

FOREWORD BY THE GOVERNOR

Dear reader,

The Albanian economy and financial system registered progress, despite the challenges they faced in 2019. Economic activity continued to grow, while the main indicators of economic and financial stability showed improvement.

Notwithstanding supply-side shocks, expansion in private consumption and revenues from tourism boosted aggregate production, generating an increase in employment and wages and improvement of enterprises' financial position. Nevertheless, inflation continued to undershoot the target, reflecting both a continued insufficient increase in production costs and low inflation rates globally. Looking ahead, fuller utilisation of production capacities at home and recovery of the global economy will create positive premises for the convergence of inflation towards the target, within a medium-term horizon.

The main indicators of economic and financial stability in Albania have been improving. Both the current account deficit and the budget deficit have narrowed; the indicators of external debt sustainability improved, while public debt fell. In parallel with these developments, the financial stability of Albania strengthened. The financial system appears stable and the banking system is characterised by improvement in relation to capital, liquidity and profitability. Results from stress test analyses suggest that this sector has enhanced its ability to withstand shocks, guaranteeing a stable contribution to the country's development.

The activity of the Bank of Albania, oriented towards the fulfilment of our legal duties and medium-term institutional goals, has provided an important contribution in this regard.

We have continued to implement an accommodative monetary policy stance, which has been transmitted by maintaining minimum policy rate levels, continuing liquidity injection operations in the financial market, and transparent forward guidance for the market. This policy stance has provided for low financing costs to the private sector, has mitigated fluctuations in the financial market, and has promoted a more stable performance of the exchange rate. In particular, it has been reflected in a clearly upward trend of lending in 2019.

In parallel, the Bank of Albania has paid special attention to further improvement of its supervisory and regulatory framework, aiming at its continued approximation with European Union standards. The Bank of Albania has approved regulations to promote financial stability, strengthen banking supervision in accordance with Basel Committee principles, prevent money laundering and combat the financing of terrorism, strengthen the capacities of competences for banking resolution. This process and the rigorous monitoring of banking sector consolidation have contributed to strengthening its soundness, increasing competitiveness, and improving credit supply.

In addition to our commitment to safeguard the monetary and financial stability of Albania, the Bank of Albania has recorded many other achievements throughout 2019. We continued to make an important contribution to Albania's process of



European integration. We improved technical and regulatory infrastructure for payment services and instruments, to reduce payment costs, increase efficiency and develop markets. We improved the volume, quality and distribution of statistics in line with European Union practices. We improved the internal system for institutional governance. The issue of the new series of Lek banknotes, which are legal tender, was more visible to the public. In September 2019, the first denominations of this new series, 200 Lekë and 500 Lekë, were put into circulation. This event was accompanied by an informative and educational campaign across the Republic of Albania, employing contemporary and traditional means of promotion and presentation.

The next sections of this Report provide comprehensive information on the work of the Bank of Albania throughout 2019. The Bank of Albania aims at establishing open communication with all interests groups and the public at large. For this reason, at the end of the report, we introduce the Medium-term Development Strategy of the Bank of Albania, which will guide our work in the future.

Dear reader,

Year 2019 will remain in our memory for a long time. The earthquake that hit the country on 26 November 2019, unfortunately, caused fatalities and considerable material damage. I avail myself of this opportunity - also on behalf of the Bank of Albania - to extend the most sincere condolences to all those who lost their loved ones and the fruits of lifelong endeavours and efforts, due to this disaster.

Concluding, I would like to assure you that the Bank of Albania has been working and will continue to work on safeguarding a calm and safe financial environment, creating the premises for steady and long-term growth.

Gent SEJKO

Governor

