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# Governor's public appearance in 2017

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*Address: Sheshi "Skënderbej", Nr. 1, Tirana, Albania*  
*Tel.: + 355 4 2419301/2/3; + 355 4 2419401/2/3*  
*Fax: + 355 4 2419408*  
*E-mail: [public@bankofalbania.org](mailto:public@bankofalbania.org)*  
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*Contents*

<b>CHAPTER I</b> <i>Presentations to the Parliamentary Committee on Economy and finance</i>	5
<b>CHAPTER II</b> <i>Press conferences on monetary policy decisions</i>	29
<b>CHAPTER III</b> <i>Press conferences with the IMF Mission and the Minister of Finance and Economy</i>	67
<b>CHAPTER IV</b> <i>Speeches and presentations at conferences</i>	73
<b>CHAPTER V</b> <i>Interviews</i>	149
<b>PHOTO GALLERY</b>	209



*Gent Sejko, Governor of the Bank of Albania, 2017*

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# CHAPTER I

## PRESENTATIONS TO THE PARLIAMENTARY COMMITTEE ON ECONOMY AND FINANCE

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- *Governor Sejko presents the Annual Report of the Bank of Albania to the Parliamentary Committee on Economy and Finance, 2 May 2017*
- *Governor Sejko presents BoA's opinion on 2018 draft budget to the Parliamentary Committee on Economy and Finance, 15 November 2017*

### ***Presentations to the Assembly***

*The Bank of Albania is an independent, transparent and accountable institution. The accountability is realized through a number of instruments, most importantly the hearing sessions of the Parliamentary Committee on Economy and Finance with the Governor. Every year, the Governor presents the Annual Report of the Bank of Albania, answering to the questions and responding to the interest of MPs on specific issues related to it. Also, since 2015, the Governor has presented in a dedicated session the opinion of the Bank of Albania on key issues in the draft budget of the Government of Albania for the next year. In addition, hearing sessions may also take place on the operational activity of the Bank of Albania and the banking system.*



100 VJET SHTET SHQIPTAR

ZARAJ

BASANI

SPIRIDON ILO  
THANAS FLOQI  
GEMAL MULLAJ  
LEF NOSI  
NURI SOJLIU  
FERID VOKEPOLA  
TAMER DELIALISI  
XHEMEL DELIALISI  
ARISTIDH RUCI  
ZYHDI OHRI  
DR. MYRTEZA ALI STRUGA (DIBRA)  
MUSTAFA MERLIKA KRUIJA

BOSCH

## **GOVERNOR SEJKO PRESENTS THE ANNUAL REPORT OF THE BANK OF ALBANIA TO THE PARLIAMENTARY COMMITTEE ON ECONOMY AND FINANCE -2 May 2017-**

*The set of policies, measures and legal and regulatory amendments, which have contributed substantially in addressing macroeconomic imbalances, bolstering economic activity, enhancing financial stability, and promoting Albania's European integration process.*

*Honourable Chair,  
Honourable Members of the Committee,*

I have the pleasure of presenting today the Annual Report of the Bank of Albania 2016. This report is a synthesis of the activity of the Bank in accordance with our legal objectives, obligations that arise from relevant by-laws, and commitments with our international partners.

Overall, I reckon the Bank of Albania has worked with dedication, seriousness and efficiency, in all such aspects. We have initiated a set of policies, measures and legal and regulatory amendments, which have contributed substantially in addressing macroeconomic imbalances, bolstering economic activity, enhancing financial stability, and promoting Albania's European integration process.

In parallel to complying with our legal obligation, the presentation of the Annual Report is an important pillar of accountability and transparency for the Bank of Albania. These two commitments accompany and balance our institutional independence.

In this context, I believe the Annual Report addresses many of the recommendations the Committee left for us in the Resolution 'On the assessment of the activity of the Bank of Albania for 2015'.

***"The presentation  
of the Annual  
Report is an  
important pillar  
of accountability  
and transparency  
for the Bank of  
Albania."***

In line with the above-stated overview, the presentation will address the following: (i) activity of the Supervisory Council and strengthening corporate governance; (ii) monetary policy decisions, achieved results and future challenges; (iii) measures taken to enhance financial stability and promote lending; (iv) steps taken to foster internal control and monitoring systems and procedures; and, (v) work carried out to strengthen independence, accountability and transparency.

*I would like to start with the activity of the Supervisory Council of the Bank of Albania and our work toward good governance.*

## **1. ACTIVITY OF THE SUPERVISORY COUNCIL AND STRENGTHENING INSTITUTIONAL GOVERNANCE**

The Supervisory Council has performed its activity in line with the competences set out in the Law "On the Bank of Albania" and the procedures established in the regulation on its organisation and functioning.

During 2016, the Council met 15 times and approved 136 decisions, of which 82 were acts approved for the first time, and 54 were amendments to existing acts. Eight meetings were dedicated to monetary policy decisions, four meetings focused on issues related to supervision and financial stability, and three other meetings were dedicated to control and oversight of the activity of the institution. The decisions have been thoroughly communicated to the public through press conferences, publication of relevant reports and public explanation, on a case by case basis, of various issues.

Beyond formulating policies and monitoring their implementation, the vision of the Supervisory Council is to raise the public trust in the Bank of Albania by enhancing the governance of this institution. In this regard, the Council has paid particular attention to this process, building on the structures and processes that had been established in 2015.

I would like to update you briefly on their progress insofar and introduce you to new developments for 2016.

- Established in 2015, the Audit Committee conducted its activity independently in 2016. During the period, the Committee met seven times, exercising its functions as the supervisor and

coordinator of internal and external audit functions, with a view to enhancing their efficiency.

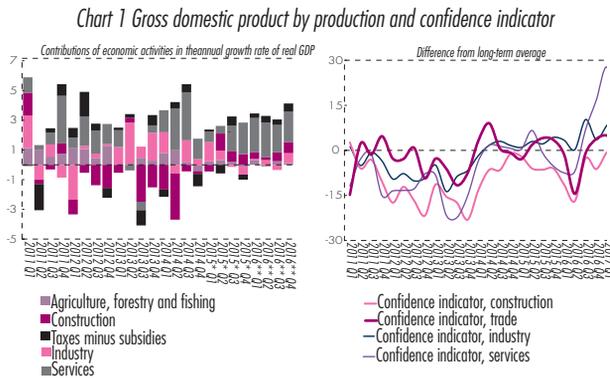
- In accordance with the Internal Audit Policy, the Council adopted for the first time the annual plan of activities of the Inspector General and of the Internal Audit Department. The Audit Committee, and in turn, the Supervisory Council have been informed regularly on audit findings and recommendations by the Internal Audit Department, which provide additional guarantee on the effectiveness and quality of the internal audit systems.
- In July, the Supervisory Council adopted for the first time the Operational Risk Management Policy at the Bank of Albania. The document sets out the objectives, resources and key risk assessment principles, reporting lines and responsibilities of the relevant units. On these grounds, in August, rules were adopted on the organisation and functioning of the Operational Risk Management Unit, which is now operational.
- Also, in July, the Council approved the new budget regulation, which disciplines budget drafting, and planning and control of capital expenditure. In December, the Supervisory Council adopted the annual budget for 2017. For the first time, based on the alignment of the regulatory budgeting framework with the best national and international practices, the budget included projections for the medium-term horizon (2017 - 2019).

*After the overview on the activity of the Council, I would like to focus a little longer on its monetary policy decisions, in view of conformity with the main mandate of the Bank of Albania. I would like to start with a short description of the underlying macroeconomic backdrop for monetary policy decisions.*

## **2. ALBANIAN ECONOMY AND MONETARY POLICY**

In 2016, economic developments were positive and some of the main macroeconomic balances improved. According to INSTAT data, the Albanian economy grew at 3.5% in 2016, accelerating against the 2.6% growth rate in 2015. Economic growth was driven mainly by domestic demand, private investments and consumption, and was reflected, to a larger extent, in the expansion of the activity in services and construction sectors. In parallel, the unemployment rate fell to 14.2%, driven by the constant increase in employment, and the economic agents' confidence hit the record high of the last five years. Likewise, public debt took a

downward turn, for the first time after six years. Lastly, inflation has been upward, after the low rates recorded in the first months of the year. It settled at 2.2% in December and IINSTAT publications for the first months of 2017 point to further rise in inflation rates.



Source: INSTAT and Bank of Albania. \*Data are preliminary. \*\* A preliminary assessment.

For 2017, we expect these trends to consolidate. The return of the economy to potential is accompanied with the strengthening of inflationary pressures and the return of inflation to target within 2018.

Notwithstanding positive trends, the economic and financial environment has been a challenging one for the monetary policy. At the year start, we faced a rapid and sharp decline in inflation, as a result of acute disinflationary shocks from the external environment. Downside risks intensified. Also, extraordinary events such as Brexit or geo-political tensions in the external environment led to heightened uncertainty.

Against this backdrop, the Bank of Albania reacted with determination. The policy rate was lowered in two stages, in April and in May, down to 1.25%. The corridor of interbank rates - the floor is the rate on the overnight deposit and the ceiling is the rate on overnight loan - narrowed to two percentage points. In addition, the Bank of Albania continued to use the forward guidance to inform the public on its the monetary policy stance in the future. The use of this instrument was strengthened over the year, and was enriched with time frames. These actions signalled the willingness and capability of the Bank of Albania to fulfil its objective of price stability.

Chart 2 Key rate (%)



Source: Bank of Albania.

The operational framework of the monetary policy did not undergo significant changes and the banking system was supplied with liquidity through traditional monetary policy instruments. The latter were adopted to better satisfy the needs of the banking system for liquidity.

In our assessment, the accommodative monetary policy has contributed to strengthening economic growth and creating the necessary conditions for maintaining price stability, through a number of channels.

- *First*, the accommodative monetary policy has contributed to lowering the interest rates in all the products in the financial market. The monetary stimulus is assessed to have been transmitted completely. The average interest rates on credit, deposits and 12-month T-bills in ALL were respectively 0.8, 0.5, and 1.5 percentage points lower than in the previous year.
- *Second*, the reduction of financing costs contributed to the expansion of credit. Credit portfolio in ALL to private sector grew by 10.2%, over 2016, while total credit grew by 3.2%. The growth of credit in the Albanian lek is a welcomed development, as it expands the monetary policy scope and serves to fostering financial stability, by reducing the economic agents' exposure to the exchange rate risk. Despite this positive development, credit recovery remains sluggish, due to the limited qualitative demand and the banks' conservative credit policies. For 2017, we expect a better performance of lending to the economy. The expansion of private demand is expected to absorb enterprises' excess liquidity, thus increasing the incentives for boosting credit demand. Similarly, the credit supply is expected

to rise, in line with the lowering of uncertainties and reflecting the implementation of the action plan of measures for reducing non-performing loans and measures for Sound Credit Growth.

- *Third*, the low interest rates helped to reduce the service costs of the existing loans and to lower their re-financing costs. This has facilitated the activity of borrowing enterprises and households.
- *Fourth*, the low interest rates supported the increase of private consumption and investments in the economy, through encouraging a behaviour oriented more towards consumption and less towards savings.

***“According to our economic models, in the absence of monetary policy effects, economic growth and inflation for 2016 would have scored respectively 0.5 and 0.4 percentage point lower than their actual values.”***

According to our economic models, in the absence of monetary policy effects, economic growth and inflation for 2016 would have scored respectively 0.5 and 0.4 percentage point lower than their actual values.

*Honourable committee members,*

The Bank of Albania is independent in formulating and implementing its monetary policy. It is, however, aware of the mutual impact between the monetary policy and the fiscal policy in achieving the respective objectives. Therefore, for a right combination of macroeconomic policies, we are constantly mindful to coordinate the monetary policy stance with the fiscal policy stance; similarly, the latter is detailed in the budget per calendar year, and in medium-term draft budgets. As I have said previously, the inclusion in 2016 of specific provisions for guaranteeing fiscal stability in the Organic Budget Law, established more solid basis for a better coordination of the two macroeconomic policies, as it contributes to increasing the discipline and foreseeability of the fiscal policy.

About the latter, the Bank of Albania finds that the fiscal policy has been on a consolidation path during in 2016, reflected in the reduction of the public deficit and public debt. Although it has injected a weak stimulus to the economy, the consolidating fiscal policy has facilitated the accommodative monetary policy pass through, by reducing the risk premia in the economy, favouring the reduction of financing costs, and increasing the space for lending to the private sector. According to reports from the Ministry of Finance, for the first time after six years, the

public debt was reduced from 72.7% of the GDP in 2015, to 71% in 2016.

The Bank of Albania has been and is certain in the position that efforts for reducing public debt should continue.

The functioning of the monetary policy pass through mechanism, and factors contributing to or preventing it, are an integral part of the work of the Bank of Albania. Research efforts in 2016 aimed to assess the ability of the tools used for generating economic projections at the Bank, as well as the understanding of the functioning of monetary transmission vis-a-vis the current challenges in the financial system. In this context, I would like to point out that the Bank of Albania has identified two main obstacles in the monetary policy pass through mechanism, whose solution requires broader-scale cooperation.

- The first obstacle relates to the high level of non-performing loans. To reduce this risk, a national action plan for reducing non-performing loans has been drafted, and is currently underway.
- The second obstacle relates to the high level of euroisation in the economy, which creates potential risks in the financial system and renders the monetary policy pass through more difficult. Preparing a plan for reducing euroisation in our economy is a joint commitment by a number of authorities and the Bank of Albania is in the process of identifying measures that may be taken in this regard.

*Amid a complex and challenging economic and financial environment, the coordination of the monetary, micro and macro-prudential policies assumes primary importance in promoting monetary and financial stability. In 2016, the Bank of Albania has worked with the same intensity in all three aspects, aiming at an optimum calibration for them. Following, is an overview of our work for maintaining and promoting financial stability.*

***“Amid a complex and challenging economic and financial environment, the coordination of the monetary, micro and macro-prudential policies assumes primary importance in promoting monetary and financial stability. In 2016, the Bank of Albania has worked with the same intensity in all three aspects, aiming at an optimum calibration for them.”***

### **3. PROMOTING FINANCIAL STABILITY AND SOUND LENDING**

In accordance with its mandate and institutional responsibilities, the Bank of Albania is jointly responsible for safeguarding financial stability in Albania. It communicates its assessment on the financial stability regularly, and coordinates its policies with other institutions, through the Financial Stability Advisory Group (FSAG). With regard to financial stability, during 2016, we continued to work for drafting a comprehensive framework of the macro-prudential policy and constructing macro-prudential instruments. This framework is based on recommendations of the European Systemic Risk Board and standards of the Financial Stability Board.

Moreover, in accordance with its institutional mandate and responsibilities, the Bank of Albania is tasked with safeguarding the stability of the banking system and addressing potential risks that may jeopardise it.

The main financial indicators of banking sector soundness - capitalization, liquidity and profitability - show it has full capacity to withstand operational risks under normal conditions, as well as good resilience against shocks.

The share of banking sector assets in the Gross Domestic Product was 95.8% at the end of 2016, up by around 4.5 percentage points from a year earlier. Credit and deposits rose by 2.5% and 5.2%, respectively. In terms of capitalisation, the capital adequacy ratio stands significantly above the regulatory requirement. It stood at 15.7% for 2016, against the 12% regulatory requirement. Good capitalisation remains a characteristic feature of our banking system; it was maintained due to continued positive values in the net financial result. However, the financial result of the system fell slightly during 2016, mainly reflecting the increase in provisioning for the credit risk. The increase was a result of the conservative approach adopted by the Bank of Albania requesting banks to reclassify under non-performing loans those of certain large borrowers facing financial difficulties or a bankruptcy situation. The Return on Assets (ROA) of the system fell to 0.7% from 1.2% a year earlier, whereas the Return on Equity (RoE) fell to 7.2% from 13.2%.

Table 3 Banking system total assets and loan portfolio's share in GDP

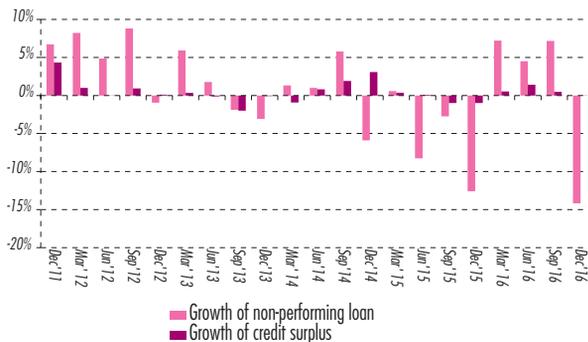
Indicators	2011	2012	2013	2014	2015	2016
Total assets (in ALL billion)	1,120.20	1,187.98	1,234.32	1,293.72	1,318.13	1,407.29
Total assets/GDP (in %)	86.10	89.61	91.13	91.56	91.33	95.05
Total loans/GDP (in %)	40.00	43.58	41.88	42.12	40.61	40.55

Source: Bank of Albania.

In terms of risks, the Bank of Albania deems that the banking system's exposure to liquidity risk and market volatility is within acceptable parameters, but the management of such risk requires on-going attention by the banking industry. In the meantime, credit risk is the main risk to which the banking sector remains exposed. This risk becomes even more present as a result of its persistence and continuous problems that banks face in the process of collateral enforcement. Following the rise in non-performing loans in the first half of the year and their fall in the second half, the ratio of non-performing loans to total loans fell to 18.2% at the end of 2016, at the same level as in the previous year.

Therefore, the reduction of non-performing loans and creation of stimuli to boost sound lending has been and remains a priority issue for us. The Bank of Albania has worked in several aspects to address this problem. First, the assessment of the credit risk and the recoverability of non-performing loans have been subject to intensive monitoring during our on-site examinations. In parallel, we have maintained a prudent approach in assessing lending policies and practices applied by banks. Second, the Bank of Albania has fulfilled its engagements under the National Plan for the Reduction of Non-performing loans.

Chart 3 Non-performing loan portfolio and loan portfolio compared to the previous quarter (in%)



Source: Bank of Albania.

In this regard, the Bank of Albania has made regulatory amendments to clarify the concept of non-performing loans write off and the administration of properties taken into ownership as a result of collateral enforcement. Moreover, the Bank of Albania has cooperated with the IMF to review the regulatory framework about the licencing of companies that purchase bad debt. Third, we have strengthened the regulatory and reporting requirements for banks as regards the due management of credit risk, in accordance with European practices. Fourth, we have intensified the communication with the banks to address the credit portfolio quality, concerning both the treatment of non-performing loan borrowers and loss loan write off. Fifth, the coordinative role of the Bank of Albania has produced results in terms of restructuring borrowers exposed to more than one bank and will continue in this year to prepare an interbank cooperation platform for a solution to common borrowers; the Bank of Albania is drafting it in cooperation with World Bank's FinSAC project.

In our judgement, the steps taken insofar for resolving non-performing loans will contribute to a fruitful environment to boost sustainable and sound lending. This is a major priority, which requires a multidimensional action matrix and a broad cooperation between state authorities and the banking system. In this aspect, the Bank of Albania drafted and promoted the signing of a joint Memorandum of Understanding for the Sound Growth of Credit in Albania<sup>1</sup>.

In the supervisory process, the Bank of Albania has supported the pursuit of pro-active policies against potential risks, with regard to both the quality of the risk analysis performed by banks, and the creation of adequate provisions.

This new approach, introduced a year ago, has required amending the regulatory framework, as well as internal practices and capacities. The regulatory framework and respective methodologies are drafted pursuant to the requirements of Basel II, and in accordance with European Union directives. About regulatory amendments, I would like to highlight two of the most important ones, which have now taken the form of a law: The Law on the Functioning of Savings and Loan Associations and their Unions and the Law on Recovery and Resolution in Banks. The first provided for a comprehensive revision of the regulatory framework for the supervision of savings and loan associations, which consists

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<sup>1</sup> *This Memorandum was signed by the Bank of Albania, Ministry of Finance, Ministry of Economic Development, Tourism, Trade and Entrepreneurship and the Albanian Association of Banks.*

in respective regulations on licencing and risk management in these institutions, as well as the reporting system about their financial activity.

The second provides the Bank of Albania with the attributes of the Resolution Authority, through a set of legal instruments. This law is an important qualitative step towards guarantees for safeguarding financial stability in Albania.

Moreover, in response to the negative events in the previous year, when the security related to transportation and keeping monetary values was affected, the Bank of Albania has urged the cooperation between banks and law enforcement authorities to take measures for eliminating the deficiencies; it has added on-site inspections to examine the probability of occurrence of a risk; and, has strengthened the regulatory framework for establishing criteria on the minimum physical security.

Lastly, a good functioning of the financial system in general and the banking sector in particular has been endorsed by efficient payment systems. The national payment systems operated by the Bank of Albania have operated uninterruptedly and correctly. During 2016, we intensified our work to enhance the effectiveness of electronic payment instruments, and reduce the use of cash in the economy. For that purpose, in accordance with EU directives, the regulatory framework on electronic payment instruments was revised.

Moreover, to fulfil the recommendations of the National Payments System Committee, a project was finalised on the standardisation of the payment-order; meanwhile, the implementation of the Interbank Direct Debit project is underway. It is aimed at increasing the use of this instrument by the clients of all banks, contributing thus the reduction of cash in the economy. In our judgement, the coordination of the monetary policy with the micro and macro-prudential measures by the Bank of Albania has contributed to promoting monetary and financial stability.

***“The coordination of the monetary policy with the micro and macro-prudential measures by the Bank of Albania has contributed to promoting monetary and financial stability.”***

#### **4. FOSTERING INTERNAL CONTROL AND MONITORING SYSTEMS AND PROCEDURES**

The last two years have seen important changes in terms of fostering internal control systems, in order to bolster risk prevention. The internal audit at the Bank of Albania is an independent activity from the management, ensured through the Inspector General, appointed by the Parliament. It also contributes to a smooth operation and accountability at the Bank of Albania, assessing both the control over processes and the efficiency in the use of resources.

The practices in control systems are approximated with international audit standards, and are adopted to address recommendations by international institutions.

One of the recurring recommendations from these institutions pertains to the implementation of the operational risk management at bank level. Started in the previous year, the realisation of this project was finalised in 2016. Now, the Bank of Albania has an Operational Risk Management Policy, which sets out the core principles for the identification, assessment, control, management and follow-up of the operational risk as an integrated process at bank level. We have also established a dedicated unit for evaluating and making recommendations for addressing vulnerabilities.

The internal audit function acts also as a consultant service for the Supervisory Council. The audit engagements focused on: (i) issuing opinions on the sufficiency of internal audits established by the Management for audited functions/processes, including supportive applications for the activities; (ii) issuing opinions on the accuracy and completeness of financial data in periodic reports; and (iii) other audit and non-audit engagements, ad hoc, upon special request by the Administrators or other institutions outside the Bank.

***“In 2017, a project started on the implementation of the Programme on the Business Continuity Management at the Bank of Albania. The realisation of this project ranks the Bank of Albania among the banks applying best practices on institutional good governance.”***

With added prudence on designing work processes by Bank units, at the beginning of 2017, a project started on the implementation of the Programme on the Business Continuity Management at the Bank of Albania. The realisation of this project ranks the Bank of Albania among the banks applying best practices on institutional good governance.

## **5. MEDIUM-TERM STRATEGY AND STRENGTHENING OF INDEPENDENCE, ACCOUNTABILITY AND TRANSPARENCY**

The medium-term development strategy of the Bank of Albania for 2016-18 was launched in 2016 to activate the entire potential of the Bank of Albania. This document sets out the institutional objectives throughout a three-year period, 2016-2018, and identifies the measures and sources needed to accomplish these objectives. The fulfilment of these objectives depends, first of all, on how understandable we are to the public, how responsible we are in our policies and actions, and how trustworthy we are to the public. Hence, enhancing the Bank of Albania's independence is always considered related to the strengthening of transparency and accountability.

In terms of accountability, the Bank of Albania has regularly fulfilled the accountability obligations to the Parliament, the financial system and the public. Also, information on the activity and results of the Internal Audit Department is attached to the Annual Report 2016. Also, the financial statements and the opinion of the external independent auditor were an integral part of the Annual Report, in compliance with the International Audit Standards. The approval of the financial statements in compliance with the International Financial Reporting Standards (IFRS Standards) was among the most important priorities of the Bank of Albania for 2015. The implementation of this priority over 2016 met the legal requirements and observed the internal and external recommendations.

Transparent communication is an important pillar in Bank of Albania's activity for both fulfilling the responsibility for maximum transparency about decision-making and its effects, and raising public confidence in the central bank. Following are some statistics:

- Our official website is a place where the public may find complete and updated information on the Bank of Albania, as well as on the economy and finances in Albania. During 2016, the website had about 720 000 visitors, who viewed our page around 2.100.000 times and browsed in total about 4.310.000 items.
- Also, the Museum of the Bank of Albania was visited by 1900 visitors; while 1180 textbooks 'Personal finance in your hands', were distributed in eight high schools.

Since the beginning of 2016, in compliance with Article 7 of the Law No. 119/2014 'On the right of access to information', the Bank of

Albania has compiled and published the Transparency Program on its website. In this regard, we have assigned a coordinator and answered 65 official requests and 120 requests delivered via electronic mail.

For nearly a decade now, the Bank of Albania has been committed to expanding and deepening financial literacy of the public, focusing on the younger generation.

Although, the financial education of the public is not a legal obligation of the Bank of Albania, we are confident on the positive return of this investment. Two are the main goals of the programmes, activities and special educational publications prepared by the Bank of Albania: introducing the central bank, its functions and role to the public; and cultivating and strengthening the financial literacy in society. In our view, financial literacy has become a necessity, taking into consideration not only the level of economic, banking and technological development, but also the importance and significance of information in today's global setting.

*Honourable Chair,  
Honourable Members of the Committee,*

In conclusion, I would like to highlight that, over 2016, the Bank of Albania has showed initiative and devotion in addressing the challenges we have faced. The positive results of our work show that we are on the right direction.

Nevertheless, I think that for successful institutions there is always something more to do. They are guided by the medium and long-term objectives; they invest to enhance the professional standards and increase their capacities through the preparation, strengthening of independence, accountability, transparency and good governance. This credo of ours will be a guide for our action plans in the future.

**Thank you for your attention!**

**GOVERNOR SEJKO PRESENTS BOA'S  
OPINION ON 2018 DRAFT BUDGET TO  
THE PARLIAMENTARY COMMITTEE ON  
ECONOMY AND FINANCE  
-15 November 2017-**

*Honourable Chairman,  
Honourable Members of the Committee,*

First, I would like to thank you for the invitation and opportunity to present to this Committee the opinion of the Bank of Albania on the 2018 draft budget.

The budget is the main instrument for the implementation of the fiscal policy. On the one hand, it programmes and realises the direct intervention of the state in economy. On the other hand, tax legislation that accompanies the budget determines the fiscal stimuli that affect the decisions of the private sector for consumption and investments. Both aspects affect domestic demand, the economic growth, the expansion of employment, and the improvement of welfare.

In this light, it is natural for this important project to be consulted with experts and groups of interest. The broad-based consultation should aim at producing a qualitative action plan, to determine the optimal use of limited financial resources, in view of the objectives for the long-term development of the country.

Let me now introduce the opinion of the Bank of Albania on this draft budget. Conform to the legal mandate; I will focus on those issues which are within the scope and activity of the Bank of Albania. In more concrete terms, my comments will be summarised in the following fields:

- i Trend and impact of fiscal policy on the economy;
- ii Long-term sustainability of public finances;
- iii Public borrowing and its impact on the domestic financial markets; and;
- iv Enhancing the effectiveness and sustainability of public finances.

First, I will summarise our vision on the development perspectives for Albania and the contribution that we, as policymakers, could provide in this regard.

## **1. FISCAL POLICY AND 2018 DRAFT BUDGET**

As we have emphasized in our public statements, the Bank of Albania finds that the Albanian economy is on a positive growth trend. Economic activity at home is growing, financial balance sheets of both private and public sectors are improving, domestic and external balances are becoming healthier, while private agents' confidence is being consolidated.

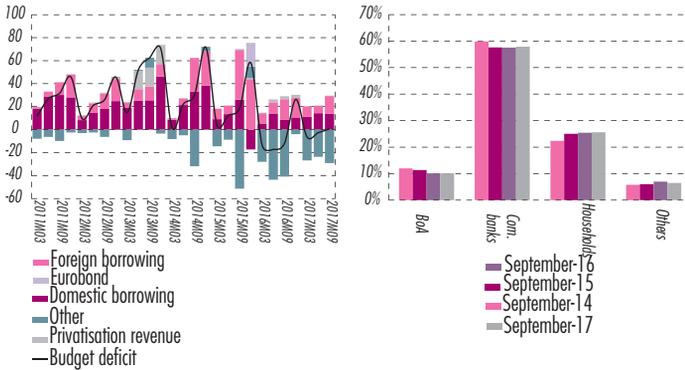
The improvement in the external environment favoured this performance, which in turn first reflects a proper domestic policy mix.

- The accommodative monetary policy has aimed and succeeded to ensure a liquid financial environment, with low interest rates and improved financial conditions.
- The fiscal consolidation has reduced risk premia in financial markets, has provided the pass through of our monetary policy into these markets, and has increased the space for credit to the private sector.
- The macro-prudential policy has safeguarded the financial stability, while the banking sector regulation and supervision have contributed to the normal functioning of this sector, as the main instrument for holding public savings and financing the economy.

Our analyses suggest that the outlook remains positive, but it should continue to be supported by prudent economic policies.

In this context, the Bank of Albania concludes that by targeting a positive primary balance and aiming the further reduction of public debt, the draft budget 2018 continues on the fiscal consolidation path. The Bank of Albania deems that this draft budget: maintains unchanged the economic policies mix that has sustained the development of Albania, which helps to further strengthen the macroeconomic equilibriums; increases the investors' confidence in the Albanian economy, and sends the appropriate signals to the financial markets and credit rating agencies.

Chart 4 Budget deficit and its financing instruments, in ALL billion (cumulative) and main holders of government's domestic debt



Source: Ministry of Finance, Bank of Albania.

In greater details:

- The primary balance of 2018 is projected to be positive, at 0.6% of GDP, and the public debt to GDP ratio is expected to reduce by 2.5 percentage points. The Bank of Albania deems that the 2018 draft budget strengthens the consolidating trend of the fiscal policy and ensures that the monetary stimulus will continue to be transmitted to the economy.
- Projections of fiscal income appear to be prudent, although the estimates appear slightly optimistic. These projections are based on an acceptable macroeconomic framework, while both public expenditure and tax policies appear to be consistent with the expected economic developments.
- Composition of public expenditure appears more supportive for the country's development. Capital expenditures are expected to grow faster than current expenditure over 2018, to 5.2% of GDP. Our research suggests that capital expenditures have relatively greater and more sustainable effect on economic growth, than current expenditures.
- The 2018 draft budget envisages the growth of tax revenues, mainly in line with the improvement of the economic activity, as well as, in part, from the increasing formalisation of the economy. The Bank of Albania welcomes the continuation of this initiative, deeming that the long-term benefits from the increase of competition and transparency in the economy, surpasses the short-term costs of the reform. With regard to this initiative, the Bank of Albania has

already instructed the commercial banks, starting from year 2018, to base the borrowers' financial analyses on certified balance sheets, providing thus another incentive for the formalisation and increasing the costs of informal activity.

- Finally, the estimated fiscal effect from amendments to the tax and customs legislation appears to be low. Based on these assessments, the expected impact of fiscal measures on inflation is expected to be relatively low and transitional.

Following, I will focus on the issues regarding the long-term soundness of public finances.

## **2. SUSTAINABILITY OF PUBLIC FINANCES**

The long-term sustainability of public finances is a pre-condition for the overall economic and economic stability of Albania.

The Bank of Albania finds that the 2018 draft budget meets the requirements stipulated in the Organic Budget Law. The continuous implementation of the criteria set out in this Law helps to discipline the compilation and implementation of fiscal policies, to increase their consistency in years and to strengthen private finances in the long term. Also, it reduces the risk premia and improves the investments' climate.

In the light of strengthening the public finances, the 2018 draft budget places a limit on the total value of the projects contracted under the Public-Private Partnership (PPP) programme, at 40.1% of GDP. The Bank of Albania judges the placement of this limit is a positive development, as it helps to prevent the unplanned expansion of public liabilities.

Now, I would like to share with you our assessment on the expected impact of the draft budget on financial markets.

## **3. PUBLIC BORROWING AND ITS IMPACT ON THE DOMESTIC FINANCIAL MARKETS**

The level of public debt and its financing structure have a direct and mutual connection to the development and soundness of the domestic financial system. We deem that maintaining financial markets' confidence should be one of the primary objectives of our fiscal policy, because - in

the long term - it determines not only the public debt cost, but also the financing cost and the private sector's access to credit to the private sector.

The Bank of Albania considers that the budget deficit for 2018 is programmed to be financed entirely through domestic borrowing. Related to the relevant impact on the domestic financial markets, the Bank of Albania notes that:

- Our financial market is characterised by a good liquidity situation and by low interest rates. These trends are expected to continue during 2018, thus providing adequate conditions to accommodate the planned borrowing. In principle, due to the risk arising from the fluctuations in the exchange rate and in foreign investors' appetite against sovereign debt in emerging economies, the Bank of Albania suggests to continue addressing foreign commercial borrowing, as the last-resort alternative in the list of options for financing the budget deficit.
- Financial market remains sensitive to the fluctuations in the financing of budget deficit during the year.

Therefore, the Bank of Albania suggests:

- Continuous monitoring of the financial market and enhancing the efforts to reduce liquidity fluctuations arising from public sector activity.
- Acceleration of efforts for the development of securities secondary market, which would reduce risks for the accommodation of the domestic borrowing. The well-functioning of this market will help expand the investors' base, grow liquidity of Government's debt instruments and reduce debt costs.

The draft budget includes - for the first time - the legal provisions for the transfer of funds created from foreign borrowing, from a fiscal year to next one. This novelty allows for a better allocation of the use of funds obtained from foreign borrowing, and enables the pre-financing of payments due for contractual obligations in the form of foreign debt. Overall, this provision helps to reduce fiscal vulnerabilities, when foreign borrowing and transfers are made in compliance with the repayment schedule of foreign debt. Also, it helps reduce refinancing risk, and potentially, lowering the cost of financing from foreign markets. However, the Bank of Albania suggests: (i) to consult it in advance on the foreign borrowing plans; and (ii) to show prudence and place quantitative limitation on this transfer's size, in years.

*Honourable Members of the Committee,*

Allow me, in conclusion, to present some suggestions and recommendations of the Bank of Albania for enhancing the effectiveness and sustainability of public finances.

#### **4. SOME SUGGESTIONS ON ENHANCING THE EFFECTIVENESS AND SUSTAINABILITY OF PUBLIC FINANCES**

##### **On deficits in health and social insurance schemes**

Deficits in pension and social insurance schemes remain a heavy burden to the budget. The deficit of these schemes is around 2.5 times higher than the total value of budget deficit. This phenomenon should be continuously monitored. Its medium and long-term implications should be assessed seriously - and if necessary - corrective measures should be taken. In particular, the Bank of Albania thinks that the establishment of private pension schemes should be promoted more strongly; they facilitate the burden on public finances and provide further breath to the development of financial markets.

##### **On Public-Private Partnerships**

The 2018 draft budget considers the risks arising from the expansion of public-private partnership (PPP) projects, by establishing a limit on the total value of these projects and detailing in advance the list of new PPPs over the year. Nevertheless, the Bank of Albania suggests considering the possibility to include an overall upper limit on the PPPs total value in the Organic Budget Law. This option would discipline, in long term, the total contracted volume of these projects and will be in line with the provisions of this Law on the maximum limit that the servicing of these schemes shares in the budget expenditure of the year.

***“The Bank of Albania suggests considering the possibility to include an overall upper limit on the PPPs total value in the Organic Budget Law.”***

Also, the other concern about these projects relates to the potential liabilities that they may incur. In this aspect, we emphasise the need for: (i) the continuous improvement of professional capacities of units that manage the assessment, the contracting and monitoring of these projects,

in particular regarding their financial and legal aspects; and (ii) the implementation of best standards in accounting their impact on budget indicators.

### **On the financing structure of the budget**

The concentration of public debt in the domestic market and the focus on local currency was a strong element in the financing structure of the Albanian public debt. This element has maintained the refinancing risk relatively low and has reduced the fluctuations in the size and cost of debt servicing, arising from exchange rate volatility. The Bank of Albania deems that this element of the structure should be maintained in the future. Lastly, I would like to mention two long-standing concerns of the Bank of Albania.

### **On compliance with the projected level of the budget deficit over 2018**

While the macro framework and fiscal projections of the 2018 draft budget, overall, appears to be prudent, the Bank of Albania draws the attention to the fact that maintaining the budget deficit should be set out as a non-negotiable objective. In terms of fiscal prudence, it means that the budget should include, either implicitly or explicitly, contingency plans to cope with possible situations, when the deficit risks go above the limit.

***“The Bank of Albania draws the attention to the fact that maintaining the budget deficit should be set out as a non-negotiable objective. In terms of fiscal prudence, it means that the budget should include, either implicitly or explicitly, contingency plans to cope with possible situations, when the deficit risks go above the limit.”***

### **On the effectiveness of public finances**

It would be appropriate at this point to reiterate the appeal for a uniform allocation of budget expenses throughout the year, which would reduce unnecessary fluctuations in financial markets and increase the effectiveness of the fiscal policy.

Thank you for your attention!



KONFERENCË PËR SHTYP

RAPORTI I NDËRMJETËM I POLITIKËS  
MONETARE

29 MARS 2017



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# CHAPTER II

## PRESS CONFERENCES ON MONETARY POLICY DECISIONS

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- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 1 February 2017*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 29 March 2017*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 3 May 2017*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 5 July 2017*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 2 August 2017*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 3 October 2017*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 1 November 2017*
- *Governor Sejko: Statement to the Press Conference on the Activity of the Bank of Albania in 2017, 20 December 2017*

### ***Press conferences on monetary policy decisions***

*The Supervisory Council of the Bank of Albania meets 15 times a year, of which 8 are dedicated to monetary policy decisions. The monetary policy is formulated in the light of the main objective of the Bank of Albania – achieving and maintaining price stability. After each meeting, at 16.00, the Governor explains to the public, in a press conference the decision of the Supervisory Council on the monetary policy stance and the underlying analysis. At the end of the conference, the Governor answers to questions by the journalists at the conference.*



## **BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 1.25%** **-1 February 2017-**

*The economic activity at home grew and inflation is moving towards the target.*

*The accommodative is a determinant factor in this development landscape.*

*Our outlook for the future remains positive.*

*The actual monetary policy stance is adequate to meet our target.*

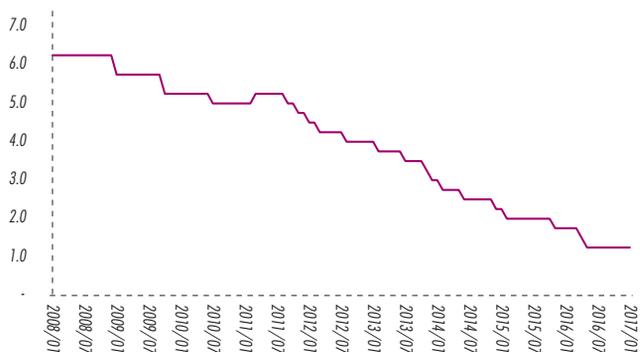
Welcome to our press conference, which will introduce the main findings of the Quarterly Report and the Supervisory Council decision on the monetary policy stance. As this is our first meeting for 2017, first of all let me wish you a successful and prosperous year to you and to the TV viewers watching us.

The information analysed in the Quarterly Report confirms our previous assessments on the actual situation and the outlook of the Albanian economy. In more detail:

- Available data suggest that economic activity at home continues to expand. This improved economic activity led to better labour market indicators and is reflected in a gradual rise of inflation towards the target.
- Our accommodative monetary policy, as reflected in the reduction of financing costs and risk premia, remains a determinant factor in this development landscape.
- Our outlook for the future remains positive. The Bank of Albania expects economic growth to pick up over the next two years and inflation to return to target within 2018.

Based on these assessments, the Supervisory Council concluded that the actual monetary policy stance is adequate and decided to keep the policy rate unchanged at 1.25%. Also, the Supervisory Council decided to keep unchanged the interest rates for the overnight deposit and overnight lending facilities, at 0.25% dhe 2.25%, respectively.

Chart 5 Key rate (%)



Source: Bank of Albania.

Let me now explain in greater detail the reasons underlying our decision and its expected implications.

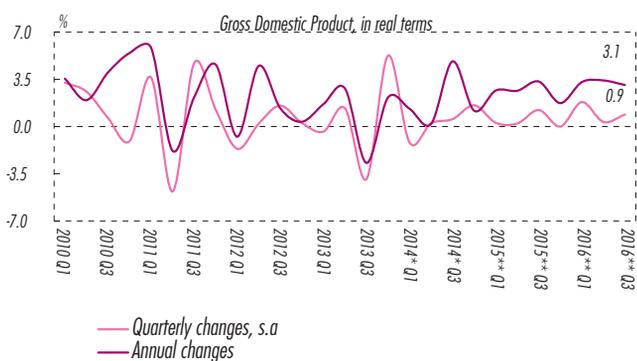
Inflation has been trending upward in recent months, settling at 2.2% in December. In terms of composition, during the fourth quarter, inflation rose due to the increase in food and oil prices. From the macroeconomic perspective, during this period, the upward trend of inflation reflects the added inflationary pressures from the domestic environment and the reduction of disinflationary pressures from the external environment.

According to INSTAT data, the Albanian economy grew 3.3% in the first nine months of the year and 3.1% in the third quarter. Growth reflected the expansion of consumption and private investments and the increase in revenues from tourism. Domestic demand was supported by the stimulating monetary conditions, improvement of confidence, increase in employment and expansion of foreign direct investments. On the other hand, foreign demand contributed positively to the export of services, but the export of goods continued to show poor performance, as a result of still low commodity prices in international markets.

In our judgment, economic growth in the fourth quarter will be higher than in the preceding quarter. Economic growth for 2016 will be similar to that recorded in the first nine months, and higher than in 2015.

The expansion of aggregate demand has led to the increase in employment and decrease in unemployment. Data for the third quarter point to 8.5% increase in employment and a decrease of the unemployment rate to 14.7%.

Chart 6 Annual and quarterly GDP



Source: INSTAT and Bank of Albania.

Economic and financial developments have reflected the combined effect of the consolidating fiscal policy and the accommodative monetary policy implemented during the year.

The fiscal balance of the first 11 months resulted in ALL 7.1 billion surplus. The increase of revenues by 7.3% and reduction of expenditures by 2% contributed to this result. This fiscal policy stance has kept the direct contribution of public expenditure to aggregate demand at low levels, but it has created more space for the pass-through of our monetary policy to the financial markets.

Our monetary stimulus has provided favourable financing conditions, even though the exchange rate appreciated from the previous year. The low policy rate has contributed to the reduction of interest rates across the board for financial products offered to the private sector. In particular, the average interest rate on lek loans in November was 0.6 percentage point lower than in the previous year. On the other hand, the yields on government securities in the primary market moved upward in recent months. This movement was partly due to a correction of their rapid decline in the first half of the year, and partly due to the effects from the supply and demand fluctuations in the auctions. The upward trend is expected to decelerate for as long as the monetary policy and the fiscal policy remain unchanged. Moreover, available data suggest that this trend has not resulted in a tightening of the price of credit to the private sector, and has not distorted the monetary policy pass-through.

In response to this policy, and reflecting the recovery in economic activity, the credit to the economy has been increasing. Excluding the effect of the loss loans write off from the balance sheets, the portfolio of credit to the private sector in November stood 3.4% higher than in the previous year. In more detail, the 10.4% domestic currency credit growth offset the contraction by 1.4% in foreign currency credit portfolio.

The Bank of Albania expects crediting to improve further in 2017. The expectations are based on the signals for a gradual recovery of credit demand and the positive effects on the supply side from the materialisation of measures for the reduction of non-performing loans. Data show that the ratio of non-performing loans fell to 18.2% in December 2016. The reduction reflects the combined effects of the improvement of the economic situation, credit restructuring and non-performing loans write-off from balance sheets.

The analysis suggests that economic and financing conditions are adequate for the return of inflation to target. Economic growth is expected to strengthen further in the next two years, creating adequate conditions for the return of the economy to equilibrium and of inflation to target within 2018. For 2017, the Bank of Albania expects average inflation to hit 2.3%, from 1.3% in 2016.

The realisation of this scenario requires maintaining the accommodative stance of the monetary policy in the medium-term horizon. However, the intensity of the monetary stimulus in this period will follow the improving trend in the economy, adapting to the needs of maintaining macroeconomic balances. Based on the available information and judging on the balance of risks, which remains on the down side, the Supervisory Council deems that the intensity of the monetary stimulus will not diminish before the fourth quarter of 2017.

This path of the monetary policy stance is in line with the accomplishment of our price stability objective. In parallel, the accommodative monetary policy also creates adequate conditions for the implementation of structural reforms. Such reforms are necessary - among others - for further expanding the production capacities of Albania and increasing the resilience of the economy against potential shocks.

***“The intensity of the monetary stimulus will not diminish before the fourth quarter of 2017.”***

## **BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 1.25% -29 March 2017-**

*The return of the economy to equilibrium and of inflation to target within 2018  
The accommodative monetary policy contributed to the reduction of financing costs for economic  
agents and the recovery of credit in the domestic currency.  
The coordination of macroeconomic policies has created an appropriate environment to stimulate  
the economy and support a stronger macroeconomic stability in Albania.  
Maintaining and further strengthening the pace of structural reforms is a precondition for  
guaranteeing steady and long-term growth.*

The available economic and financial information, reviewed in the Intermediate Monetary Policy Report, has been overall in line with our expectations. The Albanian economy continues to record growth, inflation is moving gradually towards the target, financial markets are calm, and interest rates and financing conditions are consistent with the achievement of our inflation objective.

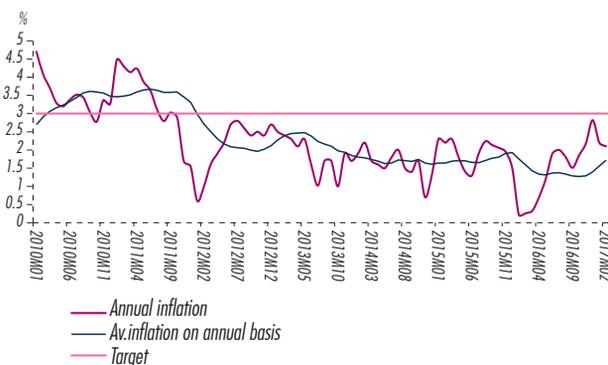
The updating of forecasts after the analysis of the new information did not reveal significant changes in the expected developments. In the absence of shocks, the positive economic trend, the favourable financing conditions, and the gradual improvement of confidence and of the external environment are expected to enable the return of the economy to equilibrium and of inflation to target within 2018.

In accordance with these conclusions, the Supervisory Council of the Bank of Albania deems that the current stance of the monetary policy is adequate.

Annual inflation stood at 2.8% and 2.2% in January and February of the current year. Fluctuations in inflation reflected fluctuation in food prices, which were affected by weather conditions and developments in foreign markets. Other categories in the consumer basket continued to provide steady and positive contribution.

Fluctuations in inflation did not slacken its upward trend, which had started in the second half of the previous year. This trend was supported by the strengthening of domestic inflationary pressures, price rise in international markets, and gradual convergence of medium-term inflation expectations with the target.

Chart 7 Annual inflation and target



Source: INSTAT and Bank of Albania.

The updating of economic analysis with new statistics shows economic growth continued, both in the last quarter of 2016 and in the first two months of the current year. Sources of growth are assessed to be stronger: in addition to the steady contribution by domestic demand, during this period, foreign demand is assessed to have provided added positive contribution. The domestic demand benefited from the increase in employment, monetary conditions, enhanced confidence of economic agents, and foreign direct investments. On the other hand, the rise in prices and recovery of demand in foreign markets has led to the growth of Albanian exports in goods during the period.

Acceleration during 2016 has drawn the Albanian economy closer to its potential and has activated a larger share in the production capacities. The unemployment rate fell to 14.2% at the end of the year, whereas the capacity utilisation rate has been upward. Against this backdrop, domestic inflationary pressures have been upward. Additionally, medium-term – two and three year – inflation expectations have picked up, recording 2.6% and 2.7%, respectively.

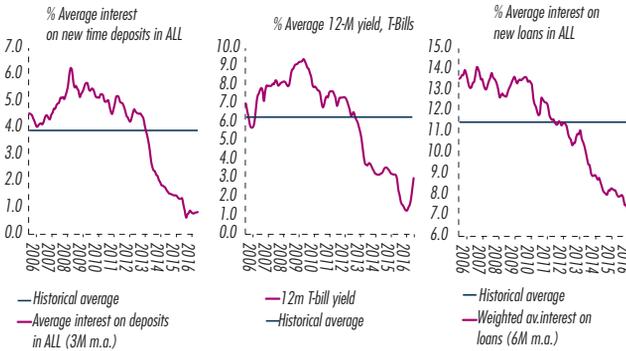
The coordination of macroeconomic policies has created an appropriate environment to stimulate the economy and support a stronger macroeconomic stability in Albania.

The fiscal policy has pursued a consolidating trend, reflected in the reduction of public deficit and debt. Yet, this consolidation trend was of a lower intensity at the end of the previous year and in the first two months of the current year. In January, the fiscal surplus amounted to ALL 7.9 billion,

driven by the increase in revenues 0.2% and increase in expenditures 5.1%. While injecting a low fiscal stimulus in the economy, the consolidating fiscal policy stance has facilitated the monetary policy pass-through.

The accommodative monetary policy contributed to the reduction of financing costs for economic agents and the recovery of credit in the domestic currency. The transmission insofar of the monetary stimulus to the financial market may be considered complete. In particular, yields on government securities in the primary market reversed the upward trend noted at the end of the previous year. In line with our expectations, this behaviour reflected the improvement in the demand-supply ratio for these instruments, and the unchanged monetary and fiscal policies. The volatility in T-bill yields was not transmitted to products of other segments in the financial market. Financing costs for the private sector maintained low historical levels and "non-price" conditions continue to ease for households, but remain tight for enterprises, mainly for corporations.

Chart 8 Main interest rates in Albanian financial markets



Source: Bank of Albania and MPD's estimates.

Easing monetary conditions contributed to the continuous growth of the credit portfolio in lek. The volume of credit denominated in the Albanian lek grew by 11% in annual terms, offsetting the contraction in foreign currency credit in January. The upward trend of lek credit is an encouraging development, but the distribution of this growth points to its concentration in the households segments, whereas credit to enterprises continues to be sluggish. This performance is driven by the reluctance of banks toward this segment, the small qualitative demand, and the firms' ample liquidity available in the form of deposits. The growth in consumption and investments is expected to be accompanied by the absorption of enterprises' liquidity and increasing

demand for credit. Moreover, the credit supply is expected to ease, driven by the measures for reducing non-performing loans and promoting healthy credit. The further reduction of non-performing loans in February, now down to 18%, is an encouraging sign in this regard. Conditioned by the rapid weakening of actual uncertainties, the Bank of Albania considers that all the premises are in place for the lending activity to post growth during 2017.

The updating of macroeconomic projections has confirmed our earlier expectations for the monetary and economic outlook. According to the baseline scenario, the return of the economy to potential and the gradual absorption of spare capacities are expected to be accompanied by the strengthening of inflationary pressures. Annual inflation is expected to be around 2.4% for 2017 and return to our target within 2018. On the other hand, the balance of risks surrounding these projections is assessed to have moved on the down side, both in the short and in the medium term, driven by uncertainties in the domestic and external environment.

The performance of the economy and the materialisation of our expectations reconfirm that the current monetary policy stance is adequate.

Based on these judgements, the Supervisory Council decided to keep the key interest rate unchanged at 1.25%. Moreover, the Supervisory Council decided to keep unchanged the interest rates on overnight deposits and loan facilities, at 0.25% and 2.25%, respectively.

Judging from the available information, the Supervisory Council deems that the intensity of the monetary stimulus will not be reduced before the fourth quarter of 2017. Furthermore, the intensity of the monetary stimulus will be recalibrated to correspond to the expected improvement trend for the economy.

Finally, the Supervisory Council reaffirms that this monetary policy stance contributes to maintaining macroeconomic equilibriums, in general, and achieving and maintaining price stability, in particular. On the other hand, the Supervisory Council reiterates that maintaining and further strengthening the pace of structural reforms, both with regard to the growth of economic potential and reduction of its weaknesses, is a precondition for guaranteeing steady and long-term growth.

***“The intensity of the monetary stimulus will not be reduced before the fourth quarter of 2017.”***

## **BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 1.25% -3 May 2017-**

*Economic growth accelerated and inflation is trending upward.  
The monetary policy has established the necessary preconditions for the return of inflation to target.  
Our projections for the future remain positive, albeit the down side risks are assessed to have increased.  
The actual monetary policy stance remains adequate to meet the inflation target.  
The Bank of Albania stands ready to respond - in due time and extent - to guarantee compliance with its objectives*

The new information analysed in this quarterly monetary policy report has resulted overall in line with our expectations. New economic and financial data show economic growth accelerated and main macroeconomic balances improved during the end of 2016 and the beginning of 2017. In particular, inflation rate and inflation expectations have trended upward during the period.

The analysis of the available information reveals the positive role of our monetary policy. The stimulating monetary conditions have favoured the growth of credit and reduction of debt servicing costs, therefore, supporting the recovery of private consumption and investments, and establishing the preconditions for the return of inflation to target.

Our updated medium-term projections suggest that the Albanian economy will continue to grow and that inflation will return to target within 2018. These projections have not changed significantly from the previous round, albeit the down side risks are assessed to have increased.

Against this backdrop, the Supervisory Council deemed that the actual monetary policy stance remains adequate and decided to keep the policy rate unchanged at 1.25%. Moreover, the Supervisory Council decided to keep unchanged the interest rates on overnight deposits and loan facilities, at 0.25% and 2.25%, respectively.

Let me now explain in greater detail the analyses and conclusions underpinning this decision.

Inflation has increased in the first quarter of 2017, averaging 2.4%. This performance was determined by the rise of foods and oil prices. The prices of other basket items did not change significantly, and continued to provide a low positive contribution to headline inflation.

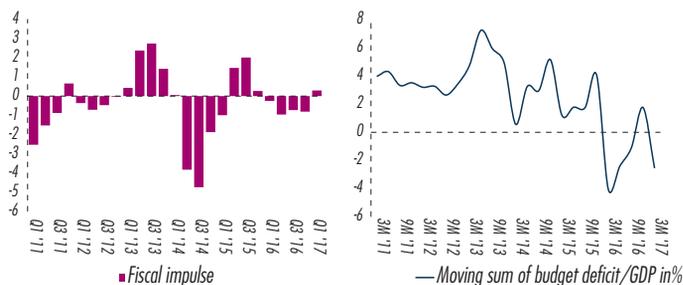
From the macroeconomic perspective, inflation's upwards trend is underpinned by the improvement of economic activity and higher capacity utilisation, the upward prices in global markets, and the better anchoring of inflation expectations. The effect of these factors is expected to persist in the period ahead. Inflation is forecasted to average around 2.3% for 2017 and to rise further - toward the target - during the next year.

According to INSTAT data, the pace of economic growth improved in the last quarter of the previous year. The Gross Domestic Product increased by an annual 4.0% for the quarter, whereas the annual rate economic growth for 2016 stood at 3.5%. The services and construction sectors provided the largest contribution to economic activity; meanwhile, industry and agriculture grew at positive, but lower, rates.

In terms of aggregate demand, economic growth reflected the expansion of both domestic and external demand for goods and services. Private consumption and investments increased, driven by the low interest rates, expansion of employment, improvement of confidence, and high FDI inflows. In parallel, economic growth in the fourth quarter benefited from the increased activity in tourism and the recovery of growth in the exports of goods. Indirect available data suggest that these trends continued in the first quarter of 2017.

Fiscal data for the first quarter point to fiscal consolidation slowing down, which materialised in budget surplus being 33.2% lower than in the same period in the previous year. Fiscal expenditure for this quarter increased 10.3% in annual terms, against the 4.3% increase in income. The budget plan for 2017 suggests added contribution by the fiscal policy to aggregate demand growth, but the Bank of Albania continues point to the need for a more even distribution of expenditure and budget deficit throughout the year.

Chart 9 Fiscal policy orientation\*



\*The chart shows the change of the primary deficit created within a year (4 quarters moving sum) in terms of GDP of the same period a year ago. Changes in the positive side show fiscal impulse, while values below the horizontal axis suggest the consolidation of public finances. Source: Ministry of Finance, INSTAT, calculations of BoA's staff.

Financial markets continued to reflect the impulse of our accommodative monetary policy. The rise in yields on government securities at the end of the year resulted to be a temporary development and was not transmitted to other segments of the financial market. Financial markets continue to be characterised by low interest rates on both deposits and loans.

The monetary policy has supported the reduction of financing costs and growth of credit in the domestic currency, although the total credit growth remains sluggish. At the end of March, credit to the private sector stood 3.3% higher than a year earlier. During the last twelve months, lek credit expanded by 10.3%, whereas foreign currency credit shrunk by 1.6%. By sector, credit growth was concentrated in the segment of loans to households, whereas loans to enterprises appear sluggish, driven both by the weak demand from enterprises and the tight supply by the banking sector.

Judging on the current economic and financial trends, as well as the relevant underlying factors, the Bank of Albania deems that the cyclical improvement of the economy will continue in the medium-term horizon. According to the baseline scenario, in this time horizon, we expect economic activity to grow further, driven by the recovery of domestic demand and improvement of the external environment. The growth in economic activity is expected to be accompanied by the absorption of spare production capacities, in both labour and capital markets. The return of the economy to equilibrium will establish adequate preconditions for the stable return of inflation to target within 2018.

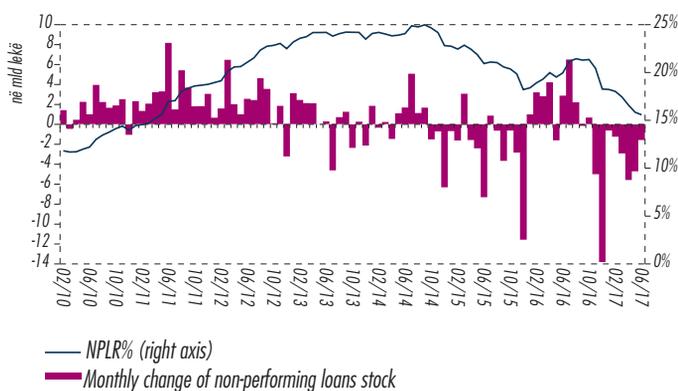
The Supervisory Council deems that the realisation of these projections requires maintaining the actual macroeconomic policy mix and continuing with structural reforms.

Fiscal policy is expected and should continue to maintain a consolidation stance in the medium term. This policy stance lowers risk premiums, increases space for credit to the private sector and bolsters the country's capacities for withstanding shocks in the future.

Based on the available information, the Supervisory Council judges that the monetary policy will remain accommodative during the medium-term horizon and the intensity of the monetary stimulus will not be reduced before the first quarter of 2018. This policy stance ensures the necessary stimulus for boosting economic activity and for the return of inflation to target.

At the same time, the Supervisory Council re-emphasises the need for continuing the structural reforms with regard to improving the business climate, enhancing the efficiency and expanding the production potential of the Albanian economy. In particular, in the medium-term horizon, the Bank of Albania expects a progressive improvement of credit demand. The increasing demand should be matched by increased credit supply. In this context, the reduction of the non-performing loans ratio down to 17.4% in March is an encouraging development, but it should be accompanied by the continuation of the implementation of initiatives for improving the credit environment and more active lending policies by banks.

Chart 10 Non-performing loans ratio



Source: Bank of Albania, Financial Stability Department.

Finally, the Supervisory Council underlines that the balance of risks surrounding the outlook remains tilted to the downside. In the short term, the tense political situation at home may contribute to increased uncertainties and postponing investments and consumption. In the medium term, risks are related mainly to the uncertainties in the external environment and the speed of credit recovery.

In any case, the Bank of Albania stands ready to respond - in due time and extent - to guarantee compliance with its objectives.

***“The monetary policy will remain accommodative during the medium-term horizon and the intensity of the monetary stimulus will not be reduced before the first quarter of 2018.”***

## **BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 1.25% -July 2017-**

*The Albanian economy continued on the positive development track. The pass-through of the monetary stimulus to the financial market is reflected in lower interest rates on both deposits and loans.*

*The factual slowdown of inflation in the second quarter does not create any significant divergence in the expected inflation trajectory.*

*The return of the economy to potential and the gradual absorption of unutilised capacities are expected to be associated with the strengthening of inflationary pressures.*

The new economic and financial information, analysed in the Interim Monetary Policy Report, suggests that the Albanian economy continued on the positive development track. Economic activity continued upward, medium-term inflationary pressures are in line with the target, financial markets appear calm, and interest rates and financing conditions are consistent with the achievement of our target.

Economic growth for the first quarter resulted higher than our expectations, whereas inflation for April and May was somewhat lower.

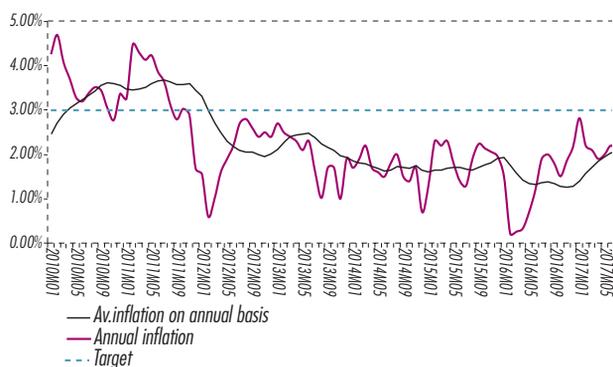
The updating of our forecasts has not led to any significant changes in the expected developments, both in the short and the medium term. In the absence of shocks, the positive trend of the economy, the favourable financing conditions and gradual improvement of confidence and of the external environment are expected to enable the return of the economy to equilibrium and of inflation to target within 2018.

Annual inflation recorded 1.9% in April and 2.0% in May, being downward from the first quarter. The volatility in inflation rates reflected the lower contribution by food inflation, in response to higher agricultural production, and lower contribution by imported inflation, reflecting the appreciation of the exchange rate. The effect from these supply-side factors is assessed to be transitional.

The performance of the economic and financial environment is consistent with the rise of inflation towards our target in the medium term. Inflation pressures are upward, supported by the expansion of economic activity and increase in the utilisation of production capacities, the rise in

foreign prices, and the gradual convergence of medium-term inflation expectations toward the target.

Chart 11 Annual inflation and target (left). Food-items inflation in regional and EU countries (right)



Source: INSTAT and Bank of Albania calculations.

The update of economic analysis with new statistics show that the Albanian economy continued to grow in the first half of the year. Economic growth hit 3.94% in the first quarter, while available data suggest a slowdown in the second quarter. One of the pertinent factors is the uncertainty surrounding pre-election situations. Furthermore, in recent months, an additional uncertainty is due to adverse weather conditions, whose effects may appear in certain production sectors. The effects from these uncertainties are expected to be temporary.

Economic growth was driven by favourable domestic financing conditions and the improved external economic environment. The expansion of consumption and investments benefited also from the continuous improvement of the labour market, confidence pick up, and rise in foreign direct investments. In parallel to private demand growth, a positive effect on the recovery of economic activity is provided by the public sector and the improved trade balance with abroad. The latter is reflected in the rapid narrowing of the current deficit, by 20% in annual terms, supporting also the strengthening of the exchange rate.

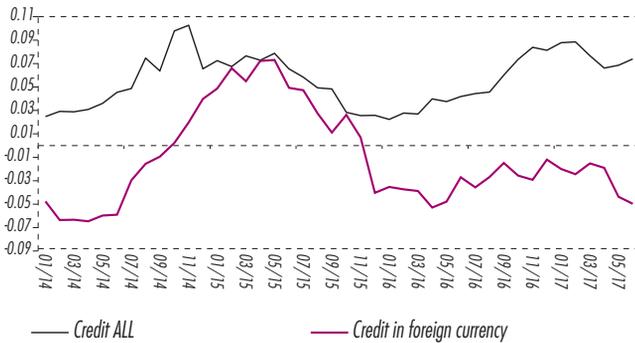
The fiscal policy has pursued a consolidation path, reflected in a positive budget balance. Fiscal consolidation, however, has been less intensive than in the previous year, producing a positive stimulus to the economy in the first half of the year. At the end of the first five months of the year, the budget balance resulted in ALL 6.3 billion surplus, reflecting the

annual increase by 7.3% in public revenues and by 16.4% in budget expenditure.

The accommodative monetary policy has contributed to reducing financing costs for economic agents. The pass-through of the monetary stimulus to the financial market is reflected in lower interest rates on both deposits and loans. On the other hand, the yields on government securities in the primary market showed a slight increase, mainly generated by the temporary imbalances of their demand and supply. Yet, the volatility in T-bill yields has not been transmitted to other segments of the financial market.

The monetary accommodation has contributed to the growth in the loan portfolio. The volume of lek loans expanded 9% in annual terms, offsetting the contraction of the foreign currency loans. The uptrend in lek loans remains a welcomed development, but the distribution of this growth shows it is concentrated in the households segment, whereas loans to enterprises remain sluggish. Meanwhile, cleaned from the write off effects, the annual growth of the total loan portfolio in April remained modest, at 3%. The Bank of Albania expects lending activity to improve gradually in the quarters ahead, reflecting the expected expansion of demand and improvement of supply. The conditions of the banks' credit supply are expected to ease, helped by the measures taken for reducing non-performing loans and supporting healthy credit. The non-performing loans ratio fell to 15.9% in May, from 18.2% in December 2016.

Chart 12 Performance of credit by currency, annual growth



Source: Bank of Albania, Financial Stability Department.

The updating of our macroeconomic projections has confirmed our previous expectations for economic and monetary developments in the medium term. The factual slowdown of inflation in the second quarter does not create any significant divergence in the expected inflation trajectory. The return of the economy to potential and the gradual absorption of unutilised capacities are expected to be associated with the strengthening of inflationary pressures. Inflation is expected to return to our target within 2018. On the other hand, the balance of risks surrounding these projections is assessed to have shifted on the down side, driven by uncertainties both in the domestic and the external environment.

In accordance with these conclusions, the Supervisory Council judges that the current monetary policy stance is adequate.

On this basis, the Supervisory Council decided to keep the policy rate unchanged, at 1.25%.

In addition, the Supervisory Council decided to keep the interest rates on overnight deposit and overnight credit facilities, unchanged at 0.25% and 2.25%, respectively.

Judging on the available information, the Supervisory Council deems that the monetary policy will remain accommodative and the intensity of the monetary stimulus will not be reduced before the first quarter of 2018.

***“The monetary policy will remain accommodative and the intensity of the monetary stimulus will not be reduced before the first quarter of 2018.”***

## **BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 1.25%** **-2 August 2017-**

*The Albanian economy continues on an upward trajectory, while inflation of the second quarter declined.*

*Updated forecasts are in line with our previous expectations and confirm the adequacy of our monetary policy stance.*

*The policy stance will remain accommodative throughout the medium-term horizon. The Bank of Albania underlines that it stands ready to respond promptly to various shocks, which would adversely affect inflation expectations or undermine the perspective of achieving its target in the medium term.*

The new information obtained over the second quarter indicates that the Albanian economy continues on an upward trajectory. This performance was fuelled by improvements in the external environment, enhanced confidence in the economy, and a stimulating domestic financial environment, characterised by low interest rates and reduced risk premiums. In the meantime, the average inflation of the second quarter declined compared to the first quarter.

Economic growth was somewhat higher than our expectations, whereas inflation was somewhat lower. The analysis of the available information suggests that these two developments are dictated by temporary factors and do not affect the direction and the intensity of expected developments in the medium-term horizon.

Updated forecasts, for the short and medium-term, are in line with our previous expectations and confirm the adequacy of our monetary policy stance. The policy stance will remain accommodative throughout the medium-term horizon.

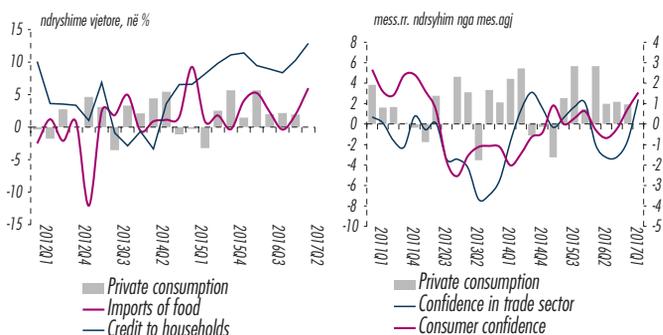
Let me now explain the conclusions of the Quarterly Monetary Policy Report in greater detail.

The Albanian economy posted growth in the first half of the year. According to INSTAT data, the Gross Domestic Product increased by 3.9% in the first quarter, reflecting the positive contribution by almost all the constituent sectors and branches. Indirect available data suggest positive growth, though in slight moderation, in the second quarter.

From the aggregate demand perspective, the economic activity expanded reflecting both the growth of domestic demand and the improvement of the balance of trade with abroad. In greater detail:

Private consumption and investments continued to grow in the first half of the year, on the account of favourable financing conditions, improved confidence in the economy, increased employment, and continued high Foreign Direct Investment flows.

**Chart 13 Quantitative (left chart) and qualitative (right chart) indirect indicators for the performance of private consumption in Q1\***



\*Monetary indicators for 2017 Q1 are approximated by January and February 2017 figures.  
Source: INSTAT and Bank of Albania.

Similarly, the fiscal policy produced a positive stimulus. While this policy maintained the consolidation trend in the first half of the year, which is reflected in the positive values of the budget balance, the intensity of the fiscal consolidation appears lower than in the previous year.

On the other hand, the improvement of the balance of trade has reflected the favourable international conjuncture, the added attention for Albania as a tourist destination, and structural improvements in the chain of extraction, processing and trading of oil in Albania.

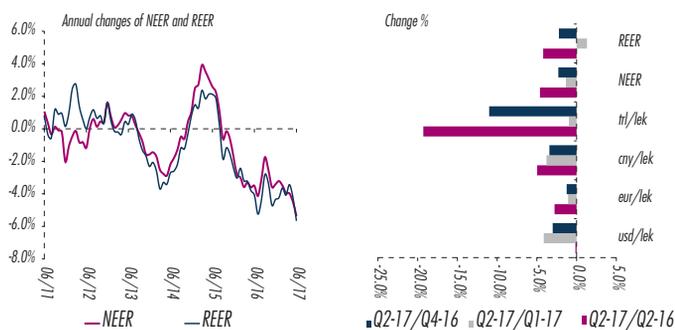
Overall, the performance of the economic activity followed the expected trend, but the growth rate was higher than our projections. Our analyses indicate that the paces of improvement in the balance of trade during the first half, as well as the size of its positive contribution to GDP were dictated by factors that do not represent medium-term trends. As a result, our projections for economic growth in 2017 have been only slightly revised upward.

For the second quarter, inflation averaged 2.0%, downward from the 2.4% average recorded in the previous quarter. The fall in inflation in this quarter was dictated, in part, by the high inflation rates recorded in the previous quarter as a result of supply-side shocks and, in part, by the downward effect from the appreciation of the exchange rate. The exchange rate effect was more present in the fall of imported inflation, particularly in food items. Based on the performance in the second quarter, our projections for the average inflation in 2017 have been slightly revised downward, from 2.3% to 2.2%.

On the other hand, macroeconomic factors with a medium-term and long-term impact on inflation are in line with its further increase and return to target in the medium-term. Hence, the Albanian economy is gradually approaching its potential level, as reflected both in the decline in the unemployment rate, and in the medium-term trend of the increase of the production capacity utilisation rate. Such cyclical improvement will enable a gradual increase of wages and convergence of business profit margins with the historic average.

In parallel, the adverse effect of the exchange rate is expected to dampen gradually. The Bank of Albania deems that the current intensity of the exchange rate appreciation - derived to a large extent by the rapid improvement of the balance of exchanges in trade and services and high foreign direct investment flows - will weaken. Under these circumstances, the deceleration effect on inflation from such appreciation is expected to progressively decline in the medium-term horizon.

Chart 14 Effective exchange rate and individual currencies of the basket



Source: Bank of Albania.

The current and expected performance of both GDP and inflation is in line with the financial markets performance and our monetary policy stance.

Our accommodative monetary policy - implemented through the low policy rate, the continuous liquidity injection, and the forward guidance tool - has been fully passed through to the financial market segments. Such policy stance has: brought interest rates to the lowest historical levels, contributed to the progressive reduction of risk premiums, and annual growth by 9.3% of the lek credit portfolio.

Data for the second quarter, however, suggest that the credit performance remains moderate. Cleaned from the loan write off in the banks' balance sheets, credit to the private sector recorded 2% average growth in the second quarter, driven by the 3.2% annual decline of the foreign currency credit portfolio. In sectorial terms, lending showed faster and steadier growth in the segment of loans to households, especially with regard to consumer credit, whereas the growth of loans to enterprises showed more sluggish.

The still-moderate pace of credit growth reflects both the weak demand for credit and the prudent bank lending policies. The upward cycle of investments is financed, until now and to a large extent, by the use of enterprises own funds. Yet, looking ahead, the growing need for businesses financing is expected to be accompanied by growth of demand for loans. Likewise, the further improvement of the business climate, the reduction of the credit risk and the further improvement of the banking system balance sheets are expected to facilitate the credit supply. In this regard, the non-performing loans ratio was further lowered standing at 15.58% in June, illustrating the success of our measures and providing encouraging signals for the future improvement of the lending activity.

Judging on the actual trends of the economic performance, and determining factors in both the internal and external environment, the Bank of Albania deems that economic growth will continue in the medium term. In our baseline scenario, this growth will be sufficient to place our economy on equilibrium and will be a determinant factor for the return of inflation to target within 2018.

The achievement of these objectives requires pursuing an accommodative monetary policy throughout the medium-term horizon to offset the short-term decelerating effect of the exchange rate.

Taking into account these circumstances, the Supervisory Council decided to:

- keep the policy rate unchanged, at 1.25%.
- keep the interest rates on overnight deposit and overnight credit facilities, unchanged at 0.25% and 2.25%, respectively.

Also, judging on the available information, the Supervisory Council deems that the intensity of the monetary stimulus will not be reduced before the second quarter of 2018. Anyhow, the normalisation of the monetary policy will be prudent, aiming at guaranteeing price stability in the medium term and ensuring not to undermine the stability of economic growth.

Lastly, the Bank of Albania underlines that it stands ready to respond promptly to various shocks, which would adversely affect inflation expectations or undermine the perspective of achieving its target in the medium term.

***“The intensity of the monetary stimulus will not be reduced before the second quarter of 2018. Anyhow, the normalisation of the monetary policy will be prudent, aiming at guaranteeing price stability in the medium term and ensuring not to undermine the stability of economic growth.”***



## BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 1.25%

-3 October 2017-

*The economic activity in Albania continued to improve, while inflation declined in July and August.*

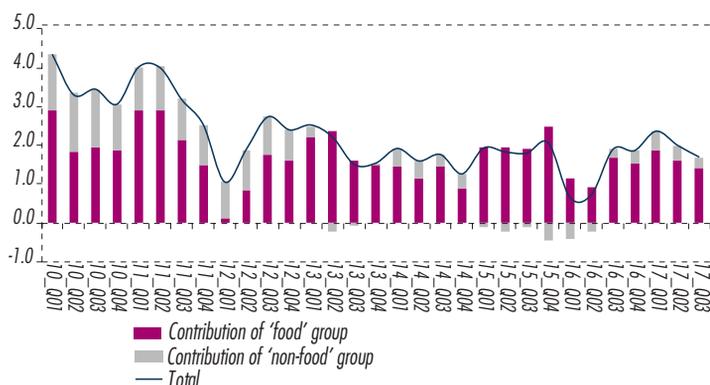
*The slowdown in inflation in the last two months does not create significant divergences in its trajectory for the period ahead.*

*The return of the economy to potential and the gradual absorption of unutilised capacities are expected to be associated with the gradual increase in inflation rates.*

*Achieving the inflation target requires implementing an accommodative monetary policy stance over the medium-term horizon, to offset the short-term decelerating effect from the exchange rate and to sustain economic growth.*

The analysis of available data indicates that the economic activity in Albania continued to improve, while inflation declined in July and August. The divergence between the performance of economic activity and the performance of inflation appears to reflect the effect from supply-side shocks, which are expected to have only short-term effects on inflation. On the other hand, monetary and financial conditions remain stimulating, underpinning growth of demand, further improvement of the capacity utilisation rate and the return of inflation to target within the medium-term horizon.

Chart 15 Contributions by food and non-food categories to headline annual inflation



INSTAT and Bank of Albania calculations.

In a more detailed analysis, annual inflation declined in the first two months of the third quarter, standing at 1.6% in August. The decline in inflation reflected a slowdown of food prices, especially unprocessed food, whereas the other groups did not show notable volatility. Taking into account the new developments in inflation, our projections for the average inflation in 2017 have been revised slightly downward, from 2.2% to 2.1%.

The concentration of the decline in inflation in certain segments of the basket, and the correlation of this decline with the dynamics of food prices inflation in the region, the exchange rate appreciation, and the increase in the domestic supply for these products lead us to think that the slowdown in inflation reflects the effect of short-term supply-side shocks.

Against these shocks, the overall balance of factors having a longer-term impact on inflation remains unchanged: (i) capacity utilisation rate has been upward; (ii) inflation expectations remain relatively stable; and, (iii) inflation in trading partners is projected to be upward in the period ahead.

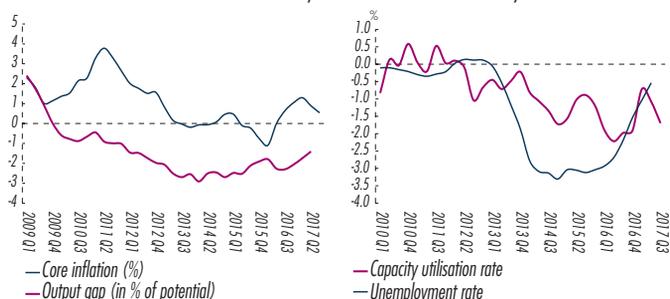
Economic activity at home continued to grow in the second and third quarters of the year. Based on INSTAT data, economic growth was 4.06% in the second quarter, driven by both domestic and external demand.

- The increase in employment and income, the improvement of financing conditions and the improvement of confidence in production sectors have supported the expansion of consumption and private investments.
- The fiscal policy continued on the consolidation path, reflected in positive values of the budget balance. As at the end of August, the budget balance resulted in ALL 0.1 billion surplus, reflecting the annual increase by 6.7% of public revenues and by 12.4% of budget expenditure. Yet, the deceleration of the fiscal consolidation compared to the previous year generated a positive impulse to aggregate demand growth, especially in the first half of the year.
- The improvement in foreign economies and the added focus on Albania as a tourism destination has boosted the demand for Albanian exports in goods and services over the first eight months of 2017.

The aggregate demand growth has fuelled a more complete utilisation of production capacities in Albania. According to INSTAT data, employment continued to rise, whereas the unemployment rate fell to 13.9% in the second quarter. Likewise, data from business and consumer surveys suggest that the utilisation rate of businesses production capacities has

been upward, although this rate remains below the historical highest level. Overall, the Bank of Albania finds that the Albanian economy continues to operate below its potential, but the gap has been narrowing.

Chart 16 Indicators of the cyclical situation of the economy\*



\*Output gap is the average of several measurements on which the moving average method is applied. The capacity utilization rate gap and the unemployment rate is calculated as the deviation of the actual value of the respective historical averages, then the moving average with 4 terms methods applied. The unemployment rate gap is assessed as the average of the unemployment gaps by 3 methods, which assess the balance rate of unemployments (NAIRU and NAWRU). The unemployment gap is expressed as the difference of the equilibrium level of unemployment and then the moving average with 4 terms methods applied.  
Source: INSTAT and estimations of the Bank of Albania.

Financial markets operate under calm conditions and interest rates and financing conditions sustain the achievement of our target. The accommodative monetary policy stance applied by the Bank of Albania has played a decisive role in this regard. The pass-through of the monetary stimulus to the financial market is reflected in lower interest rates and reduced risk-premia. These developments have facilitated the costs of servicing existing loans and have stimulated credit growth in the domestic currency. In annual terms, credit to the private sector grew by 3.1% in August, driven almost entirely by the annual growth by 9.6% in the lek credit portfolio.

Banking system soundness indicators improved. They show good capitalisation and liquidity levels, and decline in the level of non-performing loans. As a result of the measures taken to reduce the level of non-performing loans, their ratio to total loans was lowered to 15.14% in August, the lowest level since 2011. The non-performing loans ratio is downward for almost all banks in the system, and reflects not only the regulatory requirement for writing them off, but also the repayment of loans by the private sector. The improvement in the banking system's balance sheet, the perceived reduction of the credit risk and further improvement of the business climate are expected to contribute to better bank credit supply in the medium term. Coupled with the expected recovery of credit demand, these developments are expected to be reflected in faster credit growth in the period ahead.

Our updated analysis and short-term projections are in line with the previous expectations on economic and monetary developments in the medium term. The slowdown in inflation in the last two months does not create significant divergences in its trajectory for the period ahead. The return of the economy to potential and the gradual absorption of unutilised capacities are expected to be associated with the gradual increase in inflation rates. Inflation is expected to return to target within 2018.

Expected economic and monetary developments suggest that the current monetary policy stance is adequate. Achieving the inflation target requires implementing an accommodative monetary policy stance over the medium-term horizon, to offset the short-term decelerating effect from the exchange rate and to sustain economic growth.

Taking into account these circumstances, the Supervisory Council decided to:

- keep the monetary policy rate unchanged, at 1.25%;
- keep the interest rates for the overnight deposit and lending facilities, unchanged at 0.25% and 2.25% respectively.

Judging on the available information, the Supervisory Council deems that the intensity of the monetary stimulus will not be diminished before the second quarter of 2018. In any case, the normalisation of the monetary policy will be prudent, aiming at guaranteeing price stability in the medium term and supporting the stability of economic growth.

Also, in response to continued supply-side shocks on inflation and reflecting the shift of the balance of risks to the down side, the Supervisory Council affirms that it stands ready to take all the necessary measures for guaranteeing the sustained return of inflation to target, within a reasonable horizon. Depending on the intensity of shocks or materialisation of various risks, these measures may range from a slower normalisation of the monetary policy to a potential increase in the intensity of the monetary stimulus.

***“The intensity of the monetary stimulus will not be diminished before the second quarter of 2018. In any case, the normalisation of the monetary policy will be prudent, aiming at guaranteeing price stability in the medium term and supporting the stability of economic growth.”***

## **BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 1.25%**

**-1 November 2017-**

*The economic activity improved in the second and third quarters, while inflation declined in the third quarter.*

*The Albanian economy continues to operate below its potential and inflation remains subject to continuous supply-side shocks.*

*Forecasts on the economic and financial developments remain positive. The estimation for the return of the economy to equilibrium and of inflation to target is postponed.*

*The current monetary policy stance is adequate.*

*An even more accommodative monetary policy will be implemented in the medium-term horizon.*

In today's meeting, the Supervisory Council of the Bank of Albania reviewed the Quarterly Monetary Policy Report.

The analyses presented in the report suggest that economic activity at home continued to improve over the second and third quarters, driven by the favourable external environment, improvement of economic agents' confidence, and better domestic financial conditions. On the other hand, overall inflationary pressures remain weak and inflation declined in the third quarter.

This diverging trend, as reported also in our two previous communications on the monetary policy, shows that the Albanian economy continues to operate below its potential and inflation remains subject to continuous supply-side shocks.

The new information and the updated forecasts have not changed the expected trend of economic and financial developments, but have postponed our estimation for the return of the economy to equilibrium and of inflation to target. This performance has confirmed that our current monetary policy stance is adequate, and has underlined the need for an even more accommodative monetary policy in the medium-term horizon.

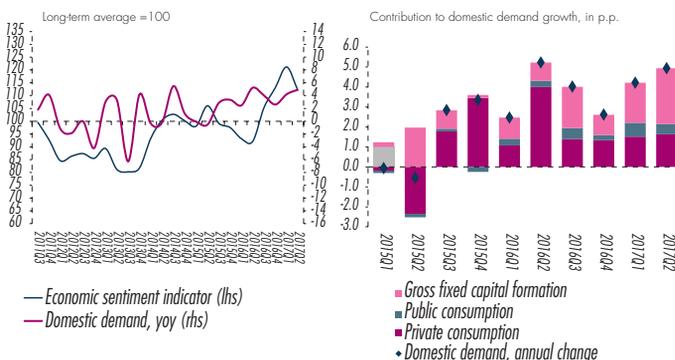
At the conclusion of the discussions on the presented analysis and forecasts, the Supervisory Council decided to keep the key interest rate unchanged.

Let me now explain the conclusions of the report and the underlying reasons for the decision, in greater detail. The annual inflation rate averaged 1.7% in the third quarter, down from the rates recorded in the previous two quarters. The deceleration reflected mainly the fall in food items inflation, as a result of higher domestic supply, appreciation of the exchange rate, and slowdown in inflation for these products in global markets.

In macroeconomic terms, the Bank of Albania assesses that inflation slowed down due to supply-side shocks, whose effect is expected to be of limited intensity and short lived. However, the low core inflation suggests that, even though they are increasing, medium-term pressures on inflation remain weak. The improvement in the domestic economic activity has brought the Albanian economy closer to equilibrium, as illustrated by the fall in the unemployment rate and the upward trend in the firms' capacity utilisation rate. The Albanian economy, however, continues to operate below potential, with a containing effect on pressures for an increase in wages and production costs.

According to INSTAT data, the Albanian economy grew by 4.1% in the second quarter, close to the first quarter growth rate. The growth was driven by the expansion of domestic private demand, improvement of the trade balance, and increase in public spending and high foreign direct investments during this period. Higher frequency available indicators suggest that economic activity continued to grow at a similar pace in the third quarter.

Chart 17 Economic sentiment indicator and the structure of domestic demand



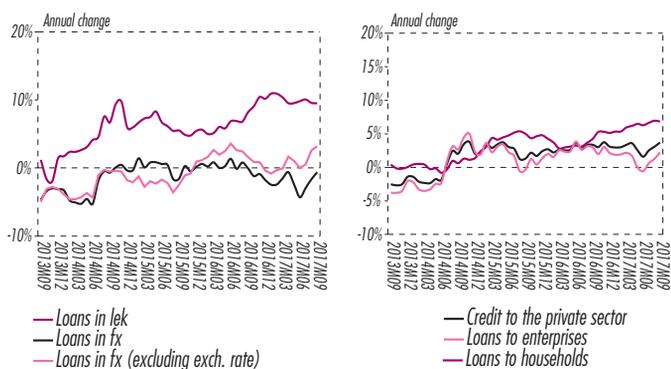
Source: INSTAT and Bank of Albania.

The positive performance of economic activity in Albania continues to benefit from our accommodative monetary policy stance, which maintains a financial environment with low interest rates and ample liquidity. It is also aided by the consolidatory fiscal policy, which reduces risk premia and increases the space for financing the private sector. The Bank of Albania deems that these factors will continue to contribute to economic growth, and the return of the economy to equilibrium and of inflation to target.

Financial markets continue to be characterised by low interest rates. The upward trend of yields on treasury bills has not affected the cost of credit to the private sector, which - in the third quarter - remained at their historical low

levels. In response, the credit to the private sector grew 3.1% on average in the third quarter, almost entirely attributable to the expansion by 9.7% of the credit portfolio in the Albanian lek. The growth of credit demand, especially in the corporate segment, was a positive development in the third quarter. Furthermore, the standards of credit to the private sector eased, although these standards remain relatively conservative.

Chart 18 Lending to private sector by currency and economic agent



Source: Bank of Albania.

Judging on the current development trends and the balance of underlying factors, the Bank of Albania deems that the medium-term perspective of economic development remains positive. The improvement in the economic environment is expected to support the return of inflation to target, within the first half of 2019.

Compared to the previous forecasting round, the Bank of Albania has revised slightly upward the outlook for economic growth throughout the three-year forecast horizon, whereas the projections for the return of the economy to equilibrium and of inflation to target have been somewhat postponed.

The projection for higher economic growth is underpinned by the upward revision of the assessment for the potential growth pace, in response to structural reforms that have taken place in the Albanian economy. At the same time, the upward revision of the potential postpones our projections for the return of the economy to equilibrium and of inflation to target. It implies that, compared to our previous assessments, the economy has larger production capacities and their full utilisation would require a longer time. Concerning inflation, the postponement of reaching the target, reflects also the need for fully absorbing supply-side shocks and fading deceleration effects arising from the appreciating trend of the exchange rate.

The projections mentioned above take into account the accommodative stance of monetary policy throughout the medium-term horizon. They also remain conditioned by the materialisation of expectations for a more favourable external environment and a faster recovery of lending activity in Albania. The fall to 14.78% of the non-performing loans ratio in September shows that the balance sheets of the banking sector are improving and that the credit risk is reducing.

In this context, the Bank of Albania judges that the growth in credit demand must be followed by more favourable and far-sighted lending policies by the banking sector. In the event this is not the case, the further misbalance in the credit demand and supply would decelerate the pace of economic growth and would be a missed opportunity for the banking sector.

Judging on the analyses and projections from the baseline scenario, as elaborated above, the Supervisory Council deems that the current monetary policy stance remains adequate. Taking into account these circumstances, the Supervisory Council decided to:

- keep the policy rate unchanged, at 1.25%;
- keep the interest rates on overnight deposit and overnight credit facilities, unchanged at 0.25% and 2.25%, respectively.

Also, based on the available information, the Supervisory Council finds that: the intensity of the monetary stimulus will not diminish before the fourth quarter of 2018. The accommodative monetary policy implemented by the Bank of Albania has provided positive effects on boosting aggregate demand, supporting economic activity growth, and contributing to the gradual rise of inflation toward the target; the balance of risks on our projections continues to shift to the downside, both in the short and medium term.

Under these circumstances, the Supervisory Council finds it appropriate to emphasise that in the event of the materialisation of further shocks or their potential negative impact on inflation expectations, the achievement of the inflation target may require adopting an even more accommodative stance of the monetary policy. In response, the Supervisory Council would be ready to take into consideration further easing of the policy.

***The intensity of the monetary stimulus will not diminish before the fourth quarter of 2018.***

## **BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 1.25%**

**-20 December 2017-**

*Economic activity in Albania continued to expand in the third and fourth quarters, although some indirect indicators suggest a slight slowdown in the second half of the year.*

*The accommodative monetary policy stance has reduced the costs of financing for the private sector, has boosted credit in the domestic currency and has contributed to the improvement of the borrowers' financial situation.*

*Our projections point to a further improvement of economic activity in the medium-term horizon.*

*Dear media representatives,*

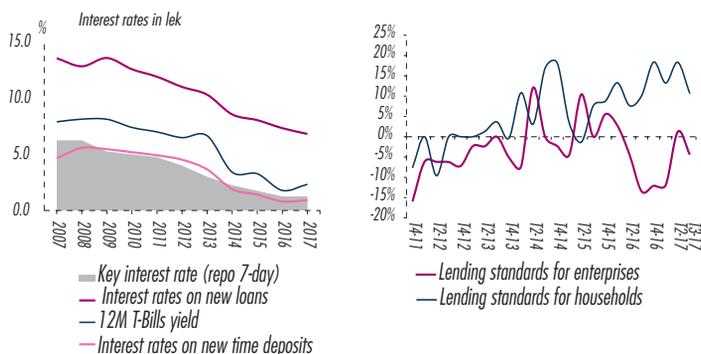
First of all, let me start this last meeting for 2017 a little differently, thanking you on only for the careful coverage of the work and messages of the Bank of Albania to the public, but also for the constant attention you have paid to the results of the monetary, supervisory and regulatory measures and policies, for improving the economic and financial environment in Albania.

This conference coincides also with the last meeting of the Supervisory Council for 2017. In this meeting, we reviewed the Intermediate Monetary Policy Report, and reassessed our judgments on the current economic developments, the outlook and the adequacy of our monetary policy stance. In the following, I will present the conclusions of the report in greater detail.

The new information analysed in the intermediate monetary policy report in December resulted overall in line with our expectations. Likewise, the updated projections on the performance of the economic and monetary developments do not indicate substantial changes from the previous projections.

Based on these considerations, the Supervisory Council deemed that the current stance of the monetary policy remains adequate. Our accommodative monetary policy stance has reduced the costs of financing for the private sector, has boosted credit in the domestic currency and has contributed to the improvement of the borrowers' financial situation. It has thus underpinned the expansion of economic activity and has created the necessary conditions for the return of inflation to target.

Chart 19 Interest rates in the financial market and lending standards

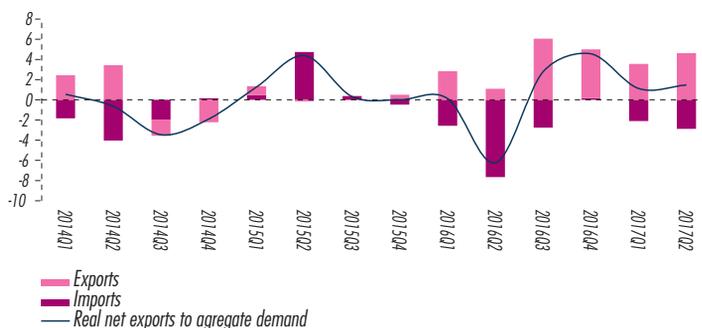


Source: Bank of Albania.

Financial markets are characterised by a relatively calm performance over the last two months, amid low interest rates, contained risk premiums and stabilizing exchange rate. Yet, the growth of credit to the economy remains sluggish, standing at a yearly 3.5% in October. The credit portfolio expanded driven by the expansion of the lek credit, whose portfolio recorded a 9.3% annual growth.

Economic activity in Albania continued to expand in the third and fourth quarters, although some indirect indicators suggest a slight slowdown in the second half of the year.

Chart 20 Contribution of net exports to aggregate demand (in percentage points)



Source: INSTAT and Bank of Albania.

Economic growth has reflected the favourable financial environment, improvement of confidence, impulses generated by increasing employment and high levels of foreign direct investments, as well as the positive momentum in the economies of our trading partners.

In terms of aggregate demand, growth was driven by the expansion of private consumption and investments, and the improvement of the balance of foreign trade, especially in the third quarter. In response to the reduction by around 10.5% of the trade deficit in goods and services, the current account deficit fell to 4.6% of the GDP in the third quarter, one of the lowest levels in the last decade. On the other hand, the fiscal stimulus is estimated to have trended downward in the third and fourth quarters, albeit budget revenues and expenditure have continued to record high growth rates.

The constant expansion of the aggregate demand has led to an increasingly higher utilisation of production capacities. The unemployment rate fell to 13.6% in the third quarter, down by 1.1 percentage points from the same quarter in the previous year. However, the gradual convergence of the economy toward its equilibrium is yet to be accompanied by inflationary pressures' build up, sufficient enough for the return of inflation to target.

Inflation stood at 1.9% and 1.7% in October and November, respectively, recording only a slight improvement from September. It has resulted on the down side of our expectations. The performance of headline inflation was dictated mainly by food prices.

In macroeconomic terms, the slow increase in inflation continues to reflect the combined effect of several factors: the negative output gap continues to contain pressures for the increase in labour costs and core inflation; inflation rates in our trading partners remain low; and, the appreciated exchange rates lowers further the import prices for commodities and consumer goods.

In our judgement, the decelerating effects from these three factors will diminish gradually in the future. Our projections point to a further improvement of economic activity in the medium-term horizon. The expansion of the economic activity will enable a further increase in employment and will contribute to faster growth in wages and production costs. These developments will be underpinned, among others, by favourable financing conditions and a better outlook for crediting. The further decline in the NPL ratio, which recorded 14.3% in November, shows that the balance sheets of the banking system are improving and that the credit risk is trending downward.

In parallel to domestic pressures build up, inflationary pressures in the global economy are expected to increase in the medium-term horizon, whereas the strong decelerating effect of the exchange rate is expected

to diminish. Based on these factors, the Bank of Albania expects that inflation will return to target within the first half of 2019.

Judging on the analyses and projections from the baseline scenario, as elaborated above, the Supervisory Council deems that the current monetary policy stance remains adequate. Taking into account these circumstances, the Supervisory Council decided to:

- keep the policy rate unchanged, at 1.25%;
- keep the interest rates on overnight deposit and overnight credit facilities, unchanged at 0.25% and 2.25%, respectively.

Also, based on the available information, the Supervisory Council finds that:

The intensity of the monetary stimulus will not diminish before the fourth quarter of 2018. The accommodative monetary policy stance implemented by the Bank of Albania has had positive effects on boosting aggregate demand, bolstering economic activity growth, and contributing to the gradual return of inflation towards the target.

The balance of risks to our projections remains on the down side. Compared to projections of the baseline scenario, a slower rise of inflation rates in our trading partners, a further appreciation of the exchange rate, a more sluggish credit growth, or a lower sensitivity of wages against employment gains, could result in lower inflation rates compared to our expectations.

Under these circumstances, the Supervisory Council finds it appropriate to emphasise that in the event of the materialisation of these shocks or of their potential adverse impact on inflation expectations, the achievement of the inflation target may require adopting an even more accommodative monetary policy stance. In response, the Supervisory Council would be ready to take into consideration the further easing of the policy.

***“In the event of the materialisation of these shocks or of their potential adverse impact on inflation expectations, the achievement of the inflation target may require adopting an even more accommodative monetary policy stance. In response, the Supervisory Council would be ready to take into consideration the further easing of the policy.”***





REPUBLIKA E SHQIPËRIË  
MINISTRIA E FINANCËVE



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# CHAPTER III

## JOINT PRESS CONFERENCE WITH THE IMF MISSION AND THE MINISTER OF FINANCE

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- *Completion of the ninth and tenth review of the Arrangement with the IMF, 24 January 2017*

### ***Joint press conference with the IMF Mission and the Minister of Finance***

*Till January 2017, Albania was under the three-year Extended-Fund Facility EFF of the International Monetary Fund (IMF), approved by the Executive Board of the Fund on 28 February 2014. During the year, IMF missions visited Albania and met with representatives of its main institutions to discuss on the next review of the arrangement.*

*At the conclusion of each mission visit, a press conference is organised with the Governor of the Bank of Albania, the Minister of Finance, the Minister of Economic Development, Tourism, Trade and Entrepreneurship and the IMF Mission Chief.*



## **COMPLETION OF THE NINTH AND TENTH REVIEW OF THE ARRANGEMENT WITH THE IMF -24 january 2017-**

The beginning of 2017 coincides with the conclusion of Albania's arrangement with the IMF. This Arrangement has guided our development policies over the past three years, and has been a roadmap for our structural reforms agenda in the long term. Against this backdrop, the last review of the Arrangement not only provides for a comprehensive assessment on the achievement of its objectives, but also helps in identifying challenges to the country's development and contributes to discussions on the policies that need to be designed and implemented for supporting the development.

***“The Arrangement with the IMF has guided our development policies over the past three years, and has been a roadmap for our structural reforms agenda in the long term.”***

Let me now outline the opinion of the Bank of Albania on this review.

The Arrangement with the IMF was signed amid an external economic and financial environment surrounded by uncertainties, and in response to deepening internal development challenges. Economic growth was on the downtrend, public debt and non-performing loans were set on the uptrend, and uncertainties in the Albanian economy and financial markets were relatively high. With the support provided through expertise and funds, the agreed programme with the IMF has aimed at drawing up an appropriate monetary and fiscal policy mix, correcting fiscal imbalances, improving the balance sheets of economic agents, and implementing an ambitious structural reforms programme, to support the long-term development of Albania.

The Bank of Albania assesses that the Arrangement has achieved its major objectives: correcting structural imbalances and setting the country on a steadier path to long-term development.

Economic growth has been improving in the recent years, driven - among others - by the combination of the monetary stimulus and fiscal consolidation, reduction of risk premiums in the economy and

improvement of the balance sheets in the real sector of the economy. From a longer-term perspective, the structural reforms and the improved business climate should open the way for faster, more balanced and stable growth.

In addition, excluding the effects of supply-side shocks, inflation has trended upward recently. The improvement of economic activity, implementation of a prudent monetary policy and a better anchoring of inflation expectations render us confident for the stable return of inflation to our 3% target.

Lastly, Albania has made notable progress with regard to strengthening other economic and financial equilibriums. Safety nets in the financial system have been strengthened. The institutional framework that shapes the coordination, design and implementation of measures for safeguarding financial stability has been improved. The legal framework that disciplines contract enforcement has been improved. Credit risk has been lowered and non-performing loans have been reduced, although their level remains high. After peaking in 2015, Albania's public debt appears to be set on a downward trend. Also, our external position remains stable and current account deficits have been financed by high levels of foreign direct investments.

Turning to the latest developments, the Bank of Albania deems that the recent economic and financial indicators have been in line with our projections.

This performance reconfirms our scenario of expectations for the outlook. The Bank of Albania expects economic activity to improve in the medium-term horizon. This improvement will enable the return of the economy to equilibrium, the further improvement of indicators in the labour market, and the return of inflation to target.

The outlook remains positive, but its guaranteeing requires prudent economic policies and further structural reforms. Such policies and reforms should be, in essence, a continuation of the philosophy that has guided the initiatives and steps we have undertaken in the recent years.

To sum up, the Bank of Albania judges that:

- The actual economic policy combination, based on an accommodative monetary policy and fiscal policy stance set on

public debt reduction, should be maintained. The monetary policy should maintain the accommodative stance in the medium-term horizon, whereas the intensity of the monetary stimulus should adapt to the needs of the country's development.

- The business climate at home should be further improved. The Bank of Albania considers that the attraction of foreign investments as well as the support and stimulation of domestic investments should be at the focus of decision makers.
- Structural reforms should be accelerated and Albania's competitive advantages should be enhanced further.

In conclusion, I would like to once again thank the IMF Mission for the useful and constructive discussions.

***“The outlook remains positive, but its guaranteeing requires prudent economic policies and further structural reforms.”***



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## CHAPTER IV

# SPEECHES AND PRESENTATIONS AT CONFERENCES

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- *Governor Sejko: Opening address at the presentation of the EBRD's Transition Report 2016-2017, 27 January 2017*
- *Governor Sejko: Speech at the launching ceremony of the Global Money Week, 27 March 2017*
- *Governor Sejko: Welcome address at the Conference "Negative Euro Area Interest Rates and Spillovers on Western Balkan Central Banks' Policies and Instruments", 4 May 2017*
- *Governor Sejko: Opening Address at First Conference of the Museum of the Bank of Albania: "Money and Banking in Albania, from Antiquity to Modern Times", 14 June 2017*
- *Governor Sejko: Speech at the Becici Summit of the countries of the region in Montenegro, 16 June 2017*
- *Governor Sejko: Speech at the International Conference organized by the Central Bank of Bosnia and Hercegovina, 22 September 2017*
- *Governor Sejko: Speech at the 7th ECB conference on CESEE countries on Institutional quality and sustainable economic convergence, 5 October 2017*
- *Governor Sejko: Address on the occasion of the signing of the Memorandum of Cooperation between the Bank of Albania and the Central Bank of the Republic of Turkey, 6 November 2017*
- *Governor Sejko: Welcome address to Annual Conference 2017 of the Bank of Albania, 9 November 2017*
- *Governor Sejko: Speech at the 2nd Conference of the Albanian Association of Banks, 14 November 2017*
- *Governor Sejko: Address to the 11th South-Eastern European Economic Research Workshop, organised by the Bank of Albania, 4 December 2017*
- *Governor Sejko: Address at the joint press conference with the Minister of Finance and Economy, 7 December 2017*
- *Governor Sejko: Speech at the high-level meeting on the remittances from the Albanian diaspora, 11 December 2017*
- *Governor Sejko: Address to the end-of-year meeting with journalists, analysts and media representatives, 15 December 2017*
- *Governor Sejko: Statement to the Press Conference on the Activity of the Bank of Albania in 2017, 20 December 2017*
- *Governor Sejko: Speech at the end-of-year meeting organised by the Albanian Association of Banks, 21 December 2017*

### **Conferences and workshops**

*The Bank of Albania organises a range of public activities, conferences, workshops, and round tables to address important issues related to central banking and economy, relevant to the activity of the Bank of Albania. In addition, the Governor of the Bank of Albania attends other events organised by the main institutions in Albania, international financial institutions and other central banks. In these events, the Governor presents assessments and detailed analyses of the Bank of Albania and his opinion on the economic and financial developments and the role of the Bank of Albania, its experience regarding monetary policy and safeguarding financial stability in Albania, as well as challenges of the Bank of Albania regarding various*

*issues*



## **GOVERNOR SEJKO: OPENING ADDRESS AT THE PRESENTATION OF THE EBRD'S TRANSITION REPORT 2016-2017 -27 January 2017-**

*Dear EBRD representatives,  
Dear ladies and gentlemen,*

It is a special pleasure for us to host this event again and offer our cooperation for the presentation of the Transition Report 2016-2017, compiled by the European Bank for Reconstruction and Development.

While only one year has passed since the last presentation, the challenges facing the global economy have been numerous. They are rather complex, creating the perception that we are before a new era. The existing problems, combined with the political, economic, and social developments in recent years, have contributed to the insofar convergence process. Nonetheless, the Transition Report evidences and documents, professionally and reliably, the economic, legal and institutional progress made in terms of transition and convergence, providing the appropriate space and priority for the future reforms.

This is notably an independent assessment and a contemporary standard that helps us objectively judge on the progress achieved regarding reforms and economic policies implemented by the authorities in the relevant country. Figuratively, it sets the pace with which the society may assess the responsibility and accountability of the authorities to the public and the market.

In this context, the report assesses as positive the reforms and economic policies undertaken by the Albanian authorities. Moreover, the conclusions of the report on economic developments and monetary and financial situation are similar to the analyses and conclusions of the Bank of Albania at the end of 2016. In concrete terms, the Albanian economy has accelerated the growth pace driven mainly by the accommodative

***“This is notably an independent assessment and a contemporary standard that helps us objectively judge on the progress achieved regarding reforms and economic policies implemented by the authorities in the relevant country. Figuratively, it sets the pace with which the society may assess the responsibility and accountability of the authorities to the public and the market.”***

monetary policy of the Bank of Albania and its effective pass-through to the economy. These factors, coupled with the further recovery of domestic demand, will play a significant role in the further growth of economic activity during 2017.

***“...the conclusions of the report on economic developments and monetary and financial situation are similar to the analyses and conclusions of the Bank of Albania at the end of 2016.”***

The Report points to the important fact that the banking system is liquid, well capitalised and capable to withstand shocks that may come from the external sector. It identifies non-performing loans as the main risk not only to the system's soundness but also to the monetary policy pass-through to the growth of credit to the private sector. The report assesses positively the coordinated plan of actions by the Bank of Albania in cooperation with the Government of Albania and international institutions, to address comprehensively and definitively the issues of non-performing loans.

The action plan of the Bank of Albania is a broad and complex process, which consists in legal and institutional regulations and decisions. I am happy to see that the EBRD has reached the conclusion that this legal, regulatory and institutional process will contribute to reducing the non-performing loans, in the long term. It is also encouraging to note that the report makes a similar positive assessment for a group of reforms undertaken by the Albanian government and other authorities in the area of market liberalisation, privatisations, energy sector and infrastructure.

Looking ahead, the report assesses objectively the global macroeconomic environment as overall favourable. The nature and origin of capital flows toward the transition economies is immune from the adverse effects from the Brexit or increase in interest rates in the US economy. For the Central and Southeastern Europe, during 2017, the economy is expected to grow faster, driven by domestic factors and a slight and stable improvement of the economic situation in foreign trading partners. The main risks relate to the performance of commodity prices, and in particular to geopolitical and global economic developments.

***“The deepening social inequality is an issue of particular concern that has been present across the board in transition countries.”***

The deepening social inequality is an issue of particular concern that has been present across the board in transition countries. The report evidences that inequality in the economy, in terms of opportunities and financial inclusion, has been expanding, contributing negatively to economic welfare in transition countries. Finding solutions is a difficult challenge, with financial education and financial inclusion considered as tools for addressing this issue successfully.

I would like to take this opportunity to emphasise that the Bank of Albania and the banking system are paying particular attention to these two topics. Our financial education programmes, informative publications on banking products and services, coupled with regulation, licencing, introduction and support for new payment and financial services technology and instruments, are aimed at enhancing financial inclusion and generating opportunities for financial access for all groups of the society.

The Bank of Albania deems that more may be done with regard to designing and promoting financial products that satisfy better the needs of such groups. In addition, we think that there is more space for faster growth of credit to the private sector, particularly for certain sectors, in which inequality is more notable. More concretely, agriculture is a good example to illustrate this point. While it contributes a significant share to the gross national product, it only gets a small share of credit and other financial products.

Beyond these policies and strategies for developing financial products, the real fight against poverty and inequality in the long term should be based on accomplishing structural economic, legal and institutional reforms, designed in the framework of the European integration process. The priorities of our economies should focus on maintaining macroeconomic and financial stability, continuing structural reforms in infrastructure and the labour market. Creating favourable conditions for doing business and for honest investors, by fighting informality, should be accompanied with the creation of human capital and preparation of the workforce in accordance with the actual technological developments and challenges.

***“Beyond these policies and strategies for developing financial products, the real fight against poverty and inequality in the long term should be based on accomplishing structural economic, legal and institutional reforms, designed in the framework of the European integration process.”***

*Dear ladies and gentlemen,*

The Transition Report 2016-2017 of the European Bank for Reconstruction and Development is an important document for all of us. Regardless of our status - decision-makers, policy makers, researchers, academia or journalists - the report provides abundant information for furthering our analyses and conclusions. I invite you all to read it, and rationally and responsibly materialise its conclusions in your analyses for the present and the outlook of the economy.

## **GOVERNOR SEJKO: SPEECH AT THE LAUNCHING CEREMONY OF THE GLOBAL MONEY WEEK -27 March 2017-**

*Honourable Minister Nikolla,  
Dear AAB Chairman Drougkas,  
Dear guests,*

I have the pleasure to welcome you at the Bank of Albania. In addition to being a second home for its employees, since the opening of the Museum, it has become an attractive learning place about finance for students.

The Global Money Week an event that involves local stakeholders in more than 140 countries is the highlight of all the educational activities conducted throughout the year.

I am proud to say that, thanks to the persistent commitment of the Bank of Albania regarding financial education, Albania has been featuring in the map of countries that organize this Week. This persistence ensures the effectiveness of our educational programmes, and keeps active the connection between institutions engaged in the financial education of the public in general and the youth in particular. I take this opportunity to extend my most sincere gratitude for their commitment and support to the Ministry of Education and Sports, the Albanian Association of Banks, and other institutions represented here today.

***"... thanks to the persistent commitment of the Bank of Albania regarding financial education, Albania has been featuring in the map of countries that organize Global Money Week for 5 years".***

Under the motto 'Learn. Save. Earn.', this year's Global Money Week is dedicated to raising the awareness of young Albanians on the importance of money and their involvement in the economic and financial system in Albania and, why not, in the region and the world.

The activities that will be organised during this week will especially aim at inspiring Albanian children and youth to learn more about money, saving, generating prosperity, increasing employment and entrepreneurship.

To illustrate this better, more than 45 activities will be organised and more than 3500 pupils and students will participate in these activities during this very busy week, with educational institutions: universities, high schools and nine-year schools. These numbers make us very proud, since they serve to raise the awareness on highly important issues, such as consumer information and financial inclusion. These two key issues contribute directly the economic well-being of households and businesses. Financial education, especially of youth, is the best channel to put that effect in practice, as affirmed by the OECD, a reputable international institution.

***“More than 45 activities will be organised and more than 3500 pupils and students will participate in these activities during this very busy week, with educational institutions: universities, high schools and nine-year schools.”***

The Bank of Albania is and will remain dedicated to this mission, with the support of the Ministry of Education and other partners. Their support and cooperation have had a decisive contribution to the success of such activities. Also, the elective course 'Personal finance in your hands' for high school students has been, for seven years, another example of the successful cooperation.

I would like to thank the Albanian Association of Banks for its valuable support through commercial banks to enhance financial education and add channels and related activities in this regard.

In conclusion, let me once again take this opportunity to invite the participating institutions to further expand our collaboration on this pleasant and challenging issue, and an important one for the next generations.

**GOVERNOR SEJKO: WELCOME ADDRESS  
AT THE CONFERENCE "NEGATIVE EURO  
AREA INTEREST RATES AND SPILLOVERS  
ON WESTERN BALKAN CENTRAL BANKS'  
POLICIES AND INSTRUMENTS"  
-4 May 2017-**

*Your Excellency Ambassador Graf,  
Dear Mr Savastano,  
Dear ladies and gentlemen,*

I am privileged and honoured to open this conference, co-hosted by the Bank of Albania and the International Monetary Fund, with the valuable financial support from the Swiss Government.

This Conference focuses on the investigation of economic and financial spillovers on Western Balkan countries from negative interest rates in the euro area. These negative interest rates have reflected the accommodative monetary policy stance, implemented aggressively by the European Central Bank, through both conventional and non-conventional monetary policy instruments. The agenda of this Conference is very ambitious.

It aims, from three different perspectives, to discuss and analyse the implications of the recent ECB's monetary policy for the countries in our region. These perspectives consist in: financial stability, reserve management and monetary policy.

In a final analysis, this conference aims at establishing a high-level forum for policymakers in the region and beyond our region, to exchange views on challenges in formulating specific policies, optimum response forms and their effects.

The term 'Western Balkans' refers to six EU candidate or potential candidate countries in the region, namely Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro and Serbia. The regional perspective is useful for as long as the economic structures of these countries are similar. In most of the cases, these similarities reflect a common background of our journey toward a market economy and the strategic objective of membership in the European Union and the euro area.

These common goals represent fundamental anchors for the policies of the regional countries.

The regional economies are closely related to the euro area through some important channels:

***“Based on this overview, one would naturally conclude that the countries in our region are significantly exposed to recent economic and financial developments in the euro area.”***

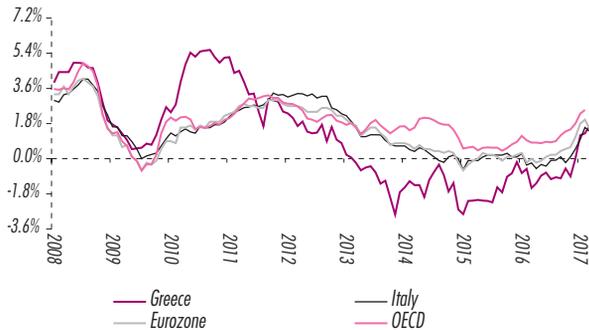
- First, the trade channel: euro area countries are our main trading partners. In the case of Albania, for example, exports toward euro area countries account for around 3/4 of our total exports.
- Second, capital flows from foreign direct investments, portfolio investments, or bank financing. Foreign direct investments from the euro area account for around 64% of total foreign direct investments in Albania. Also, subsidiaries of euro area banks have a considerable share in the market, in many countries of the region. Meanwhile, in Albania, their share has been downward; yet, these subsidiaries account for over 55% of the banking industry.
- Finally, remittances, from EU countries are an important source of available income and foreign currency inflows in the region. In Albania, remittances account for around 6% of the GDP, and most of them originate from euro area countries.

Based on this overview, one would naturally conclude that the countries in our region are significantly exposed to recent economic and financial developments in the euro area.

I would like to mention a few of such important developments.

Low inflation rates in the euro area have been transmitted to our economies, thus rendering the achievement of our price stability objective more difficult. Since September 2012, core inflation in euro area and regional countries has diverged from the overall average inflation rates in the rest of the world. The synchronised disinflationary trend throughout Europe suggests a spillover of low inflation rates from the euro area toward the Western Balkan countries.

Chart 21 Inflation



Source: Organization for Economic Co-operation and Development.

The sensitivity of regional countries to disinflationary trends originating in the euro area is determined by the size of their trade with euro area countries and the exchange rate regime. In the case of Albania, imported goods satisfy around 40% of domestic demand and their prices affect the overall level of prices in our economy. However, this ratio is lower than in other CEE countries, which are more exposed to the spillover of disinflationary effects from euro area countries through the trade channel. On the other hand, the implementation of a modern inflation targeting regime in Albania, the application of a free-floating exchange rate, and the swift and determined response of the monetary policy in Albania contributed to withstanding foreign disinflationary pressures.

Beyond their impact on inflation, the negative interest rates in the euro area as a response to low inflation rates have had some consequences in the regional countries. The first effect is positive, for countries like Albania, which show a cyclical convergence with the euro area and faced similar negative shocks on prices and economic activity. For as long as negative interest rates resulted as successful in preventing deflation and further deepening of the crisis in the euro area, they also helped central banks in the region to accomplish their price stability mandate. Moreover, countries of the region benefited from capital and portfolio inflows from euro area countries, triggered by negative interest rates in the euro area and large asset purchase programmes of the European Central Bank.

**“... the implementation of a modern inflation targeting regime in Albania, the application of a free-floating exchange rate, and the swift and determined response of the monetary policy in Albania contributed to withstanding foreign disinflationary pressures.”**

Yet, negative interest rates in the euro area have introduced also specific challenges for the monetary policy of the countries in the region.

- First, they rendered more difficult the assessment on the lower bound of the policy rate in our economies, or the separation point between conventional and non-conventional monetary policy instruments.
- Second, they have changed the relative rates of return for financial instruments denominated in the domestic currency and in foreign currency, generating thus, both opportunities and challenges in the efforts to limit the level of the euroisation in our financial systems.
- Third, they have reduced the profit from investing our foreign currency reserve assets, producing, in some cases, negative yields. This result becomes even more important as, unlike in other countries, there is limited space to diversify the reserve in more foreign currencies. Therefore, we faced concrete deformations and challenges for our required reserve system, especially related to modalities on the required reserve remuneration.

***“Negative interest rates in the euro area rendered more difficult the assessment on the lower bound of the policy rate in our economies, or the separation point between conventional and non-conventional monetary policy instruments.”***

In addition, our financial systems have been dictated by the presence of euro area bank subsidiaries, which were exposed to the tightening by the regulatory framework in the European banking sector. This tightening was a result of the weaknesses in the system arising from the financial crisis.

In the long term, we should all be able to benefit from a stronger, better capitalised, and more stable European banking system.

However, in the short term, the adaptation

to this new regulatory environment is a challenge to the countries of the region, due to several specific factors:

- First, it has introduced trends of reducing the exposure of many European banks to the countries of our region.
- Second, it has promoted the adoption of new and tighter lending standards at group level, which often do not reflect the specific characteristics of each country or market, in which these banks operate.

- Third, the criteria of equivalence in the supervisory and regulatory framework are yet to be determined, which implies that exposure to the regional countries are treated by European regulators and European banking groups with a higher risk coefficient.

These factors have contributed to euro area bank subsidiaries adopting a different behaviour, in their business activity, vis-a-vis other banks from outside the euro area or domestic banks. Such divergent behaviours are very evident in Albania.

*Dear ladies and gentlemen,*

In this conference, we have prominent speakers, who, I am confident, will discuss these topics thoroughly over the two days of the conference. I am confident that all of you will share your precious knowledge on these challenges and hope that we will all be able to benefit from mutual experiences.

At the same time, we have prepared a very interesting social programme, including a visit to the Museum of the Bank of Albania and a guided tour in Tirana.

Concluding, I avail myself of this opportunity to thank our long-term partners and co-hosts of this conference.

The Swiss Government, through the State Secretariat for Economic Affairs SECO, has supported the Bank of Albania over the years in a number of initiatives and has funded important projects in the framework of technical cooperation. In the context of this intensive and successful cooperation, they are sponsoring the organisation of this conference.

I would also like to thank the IMF for the valuable technical assistance, which has contributed to building the human capacities at the Bank of Albania over the years. The fruitful cooperation continues, and the organisation of this conference is an example of it. In addition, they have helped with the presentations.

I would like to thank once again Ambassador Graf and Miguel Savastano, IMF's Monetary and Capital Markets Department Deputy Director, for their support.

*Dear ladies and gentlemen,*

It is an honour for me to welcome you all to Tirana. I hope you find the conference useful and the social programme an interesting experience.

*Thank You!*

**GOVERNOR SEJKO: OPENING ADDRESS  
AT FIRST CONFERENCE OF THE MUSEUM  
OF THE BANK OF ALBANIA: "MONEY AND  
BANKING IN ALBANIA, FROM ANTIQUITY  
TO MODERN TIMES"  
-14 June 2017-**

*Dear Professor Picard,  
Dear academics, professors and researchers,  
Dear guests,*

It is a special pleasure for me to welcome you to the First Conference of the Museum of the Bank of Albania.

This is a special event, which brings together academics, researchers, and experts of central bank and currency museums, to establish a new bridge of communication and cooperation that will help us to take further our work at the Museum.

In our short experience in museum management, we have learned that it is very essential to cooperate with other institutions responsible for the administration of cultural heritage, as well as with scientists and experts that study and preserve them, and tell their history.

Also, with the support from the Ministry of Culture, Centre for Albanian Studies and Institute of Archaeology, we have today the Museum of the Bank of Albania, whose collection displays unique and impressive items.

***"This Conference brings together academics, researchers, and experts of central bank and currency museums, to establish a new bridge of communication and cooperation that will help us to take further our work at the Museum."***

The systematic work of our distinguished archaeologists and of the dedicated central bank employees over the years has helped in materialising the efforts for presenting the history of the Albanian currency, from the axes of the Hoard of Torovica, to the first coins struck in Dyrrhachium, to those in circulation throughout various historic periods, up to modern days.

Through over 30 exhibits and 5 educational rooms in the Museum, we show interactively the ancient history of our currency. The permanent exhibition in the lower floor displays collections from monetary systems that have existed in our territories over the past two thousand years. They are part of the numismatic collection of the Bank of Albania and the Albanian Institute of Archaeology. We have selected and studied them meticulously in a close and long process of cooperation with archaeologists, numismatists, historians and ethnologists in Albania. I take this opportunity to thank them for their valuable contribution.

Our Museum, however, is not just a money museum. It is also the museum of the central bank, which considers financial education as an essential objective. The public needs to be informed in order to be able to make judicious and sound financial decisions, which, in turn, contribute to financial stability. That is why we have dedicated the upper floor of the Museum to financial information and education. Through a number of activities, educational publications, lectures, films, and applications, irrespective of their age, visitors may learn about financial products and the financial system.

***“The role of money is not limited to the economic functions; it is also a historic evidence of the minting or issuing country. It speaks about periods of economic crisis or downturns, of peace and prosperity, of successes and injustices.”***

The history of money originates long ago and its developments are closely related to the people that have produced it. Its role is not limited to the economic functions; it is also a historic evidence of the minting or issuing country. It speaks about periods of economic crisis or downturns, of peace and prosperity, of successes and injustices.

In this context, we decided to dedicate the First Conference of the Museum of the Bank of Albania to two main topics, which we think are the gist of its exhibitions and educational activities.

1. Findings, researches and discussions in the area of monetary production and circulation, the history of the economy and banking activity in Albania and Albanian historic territories, which contribute to accurate interpretation and updating of information transmitted to the visitors through Museum collections.
2. The educational role of central bank museums in getting to know the history of money, and banking activities and enhancing

financial literacy through exhibitions, education and innovation. For this purpose, we aim to bring together foreign central bank experts to share their perspective on the management of central bank museums, collections and educational activities.

This conference certainly underlines the commitment of the Bank of Albania to earnestly engage in both research and educational activities. We are very interested in enhancing cooperation with researchers, academia, peer museums, and specialised institutions in economic, historic and cultural heritage research.

Such cooperation is an excellent opportunity to Bank of Albania employees, who may benefit from valuable skills and expertise for our Museum. It would also contribute to new networking and collaboration in research activities.

In light of promoting and furthering cooperation, we are committed to turning our Conference of the Museum of the Bank of Albania into an annual event. Also, in 2017, the Museum of the Bank of Albania will organise a cycle of lectures dubbed as 'Nights of the Museum', which will address a variety of topics, such as numismatics, banking history, economic and financial education, philately, art and architecture. These projects aim at developing another aspect of our work at the Museum, which would focus on social developments vis-a-vis museum objects.

*Dear ladies and gentlemen,*

The first conference of the Museum of the Bank of Albania coincides with the 25th anniversary of the establishment of the modern central bank of the Republic of Albania and a two-tier banking system.

In these 25 years, the Bank of Albania has served to the country's economic and financial development, supporting the development of an efficient and stable financial system.

It will continue to remain an institution with ambitious objectives in the field of European integration and approximation with the European Central Bank. Today, it is undertaking a new challenge: opening to the public, not only to communicate clearly its primary objectives, but also to contribute to helping the public learn about the history of money, art and tradition that it represents.

***“Bank of Albania will continue to remain an institution with ambitious objectives in the field of European integration and approximation with the European Central Bank. Today, it is undertaking a new challenge: opening to the public.”***

We will work hard, so that all the interested persons, whether in Albania or abroad, will be able to learn about the history of banking, money and people that have dedicated their life and work to it.

I am certain that very soon the Museum of the Bank of Albania will be a place to visit the exhibition, and exchange opinions and ideas about banking and money. Concluding, I would like to thank you for your participation and contribution to the

conference and wish success in these two days of the conference.

Thank You!

## **GOVERNOR SEJKO: SPEECH AT THE BECICI SUMMIT OF THE COUNTRIES OF THE REGION IN MONTENEGRO**

**-16 June 2017-**

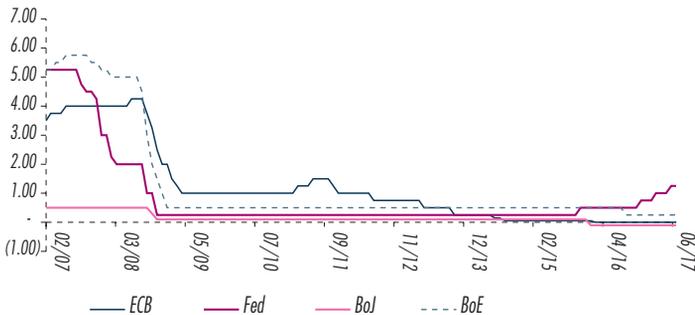
Monetary Policy of the Countries of the Region - Between US Federal Reserves and European Central Bank

*Dear Mr. Chairman,  
Dear Colleagues,*

I would like to start by thanking the organizers for this invitation. As usual, I find it highly useful to share, among colleagues, opinions on common challenges.

The title of the panel suggests our monetary policy stances are somehow shaped by the ECB and the Fed monetary policy paths. Though far from being the full picture, this is true, at some extent.

*Chart 22 Key interest rates of several central banks*



*Source: Central Banks (ECB, Fed, BoJ and BoE).*

The monetary policies of both these central banks are highly relevant to us. They affect external conditions and they could dictate the directions, the speed and the price of financial flows. Furthermore, for countries with a dollarized or euroized financial system, they might also affect domestic credit, financial conditions, balance sheets, as well as exchange rates. So, this brings us to the following questions. Where does our monetary policy sit at the current situation? What challenges do we face?

And, how do we respond to the shifting of these external monetary policies? I am confident these issues will be broadly covered during the proceedings of this conference.

***“The BoA has pursued an expansionary monetary policy, which has been both supported and facilitated by the monetary policy stance of the ECB.”***

Now let me make a few remarks, regarding the monetary policy of the Bank of Albania vis-à-vis that of the ECB or the Fed.

The Bank of Albania has pursued an expansionary monetary policy, which has been both supported and facilitated by the monetary policy stance of the ECB.

During the past four years, the Bank of Albania has been engaged in an extensive course of monetary accommodation. In the presence of weak cyclical developments and low inflationary pressures, we have decreased our policy rate to a historical minimum of 1.25%.

Furthermore, we have:

- increased our liquidity injections in the banking system;
- adopted negative rates for required reserves in euro, in line with the policy of negative deposit interest rates in the euro area;
- engaged in a clear and transparent forward guidance, announcing our preference for an accommodative policy in line with our inflation target.

***“However, unlike the Fed and the ECB, and similarly to other central banks in the region, we have not activated unconventional monetary policy tools.”***

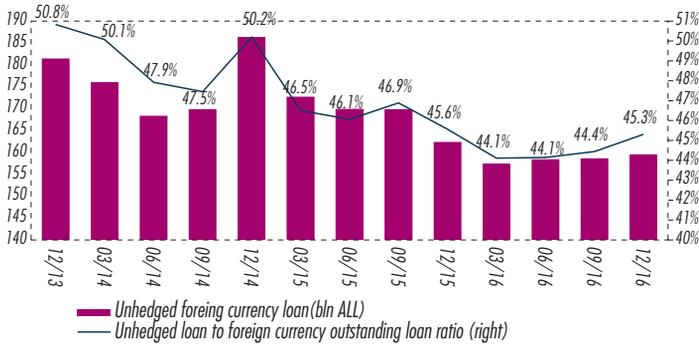
However, unlike the Fed and the ECB, and similarly to other central banks in the region, we have not activated unconventional monetary policy tools.

This is because the monetary policy accommodation pursued by the ECB has facilitated the implementation of our monetary policy.

- On one hand, the lower price of euro helped decrease the costs for foreign currency loans;
- On the other hand, a low policy rate by the ECB has enabled us to decrease our policy rate without having to worry about any exchange rate depreciation or financial stability problems.

This last one is very important, given that around 40% of loans denominated in foreign currency are un-hedged.

Chart 23 Unhedged foreign currency loans



Source: Bank of Albania.

At this point, I would like to take the opportunity and mention that, in order to address the high euro exposure in our financial system, the Bank of Albania, together with other authorities, has drafted a plan to reduce the level of euroization in the country.

Anyway, turning back to our topic, our accommodative monetary policy has been essential in supporting growth and inflation.

The accommodative monetary policy has been successful in easing financial conditions and supporting higher consumption and investments:

- Lending costs have decreased by approximately 400-500 basis points;
- Liquidity risk premia in the system have been greatly reduced;
- Government' bonds yield curve has flattened somewhat;
- Credit growth is recovering mostly supported by lending in domestic currency;

To wrap this up, from a macroeconomic perspective:

- The economic activity is strengthening and we are on track to meet our inflation target within the relevant time horizon;
- Our financial system remains liquid and well capitalized, while the profitability ratios are positive;

However, the external background seems about to get more complex.

The Fed and the ECB are following slightly different policy paths.

***“The Fed and the ECB are following slightly different policy paths.***

***These bring us to the conclusion that there are potential international spillovers from these divergent policies, for small open economies.”***

For the past few years, the Federal Reserve and the European Central Bank have pursued somewhat diverse monetary policy stances.

The Fed appears to be on the tightening side. It raised its policy rate in 2016 and 2017, after two years of gradually reducing its quantitative easing program. At the same time, its forward guidance suggests a tightening path in the near future.

In the meantime, the ECB is facing a different set of economic conditions, including slower growth, lower inflation, and higher economic and political uncertainty. As a result, the ECB is still holding to its accommodative monetary policy for longer. The forward guidance suggests that this path will continue at least for the current year.

These developments bring us to the conclusion that there are potential international spillovers from these divergent policies, for small open economies.

As a result of financial globalization, monetary policy in major advanced economies has significant spillovers to the global economy. Likewise, changes in market expectations about the future course of their policies have a high impact on financial market volatility.

Furthermore, the region's economies are small and open economies, whose main trading and economic partner is the Euro Area. In addition, the banking systems in our countries are dominated by EU-based banking groups. So, even though the Fed and the ECB's monetary policy decisions affect their domestic economies and financial systems, they might have a delayed, but probably longer lasting effect on our economies.

Depending on their intensity, both the trading and banking channels might affect our monetary policy stance and our monetary policy decisions.

Given our exposure to the dollar and the euro, the ECB monetary policy stance is more relevant to our economy. In other words, it has a stronger and more direct impact on our monetary conditions and our financial systems.

Let me take Albania as an example, whose main trading partners are EU countries:

- Roughly three quarters of our trade is directed to eurozone countries.
- Over 60% of FDIs originate from the EU.
- The euro is the main foreign currency in our financial system - more than 4/5th of foreign currency assets and liabilities are denominated in euro.
- Studies indicate an effective basket of currencies in Albania would comprise roughly 75-80% euro, and the rest would be USD or currencies pegged to it.

***“All these indicators mean we are much more exposed to the policy stance across the euro area, while the policy stance of the FED affects us only indirectly.”***

All these indicators show we are much more exposed to the policy stance across the euro area, while the policy stance of the Fed affects us only indirectly.

At this point, a presumed tightening of the ECB monetary policy would:

- increase foreign currency lending costs in our economy, i.e. tightening financial conditions;
- cause internal portfolio-shifts and depreciation pressures on the exchange rate, if it is not followed by our monetary policy;
- not result in major capital outflows, as we did not benefit much capital inflows from the extraordinary expansionary policy pursued by the ECB;

On the other hand, a tightening of the Fed monetary policy would not affect Albania directly, apart from the usual negative implications it might have on oil and commodity prices.

However, I have to state out that our monetary policy would benefit from a predictable monetary policy stance of the ECB in the near future.

A predictable stance of the monetary policy in the Eurozone enhances the effectiveness of our monetary policy. A wider interest rate differential might lead to appreciation pressures on the exchange rate, and this can, and will be taken in consideration in our policy analysis and actions.

To conclude, let me recap my points:

- Albania remains much more exposed to the ECB rather than the Fed policies;

- Our expansionary monetary policies have been greatly facilitated by the policy stance of the ECB and the Fed;
- The relative stability of Fed and ECB monetary policy has helped us reduce volatility in our domestic markets;
- However, any tightening by these banks would represent a tightening of our domestic financial conditions;
- Our monetary policy would benefit from the Fed and the ECB, taking into account they will not present any surprises.

Thank you!

**GOVERNOR SEJKO: SPEECH AT THE  
INTERNATIONAL CONFERENCE ORGANIZED  
BY THE CENTRAL BANK OF BOSNIA AND  
HERCEGOVINA, 22 SEPTEMBER 2017  
NEW CHALLENGES FOR CENTRAL BANKS  
IN THE EU ACCESSION PROCESS  
-22 September 2017-**

*Madam Chairwoman,  
My fellow Colleagues,  
Honorable Participants,*

It is a pleasure for me to participate in this Conference and at the same time, I find it highly appropriate that one of its topics is the challenges that central banks in region are facing in the convergence process. As always, such an exchange of opinions among colleagues and peers is very fascinating.

My thoughts on the subject will be organized along three main pillars. To begin with, I will try to summarize where we stand in the convergence process. Next, I will highlight some of the lessons we have learned, till now. Lastly, I will try to tackle a few challenges that I think will be relevant for the future.

**1. THE SEE REGION AND THE EU CONVERGENCE PROCESS**

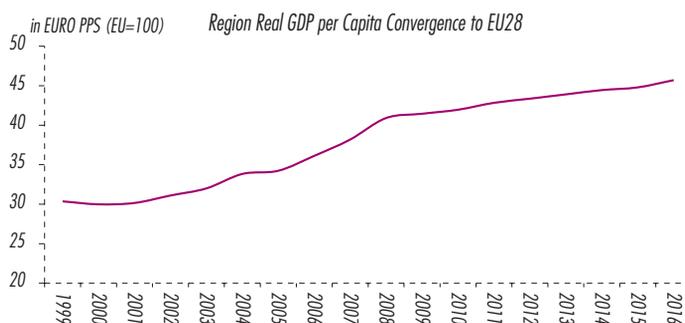
The political and economic future of the SEE region is strongly linked to the ongoing process of EU integration. The nearness of the region to the EU, a larger and more prosperous market, as well as the fundamental values of the EU itself, make the convergence and integration process a 'must' long-term commitment. On the the other side, EU integration shapes our policy models and anchors our major political and economic reforms.

The convergence process in the SEE region can be divided into two periods.

Prior to the economic and financial crisis of 2008, convergence maintained a healthy upward trend and countries of the region were progressively catching up to the EU. After 2008, growth rates in the

region moderated and the SEE region failed to maintain a steady pace of convergence. Currently, the average real income per capita in the region is about 35% of that of the EU average, which basically leads to the conclusion that it would take quite a long time for the SEE region, to fully converge to the EU average. At this point, it is clear something has to be done.

*Chart 24*



*Source: Eurostat and BoA calculations.*

If we go back, the economic and financial crisis of 2008, while shaking the foundations of some of the largest developed world economies, played also a crucial role in exposing the vulnerabilities and the need for a systemic revise of the economic structures of the countries in the SEE region. The fundamentals upon which growth in the region was based prior to the crisis proved to be unsustainable.

Fortunately, in setting our policy course for the future we can look back on some lessons we learned from our past.

## **2. A BRIEF OVERVIEW ON THE LESSONS LEARNED SO FAR**

The convergence process has been difficult and challenging and I would like to highlight some of the lessons we have learned.

First, the journey to accession follows a long and hard path of institution building, economic restructuring, and policy discipline. This journey should structurally prepare our economies to withstand the competitive pressures within the EU market, as well as bring some degree of

synchronization in order to avoid asymmetric shocks. Making progress in any of these areas is difficult in itself. However, a point often missed is that only a coordinated action plan, that covers all three areas, would prove to be successful.

Second, economic reforms often carry short-term costs. Stability-oriented policies usually give ground to short-sighted populist appeals, because building modern institutions means fighting the routine and sometimes tackling few interests. All of them create dissatisfactions and disagreements. However, as long as our societies remain committed to EU integration, this is a long path that we have to go through. But, as policy-makers we should not take their (EU) patience for granted. We should be determined on our actions, but honest and transparent on their results. Ultimately, we should be careful in explaining policy trade-offs and have realistic expectations regarding a credible accession time-frame.

***“The journey to accession follows a long and hard path of institution building, economic restructuring, and policy discipline. This journey should structurally prepare our economies to withstand the competitive pressures within the EU market, as well as bring some degree of synchronization in order to avoid asymmetric shocks.”***

This brings me to my third topic. The EU remains - at the moment - a moving target, in terms of internal political dynamics and ongoing structural reforms, which have been further strengthened in the aftermath of the crisis. As such, some of the political patterns of yesterday appear to be overturned, while new goals and commitments tend to gradually emerge. We need to be both aware of new trends and flexible in dealing with them.

Lastly, and a bit more technical, the dynamics of the crisis in the region and its subsequent effect should alert us on the need to have a more thorough view to economic stability. It's obvious that price or exchange rate stability targets should be supplemented by financial stability mandates. Furthermore, we should be conscious of any external or internal imbalance, and continuously stress-test the resilience of our economies against possible adverse scenarios.

To sum up my thoughts on these points, I would like to underline that while we - as policy-makers - have learned a lot from the past, the future remains quite difficult and uncertain.

With that being said, allow me to move to my next subject: what are the challenges we, as central banks, perceive as relevant for the future?

### **3. NEW CHALLENGES FOR CENTRAL BANKS IN THE EU ACCESSION**

Pursuant to the word and spirit of the EU law, as monetary authorities, central banks are tasked with providing a major input in the process of convergence. Three out of five EU convergence criteria fall under the direct or indirect authority of central banks.

In terms of the nominal values defined by the Maastricht Criteria, Albania fulfills 3 out of the 5 criteria, namely:

- Price stability, with inflation lower than 1.5 percentage points above the average of best three EU performers;
- Exchange rate stability, with the domestic currency relatively stable, and even on an appreciating path in the past two years against the euro.
- Low budget deficits, with a budget deficit below the 3% of GDP ceiling for two years in a row.

The two criteria we do not meet-yet-are the durability of the convergence, or the long-term government bonds interest rate, and the sustainability of public finances, or the relatively high level of public debt. Based on current trends, I'm convinced we should be able to achieve them under a reasonable time-frame.

I think our monetary policy framework, based on flexible exchange rate and an inflation targeting regime, is robust and mature enough to allow the Albanian economy to achieve the 'convergence' objectives within the next decade. From an institutional point of view, I believe Albania has chosen the right policy regime. In addition to our positive past experience, it also appears to be in line with EU guidelines. According to the European Commission, while there is no one size fits all policy mix, their preferred policy path to EU accession would be the one that combines a flexible exchange rate regime with an independent monetary policy, aimed at price stability. Furthermore, the recently introduced fiscal rule should enhance fiscal sustainability and should help decrease risk premia in financial markets.

However, limiting the role of central banks to the process of convergence is not to be recommended. As the regulator and supervisor of the banking system across the region, it has a major role in pursuing the structural reform agenda. Hence, I believe the central bank should be clearly engaged in at least three areas:

***“Our monetary policy framework, based on flexible exchange rate and an inflation targeting regime, is robust and mature enough to allow the Albanian economy to achieve the convergence’ objectives within the next decade.”***

- Financial sector development. A sound and efficient financial market is a necessary prerequisite for a high and resilient long-term growth. Central banks in the region have been engaged in promoting credit growth, through accommodative policies and through reducing legal and institutional impediments to the improvement of NPLs. However, they can and should initiate growth, efficiency and resiliency enhancing structural reforms targeted at the financial markets:
  - In terms of deepening financial markets, more needs to be done in order to develop capital markets. This is an unexploited resource which would ensure an alternative and efficient source for financing investments. As of now, SEE countries stand far behind the EU standards in this metric.
  - In terms of increasing their resilience, we should: (i) try to align all domestic regulatory standards - financial ones - to those applied by central banks; (ii) further develop and improve safety nets, such as the bank resolution mechanism recently introduced at the Bank of Albania; and, (iii) try to apply sound management practices across all financial institutions. Completing all these tasks is not exclusively in the hands of the central banks, but they can become a catalyst for change.
- Accelerate convergence efforts. I believe the central banks should take full responsibility for advancing the convergence process in the following two areas:
  - Regulatory convergence. Central banks in the region can be more ambitious in trying to harmonize their banking system regulation and their supervisory practices with those of the EU. While a full harmonization can be unrealistic, and even counterproductive, we should try to minimize our distance to EU standards.
  - Institutional convergence. Central banks themselves need to adapt to

EU requirements. To that extent, we should constantly try to increase our professionalism, improve our analytical and policy-making capacities, as well as enhance our policy implementation abilities. In short, we should always benchmark ourselves against EU standards,

- Enhance regional cooperation. The European Commission has set regional cooperation as a prerequisite step for the Western Balkans countries to gain membership in the union. The free trade agreement is already in place, helping somewhat our local economies prepare for the pressures of the single market. Businesses in the medium-term will benefit from competition from foreign peers, stimulating them to reform and increase their efficiency. However, the regional markets could use further integration. Access to a bigger market introduces higher risks, but creates greater opportunities, building a positive investment climate for local and global actors. The Berlin Process (Trieste Summit part of it), already underway, has demonstrated that the countries can work together for the creation of a better business climate. I am confident that this process will carry on, and progress in the region will be enjoyed from many sides, bringing accession to the single market closer for the region as a whole. As policy makers we should stimulate this process, through increasing our cooperation and coordination.

Thank You!

# **GOVERNOR SEJKO: SPEECH AT THE 7TH ECB CONFERENCE ON CESEE COUNTRIES ON INSTITUTIONAL QUALITY AND SUSTAINABLE ECONOMIC CONVERGENCE**

**-6 October 2017-**

*Dear ladies and gentlemen,*

It is a pleasure for me to participate in this Conference, and discuss about the role of our Institutions in the EU economic convergence process, such a relevant topic presently. I believe sharing our knowledge and experience in this area is extremely beneficial to all of us.

My thoughts will be organized along three main dimensions. To begin with, I will highlight some of the challenges that the SEE convergence process is facing, from Bank of Albania' point of view. Next, I will briefly describe how Albania is positioned across these dimensions. Lastly, I will try to emphasise how the convergence process itself can be enhanced to anchor our policymaking.

## **1. SEE CONVERGENCE PROCESS CHALLENGES**

The long-term political future and economic prosperity of the SEE region is firmly linked to EU convergence and integration processes. While individual countries have differences, a common specific they all share is the economic and political benefits from the process.

The convergence process is difficult and full of challenges, most importantly, the risk of falling into a middle income trap', a feature that is especially relevant given the slowdown in the speed of convergence that the region experienced in the aftermath of the crisis. The main reasons that can entrap an economy in a middle-income level are a low level of innovation, poor quality of institutions and unfavourable demographics.

***“The long-term political future and economic prosperity of the SEE region is firmly linked to EU convergence and integration processes.”***

***“The convergence process is difficult and full of challenges, most importantly, the risk of falling into a middle income trap’, a feature that is especially relevant given the slowdown in the speed of convergence that the region experienced in the aftermath of the crisis.”***

From a certain point of view, the ability of any country to move up the development ladder depends on the upgrade of its internal economic system, from an efficiency-driven into an innovation-driven economy. Obviously, upgrading the whole economic systems and adopting best practices is easier said than done.

Diminishing marginal returns on labour and capital, as well as a reduced scope for total factor productivity growth, coming mainly from imported technologies, decelerate growth and increase the risks of getting stuck in a middle income trap’. Therefore, progression to the next development stage requires improvement of the human capital stock, facilitation and innovation in production processes, advancement of domestically generated technology and expansion of high value added exports. In a nutshell, the SEE countries need to transform themselves into innovation-driven economies.

At this point, the role of institutions broadly determines the rule of law, the investment climate and the protection of intellectual property, the quality of education and infrastructure, as well as access to finance. Upgrading institutions to EU standards is therefore of paramount importance.

## **2. THE CONVERGENCE PROCESS IN ALBANIA**

***“Throughout the transition period, Albania has experienced a relatively fast catch-up process, starting from a comparatively low income per capita level. This has, nevertheless, stalled after the financial crisis.”***

Throughout the transition period, Albania has experienced a relatively fast catch-up process, starting from a comparatively low income per capita level. This has, nevertheless, stalled after the financial crisis. While Albania, currently a middle income country, has not fallen yet, in my opinion, in the middle income trap’, the risks of doing so are present.

Let me briefly examine why.

The institutional setup in Albania has been largely contributory to the convergence process. Macroeconomic policymaking has improved

considerably in the past years. The Bank of Albania operates under an inflation targeting regime, modelled closely after the ECB's framework. The exchange rate is free floating, thereby facilitating the absorption of any adverse shocks. Fiscal policy is on a steady consolidation path to reduce the country's risk premia and enhance its fiscal space in order to deal with potential future shocks. The authorities have adopted fiscal rules that mandate a steady reduction of public debt. Several policy initiatives have been implemented to strengthen financial stability. A de-euroization strategy has been developed and launched. Legal impediments to collateral execution and NPLs resolution have been overcome. A Bank Resolution Law has been recently passed. In addition, the independence and efficiency of the Financial Supervisory Authority and the Deposit Insurance Agency has been strengthened.

Despite this progress, several deep structural imbalances still exist that prevent the transformation of Albania into an innovation-driven economy. According to the WEF Global Competitiveness Indicators, we are still lagging behind in institutional development, business sophistication, innovation, technological readiness, financial market development, rule of law, and quality of the judiciary. In order to tackle those impediments, various structural reforms have been carried out in the public administration, in education, in the tax system and practices, in the pension system and in the energy sector. Last year a major revise of the justice system was approved to address what is considered one of the main bottlenecks of growth and competitiveness. Although the reform is still being implemented and it is early to assess its effects, it underscores the Albanian authorities' commitment to address structural weaknesses.

On the other hand, Albania has benefited from a positive demographic position as a result of its young and vibrant labour force, but has suffered from continuous net migration towards more developed countries. While emigration has provided a steady flow of remittances and has eased labour market pressures, it has also drained the country of its highly skilled labour force. The latter might have long-term repercussions on innovation and can have implications on the so-far convergence progress realised. With that being said, let me now conclude.

### 3. TOWARDS A STEADY CONVERGENCE PATH

SEE countries are at risk of falling into a middle income trap<sup>1</sup>. As such the economic systems need to be transformed, through carefully-designed and well-targeted policies that promote domestic innovation, modernise institutions, and cushion the effects of adverse demographics.

***“The economic systems need to be transformed, through carefully-designed and well-targeted policies that promote domestic innovation, modernise institutions, and cushion the effects of adverse demographics.”***

It is clear that the load of reforms remains with the SEE countries authorities' themselves. A domestic ownership of reforms is of utmost importance for the democratic process and the ultimate success of convergence.

However, while these policies need to be carried out regardless of external factors, EU integration has a fundamental importance on economic convergence dynamics.

After the economic and financial crisis, appetite for further EU enlargement declined, due to waning popular support and shifting policy priorities towards reform. As the EU's mood drifted away from enlargement and from further integration, countries relaxed their drive for reform. These developments coincided, or let me rather say, induced a stall in the convergence process in several SEE countries.

As a final thought, the EU institutions themselves can facilitate this process further through:

- Providing transparent and objective EU integration guidelines;
- Emphasising the need of institutional convergence throughout this process;
- Continued monitoring and reporting on the progress of individual countries.

On one hand, this will enhance the positive leverage of the EU integration process on the development of our countries and societies. On the other, it will increase the cost of non-compliance and possibly induce positive compliance competition amongst the countries in the region.

Thank You!

**GOVERNOR SEJKO: ADDRESS ON THE  
OCCASION OF THE SIGNING OF THE  
MEMORANDUM OF COOPERATION BETWEEN  
THE BANK OF ALBANIA AND THE CENTRAL  
BANK OF THE REPUBLIC OF TURKEY  
-6 November 2017-**

*Honourable Governor Çetinkaya,  
Your Excellency Ambassador Bayraktar,  
Dear members of the CBRT delegation,  
Dear guests,  
Ladies and Gentlemen,*

I have the pleasure to have the Governor of the Central Bank of the Republic of Turkey, Mr Murat Çetinkaya, as our guest on a one-day visit to the Bank of Albania, on the occasion of the signing of a Memorandum of Cooperation. This memorandum is an expression of our common will and desire to continue and intensify the mutual cooperation that has been already in place for years.

Opening addresses are supposed to be brief and I would rather not break with such tradition. However, I find it appropriate to share with you some thoughts on: (i) the international context surrounding the signing of this memorandum; (ii) the current level of the bilateral relations between Albania and Turkey; and, (iii) the main aspects of future cooperation.

***“This memorandum  
is an expression of  
our common will and  
desire to continue and  
intensify the mutual  
cooperation that has  
been already in place  
for years with the  
Central Bank of the  
Republic of Turkey.”***

## **1. INTERNATIONAL CONTEXT**

Our institutions - the respective central banks - play a significant role in promoting and guaranteeing monetary and financial stability, supporting the sustainable development of our countries and the welfare of our citizens.

The central banks formulate, implement, monitor and assess their monetary, micro and macro-prudential policies against the backdrop of a highly integrated and interdependent global economy.

- On the one hand, integration bolsters economic growth, enabling a more efficient distribution of labour and capital, thus facilitating the transfer of knowledge and of technology, and promotes the adoption of best practices in economic and financial management.
- On the other hand, experience has shown that globalisation may spill over and amplify negative shocks among the countries, hence creating risks to financial stability, which interfere with central bank mandates.

The experience of Albania during the transition period and onward perfectly illustrates these aspects. The Albanian economy has benefited from integration with the global economy; but, recently, we have also been under the pressure from consequences that some of our trading partners experienced due to the financial crisis.

Therefore, our response functions have become increasingly complex, relating not only to the adjustment of the domestic product as well as labour and capital markets to external shocks, but also to the performance of international markets. This reality requires us to be heedful of international developments, and seek common solutions for the challenges we are facing.

***“The cooperation, coordination of policies and strengthening of effective dialogue between central banks is an indispensable requisite for drawing advantages from the opportunities arising from economic, financial and technological integration, and enhancing the immunity against the relevant challenges.”***

The cooperation, coordination of policies and strengthening of effective dialogue between central banks is an indispensable requisite for drawing advantages from the opportunities arising from economic, financial and technological integration, and enhancing the immunity against the relevant challenges.

## **2. ECONOMIC AND FINANCIAL INTEGRATION AMONG OUR COUNTRIES**

Our countries have many things in common - these elements are more than sufficient to build and consolidate bridges of cooperation. Turkey is an important market for Albania and its economy.

To illustrate my point:

- Turkey is Albania's fourth trading partner and its sixth investment partner.
- In the services sector, Turkey is an important destination for Albanian tourists; on average around 80 thousand Albanians travel to Turkey, whereas Albania has welcomed around 69 thousand Turkish travellers in 2016 and 38 thousand travellers over the first six months of 2017.
- At present, 429 joint-venture companies operate in Albania and Turkish investors have a great interest in Albania. The stock of foreign direct investments from Turkey amounts to around EUR 481 million, or around 4.3% of the Gross Domestic Product at the end of the first half of the current year. These investments are mainly concentrated in areas such as: energy, metal processing, telecommunications and finance.
- The presence of the Turkish capital in the banking and financial sector. One of the main banks in our banking system has Turkish capital. Recently, in addition to the classical banking activity, the Turkish capital has expanded to non-bank financial institutions, thus helping deepen and develop alternative financial markets.

Both our countries have great economic and financial potential, which should not be limited within their geographic territories. The Bank of Albania is an active supporter of financial and economic integration, considering it as one of the most important pillars to release the potential of the economy and boost its resilience to shocks.

### 3. ON THE MEMORANDUM

All the above arguments, underline the great importance of the economic and financial cooperation with Turkey. This cooperation imposes even us - the policy makers - to intensify the exchange of information and opinions, and seek to promote the finding of common solutions to common challenges.

In this spirit, the Bank of Albania and the Central Bank of the Republic of Turkey are signing today this Memorandum of Cooperation, which may be well considered

as the coronation of the insofar cooperation, as well as of our efforts to continue with drafting the relevant institutional framework for clarifying the operational cooperation protocols, in a series of central bank fields.

***“The Bank of Albania is an active supporter of financial and economic integration, considering it as one of the most important pillars to release the potential of the economy and boost its resilience to shocks.”***

***“This memorandum elevates the relations between our two countries to a new dimension. It confirms the will to elevate the level of cooperation and consolidate the ties between the two countries, providing for both institutions the necessary space for the intensification of mutual exchange of information and expertise in various fields of central banking.”***

This memorandum elevates the relations between our two countries to a new dimension. It confirms the will to elevate the level of cooperation and consolidate the ties between the two countries, providing for both institutions the necessary space for the intensification of mutual exchange of information and expertise in various fields of central banking, such as: supervision, financial stability, research, and financial education, and the regular dialogue at technical and political level. It is an important step for obtaining maximum benefits from the positive effects of integration and minimising the negative ones.

Lastly, I would like to underline that the Bank of Albania will make maximum efforts for the cooperation in the framework of this agreement to be concrete and have a direct impact.

Concluding, on behalf of the Bank of Albania, allow me to thank once again the Central Bank of the Republic of Turkey for the continuous and fruitful cooperation; I would also like to thank, in particular, Governor Çetinkaya, who has honoured us today with his presence at the ceremony of signing the Memorandum.

Thank You!

## **GOVERNOR SEJKO: WELCOME ADDRESS TO ANNUAL CONFERENCE 2017 OF THE BANK OF ALBANIA -9 November 2017-**

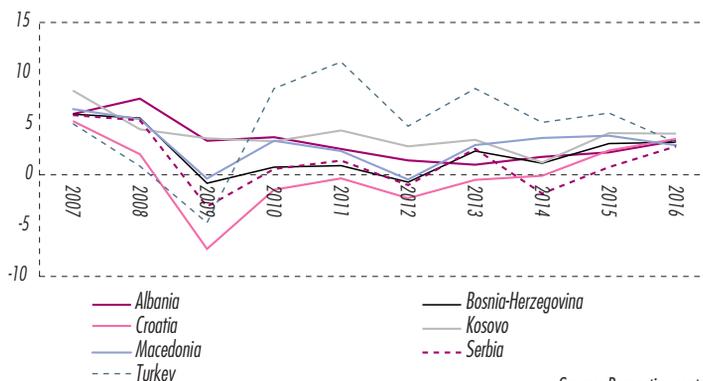
*Your Excellency Mr President,  
Your Excellency Mr Minister,  
Dear Prof. Anastasakis,  
Honourable Governors,  
Your excellencies Ambassadors, dear guests, ladies and gentlemen,*

I would like to warmly welcome you to the Annual Conference of the Bank of Albania. For almost two decades, the Conference has become a prevalent event in the research and professional activity of the Bank. Our analyses and conclusions, over the years, have endeavoured to respond to many challenges and dilemmas for our national economy and beyond. Thanks to the cooperation with the University of Oxford, more specifically with St. Anthony's College, this Conference has aimed, and I believe it has succeeded in doing so, at exploring and providing answers for a number of issues, which, given their nature, effect and interlinking, are present across the South East Europe.

The theme of this year focuses on similar issues. During the day, national and international experts of the economy and finance as well as academics will analyse the latest trends and developments in the financial sector in the region, focusing on potential implications on the macroeconomic equilibrium and financial stability of each economy. The theme of the Conference is relevant to both current and future developments. From the international perspective, it seems that the overall situation is increasingly more supportive. Advanced economies, together with large emerging economies are in a phase of full recovery, underpinned mainly by the boost in aggregate demand. Interestingly, the euro area, which includes most of our trading partners, is experiencing an overall positive momentum concerning economic growth, and forecasts are optimistic.

There is a broad consensus that the economies of the South East Europe region, in the first half of 2017, registered a satisfactory performance in terms of recovery; in the meantime, according to key indicators, such performance is expected to strengthen further in the third quarter of this year. Albania is no exception to the regional context.

Chart 25 Policy rates of regional central banks

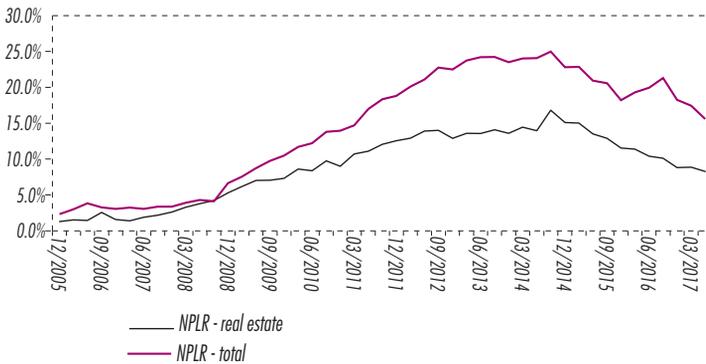


Source: Respective central banks.

In the previous quarter, the economic and financial situation in Albania was set on a path of constant improvement. Growth and employment indicators followed an upward curve and expectations for 2018 remain positive. Consumption and foreign investments have contributed positively to economic activity and are expected to generate further increase in productivity and competitiveness. At the same time, income from the export of goods, and especially of services contributed to the reduction of the current deficit and the strengthening of the external position of the economy. The effects of the monetary policy have maintained the stimulating trend, aiming at closing the negative gaps of prices and output.

Financial stability is also characterised by a positive situation. The notable decline in non-performing loans in the balance sheet of the banking system is the most prominent achievement in this aspect. The measures taken in mid-2016 have produced a substantial effect, materialised in the reduction of non-performing loans by around 10 percentage points, below the maximum level registered in 2015. It is always a pleasure to note that credit growth has been positive. In particular, the lek credit has grown rapidly, compared to the foreign currency credit, which makes the banking system and the private sector healthier, and enhances the effectiveness of Bank of Albania's monetary policy. Positive developments in the banking sector and the economy have supported the further improvement of capitalisation, liquidity and profitability indicators. Two months from the end of the year, in our assessment, the banking industry in Albania enjoys full financial soundness, against the backdrop of an optimal liquidity and capitalisation situation, a key prerequisite for financially supporting the economic developments of the country.

Chart 26 Non-performing loans ratio



Source: Bank of Albania, Financial Stability Department.

We have also paid particular attention to legal, institutional, regulatory and supervisory developments, notably the drafting and implementation of the resolution law.

*Dear ladies and gentlemen,*

This year marked 25 years from the establishment of a two-tier system in Albania, which stipulates the banking system as the provider of financial and banking services in the economy, and the central bank as the administrator of the monetary policy and regulator and supervisor of the banking system. This first step was followed by other steps related to other segments of the financial market, such as the securities and capital markets, including the establishment of the relevant supervisory and regulatory institutions.

Initiatives in these aspects have promoted a constant expansion of the financial market, in terms of both diverse institutions and number of financial products and trading volumes. Yet, despite these developments, the financial system remains dominated by the banking system and relevant developments in it. The last financial stability report of the Bank of Albania states that banks account for around 90% of total financial system assets, equivalent to 92% of the GDP, whereas the rest of the financial sector shares only 10% of the financial system total assets.

Assessments and studies of the Bank of Albania, as well as comparative studies by third parties, particularly by the International Monetary Fund, show that the financial distribution and expansion in the Albanian financial market is close to the equilibrium, dictated by the Albanian economy and consumers. Moreover, financial intermediation indicators, as a percentage

of the Gross Domestic Product, are at similar levels to those in other countries of the region.

The dominance of the banking segment has naturally led to a higher level of concentration of financial products and services in its favour. More than 80% of resident investments in the financial system are in the form of deposits and current accounts in banks. Only little more than 12% are in the form of government securities, whereas the rest, around 6.5%, are invested in investment or private pension funds, accounting for only 0.1% of total financial system assets. Statistics show that only a small number of companies operate in other segments of the financial sector, and their activity in terms of the Domestic Product or of the financial market remains insignificant.

***“... the financial market architecture may not be considered complete yet. Financial instruments with long-term maturities are rare, whereas the short-term ones outside the banking system are apathetic and fragmented, in terms of both products and markets.”***

Regarding the above, we may logically conclude that the financial market architecture may not be considered complete yet. Financial instruments with long-term maturities are rare, whereas the short-term ones outside the banking system are apathetic and fragmented, in terms of both products and markets. An outcome of such a financial architecture is a kind of added pressure on the banking system, depriving the economy of other financing alternatives, beyond what the banks offer.

This vacuum may not be filled with strained efforts by the banking system. It has been broadly accepted that each segment of the financial market plays a complementary rather than substituting role. I could mention a number of examples to illustrate my point, but for the moment I would rather not, as in the next panels these issues will be discussed in greater detail by other colleagues and academics during the day.

Overall, the above elaboration regards investment-related financial institutions and financial instruments. However, it must be noted that similar problems characterise the other extreme of the financial market, the corporate - or enterprises sector - as we call it in Albania. Bank of Albania surveys show that micro units face shortage of financial resources and have limited access to credit. Thus, more than 1/3 of respondent enterprises consider the low level of access to finance and the cost related to it as the main cause for not expanding the activity. These micro units, which are basically family-run businesses, have a greater need to cooperate with non-bank financial institutions, due to difficulties they have in fulfilling the

requirements for collateral or detailed financial documentation, criteria that banks require. This is another argument that leads to the logical conclusion that, in addition to own capital and bank credit, these enterprises would benefit greatly from other segments of the financial market.

The low level of financial inclusion of the population is another element that prevents the deepening and expansion of the financial market in Albania. Latest data from the World Development Indicators show that only 38% of adults have an account with a financial institution, while only 6% and 22% of adults have a credit card and a debit card, respectively. Financial inclusion may not be increased only through the banking system. The financial system, especially the capital market and the corporate securities market should play a significant role in increasing financial inclusion.

I take this opportunity to emphasise that, in addition to the need for expanding and deepening the financial market, it is necessary to increasingly pay attention to the management of risk that accompanies any financial investment. We are witnesses of a rapid technological evolution, which has practically eliminated physical boundaries, has eased access to electronic investment platforms, and has rendered very difficult the supervision and regulation of many innovative financial instruments that are traded in these platforms.

***“... in addition to the need for expanding and deepening the financial market, it is necessary to increasingly pay attention to the management of risk that accompanies any financial investment.”***

The phenomenon of informality coupled with the speed of innovation in the field of financial instruments are a real risk for every investor that is naively driven by profit and does not stop to analyse the magnitude and nature of risk to which he is exposed. Anyhow, inclusion should take place carefully, relying on specialised financial intermediaries and auxiliaries, whose activity is regulated and supervised by a legitimate authority in Albania or abroad.

Dear ladies and gentlemen,

The depth and expansion of the financial markets determines the set of financial instruments eligible for trading, in a broad spectrum from the maturity perspective. These instruments are nothing more than consecutive steps in the monetary policy decisions pass-through mechanism. The whole process of instrument trading serves to determine the value of assets, the price of risk and savings, and, eventually, the propensity toward consumption, savings or investments. In this sense, the existence, completeness, and effectiveness of the financial market play a significant role in the monetary policy pass-

through. This is the reason why the central bank places its focus on these markets and on their proper functioning.

Based on these specific reasons, the Bank of Albania has initiated, time ago, a series of actions for creating a more dynamic financial market. The macro-prudential measures taken with regard to liquidity and capitalisation; limitations placed on positions with non-resident banks, provisions and collateral; and the package of measures for reducing non-performing loans are steps to remedy problems related to the shallowness and narrowness of the market, the low financial inclusion, and the inadequate financial education.

Studies and analyses of the Bank of Albania support the logical conclusion that the development of the financial market is an important factor for boosting economic activity and enhancing welfare in general. At the Bank of Albania, we believe that the current structure of the banking market promotes competition in relation to banking products and services. However, the further expansion and deepening of the market is a present challenge for all the relevant actors involved. The banking industry, the Bank of Albania, other segments of the financial market as both actors and regulators, the government, the academia and experts of the field, should be all involved in this effort. Our ambitions should aim at having a dynamic and liquid financial market, with upward trading volumes, and a widening spectrum of instruments, including a prolongation of maturity horizons and prudent risk management. This framework should be accompanied by added transparency in all the phases of trading, with financial education assuming a special place. Only in this way would we be able to deepen and expand, in real terms, the financial market, and through it a higher efficiency in implementing economic and financial policies, in mobilising and using national savings, in financial inclusion, in economic activity growth, and in enhancing the welfare of the population in the long run.

In the hope that the proceedings of this conference will be characterised by a fruitful exchange of ideas and views by the participants in this room,

Thank you for your attention!

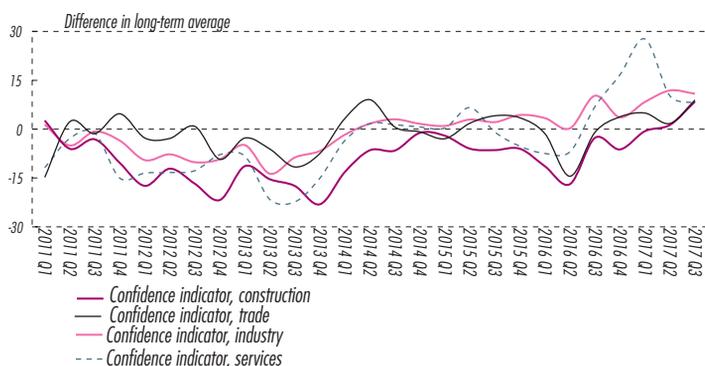
## GOVERNOR SEJKO AT THE 2ND CONFERENCE OF THE ALBANIAN ASSOCIATION OF BANKS -14 November 2017-

*Your Excellency Prime Minister,  
Your Excellency Minister of Finance,  
Dear Chairman of the Albanian Association of Banks,  
Ladies and gentlemen,*

It is a special pleasure for me to participate in the second conference organised by the Albanian Association of Banks (AAB). I take this opportunity to compliment the AAB for the selected theme, as economic growth in Albania is cross-cutting topic of interest to all of us.

This conference takes place at an interesting moment from the perspective of the performance of economic activity in Albania. The most recent assessments show that our economy has entered into a long-term recovery trajectory. As mentioned in the last Statement of the Supervisory Council of the Bank of Albania, the Albanian economy grew 4.1% in the second quarter, driven mainly by the recovery of private domestic demand, improvement of the international trade balance, and increase in public spending and high foreign direct investments during this period.

*Chart 27 Confidence indicators*



*Source: INSTAT and Bank of Albania.*

The accommodative monetary policy of the Bank of Albania has been one of the key driving factors for the recovery of domestic demand. It has constantly guaranteed a financial environment with low interest rates and

ample liquidity. It has also been aided by the consolidated fiscal policy, which, in addition to reducing risk premia, has increased the space for financing the private sector.

Our expectations for the short and medium-term economic developments in Albania remain positive. We aim at having sustainable growth rates in the course of the years. In this context, the banking sector represents a key industry for supporting economic recovery. The instruments it avails have a substantial contribution in this regard, with lending being among the most important ones.

Notwithstanding occasional volatilities, the banking industry has played a significant role in supporting economic activity. That was notably the case at the early 2000s, following the privatisation of the then Savings Bank. During that period, the outstanding credit increased at considerable annual growth rates.

Anyhow, such high growth rates and the outburst of the global crisis revealed a number of inconveniences, and led to the perpetual increase in the level of non-performing loans. Thus, the ratio of non-performing loans to total loans peaked 25%, extremely deteriorating the system's lending capacities. The reasons that led up to this point have been discussed extensively in the past and I would rather not focus on them, again.

What I would like to emphasise, though, is the fact that the current situation is very different from what it used to be a few years ago. The ratio of non-performing loans is constantly reducing, standing 10

***“The banking industry should adopt a more active approach in deepening financial intermediation, which ultimately means strengthening the credit activity.”***

percentage points lower than its peak level. Thanks to joint efforts, the balance sheets of the banking system are healthier, the liquidity situation is optimal, and its prices have fallen to historical low levels.

As a result, I think that the banking industry should adopt a more active approach in deepening financial intermediation, which ultimately means strengthening the credit activity.

According to the last Financial Stability Report, in 2017 H1, the banking system was financially healthier. This fact leads us to believe that its actors, who unquestionably contribute to the supply side of credit to the economy, should tend to be more active.

On the other hand, regarding credit demand, assessments are also positive. More specifically, survey results on the financial and borrowing situation of enterprises in 2017 H1, show that the financial situation has improved and the optimism characterises both the short and the medium term.

In recent years, the Bank of Albania, in cooperation with the Parliament and the Government has undertaken a series of actions, including legal amendments, to address concerns that had been previously raised by the industry. Aware of their usefulness, we undertook these changes and I believe we have achieved concrete results. Your balance sheets are cleaned and the financial situation appears healthier.

For these reasons, the central bank invites you to utilise, within reasonable levels of prudence, every possibility and space for identifying business plans and projects that deserve to be supported. It is time now for lending to assume its place in supporting the economy, and this requires professionalism, energy, integrity, and commitment.

***“It is time now for lending to assume its place in supporting the economy, and this requires professionalism, energy, integrity, and commitment.”***

The banking industry has a series of instruments at its disposal. In addition to the need for reviving credit, as one of the most important instruments, I would like to focus now on some other indicators, such as the level of the financial system development and financial inclusion and education. These are some very important additional elements that contribute to economic activity.

Underdeveloped financial systems are exposed to systemic risks and create distress and challenges for the effectiveness of the monetary policy and financial stability. Fortunately, we live in an age when financial innovation has introduced many new business models, both in processes and in products. We should also embrace them in Albania. The great technological revolution has eliminated physical barriers, making it easier for the people to access the financial market, regardless of the geographical location, age, qualification, cultural formation, or tradition. In addition to easier access, the costs and speed of obtaining services have improved notably. Our banking system should not only make use of all these elements, but also develop them further.

***“Financial inclusion and education are two challenges that I think should be an integral part of our agenda in the years ahead. World Development Indicators show financial inclusion of the population continues to be low.”***

Financial inclusion and education are two challenges that I think should be an integral part of our agenda in the years ahead. World Development Indicators show financial inclusion of the population continues to be low.

In 2014, only 38% of the population had an account with licenced institutions of the financial system, while 22% of adults had a debit card and only 6% of them had a credit card. This shows a large gap between us and OECD countries, where 92% of the population

has a financial account, whereas 80% of adults own a debit card and 40% a credit card.

The role of banks concerning financial education is very important and I would say unique. The deepening and expansion of your clients' financial literacy has a high social impact and, at the same time, banks will reap benefits, because, in turn, the clients are consumers of banking products and services.

*Ladies and gentlemen,*

Lastly, I would like to focus on the contribution by the banking sector to the fight against informality, a very harmful and, unfortunately, still widespread phenomenon in the Albanian economy, to the extent that it may be considered a serious risk to the economic and financial stability of the country.

In this aspect also, the role of the banking system is very important. Using information certified by authorities, concerning the balance sheet of the companies, as well as other economic actors, has become a necessity. Above all, they are prudential measures, which enhance the level of security and stability, especially in lending.

The reform against informality is amongst the priorities for the Albanian authorities. The banking sector - with its network, expertise and know-how, which many of you bring along from the home country of the respective banking group - should offer its assistance for the common goal.

Based on the above, I invite you to focus the debate and analysis in this one-day conference along these lines, hoping that this meeting will create a convergence of ideas and conclusions in relation to the further recovery of the economic activity.

The support of the Bank of Albania will be unconditional in this regard. As in the past, we will be constantly in search to adopt strategies and rules that aim at having a financially sound banking sector, capable of supporting economic development in Albania.

***“As in the past, we will be constantly in search to adopt strategies and rules that aim at having a financially sound banking sector capable of supporting economic development in Albania.”***

I am fully confident that the future cooperation among all the stakeholders: the banking industry, the government and the Bank will be strengthened, for the economic and financial prosperity of the country.

I thank you for your attention and I wish the conference all success!



## **GOVERNOR SEJKO: ADDRESS TO THE 11TH SOUTH-EASTERN EUROPEAN ECONOMIC RESEARCH WORKSHOP, ORGANISED BY THE BANK OF ALBANIA -4 December 2017-**

*Distinguished guests,  
Dear ladies and gentlemen,*

It is a great pleasure to be here with you today. On behalf of the Bank of Albania, I would like to welcome you to the 11th South-East European Economic Research Workshop and thank you for your continuous devotion and valuable contribution.

The workshop has been evolving throughout the years, providing a useful platform for researchers, academics and central bankers from the region and beyond, to:

- present innovative research findings and foster exchange of views;
- discuss about key developments in money markets, monetary policy implementation and central bank operational frameworks; and
- develop long-term collaborative relationships.

From a strategically point of view, the main goal of economic research is to provide a strong conceptual and empirical basis for policy-making. High-quality research leads to higher credibility of the central bank and improves the quality of its policies. We strongly believe that a qualitative research increases the potential contribution of the central bank to the financial markets, the economy and the society.

***“The main goal of economic research is to provide a strong conceptual and empirical basis for policy-making. High-quality research leads to higher credibility of the central bank and improves the quality of its policies.”***

Like in other European central banks, economic research at the Bank of Albania is an important function in its overall activity, which has proved to be successful in supporting the policy formulation and implementation

***“The economic research at the Bank of Albania is an important function in its overall activity, which has proved to be successful in supporting the policy formulation and implementation processes.”***

processes. New methodologies provided by Research, based on empirical models, have been adopted as standard tools of policy analysis and forecasts by other Departments (e.g. monetary policy, financial stability, banking supervision).

This means that the mission, scope and contribution of research, assume a very important place in Bank of Albania's development strategy.

Its goals consist in:

- increasing our knowledge and understanding about domestic, regional and global economy, including the functioning of the financial system;
- developing high-quality models, tools and analysis to support better the monetary policy and financial stability;
- participating in research international networks (regional and euro system), to facilitate the exchange of opinions and views with other central banks; and
- delivering reliable advice to policymakers and sharing findings and conclusions with market participants, foreign investors and to the public.

Furthermore, during this year, research at the Bank of Albania extended its activity to include historical research. The outcome was the Conference on “Money and banking in Albania, from antiquity to modern times”, which brought together many scholars, numismatists, archaeologists, and researchers of monetary and economic history.

Turning to the very reason why we are all here today, I would add that, recently, research has focused on various topics related to:

- financial market infrastructure and potential implications for financial stability and banking supervision;
- implementation of the new IFRS standards;
- rapid development of the financial market and its instruments, and
- institutional developments in domestic and international markets.

All of them are currently hot topics of economic research and I am happy to note that they occupy a significant part of this workshop's agenda. Additionally, I am very happy to see that traditional issues of monetary policy and developments in the external sector of the economy will also be discussed during the two days of the workshop.

In my opinion, such a broad coverage makes the agenda quite interesting. We are confident that research papers that will be presented during the workshop days will provide some guidance on how to approach several issues arising from the recent economic developments, regionally and beyond. Many of them are similar across countries; therefore, collective cooperation would be quite useful.

Without further ado, I would like to invite you to actively participate in and conduct a very lively and fruitful debate. I truly believe that constructive discussions and comments, which will certainly take place during the workshop, will contribute to enhancing further cooperation among researchers, and between the institutions.

I thank you once again for your valuable contribution to this annual meeting of researchers and wish you a successful and fruitful workshop!



## **GOVERNOR SEJKO: ADDRESS AT THE JOINT PRESS CONFERENCE WITH THE MINISTER OF FINANCE AND ECONOMY**

**-7 December 2017-**

*Dear Minister Ahmetaj,  
Dear media representatives,*

It is with great pleasure that I present this concrete initiative of the Bank of Albania (BoA) in the framework of our efforts to promote the formalization of the economy. It is encouraging to see that a series of initiatives by other Albanian authorities are taken for the same purpose, to enhance the law enforcement and the use of financial channels. Experience has shown that complementary efforts of regulatory institutions lower the policies' implementation costs and increase their likelihood for success. Informal activity imposes open and hidden costs for the Albanian economy and the society. It damages the country's public finances, increases the tax burden and distorts its effect on the economic agents, hampers competition and increases the costs of fair business activity, reduces business financing resources and curbs their normal development, and creates social problems that arise from lack or insufficient coverage of social and health insurance.

From Bank of Albania's point of view, as the monetary authority and as the supervisor and regulator of the banking sector, informal activity reduces the effectiveness of our stabilization policies and creates the premises for instability of one or more segments of the financial system.

Focusing on the latter issue, I would like to remind you that safeguarding and strengthening financial stability has been and remains a major objective of BoA's work. As we have stated in our previous communications, the deterioration of the loan portfolios' quality has been one of the biggest challenges we have been facing in recent years. This deterioration reflected the effect of many factors, but the high level of informality in the economy, undoubtedly, provided its contribution to this performance. More concretely, the lack

***“From the BoA's point of view, as the monetary authority and as the supervisor and regulator of the banking sector, informal activity reduces the effectiveness of our stabilization policies and creates the premises for instability of one or more segments of the financial system.”***

of financial transparency, or problems related with the ownership over property titles and those encountered during the execution of collateral contributed to the increase of non-performing loans and were a barrier to our legal and regulatory measures, for their reduction.

In addition to the negative impact on the loan performance and quality, informality has also negatively affected the borrowers. Taking risks beyond the repayment capacities, not identified as a result of the lack of clarity regarding the financial statements, has also caused credit default, thus making borrowers face with unpredictable situations.

***“The Bank of Albania has commended and has continuously supported the initiatives for increasing the formalization of the economy.”***

For these reasons, the Bank of Albania has commended and has continuously supported the initiatives for increasing the formalization of the economy.

We have taken several measures to address informality, which have given their effects over the years. Enhancing transparency and lowering the costs of bank transactions, without affecting the operational independence of banks and their decision-making, has brought households and enterprises closer to the financial institutions.

The national plan for the reduction of non-performing loans established a regulatory criterion, as an important task for/to the Bank of Albania. Starting from 2018, lending analysis should take into account only declarations submitted to tax authorities. This is one of the key elements for addressing informality, also for the significant share of the banking activity in the domestic economy. The Bank of Albania has previously dealt with this phenomenon from a regulatory point of view, but only with large borrowers. The coordination of efforts with government bodies and appropriate actions taken in this regard have created the necessary space for taking this regulatory measure further to include a broader base of borrowers.

The Bank of Albania is confident that this measure will bring long-term benefits for all parties involved in the process.

- For the banking industry: crediting based on tax declarations facilitates significantly the lending process by putting banks on a common denominator in reading financial data. This eases the

- lending activity, providing banks with more clarity in the process of financial analysis and selection of borrowers, as well as exchanging information for common borrowers.
- For Albanian enterprises and households: this process promotes transparency, which will be translated into reduction of credit risk and, most importantly, lowering of financing costs. Also, by providing a level playing field, this process fosters competition and efficiency, which, ultimately, contributes to the overall economic development of the country.
  - For the economy: this process increases the country's economic and financial stability and creates premises for a simpler tax system and a fairer distribution of the tax burden.

Thank You!



## **GOVERNOR SEJKO: SPEECH AT THE HIGH-LEVEL MEETING ON THE REMITTANCES FROM THE ALBANIAN DIASPORA -11 December 2017-**

*Dear Minister Majko,  
Dear guests,*

Welcome to the premises of the Bank of Albania! I would like first to thank the Minister of State for the Diaspora, Mr Pandeli Majko, for his initiative to pay higher attention to drawing in and effectively using the remittances sent by Albanians abroad.

Today's meeting is the first in a series of common steps to be taken by Albanian institutions, in an effort to give due place to the financial contribution by Albanian emigrants to the welfare of their families at home. This contribution is also vital for the sustainable and long-term development of the Albanian economy.

***"Today's meeting is the first in a series of common steps to be taken by Albanian institutions, in an effort to give its due place to the financial contribution by Albanian emigrants to the welfare of their families at home."***

The Bank of Albania has always considered the remittances as a very important contributing factor for the economy of Albania. In this light, the Bank of Albania measures and analyses the available statistics, and conducts non-quantitative assessments related to the geographical distribution of the sources of remittances, at the national and international level. The assessment of factors contributing to the level of remittances and the cyclical volatility of their flows over the years remains at the focus of our work.

For Albania, remittances represent a steady and considerable source of inflows, which surpass foreign direct investments, being thus a substantial source of financing economic growth in Albania. In this regard, the Bank of Albania considers remittances as an important source of income in the economy and a contributor to the Balance of Payments.

***“For Albania, remittances represent a steady and considerable source of inflows, which surpass foreign direct investments, being thus a substantial source of financing economic growth in Albania.”***

From a narrower perspective, remittances are estimated to have a significant impact on Albanian households, for reducing the poverty and improving the quality of life.

Even in the case of Albania, the studies performed by the Bank of Albania and the World Bank show that the income from remittances are allocated mainly for consumption, medication, and education, as well as for savings and investments, the latter

mainly for residential properties.

In addition to the above, the Bank of Albania treats remittances also from the perspective of their inflow channels in the Albanian economy. Recent studies show that the formal transfer channels dominate, mainly through money transfer financial institutions, and less through banks. In the meantime, remittances in cash remain at high levels, which is worth for an in-depth analysis.

The World Bank survey conducted in 2016 concluded that the reasons for the limited use of the banking channels are the high costs on money transfers and the perceived cumbersome and complex procedures. To illustrate my point, according to this survey, the costs of remittances toward Albania are estimated at 9.4% of the amount sent, compared to the 7.2% regional average.

We are all aware that the more financial channels are used, the more finances penetrate in the economy. Moreover, the increase in the use of financial channels contributes to enhancing financial inclusion, increasing the opportunities for savings and productive investments.

Taking into account the benefits from the formal penetration of remittances in the economy and the insofar contribution to the banking and financial sector, the Bank of Albania suggests added attention with regard to reducing transfer costs and improving or designing afresh products and services targeted to this segment of the population. From its side, the Bank of Albania is engaged to further modernise the payment system infrastructure and align the legislation to the EU directives for an open, barrier-less, and competitive market.

In the last two years, the Bank of Albania has been engaging in concrete projects with the World Bank, related to remittances and financial inclusion.

***“In the last two years, the Bank of Albania has been engaging in concrete projects with the World Bank, related to remittances and financial inclusion.”***

The first project consists in an assessment of the compliance with the “General Principles for international remittance services” designed by the World Bank and the Bank for International Settlement and a concrete action plan, with many stakeholders involved, to comply with those fields that need further improvement.

Another noteworthy project is the Greenback project of the World Bank dedicated to remittances, implemented in several countries across the world. This project comes now to Albania as a receiver of remittance and aims at enhancing the efficiency in the market for remittances and raising the awareness and financial education, and has Bank of Albania’s endorsement until its completion.

The other project consists in assessing the compliance with the criteria set out in the framework of the “Payment aspects of financial inclusion”. By complying with the criteria from the involved stakeholders, it aims to increase the number of households and enterprises (mainly the small ones) that have a bank account or a payments account to conduct various transactions.

In addition to the above, for a broader review of the remittances across all its dimensions, the Bank of Albania commits today in the framework of this meeting to produce a dedicated publication, which will be presented every June, a period which coincides with the International Day of Family Remittances, 16 June.

Last but not least, considering the coordination among state authorities as very important, as well as the constant communication with the private sector, we are signing today the Memorandum of Understanding. It is aimed at raising the awareness, facilitating dialogue and fostering effective cooperation between the parties on issues related to remittances from the Albanian diaspora, contributing to economic development.

The joint engagement we are initiating today is the first necessary step of a development platform for the empowerment and effective use of remittances.

In conclusion, I would like to underline once again that it is time that we show more care, appreciation and gratitude to tens of thousands of Albanians abroad, who, through sacrifice, continue to contribute to the welfare of our nation, sending a part of their savings to their families back home.

We invite the banking industry and other actors in the financial system to contribute to this initiative, with concrete vision and products, taking into account that you can play a special role in effectively mobilising remittances.

Reasserting our institutional support and commitment for this initiative, I am confident that this will be an on-going dialogue to facilitate every undertaking in the aspect of remittances.

Thank you for your attention!

## **GOVERNOR SEJKO: ADDRESS TO THE END-OF-YEAR MEETING WITH JOURNALISTS, ANALYSTS AND MEDIA REPRESENTATIVES**

**-15 December 2017-**

*Dear ladies and gentlemen,*

I take this opportunity to welcome you at the end-of-year meeting of the Bank of Albania with media representatives, as well as with some of the most talented students of economics.

I would like to start my brief address, by thanking the journalists and media representatives, for the support provided to the Bank of Albania throughout 2017. The media analysis and coverage on the economic and financial developments both in Albania and abroad has entered into an interesting phase of awareness and professionalism. Hence, the activities of the Bank of Albania have received substantial coverage. I hope that the Bank of Albania has somewhat contributed to it, through periodic reports, research papers, educational activities and the direct contacts with you.

***“The media analysis and coverage on the economic and financial developments both in Albania and abroad has entered into an interesting phase of awareness and professionalism.”***

Also, through you, I would like to thank the organisations you represent, believing and hoping that the media analysis and coverage will further strengthen during 2018. I take the opportunity to guarantee you that, our doors will always be open to consult and share mutual opinions about relevant actual arguments, to enhance the understanding the phenomena. A news item reaches the public easier through the media than any another means of communication. If it is a complete, true and professional one, then it provides clarity and reaction at the right direction and speed. Ultimately, it ensures higher effectiveness of our policies, and consequently, public confidence in the Bank of Albania will increase. In line with our tradition, in this end-year

***“... to guarantee you that, our doors will always be open to consult and share mutual opinions about relevant actual arguments, to enhance understanding the phenomena.”***

activity we also hand out the Governor's Award for the Best Diploma Thesis. Before announcing the winners, I would like to commend all the students that participated in the competition for the most interesting scientific work. The Bank of Albania pays particular attention to research, as we are confident that the further perfection and deepening of research, is one of the main pillars for supporting economic growth of the country. Financial literacy and the increase of financial inclusion are the main priorities of our work, and the contribution you all provide in this regard, through your works, is very valuable.

**First**, I thank all the participants in this competition. Your research is very interesting. At the same time, I commend your initiative to expand the spectrum of the economic and financial analysis beyond the traditional one. I have found that many of the arguments you addressed in your research works are part of everyday discussions among policymakers and academics, in Albania and globally.

**Second**, based on the above, I guarantee all the students that through your participation in this competition you have made the first important step in shaping your professional career. The level of your works was very good and promising a great potential for you to be future experts in the field of economic theory, markets functioning, banking and finances. **Third**, it is important to understand that to be a successful researcher, beyond education, one needs to be in contact with other researchers, in Albania and abroad. I think this is one of secrets to be in tune with all novelties related to scientific research. Therefore, I suggest that you try now to build your "network" of connections. From this point of view, the Bank of Albania' experts network will be open to everyone. Last, before I announce the "Governor's Award for the Best Diploma Thesis 2017", I would like to say

***"... it is important to understand that to be a successfully researcher, beyond education, one needs to be in contact with researchers everywhere, in Albania and abroad."***

that the selection of best diploma thesis is not an easy mission, particularly when all the submitted works are of a high quality. The assessment commission has evaluated carefully every work submitted, paying particular attention to all the details related to the research methodology, the originality of the thesis, and the use of the sophisticated and contemporary methods of the scientific research. At the end of this evaluation process, a decision was taken regarding the winners, so let's go ahead and present them.

Thank you and happy holidays! I wish you a successful and prosperous new year!

## **GOVERNOR SEJKO: STATEMENT TO THE PRESS CONFERENCE ON THE ACTIVITY OF THE BANK OF ALBANIA IN 2017 -20 December 2017-**

In this last conference for 2017, I would like to present some highlights in the activity of the Bank of Albania for 2017, focusing on our priorities. I will start with the activity of the Supervisory Council of the Bank of Albania.

- **Activity of the Supervisory Council**

In accordance with our published schedule, the Council met 15 times during 2017. In total 69 decisions have been made, of which 53 were acts approved for the first time and 16 were amendments or additions to existing acts.

In eight meetings, the Supervisory Council analysed economic and financial developments in Albania, followed by the approval of the respective monetary policy reports and the decisions on the monetary policy stance in general and the policy rate in particular. In all the cases, the decisions have been explained in press statements and the periodic monetary reports have been sent to the Parliament and all the other interested foreign and domestic stakeholders. For the general public, they were published on the official webpage of the Bank of Albania.

Another important product in the activity of the Supervisory Council of the Bank of Albania were the decisions dedicated to further strengthening banking supervision and guaranteeing financial stability. In this regard, I would like to mention the establishment of the Resolution Department, the approval of the Macro-prudential Policy Strategy, and the approval of two half-yearly financial stability reports.

The Supervisory Council has also paid attention to monitoring the administrative and financial activity of the Bank. In addition to approving the annual report and the financial statements, which in the framework of accountability have been sent to the Parliament and are made public, the Council has paid particular attention to the reports by the External Auditor, the Inspector General and the Supreme State Audit institution, as well as the duties left in the relevant resolution by the Parliament. On the other hand, throughout the year, the Audit Committee has analysed

***“The Supervisory Council has paid particular attention to strengthening the institutional capacities of the Bank, by further improving the operational procedures, as well as support for professional capacity building and staff motivation.”***

regularly the findings and conclusions of the internal and external auditing.

Lastly, I would like to emphasise that the Supervisory Council has paid particular attention to strengthening the institutional capacities of the Bank, by further improving the operational procedures, as well as support for professional capacity building and staff motivation.

- **Monetary policy and Monetary operations**

Related to monetary policy, we have informed you in detail about our analysis and relevant decisions. I would like to also iterate that the accommodative monetary policy stance of the Bank of Albania has played an important role in supporting the recovery of economic activity in Albania. Our decisions have been made in due time and intensity, contributing to the reduction of the costs of financing and the normal functioning of financial markets.

During the year, we worked to further improve the forecasting instruments and methodologies and perfect the process of monetary policy implementation. The latter was realised by standardising the practices for the management of banking system liquidity, technological improvements in the REPO auctions, and weekly publication of projections for the amount

***“Irrespective of the difficult environment for the investors in the euro area, characterised by low and often negative interest rates, we have managed to maintain a positive yield for the foreign exchange reserve, while complying with all the limits, rules and procedures for the investment risk management.”***

of the liquidity in the system. An important development is the expansion and deepening of the government securities market, by providing access for direct participation for all non-resident financial institutions. Another achievement in our activity is the management of the foreign exchange reserve. Irrespective of the difficult environment for the investors in the euro area, characterised by low and often negative interest rates, we have managed to maintain a positive yield for the foreign exchange reserve, while complying with all the limits, rules and procedures for the investment risk management.

- **Banking supervision and financial stability**

Strengthening banking supervision and guaranteeing financial system stability of the system remain fundamental objectives in the Bank of Albania's activity. In 2017, the law "On bank resolution in the Republic of Albania" entered into force, which establishes the Bank of Albania as the Resolution Authority in Albania. Pursuant to the legal obligations, the Bank of Albania established the "Resolution Fund" which will receive regular annual contributions by the banks. The Fund will serve to realise resolutions, in all the cases when the need arises for an early restructuring of banks facing difficulties and covering the needs for financing in the event of crisis, by the banks.

Another prominent development in 2017 is the constant decline in the non-performing loan ratio. In November, the non-performing loans stood at only 14.3% to total loans, from 18.23% at the end of 2016. The improvement reflects the measures taken in the context of the national plan for the reduction of non-performing loans, as well as other measures. In this year, we intensified our communication with the banks; in parallel, with assistance from our international partners, we adopted and implemented some of the best international practices and experiences. In August, the Supervisory Council approved the Macro-prudential Policy Strategy, an important document for guaranteeing financial stability. The Strategy details all the objectives, instruments, indicators, including the relevant structures, at and outside the Bank of Albania, responsible for safeguarding financial stability. This policy is a roadmap for the steps that the authorities need to undertake, for the management of risks to financial stability.

Another strategic engagement is related to the higher use of the national currency in the Albanian financial system and economy, in other words the de-euroisation. In 2017, in consultation with the banking industry, we designed some specific measures that will enter into force in the first half of 2018. To make de-euroisation a comprehensive process, the Bank of Albania signed a Memorandum of Understanding with the Ministry of Finance and Economy and the Albanian Financial Supervision Authority, for similar measures to be taken also in the rest

***“Another strategic engagement is related to the higher use of the national currency in the Albanian financial system and economy, in other words the de-euroisation. In 2017, in consultation with the banking industry, we designed some specific measures that will enter into force in the first half of 2018.”***

of the financial system and in the real economy. This initiative is expected to result very soon in concrete additional measures.

The supervision, regulation and licencing for the banking system has continued to be among the important priorities in our activity. The Bank of Albania conducted around 14 inspections in 2017. In addition, the transfer of 100% of holdings of Veneto Banka sh.a. to Banka Intesa Sanpaolo S.p.A., Italy, was approved and 3 non-bank financial institutions were licenced to conduct payment services and money transfers, and financial leasing and microcredit activities.

We continued in 2017 to approximate the supervisory and regulatory framework with the European directives and the standards of the Basel Committee. In May, the Guideline "On the internal assessment of the capital adequacy", in accordance with Pillar 2 of Basel II, was approved. We also revised some regulations on (i) consolidated supervision, (ii) effective management of banks and criteria for the approval of their administrators, (iii) anti-money laundering and combating the financing of terrorism, and (iv) transparency on banking and financial services. As a result of the intensification of our cooperation efforts with European regulatory authorities, a bilateral cooperation agreement is expected to be signed at the beginning of 2018 with the European Central Bank.

The work of the other units of the Bank of Albania is equally important and completes the landscape of Bank of Albania's activities in 2017.

Let me focus only on some of them:

- In view of our efforts for improving the financial and material management of the institution, the Bank of Albania has completed the preparatory work for the application of a new accounting standard. The new IFRS 9 standard will enter into force on 1 January 2018.
- The Bank of Albania has made progress in terms of drafting the necessary primary legislation on payment services in Albania, in accordance with the relevant EU Directive, as well as to promote the channelling of remittances in the financial system. These projects aim at reducing the costs for transferring remittances through the financial system and increasing the financial inclusion of the public. To enhance institutional cooperation and coordination for an even more effective contribution of remittances to economic development in Albania, in December, the Bank of Albania, the Minister of State for the Diaspora and the Ministry of Finance and Economy signed a Memorandum of Understanding on Remittances.

- Research has been and remains an important aspect of our work. It aims to provide decision makers, at the Bank of Albania as well as other institutions, with the appropriate theoretical tools to interpret economic and monetary phenomena and identify and quantify their correlation. In accordance with the established tradition, the Bank of Albania, in cooperation with the South East European Studies at Oxford, held the annual conference: "Banking developments and financial market infrastructure. The role of structure, size and market infrastructure in risks mitigation and financial market". The presentations in this conference shed light on the latest trends in financial sector development, focusing on potential effects on the macroeconomic equilibrium and financial stability. In addition, we organised the 11th South-Eastern European Economic Research Workshop. Researchers from the region and renowned international institutions discussed the conclusions of their analyses on various aspects of economic and financial development in their countries and in the region in general.
- Our educational work continued with a number of projects implemented to promote financial education in order to learn more about and better manage personal finance. Financial education is realised through programmes, activities and dedicated educational publications focusing on the central bank, its role and functions as well as on promoting financial literacy in the Albanian society. An important tool for interacting with the public, the Museum of the Bank of Albania has turned the Bank of Albania into the house of the currency for many visitors. For the first time, we celebrated the International Museum Day and organised an event on "Interesting facts from the Treasury: The Art of the Albanian Banknote".
- In the aspect of currency issue, in addition to the added prudence related to its routine activity, the current banknote series were revised to improve them in terms of functionality, design and security features.
- The Bank of Albania has intensified its work on methodological alignment of financial statistics with the international standards and their harmonization with EU standards. In line with the transparency principles and the long-term strategic objectives of the Bank, this year we prepared the Code of Practice on statistics at the Bank of Albania. Since June, Albania has been implementing the IMF's Enhanced General Data Dissemination System.
- In information technology, the Bank of Albania has completed a number of important projects and others are in the final stage, among others: adjustment of the AFISAR system to include non-residents in the securities registry, and improvement to the online regulatory reporting by the banking system to the Bank of Albania. The Bank of Albania has paid attention to the constant improvement of security in the field of information technology to guaranty business continuity and integrity.

- The tradition of open communication with the public continued in 2017. Institutional transparency and involvement of various stakeholders are at the centre of our communication. Through 120 speeches, press releases and interviews, 40 reports, analyses and bulletins, various statistics and data, 3 conferences and a series of other activities we fulfilled our obligation for transparency and accountability to the public. To promote interaction with the public, in 2017, we introduced the digital communication through social networks to present the general activities of the Bank of Albania to the public, in a timely and comprehensive manner.
- The Bank of Albania has also paid attention to fostering cooperation with partner agencies and institutions. In this context, in 2017, we constantly exchanged opinions with institutions such as the IMF, the World Bank, the European Central Bank, and the European Commission, and several joint activities were also organised. In addition, we launched initiatives with a potential positive impact on the Albanian economy and finances. The Bank of Albania signed also a Memorandum of Cooperation with the Central Bank of the Republic of Turkey. The Memorandum aims at fostering cooperation between the two central banks, through information exchange, expertise, research, and regular dialogue at technical and policy-making level. It is an important step with regard to using the opportunities provided by the economic, financial and technological integration and strengthening the resilience to challenges that accompany it.

***“The Bank of Albania made further steps forward for accomplishing the strategic objective to approximate our central bank model to that of the European System of Central Banks. Progress has been made across the board and proportionally, which enhances our confidence that the Bank is fully prepared to face another challenging year.”***

Concluding, I would like to underline that, in 2017, the Bank of Albania made further steps forward for accomplishing the strategic objective to approximate our central bank model to that of the European System of Central Banks. Progress has been made across the board and proportionally, which enhances our confidence that the Bank is fully prepared to face another challenging year. Knowing at first hand the spirit and seriousness that characterises the Bank of Albania, I am optimistic that we will successfully accomplish our mission to guarantee macroeconomic and financial stability, as a necessary condition for

supporting sustainable economic growth for Albania in the years ahead.

Thank You!

## GOVERNOR SEJKO AT THE END-OF-YEAR MEETING ORGANISED BY THE ALBANIAN ASSOCIATION OF BANKS

-21 December 2017-

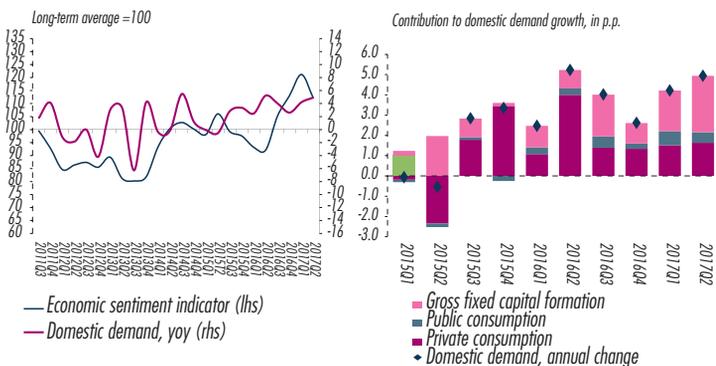
Honourable AAB Chairman,  
Dear banking system executives,  
Dear friends and colleagues,

As always, it a pleasure for me to be together with banking system executives in Albania, in this annual end-of-year event organized under the auspices of the Albanian Association of Banks. In my address, I would like to briefly focus on highlights that have characterised the economic and financial landscape in Albania over 2017, as well as on some of our objectives for 2018.

### ALBANIAN ECONOMY

The Albanian economy seems to be experiencing an overall positive moment of recovery, from both the global and the regional perspective. Economic activity continued to grow reflecting the favourable financial environment, improvement of confidence, impulses generated by employment gains and the high levels of foreign direct investments, as well as the positive momentum in the economies of our trading partners.

*Chart 28 Economic sentiment indicator and the structure of domestic demand*



Source: INSTAT and Bank of Albania.

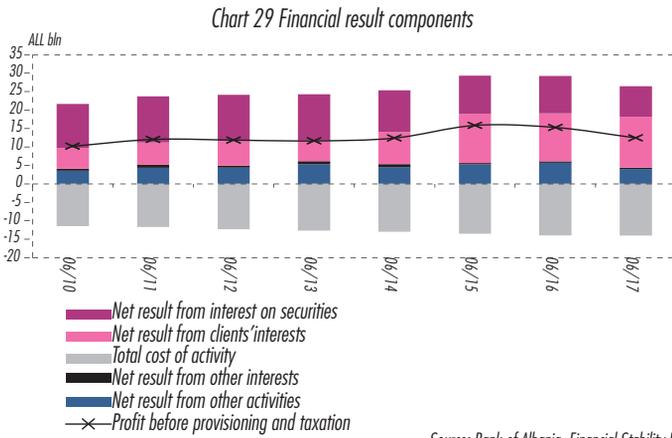
In terms of aggregate demand, growth was driven by the expansion of private consumption and investments, and the improvement of the balance of trade with abroad, especially in the third quarter. In response to the improvement by around 10.5% of the trade deficit in goods and services, the current account deficit fell to 4.6% of the GDP in the third quarter, one of the lowest levels in the last decade. On the other hand, the fiscal stimulus is estimated to have trended downward in the third and fourth quarters, albeit budget revenues and expenditure have continued to record high growth rates.

The constant expansion of the aggregate demand has led to an increasingly higher utilisation of production capacities. The unemployment rate fell to 13.6% in the third quarter, down by 1.1 percentage points from the same quarter in the previous year. However, the gradual convergence of the economy toward its equilibrium is yet to be accompanied by upward inflationary pressures, sufficient enough for the return of inflation to target.

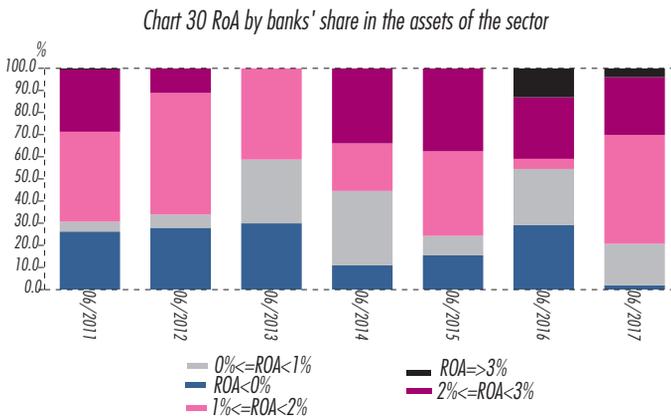
Our accommodative monetary policy stance has reduced the costs of financing for the private sector, has boosted crediting in the domestic currency, and has contributed to the improvement of the borrowers' financial situation. In the last months, financial markets have performed relatively calm, amid low interest rates, controlled risk premia and the exchange rate was set on a stabilisation trend.

## **BANKING SYSTEM**

Year 2017 was positive in terms of the expansion and soundness of banking activity in Albania. A quick glance at the performance in the 10-month period corroborates this conclusion. Banking sector's assets expanded further during the period, at 4%, in annual terms. The financial situation of the sector and activity capitalisation improved. Due to the considerable fall of loan provisioning, the financial result improved notably compared to the previous year. Also, the RoA and RoE indicators doubled at 1.6% and 16.3%, respectively, from 0.74% and 7.8%, in the previous year.



Source: Bank of Albania, Financial Stability Department.



Source: Bank of Albania, Financial Stability Department.

The liquidity situation appears stable, and its indicators continue to be at good levels. In annual terms, the deposits base expanded by 2.7%, reflecting a shift in the maturity structure. Against the backdrop of low interest rates, time deposits fell at 2.1%. By currency, both lek and foreign currency deposits increased by 1.4% and 3.9%, respectively.

Outstanding credit expanded from a year earlier by 0.8%. Long-term credit dominated, whereas short and medium-term maturities shrunk. Credit to households expanded by 4.6%, whereas credit to enterprises contracted by 1.7%, from a year earlier.

***“One of the highlights of this year is the reduction of the non-performing loans ratio at 14.4%, compared with 18.23% at the end of the previous year.”***

One of the highlights of this year is the reduction of the non-performing loans ratio at 14.4%, compared with 18.23% at the end of the previous year. Now, after a relatively successfully period, the coordinated plan that we undertook together to reduce the stock of non-performing loans seems to have yielded the expected results. Therefore, in addition to the loss loans write off from the balance sheet, great results have been also achieved regarding the repayment and restructuring of non-performing loans.

***“A special moment was the establishment of the Resolution Authority in Albania and of the Resolution Fund, which will receive regular annual contributions by the baking sector.”***

A number of regulations and other bylaws have been approved by the Supervisory Council of the Bank of Albania, throughout 2017. They aim at improving the banking activity in terms of efficiency, risk management, transparency and depositors' protection. A special moment was the establishment of the Resolution Authority and of the Resolution Fund in Albania, which will receive regular annual contributions by the baking sector.

*Dear banking system executives,*

As I mentioned above, this is a good moment, while the future still bears some questions. The economy is not exempt from this overall consideration. I take the opportunity to bring to your attention the fact that the institution each of you represents has a certain role to play in the everyday economic and financial life of the country. Now that we know the already-announced objectives of the Government of Albania for 2018, it is understandable that 2018 is a rather challenging year to further boost economic recovery and strengthen the financial stability of Albania.

From this perspective, I would like to affirm that, like in 2017, in 2018 the Bank of Albania will continue to focus on:

- guaranteeing a stable economic environment, keeping inflation rates in check, and having liquid markets with low volatility. The monetary policy will aim at an adequate supply, in terms of both quantity and price. The final monetary policy objective will be unchangeable, while the accommodative stance implemented in the past years will be present during 2018.

- boosting credit recovery in Albania. We believe that the further boosting of the economy provides a friendly environment for lending to the economy. In addition, we will continue to insist on the implementation of the joint programme for the reduction of non-performing loans. In this light, we expect the banking system to be proactive in lending to the economy.
- strengthening banking supervision and guaranteeing financial system stability, one of the fundamental objectives of the Bank of Albania activity. As in the past, we will be constantly in search of the best international rules and practices that aim at having a financially sound banking sector, capable of supporting economic development in Albania.
- De-euroization of the Albanian economy. The measures that we have jointly designed will enter into force in the first half of 2018. Therefore, we should also try together to maximise the expected results, translating them in practice in greater confidence and higher use of the national currency in the economy.
- continuous communication with the sector, regarding Bank of Albania's decision making. The dialogue with the banking industry is considered as a crucial factor in helping to identify the problems, guaranteeing the implementation of the legal framework, and overcoming the challenges.
- increasing financial inclusion and deepening financial education. Alongside with the regulatory and supervisory role, financial education is and will continue to be another important aspect of our everyday work. We consider it as one of the main pillars of the economic and social development of Albania.

Concluding, I would like to reassure you that, the Bank of Albania will continue to be a serious and devoted partner. I wish you a successful and prosperous year for you and your families.

Priorities for 2018

- Guaranteeing a stable economic environment, keeping inflation rates in check, and having liquid markets with low volatility.
- Boosting credit recovery in Albania..
- Strengthening banking supervision and guaranteeing financial system stability, one of the fundamental objectives of the Bank of Albania activity.
- De-euroization of the Albanian economy.
- Continuous communication with the sector, regarding Bank of Albania's decision making.
- Increasing financial inclusion and deepening financial education.



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# CHAPTER V

## INTERVIEWS

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- *Interview with Gent Sejko, Governor of the Bank of Albania. Monitor magazine, 13 March 2017*
- *Interview with Gent Sejko, Governor of the Bank of Albania. Albanian Daily News newspaper, 18 April 2017*
- *Interview with Gent Sejko, Governor of the Bank of Albania. Reuters, 5 June 2017*
- *Interview with Gent Sejko, Governor of the Bank of Albania. "Argument" Scan TV, 30 June 2017*
- *Interview with Gent Sejko, Governor of the Bank of Albania, Klan Plus TV, 24 November 2017*



## **INTERVIEW WITH GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA. “MONITOR” MAGAZINE -13 March 2017-**

**Monitor:** *Governor, this is your third year at the helm of the Bank of Albania management. Would you say today that you have accomplished all the objectives for the past year? How did the Albanian economy perform?*

**Governor Sejko:** Year 2016 was certainly a positive one for both the economy and finances. This conclusion is not just an opinion, but a natural outcome based on the available information. Overall, I believe that the Albanian economy has moved forward in the right direction, and has strengthened the fundamentals for sustainable development in the future.

**“... Year 2016 showed two important developments: (i) expansion and strengthening of economic growth drivers; and (ii) distribution of growth effects to a broader segment of the Albanian society.”**

Let me highlight some of the key developments:

- First, economic activity in Albania grew further. In figures, economic growth is expected to range 3.3-3.4%, for the year 2016, compared to 2.6% in 2015. Beyond figures, I think that year 2016 showed two important developments: (i) expansion and strengthening of economic growth drivers; and (ii) distribution of growth effects to a broader segment of the Albanian society. Regarding growth drivers, similar to the previous year, economic growth in 2016 continued to be driven largely by the increase in private investments; meanwhile, unlike in the previous year, this year's growth was supported also by the increase in household consumption and the improvement of foreign trade, over the second half of the year. The expansion of economic growth drivers contributes to a consolidating positive development trend. Regarding growth effects, year 2016 was characterised by a rapid increase of employment and a reduction of unemployment. Data as at the third quarter show that employment increased on average by 6.8%, while unemployment declined by 2.6 percentage points.
- Second, in 2016, some of the main economic balances in the Albanian economy improved. For example, after increasing for three years, the public debt to GDP ratio fell in 2016, in a

meaningful and important shift toward fiscal consolidation. Year 2016 recorded also progress in terms of fulfilling our price stability mandate. Although in the first quarter we faced strong shocks from foreign markets, the firm reaction of the monetary policy, its credibility in the financial market and the improvement of economic activity contributed to the return of inflation to target. Also, the banking sector is sound, capable to withstand shocks and accomplish its financial intermediation mission.

- Third, during 2016 Albania made progress in reforming the financial system and building institutional capacities in terms of formulating and implementing policies. I would like to underline that, in 2016, a set of laws and regulations were approved, which strengthen our monitoring and administration capabilities. To mention a few: the law on bank recovery and resolution increases our regulatory capability in terms of withstanding capacities to various shocks; the revision of the bankruptcy law and the law on private bailiff helps to improve lending in Albania; law on the functioning of savings and loan associations aims at consolidating them and establishing adequate relations between them and the rest of the financial system. Also, in 2016, the organic budget law was amended aiming at increasing the stability of public finances and establishing a fiscal rule by law.

I think this picture shows the positive trend of developments over 2016. Yet, the Albanian economy remains far from its full utilisation of production capacities. Such capacities should be further expanded, through ambitious structural reforms. The Albanian economy continues to face cyclical weaknesses and structural problems. For us, as policy makers, many challenges remain. Anyhow, two elements are crucial: direction and speed; both these elements are moving in the right direction.'

As a central institution in the economic and financial life of the country, the Bank of Albania has considerably contributed to these developments. Our accommodative monetary policy has contributed to reducing financing costs, increasing the credit portfolio in the Albanian lek, improving the liquidity situation in the economy and expanding consumption and investments. This policy has laid the foundations for achieving our price stability objective and has established the premises for strengthening financial stability in Albania. The latter was also supported by the supervision and prudential regulation of the banking sector by the Bank of Albania. We instigated all the legal initiatives I mentioned above and we have guided the drafting process for two of them. Also, we have worked

to expand and increase the efficiency of payment systems in Albania, support the European integration processes, and strengthen processes and procedures related to the decision making of the Bank of Albania.

In reflection to above, I think that, yes, the Bank of Albania has accomplished - all in all - its institutional objectives for 2016.

Related to my personal objectives, I think that there is still work to be done. As I have previously had the chance to emphasise, my personal challenge is to see a contemporary central banking philosophy firmly embedded in the daily activity of the institution in general, and its employees in particular. This is not easy. It is an everyday challenge, where the human element is at the centre. This is a challenge, which needs a differentiated work according to the characteristics of particular departments and individuals. This is the only way we may cultivate a new way of thinking, which, in turn, will contribute to strengthening the institutional culture, rendering the Bank of Albania more capable of facing actual challenges.

**Monitor:** *Recent figures published by INSTAT show that inflation in January increased for the first time, to 2.8%, closer to the Bank of Albania's target. What were the underlying reasons of this increase?*

**Governor Sejko:** Inflation in Albania has been on an upward trend throughout the last nine months of 2016, and this trend has continued, as confirmed so by the data for January. Of course, the 2.8% rate recorded in January was the highest in the recent years and very close to our target; obviously it is an interesting development.

Chart 31 Annual inflation, in %



Source: INSTAT.

Maintaining price stability, i.e. an inflation rate around 3%, is in the focus of our work; therefore, I will dwell somewhat longer on the causes and implications of this increase.

After the supply-side shock in the first quarter of the previous year, inflation recorded an upward trajectory in the rest of it. This performance reflects the combined impact of a set of factors: (i) the economic growth and better capacity utilisation drove to the increase of employment and the return of business' profit margins to normality; (ii) the external shock effects decreased in the rest of the year, and most importantly, they did not affect the costs structure of the Albanian economy; and (iii) the economic and financial agents' expectations for inflation did not fluctuate strongly.

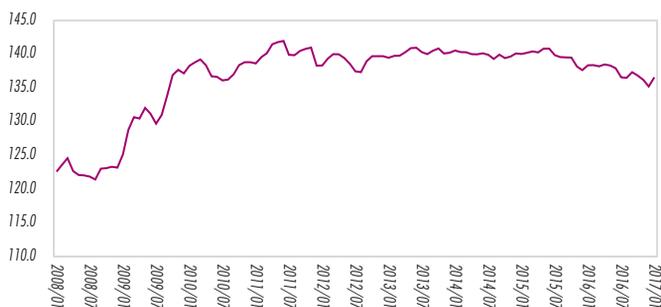
Our monetary policy has either directly or indirectly supported these three factors. The Bank of Albania further increased the monetary stimulus over 2016, through the policy rate cut, a stronger forward guidance and the supply of the interbank market with needed liquidity.

In this context, inflation not only performed in compliance with our expectations, but was also a logical outcome of the policy implemented by the Bank of Albania. On the other hand, our analyses suggest that the rapid increase of inflation in January, although in the right direction, is not an indicator of the speed of inflation's return to target. In other words, notwithstanding the rapid increase, our perspective on the expected economic developments has not changed: our forecasts suggest that the stable return of inflation to target will occur during 2018. This implies that the current monetary policy stance is the right one and our forward guidance to financial markets remains unchanged.

**Monitor:** *The Bank of Albania has implemented an accommodative monetary policy, which is reflected in the price of credit and deposits in the domestic currency; on the other hand, it is noted that the exchange rate has performed on the opposite direction to the accommodative monetary policy. What do you think were the reasons? How is this affecting the exports and the overall economy?*

**Governor Sejko:** It is true that the Albanian lek showed appreciating trends against foreign currencies over 2016, emphasising the trends observed in 2015.

Chart 32 Euro/Lek rate



Source: Bank of Albania.

Before commenting any further, I find it appropriate to explain that, in compliance with our policy, the exchange rate is entirely and freely determined by the market, reflecting the demand and supply for foreign currency in the market.

From this point of view, the dominant factor in the exchange rate behaviour over 2016 was the increase of supply in foreign currency. From our analyses, this was partly due to the high levels of foreign direct investments, the higher income generated during the tourism season, possible shifts of portfolio and efforts to reduce informality.

Anyway, the point of view of the Bank of Albania is that monetary conditions in Albania are stimulating. It means that the monetary policy, through its transmission mechanism, supports the expansion of aggregate demand and the strengthening of economic growth.

**Monitor:** *Recent developments in global markets show that central banks have started to review their course of action regarding the interest rate. We refer here to the decision of Federal Reserve or the discussions of the European Central Bank. In view of these developments in international markets, will the Bank of Albania change its monetary policy rate? Are you optimistic about inflation's return to target, according to your forecasts?*

**Governor Sejko:** Our monetary policy is exclusively formulated to accomplish the price stability objective at home. Nevertheless, that does not mean we do not monitor developments in our trading and financial

partners. It is not uncommon that these developments affect considerably the Albanian economy and financial system, as well as domestic prices.

Regarding developments in foreign markets, the recent incoming information shows inflationary pressures are picking up in the euro area, while the Federal Reserve has already started the tightening cycle of the monetary policy, although in a rather controlled way.

Regarding the relative degree of the Albanian economy and financial system's exposure, I think that ECB's monetary policy is quite relevant in the Albanian environment. Our analyses suggest that the increase of inflation in the euro area is considerably determined by the increase in food and energy prices; these items are not directly and entirely under the control of monetary policy indicators of overall inflationary pressures in economy. For this reason, I think that the ECB will continue to be prudent and not tighten the monetary conditions, for as long as there are no clear signs of a visible economic progress.

Taking this fact into account, obviously, we will continue to monitor the situation. The reaction of the ECB and, above all, the consequences for Albania will be the focus of our analyses. I would like to inform the public that while external conditions remain a factor, it is neither the only one, nor the most crucial factor in determining inflation in Albania. Hence, the monetary policy implemented by the ECB is not automatically or mechanically translated into the monetary policy of the Bank of Albania.

**Monitor:** *It is noted that, despite the consecutive policy rate cuts, lending is not yet at expected levels. What can you say about the performance of lending?*

**Governor Sejko:** The effects of our monetary policy on lending, I believe, are evident. First, credit interest rates in the Albanian lek, over 2016, averaged 0.7 percentage points lower than in the previous year, standing at historical low. Second, the lek credit portfolio increased by 10.2%, during 2016, while the foreign currency credit portfolio fell by 1.2%, and total credit portfolio increased by 3.2%. Third, I would like to emphasise a fact that is frequently disregarded, that is, our accommodative monetary policy contributes to the decrease of debt servicing for existing credits. In other words, it not only helps to increase credit, but also eases the financial situation of borrowing enterprises and households. In this context, the impact of the monetary policy in facilitating lek lending has been incontestable.

Chart 33 Average interest on new loans in lek



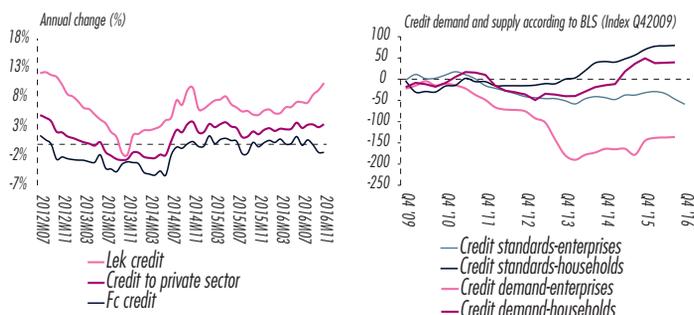
Source: Bank of Albania.

It is true, however, that credit growth remains relatively fragile. I would like to explain a few things about this phenomenon:

First, the reasons of credit performance and its perspective

- On the one hand, the low credit growth reflects a relatively low demand for credit, or at least, a low qualitative demand. This is somewhat understandable given the current development stage of Albania. Enterprises and households first attempt to use their internal funds, before turning to bank loans. These funds are present in the Albanian economy. The payment of arrears by the Albanian Government during the period 2014-2015 was a large injection of liquidity in the economy. Also, the recovery of private consumption and the high foreign direct investments during 2016 drove to the increase of liquidity for enterprises. This is noticed in the increased level of enterprises' deposits by around 20%. Many Eastern European and other countries have experienced economic growth without credit growth in the early stages, and that is something happening in Albania as well.
- On the other hand, credit supply appears tight. Our quarterly lending surveys show that banks apply tight lending standards, in terms of collateral, credit term, credited sectors, and risk assessment. This is due to the reason that credit risk in Albania was high and the risk appetite by European banking groups was low. The Bank of Albania, aware of this fact, initiated the plan of measures to reduce the level of non-performing loans, by directly helping the improvement of bank credit supply.

Chart 34 Credit to private sector



\* The chart to the right represents the net balance, based on the BLS 2016 Q4.  
Source: Bank of Albania.

In light of the above considerations, the Bank of Albania deems that the current performance of lending is not an obstacle to economic growth. Nevertheless, the further expansion of economic activity will gradually be followed by the increase of credit demand. The capability of the banking sector to serve this increased demand will determine the performance of both credit and the economy.

Second, the Bank of Albania is concerned not only for the growth of credit, but also for its quality. This implies that our initiatives and instruments to promote lending will always aim to maintain a proper correlation between these two objectives.

**Monitor:** *The central bank has continuously drawn the attention on the exchange rate risk that accompanies lending in foreign currency. Which are some of the measures you have taken to reduce euroization in the economy?*

**Governor Sejko:** Due to the importance that euroisation has in general, I will answer this question in greater detail.

The high use of foreign currency in the financial system transactions is a phenomenon known as "euroization" or "dollarization", depending on the dominant foreign currency. By category, we have euroization of "assets" when entities prefer to have their savings/investments in foreign currency; and euroization of "liabilities" when entities prefer to borrow in foreign currency. Euroization may further increase if the foreign currency is used

as a payment instrument for transactions in the economy. If measures are not taken to reduce it, the euroization may drive to undesirable structural changes, where prices in general start to be indexed with the foreign currency. Overall, the experiences of different countries related to dollarization/euroization show that it is a consequence of high inflation periods, considerable depreciation of the national currency against foreign currencies, macroeconomic imbalances, financial crises, etc. From the economic and financial point of view, a high euroization level in the banking sector may be accompanied by:

- (a) decrease of effectiveness of the central bank's monetary policy. This happens due to the shrinkage of two main channels of its transmission, such as lending in the domestic currency and use of the exchange rate as an automatic instrument of the financial and economic stability. The second relates to the increase of opportune costs related to the amount and use of the foreign currency reserve;
- (b) increase of risks to financial stability. In more concrete terms, it is about the exposure of market actors and their clients to the exchange rate risk; the lack of effective instruments to address a stress situation in the financial system arising from high exposure to financial activity in foreign currency.

Overall, for the economy, the high use of foreign currency may hamper the efforts of authorities in formalising the economy, the implementation of effective fiscal policies, the necessary reforms for transparency and other aspects.

Some foreign and Albanian researchers classify Albania as a country with a high level of euroization. In this regard, Albania, again, is similar to other regional countries and reflects, among others, the exposure to foreign currency flows due to the important economic relations with the EU and euro area countries. I would rather not enter into greater details of the underlying reasons of such euroization levels, but I would like to emphasise that it is a complex and challenging phenomenon to be dealt with, where the impact of various measures may materialise only gradually and in the medium or long run. Notwithstanding the difficulties, I think it is necessary to decisively react against the phenomenon. It will help to increase the resilience of the Albanian economy, mainly through the decrease of its exposure to risks and improvement of necessary economic and financial policies to counter these risks.

For this purpose, the Bank of Albania, the Ministry of Finance and the Albanian Financial Supervision Authority have started discussions for a strategic approach to address this phenomenon, according to the respective areas of competence. In this regard, a Memorandum of Understanding is being compiled, whereby the signing authorities will commit to act to reduce the use of foreign currencies, and promote the use of the domestic currency in the Albanian economy. The Bank of Albania, as the monetary and supervisory authority of the banking

***“With the purpose to reduce euroisation of economy, a Memorandum of Understanding is being compiled, whereby the signing authorities will commit to act to reduce the use of foreign currencies, and promote the use of the domestic currency in the Albanian economy.”***

activity, is working to identify some measures that will aim at increasing the cost of foreign currency use in the transactions of the banking sector, strengthen the stability of the banking sector against liquidity stress in foreign currency, and improve the requirements on the awareness of foreign currency borrowers against the foreign exchange risk. Once the final conclusion is achieved, the Bank of Albania will carefully see to it that their implementation stages at banks are gradual.

**Monitor:** *After the crisis of 2008, the business of banks has become somewhat more difficult, because of the strengthening of supervisory rules, auditing, etc., while the return on equity for shareholders has fallen. How much are banks in Albania updated with these developments and will there be a consolidation in the future or the will the market expand further?*

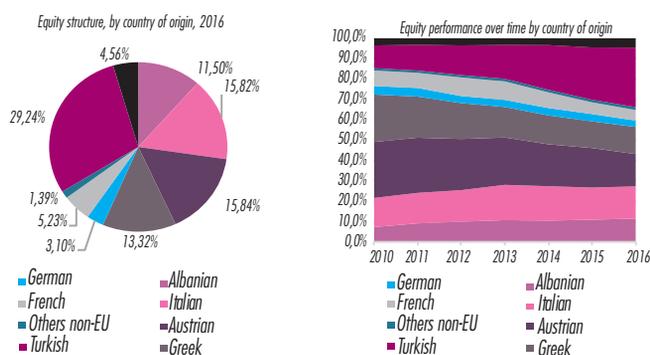
**Governor Sejko:** Amendments to the regulatory and legal framework for the banking activity at international level after 2008 are important. They reflect the analysis and conclusions on the reasons and consequences of the international financial crises, including the ways to prevent them in the future. Among these amendments, we may specify those on: improvement of supervisory superstructure, improvement of the framework that assesses and prevents systemic risks (macro prudential policy and its instruments), more accurate assessment of risk-bearing assets in banks, and improvement of the capital quality and quantity. Absolutely, their spectrum is broader.

These measures, which have started to enter into force gradually, have affected the banking activity at home. For example, you know that the

higher capital requirements in European banks, following the relevant stress tests, are partially realised through the reduction of risk-bearing assets of European banks.

Another way was the reduction of their affiliates' exposure to securities of non-EU countries' governments and private entities' debt instruments in these countries. This impact was more notable in Albania in the period 2012-2013, but the phenomenon is present nowadays as well. In parallel, the efforts to consolidate capital positions may have urged some European banking groups to restructure their network throughout Europe (that is outside the EU as well), by reducing those in countries where the potential for generating income is lower and the need to inject additional capital by the banking group is high. Unlike some regional countries, Albania has not been affected by this phenomenon, so far. The European banking groups appeared ready to support their affiliates in Albania with capital, whenever it was necessary (mainly in the period 2013-2015). Nevertheless, as you also emphasised, capital has become more expensive; the past experience in this regard may not be interpreted as a guarantee for the future.

Chart 35 Equity ownership structure by country of origin and performance over time



Source: Bank of Albania.

Against this backdrop, the Bank of Albania has focused its supervisory activity in the following aspects:

- a) Safeguarding banking sector stability. Given the current situation, the important activities relate to: verification of bank standards for the early identification of non-performing loans; provisioning them adequately; undertaking concrete regulatory actions to reduce the

- level of non-performing loans; realisation of stress-tests, which aim at identifying the adequacy of financial capacities (capital, liquidity) to withstand hypothetical situations of financial stress; compilation and assessment of bank recovery plans, which identify the ways banks will adapt their business to withstand a potential stress situation;
- b) Adoption of international standards to ensure our banking system is stable, and our supervisory activity comparable to the standards required by the European System of Central Banks. In this regard, the activity of the Bank of Albania is focused on the improvement of the legal and regulatory frameworks related to the instruments on the management of hypothetical stress situations in the banking and financial activity. In the main laws that regulate the banking activity, the Bank of Albania has endeavoured to strike a balance between the objective to improve the banking system resilience through better regulation on one hand, and the need to avoid the overregulation and unnecessary costs to the banking industry, on the other.
  - c) Preliminary identification and assessment of risks. The Bank of Albania is mainly focused on: development and improvement of methodologies for the identification and assessment of systemic risk; stress-tests against hypothetical shocks that expose the banking activity to market, credit and liquidity risks; establishment of a macro-prudential policy framework and the way for the development and implementation of the respective instruments.

In practice, we monitor closely the banking sector's exposure to internal and external risks, and we try, through a regular communication and collaboration with the banking industry, to improve and implement the legal requirements effectively.

**Monitor:** *Governor, since your appointment at the Bank of Albania, you have initiated insistently a reform aimed at reducing the level of non-performing loans. What has been achieved so far, and what remains to be done? While the bankruptcy law is not yet implemented, what are the steps that the Bank of Albania is implementing to prevent the increase of non-performing loans? How is the restructuring process going on?*

**Governor Sejko:** I stated, after assuming office, that the reduction of non-performing loans will be one of the challenges of my work. For that reason, in collaboration with other national decision-making factors and our international partners we undertook a set of legal interventions dubbed as the "Plan of measures to reduce the non-performing loans".

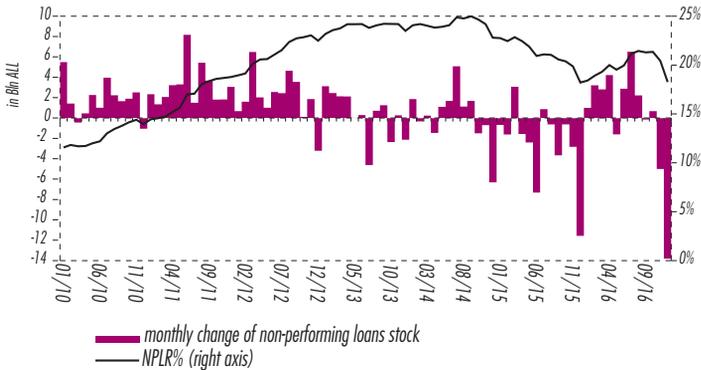
I would like to emphasise that the plan was fully fledged only in 2016. First, the Supervisory Council of the Bank of Albania approved the regulatory amendments, which were agreed in 2015. Now there is more clarity in the interpretation and meaning of some important concepts related to lost loans write off from the balance sheet, the supervisory treatment of real estate taken in ownership due to the judiciary processes on the execution of collaterals for non-performing loans, facilitation and selling of non-performing loans and the faster reflection in the Credit Registry.

Second, the Parliament approved the legal package concerning bankruptcy and bailiff processes and completed the second and most important pillar of this plan. Now, I think we have everything set up properly and the context in 2017 allows us to intervene more intensively.

In parallel with the approval, communication with the banking industry is intensified to encourage the lost loan write off, the preparation of strategies to reduce non-performing loans and the compilation of recovery and resolution plans for large borrowers. In addition, the successful implementation of the justice reform will release the synergy that will further increase the successful joint action plan for the reduction of non-performing loans.

From a quantitative and chronological point of view, I would like to emphasise that in the last two years the non-performing loans indicator recorded the highest reduction (since 2008, this indicator increased continuously peaking at 22.8% at the end of 2014). At the end of 2016, the fall of non-performing loans was materialised in the relative indicator, down at 18.3%, also in absolute value shrinking by around 19%. Data for January 2017 show the falling trend continues. The trend has continued constantly and at added intensity at the end of 2016.

Chart 36 Non-performing loans ratio



Source: Bank of Albania.

Related to restructuring, currently we are reviewing the guidelines on credit restructuring, including in these guidelines the best international principles for such processes, in particular the complex one with many participants from both the borrowers' side and lending institutions. Also, we plan to compile, in collaboration with World Bank's experts, a framework cooperation scheme among banks, as they will have to coordinate with each other to find adequate and stable solutions for common borrowers.

**Monitor:** *The Albanian Government has undertaken a set of reforms. What do you think have been the effects of these reforms on economic growth?*

**Governor Sejko:** I think that a final evaluation of these reforms' effects will need its time. First, this relates to the time dimension of the reform action. Many reforms may be painful at the beginning but later the positive effects materialise. Second, not all reforms have been directly aimed at expanding the potential of economic growth. Some of them have aimed at strengthening economic and financial balances of the country, or reducing its weaknesses.

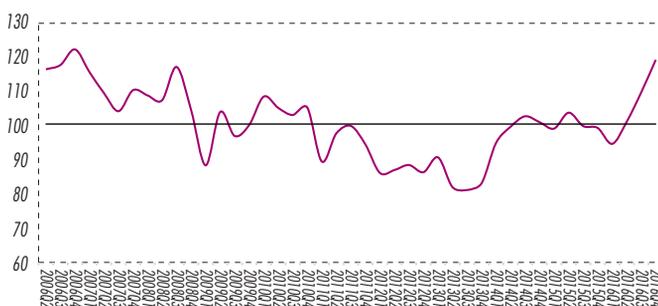
Nevertheless, I think that all reforms in the economy have been in the right direction and the positive outcome will be increasingly materialised in the long run.

**Monitor:** *A recent FIAA report shows that the business climate in Albania is worsened considerably. Meanwhile, Bank of Albania's*

*business and consumer surveys show a significant improvement. Why this inconsistency?*

**Governor Sejko:** Allow me to emphasise that these two surveys have different objectives and nature. For this reason, their results are not comparable and it is difficult to conclude on consistency or inconsistency.

*Chart 37 Economic Sentiment Indicator (ESI)*



*Source: Bank of Albania.*

To inform the public, our Business and Consumer Confidence Surveys are constructed according to the standard harmonised methodology of the European Commission. In these surveys, a sample of 1200 consumers and 1200 businesses is selected randomly and represents the consumer and business that operate in Albania, taking into account geographical distribution, size of business, and distribution within the producing sector. The representative sample of businesses does not differentiate the origin of business ownership, that is, businesses with both domestic and foreign capital are included. On the other hand, the FIAA report for Albania - "Study of Business Environment" - attains its results through 70 interviews only with businesses having foreign capital.

Also, beyond the difference of the interviewed sample, our survey is designed to analyse the cyclical movements of the economy, that is, the performance of sales, output, employment and direction of the Albanian economy development. Conversely, FIAA report is designed to identify the problems the firms face during their activity in Albania. I think they are completely two different things.

**Monitor:** *What are the expectations for the economic growth of this year? What do you consider as the most risk-bearing factor against the*

*stable economic development, considering that 2017 is an electoral year? What are the spaces of the Albanian economy to return to its potential?*

**Governor Sejko:** The Bank of Albania has also stated previously that the outlook for economic growth in 2017 remains positive. In terms of economic growth, we expect a slight improvement in 2017 and a substantial improvement over 2018. The preconditions for this outlook are in place: the monetary and financial environment is favourable, business and consumer confidence is up, financial balance sheets are sound and the external environment will be somewhat more positive compared to 2016. If the Albanian economy performs according to this baseline scenario, all the premises are in place for the return to potential in 2018.

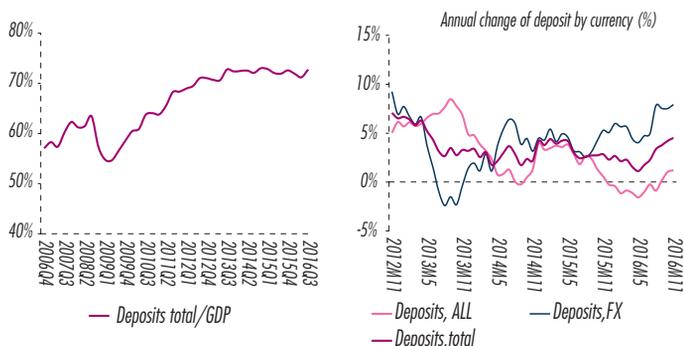
Nevertheless, economic developments always are subject of uncertainties. You mentioned one of them: parliamentary elections. I would also add the potential risks that may arise from the external economic and geo-political environment. Anyway, it should be noted that the political stability is an important factor to guarantee the overall economic and financial balances of the country.

Regarding your concern about the possible impact from parliamentary elections, I think that the Albanian experience has examples of two situations: election period and post-election period with high impact on the economy, and the contrary. Personally, I think that a quiet election and post-election process would be beneficial to the country.

**Monitor:** *How sound is the banking system and what is the outlook for 2017?*

**Governor Sejko:** Currently, we assess that the banking system situation is stable. In 2016, the banking system recorded good capitalisation, liquidity and positive financial performance. The whole activity accelerated the annual expansion pace at 6.8%. The annual growth rate of credits and deposits recorded 2.5% and 5.4%, respectively. Deposits in lek provided a considerable positive contribution to the growth of banking sector deposits in the last quarter. Non-performing loans ratio fell at 18.2% at the end of the year. Almost all banks showed improvement. The non-performing loans provisioning and capital coverage improved.

Chart 38 Deposits against GDP and by currency



Source: Bank of Albania.

Our expectations are more positive for 2017. The activity of the banking system is expected to reflect the acceleration of economic growth. This should be reflected in the increase of credit and other forms of intermediation by the banking sector. We expect the process for the reduction of non-performing loans to continue, as a result of the effect of some legal and regulatory actions for this purpose, and the improvement of economic growth. We assess that the level of non-performing loans remains high and needs to be at the focus of the Bank of Albania and the banking system, with a view to addressing and reducing their level in 2017. At the same time, banks should monitor their exposure to market risks, that is the exchange rate and interest rate risk.

**Monitor:** *At the end of 2016, a law was adopted on the establishment of a resolution fund in case they show difficulties. Will there be additional costs to the banking sector? Which are the steps to be followed for the concrete implementation of this law during this year?*

**Governor Sejko:** The adoption of the law "On the recovery and resolution of banks in the Republic of Albania" by the Parliament in the last days of December 2016 constitutes a rather important reforming effort to guarantee the stability of the banking system. Answering your question, I would like to explain that the law stipulates it will enter into force six months after the publication in the Official Journal, meaning that this law will assume full legal effects in July of this year. From this point of view, we are committed in two directions for its rigorous implementation: 1. establishment of the relevant organisational unit; and 2. compilation of the by-laws. The Supervisory Council of the Bank of Albania in its last

meeting approved the establishment of the Resolution Department, as a new unit that is part to the organisational structure of the Bank of Albania. The new Department shall conduct its resolution function separately from the supervisory one. It will have separated and independent reporting lines, thus complying with the standard of the relevant European Union Directive.

In parallel with the establishment of the unit, we are working on the compilation of the relevant bylaws. This will provide for the full implementation of obligations laid down in the new law on the treatment of banks when they encounter serious financial difficulties. It should be emphasised that the banking sector should use this period to take the necessary actions to adapt to the new legal requirements.

The Bank of Albania with regard to preparing the resolution authority for the implementation of obligations stipulated in the new law will continue to collaborate and receive assistance from World Bank experts for the preparation of bylaws as well as the training of human resources. We should keep in mind that it is a new regime of intervention and the treatment of possible crisis in the banking sector is considerably complex, not only at national but also at European and international level.

Regarding the establishment of the resolution fund, as you already know, it is envisaged to be 0.5% of total liabilities, which is calculated as the spread between the assets and the capital of all banks. The resolution fund will be established with the contribution of all banks and will be managed by the Albanian Deposit Insurance Agency. The law does not stipulate a specific timeframe for depositing the contributions. Anyway, this contribution should start to be collected within the first six months from the entry into force of this Law. The Bank of Albania, during this period, shall compile the methodology on the calculation of contributions and the way of its payment. This resolution fund is foreseen to be completed for a 10-year period from the entry into force of this Law.

The most important thing that provides an answer to your question relates to the fact that this Law was broadly consulted with the banking system. The system itself has shown a high level of understanding and collaboration. I believe that this relationship shall also continue during the implementation of the Law. I would like to ensure the Albanian public that this Law better guarantees the deposits of the public and makes banks more responsible clarifies further the rules on the intervening actions of the Bank of Albania. Finally, I would like to say that it is an action that further strengthens the financial stability of Albania.

**Monitor:** *The Albanian Government concluded the three-year arrangement with the IMF. What happens now? What is your opinion regarding the further relations of the Albanian Government with the IMF?*

**Governor Sejko:** The conclusion of the three-year arrangement with the IMF concludes an intensive collaboration chapter with the IMF. I think that the conclusions on the positive effects of this arrangement are known to the public. Also, it is clear that it is the Government of Albania that will decide on the future modalities of the relations with the IMF. The political reality implies that this is a question that may be reopened only after the elections and with the new Government.

However, regarding the actual status, Albania will have normal monitoring and consulting relationships with the IMF, like all the other countries, in the framework of Article IV.

I am confident that honouring our commitments for structural reforms, with a view to promoting economic growth and economic stability, for further consolidation and implementing prudential monetary and macro-prudential policies will replicate the largest part of profits that Albania has had from the arrangement.

***“Honouring our commitments for structural reforms, with a view to promoting economic growth and economic stability, for further consolidation and implementing prudential monetary and macro-prudential policies will replicate the largest part of profits that Albania has had from the arrangement.”***



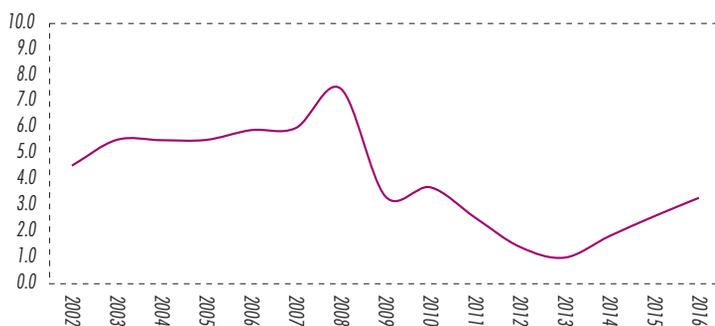
## INTERVIEW WITH GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA. “ALBANIAN DAILY NEWS” NEWSPAPER -18 April 2017-

**ADN:** Thank you Governor for the opportunity to have this interview. Three months have elapsed this year. Would you give an overview of Albania's economic situation and how is the situation of the banking system for supporting the expected economic growth as declared by the highest government authorities?

**Governor Sejko:** First, I would like to thank you for the opportunity to share with your audience our opinions regarding the current and expected developments of the Albanian economy.

Regarding the economic situation in Albania, our analysis of all available economic and financial indicators shows a story of continued recovery. According to INSTAT, Albanian GDP grew by around 3.5 percent in 2016. The economic growth was broadly supported by strong domestic consumption and investment, as well as an improved external demand. In sectorial terms, we see a robust recovery of construction activity, a continued growth of services, and more nuanced developments of the industrial sector, with branches exposed to the decline in external commodity prices suffering whereas the light and agro industrial branches going strong.

*Chart 39 Real GDP (% , annual)*

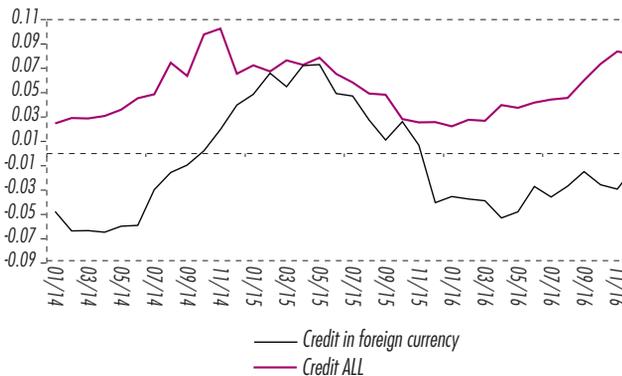


*Source: INSTAT.*

Naturally, as policy makers and central bankers we should not limit ourselves to the headline story; rather, we should carefully assess growth drivers, we should be mindful of economic and financial balances, and we should be attentive to long term trends and challenges. Allow me to elaborate in greater detail.

The growth drivers that have underpinned the continued recovery over the past three years appear to be strengthening. The external environment is gradually improving; while not exactly rosy, external demand and external financial conditions are less challenging compared to just a few years ago. On the external front, the balance sheets of the private and financial sector agents are improving and their expectations are trending up. Labor market indicators are also improving, with employment figures increasing by around 7 percent year-on-year in 2016, while the unemployment rate went down to a cyclical low of 14.2 percent at the end of the year. Lastly, the financial conditions are quite supportive of the economic recovery. On account of our determined and accommodative monetary policy, the financing costs are at their historical lows while credit conditions have stabilized. Credit recovery remains still tentative, though credit in lek increased by around 11 percent over the last 12 months. Our prudent regulation and diligent supervision of the banking system has made sure the banks remain liquid, profitable and well capitalized; they remain a trustworthy place to invest the savings of the population though they should do more to finance the ongoing recovery. Further, the consolidation drive of the public authorities has decreased overall financial risks in Albania and has both complemented and reinforced the monetary stimulus provided by the central bank.

Chart 40 Performance of credit by currency, annual growth



Source: Bank of Albania, Financial Stability Department.

In terms of macroeconomic balances, the Albanian economy moved a somewhat closer to equilibrium in 2017. In spite of severe shocks during the first quarter, inflation trended up and towards our 3 percent target during 2016. Furthermore, the current account deficit contracted by around 7 percent in 2016, whereas public finances scored a primary surplus and public debt decreased by around 0.7 percentage points.

Regarding the future, I'm reasonably confident about our short to medium-term prospects. Based on current trends and policies, economic growth should remain at or above current levels over this horizon; inflation should reach our target by mid-2018; employment figures should continue to rise and indicators of financial health should improve further.

Fulfilling this projection requires maintaining the course of current policies and a further acceleration of structural reforms. However, given our past history and institutional improvements, I'm reasonably optimistic about our chances.

Turning to the second part of your question I would like to give a snapshot of the latest trends of the banking industry.

The activity of the financial system expanded during 2016 H2, and its financial indicators remained relatively stable. The share of banking sector's assets to GDP increased to 94.9%. Banking activity was profitable, with adequate levels of capital and liquidity indicators. In the activity expansion of the banking sector, the main contribution came from operations with securities, other investments, and lending, on the asset side; and operations of treasury and interbank, deposits and own funds, on the liabilities side. In annual terms, the banking sector increased its net (creditor) position with nonresidents, lending by 2.5% and deposits by 5.2%. The nonbank financial segment, maintained its weight to GDP and its activity was positively affected by the performance of nonbank financial institutions (engaged in lending and payments) and insurance ones. Exposure of the banking sector to the non-bank financial segment remains low, but the stability of the banking sector is crucial for the activity and stability of nonbank financial segments of the financial system.

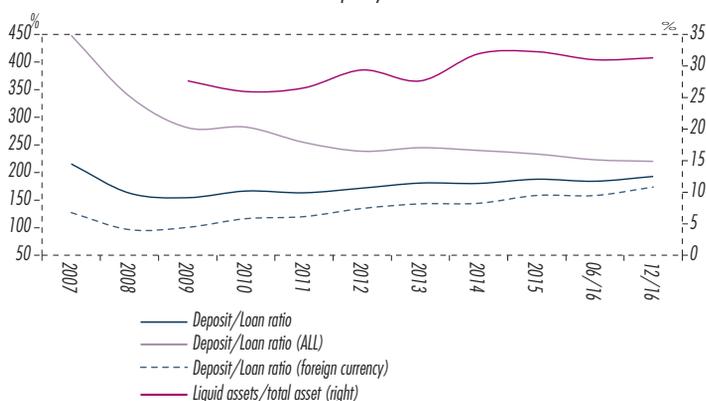
Regarding the banking sector exposure to risks, the Bank of Albania assesses that:

- a) Credit risk decreased during the period, albeit remaining near the previous year's levels. The value of non-performing loans decreased

by 8% and the ratio of non-performing loans decreased during 2016 H2 to 18.3%. The main contribution to this performance came from processes related with loan collection, restructuring and write-off (of lost loans). The non-performing loans decrease is associated with an improvement of their coverage with reserve and capital funds, while loan collateralization level remains stable.

- b) The liquidity risk in banking activity is assessed as low. The low loans to deposits ratio, continuation of deposits growth and the high presence of liquid assets above the minimum regulatory requirements show a very good situation of liquidity in the banking sector in general and by main currencies.

Chart 41 Liquidity indicators



Source: Bank of Albania.

- c) Banking systems assessment and control of operational risk need further improvement. Although banking reports indicate an improvement of their coverage with capital to overall operational risks, the Bank of Albania's supervisory activity highlights the need to further improve the process of identification and report of operational losses in accordance with the bank activity profile.

Overall, the indices do not show increase in financial stability risks during the period. The decrease of the banking sector earnings and the slight decrease of liquidity indicators (which anyway remain at high levels) are offset by positive developments in real economy, in terms of improvement of economic growth and the financial situation of households and businesses. The accumulation of risks has diminished due to the contraction of foreign currency lending, improvement of public debt indicators and the positive performance of the housing market. On

the other hand, the probability of systemic risk materialization decreased, under the conditions where credit quality index improved, unemployment decreased and volatility in the exchange rate has been low.

**ADN:** *Could you tell us a few words on the cooperation of the Bank of Albania and the Executive Committee of the Albanian Association of Banks ? Which are the major fields of cooperation?*

**Governor Sejko:** The Bank of Albania has a continuous and fruitful cooperation with the Albanian Association of Banks. It considers this close collaboration as an important connection, a bridge between us and banking industry in Albania, all 16 commercial banks. During the year, frequent meetings were organized with the representatives of the Association's technical committees or other ad-hoc groups to discuss regulatory initiatives, amendments to existing or new regulations.

The Bank of Albania is thankful to the Association of Banks for supporting its endeavors through a number of cooperation activities and projects. The latest event was the celebration of the Global Money Week. The Bank of Albania, in collaboration with Albanian Association of Banks and the support of other institutions such as Ministry of Education and Sports and the Deposit Insurance Agency, conducted a number of well-tailored educative activities for general public.

We are confident the fruitful relationship between these two institutions will strengthen further.

**ADN:** *It is spoken much on the issue of non-performing loans. Which is the role of BoA in handling that concern?*

**Governor Sejko:** This is one of main challenges we are facing recently . I would like to mention few of aspects we are working on to bring NPLs down.

### **Addressing the non-performing largest borrowers and out-of-court debt restructuring**

In collaboration with FinSAC project of the World Bank, we have started a project on the issue of non-performing loans, which consists of two parts:

- Revision of the Bank of Albania guidelines for the restructuring of loans including international best practice principles that can be used in solving nonperforming borrowers.

***“Bank of Albania is developing a cooperation framework scheme for coordination between banks for providing solutions to borrowers simultaneously exposed to several banks...”***

- Development of a cooperation framework scheme for coordination between banks for providing solutions to borrowers simultaneously exposed to several banks, specifying among those who can go into bankruptcy and those that can be settled outside the legal process.

### **Loan granting based on official financial statements**

According to the national plan for NPL addressing, the Bank of Albania's duty is to impose regulatory provisions for the granting of new loans based only on official or audited financial statements, within the first quarter of 2018.

### **Credit Registry**

The Bank of Albania was engaged to make improvements regarding Credit Registry. On that purpose, at the end of 2015, some improvements were made to the credit registry to enrich the information on the borrower about the collateral enforcement and loans write-offs. In 2016 another improvement process has started. With the financial and technical assistance by the EBRD, a project was launched for the complete revision of the credit registry to implement an advanced platform and extended information on borrowers in the country.

I would also like to emphasize that, the level of NPL dropped down further at 18% in February, and this also thanks to "Plan of measures to reduce the non-performing loans" undertaken in collaboration with other national decision-making factors and our international partners, which was fully fledged only in 2016.

**ADN:** *Speaking of inflation are you worried about its current level - 2.1 percent or better to say the decreasing trend during the last years?*

**Gent Sejko:** CPI inflation has undershoot our 3 percent target over the past few years. In a nutshell, this outcome is a reflection of subdued domestic inflationary pressures, in turn reflecting weak aggregate demand and prevailing spare capacity in the economy, as well as low inflation among our trading partners.

Such an outcome - and given our institutional mandate of price stability - has conditioned the Bank of Albania to engage in an unprecedented level of monetary expansion. We have cut our policy to a historical low of 1.25 percent, we have expanded our liquidity injection program, and we have used the forward guidance, a monetary policy instrument employed to inform financial market agents and to anchor their expectations.

All in all, we have been successful with our monetary policy. As I explained before, the Albanian economy and CPI inflation are in a recovery trend, and this is due, to some extent, to our monetary policy stance.

Our analysis indicates overall inflationary pressures strengthened in 2016. We did suffer a severe negative shock to prices over the course of the first quarter, but the situation was soon reversed and this rapid recover - in itself - was partly a testament to the trust economic agents put on our ability to meet our commitments.

So, turning back to your question, yes indeed we are aware inflation is below target and but I'm confident we will be able to meet our target within a reasonable period of time, i.e. within the next year.

**ADN:** *The policy rate has kept unchanged at 1.25%. Also, BoA's Supervisory Council decided to keep unchanged the interest rates for the overnight deposit and overnight lending facilities, at 0.25% and 2.25%, respectively. Do you think that this decrease at these levels when I remember that it was about 13% or higher is healthy for the economy in general?*

**Governor Sejko:** (Correction: The policy rate has never been into double digit figures in Albania. Over the past 15 years it has only hit the peak of 8.5%. The question does still stand, though)

The current level of interest rates in Albania is indeed at historical lows. You are also correct this level of policy rates is indicative of our efforts to stimulate the economy through the pursuit of a quite expansionary monetary policy. I would further venture this policy is correct and absolutely necessary for the Albanian economy and its financial system. As I explained before, the expansionary turn of monetary policy across the turn of this decade was instigated by a deficient aggregate demand and undertaken against the backdrop of a profound economic and

financial crisis in our foreign partners. In turn, this situation was reflected in higher unemployment, in financial difficulties across the private sector, and in an undershooting of our inflation target. Monetary policy is a perfect instrument to combat such a predicament, and all central banks faced with similar circumstances have made heavy use of the monetary policy. The Bank of Albania is no stranger to the book of good economic management.

The intensity of the monetary stimulus in itself is determined by the depth of the shock and the strength of the transmission mechanism. I would say that, by carefully assessing both of these factors, we have come up with the correct answer to the challenges we are facing and, as of now, we are seeing the concrete positive results of our policies: the credit in Lek is growing, private sector consumption and investments are picking up, economic growth and employment are trending up, and inflation is gradually converging to our target. At the same time, we are not seeing any adverse and unintended impact from our policy of monetary accommodation.

All in all, I am confident the Bank of Albania has done the right thing at the right time.

*ADN: You have recently announced a new focus of the Bank of Albania, that toward de-euroization of the Albanian economy. Could you give some details on what exactly does it consist in? How is BoA planning to address it and what could be the upsides and downsides of it?*

**Gent Sejko:** High euroization levels, particularly in the banking sector activity provide a challenge for the effectiveness of monetary policy and for financial stability.

In terms of monetary policy, high euroization level mean that the credit and exchange rate channel of the monetary policy transmission mechanism may not operate well. In terms of financial stability, the still high level of Fx (euro) loans, particularly of those where the borrower doesn't have appropriate levels of Fx sources to serve the debt, represent a significant exchange rate and credit risk, that could materialize if the economy or the financial system is faced with a shock that causes exchange rate depreciation. Furthermore, large levels of Fx deposits, expose the system to Fx liquidity risk, where the ability of central bank to help, should the need arise, it is more limited. Hence, it makes sense to have regulatory requirements asking for larger mandatory Fx liquid assets in banks, in

order to strengthen the capacities of them to deal with such situation should they occur.

In this regard, BoA has identified several measures that initially will aim at: providing a difference between deposits interest rates in Fx and local currency (Reserve Requirement Rate in Fx will increase, while that in domestic currency will decrease); requiring higher liquid assets in Fx compared to domestic currency, and improving the awareness of borrowers for risks related with borrowing in Fx.

***“... high euroization level mean that the credit and exchange rate channel of monetary policy transmission mechanism may not operate well.”***

We understand that the process is complex and challenging. Trying to decrease euroization levels only at the banking sector (financial system) without providing similar incentives for the real economy agents, is not sufficient and could prove not successful. Hence, together with the MoF and the FSA, through an MoU that will be signed shortly, a more strategic long-term approach on de-euroization will be followed, where the authorities will coordinate and gradually introduce measures in their areas of competence.

This approach doesn't aim at "zero" level of euroization for the Albanian economy. This would be completely unrealistic and economically counterproductive. What we are aiming for is to decelerate and reduce the euroization in the Albanian economy and its financial system, over the medium to long term, to levels that markedly reduce exposure to risks and improve the capacities of the authorities in implementing relevant macroeconomic policies. We believe, that, if macroeconomic stability in the country is maintained and the authorities show consistency in such approach, the measures that will be taken will achieve the goal of lowering euroization levels to more appropriate ones.

***“This approach doesn't aim at "zero" level of euroization for the Albanian economy. This would be completely unrealistic and economically counterproductive. What we are aiming for is to stop and reduce the euroization in the Albanian economy and its financial system, over the medium to long term, to levels that markedly reduce exposure to risks and improve the capacities of the authorities in discharging relevant macroeconomic policies.”***

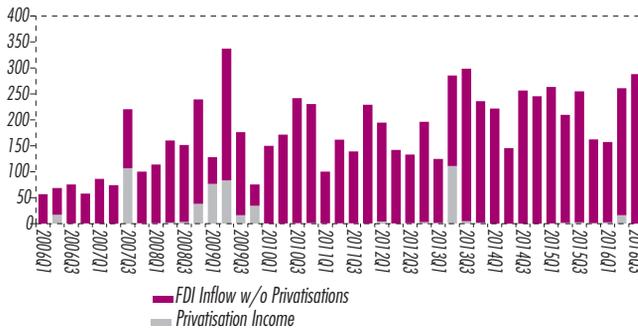
**ADN:** *With regards to the attraction of foreign investments. Which is your estimation for future, given the fact that Albania is in an electoral atmosphere? Which is the role that BoA can play in this direction?*

**Governor Sejko:** Incoming FDIs have been high in Albania. They have averaged above 7 percent of GDP over the past 4 years, and they increased a further 10 percent in 2016, reaching close to 9 percent of GDP. That is a notable source of external financing and we can only be happy about that fact.

There are a couple of reasons why FDIs are highly prized in a developing country like Albania. First, they represent a capital boost to our economy, increasing investment, production capacity, employment and know-how. Second, they are a non-debt creating flow, and as such less volatile to shocks.

As a converging economy, the Bank of Albania has constantly spoken of the need to attract FDIs. To our view, there are at least three preconditions the country must meet in order to be attractive to foreign capital. First, it needs to offer a stable political, economic, and financial environment. We should not forget FDIs are mostly private capital and they are extremely sensitive to any source of uncertainty. Second, the country needs to offer a good business prospect, not only over the short to medium term but also - and especially - over the long term. Third, the country has to offer a business friendly environment, meaning predictable legal and judiciary practices and efficient public administration. Albania has made good progress over the past years in fully or partly meeting these preconditions, though we should not think we have completed our job.

Chart 42 Composition of FDIs (flows in EUR million)



Source: Bank of Albania.

The Bank of Albania is of course engaged in delivering a stable economic and financial environment, as well as in promoting the development of financial markets. This is an issue of extreme importance to any potential investor and I think we have done a good job in that regard. Most of the external assessment of strengths and weaknesses of Albania, do categorize economic and financial stability as a plus, and this would not have been possible without our full commitment.

**ADN:** *Some incidents have happened in which robbers have stolen considerable monetary values. What measures is the BoA taking and with which order and law enforcement you cooperate to prevent such incidents? And secondly have they created insecurity in the banking system in Albania?*

**Governor Sejko:** First, I have to say that what this was a very complex and specific typology of crime where Bank of Albania's involvement is limited. Our role mainly consists on providing certain guidance on how minimum standards should be adopted, including insurance policies of monetary values.

On the other side, regarding the transportation of monetary values, where the criminal activity has been focused mainly, BoA has defined as obligatory for the commercial banks to insure monetary values while transportation (insurance companies have to be licensed by the Albanian Financial Supervision Authority). Regarding physical security, the legal provisions provide that banks will have to employ services of Private Physical Security Companies which by virtue of law are licensed and supervised from the Albanian State Police.

We have continuously asked from the commercial banks to report to the State Police, all the problems related to daily activities of the security companies they employ.

However, considering the robbery episodes that took place, I would like to mention that recently we have made some revisions and adapted the regulations concerning transportation and storing of monetary values.

BoA has also proposed to the Ministry of Interior, some amendments to the normative acts, which regulate the transportation of monetary values in Albania.

In close cooperation with the State Police, we have proposed a set of minimum obligatory standards that have to be applied during the transportation of monetary values. Amongst other things, the draft stipulates clear specifications on the class/category of armored vehicles, including the characteristics and armor levels of the vehicles that will be used for transporting monetary values. Those standards reflect the same as those applied within the EU.

Finally, I would like to come back to the explanations I gave at the beginning, regarding the solidity of the banking system. The banking system in Albania is safe and sound. Few episodes as described herein, apart from the momentary impact in the public opinion, could not undermine our rigorous efforts, in the context of financial health and public confidence on the banking industry. However together with other public and private agencies we are working earnestly to avoid such criminal episodes in the future.

## **GOVERNOR SEJKO: INTERVIEW FOR REUTERS -05 June 2017-**

Albania wants euro to play second fiddle to the lek

"Albania's central bank wants to curb the use of euros so that its monetary policy works better and to protect its banking system from exchange rate shocks", - its governor told Reuters.

The national currency is the lek, but remittances from migrants, along with trade and banking ties to euro zone members Italy and Greece, and euro-using neighbours Kosovo and Montenegro, means Albanians use the euro widely.

***"Albania's central bank wants to curb the use of euros so that its monetary policy works better and to protect its banking system from exchange rate shocks."***

Central Bank Governor Gent Sejko told Reuters in an interview there was no question of removing the euro from the economy of Albania, which is a candidate to join the European Union.

But the plan was to gradually boost the amount of leke in finance and the economy.

"First, we want to increase the flexibility and efficiency of our monetary policy in the local currency. Our stimulative monetary policy would be better transmitted if there were more transactions in the local currency," Sejko said.

The bank also wanted to "preserve and protect financial stability since a high amount of lending in euros would expose the Albanian banking system to exchange rate risks", he added.

A decade ago 80 percent of lending was in hard currency, mostly euros, and the rest in leke, but the ratio has since changed to 55 percent in euros and 45 percent in leke, helped by a rate cut to the record low of 1.25 percent.

That brought the relative borrowing and lending costs closer.

Deposits in euros accounted for 60 percent of savings. Sejko said the bank was encouraging commercial banks to keep deposits in leke and banks are now telling clients to convert loans in leke.

"We aim to increase the mass of the use and exposure of the local currency to a degree comparable to countries with a similar economy to ours in a gradual way," Sejko said.

A three-year 330 million euro (\$371.61 million) deal with the International Monetary Fund (IMF) helped better coordination of fiscal and monetary policy, brought gradual steady growth and better control of the public debt, Sejko said.

He said the new government that will be formed after June 25 election should focus on structural reforms.

Sejko noted his plan to reduce the amount of bad loans had managed to bring them down from 23.5 percent of total lending in 2013 to 16.6 percent in April 2017.

"This has come thanks to the writing off of lost loans after three years, their restructuring and the performance of existing clients," he added. "This shows our policy is working."

Having cut rates from 6.25 percent in end-2008 to 1.25 percent to stimulate investment and consumption, Sejko said the bank would maintain a stimulative policy until the end of 2017.

"If this stimulative monetary will continue or not will depend on the macroeconomic indicators in the future," Sejko said, pointing to signals of a pickup of growth in the Eurozone, which influence Albania through trade and investment.

*\* Reporting By Benet Koleka, Editing by Ivana Sekularac and Jeremy Gaunt, 2 June 2017.*

**INTERVIEW WITH GENT SEJKO,  
GOVERNOR OF THE BANK OF ALBANIA,  
“ARGUMENT” SCAN TV  
-30 June 2017-**

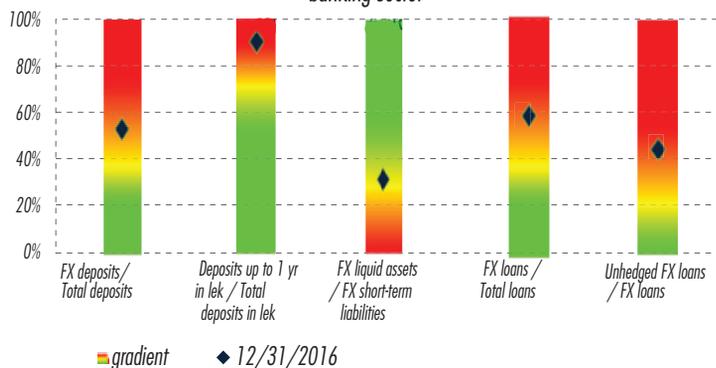
**Scan TV:** *Thank you Governor for agreeing to the interview. Indeed, this is my first interview with you and I really appreciate the opportunity, especially considering that now we are at the end of a season with many activities and decisions by the Bank of Albania.*

**Governor Sejko:** Thank you for this opportunity.

**Scan TV:** *Let me start with the new policy or decision of the Bank of Albania, a statement that you have also made, about de-euroisation. You have called it like that and I am using the same term. Could you briefly explain the de-euroisation policy?*

**Governor Sejko:** The de-euroisation policy has started and has been pursued earlier by the central bank, as well as by the financial system itself, with an orientation and tendency toward increasing the usage of Albanian lek. At present, we have addressed and have been focused more on this issue, since euroisation has reached levels considered as relatively high. The loan-to-deposit ratio (where the deposit ratio is 50% in euro, but also the ratio of loans and exposures in the banking system is over 45%), although it has fallen as a result of the accommodative monetary policy implemented by the Bank of Albania, continues to remain at considerable levels. We have high levels of euroisation in the financial sector, as I just mentioned, but also in the real sector. The quoted prices of some products traded in the Albanian market remain broadly denominated in euro. Apartments, cars, also cases of wages in particular sectors are paid in euro. In this context, we have a considerable high level of euroisation of the economy. Once it was dollarization, so it was the same phenomenon in dollars, but with the increase in the level of trade exchanges with the euro area, the euro has become the prevailing currency. In this context, we are inclined to reducing the level of the euro, that is, the euroisation as we call it in the economy, both in the financial sector and in the real sector of the economy.

Chart 43 Monitoring indicators for the level of the use of foreign currency in the Albanian banking sector



Source: Bank of Albania.

**Scan TV:** *There is a tendency to believe that Albania, as it aspires to join the European Union, may also consider the adoption of the euro as its currency. Does this policy go against this perception or are we talking about different issues?*

**Governor Sejko:** Absolutely not against, rather, parallel to it. The perception is - while true, we have to explain and clarify why this perception is wrong - that exactly because we are set on our path toward integration in the European Union, we must continue to address the use of the domestic currency, in order to increase the flexibility and the impact of the transmission of our monetary policy; but, we must also preserve and maintain financial stability. Regarding financial stability, I mentioned that we have about 45% of euro-denominated loans, where a good part of these clients are unhedged; that is, they generate their income in lek while the loan is in euro and are exposed to the exchange rate risk, which would affect the performance of non-performing loans. So, we have a negative impact on financial stability, but on the monetary policy side we would also like to have more usage of the domestic currency. Precisely for these reasons, we aim to have a series of reforms that would contribute to general economic growth, whereby the central bank has its own role and instruments, like the monetary policy ones. The wider use of the lek would contribute to a better economic performance that would converge faster with the European standards.

We have countries, such as the Czech Republic, a developed country and a member of the European Union, which has a very low level of

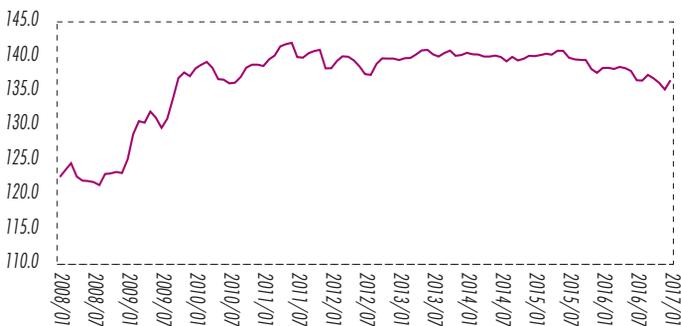
euroisation and continues to use its own currency. Also, Poland and Croatia are members of the European Union and have undertaken campaigns against the euroisation for precisely these reasons. Reducing the level of euroisation is a process that has also been followed by other countries that are members of the European Union and use their currency. Albania needs to be strengthened economically, implement the reforms, and align with the European Union. In this context, it needs to use its currency at a larger scale, so as to increase the flexibility of the central bank's monetary policy, in order to have macroeconomic and financial stability. For these reasons, we are undertaking this campaign against euroisation, but we are not trying to kill the euro. We should emphasize that the central bank intends to have a gradual decrease in levels close to other countries, whose economy is similar to ours. This is the goal, we are not aiming with these measures to remove the euro altogether from circulation, since we are aware that our trading partners are in the euro area. There are many clients that carry out their activity in euro, their loans are in euro, and obviously these people will continue to do business, carry out transactions in euro, especially export-import activities. The goal is to avoid the use of euro to a large extent in those cases when it is not necessary. There is an artificial increase of the use of the euro that is not necessary. And this is the goal, to avoid the artificial use of the euro. Of course, if you are going on vacation somewhere abroad you will take euros with you, and payments will be made in euro and not in not lek; but, if you want to buy an apartment or a car in the Republic of Albania, there is no reason to buy it in euro when your income is in the domestic currency and you can buy it in lek. It exposes you to the exchange rate, when you have your income in the domestic currency. Why should you take a loan in euro, and why should you be exposed to the exchange rate risk in the future?! Moreover, mortgages are long-term, and no one can predict how the rate may be in 10, 15, 20 years.

**Scan TV:** *It is exactly the approach to euro that reflects, above all, the desire to have a strong national currency. Currently, the euro exchange rate has received a lot of attention because the euro has depreciated against the lek, but above all the lek itself has received attention, regardless of the euro or the dollar performance. Are there any factors that affect or favour or support the strengthening of lek?*

**Governor Sejko:** What you say is very true, the lek has strengthened lately, but generally in the last 10 years, the lek has been a stable currency, with very little fluctuation in relation to other currencies, especially the euro and

the dollar. The shock was received in 2008, when the entire euro area was affected; the lek depreciated against the euro as consequence of the crisis. But, since that period the lek has withstood very well. Lately, we have a strengthening of the lek. We certainly pursue a free exchange rate regime, we do not have a fixed exchange rate regime, and hence the exchange rate is determined by demand and supply in the market. Obviously, we have a greater supply of the euro, which has made the lek stronger, this is logical. The lek has appreciated as a consequence of a large supply of the euro, a large inflow of euros, of several factors. We refer to the numbers and always talk based on our analyses and the data that we have available; inflows as consequence of tourism have been higher in Albania, the level of import-export has been positive, meaning that we have a growth of Albanian exports. We also have had a growth of foreign investments, there are many euro inflows from these activities, and generally there is also an historical cycle, referred to particular periods, especially summer and winter, when there are many inflows due to emigrants returning home. One result of all these factors has led to a high level of euro supply, which has also led to a strengthening of the exchange rate. Always referring to the historical fluctuations, the exchange rate during the summer period has been strengthened in this period as we have a larger supply of euros in the market, causing a weak euro. So it is expected to have a weak euro throughout the summer period.

Chart 44 Euro/Lek exch. rate



Source: Bank of Albania.

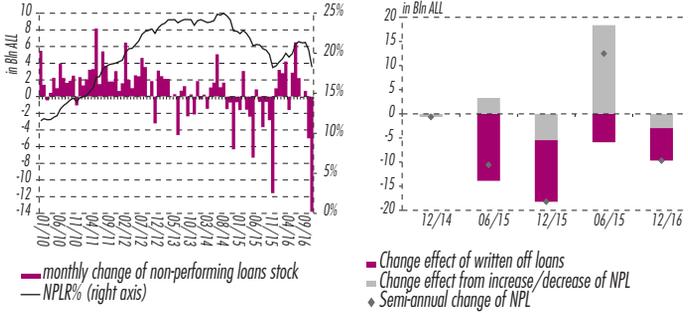
**Scan TV:** *To conclude on the currency issue, since you mentioned that the dollar has always been closer to the international economy, currently it is at much lower rates than the euro or there is a chance that the dollar too...?*

**Governor Sejko:** The dollar is not a largely used currency since our major trading partners are in the euro area. The euro is the most used currency in the financial system as well; deposits and loans in dollars have a smaller share. The use of the dollar is addressed only in the cases of import-export activities for businesses (banks' clients) that operate with oil, while the rest is mainly in euro. The dollar has not had high fluctuations in this context, surely they come together, but the impact of the euro is more significant for us. I emphasize that our trading partners are in the euro area, and most of Albanian emigrants live and work in the euro area, so it is the euro, then the dollar and then the British pound.

**Scan TV:** *There has been good news in the last months, but even before, about the consolidation of the non-performing loans decrease. We are at 16% from a major risk of 25% of the total, as it was discussed two years ago. Why did the non-performing loans decreased and does this trend continue?*

**Governor Sejko:** Non-performing loans have been a problem not only for Albania, and other countries in the region, but also for the euro area. Since the onset of the crisis in 2008, the level of non-performing loans grew significantly; the banks had been much more "aggressive" about lending before the crisis by undertaking more risks and having a more amenable approach to it. With the shocks that followed the crisis, there was a reluctance and a contraction, a more conservative philosophy in lending policies. This came as a consequence of low aggregate demand for loans meaning a contraction in the level of demand, but also as consequence of the increase of non-performing loans. Hence, since loans were granted without taking into account certain risk criteria, many of these loans did not perform well in return. This happened in Albania, as well as in many other countries. Lending before 2008 grew at high levels, up to 25% annually, and naturally such very high levels of lending would bring along some non-performing loans, since risk criteria may have been sidestepped. The Bank of Albania has addressed the issue of non-performing loans seriously; we have made a plan of measures in cooperation with the Albanian government addressing all the elements that would help the financial system and contribute to reducing the non-performing loans. We are here discussing on a ratio between total loans and non-performing loans, and the non-performing loans ratio has to do with new loans as well. Meanwhile, the plan of measures addressed the non-performing share of the portfolio; this plan of measures consisted in writing off lost loans, restructuring non-performing loans, but also in banks' performance in loan instalments collection.

Chart 45 Non-performing loans ratio (left); Contribution to the change of the non-performing loans stock (ALL billion, right)



Source: Bank of Albania.

**Scan TV:** *There is also an instrument that has not been activated, that is the growth of new lending.*

**Governor Sejko:** In parallel with the plan of measures for addressing non-performing loans, we also have worked on another plan of measures or philosophy to boost lending, re-orient the financial system towards those potential sectors of the economy that have higher demand and less risk, and where it would make more sense for the banks to lend. Simply put, if before the crisis the banks were oriented towards lending in the sectors of construction, real estate or other sectors related to construction, like cement, iron etc., normally the banks should re-orient towards sectors like tourism, agriculture or other sectors that currently have more space and are more successful and better performing. In this context, we have closely cooperated with the Albanian Association of Banks, the financial system, the Ministry of Finance and the Ministry of Economy. We have organized several forums in cooperation with the International Monetary Fund, the World Bank, and other international institutions. Every year we have organized a forum dedicated to promoting lending in the Republic of Albania, since we have also had ample liquidity; the loan-to-deposit ratio has been 50% and remains stable, so there is a fairly good liquidity situation. Banks have liquidity surplus, above the requirements of the central bank, and our challenge has been to convert it in sound loans for the economy, not such loans, which may create non-performing loans, but sound loans oriented exactly on these sectors. These forums have produced several memoranda. In each forum, the cooperation among the participants: the Bank of Albania, the Ministry of Finance, the Association of Banks, other regulatory institutions, such as the Financial

Supervision Authority, or the Deposit Insurance Agency has had a role in re-orienting the financial market towards sound lending. As a result, lending has grown moderately, during the last years, on average of 3-3.3% . So we have not had a decrease, but an increase of lending, moderate increase, where the goal has been a somewhat higher growth than this, over 5% up to 10%, I cannot give a precise number, but to have an increase that should have an impact on the level of economic growth. Notwithstanding this, lending increase has continued, new lending has been good always compared with the financial economic difficulties and the crisis period faced by the euro area and the region. So we are not talking about a different context, we have had lending increase, we have had contraction of the portfolio of loans in euro and a growth of the portfolio of loans in lek.

Turning to non-performing loans, the level of those in lek has decreased considerably. My goal has been to reach 15% and we are have been getting closer to this level, since after the figure of April we have had further decrease of non-performing loans. In May, the figure has not been confirmed yet, just as soon as confirmed it will be published these days, so the decrease has continued due to this plan of measures. The plan has functioned and has been very detailed and there has been a very good cooperation with the Albanian government towards performance, a good, organized and coordinated cooperation that has boosted confidence in the financial system as well. The financial system, mainly the banks, since 95% of the financial system is composed by banks, has felt the support of the regulators and authorities in their everyday work. A problem has been the legal part, collateral execution remain a problem for banks since often bad clients, which are not able to meet their obligations to the banking sector in the moment of execution, have blocked the banks, the judicial processes that have made the resolution of these cases and these has impacted negatively on the non-performing loans ratio.

However, in this aspect, legal initiatives have been introduced, such as the bankruptcy Law and other legal acts related to bailiffs, collateral executions and other elements. This is a gradual process that comes step by step, it cannot be done at once, it is impossible, this is what has been done in the other countries too, but we are following and monitoring the situation closely.

**Scan TV:** *Albania had the highest level of non-performing loans in the region. Currently, is this level comparable to the region?*

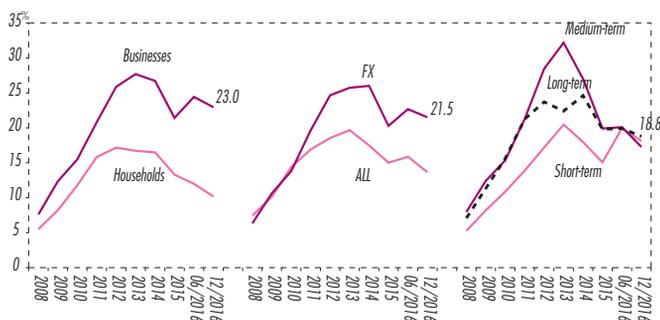
**Governor Sejko:** Albania and Serbia had the highest level of non-performing loans. I want to clarify a moment at this point that we have been more conservative in addressing the non-performing loans ratio.. So, we have taken non-performing loans and put in also those loans that are completely collateralized, covered in collateral. Net non-performing loans have been at 6%, and unhedged ones may be lower today. We have taken very serious measures to address the issue. Many countries take unhedged non-performing loans ratio and if we had calculated this ratio as well, on this basis we would have a lower level. It is often subject of attention or speculation, but it is important that numbers are downwards, that we are comparable with the region, and I am confident that the numbers will fall and this ratio will continue to decrease as a consequence of the measures we are undertaking. We are preparing a further platform of cooperation within the banking sector and with the association of banks, and the central bank will continue to have a coordinating and regulatory role, in particular, in the case of large loans that need to be restructured and have exposures in more than one bank.

**Scan TV:** *In addition to this issue, has there been a discussion about a higher concentration of non-performing loans in few entities? Is this a problem?*

**Governor Sejko:** This is the problem. Of course, there has been a concentration of non-performing loans, concentrated in a limited numbers of borrowers 25-30-35% , it doesn't matter , but this constitutes 60-70% of the non-performing loans portfolio, and these have been major clients, corporations that had exposures in more than one bank. Normally there are several companies and not all are bankrupted, some are successful and some aren't. It is a complex of problems when a client with a high number of companies with exposures, in more than one bank, uses the income of the more successful company to cover the losses from the unsuccessful ones. Exactly here the bankruptcy Law must intervene, but also the philosophy of large entrepreneurs themselves so that they give up some businesses that have no future, and may focus on those businesses that may be able to perform. Obviously, this is a difficult process, it has to do with the mentality of some of the businesses, and not only with the treatment by the banks. Thus, it needs cooperation with all the parties, and the businesses themselves must understand that if a project has failed they should not continue to invest in it. There

should be a policy of stopping losses in this context, so a good part of these businesses with our coordination have been restructured. There is a significant writing off from the list, about 11 businesses have been restructured and are back to a situation that has prospects for their future and thus they can perform.

Chart 46 Non-performing loans in the Albanian banking sector



Source: Bank of Albania.

**Scan TV:** And this is one risk less?

**Governor Sejko:** This is one risk less. It provided its impact and has led them out from non-performing loans, which are restructured and are continuing to perform or are paying in the banks. Meanwhile this is a risk less that has affected the decrease of performance. Some have been written off because these are lost cases for more than 4-5 years, and banks have to remove them from their balance sheets because of the indicators. Banks will continue to follow these, often the concept "written off" seems like the banks are forgiving them, but it must be clarified that these loans are not forgiven, but will continue to be pursued in court and with all the other legal and regulatory measures from the banks until the maximal possible recovery of the assets that these clients have. These are removed from banks' balance sheets to improve the indicators, the whole goal is to restore normality to the financial system balance sheets and restore the optimism of the banking system. There are many elements, non-performing loans are one of the elements, but there are also external factors. To be clear, we decreased the non-performing loan rate but often times, a particular element receives more attentions and it seems like that was the entire problem. Of course, the financial

sector is composed by banks from the euro area and they have had their own difficulties, their own policies and strategies, to decrease particular exposures in the region, so even if there were no non-performing loans, lending would have some other issues that impede normal growth, which would derive from external factors. We are addressing the issue that we have within the territory of the Republic of Albania, as it is our duty as regulator of the public authorities to address it. At least we can be assured that we have delivered on our duty.

**Scan TV:** *In fact, is the entire commitment by the Bank of Albania, the Albanian government, parliament and other stakeholders, resulting in a decrease?*

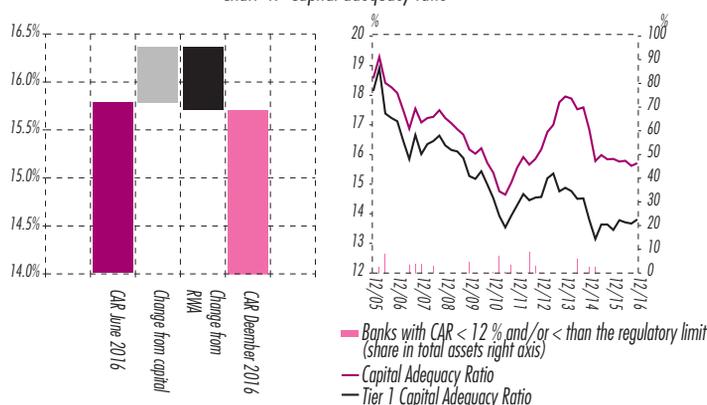
**Governor Sejko:** Lending is growing. Lending in lek is upward, this is visible and it has increased above 10%, and non-performing loans are decreasing. This is a positive element for the stability of the financial system and the impact of the financial sector in the future economic growth of Albania.

**Scan TV:** *The financial sector in Albania, mainly the banking sector, is considered the most successful sector; the most stable, modern, which receives most of the investments go and the key of the confidence of the Albanian citizens. Does this sector continue to be a basis for confidence in the functioning of the Albanian economy?*

**Governor Sejko:** It fully continues to be a basis for confidence. It is very well regulated, monitored and supervised by us, but also by international institutions like the European Central Bank and other institutions. The truth is that it is a model system, not to make compliments, and compared to other sectors, it is the most regulated and with the best standards. It has had an impact in the growth of the Albanian economy for years. Primarily though lending to the economy, it has also had a fairly large impact in introducing new technologies in and offering new products to the clients at the financial education level. So, the consequence of this system supervised and regulated by the Bank of Albania has been not only the impact on the economy with lending, but also the impact on growing the financial education of the Albanian population. We should be grateful to the banking system for the role that it had in this context, but obviously it also has issues like any other sector and we as regulators and supervisors are obliged to address these issues, since the financial sector is the most delicate sector based on the fact that it works with the deposits of the population. Exactly because of this point

of view we are very careful, conservative might be the right word, to monitor and supervise, so that the financial system may always perform within the legal framework, the relevant rules, aiming the exposures of the financial system are within the risk parameters and there are no unpleasant surprised in the future. At the moment, we have a banking system that represents around 90% of the Albanian financial system; around 10% are non-banks financial institutions, so the banking system is the backbone of the financial system.

Chart 47 Capital adequacy ratio



Source: Bank of Albania.

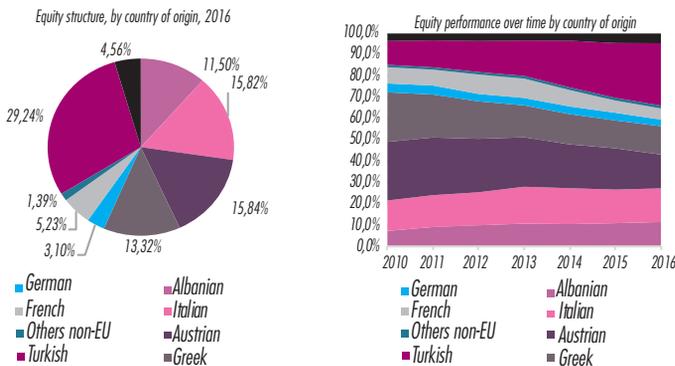
The Albanian banking system is well capitalized, the capital adequacy ratio is at 16%, so, significantly higher than the capital adequacy ratio of 12% required by the Bank of Albania, but also the liquidity ratio is roughly 50/50. We have a large liquidity surplus and our challenge is to translate it soundly for the economy. We are in these ratios that are the key prudential ratios for the financial system. But, the banking system and the financial system have also had a good profitability in the last years, and this often has been object of attention of "jealousy" from some other sectors or some other analysts, who have commented that the banking system is profitable because it is profiting at the expense of this and that... We need to be aware that the banking system has a high level of formalism in the first place, so it is well-formalised. These histories about two, three balance sheets are not true, it reports according to international financial reporting standards, it is supervised and monitored by us, but many banks have also their parent institutions that operate in the euro area. So, regarding formalisation we do not have any doubt in the formalisation of the banking sector. From this perspective, we

have full confidence in the figures and based on these figures, we see that there are no deviations from our regulatory requirements, which provide assurance of the continuity of this process. The financial sector operates mainly based on deposits, and mainly household deposits, from the population and not businesses. Of course, this is a very positive datum when we say we have a well-capitalised financial sector, with liquidity surplus and profitability. Hence, we need to be satisfied with the profitability of the financial sector since the sounder it is, the safer our deposits are.

**Scan TV:** *Compared with the region, is the Albanian banking sector the most stable and the safest in the Balkan region?*

**Governor Sejko:** The banking sector is stable, safe! Most of the banks we have - so that we may be realistic and mention all the issues, banks operating in Albania are from the euro area: Italian, French, Greek, with Greek capital but Albanian banks essentially, which have survived very well the period of crisis in Greece and continue to perform very well. Also other banks from the euro area dominate the market, and these banks have brought know-how, products, capital. As I mentioned earlier, at the beginning of the crisis there has been a deleveraging from their parents, this led these banks to lower the level of lending, but on the other hand we were relatively in agreement with this policy, since we did not want to be exposed and exceed our parameters as a central bank, since deposits are placed there.

*Chart 48 Equity ownership structure by country of origin and performance over time*



Source: Bank of Albania.

Thus, we were lucky that these banks are well-regulated. The European Central Bank, the European Supervision Authority controls their parent

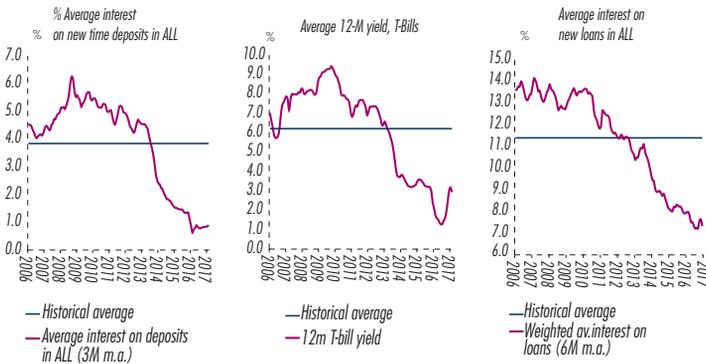
banks. We coordinate, exchange information so it is a regulatory supervision activity harmonised and coordinated with other international institutions. The performance of these banks is delicate not only for Albania, but for the entire region, as consequence of the large exposure of these banks in the euro area, and many of their decisions have been not to extend or expand further in this lending activity, so there has been a general contraction of their activity in the euro area and elsewhere. Lately, these policies have started to end since there has been an improvement of the financial situation as a consequence of the taken measures by the European Central Bank as well; these banks have improved, so they have stopped. Of course the return of optimism and lending on pre-crisis levels needs its time, but the process is trending positively. So, from the contacts that we have with the steering boards of these banks, which I contact consistently, but also from the contacts we have with the international regulators, we are aware that this policy has mostly stopped, so the hardest part has passed now and we are thinking about growth.

**Scan TV:** *Low interests are good news for borrowers but not so good for depositors, but this is the key interest rate policy pursued by the Bank of Albania and has been so consistently. Reading between the lines, at least with the forecasts that we know now, there will not be an increase of the interest rate this year. Has this policy been transmitted to all commercial banks? Is it true that until the end of the year within the forecasts that we know today, there will not be an increase of the key interest rate?*

**Governor Sejko:** It is true. We have highlighted in our press releases after the meeting of the Supervisory Council of the Bank of Albania that the accommodative monetary policy will continue and there will be no change before the first quarter of 2018. Based on these declarations and our analyses we forecast that there will be no change, let's say increase or decrease based on macroeconomic indicators, before the first quarter of 2018. As we have said, we forecast that the output gap will close and the economy will return in equilibrium in the second half of 2018. We have had a gradual economic growth year after year, starting from 1% up to 2-3.5%. We expect to have a further economic growth, given the good climate and the calm transition of the electoral situation. We expect to continue to have a growing economic performance, and this will gradually lead to change of the Bank of Albania's monetary policy, but it is too early to say, we continue the same as the European Central Bank, which has the first elements of improvement of the economic

situation but has announced that it will continue its accommodative monetary policy. Naturally, they have taken some measures and used other quantitative easing instruments, which were unnecessary for us to use as a central bank. We have had the reserve plan of measures to use in case there was a deterioration, but fortunately our economy has resisted, has been resilient and there was no need to use other measures. The monetary policy instrument, the decrease of the interest rate has resulted to be sufficient and has been transmitted fairly well in the markets. As consequence of decreasing the core interest rate several times, so from 6% of some years ago -which was the minimal historical level - to the current 1.25%, it has been possible the transmission of the interest rate in all other segments of the financial system, like in the decrease of the lending interest rates, treasury bills interest rates and deposit rates. It was a good transmission, although it cannot be called complete for as long as we have a high level of euroisation. We are talking about the domestic currency part, where 50% depends on the monetary policy pursued by the European Central Bank.

Chart 49 Interest rates in ALL



Source: Bank of Albania.

**Scan TV:** Since we are talking about the decision of the European Central Bank, but also the decision of the US Federal Reserve, the two biggest banks in the western hemisphere, what impact do their decision have on the decision-making process of the Bank of Albania?

**Governor Sejko:** Of course if we consider in our analysis the high level of euroisation, the decision-making of the European Central Bank is reflected directly. If we had a high exposure to the dollar, naturally the

policy of the US Federal Reserve would have an impact too. We also have a high level of euroisation in loans and deposits in the financial sector. The decrease of the interest rate by the European Central Bank affects the decrease of the interest rate and this is a positive element that runs in parallel with monetary policy of the Bank of Albania. Even on the part of the monetary policy of the European Central Bank, after the decrease of the interest rates of loans in euro, the decrease of interest rates of loans makes it more attractive, so there will be a higher level of lending. On the supply side, the financial system has these instruments, while on the other side there is the low aggregate demand. I want to say that lending comes as consequence of low aggregate demand as well, initiatives for different projects etc., but other financial institutions and the central bank has the duty to decrease supply, to create a more eased supply to the economy. The European Central Bank by decreasing the interest rate has made possible to have lower interest rates in the part of loans and deposits in lek as well. Also, the Bank of Albania with its accommodative monetary policy has aimed to promote lending, consumption and private investments. This is the goal. Lending has been promoted and has been reflected, the transmission of the monetary policy has been good, around 10-11%, growth has come as a consequence of the growth of lending in lek, because the growth of lending in euro has shrunk, and this is a very good element.

**Scan TV:** *When do you forecast we will reach an acceptable level of euroization? Will there be further decrease?*

**Governor Sejko:** Yeas, we have prepared a memorandum of understanding with the other stakeholders, the Ministry of Finance, and the Financial Supervision Authority, in the Advisory Group of Financial Stability that meets minimally once every three months and if necessary more often as well. In the last meeting, we signed a memorandum of understanding, defining the measures and duties of each institution to decrease the level of euroisation about which we talked at the beginning of the programme. Surely, these measures will make possible a gradual decrease. As I mentioned, we are in contact with the Albanian Association of Banks in order to see the effects and become sure about the effects from the application. These measures have to do with the level of required reserve, transparency with the public, but there may be a particular impact on the financial sector and we must be sure that any type of measure taken by the Bank of Albania as regulator shall have a managed, mitigated impact in the financial sector, so there are no negative shocks in the financial sector. In this context, we expect these

measures will begin to be implemented, so the increase of the obligatory level of the euro or the liquidity reports to affect the banks will begin in 2018. The implementation of this plan will start next year. We have signed the memorandum of understanding and we are collaborating with the stakeholders that are affected by this plan of measures, either positively or negatively. We must have a very precise forecast on the effects. Maintaining the equilibrium between the monetary policy instruments and financial stability is one of our main goals. We want to implement an accommodative monetary policy, apply our monetary policy instruments, without a negative impact on the financial stability of Albania. The combination and the consideration of both elements is our duty as central bank and we do this continuously.

**Scan TV:** *There is one last issue I wanted to ask in two questions. It is related to the campaign conclusion, the election and the vote counting that is almost over. I want to ask you about the part of the campaign throughout the month in terms of financial stability of the currency or even the sentiments that all the citizens and companies of the entire banking sector have given about the election campaign, which was a more peaceful campaign than the others, based on an agreement that worked at least during the campaign. Can we say by now if it had a negative impact in the financial system, the performance of the currency and in all these other indicators?*

**Governor Sejko:** I want to be very careful, precise and correct and I would say that in general there was no negative impact. But if there were, we as central bank measure this impact through the economic sentiment indicator. The economic sentiment indicator for the first quarter has increased significantly. The economic sentiment indicator through a questionnaire considers the perception of the business and individuals of several different segments and of the financial sector. There is a slight correction for the second quarter. This is the main element by which we measure the perception, and then there are other figures, about growth, lending, and others that show the level of economic performance and other macroeconomic indicators from the Bank of Albania and the Institute of Statistics. This about being correct with figures and indicators. Overall, I would say, to be a realist and to read the situation according to the question that you had for me, we are aware that these are the best possible elections that we have had in Albania, as a consequence of the agreement or not, the truth is we had better elections than the previous times.

All political factors have exercised an extraordinary stabilising role, but I would rather not make a political analysis, which would be overstepping. Our perception is that the foreign investors in Albania as well as the Albanian investors, the entire economic environment has read positively the election performance and not negatively, there was no uncertainty in particular after the agreement, security is consolidated, even if we refer only to the tourism activity we have seen that there is no stagnation, no fall, but growth and this shows the perception towards the elections. The election process went normally. Of course campaigns have their tensions, these are completely normal, but we have avoided many negative elements seen in previous campaigns and this has consolidated the confidence and trust of the investors and the economy in general.

**Scan TV:** *Since now the electoral results is clear, the Socialist Party has taken 74 mandates, it seems that despite what the political forces decide it will have an easier time to undertake reforms and have them approved by the parliament. In the next four year, in the framework of economic reforms, what are the issues that should be the focus and the attention of the future Albanian government with Mr Edi Rama as the [incoming] Prime Minister?*

**Governor Sejko:** We have followed a plan of reforms with Prime Minister Rama. A set of reforms have been pursued. Naturally, the economic growth that we have seen has not fallen from the sky, but it is a consequence of these reforms as well as of external factors, but is mainly a result of the undertaken reforms and there is a series of reforms, which the Albanian government and we as the central bank have elaborated very carefully. Of course, these reforms have also been made in the framework of the International Monetary Fund programme and consulted with our international partners, so these reforms have been monitored, formulated, built by addressing critical sectors of the economy such as energy and other sectors. These reforms have had their positive result in boosting the Albanian economy and maintaining macroeconomic parameters and economic and financial stability in the country.

Albania has not fallen into recession. Albania came out of the crisis and continued a moderated economic growth, and growth is expected to continue.

The latest electoral result is a further assurance for the continuation of these reforms. These reforms must continue. Often, the Bank of Albania, the Supervisory Council of the Bank of Albania and I on behalf of

the Supervisory Council have called for the continuation of structural reforms. This call has in fact been made by many central banks around the world and the region, thus, in this regard the Bank of Albania has called for the continuation of structural reforms by all stakeholders. The structural reforms involve a broad range of stakeholders, the government has a major role, but all the other factors and the legal system, the financial system, the government and the parliament, all have a role in the realisation of structural reforms and the Bank of Albania has called for the harmonisation the efforts of all the stakeholders.

The latest result gives us further confidence that structural reforms will continue and economic growth and performance will continue even further, so we trust that the continuation of structural reforms will be in the right direction and with a positive performance. Actually, we may forecast that growth rates will accelerate, always anticipating, having positive hope. The central bank, within its legal, legislative and regulatory framework will perform, I personally guarantee on behalf of the central bank, that we will perform all our duties and will continue with our reforms in terms of price stability, the achievement of the level of inflation of 3% within the proper timeframe, also to safeguard financial stability. The alignment of our policies and strategies of the central bank with Albanian politics and strategies will bring a better performance, will have a greater impact on the level of economic growth and the level of welfare of the Albanian citizens.

Thank you for the interview.

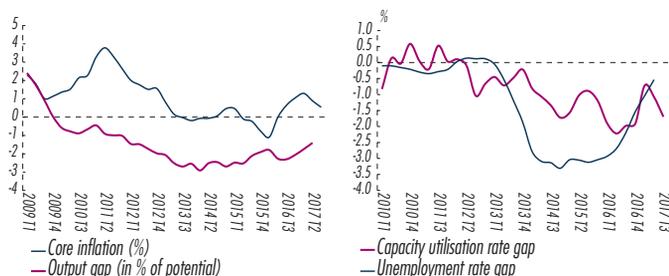
*\* The interview was conducted on 28 June 2017*

## INTERVIEW WITH GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA, KLAN PLUS TV - 24 November 2017 -

**Klan Plus TV:** Thank you Governor for the interview. The World Bank and the International Monetary Fund have revised down their forecasts for economic growth in the next two years. What is the Bank of Albania's forecast for growth?

**Governor Sejko:** From the available information, economic growth in the first half of the year was around 4%. We expect the end of 2017 to register an economic growth rate around this level, maybe with a slight downward revision from 3.9% to 4%. This growth rate is driven by domestic investments, growth of consumption and foreign direct investments, as well as improvement of the balance of trade with abroad, which means growth in exports, mainly in services and tourism. For the next two years, we expect that this economic growth trend will continue. According to the Bank of Albania's models and forecasts, the economy will return to equilibrium in the next 2-3 years horizon, more concretely in 2019. Also, inflation will return to target in the same year. This means that there will be more premises for the decrease of unemployment, increase of employment and development of the economy.

Chart 50 Indicators of the cyclical situation of the economy\*



\*Output gap is the average of several measurements on which the moving average method is applied. The capacity utilization rate gap and the unemployment rate is calculated as the deviation of the actual value of the respective historical averages, then the moving average with 4 terms methods applied. The unemployment rate gap is assessed as the average of the unemployment gaps by 3 methods, which assess the balance rate of unemployments (NAIRU and NAWRU). The unemployment gap is expressed as the difference of the equilibrium level of unemployment and then the moving average with 4 terms methods applied.  
Source: INSTAT and estimations of the Bank of Albania.

Of course, this is just a forecast. It does not mean that the Bank of Albania takes it for granted that this will happen, since the Albanian

economy will face many challenges, the same as the economies of the other countries of the region and the euro area. We must be ready and prepared to continue with structural reforms, not only the Bank of Albania, but all the stakeholders that have an impact on the economic development. Emphasis must be placed and discussions must focus on economic issues, instead of political ones, in order for all the stakeholders to be oriented toward the economic development of Albania. The Bank of Albania will continue the accommodative monetary policy, in order to boost economic growth. In parallel, we will continue our micro and macro-prudential policies for safeguarding financial stability in Albania.

***Klan Plus TV:*** *Will the EUR 1 billion project fill in the vacuum created by TAP and Devolli HPP, as they are ending?*

**Governor Sejko:** These two projects, the two main foreign investments, have their plan and cycle during the investment phase. We must keep in mind that the generated income will not end with the end of the projects, but will continue after the completion of the construction and investment cycle. These projects will generate income in energy and export. Naturally, we see foreign direct investments connected with these two projects as complementary; hence their completion does not mean that the Albanian economy will halt the engines. The Albanian economy will continue to grow, mainly driven by the increase of consumption and foreign and domestic investments. Surely, foreign investments remain one of the main challenges for Albania and the region. The constant appeal we have made for undertaking structural reforms and continuing those that have already started for improving the overall economic environment in Albania and the business climate will contribute to improving the expectations and attracting more foreign investments in Albania. We expect that the Albanian economy will continue to perform, irrespective of the investment and construction cycles of these two projects.

***Klan Plus TV:*** *What is the assessed amount of currency in circulation outside banks, if you have any figures, and what risk does this represent?*

**Governor Sejko:** Currency outside banks is assessed at 20% of the overall currency in circulation, or around ALL 255 billion. First, I want to underline that the Bank of Albania measures the currency in circulation, both inside and outside banks, mainly the domestic currency. We have no information regarding foreign currency, mainly euro, but also dollars, that circulate outside banks.

**Klan Plus TV:** *Domestic currency outside banks is around 20%. What risk does this represent?*

**Governor Sejko:** The Albanian economy has an amount of money outside banks, which has decreased year after year. The challenge of the central bank and of the banking system has been to bring the currency inside the banking system, thus decreasing the cash in circulation outside it. There are many reasons for this. First, this is a symptom we are trying to fight. This symptom of the Albanian society is similar to that of developing countries, since it has to do with the low level of financial culture and infrastructure.

Regarding the cultural level we are working on improving financial literacy, so that the Albanian citizens are more familiar and connected with banks and keep their money inside the banking system. Regarding the infrastructure, the Payment Systems Committee, established at the Bank of Albania has undertaken many initiatives and steps to decrease the amount of cash outside the banking system. However, the citizens need to understand that this is a lost opportunity, since if the currency is kept outside the banking system, rather than in a bank account, brings no profit. Second, there is also a risk related to the security for the holder of this money, since they are not secure outside the banking system. Despite this, there is also a broader risk for the economy, since the currency outside the banking system leaves no tracks, and becomes a cause of illegal activities, like informal activities, fiscal evasion, and other activities. We have taken and will continue to take many measures for increasing the level of currency inside the banking system.

**Klan Plus TV:** *Do you think that banks should be careful with regard to loans in the context of the EUR 1 billion project, and the seriousness of these projects? Do you think that there is a risk of creating a new amount of non-performing loans?*

**Governor Sejko:** Banks in the Republic of Albania are mainly subsidiaries of banks based in the euro area countries. This means that in addition to our regulatory acts and requirements regarding risk analysis, these banks have to also comply with the regulatory requirement from their parent companies. In all the cases of large loans, like for public-private partnership projects, or other projects, the banks will assess the project according to their risk analysis criteria.

We do not think that this will increase non-performing loans. We will supervise, and it is our duty to supervise banks, so as to look at their

performance in relation to all the projects, not only PPPs, but also at other projects, for the application of their risk criteria. I take this opportunity to emphasize that the banking system has made very good progress in decreasing the level of non-performing loans, from 25%, now we are approaching 14%. We will be careful to see that this level does not increase, regarding any loans by commercial banks. Public-private partnership projects will be assessed in this context as well.

**Klan Plus TV:** *There are hypotheses that the drug money put in circulation may upset balances. How real do you think this is?*

**Governor Sejko:** Drugs in the first place affect the social equilibrium of a society. This is an imported phenomenon in the Albanian society, taking into account that other European countries have experienced it before us. Unfortunately, this phenomenon has also been transferred to the Albanian reality together with social developments and changes. We do not have

***“Regarding the macroeconomic indicators, like economic growth and other parameters, it results that growth has been driven by the improvement of the trade balance with abroad - exports, energy, tourism and services - the increase of foreign investments, remittances and income from tourism during the first half of 2017. These are concrete figures from official sources.”***

data, i.e. the central bank, to measure exactly the amount of money from activities outside the banking system, mainly in foreign currency. Regarding the macroeconomic indicators, like economic growth and other parameters, it results that growth has been driven by the improvement of the trade balance with abroad - exports, energy, tourism and services - the increase of foreign investments, remittances and income from tourism during the first half of 2017. These are concrete figures from official sources.

These incomes have brought sufficient inflows of foreign currency that has also led to an appreciation of the domestic currency. Lek has appreciated against the euro, mainly during the summer. It continues

to remain appreciated, and such appreciation is within the parameters of the central bank. Based on our models, we have not judged as necessary to intervene with regard to the depreciation of the domestic currency. This is because the fluctuations have been within parameters and we have not had macroeconomic unbalances from the impact of drug money so far. Social unbalances, which are equally dangerous, must be monitored and kept under control.

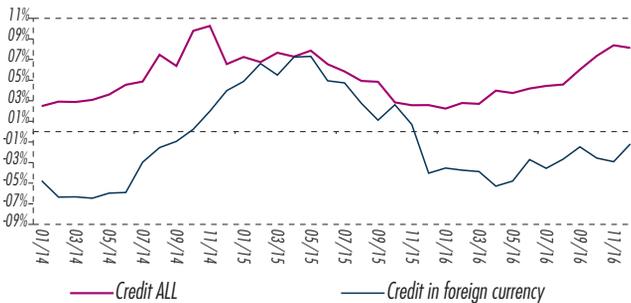
The Bank of Albania, in collaboration and cooperation with all the other stakeholders, is exercising the legal authority and instruments to supervise the banking system, because the banking system is subject to the central bank's supervision and regulation. Another reason is to coordinate with other bodies like the General Directorate for the Prevention of Money Laundering, the intelligence services, the Albanian Prosecutor's Office etc. who are responsible and have legal obligations to monitor whether any of these institutions exercises illegal activities.

**Klan Plus TV:** *Talking about crediting, do you think that the actual level of crediting is sufficient to serve the economic growth?*

**Governor Sejko:** Crediting during these years has had a moderate growth. On average, it has grown at around 3%, mainly attributable the growth in the domestic currency, thanks to the accommodative monetary policy of the Bank of Albania. So our monetary policy has been transmitted to the market. This growth rate is satisfactory, keeping in mind the impact from the financial crisis and the level of risks that exist in the Albanian economy, the region and beyond.

We would like to see a level of credit higher than 3%, we would also not insist in much higher levels. A credit growth above 10% would also not be desirable, not only for the impact it could have on the Albanian economy, but also because of the risks that it may bring regarding the level of non-performing loans. So, we do not have a precise figure as a target, but a credit growth between 5 and 10% annually would be acceptable for us.

Chart 51 Outstanding loan, annual growth



Source: Bank of Albania.

However, the current growth of around 3% is normal. The Albanian economy has not suffered or stopped its growth level as a consequence of credit, since there have also been many other risk factors. The credit is oxygen for the economy, one of the instruments that we normally strive to stimulate through our monetary policy. We expect that in this year and in the coming years we will have relatively higher and healthier credit growth, as a consequence of not only our macro-prudential measures, but also of the structural reforms in the economy undertaken by all stakeholders. The central bank will continue the accommodative monetary policy until the end of 2018, maybe even a little further, to stimulate credit growth, consumption and investments in the Albanian economy.

***Klan Plus TV:*** *You have raised the concern about the lack of funding from non-bank financial institutions. Why this shortage and who should stimulate their lending? What benefits would the presence of these institutions bring to our economy?*

**Governor Sejko:** I have recently pointed out at the conference organised by the Bank of Albania, but also before, that the financial system in the Republic of Albania is dominated at 92-93% by banks. This is a feature that characterises all the countries of the region. If we look at the other countries around us, they have the same percentages. The banking system dominates. It is time for other institutions like non-bank financial institutions, insurance companies, pension funds, companies specialised in financial assets management, to have a larger share in the Albanian financial system. Surely, this would be secured through the re-activation of the Albanian stock exchange. Recently, we have a new private stock exchange in the Albanian reality, trying to re-activate the capital market, which has been almost non-existent in Albania, or has been conducted informally through other channels and not through the stock exchange. Of course, these are alternative sources, which would activate more long-term alternative sources and the capital market would be more active. At the same time, Albanian investors would tap into other alternatives in addition to bank credit. We are working in cooperation with the Albanian Financial Supervision Authority and other authorities so that the capital markets in Albania develop and grow gradually. This is also in the framework of the fight against informality.

# FOTO GALERI / PHOTO GALLERY

Guvernatori Sejko në seminarin e organizuar nga Banka Kombëtare e Austrisë dhe Banka Botërore, 16 janar 2017/  
Governor Sejko attended the seminar organized by the National Bank of Austria and the World Bank, 16 January 2017



Guvernatori Sejko merr pjesë në Forumin "Mbi shkëmbimet tregtare dhe investimet Singapor - Shqipëri", 18 janar 2017 /  
Governor Sejko attends "Singapore-Albania Trade & Investment Forum"-Albania, 18 January 2017



*Governatori Sejko në prezantimin e Raportit të Tranzicionit të BERZH 2016-2017, 27 janar 2017 /*  
Governor Sejko attends the presentation of the European Bank for Reconstruction and Development Transition Report 2016-2017, 27 January 2017



*Governatori Sejko në Mbledhjen e Konsituencës të FMN-BB, Romë, Itali, 8 shkurt 2017 /*  
Governor Sejko attends the IMF-WB constituency Meeting, Rome, Italy, 8 February 2017



*Governatori Sejko në takimin e diskutimit me Shoqatën Shqiptare të Bankave, 15 shkurt 2017 /*  
*Governor Sejko at the Bank of Albania meeting and discussion with the Albanian Association of Banks, 15 February 2017*



*Java Globale e Parasë, 27 mars 2017 /*  
*Global Money Week, 27 March 2017*



*Leksion i Governorit Sejko në Universitetin Evropian të Tiranës, 30 mars 2017 /  
Open lecture of the Governor Sejko at the European University of Tirana, 30 March 2017*



*Guvernatori Sejko me përfaqësues të Bordit të Drejtorëve të Bankës Evropiane për Rindërtim dhe Zhvillim, 31 mars 2017 /  
Governor Sejko meeting with EBRD Bord of Directors' representatives, 31 March 2017*



*Governatori Sejko në Klubin e Governorëve të vendeve të Azisë Qendrore, Rajonit të Detit të Zi dhe Ballkanit, Antalya, Turqi, 2-4 prill 2017 / Governor Sejko attends Governors' Club of Central Asia, Black Sea Region and Balkan countries, Antalya, Turkey, 2-4 April 2017*



*Mbledhjet e Pranverës të FMN-BB, prill 2017 / Governor Sejko attends IMF and WB Spring Meetings, April 2017*





Konferenca e Bankës së Shqipërisë “Normat negative të interesit në Eurozonë dhe ndikimi i tyre në politikat dhe në instrumentet e bankave qendrore në vendet e Ballkanit Perëndimor”, 4-5 maj 2017 /  
Bank of Albania Conference on “Negative Euro Area Interest Rates and Spillovers on Western Balkan Central Banks’ Policies and Instruments”, 4-5 May 2017



*Guvernatori Sejko gjatë Mbledhjes Vjetore të BERZH-it, Qipro, 9-11 maj 2017 /  
Governor Sejko attends EBRD Annual Meeting in Cyprus, 9-11 May 2017*



*Guvernatori Sejko në Mbledhjen e Grupit Këshillimor dhe në Mbledhjet Vjetore të Fondit Evropian për Evropën Juglindore, 17-18 maj 2017 /  
Governor Sejko, attended the Advisory Group meetings and the Annual European Fund meetings for South-East Europe, 17-18 May 2017*



*Leksion i Guvernatorit Sejko në Qendrën e Studimeve të Evropës Juglindore të Universitetit të Oksfordit, Londër, 12 qershor 2017 /  
Lecture of the Governor Sejko at South East European Studies at Oxford University, London, 12 June 2017*



*Konferenca e Parë e Muzeut të Bankës së Shqipërisë, 14 qershor 2017 /  
First Conference of the Museum of the Bank of Albania, 14-15 June 2017*



*Guvernatori Sejko në samitin e vendeve të rajonit, Beci, Mal i Zi, 16 qershor 2017 /  
Governor Sejko attends the regional summit , Beci, Montenegro, 16 June 2017*



*Guvernatori Sejko gjatë intervistës për emisionin "Argument", televizioni Scan, 28 qershor 2017 /  
Governor Sejko, during the interview for "Argument" Scan TV, 28 June 2017*



*Governatori Sejko në konferencën e nivelit të lartë organizuar nga Banka Kombëtare e Kroacisë dhe FMN, Dubrovnik, Kroaci, 10-11 korrik 2017 /*  
Governor Sejko attends the High-level Conference organized by the National Bank of Croatia and the IMF, Dubrovnik, Croatia, 10-11 July 2017



*Governatori Sejko, me Ambasadorin Japonez, Sh.T.Z. Makoto Ito, 13 shtator 2017 /*  
Governor Sejko with H.E. Ambassador of Japan in Tirana, Mr Makoto Ito, 13 September 2017



*Guvernatori Sejko me Drejtorin e Bashkëpunimit Ekonomik dhe Zhvillimit pranë SECO-s, Ambasador Raymund Furrer, 14 shtator 2017 /*  
Governor Sejko meets with SECO's Director of Economic Cooperation and Development, Mr Raymund Furrer, 14 September 2017



*Guvernatori Sejko në konferencën e Bankës Qendrore të Bosnje Hercegovinës, 22 shtator 2017 /*  
Governor Sejko attends the International Conference organized by the Central Bank of Bosnia and Hercegovina, 22 September 2017



*Gubernatori Sejko në Klubin e Gubernatorëve të vendeve të Azisë Qendrore, Rajonit të Detit të Zi dhe Ballkanit, Moskë, Rusi, 29 shtator 2017 /*  
*Governor Sejko attends Meeting of the Governors' Club of Central Asia, Black Sea Region and Balkan countries, Moscow, Russia, 29 September 2017*



*Gubernatori Sejko në konferencën e 7-të të BQE për vendet e Evropës Qendrore Lindore dhe Juglindore, 5 tetor 2017 /*  
*Governor Sejko attends the 7th ECB Conference on Central, Eastern and South-Eastern Europe, 5 October 2017*



*Guvernatori Sejko me Ambasadoren Franceze, SH.S.Zj. Christina Vasak, 9 tetor 2017 /*  
Governor Seiko meets with H.E. Ms Christina Vasak, Ambassador of French Republic in Albania, 9 October 2017



*Mbledhjet Vjetore të FMN-BB, tetor 2017 /*  
Annual IMF and WB meetings, October 2017



Mbledhjet Vjetore të FMN-BB, tetor 2017 /  
Annual IMF and WB meetings, October 2017



Vizita e Governorit të Bankës Qendrore të Republikës së Turqisë në Bankën e Shqipërisë, 6 nëntor 2017 /  
Official visit of the Governor of the Central Bank of the Republic of Turkey, 6 November 2017



Konferenca vjetore e Bankës së Shqipërisë, 9 nëntor 2017 /  
Annual conference of the Bank of Albania, 9 November 2017



Konferenca vjetore e Bankës së Shqipërisë, 9 nëntor 2017 /  
Annual conference of the Bank of Albania, 9 November 2017



*Guvernatori Sejko në konferencën e dytë të Shoqatës Shqiptare të Bankave, 14 nëntor 2017 / Governor Sejko at the 2nd Conference of the Albanian Association of Banks. 14 November 2017*



*Guvernatori Sejko në seancën dëgjimore të Komisionit Parlamentar të Ekonomisë dhe Financave mbi projektbuxhetin 2018, 15 nëntor 2017 / Governor Sejko at the Hearing Session of the Albanian Parliament's Economic and Finance Committee on draft budget 2018, 15 November 2017*





Gubernatori Sejko në konferencën e përbashkët për shtyp me Ministrin e Financave dhe Ekonomisë, 7 dhjetor 2017 /  
Governor Sejko at the joint press conference with the Minister of Finance and Economy, 7 December 2017



*Guvernatori Sejko në ceremoninë e nënshkrimit të Memorandumit të Mirëkuptimi për Remitancat, 11 dhjetor 2017 /  
Governor Sejko at the signing ceremony of Memorandum of Understanding on Remittances, 11 December 2017*



*Ceremonia e Çmimit të Guvernatorit për Diplomën më të Mirë për vitin 2017, 15 dhjetor 2017 /  
Governor's Award Ceremony for the Best Diploma thesis for 2017, 15 December 2017*



*Pritja e fundvitit me median, 15 dhjetor 2017 /*  
End-of-year meeting with the media, 15 December 2017



*Governatori Sejko në takim përmblyës të vitit 2017 të organizuar nga Shoqata Shqiptare e Bankave, 20 dhjetor 2017 /*  
Governor Sejko at the year-end event for 2017 organized by the Albanian Association of Banks, 20 December 2017

