

FOREWORD BY THE GOVERNOR

Dear reader,

Though full of challenges and hardships, year 2021 - in its entirety - was a positive one for the Albanian economy.

The economic activity recorded a swift, broad-based and sustainable recovery. Economic growth recorded a high momentum, by exceeding our initial expectations, employment and wages increased, financial balance sheets of private sector improved, while economic and financial equilibriums of Albanian remain sound. In addition, the rapid recovery of domestic product suggests that the Albanian economy has not suffered considerable long-term damages from both the earthquake and the pandemic. The volume of economic activity has already surpassed the pre-pandemic level, in both aggregate and individual sectors levels.

Demand recovery and increased wages triggered a gradual rising trend of inflation during 2021. This indicator constitutes the primary objective of the Bank of Albania activity. In 2021, annual inflation averaged 2%, from 1.6 % in the previous year. On the other hand, the rapid upswing in inflation in the fourth quarter of year appears to have been driven by the sharp rise in prices in international market. We judge - based on the current information - that this factor will have a transitory impact on inflation in Albania and will not jeopardise price stability in the short and long term.

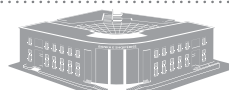
Against this backdrop, financial markets have been calm, interest rates and financing costs were low, and the exchange rate has been stable. The banking sector has maintained good indicators of profitability, liquidity and capital adequacy. In particular, I would like to highlight the non-performing loans ratio continued to decline and the direct exposure of banking sector's activity to market risks remains contained.

I am glad to affirm that the Bank of Albania has been an important factor in this progress. Through our policies and instruments, we have helped in safeguarding the monetary and financial stability of Albania and have kept financing channels opened to Albanian enterprises and households.

The Bank of Albania continued to implement a simulating monetary policy throughout 2021, for supporting the economic rebound and inflation converging to target. Our monetary stimulus has: reduced the debt financing and servicing costs; bolstered the sustained growth of credit; and helped the stability of the exchange rate.

In parallel, the Bank of Albania has been particularly attentive on the further improvement of its supervisory and regulatory framework, performing new steps towards its continuous approximation with the best standards in this field. Also, we have continued working to expanding the gamma of macroprudential tools, for the prevention of money laundering and terrorism financing, as well as for strengthening the security networks of financial sector.

Beyond these two priorities of our work, we have continued to put into practice our strategic vision in other areas as well. In this regard, I would like to emphasize some of them.



The Bank of Albania has continued its institutional investment for the establishment, maintenance and development of payment systems, by creating the premises for the establishment of a modern and inclusive market, with a view to expanding the financial inclusion of the population. We have finalised the completion of the new series of banknotes; fulfilled our obligations in the framework of Albania's process of European Integration; we have worked for the standardisation and unification of the statistics produced with intentional standards; for the strengthening of the internal systems of the institution governance; for the expansion and deepening of scientific research; for the improvement of communication and increase of financial education of the public, etc.

Following last year, we also maintained the virtual communication formats to inform the economic debate and explain our actions. Enhancing transparency and the economic and financial education are key instruments that pave the way for taking sound economic and financial decisions.

Dear reader,

Although facing unprecedented challenges, the Bank of Albania succeeded to fulfil its mandate in capacity of: the monetary authority; primary supervisor and regulator of the financial market; and promoter of the payment instruments and financial markets development. This success is attributable to the dedication of its staff, coupled with our vision to be a leading and far-sighted institution.

I am confident that we will be able to put these qualities to work in the future, for building a better, more sustainable and more comprehensive economy.

Gent Sejko

Governor

