATIONAL RESERVE

The Bank of Albania is the national responsible authority 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.

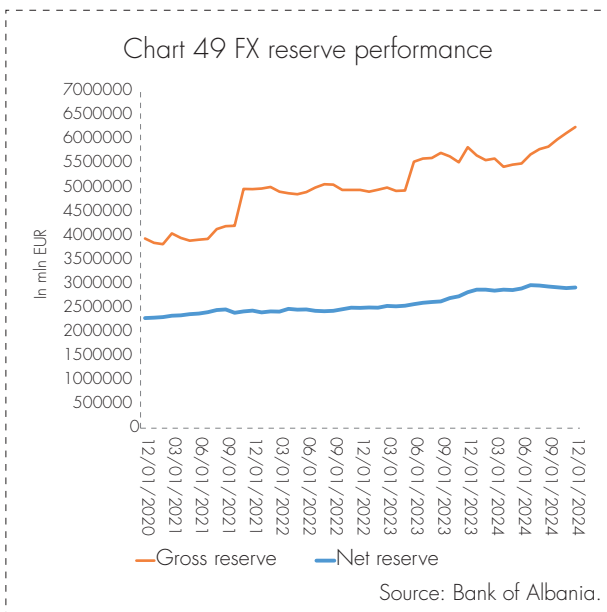
In 2024, the gross international reserve grew to EUR 6,268.01 million, from EUR 5,846.06 million at the end of last year. The growth recorded indicates a significant improvement of the country’s solvency.

The Regulation “On the policy and management of the international reserve”, approved by the Supervisory Council, clearly defines the primary objectives of the international reserve management process which are liquidity and security. The third objective aims to generate returns from reserve funds management, as long as it does not infringe upon the primary objective of 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 names of entities where the international reserve is allowed to be invested, while it tracks the implementation of the investments policy through periodical reports. The names in which the international reserve

is allowed to be invested include the governments of the USA, Japan, UK, Canada, Australia and those in the Euro area, with an overall rate of at least A- (for the euro area governments the accepted minimum rate is BBB³³). The entities allowed for investment also include agencies or institutions related to governments, multilateral institutions or other entities rated at least AA- (for banks/other financial institutions, the accepted minimum rate is A-).

At the end of December 2024, the stock of the gross international reserve is EUR 6,268.01 million, including monetary gold which amounted to around 108.59 thousand ounces, or 3.38 tons.



COMPOSITION OF FOREIGN EXCHANGE RESERVE PORTFOLIO BY CURRENCY

At the end of 2024, the composition of the gross international reserve by currency was: USD 19.5%, EUR 63.8%, GBP 2.5%, JPY 2.2%, RMB 2.8%, AUD 0.8%, SDR 4.2% and monetary gold 4.4%. With the aim of using the

³³ Names / instruments listed up to BBB- are included in the category "For investment" (investment grade).



composition of the SDR basket as a reference for a portion of the reserve, the share of RMB is distributed among two currencies, RMB and AUD, according to a ratio approved by the Investment Committee.

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

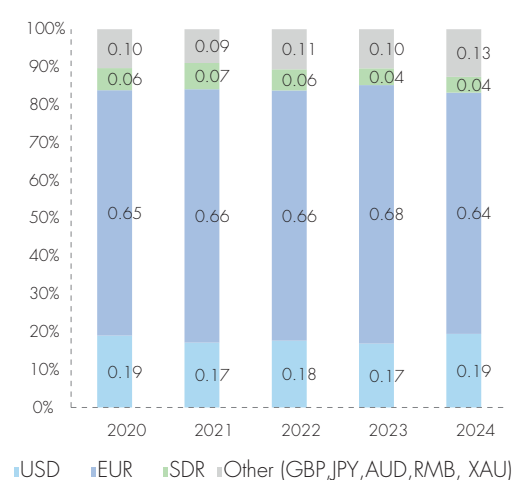
THE COMPOSITION OF INTERNATIONAL RESERVE PORTFOLIO BY MATURITY TERM

The international reserve managed by the Bank of Albania is invested in liquid assets, mainly with a maturity of 1-3 years. The share invested in debt instruments with maturity over 5 years has slightly increased over the current year, accounting for around 4.4% of the reserve portfolio invested in securities by the year-end. The duration of investment for part of the reserve went up as it reflected the expectations for a decline in interest rates. The increase of exposure to investments of up to three years maturity represents the growth in deposits held mainly with the central banks. As the reserve stock has grown, the part of the portfolio invested in debt instruments has also gone up compared to the previous year. The portfolio managed by the external administrator (i.e., the World Bank) continues to be invested against a 1-3 year reference portfolio, mainly in debt instruments issued by governments and government agencies.

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

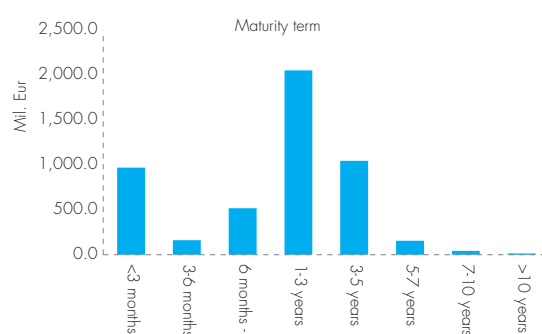
By the end of 2024, around 90% of the international reserve portfolio was invested in names with high quality rating (class AAA and AA, including exposures to current accounts and SDR)³⁴. Exposures by type of issuer/counterparty are represented by governments/central banks (72%), followed by multilateral institutions (10.6%), banks/other financial institutions (8.4%), agencies (6.7%), institutions guaranteed by governments (1.6%) and government authorities/public bodies (0.7%).

Chart 50 Composition by currency of the gross international reserve



Source: Bank of Albania.

Chart 51 Distribution of reserve by maturity of instruments *, **



*The Chart also presents deposits with central banks which have not been settled by the year-end. The Chart does not reflect funds held in current accounts or that part of the reserve which is in monetary gold and SDR. The current accounts balance at the end of the year stands at EUR 0.92 billion.

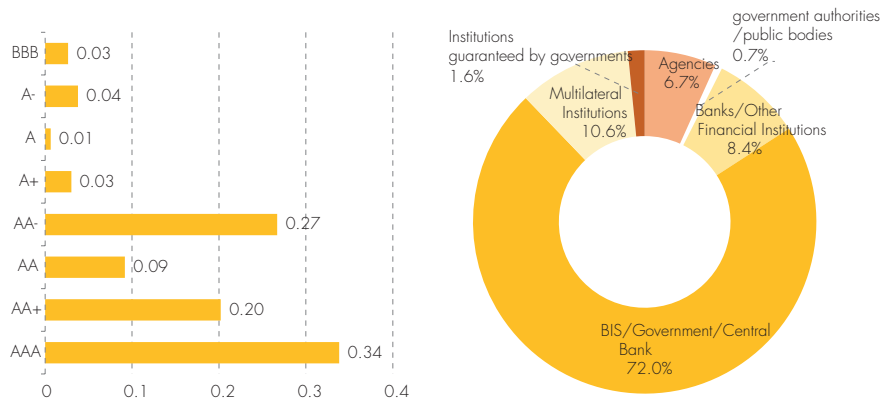
**The Chart does not reflect the funds kept in current accounts. The balance of current accounts at the end of the year is about EUR 700 million.

Source: Bank of Albania.

³⁴ This distribution excludes monetary gold, since it is held at the Bank of England.

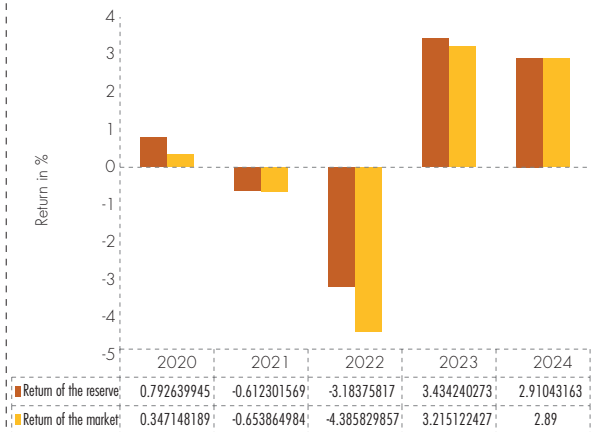


Chart 52 Composition of the reserve portfolio by evaluation (left) and counterparty (right)



Source: Bank of Albania.

Chart 53 Return of International Reserve



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

Source: Bank of Albania.

RETURN ON THE INVESTMENT OF RESERVE PORTFOLIO

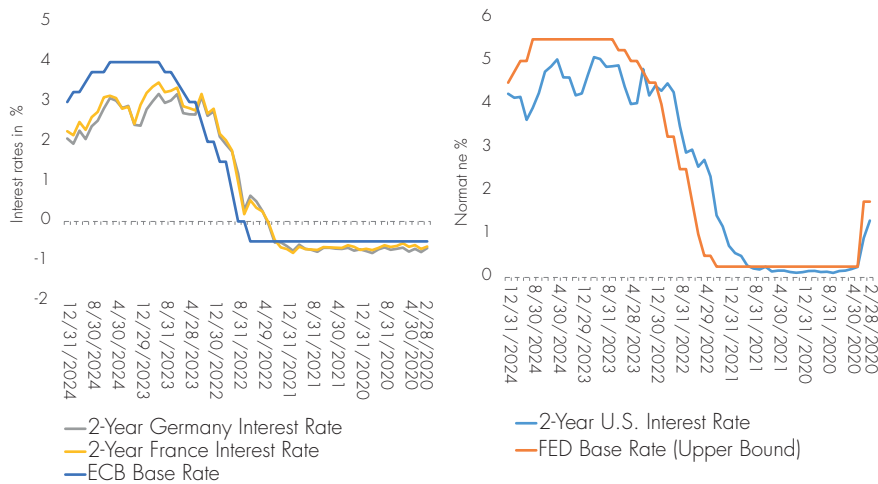
The absolute return of the total reserve for 2024, including the fund managed by the World Bank, was positive at 2.91%. The return generated by the active management of the reserve portfolio was positive. For comparison purposes, the chart reflects the performance of the reserve portfolio return against market returns.³⁵

The positive return of the reserve portfolio stemmed from the high interest rates recorded in international markets over 2024. Although the main central banks gradually dropped policy rates after the first six months, their overall level remains higher compared to the two previous years.

³⁵ The market return reflects the aggregate performance of the markets in developed countries according to the share that the main currencies EUR, USD, GBP, JPY and AUD have in the international reserve portfolio.



Chart 54 Two-year interest rates for government issuances with significant weight in the reserve portfolio



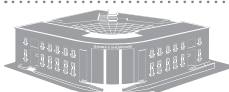
Source: Bloomberg.

OTHER DEVELOPMENTS RELATED TO THE INTERNATIONAL RESERVE

Cooperation with the World Bank in the framework of the Reserves Advisory Management Program (RAMP) continued in 2024 as well. The World Bank has continued to provide training and specialized education programs. These qualifications were aimed at consolidating and increasing the level of professionalism of the employees engaged in the process of managing the foreign exchange reserve, the staff that supports or monitors the progress of this process, as well as the bank’s staff in general.

In addition, the deadlines for certain agreements have been renewed and postponed in favour of the Bank of Albania, in order to preserve the availability of necessary liquidity and support the country’s financial stability. Therefore, the deadline of the existing agreement with the European Central Bank for the collateralized credit line of EUR 400 million, was postponed to January 2027. Whereas, the agreement based on Repo with the Bank for International Settlements for EUR 500 million, was renewed. Liquidity needs are supported by the Swap agreement with the People’s Bank of China, for a sum of RMB 2 billion.

In term of the information technology infrastructure, the process of drafting the Terms of References (requirements and accompanying documents) to obtain a new system, was finalized. This system will support the activities carried out by the Department of Monetary Operations as they manage the foreign reserve fund and the implementation of the monetary policy. It will also support the payment services and transfer activities of the Department of Payments Systems, Accounting and Finance. For drafting and evaluating the requirements from the new system in support of the international reserve management, the Bank of Albania relies on the technical assistance of the World Bank. Meanwhile, to address the requirements of the new system for implementing monetary policy and providing payment and transfer services, technical assistance from the Bank of Italy was made available under the Regional Program for Strengthening the Capacities of Central Banks in the Western Balkans.



BOX 7: FLOWS AFFECTING THE INTERNATIONAL RESERVE IN 2024

During 2024, the gross international reserve, estimated and reported in Euro, increased by EUR 421 million, amounting to EUR 6,267.05 million at the end of December. The main factors that have impacted the gross foreign exchange reserve are grouped below:

- **Transactions with the Ministry of Finance provided a negative impact, estimated at EUR 373.93 million, according to the following items:**
 - net inflows from grants and disbursement of loans from the World Bank at EUR 265.35 million;
 - Net inflows from the purchase of foreign currency by the Bank of Albania and earned interest at EUR 108.13 million;
 - transfers (outflows) for debt service and others at EUR 747.41 million;
- **Transfers from commercial banks and other entities provided a negative impact at EUR 327.71 million, according to the following items:**
 - transfers from commercial banks to their account at the Bank of Albania to fulfil the required reserve and manage the balance sheet exposures at EUR 3,338.94 million;
 - transfers from commercial banks at the amount of EUR 3,669.62 million;
 - net outflows on account of other entities (IDA, etc.) at EUR 2.97 million.
- **Bank of Albania's transactions provided a positive impact, estimated at EUR 896.55 million, according to the following items:**
 - net purchase of foreign currency by commercial banks and other institutions at EUR 916.55 million:
 - from commercial banks at the amount of EUR 913.80 million²;
 - from other institutions at EUR 2.75 million;
 - net sales of foreign currency to the Ministry of Finance of the amount of EUR 102.74 million;
 - Inflows from interests, coupons etc. (calculated on a cash basis) created by the investment of the foreign exchange reserve, calculated at EUR 93.45 million;
 - transfers amounting to EUR 10.71 million.
- **Market factors provided a positive impact in the amount of EUR 226.09 million, according to the following items:**
 - fluctuations in the exchange rate of the currencies constituting the foreign exchange reserve have positively affected the value of the gross reserve reported in Euro by EUR 157.08 million;
 - the revaluation effect for the portfolio, as a result of interest rate fluctuations, is calculated at a positive value of around EUR 69.01 million³.

1. The net effect of SWAP transactions with the Ministry of Finance was EUR 480 million in 2024, while the net impact of the transactions is neutral.

2. This does not include the amount of 25.5 million Euros from forward purchases with a foreign-currency value date of 6 January 2025.

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



2.9 STATISTICS

In accordance with the provisions laid down in the Law “On the Bank of Albania,” the National Statistics Programme and the Law on Official Statistics, the statistical function at the Bank of Albania aims to be unbiased, objective and reliable to the service of and in compliance with the legal objectives of the Bank of Albania, being the central bank of the Republic of Albania and the statistics agency within the National Statistical System.

In 2024, the statistical function at the Bank of Albania has been developed in the context of European integration and the adoption of the International Standards.

The statistics produced by the Bank of Albania – monetary and financial statistics and the statistics of the external economic sector³⁶ – are necessary to monitor and analyse economic and financial developments, providing reliable information for drafting the monetary policy and preserving financial stability. They guide decision-making institutions, financial markets and the wider public to take informed decisions and ensure transparency and compliance with international standards. In this framework, the Bank of Albania has continued to enhance the quality, granularity and adherence of the data with the highest international standards.

The integration of Albania into the European Union has brought about a number of challenges and obligations that must be fulfilled in regards to the compliance of our statistics system with the European one, including the European System of Central Banks (ESCB). The Bank of Albania has a key role in this process, by producing essential financial and macroeconomic statistical data in order to adopt the requirements imposed by the Eurostat and ESCB, as well by developing a contemporary IT infrastructure. In this context, in 2024 the Bank of Albania has increased the level of cooperation with the Bank of Italy (Bdl) to modernize the infrastructure for processing statistics, analysis, and reporting in accordance with the technical standards followed by every central bank in member countries. At the same time, a number of new projects have been launched focused on shrinking statistical gaps, strengthening analytical capacities, and adopting advanced methodologies for processing and interpreting financial statistics.

In 2024, international institutions such as the IMF and the United Nations will review the two main methodological manuals: the System of National Accounts and the Balance of Payments Manual (BPM7) in response to the challenges of digitalisation, climate changes and Fintech developments. The priority of the Bank of Albania is to adopt these methodological changes. The Bank of

³⁶ The statistics generated by the Bank of Albania and their respective methodology are published on the official website under Statistics.



Albania has actively participated in international consultations on the IMPF/BPM7 and has prepared an action plan for its implementation aiming to fully harmonise the balance of payments statistics and the international investment position.

The Bank of Albania remains unwavering in its engagement to generate qualitative statistical data, harmonise with the international standards which support informed decision-making and facilitate Albania's integration into the European system of statistics. Through ongoing investments in advanced methodologies, digital transformation and international cooperation, the goal of the Bank of Albania is to build a flexible statistical system, adequate to withstand future challenges.

In 2024, in the context of the methodological approximation of statistics with international standards and their harmonisation pursuant to the acquis communautaire, the following were carried out:

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

The implementation of the provision on data quality comes in line with the public commitment to harmonise with quality standards and the structure of European Statistics of the ESCB, in accordance with the content suggested and the ECB/EUROSTAT standard. In 2024, there has been an increase in the level of detail of the data delivered to Eurostat, particularly statistics on international trade in services and financial accounts reporting on cross-sectoral transactions. The latter provide a thorough analysis of the financial interactions between different sectors of the economy.

Eurostat deems the international trade in services statistics to be in full technical compliance with the EU acquis. Meanwhile, statistics on foreign direct investment have been evaluated to have "a high level of compliance" during this year as well.

2. The automation of the reporting of external sector statistics has continued with integration of the automated validation systems of Eurostat (STRUVAL and CONVAL), thus reducing manual handling and enhancing the efficiency of data transmission through the EDAMIS platform.

The implementation of these advanced quality-check methods is a contribution towards the full integration of Albania into the EU's statistical system, in a sustainable manner, free from methodological or technical obstacles.

3. IPA2022 Project on Foreign Direct Investment Statistics



In 2024, a new project supported by IPA2022 was launched with the purpose of fully aligning with the acquis regarding the complete range of foreign investment reporting, in accordance with the Commission Regulation of the EU³⁷.

4. Improving government finance statistics and fiscal supervision has been among the key objectives of the Bank of Albania throughout 2024.

In cooperation with INSTAT and the Ministry of Finances, the Bank of Albania continued its efforts to strengthen the compilation and reporting of data in the framework of the Excessive Deficit Procedure (EDP), which is an essential element of fiscal governance in the EU. Furthermore, the coverage of quarterly financial accounts for the government sector has also expanded, ensuring full compliance with the ESA2010 standard, and additional mechanisms that ensure data quality have been enacted.

5. The Bank of Albania has intensified the efforts to harmonise the quarterly financial accounts for the government sector and institutional sectors with the Eurostat's requirements, increasing compliance with ESA 2010 standards.

This process is being carried out in cooperation with SECO and the Graduate Institute of Geneva and aims to enhance methodological capacities and improve data consistency

6. As a member of the Committee for Statistical Data in Tourism, the Bank of Albania has been active in strengthening the analytical base and improving the quality of tourism data.

The Bank of Albania supports the Ministry of Tourism and Environment for its commitment and vision shown in the development of the 2025-2030 National Strategy for Tourism Development and Action Plan. This document represents an important step towards the sustainable and quality-oriented development of the tourism sector, creating a well-structured approach for economic growth and promoting Albania as a competitive travel destination.

7. The statistical function of BoA will adopt the EU's requirements on green finances and measure the impact of climate change on the financial sector.

The integration of financial stability indicators into monetary statistics has been a key development, putting special emphasis on assessing financial risks related to climate change and green finances. An analytical framework to assess the exposure of the Albanian financial sector to environmental risks was developed for the first time, fulfilling the international objective for the transparency of sustainable finance.

³⁷ Regulation of the European Commission (EC) No 555/2012, amended, requires that member states of the EU report to EUROSTAT data on foreign direct investment once per year.



8. The preparation and reporting of data from the Questionnaire on Access to and Use of Financial Services.

The FAS (Financial Access Survey) pilot project aims to improve the gathering and reporting of data on financial services access. One of the main objectives of this project is to expand the range of information collected with data from households and small and medium-size enterprises which are more detailed and structured, and which help in conducting a deeper analysis on the use of financial services. These data serve to identify the groups in need of support and for implementing more effective policies to improve access to finance and the use of financial services.

9. Completing the framework of Financial Soundness Indicators and implementing the changes outlined in the new FSI Guide (IMF, 2019), with an increased focus on the stability of the financial system.

The implementation of new requirements has led to the development and reporting of new indicators that complete the framework for assessing the soundness of the financial sector, particularly for other financial institutions, non-financial corporations, households, and real estate markets.

10. The harmonisation with international regulatory reporting standards for banking supervision.

To align with the EU regulatory requirements for banking supervision, the Bank of Albania has continued its work on implementing the European Banking Authority (EBA) reporting package, ensuring the harmonization of Albania's regulatory framework with international financial reporting standards (IFRS). A key step in this process has been the development of bridging tables, which serve as a tool to connect the current reporting framework with the standardized financial reporting requirements of banks (FINREP) according to the EBA standard.

In addition to adapting the methodology, the Bank of Albania has conducted a consultation with the banking sector to identify gaps and assess banks' readiness for implementing the new reporting system. This process has enabled the collection of important information on the technological capacitances available to banks, the need to improve their systems, and challenges they face in adapting to the new reporting standards.

The Bank of Albania has determined a clear deadline for the first transmission of FINREP data, allowing banks the time to adjust their systems. Simultaneously, internal capacities that manage these reports have been strengthened, through collaboration with analogous banks in the EU, and investing in an advanced data process platform in accordance with EBA's and ECB's requirements.



2.10 RESEARCH

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

Scientific research at the Bank of Albania in 2024 has generally been focused on the analysis of economic and financial phenomena in the context of monetary policy and financial stability. Other research efforts were directed towards pertinent issues such as green finance and the challenges of the banking system in coping with unforeseen climate risk; improving education and financial inclusion in the country; as well as issues on international finance and development economics.

Based on the medium-term strategy of scientific research, the scientific investigation at the Bank of Albania in 2024 supported the decision-making process for the development and implementation of the Bank of Albania's policies through the creation of the necessary statistics and the enhancement of the portfolio of econometric models by utilizing the tools and techniques offered by artificial intelligence.

Projects subject to the monetary policy and financial stability decision-making have continued to focus particularly on analysing the economic challenges stemming from climate changes. Studies concentrated on the macrofinancial impact of these changes in Albania, focusing on carbon taxes and their subsequent socio-economic effects. In this context, climate transition scenarios have been assessed, comparing a gradual approach to an abrupt implementation of these policies.

The collaboration between the Bank of Albania and national and international institutions have become more involved for the purpose of implementing the green strategy. In this regard, the Annual Progress Report on the achievements and challenges of managing climate risks and the Report on the Assessment of the Banking Sector's Exposure to Climate Risks (2024) have been published. The latter constitutes an important step towards improving the sustainability of the financial sector and aligning it with international sustainability standards.



Research projects under the monetary policy framework focused on the impact of the money base structure and price responses, as well as the role of foreign reserves in stabilizing exchange rate. One particular study which focused on the exchange rate performance in Central, Eastern, and Southeastern European countries finds that the level of international reserves can play a key role in stabilizing the exchange rate, especially in countries with less developed financial systems.

The Bank of Albania has continuously paid special attention to improving communication with the public and the challenges posed by financial education and inclusion of individuals for the efficiency of transmitting monetary policy. In this context, a study has been conducted aimed at assessing the 'sentiment' in the Bank of Albania's monetary policy reports. It has been analysed through the 'web scraping' method, focusing on the terms 'tightening' and 'easing' to create an index that indicates the periods when one of these terminologies predominates.

Research efforts on financial stability focused on the impact of housing prices on economic stability and the impact of artificial intelligence (AI) on commercial banks. The rapid developments in AI require banks to adapt their management strategies, and authorities to take regulatory measures to balance innovation and security in the financial sector. In this context, the Bank of Albania developed a questionnaire aimed at collecting information on the potential benefits and challenges of adopting technological innovations.

Other research projects have focused on international economics and development. In this regard, two empirical analyses have been conducted for the Western Balkans countries, which show that the globalization of trade and the exchange of goods and technologies with environmental impact can enable economic growth and productivity, despite the risks posed by climate change. They also highlight that negative shocks such as the financial crisis, COVID-19, and geopolitical tensions have pushed the Western Balkans to deepen trade exchanges with other partners, particularly in sectors that impact the climate. Research on the 1965 monetary reform reveals that its implementation took place during a significant period for the economies. The study suggests that the monetary reform in Albania may have been driven by external factors, in addition to internal ones, and this may have contributed to its misunderstanding by the population.

These and other studies have been the subject of discussion in activities and conferences organized by the Bank of Albania or other institutions. In this context, the Bank of Albania organized the '18th Regional Research Meeting for Southeastern Europe' on November 19-20, 2024. This scientific research activity serves as a forum for discussing research papers on current economic and financial issues, and encourages the exchange of views among researchers from the Bank of Albania, central bankers, and the academic community, both in the region and beyond.



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



2.11 EUROPEAN INTEGRATION AND INTERNATIONAL COLLABORATION

Bank of Albania continued to contribute to the fulfilment of the obligations deriving from the opening of the negotiation process for the EU membership, the Stabilization and Association Agreement, the Progress Report of the European Commission, participation in joint EU-Albania subcommittees and the National Plan for European Integration. It chairs two Inter-institutional Working Groups of European Integration for two Chapters of the ACQUIS and has contributed substantially to six other chapters.

The Bank of Albania has continuously supported the European integration process, including active engagement and participation in inter-institutional groups and the drafting of strategic documents that facilitate the alignment of legislation and policies.

During 2024, work in this regard focused on preparing negotiating positions as a follow-up step to the publication of the Screening Reports by the European side for each chapter. The Bank of Albania, as the leading institution for Chapter 4 - Free movement of capital and Chapter 17 - Economic and Monetary Policies, has been maximally engaged in the successful preparation of negotiating positions for these chapters. It has had a leading role in the coordination of the work with the contributing institutions in these chapters, through meetings of inter-institutional European integration work groups and through cooperation with the Office of the Chief Negotiator. Also, the Bank of Albania has contributed to the preparation of negotiating positions for other chapters, such as Chapter 9 – Financial Services; Economic Criterion Chapter; Chapter 32 – Financial Control; and Chapter 18 – Statistics; Chapter 28 - Consumer protection. The negotiating positions clearly reflect the commitment of Albanian institutions to completing the process of aligning national legislation with that of the EU and achieving European standards in all relevant areas by 2027, as an ambition for the overall closure of membership negotiations.

Bank of Albania was represented at the annual high-level meetings 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 2024, the European Commission submitted to the Albanian authorities the Progress Report 2024, which describes the progress made by Albania during the year. In chapter 4, Albania has a moderate level of readiness regarding the free movement of capital. At the same time, progress has been made in further aligning payment systems with the EU acquis, as well as in the measures taken to remove Albania from the grey list of the Financial Action Task Force (FATF). In Chapter 17, Albania ranks between a moderate and good level of preparedness in the area of economic and monetary policy, with progress being made through the efforts of the Bank of Albania to maintain price stability and adhere to the fiscal rule.

COOPERATION WITH INTERNATIONAL INSTITUTIONS

The Bank of Albania has closely cooperated with international institutions within the framework of institutional engagements, exchanging analysis and opinions that have improved the coordination of macroeconomic policies and professional expertise.

RELATIONS WITH THE INTERNATIONAL MONETARY FUND

Albania's relations with the IMF continue to be focused on Article IV consultations. On 17 January 2025, the Executive Board of the IMF concluded the Article IV consultations with Albania, at the end of which it published positive assessments on the performance of the Albanian economy as well as other public economic policies being followed and made the relevant recommendations.

The Republic of Albania continues to stand in the SDR 139.3 million quotas (0.03% of the total) 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. As of 31 December 2024, outstanding purchases and loans stand at SDR 96.18 million.³⁸

RELATIONS WITH THE WORLD BANK GROUP

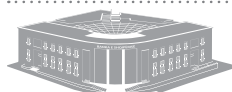
The World Bank Group began working in Albania in 1991 and has supported numerous projects aimed at alleviating poverty and providing sustainable means for the long-term development of the country. Albania is part of the constituency composed by Greece, Italy, Portugal, Malta and Timor-Leste.

Total loans extended by the World Bank Group amounts USD 520 million and that of grants amounts USD 1.6 million³⁹.

Cooperation with the World Bank has increased in the areas of payments, financial supervision, resolution, statistics, cybersecurity, education and financial inclusion, etc.

³⁸ Information obtained from the official website of the International Monetary Fund for Albania.

³⁹ Information obtained from the official website of the World Bank Group for Albania, updated in October 2024.



TECHNICAL COOPERATION

During 2024, continued the implementation of Phase II of the EU-funded “Programme for Strengthening the Central Bank Capacities in the Western Balkans with a view to the integration to the European System of Central Banks”.

This program supports central banks and banking supervisory agencies in EU candidate countries and potential candidates in the Western Balkans. It aims to further strengthen institutional capacities, mainly through the further improvement of their analytical and policy instruments based on the best international and European standards into national practices. The program is supported by the European Union (EU) through its Instrument for Pre-Accession Assistance (IPA III).

During 2024, the Bank of Albania engaged in the trainings sessions hosted by the European Central Banks and benefited from the expertise of experts in the fields of monetary policy, financial stability, consumer protection, financial inclusion and financial education, payment systems, statistics, European Integration and legal aspects, and accounting. Furthermore, the Bank of Albania continued its close cooperation with the Bank of Italy and the Bank of Romania in the framework of implementing bilateral measures in the fields of accounting, reserve management and human resources.

OTHER ACTIVITIES AND PARTICIPATION IN INTERNATIONAL ACTIVITIES DURING 2024

- On 16-17 January, the Governor of the Bank of Albania, Mr Gent Sejko, attended the Central and Eastern European (CEE) Forum. This annual event hosted by Euromoney brings together renowned figures from academia, leading stakeholders in economy and finance from the CEE countries - to discuss the latest economic developments mainly in its eastern and southeaster region.
- On 16 February, the International Monetary Fund/World Bank Group constituency meeting was held for the first time in Albania at the premises of the Bank of Albania. This meeting, organised under the auspicious of the Bank of Albania and the Ministry of Finance, brought together governors and ministers of finance from the member countries under this constituency.
- On 13 March, the Governor of the Bank of Albania, Mr Gent Sejko had an official visit to the Bank of Italy, in the context of the excellent relations between the two central banks and the future development of technical cooperation in various fields. During the visit, Governor Sejko met with Mr Fabio Panetta, Governor of Banca d'Italia and other senior managing executives.
- On 18-21 April, the Governor of the Bank of Albania, Mr Gent Sejko, attended the Spring Meetings of the International Monetary Fund (IMF) and the World Bank Group (WBG) in Washington D.C., USA. The Spring Meetings bring together central bank governors, ministers of finance of member states, executives from international financial



institutions, and representatives from academia, private sector and civil society.

- On 1 October 2024, the Governor of the Bank of Albania, Mr Gent Sejko attended the High-Level Conference of the National Bank of the Republic of North Macedonia and Reinventing Bretton Woods Committee, on “Central Banks and Central Banking in a Highly Complex World: Demonstrating Commitment and Preserving Credibility” ,, held in Skopje, North Macedonia.
- On 24-27 October, the Governor of the Bank of Albania, Mr Gent Sejko, attended the 2024 Annual Meetings of the International Monetary Fund (IMF) and the World Bank Group (WBG), held in Washington DC, USA.
- On 15 November the Governor of the Bank of Albania, Mr Gent Sejko, attended the high-level Conference on “Bridging Borders, Building Futures: SEPA Integration for Financial inclusion - Empowering Growth and Financial Resilience” hoisted by the Central Bank of the Republic of Kosovo on the occasion the 25th Anniversary of its foundation. Governors of central banks, high-level managers of regional supervisory authorities and representatives of international financial institutions attended this Conference.



2.12 TRANSPARENCY AND PUBLIC COMMUNICATION

Public communication is an important pillar in Bank of Albania's activity for both fulfilling the responsibility to offer maximum transparency about decision-making and in order to increase its effectiveness, through strengthening its credibility. In this framework, to the Bank of Albania the interacting communication with the public is a primary issue of strategic importance, to transmit its activities to the public opinion, as correctly and comprehensibly as possible.

AN OPEN AND TRANSPARENT CENTRAL BANK

Beyond legal obligations, the Bank of Albania communicates a diverse 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, which passes through multiple communication channels, contributes to increasing the effectiveness of the policies followed by the Bank of Albania, making the public understand the decisions it has taken.

During 2024 the Bank of Albania continued publishing regular reports, surveys, analyses, evaluations and opinions on the country's macroeconomic situation as well as the Bank's role in supporting it. In this framework, the eight decisions of the monetary policy were accompanied by press conferences held by the Governor. Its aim is to explain the reasons for the decisions taken by the Supervisory Council, to the public. Each press conference were followed by publication of the Governor's speech, and related Question & Answer.

Also, after each meeting, a brief summary of key decisions taken by the Supervisory Council of the Bank of Albania was published. All public decisions of the Supervisory Council, as well as orders or acts of the administrators, applicable by entities licensed by the Bank of Albania, were fully published in the Official Bulletin of the Bank of Albania, in 9 issues of this publication.

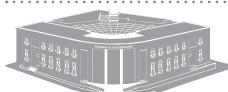
Communication with the media has been ongoing throughout 2024, through press conferences, speeches, presentations and announcements in activities organized by the Bank of Albania or other institutions. This includes dedicated interviews, participation in television shows, and expressing positions of public interest, or other activities by the Governor as well as other representatives of the Bank of Albania. These communication formats have resulted in 170 speeches, announcements and press conferences, 111 interviews and participation in television shows and 7 "off the record" presentations of periodic reports.



In a world where information flows rapidly and digital platforms are becoming the main sources of communication, the Bank of Albania has increased its interaction with the public through its presence on LinkedIn, X, Facebook, YouTube, Flickr and, most recently, Instagram.

BOX 8: ACTIVITIES WITHIN THE COUNTRY, ORGANIZED DURING 2024

- On 8 and 9 February, the Bank of Albania, in collaboration with the World Bank, organized the workshop "Modernization of Payment Systems in Albania", with the participation of key actors in the payment system and the infrastructure of financial markets. First Deputy Governor, Ms Minxhozi emphasized the importance of international cooperation in this field, as well as the priorities of the Bank of Albania for implementing the law 'On Payment Services' (PSD2), integration into SEPA, and the development of fast payments.
- On 16 February, the Bank of Albania held for the first time in Albania the IMF & WB Constituency Meeting, bringing together governors and ministers of finance from the member countries. The meeting focused on addressing economic challenges and coordinated approaches to development.
- On 28 February 2024, the Bank of Albania, in cooperation with the Ministry of Finance, organized the Ministerial "Western Balkans towards the European Payment SEPA) The Ministerial brought together Ministers of Finance and Governors of central banks from the countries in the Western Balkan, with the participation of representatives of the European Commission, the World Bank and the EBRD. Governor Sejko highlighted the importance of the Western Balkans' economic integration with the EU, particularly through payment systems and SEPA membership.
- On 28 March, Governor Sejko receives in an official visit the Governor of the National Bank of Croatia. Boris Vujčić. This visit, which marks an important step for the further development of bilateral relations between the Bank of Albania and the Croatian National Bank.
- On 14 June, the Bank of Albania, in cooperation with the World Bank, organized the workshop "Albania's path to SEPA integration, financial inclusion and education. This activity focused on the progress of Albania's integration into SEPA, its benefits and the importance of financial inclusion and education in market development and social well-being.
- On 11 July, Bank of Albania in collaboration with the Centre for Economic Transition Expertise at LSE organize the workshop "Navigating Interconnected Risks: Implications of Environmental Degradation and Climate Change". This workshop brought together representatives from key public and private institutions in Albania, prominent national and international experts, policymakers, and economists, with the main goal of engaging various actors in a dialogue about the challenges posed by climate change and its implications on the economy and finance.
- On 7 October, Governor Sejko receives in an official visit the Governor of the National Bank of Croatia Mr Robert Holzmann. This visit represented a step forward in strengthening bilateral cooperation between the two central banks.
- On 13 November the Bank of Albania in cooperation with the Albanian Association of Banks organized the annual conference: "The role of central banks and banking systems on the path to EU" In particular, the 'Governors' Panel' discussed the institutional strategies and perspectives



of the banks in the region, regarding price stability, the challenges faced by central banks and the banking system, as well as the opportunities and challenges by the convergence process within EU.

- *On 19-20 November 2024, the Bank of Albania hosts the 18th SEE Economic Research Workshop for Southeast Europe. 25 research materials were presented at this workshop by authors from the Bank of Albania and researchers from central banks and international universities such as those in Austria, Italy, and Turkey.*
- *On 5 December 2024, The National Payment Systems Committee held its tenth meeting, chaired by Mrs, Luljeta Minxhozi, and First Deputy Governor of the Bank of Albania. Gent Sejko, held the opening speech, where he declared that the last decade has marked a revolution for the payment area in Albania, radically transforming every aspect of the system. The Governor highlighted that the Bank of Albania has been a leader in this transformation, showing a proactive side in regard to technological changes in the international payments environment, and guiding the market towards the controlled adoption of these changes.*
- *On 16 December, on the occasion of the end-of-year, Governor Sejko held a meeting with publicists, politics and economics analysts, and representatives of the media. During this event, the three winners of the Governor's Award for the Best Diploma Thesis 2024 were announced.*

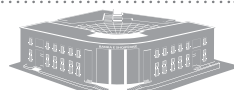
A RESPONSIBLE AND ACCOUNTABLE CENTRAL BANK

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 May 2024, the governor presented the Annual Report of the Bank of Albania for 2023 to CEF and after, in July to the Assembly of Albania, responding to MP's interest in related matters. As every year, the Governor presented in November 2024, in a special hearing of the CEF, the opinion of the Bank of Albania regarding government' draft-budgeted for the upcoming year (2025).

During 2024, three special hearings were held in various Parliamentary Committees, where Governor Sejko presented the Bank of Albania's opinion on issues including non-bank financial entities (May) the preparedness of Albanian institutions regarding the Single Euro Payments Area - SEPA (July), and disinformation and the impact on the financial system (October).

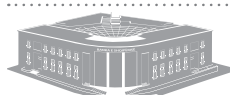
Citizens may find comprehensive and up-to-date information on the financial and economic situation as well as on main macroeconomic developments, the role and the contribution of the Bank of Albania in this regard, on the official website www.bankofalbania.org: www.bankofalbania.org. During 2024, the



Bank of Albania continued its regular update of its website, which had around 2.2 million visitors, who browsed in total around 8.4 million pages.

Periodic and non-periodic publications carried out in 2024, consisted of about 3000 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, the semi-annual Central Banking, the semi-annual Economic Magazine of the Bank of Albania, the semi-annual magazine "Research newsletter", as well as various study and educational papers.

In order to inform the public, the Bank of Albania informs its citizens in writing or in electronic form, depending on how they want to receive this information. During 2024, 74 official requests addressed to the coordinator for the right to information were answered. Additionally, 2400 correspondences between departments within the Bank of Albania and the general public on receiving information, complaints and questions regarding the banking system have been received by the Bank's official contact address at public@bankofalbania.org.



2.13 FINANCIAL EDUCATION

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

"THE BANK OF ALBANIA FINANCIAL EDUCATION AND FINANCIAL INCLUSION STRATEGY"

At the beginning of 2024, the strategy of the Bank of Albania on Financial literacy and inclusion was drafted - the first institutional document that promotes financial literacy, and encourages financial inclusion, prosperity and stability.

In this first year of implementation of the strategy, the aim has been not only to increase and enrich educational activities, but also to include the largest possible number of people - with special attention to vulnerable groups, as well as to adapt educational materials and programs to the real needs of these groups, identified through research. Thus, the focus was broadened to include not only children but also adults, categorized according to their specific needs, and engaging with them at appropriate stages of the life cycle. Nearly 10,000 participants of all ages have participated in our educational activities.

NATIONAL STRATEGY FOR FINANCIAL EDUCATION AND FINANCIAL INCLUSION

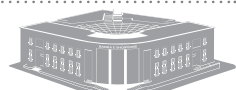
In 2024, work also began on drafting a National Strategy for Financial Education and Financial Inclusion (NSFEFI) with the establishment of inter-institutional structures, namely the Steering Committee and the Technical Committee.

Their task is to define and coordinate the objectives, instruments, action plan, and financial education programs in the country, in implementation of the NSFEFI.

On 15 June 2024, chaired by the First Deputy Governor, Ms Minxhozi, the Technical Committee held its first meeting, with the participation of representatives from the Albanian Association of Banks, the Albanian Microfinance Association, Junior Achievement of Albania, and World Vision Albania.

EDUCATIONAL PUBLICATIONS

During 2024, a new educational brochure "What Do Banks Offer?" was compiled, explaining in a simple language the main banking products and services offered in the Albanian market.



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

THE MUSEUM OF THE BANK OF ALBANIA

Also this year the Bank of Albania Museum continued its mission which presents the history of the national currency and the central bank, as well it promotes financial education to the public. During 2024 the Museum was visited by about 5200 visitors, or about 13% more visitors than in the previous year (4600 visitors). Visiting the Bank of Albania Museum has become integrated into the educational curriculum or even leisure time for elementary students, high schools and university students.

During the year, the Museum of the Bank of Albania has organized a number of activities, including:

- Exhibition: "Berat in the 8th-20th century: Economic and Commercial Development: Special Collections of Local Banknotes and Coins Reflecting the Monumental and Cultural Heritage of Berat" was held on April 18 and 19, 2024, in collaboration with the National Museum Centre of Berat.
- On the International Day of Museums, 18 May 2024, with the theme 'Museums for Education and Research,' the Bank of Albania Museum remained open to the public with extended hours and no restrictions on visitor numbers. On this occasion, the program included exhibitions of historical documents, animated films, and artistic works by students.
- The Museum Nights lecture series, given by prominent figures from various fields, addresses the history of money and banking, economics, finance and financial education, numismatics, as well as disciplines such as philately, art, and architecture. Thus, during the month of October, 2 lectures were delivered: "Inflation and its Impact on the Cost of Living," by economics expert Prof. Assoc. Dr. Selami Xhepa; and "Psychology of money and personal growth" , by Prof. Assoc. Dr. Niko PANO;
- The joint exhibition with the Museum Centre in Durrës, organized on November 7–8, 2024, at the Venetian Tower in Durrës, showcased photos and information about the monetary tradition of ancient and medieval Dyrrachium, as well as the treasures discovered in this city.

ORGANIZATION OF EDUCATIONAL ACTIVITIES

- Global Money Week 2024, under the slogan "Protect your money, secure your future!", 18 March 2024. This activity focused on raising awareness about the importance of cybersecurity and shared clear and practical messages and advice for children and adults on recognizing and avoiding the risks they may encounter while navigating the internet, the importance of keeping personal information safe, avoiding



suspicious messages and websites, as well as protecting financial information from fraud and other online threats. As part of this event, educational and awareness-raising activities were organized, directly engaging over 4,750 pupils and students from more than 165 schools of all levels across the country.

- Exhibition: “ MONEY smART - Financial education for all” June-November 2024 This exhibition is the result of the common work of the Bank of Albania and the World Bank, with financial support from SECO, as part of the Bank of Albania's Strategy for Financial Education and Inclusion. The educational exhibition of the Bank of Albania it was held for the first time in Tirana on 13 June 2024 aims at introducing to the general public a diverse range of information on financial issues that are relevant to the banking consumer, presented in a simple and attractive manner. In the following months, the exhibition also travelled to Korça (October 17–18, 2024), Shkodra (October 31 – November 1, 2024), and Durrës (November 7–8, 2024).
- The Workshop: “Albania's path to SEPA integration, financial inclusion and education”, 14 June 2024 The Bank of Albania and the World Bank co-organised the Workshop: “Albania's path to SEPA integration, financial inclusion and education” Discussions in this activity focused on the integration status of Albania in the Single Euro Payments Area and the benefits for Albania, as well as on the importance of financial inclusion and education for the development of market and social welfare.
- Youth School for Financial Education, 5-6 October 2024, took place at the premises of the Bank of Albania (Dajti Building), with the participation of around 60 students of high schools from Tirana, Durrës, and Elbasan. The two-day activity was organized as part of the initiative of the Albanian Government to improve financial education in pre-university education, led by the Minister of State for Youth and Children, in collaboration with the Ministry of Education and Sports, the Bank of Albania, and other stakeholders. The educational program aimed to help young people acquire sustainable financial skills. Based on its impact and success, this pilot program for financial education for youth may be extended nationally in the future and be included in the curriculum of pre-university schools.

