

1. What is the main role of the Central Bank?

The Bank of Albania is established and operates on the basis of the best practices of central banking.

The Constitution of the Republic of Albania and the Law on the Bank of Albania offer a clear mandate: that of maintaining price stability, a list of tasks which support the realization of the main objective, the most important being the supervision and regulation of the banking sector, as well as institutional, operational, and financial independence for their fulfilment.

Determining price stability as the main objective of the Bank of Albania is based on the theory and world experience accumulated for many years. The philosophy consensus of the economic regulation converges the fact that price stability is an essential precondition for the long-term economic growth in the country, for the welfare of society and social equality, as well as for financial stability. In Albania, the realization of this objective is achieved through the drafting and implementation of an independent monetary policy, based on modern principles and instruments, and operationalized in full compliance with the principles of the free market. At the core of this policy is the definition of an interest rate level which keeps the economy close to its potential level, which promotes full employment, encourages an increase of real wages in line with productivity, maintains a stable financial situation of businesses and creates premises for price increase in line with our inflation target.

In parallel with its main objective, the Bank of Albania has a long list of duties, the majority of which are its exclusivity and have a direct impact on the long-term development of Albania.

- *First*, the Bank of Albania is responsible for the licensing, regulation and supervision the banking sector, aiming to establish reliable banking institutions able to maintain public savings and capable of lending to businesses and households.
- *Second*, the Bank of Albania is responsible for the printing and issuance of coins and banknotes, providing the Albanian economy and its citizens with a safe physical paying instrument at the level of its demand. Also, the Bank of Albania is responsible for regulating and maintaining the electronic payment system in the country, providing the Albanian economy and its citizens with a reliable and low-cost platforms and instruments.

Price stability, licensing, supervision, and regulation of the banking sector, as well as the maintenance of cash and electronic payment systems, are important elements in the the architecture of financial stability. The Bank of Albania contributes in this direction through the establishment and monitoring of the Albanian Deposit Insurance Agency, by establishing and maintaining the legal and regulatory framework for resolution, as well as through ongoing dialogue with national and international partners.

- *Third*, the Bank of Albania manages the country's foreign exchange reserves, in accordance with the best practices in the area.
- *Fourth*, the Bank of Albania plays an important advisory role for the public and private sector in Albania, through giving opinions on the situation and expected economic developments, giving opinions on the situation of the financial stability, as well as giving opinions on important

economic acts, such as the State Budget or draft laws which affect the activity of the country's financial system. We have also adopted public financial literacy as a priority of our work, aiming to enhance the culture of personal finances as an essential aspect of the overall culture in a market economy.

- Fifth, the Bank of Albania plays an important role in the country's integration. This role is not displayed simply and only during the process of European integration of the country, where we have our tasks in the field of integration of markets and financial systems, but also beyond. It implies the continuous work done to attract foreign investors, as well as integration with international financial trading platforms.

Simultaneously, we give a substantial contribution to the development of the country's statistics, to the academic and professional discussion on the development strategies, etc...

I could summarize all I previously said by stating that: **A central bank with a clear legal mandate, independent, professional and transparent, is a necessary precondition for the development of the financial sector and the sustainable and long-term growth of the country.** I am convinced that the Bank of Albania meets all these premises.

2. What instruments does the Bank of Albania uses in function of its main objectives?

The monetary policy is based on a modern framework of instruments, based on the free market principles. That is to say, that the Bank of Albania creates the appropriate monetary conditions- here I am referring to interest rates and the amount of liquidity- but it only has an indirect impact on the interest rates at which banks operate with their customers. Also, let me emphasize that according to the law, the exclusive partners of the Bank of Albania in the implementation of monetary policy are commercial banks operating in the country. We cannot conduct operations with other commercial entities, businesses, households or other financial market operators.

More specifically, our main instrument are repurchase and reverse repurchase agreements, which - in essence - are short-term loans that the Bank of Albania makes available to commercial banks in order for them to meet their needs. The interest rate of these operations, which is also known as the key interest rate, represents the most important interest rate in the financial system and the starting point for determining all the rates of other financial instruments, such as deposits, loans or debt instruments of the public and private sector.

In parallel with the instrument of repurchase agreements- and in support of it- the Bank of Albania maintains and operates deposit and overnight credit instruments, which together limit the fluctuations of interest rates in the interbank market, the required reserve on deposits in lek and in foreign currency, as well as the market orientation on the future of monetary policy.

Part of the monetary policy instruments are the long-term liquidity injections- up to three months, and in specific cases, interventions in the foreign exchange market as well. On the other hand, the Bank of Albania may also carry out operations of withdrawal or permanent injection of liquidity in the banking sector, through the sale or purchase with full rights of governments securities. These operations are now widely known as monetary easing operations and are part of the arsenal of unconventional monetary policy instruments.

In the area of banking supervision and regulation, the Bank of Albania sets up the criteria and rules of the operation of the banking sector, setting conditionalities on the level of capital and liquidity of the banking sectors, restricting the activities allowed by banks and the degree of risk which they can take, ensuring that banks have sound and efficient risk management and monitoring structures.

3. What level is the foreign exchange reserve at the Bank of Albania, and in what cases can it be used?

First, let me emphasize that foreign exchange reserves are an important anchor of the country's monetary and financial stability, as well as an important element of its credibility to foreign investors.

- *Regarding the financial stability*, foreign exchange reserves enable the Bank of Albania to timely respond to the banks' needs for liquidity in foreign currency, guaranteeing, even in cases of unforeseen issues, their normal functioning.

This way, a sufficient level of foreign exchange reserves reduces the risk premiums of the banking and financial industry in Albania, stimulating the interest of domestic and foreign investors to operate in it.

- *Regarding the monetary stability*, foreign exchange reserves enable the Bank of Albania to intervene in the domestic foreign markets in case of serious non-functioning, or in case of strong and detrimental exchange rate fluctuations. In this view, they provide an additional instrument of monetary control.
- *Regarding credibility*, the foreign exchange reserves guarantee foreign investors in case of strong foreign exchange crises in the country- in the short-term- the solvency of the public and private sector of the country. In this case, the foreign exchange reserve serves as a guarantee instrument for foreign creditors, that the Albanian economy has the appropriate foreign currency to meet its obligations. Therefore, an appropriate level of foreign exchange reserves is essential to reduce the borrowing costs of the public and private sector in the international capital markets.

Given the role of the foreign exchange reserve, it is used only on very special occasions. **Analysing the economic and financial circumstances of Albania, I deem that we are still quite far from meeting the premises of using the foreign exchange reserve.** The country's monetary and financial stability remains solid, the banking sector shows no lack of liquidity in foreign currency, Albania is far from the foreign debt solvency and the government is proceeding with the issuance of a Eurobond in international markets in order to meet its needs. Also, we deem that the **necessary funds to address the consequences of the shock that we are facing can be provided in the local market and in our national currency**, lek. The Bank of Albania has abundant instruments to meet the economy's needs for funds in lek, instruments that in the last analysis show they require lower costs than the use of reserve as the Bank of Albania has full control over them. Lastly, I can highlight that the last case when the foreign currency reserves was used, not in the function of monetary and financial stability of the country, but to mitigate the consequences of an economic crises, was the end of 1980s. In the immediate period of changing the country's political system and the end of the communist regime, in the presence of strong economic and social turmoil, Albania was forced to use the foreign exchange reserve to pay the bills of the imports of vital goods for its citizens. I believe that Albania is far from such situation.

Currently, the foreign exchange reserve of the Bank of Albania is currently around EUR 3.2-3.3 billion. Beyond the nominal level, this reserve is in line with our criteria for assessing its adequacy. It

serves to cover over six months of imports of goods and services and over 150% of the country's short-term external debt.

4. What mechanisms does the Bank of Albania have to intervene in cases of crises such as the one that the economy is currently going through, as a result of Covid-19?

Our mechanisms for addressing crisis depend on the origin of the the crises and its consequences.

Shocks on the real sector of the economy, both those affecting the level of economic activity and those affecting the level of prices- are usually addressed through the use of monetary policy instruments. The monetary policy stance is eased if the shock has negative consequences on the economy and a downward effect on inflation, and vice versa.

In contrast, crises that originate in the financial sector need to be addressed through a combination of macro-prudential policy instruments- aimed at ensuring financial stability- and monetary policy instruments, to address the negative consequences that the financial crises might have on the economy.

The shock we are faced with requires a comprehensive response from the public authorities. It calls for the use of fiscal stimulus as the primary instrument to provide targeted incentives to Albanian enterprises and households. The temporary easing of the tax burden and public guarantees of credit risk on businesses, help increase their liquidity. On households, the offset of a portion of the missing income helps maintain the purchasing power and reduces the impact of shock on social welfare.

The Bank of Albania has used its monetary policy instruments, has changed the regulatory framework of the banking sector, has taken various regulatory and operational measures that guarantee the smooth operation of the banking system and payment system activity.

In any case, our philosophy has been to provide all the necessary stimulus to overcome the situation, without prejudice to the monetary and financial stability of the country and without damaging the balance sheets of the banking sector. In our view, maintaining monetary and financial stability is a necessary precondition to recover the economy for when the pandemics ends. The shock on this stability, putting the banking and financial sector in a position of impossibility to perform its main function of intermediation of funds in the economy, would turn this shock in a protracted crisis for the country's economy.

5. In concrete terms, how has it used these mechanisms and how does it measure their effectiveness?

As you may know, we have lowered the policy rate, to decrease the price of new loans and the service cost of existing debt, and have increased the liquidity supply of the banking sector.

In the area of bank regulation, we have eased regulatory requirements on loan restructuring and encouraged banks to offer deferrals of loan repayment to enterprises and households that are in a temporary difficult situation. We have also temporarily suspended the distribution of dividends in the banking industry, aiming to maintain the level of capitalization of the banking sector and its creditworthiness.

At the same time, we have taken a number of other measures to ensure the smooth running of the banking sector, the smooth functioning of the payment system, as well as to ensure the supply of the economy with cash, coins and banknotes.

In my opinion, so far, the Bank of Albania has taken the adequate measures, in a timely manner. I would like to repeat once again, that we have been and will continue to be very cautious of the monetary and financial stability of the country.

A full evaluation of their effectiveness will take its time. However, what I can say is that these measures have met the minimum operational objectives. First, the financial market activity remains under control. Liquidity moves freely in the market, without limitation, while volatility indicators remain at acceptable levels: although higher they are not at adequate level able to hamper trading. Second, the banking sector has reacted positively to our regulatory measures, proceeding with the postponement of the payment of loans installments, which I would like to emphasize it is detrimental to the financial result of this sector in the short-term, and continuing to support with fund businesses and sectors in difficulty.

I think that- in the long-term- the success of our work will be measured by the degree of the limitation of the damage done to the economy, by maintaining the economic and financial stability of the country, as well as by the speed of the economic recovery after the shock.

6. How does the bank implement the quantitative easing policy and does it plan to use it soon?

The instrument of quantitative easing is part of the unconventional framework of monetary policy measures.

This instrument is used to increase the volume of liquidity in the economy, during periods when it lacks it or during periods when interest rates in the financial market increase, damaging the transmission of the monetary policy and hindering access to credit from the private credit.

Without prejudice to the future decision-making of the Bank of Albania, I can say that the use of these instruments is part of our contingency plan, but its activation will be carried out in case the need for its use is identified.

I find it appropriate to point out that - indirectly - the option of using quantitative easing instruments makes the need to use the foreign exchange reserve even more remote.

7. There was an increase of currency in circulation during the recent week. What does this indicate in regard to you policies? The Bank of Albania is also expected to put into circulation new denominations, 1000 leke and 10000 leke.

Let me make it clear to the public, the increase of cash in circulation is not a result of the policies of the Bank of Albania, but it is a result of market demand. To easily understand this:

- Cash represents only an alternative of the means of payments in the economy. Other means of payments include deposits and current accounts, credit cards, or other instruments of electronic money. Cash can easily be converted into other forms of electronic money, and vice versa.
- Individuals and enterprises choose for their own whether to use cash or current accounts, demand deposits, government securities or something else, as their mean of payment.

Our duty as the Bank of Albania is to timely respond to changes in the structure of the preference of the economy on the type of monetary instruments. This means that if the economy operators want to use more cash than that is what we are going to supply more, and vice-versa. This is an essential element of the contract between us and the public, so that the latter maintains confidence in the Albanian Lek- but this does not represent or directly relates to our monetary or financial policies.

The bank of Albania has taken all the necessary decisions and has engaged its structures to meet the market demand with cash. To better illustrate this, I present you some indicators:

- In the first four months of 2020, the currency in circulation increased by ALL 9.9 billion against the decrease by ALL -1.3 billion in the same period of the previous year.
- In April alone, the currency in circulation increased by ALL 6.7 billion, against the decrease by ALL 0.7 billion in the same period of the previous year.

The increase of currency in circulation was supported through providing a sufficient stock of currency at the Bank of Albania which provides security not only for the present but also for the future.

In this context, the Bank of Albania in 2019 started with its procedures to issue the new series of lek banknotes of 1000 and 10000 denominations, aiming to introduce them to the public within the fourth quarter of this year.

Issuance of new banknotes, denomination 1000 and 10000 leke is part of the Bank of Albania's going concern to supply the economy at any given moment with cash. Having this in mind, I want to assure everyone that our market does not and will not lack cash.

From a long-term perspective, we are aware that the Albanian economy has a high use of cash. This reflects the degree of financial literature, the degree of informality, but also the development and sophistication of the financial system. In this context, the Bank of Albania has taken a series of actions, to raise the public awareness, to develop the payment system, as well as to encourage the formalization of the economy.

8. What is your opinion on *helicopter money*? What are its advantages and disadvantages and do you think it would be a solution for this situation?

The Bank of Albania, like any other central bank, does not 'donate' money. In every case, our liquidity injection operations have the form of loans, a loan that is always granted against collateral or have the form of buying financial assets which are liquid and low-risk. This moment is very important. It means that the volume of liquidity we throw in the market corresponds the real needs of the economy- which is a precondition for price stability. It also means that the balance sheet of the Bank of Albania is solid and the position of its capital is stable, not compromising the sustainability of

public

finances.

For this reason, **the use of *helicopter money* operations from the central banks in the developed and emerging economies remains a theoretical option, not yet used in practice.**

Money issuance, referring to the meaning it has lately gotten, often refers to operations of money being ‘donated’ from public authorities to enterprises or households in need. In regard to the question, I would like to emphasize that performing such operations by the Bank of Albania is impossible. First, because if it performed by the central bank, it contradicts our main objective, price stability, and therefore it is not allowed by the legal framework that regulates the work of our institution. Second, because similar operations would cause losses to the Bank of Albania balance sheet, such losses would be needed to be later attributed to the state budget. In other words, these operations imply a deterioration of the country’s public debt and as such can and should be formed only by fiscal authority.

9. In the baseline scenario, the IMF and the World Bank foresee that the economy will shrink by 5% this year. What is the prediction of the Bank of Albania regarding the effect that Covid-19 will have in the economy?

The Covid-19 and the social distancing measures taken in regard to it, have caused a complex shock to the economy. On the one hand, social distancing measures and increased uncertainty led to the decrease in consumption, investments and exports. On the other hand, social distancing measures meant forced cessation of production in certain segments or sectors of the Albanian economy.

In the last press release issued by the Supervisory Council, at the end of the Quarterly Monetary Policy Report analysis, we have clearly stated that the Bank of Albania expects a decline in the economic activity during 2020. We have also said that this recession will be accompanied by decrease in employment and increase in unemployment, with financial difficulty for many enterprises and households which will be faced with strong decrease of their income, with increase in foreign debt and public debt, as well as with decrease of income in the financial system.

Our baseline scenario, which is based on the assumption that the pandemic peaks in the second quarter and the social distancing measures will return back to normality after this period, provides comparable projections of economic downturn to those you stated. Meanwhile, other baseline scenarios which factorize a further extension of the pandemic, offer even stronger projections of economic downturn.

In each case, it is clear that the shock is unprecedented and quite complex.

Our countercyclical policies – monetary, fiscal and financial- cannot avoid all the negative effects of the shock, but they can and should aim to avoid the long-term consequences that this shock may have on the pace of future economic growth. Here I refer to the safeguarding of enterprises and the productive capacities of the country, safeguarding of households and those in need, as well as maintaining monetary and financial stability in Albania.

10. How fast do you expect recovery and return to normal to be?

Uncertainty regarding the development of the pandemic and the damage it will cause complicates beyond normal the predictions regarding the economic developments in the future.

In our baseline scenario, the pandemic will contract the economic activity during 2020. Later on, with the gradual easing of the restrictions, the economic recovery is expected to be relatively rapid. Economic growth is expected to move into positive territory in 2021 and continue consequently in an upwards trajectory. Rising demand and employment will put pressure on rising wages, domestic costs and inflation.

In a pessimistic scenario, the timely extension of the restrictions would delay and slow down the economic recovery.

The fiscal, monetary and financial incentives that we have undertaken have provided vital support to the economy, especially to the affected sectors and households. Of course, in the event that the crisis prolongs and the economic outlook becomes even more challenging, public authorities should consider a further increase in economic stimulus, but this is something we are aware of and attentive to.

At the end of this interview, I would like to add that, although the shock we are going through is quite strong, the coordinated response of macroeconomic policies creates the premises for the rapid recovery of economic activity after it ends. **Albania has all the potential to successfully pass this test.**