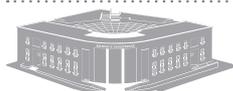


HIGHLIGHTS OF 2016

- Economic activity expanded by 3.3% in the first nine months of the year. Indirect data point to a similar growth rate for the fourth quarter. Economic activity expanded driven mainly by the expansion of consumption and private investments, whereas the external environment was unfavourable and the fiscal policy was consolidating.
- After a supply shock, which contributed to the down side in the first quarter, inflation was upward during the rest of the year. In 2016, the inflation rate averaged 1.3%. At the end of the year, it stood at 2.2%. Inflation shifted upward attributable to the weakened external disinflationary pressures and higher pressure from domestic demand.
- The accommodative monetary policy stance continued. The policy rate was lowered by 0.50 percentage point, down to 1.25%. Also, the Bank of Albania has narrowed the corridor of the interbank rates, intensified the forward guidance, and continued to inject liquidity in the interbank market. The monetary policy has led to eased financing conditions, contributing to economic growth, better production capacity utilisation, and upward inflation towards the target.
- The fiscal policy has maintained the consolidating stance, reflected in deficit and public debt reduction. While generating low fiscal stimulus in the economy, this policy has favoured the reduction of financing costs for the private sector.
- The activity of the banking sector is stable. The liquidity, profitability, and capitalisation indicators remain within the regulatory soundness parameters. The banking sector has adequate capital and liquidity to withstand effects from volatility in the financial market and liquidity shocks.
- The implementation of the national plan for the reduction of non-performing loans has marked evident progress. In accordance with its commitments, the Bank of Albania initiated several important legal amendments, undertook changes to the regulatory framework, and worked for a solution of large loans and their out-of-court restructuring.
- The regulatory framework on supervision and financial stability continued to be aligned with the Basel Committee principles and EC directives. Among the most important initiatives are the finalisation of the Law "On recovery and resolution" in banks, comprehensive review of the legal framework on the functioning and supervision of savings and loan associations.



- In view of implementing recommendations of the National Payment System Committee, the payment order form was finalised in accordance with SEPA standards. This is an important step for increasing the effectiveness in the use of electronic payment instruments. In this regard, the regulatory framework for electronic payment instruments was revised, aligning it to EU directives. In cooperation with the World Bank, projects were started to measure the cost of payment instruments in Albania, on financial inclusion of the public, and remittances.
- In the context of improving the infrastructure for supporting the foreign-exchange reserve management, a new version of the Portfolio Management System (PAT II R 3.1.) was implemented. The new version improves the processing and maintenance of static data, automates the operations and reduces the level of operational risk.
- With regard to achieving international standards for the reporting infrastructure and enhancing the quality of statistics, this year, the Electronic Regulatory Reporting System (ERRS) was introduced. Through it, the Bank of Albania provides for the online data reporting by commercial banks for supervision, financial stability, and monetary policy purposes. The automation includes reporting, control, processing and dissemination of data for users within the Bank.
- For the first time, the Supervisory Council adopted the financial statements in accordance with the International Financial Reporting Standards, thus accomplishing one of the most important priorities of the Bank of Albania.
- The Supervisory Council adopted, for the first time, the Operational Risk Management Policy, a comprehensive framework for the identification, assessment, control, management and integrated follow up of the operational risk, at the institutional level. During the year, an application was implemented for the automated management of audits and operational risk management, and a dedicated unit was established in this regard.
- In May, a conference was organised on “Digital Banking”, in cooperation with the Albanian Association of Banks and the National Payment System Committee. The conference was aimed at promoting contemporary technology for the provision of payment services and products.
- In June, Albania Financial Forum IV was organised in cooperation with the IMF. The Forum discussions focused on credit recovery as one of the criteria for supporting sustainable economic growth. In conclusion, the Bank of Albania, the Albanian Association of Banks, the Ministry of Finance and the Ministry of Economy signed a Memorandum of Understanding, under which the signatory institutions commit to take concrete measures for promoting sustainable credit growth.
- In October, Bank of Albania’s Annual Conference was organised on



“Aligning monetary policy with financial stability – their objectives, responses and interaction in times of uncertainty” in cooperation with the South East European Studies at Oxford. The conference addressed the optimisation of the coordination of central bank objectives, and coordination between Balkan and EU economies, amid heightened international uncertainties.

