
Governor's public appearance in 2015

Published by: © Bank of Albania

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Printed in: 400 copies
Printed by: Adel Co.shpk
ISBN: 978-9928-262-07-3

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Gent Sejko, Governor of the Bank of Albania, February 2015

CHAPTER I

INTRODUCTION AND VISION OF THE GOVERNOR

- *Governor Sejko: Address at the ceremony for his presentation as the Governor of the Bank of Albania*
- *Governor Sejko: Interview with “Java” Magazine, 28 February 2015*
- *Governor Sejko: Interview with “Scan” Magazine, 13 March 2015*
- *Governor Sejko: Interview with “Bankieri” Magazine, April 2015*

Appointment of the Governor

Gent Sejko was appointed as the Governor of the Bank of Albania by the Parliament on 5 February 2015, upon the Decree of the President of the Republic of Albania.

At the Bank of Albania, the new Governor was introduced by the Speaker of Parliament, Mr Ilir Meta, in a special ceremony organised with Bank of Albania employees on 6 February 2018.

Mr Sejko was appointed as the Governor of the Bank of Albania after a 20-year-long experience, holding various positions in commercial banks and in the Bank of Albania.



GOVERNOR SEJKO: ADDRESS AT THE CEREMONY FOR HIS PRESENTATION AS THE GOVERNOR OF THE BANK OF ALBANIA

*Honourable Speaker of Parliament,
Honourable members of the Supervisory Council,
Honourable and dear colleagues,*

I am pleased to return today to the Bank of Albania, after several years of working in the banking system.

I would like to thank the Speaker of the Parliament for his presence today and for his support in the process of the recovery of the Bank of Albania. Our distinguished institution, the Bank of Albania, has contributed to the financial stability and economic growth in our country for more than two decades. This institution has grown consistently over the years and it now stands in line with international standards.

We are all aware of the current challenges and issues that the economy of the region is facing, which may have been reflected in the Albanian reality. We are satisfied, however, that the Albanian economy has not been hit by the crises to that extent; it has withstood the shocks and progressed on its path forward successfully. On the other hand, we are aware that our banking system is well capitalized and liquid, and we will take advantage of this position to promote and further support the economy.

We will work together, as a team, to successfully achieve all our goals. Together, we will be able to exercise and carry out our role as a central bank, by being increasingly transparent and accountable to the public and the Parliament. We will continue to perform professionally, like we have always done, and ensure that the functions, roles and duties of the central bank be exercised correctly, in accordance with the law, by all its departments. I am very confident that with your work, professionalism and commitment, we will withstand every challenge.

I thank you all for your work, and I look forward to working together to face the challenges ahead of us. I am sure that we will contribute to the country's economic progress and we will have a "model" central bank, in line with European standards, which will best contribute to Albania's integration into the European Union.

I would like to thank not only the Speaker of Parliament, Mr Meta, but all the Albanian political bodies for believing in and supporting the Bank of Albania. As the Bank's Governor, I am not the only one privileged today, having the opportunity to work with honoured colleagues, but also the Albanian politics, which consensually supported the position of the Governor in view of enhancing the role of the Bank of Albania to safeguard financial stability and of the impulse it provides to economic growth of Albania.

Thank you!

GOVERNOR SEJKO: INTERVIEW WITH "JAVA" MAGAZINE

- 28 February 2015 -

What changes will he introduce to the Bank?

Voted by consensus by the Parliament, the newly appointed Governor speaks for the first time for the media on his project aiming at improving the Bank's image and the banking system.

Java: *You are back at the Bank of Albania, now, as its Governor. What does the fact that you started your career here more than 20 years ago as a specialist say to you?*

Governor Sejko: It's been a long career, with successive steps, one at a time. Now that I look back, it seems longer than it feels. Every step regarding the duties that I have had has been a special experience from which I tried to learn the most, both in the technical and in the management aspects. Therefore, being in the Governor's position was a very important step, the most important one, I would say. It is the highest level of testing an expert in this field, which I am committed to fulfil with the highest standards of integrity, credibility and professionalism of a banker.

Java: *Your first day of work at the Bank's traditional premises was after a long period of time since you last worked here. The speaker of Parliament introduced you, and one of your first promises was transparency in the institution's activity. What has been going on these days behind the thick walls of the Bank?*

Governor Sejko: Certainly, these days have been special, filled with

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emotion and a great sense of responsibility. Judging from outside, it is such a privilege to be the Governor of the Bank; but, in reality, it is way more than that, it is a very big responsibility. The past days have been intensive, filled with important meetings mainly with the staff, to learn about the problems and main issues in the Bank of Albania's activity.

During this period, my focus continuous to be on the most important issues of the Bank of Albania activity: setting priorities, knowing the obstacles and, at the same time, making the right operational decisions. Of course, transparency is one of the main objectives.

In this regard, as I have underlined in the Parliamentary Committee on Economy and Finance, we will make some further improvements, especially regarding the publication of the Bank of Albania's Supervisory Council decisions and the overall policy decision-making of the Bank.

Java: *You are one of the Albanian citizens with the highest career in the banking system. What was your relationship to politics, do you have an idea what sent your name to the desk of the President of the Republic?*

Governor Sejko: I would probably be the last one to comment of the Governor's selection process. Same when it comes to discuss about political or technical details of this process, which has been a transparent process and has undergone several stages. I have responded positively and with human



and professional gratitude to the invitation that the President of the Republic sent for the position of the Governor. I applied for this position encouraged by the long managerial experience I have in the banking system, thanks to which I have gained a wide expertise on banking and financial matters. I was encouraged to apply for this position after hearing the statement of the Prime Minister, Mr Rama, in the Bank of Albania's premises, where he emphasized that the Governor would be selected from the banking and financial system. Similarly, the occasional public attitude on the same issue from the Speaker of the Parliament on the process of the selection of new Governor of the Bank was encouraging. It is the first time that I am mentioning this publicly, but I want to take advantage of this moment to thank not only the President, the Prime Minister and the Speaker of the Parliament, but also the entire political class for the support they have given to the Bank of Albania for the consensual appointment of the Governor. I am convinced that this is much more than just voting for a particular name; it is a strong political will for the seriousness of the country's finances.

Java: *Initially, before your selection, you have made a long presentation to the Parliamentary Committee on Economy and Finance of your ideas for the yesterday's role of the Bank of Albania and what you think there is to change regarding them.*

Governor Sejko: I think that the Bank of Albania has been a valued institution both nationally and internationally by international institutions and partners in many aspects, where it is mainly emphasized and appreciated for its role in maintaining the monetary and financial stability in the country. The positive history testifies for the institution's work on fulfilling its tasks. Despite fluctuations, we are all aware that the price level is stable, the national currency has not fluctuated much, the citizens' savings are safe and financial institutions continue to operate on a regular basis.

But, nowadays, the Albanian economy, as a result of international and European developments, is facing a series of challenges that are testing the role of the central bank in

“The Bank of Albania has been a valued institution both nationally and internationally by international institutions and partners in many aspects, where it is mainly emphasized and appreciated for its role in maintaining the monetary and financial stability in the country.”

Albania. However, the Bank of Albania remains a mandated institution to guarantee price stability and to promote the country's financial stability. I am convinced that we will best fulfil this mandate.

The central bank will continue to do its job, using monetary policy, supervision and regulatory instruments, by further developing the payments system, by carrying out the necessary structural reforms in the architecture of the supervision of the financial system, in cooperation with national and international partner institutions, and by strengthening the role of scientific research at the Bank of Albania. I am fully confident that in the following days and months the Bank of Albania will be a "model" institution and will be efficient in performing its functions in accordance with the laws of the Republic of Albania and will successfully achieve its medium and long-term objectives.

Java: *Credit growth is one of the main concerns to the economy and businesses. Do you consider this to be right, and what do you think you can do in order to continue in this path?*

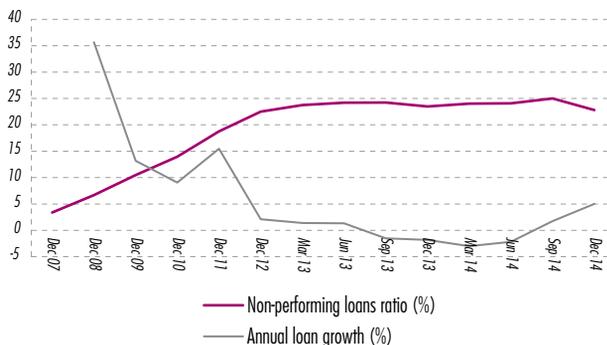
Governor Sejko: Lending performance has been an important concern of the Bank of Albania, consistently brought to the attention of banks and the public by taking initiatives and concrete plans to promote lending in Albania. We must admit that in spite of this, the results were not as expected, given the fact that the promotion of lending was unilateral. Lending is ultimately a supply-demand process and, hence, the increase of financial intermediation of banks in the economy through lending would be further stimulated by the creation of an appropriate economic climate by all factors, whether state and private. Part of our work agenda will be the close cooperation with commercial banks and businesses in order to enhance and mediate the bank-business relationship.

Java: *The portfolio of non-performing loans in commercial banks is considerably high, what do you think can be done for their reduction?*

Governor Sejko: One of the main factors that created so many non-performing loans is the granting of loans for certain sectors that had high growth rates for the period, which were then hit by the financial crisis and post-crisis developments, making it difficult for the banks to show their professionalism needed to properly structure the portfolio. It is important now to carefully analyse and review all the loans that have the potential to be recovered enabling thus, relevant business to react and restart their activity. Above all, nowadays it is necessary for banks to find

their communication form to cooperate with the businesses, to avoid the bilateral impasse and to ease the economy.

Chart 1 Annual credit growth and non-performing loans ratios



Java: In relation to banks, citizens are concerned mainly with regards to the additional hidden costs they receive for the service; compared to the other countries in the region and what can be done to increase the transparency?

Governor Sejko: Currently, the issue of costs of services provided by banks is covered and supervised by the Bank of Albania through a special regulation, which obliges the commercial banks to be transparent to their customers by publishing the entire list of costs associated with banking operations and services.

However, as I have mentioned previously, I am committed to monitoring the application of commissions, so there are no hidden commissions for the customers and in order to avoid any potential abuse at their expense. Part of this process will be the undertaking of a regional study to see if there are significant differences and what can be done for further improvement in this regard.

Java: Do you believe that the situation of the last summer, when a theft was found at the Bank of Albania, has been overcome? What measures do you think should be taken to prevent this story from repeating?

Governor Sejko: My philosophy is based on the principle that there are no small or big things in the management process. In view of this philosophy, all the Bank of Albania's internal problems and challenges will be assessed. The event highlighted some issues that will get proper attention; but, what I want to emphasize is that developing internal control and prevention systems and increasing operational effectiveness should always have the utmost attention to prevent similar events from happening in the future.

GOVERNOR SEJKO: INTERVIEW WITH "SCAN" MAGAZINE

- 13 March 2015 -

The vision of the new Governor

The new Governor speaks about his vision for the advancement of the Bank of Albania and strengthening its role in maintaining price stability and safeguarding the stability of the financial system.

Scan: *After the events in the previous year, the Governor's chair certainly was not a "comfortable" position. Why did you decide to run for this position?*

Governor Sejko: My candidacy for the position of the Governor comes after a long experience, more than 20 years, in private and central banking. Of course, the Governor is a high and an important position, but I see it as the highest level in the financial hierarchy in Albania. My experience up to now has been focused on the field of banking and finance; therefore I consider this appointment as a further step in a long career. Certainly, this is a great personal challenge for which I am willing to give my maximum contribution and commitment.

Scan: *What are the main points of your agenda for restoring the confidence in the Bank of Albania and preventing the reoccurrence of events like those discovered last summer?*

Governor Sejko: As I have already stated, some of my priorities as the Governor, in collaboration with the Supervisory Council, are to reassess the situation, the monetary damage, review the management procedures, allocate responsibilities, as well as identify other issues related to the internal

"Some of my priorities as the Governor, in collaboration with the Supervisory Council, are to reassess the situation, the monetary damage, review the management procedures, allocating responsibilities, as well as identify other issues related to the internal management of the work."

management of the work at the Bank of Albania and especially at the Issue Department. We are aware of the marred image and the shaken confidence of the citizens in the Bank of Albania, but thanks to an effective management and the expertise of its staff, the Bank of Albania will return as a model institution, worthy of the respect of the Albanian citizens.

Scan: *In Albania, heads of independent institutions often find themselves in the middle of political struggles and subjects of accusations, as was the case with your predecessor. Do you feel any risk of political pressure on your job?*

Governor Sejko: Because of the institution's profile, as the central monetary authority in Albania, the Bank of Albania is obliged to work closely with all the main stakeholders, in the light of economic well-being and the establishment of a stable economic-financial environment. This coordination is certainly accompanied by discussions, exchanges of ideas, as well as divergence of opinions. But, the mandate of the Bank of Albania is clear in this aspect; guaranteeing the monetary and financial stability of Albania has been and continues to be the main priority of the Bank's work. I will work in this regard with dedication and responsibility.

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Scan: *For several years, you have worked as a manager for commercial banks. How have you perceived the regulatory role of the Bank of Albania from the position of a banker, and how would this experience serve you now in the role of the Governor?*

Governor Sejko: I have worked as a manager in the private banking sector for a number of years. Before that, however, I had worked for the Bank of Albania as well. For this reason, I have a complete view of the supervisory role of the Bank of Albania over the activity of the banking sector. In fact, the role of the Bank of Albania regarding the activity of the banking sector goes beyond mere supervision. It also includes contribution to the well-functioning of the inter-bank market and the establishment of a secure payment system infrastructure. I can

assure you that the responsibilities and role of the Bank of Albania in all these aspects are perceived as very important and useful by the banking industry. This assessment has reflected the developments of the industry and the banking activity during these years, and the qualitative changes that have taken place in the activity and instruments of the Bank of Albania in exercising its legal responsibilities. Returning to the function as a supervisory authority, a constant challenge is the need to give the Bank of Albania's supervision role forward-looking assessment of risks to the banking activity, in accordance with the best international standards. Together with the Supervisory Council, we will pay special attention to this goal, during my mandate.

Scan: *How do you assess the current approach of commercial banks and the central bank to managing the high level of non-performing loans? What else could be done to lower this level?*

Governor Sejko: The reasons and factors contributing to the increase of non-performing loans in banks are already widely known and I want to just highlight that this is a complex issue, whose solution also depends on many factors, and will, therefore, take time. Keeping in mind this complexity, the Bank of Albania has undertaken positive actions. Within its responsibilities and scope, and by promoting cooperation with other stakeholders, the Bank of Albania has undertaken several measures that, on one hand aim to promote lending in the economy, particularly in the domestic currency, and, on the other, aim to limit new flows of non-performing loans and help in treating their stock. Our analyses show that these measures have had a positive impact on the way the banking industry and the other authorities approach this problem. We have started seeing the first improvements in terms of the increase of restructuring non-performing loans or their treatment through the execution of the collateral, leading to a decline of the non-performing loans ratio at the end of 2014. This improvement will gain stability if the economic growth accelerates, the legal framework is completed and the economic agents' credit demand improves. I believe that these should be mainly the directions the public authorities should identify and concentrate their actions in the future.

Scan: *The accommodative monetary policy stance has not been able insofar for the return of inflation to target and to increase lending quantitatively. Can the Bank of Albania do more in this situation and what do you expect from the reforms' agenda of the government to boost the economy?*

Governor Sejko: The inflation rate has been for some time below the target of the Bank of Albania, leading us to adopt an accommodative monetary policy stance. The monetary stimulus has been achieved through continuous cuts of the policy rate, continuation of our liquidity injection operations and, the forward guidance on our monetary policy. However, as you said, inflation remains low.

I believe that a complete assessment of the impact of the monetary policy in the performance of inflation should take into account three considerations: (i) inflation shocks come from factors that are outside the influence of monetary policy; (ii) the monetary policy pass through to the economy; and, (iii) the alternative scenario of the situation of the economy in the absence of our accommodative measures.

I would also like to emphasize that economy and the level of prices in Albania have continuously been subject of unforeseen domestic and foreign shocks, which, in the last years, have produced a downward result on inflation. Here we may mention the continuous decrease of prices in the global markets, as well as the increase of the domestic agricultural output, which tends to reduce food inflation. These shocks have caused systematic downward deviations of inflation against forecasts and have weakened the perceptible impact of the monetary policy. In parallel, the transmission of stimulating impulses from the monetary policy to the economy is incomplete. The main obstacle in this aspect is that economic agents are not responding to better financing conditions. In other words, businesses and consumers are reluctant to increase consumption and investments, despite the level of interest rates in the economy. This reluctance delays the materialisation of the monetary policy movements in the economy. Lastly, I would like to invite the reader to imagine the state of the economy in the absence of an accommodative monetary policy stance. Our analyses and assessments show that, in this scenario, we would have a significantly lower economic activity and inflation.

From what I said above, I would like to emphasise two simple messages.

1. First, the monetary policy of the Bank of Albania has had positive effects on the economy, but the economic activity and inflation remain below target due to the uncertainties in the economy and as result of supply shocks.
2. Second, our forecasts show that, even in the presence of a low level of reaction of the economy to the monetary policy, inflation will return to the 3% target over the medium term, that is, a period from one to three years.

This forecast takes into account all the regulatory and operational monetary policy measures that we have undertaken until now. If we are faced with a more adverse environment, if we find that we will have to do more, we will do more. The Bank of Albania is committed and able to fulfil its mission.

Regarding the reforms' agenda, the Bank of Albania has clearly expressed its opinion: it is the only instrument that will produce sustainable economic growth. Through the monetary policy, the Bank of Albania enables the economy to overcome short and medium-term problems. On the other hand, long-term growth depends exclusively on the ability of the economy to increase employment and productivity and the ability of businesses to take the right decision, in a clear legal environment with simplified administrative procedures. On that, I personally see things are moving in the right direction, but the comparison with the best models suggests that we have still a lot to do.

Scan: *At the beginning of this year, the ECB decided to start the quantitative easing plan, by buying government securities. Do you believe a similar instrument may be an alternative to consider in the future by the Bank of Albania as well?*

Governor Sejko: As we speak, judging on factual developments, on the course and speed of economic development, I think that the combination of monetary, fiscal and financial policies is adequate and sufficient to meet our objectives.

To answer your question directly, I would like to emphasize that our legal framework has still unexploited scope. However, the use of other instruments is a question pertaining to hypothetical future scenarios. What I would say is that their use will be taken into account in the event of a significant deterioration of the economic situation, or in the event of total exhaustion of the effectiveness of our conventional monetary policy instruments.

GOVERNOR SEJKO: INTERVIEW WITH "BANKIERI" MAGAZINE

- April 2015 -

Newly appointed Governor of the Bank of Albania

Taking into account the domestic market conditions and specifics of our economy, our objective will be focusing on the continuous process of approximation with the political and instrumental framework of the national central banks, members of the European System of Central Banks.

Bankieri: *First, congratulations on your appointment and we wish you every success in your new duty as the Governor of the Bank of Albania. As you return to the Bank of Albania, how do you find it today from the institutional, professional and human point of view?*

Governor Sejko: In the history of its activity, the Bank of Albania has been a highly regarded institution. All the reports by international institutions comment its work and point to a common denominator: staff professionalism. It is a privilege to work with such professional staff, and I have stated this fact since the first day of my work as the Governor. At the same time, allow me to be sincere, it is a special emotion to return to a place surrounded by good friends and professional colleagues.

Bankieri: *The appointment and approval of the Governor of the Bank of Albania went through a complex process and debate, yet consensual. Do you consider this position as a personal challenge?*

Governor Sejko: Absolutely. It is a personal challenge, which I have considered as such in many aspects. The consensual appointment of the Governor was an expression of the

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will and considerations of the Albanian politics for the central bank. This broad-based consensus is both encouraging and challenging.

Notwithstanding the recent event, we are all witnesses of a modern central bank, an institution that has significantly worked to safeguarding financial stability in Albania. That said, my challenge is naturally to live up to public expectations, not only to restore the confidence, but also to lead the Bank forward, an institution that has a concrete and real contribution for all citizens.

Bankieri: *In the light of the current situation and moment that the banking system and the economy are going through, could you describe the main challenges and issues, you deem to have absolute priority for the Bank of Albania?*

Governor Sejko: The challenges, which are at the same time, legal responsibilities of the Bank of Albania, impose a well-managed institution, which carries out its core functions effectively and independently, regarding monetary policy and financial stability. The functioning of the institution should be based on the sustainable and safe steering of the country towards European integration, aiming at the adopting the best standards in the relevant fields.

Our monetary policy framework, including the respective instruments, is much in line with the European Central Bank's framework. Given the domestic market conditions and the specifics of our economy, our objective will be to maintain this situation in the future.

Regarding financial stability, we will focus on a faster approximation with the international standards, including the supervision of financial institutions and the implementation of macro-prudential policies. Automatically, this implies that our activity in this field will be forward looking for the timely identification and effective addressing of the risks to the financial activity and financial system. In this regard, the Bank of Albania will actively cooperate with the banking sector and other authorities in Albania.

Bankieri: *As you come directly from the banking system and based on your rich professional and managing experience, how much will this help banks in Albania to successfully overcome the national and international realities?*

Governor Sejko: The banking sector in Albania has experienced important changes during these years. I would highlight the privatisation of banks, the improvement of banking products and services, and withstanding the consequences of the global crisis in 2007 - 2008. The dynamic of developments in the banking sector is also reflected in the change of economic agents' expectations for the contribution of this sector to economic growth in Albania. For example, after important privatisations in the banking sector and the entry of foreign banks in Albania, the expectations have been for boosting banking activity and its standards. Most of these expectations have really happened, if we take into account the expansion of the banking activity and the economic growth of Albania in 2004-2007.

On the other hand, we should admit that the management standards of banking institutions, albeit improving, should be at higher levels. The focus of foreign banks in the operational risks, particularly in boom periods should be higher. It is exactly in these periods when running after profit objectives, risks are introduced, which materialise later. The weathering of the financial crisis of 2008 showed the Bank of Albania and banking system the importance of what I said above. Currently, the banking system is stable and liquid, but it faces for the first time the consequences of a downward financial cycle, due to the activity of foreign holding banking groups and the slowdown of economic growth in Albania. These consequences are more pronounced in the slowdown of lending, in its quality fall and overall, in the decrease of financial intermediation in the economy. For every person that regularly follows the economic developments in Albania and abroad, especially an expert person in this field, these consequences are expectable. The challenge consists in the need to contain them and to act energetically to address them effectively. In this regard, I think, that the faster approximation with the international standards in all aspects of banking contribute to dealing with the current risks, and to maintaining long-term stability and contribution of the banking sector.

Bankieri: *How do you see in the near and distant future the role of the Bank of Albania within the financial system and the Albanian economy? Do you think it is time for re-dimensioning its role and objectives?*

Governor Sejko: Based on the present legal framework and the functioning experience of the institution since its establishment, I do not think there is any doubt regarding the role and contribution of the Bank

of Albania, as the central bank of the country, to economic development and banking sector stability in Albania. Overall, I think this contribution was in line with the developments and challenges that the economy and Albanian banking sector have come across over these years.

Absolutely, there is room to qualitatively improve this contribution, always being based on the institutional independence, professionalism and the standards of a contemporary central bank. I think that as a follow-up to the consequences from the global financial crisis of 2008, two aspects to develop our institutional contribution are:

- a) the development of macro prudential policies framework, to supervisory role of the Bank of Albania, and in coordination with the other authorities, to prevent risks in both the banking sector and financial system;
- b) a more active engagement of the institution in the discussion of policies for the economic development in Albania. Some of the issues on which we are interested in the framework to effectively carry out our legal functions are: development of the financial market; structural measures for the stable economic development of the country; development of economic and financial statistics framework; the improvement of legal infrastructure related to financial reporting, the addressing the financial relationship between the debtor and creditor, etc.

Together with the members of the Supervisory Council and the institution's staff, I believe we shall fulfil successfully all our legal responsibilities and other objectives accordingly.

“Together with the members of the Supervisory Council and the staff of the Bank of Albania, I believe we shall fulfil successfully all our legal responsibilities and other related objectives.”



CHAPTER II

PRESENTATIONS TO THE PARLIAMENTARY COMMITTEE ON ECONOMY AND FINANCE

- *Governor's address presenting the Annual Report 2014 to the Parliamentary Committee on Economy and Finance, 29 April 2015*
- *Speech by Governor Sejko on the draft budget for 2016 at the hearing session of the Parliamentary Committee on Economy and Finance, 9 December 2015*

Presentations to the Parliament

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.

GOVERNOR'S ADDRESS PRESENTING THE ANNUAL REPORT 2014 TO THE PARLIAMENTARY COMMITTEE ON ECONOMY AND FINANCE - 29 April 2015 -

- *In 2014, the Bank of Albania focused its activity on two main aspects: addressing low inflationary pressures and safeguarding financial stability, especially with regard to credit risk management.*
- *The Bank of Albania successfully fulfilled its legal duties related to maintaining and improving the payment system, managing the foreign exchange reserve, and compiling and publishing monetary and balance of payment statistics*
- *The Bank of Albania worked to support the European integration process and the legal and regulatory approximation with the *acquis communautaire*, enhance communication, advance financial literacy, and strengthen research, analyses and forecasting capacities.*

Honorable Chair of the Committee,

Honorable Members of the Committee,

In my first presentation as the Governor of the Bank of Albania, I avail myself of this opportunity to assure you of my highest consideration for the work of this Committee. The Bank of Albania and I are fully committed to creating and maintaining a climate of cooperation for sustainable and long-term development.

Allow me now to present a general overview of our work. The Bank of Albania has successfully fulfilled its legal duties and institutional commitments during 2014, and has been a decisive actor in safeguarding the country's monetary and financial stability. Moreover, it has contributed to further develop and consolidate financial markets, amid a challenging economic and financial markets environment.

At the beginning of my address, I would like to focus on Bank of Albania's main objectives and the economic and financial situation in Albania.

During 2014, the Bank of Albania focused on two main aspects:

- i. addressing low inflationary pressures;
- ii. safeguarding financial stability, especially with regard to credit risk management.

With regard to these two main objectives, the results have been positive, as noted in the reports of our international partners.

Positive assessments on the work of the Bank of Albania were also confirmed during the IMF and World Bank Group Spring Meetings with governors and ministers of finance, in Washington D.C.

In parallel, during 2014, the Bank of Albania successfully fulfilled its legal duties related to maintaining and improving the payment system, managing the foreign exchange reserve, and compiling and publishing monetary and balance of payment statistics. Moreover, the Bank of Albania worked to support the European integration process and the legal and regulatory approximation with the *acquis communautaire*, enhance communication, improve financial literacy, and strengthen research, analyses and forecasting capacities.

A detailed description of the activities is provided in the Annual Report that has been submitted to the Assembly of the Republic of Albania conform to the determined timeframe. I will therefore focus first on some aspects of our work and achievements for 2014, and will then continue with the challenges facing the Albanian economy and highlights of Bank of Albania's work in the period ahead.

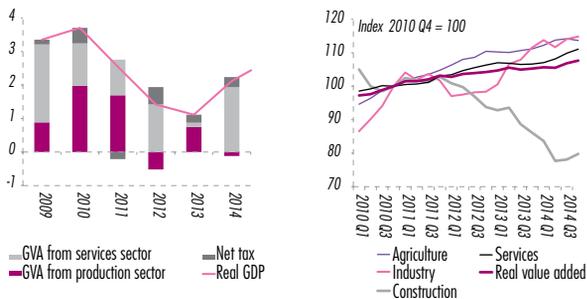
1. MONETARY POLICY AND PRICE STABILITY

Bank of Albania's legal objective is to achieve and maintain price stability. Achieving this objective implies keeping inflation at 3.0%. Our monetary policy employs the inflation targeting strategy, whereas the exchange rate employs a free floating regime. The monetary policy of the Bank of Albania is forward looking; it aims to be a flexible, balanced and transparent policy.

The Albanian economy has been facing, for some time, a sluggish economic environment. During 2014, our monetary policy was drafted and implemented amid low inflationary pressures and below-potential

economic growth. Annual inflation, in 2014, averaged 1.6%, standing lower than the 1.9% average rate recorded a year earlier. The low inflation rates were dictated mainly by low pressures generated in the domestic economy, as well as by the low inflation rates in our trading partners and low inflation expectations by economic agents.

Chart 2 Annual growth of real GDP (in %) and contribution of production-side components (pp). Trend of real gross value added in economy and in sectors*



The index of real gross value added for the economy and its sectors reflect the respective value added trend, calculated as the moving sum of quarterly values of four quarters, based on 2010 Q4.
Source: INSTAT and Bank of Albania.

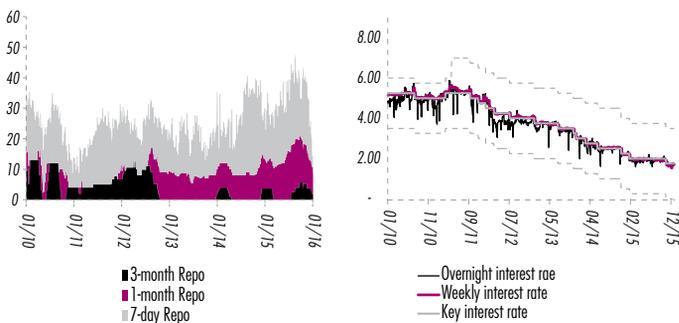
According to the Albanian Institute of Statistics (INSTAT) data, the Albanian economy grew 1.9% in 2014, against the 1.5% growth in the previous year. Economic growth was driven mainly by the domestic demand and – excluding construction - it was reflected in activity expansion across all the sectors of the economy. Economic activity grew, benefitting from the eased financing conditions as well as the improved confidence and balance sheets of the real and financial sectors of the economy. These factors contributed to the increase in private consumption and investments. Excluding the payment of arrears, the fiscal policy has been consolidating during 2014. On the other hand, trade exchanges with abroad did not generate positive impulses for economic growth. Regardless of the higher growth rate, the Albanian economy continued to operate below its potential. As a result, production capacities were not fully utilized and the situation has dictated unemployment rates, which go beyond the equilibrium level. As we have mentioned earlier, the spare capacities in the labor market lead to low increase in wages, production costs and final prices in the economy. These phenomena have been present in Albania during 2014.

In Bank of Albania's opinion, aggregate demand is the main problem facing the Albanian economy; thus, addressing it requires the increase of macroeconomic stimulus. Reflecting the above, our monetary policy has been increasingly accommodative. The Bank of Albania lowered the key interest rate three times in 2014, bringing it down from 3.0% to 2.25%, and further down to 2.0% in the first quarter of 2015.

Our monetary operations consisted in continuous liquidity injection in the banking system, up to the three-month maximum legal timeframe. On average, in 2014, the Bank of Albania injected ALL 24.52 billion (in liquidity) against ALL 17.31 billion in 2013. In addition to lowering the key rate, the Bank of Albania has constantly signaled that the monetary policy will remain accommodative in the period ahead. This verbal communication is a non-traditional instrument of the monetary policy. It has aimed at enhancing the certainty of economic agents on the expected direction of the monetary policy and enabling them to extend the time horizon of their decisions for loans and investments.

The transmission mechanism of the monetary policy has continued to show signs of weakness, especially with regard to the growth of lending. For this reason, the Bank of Albania has combined its monetary stimulus with macroprudential easing policies. In parallel with the above-listed monetary policy instruments, the Bank of Albania has continued to apply eased regulatory requirements during 2014. These measures widened the space in banks' balance sheets for loans, reduced intermediation costs, and encouraged credit restructuring.

Chart 3 BoA open market operations and interest rates in interbank market



Source: Bank of Albania.

The accommodative policies of the Bank of Albania have been relatively successful. They have been reflected in the overall lowering of interest rates, downward risk premiums in the markets, improved liquidity indicators both in the banking system and the private sector, as well as in improved lending in the national currency. The interest rate on lek loans fell to the historic minimum levels and favored the growth of credit denominated in lek. The Bank of Albania deems that these developments have contributed to stimulating domestic demand and have been reflected in the upward trend of core inflation during the year.

However, the transmission of the monetary stimulus in the economy continues to suffer from low risk-appetite, structural weaknesses in the Albanian economy and unfavorable developments in the external economy. I will dwell on these factors, which are beyond the impact of the monetary policy, in more detail in the third point of my address.

2. FINANCIAL STABILITY AND BANKING SUPERVISION

The law on the Bank of Albania tasks the Bank of Albania with duties to support the country's financial stability. To fulfill them, the Bank of Albania regulates and supervises the activity of the banking system, oversees and stimulates the development of the payments infrastructure, and functions as the lender of last resort.

The banking system showed ample liquidity and well-capitalized levels, during the past year, and improved profitability. The volume of assets in the banking system was up, due to the slight expansion of the loan portfolio and the investment portfolio in government debt securities. The Bank of Albania deems that the system has low liquidity and market risk exposure, and our analyses and stress tests show that the financial system is overall resilient.

On the other hand, credit risk is the main risk to which the banks are exposed. As at December 2014, the non-performing loans stood at 22.8% of the loan portfolio. While improved from the previous year, it remains high. As a result, our macroprudential measures have sustained and encouraged constantly the credit growth and recovery, urging banks, however, to keep prudentially high, with the aim to decelerate non-performing loans.

In 2014, the work of the Bank of Albania towards safeguarding financial stability and strengthening banking supervision focused on four main aspects:

- Addressing credit risk

Credit risk was monitored through rigorous examinations of individual banks' credit portfolios, aimed at identifying factors contributing to the deterioration of credit quality and taking respective measures.

In May 2013, some countercyclical/macprudential measures entered into force, which provide regulatory stimuli to orient the use of banks' financial resources in the economy and encourage credit restructuring at an early stage of its cycle. Moreover, the Bank of Albania has been actively identifying proposals for amendments to the Civil Procedure Code, as necessary, with a view to improving the collateral execution process. Such amendments entered into force in September 2013.

In addition, in cooperation with the Ministry of Finance, the tax treatment in the case of loan loss write offs was clarified through the approval of the respective legal amendments. Following the clarification, the Bank of Albania approved regulatory amendments, which encourage and support the procedure for cleaning banks' balance sheets from non-performing loans.

In cooperation with the World Bank, particular attention has been paid to the solution of large exposures of clients, in cases when they are to more than one bank. With the support of the International Monetary Fund, we are working to establish a common strategy for fully addressing non-performing loans.

Lastly, with a view to upholding factors that boost lending, the Bank of Albania decided to extend the effect of macroprudential stimulating measures in 2015. Our analyses show that, overall, these measures, which have addressed both the stock and the flow of non-performing loans, have yielded positive effects both on reducing non-performing loans and on lending levels.

- Improvement of the regulatory framework and approximation to Basel II regulatory standards

Improvements to the supervision and regulatory framework are set out in detail in the Annual Report. However, in this presentation I would like to highlight two important amendments:

- i. approval of the Regulation “On the capital adequacy ratio”, which marks the transition from Basel I to the new Capital Accord, known as Basel II;
- ii. drafting of the new Supervision Policy document, which ensures a more efficient monitoring and management of risks facing the banking system.

- Fulfillment of FSAP recommendations

Financial Sector Assessment Program (FSAP) recommendations served as guidelines for improving the regulatory and supervisory framework of the banking system. Their implementation focused on the improvement of monitoring the risks facing the banking system and their treatment. Some of the recommendations have been incorporated in institutional obligations in the framework of the implementation of the development policy loans (DPL) of the World Bank. In the first quarter of 2014, the Bank of Albania fulfilled all the obligations for which it was responsible.

- Cooperation with other institutions

Considering the safeguarding of financial stability as a shared responsibility among several supervisory institutions, the Bank of Albania has closely cooperated with the Ministry of Finance, Financial Supervisory Authority (FSA) and Deposit Insurance Agency to prevent and manage extraordinary situations in the financial system. This cooperation is institutionalized in the framework of the Financial Stability Advisory Group. Cooperation with the FSA consisted also in joint inspections in banks or associations managing common funds.

We have been and remain committed to adopt best international practices and standards, in close cooperation with both local and strategic international partners such as the IMF, ECB, EU central banks, WB, FSVC and other renowned organizations.

3. ECONOMIC DEVELOPMENT PERSPECTIVE AND PROBLEMS

The Bank of Albania deems that the cycle of economic growth marked a turning point during 2014. In the next years, the Albanian economy is expected to pursue an upward trajectory, which may enable the return of the economy to equilibrium and of inflation to target in the medium term. Some fundamental factors that will drive this growth, such as eased lending conditions and monetary and financial stability in the country, are present.

Economic stability and downward financing costs should be supported through maintaining the actual framework of macroeconomic policies. Other factors, such as economic activity in the euro area and businesses and financial system's risk appetite are expected to improve.

The last group of factors underlying growth, such as business climate across all its dimensions and structural reforms that broaden development horizons and approximate labor productivity to that of advanced economies, should be further improved through our common endeavors.

I would like to emphasize that this landscape describes the expected direction of the country's development in the next two-three year period. In the meantime, under the current situation, the Bank of Albania is following developments attentively and is assessing the effects arising from the components of this scenario.

“...The Bank of Albania deems that the cycle of economic growth marked a turning point in 2014. In the next years, the Albanian economy is expected to pursue an upward trajectory, which may enable the return of the economy to equilibrium and of inflation to target in the medium term...”

Lending highlights in Albania. At present, lending suffers from both the weak and low-quality demand and the conservative lending policy applied by banks. In our judgment, lending will grow at modest rates in 2015. Concerning the above, I would like to share the two considerations with you as follows.

First, a part of the banking system's conservative approach arises from developments in the European financial market and, eliminating it, will take its time. However, another part of this conservative approach arises from the real or perceived risk of lending, at home. The Bank of Albania alone may not offer solutions to all the issues that hinder lending. For that reason, we deem that the systematic reduction of credit risk should be treated as an issue of national interest, which should become the scope of coordinated work between public authorities in Albania.

Second, the European experience, along with our experience, has shown that the country's economic growth is not conditioned by the performance of lending in short-term horizons. However, in longer-term

horizons, the sustainability of economic growth will undoubtedly depend on the performance of lending. For this reason, we should primarily focus on maintaining and strengthening the soundness of our banking system, for it to be able to respond to future needs of the economy for financing.

The Bank of Albania is undertaking a comprehensive review of lending-related problems. Issues that, in our opinion, are yet to be solved and require cooperation from all policymakers include the treatment of non-performing loans and conceptualization of stimulating factors in banks for healthy lending. The Bank of Albania will organize two work platforms for each of them, trying to draw in the cooperation of all stakeholders and interested parties.

Structural developments in parent bank groups. As I mentioned earlier, these arise from both new regulatory requirements of the Single Supervisory Mechanism at European level, an economic/financial developments in the countries where parent bank groups operate.

Requirements for more qualitative and higher capital levels, which underlie the new European directives on banking activity, have triggered European banks to revise the model and expansion of their activity. In more practical terms, it implies that the presence of foreign bank subsidiaries in the countries of our region is subject to a careful assessment, to determine their effectiveness and business continuation. This process is not necessarily restrictive for the economies of our region, as it may generate processes related to banking consolidation or lead to new investors entering the market.

The Bank of Albania is closely monitoring economic and financial developments in the countries where parent bank groups operate. We have undertaken over time measures that ensure the strengthening of capital and liquidity indicators and improve the resilience of both individual banks and the whole sector. At a more operational level, periodic analyses and other processes are under way, with a view to realizing:

- i. a professional assessment of the financial situation and operational risks for individual banks and the whole sector;
- ii. a comprehensive framework for addressing and mitigating risks facing the financial system stability.

4. MAIN OBJECTIVES FOR 2015

This was an overview of Bank of Albania's activity in 2014 and of the first months under my governance. In conclusion, I would like to focus briefly on our main objectives for 2015 that stem from both legal obligations and the medium-term development of the Bank of Albania.

First, monetary policy decisions will aim at anchoring inflation expectations close to the 3.0% inflation target. Our projections suggest that the monetary policy will remain in accommodative side in the period ahead. In our judgment, the current monetary conditions are adequate for the return of the economy to equilibrium and of inflation to target. However, within the legal framework that regulates the work of our institution, we are ready to undertake all the necessary measures for compliance with our inflation target.

Second, supervisory policies aimed at strengthening the banking system stability. Main challenges facing the Albanian banking sector are as follows:

- i. ensuring the return of a steady growth of lending;
- ii. improving indicators of bank asset quality, in the framework of measures taken for cleaning their balance sheets, which are expected to have a positive effect on the operational efficiency and intermediation capacity of banks;
- iii. mitigating effects arising from structural regulations imposed to EU-based banking groups in the context of reducing their exposure to subsidiaries outside the EU.

To safeguard the financial stability, the aim will be to further strengthen the inter-institutional cooperation with other financial supervisory institutions and international financial institutions.

Third, strengthening the system of management and internal audit, and institutional capacities, in accordance with EU standards will be among other objectives of the Bank of Albania. In parallel, the Bank of Albania aims at enhancing transparency with groups of interest and the general public, as regards communication about its activities. In the light of the independence provided in the organic law of the institution, enhanced transparency implies more accountability and responsibility.

I would like to conclude reiterating that the Bank of Albania is confident that the unconditional reliance on these principles, and the effectiveness of its policies on the economy will boost the public confidence in the institutional integrity of the central bank and will contribute positively to achieving successfully all the objectives of the institution.

Bank of Albania activity highlights for 2015:

- *Monetary policy decisions will aim at anchoring inflation expectations close to the 3.0% inflation target;*
- *Supervisory policies will aim at strengthening the banking system stability in Albania;*
- *Strengthening the systems of management and internal audit, and institutional capacities, in accordance with EU standards, and enhancing transparency with groups of interest and the general public, as regards communication about its activities.*

**SPEECH BY GOVERNOR SEJKO ON
THE DRAFT BUDGET FOR 2016 AT
THE HEARING SESSION OF THE
PARLIAMENTARY COMMITTEE ON
ECONOMY AND FINANCE**

- 9 December 2015 -

*Honorable Chair,
Honorable Members of the Committee,*

The drafting and approval of the budget and the accompanying fiscal package is a crucial moment for the configuration of economic policies in the next year. As a financial plan of public sector's activity, the budget details the main features of fiscal policy and envisages funding for development priorities and policies. In parallel, fiscal package and tax legislation affect the incentive structure in the private sector's development. For this reason, the careful examination, broad consultation and constructive debates about them will serve to finalizing a rather qualitative and realistic document.

In response to your invitation, following I will present Bank of Albania's opinion on the main points of 2016 draft budget. In compliance with the legal mandate of the central bank, the following opinion will focus on the main fields of our activity and expertise: (i) economic framework and economic policies; (ii) fiscal projections and sustainability of public finances; and, (iii) expected impact of public borrowing on the domestic financial market. In conclusion, (iv) I would like to share some suggestions on the increase of effectiveness and sustainability of public finances, during 2016 and beyond.

1. EXPECTED ECONOMIC FRAMEWORK FOR 2016 AND SUPPORTING POLICIES

Budget indicators and economic activity performance have a mutual and causal correlation, in both forecasting and realization stages. The accuracy of budget projections depends largely on the quality of macroeconomic forecasts, while the economy performance is a

“...The accuracy of budget projections depends largely on the quality of macroeconomic forecasts, while the economy performance is a function of the projected economic policies and structural reforms to be implemented over the year. For this reason, formulating a reliable and consistent framework of the expected economic developments assumes primary importance.”

function of the projected economic policies and structural reforms to be implemented over the year. For this reason, formulating a reliable and consistent framework of the expected economic developments assumes primary importance.

Budget-related fiscal projections are based on the assumption for a real GDP growth at 3.4% during 2016, while inflation is expected to reach 2.3% and interest rates are estimated to stay at similar levels to 2015. These projections are based on expectations for the recovery of domestic demand and a more positive situation in our trading partners. Also, these projections factor in the continuation of fiscal consolidation in the next year, as

shown from the reduction of the budget deficit, from 4.1% of GDP in 2015, to 2.2% of GDP in 2016.

The Bank of Albania deems that these projections provide an acceptable starting point for fiscal projections for the next year. We also deem that the economy will grow progressively during the next two years, while inflationary pressures will remain weak. In addition, interest rates will remain low, in response to our simulating monetary policy and the reduction of public borrowing in the domestic financial markets.

In line with Albania's needs for development and the commitments in the framework of the arrangement with the International Monetary Fund, the Bank of Albania has urged for and supported the implementation of a consolidated fiscal policy, aimed at lowering the deficit and the public debt. The consolidating trend of the fiscal policy is consistent with the simulating monetary policy stance of the Bank of Albania and is reflected in the high intensity of this monetary stimulus. Thus, the two main economic policies - monetary and fiscal - simultaneously support the economic growth and contribute to reducing public debt, which constitutes one of the largest structural weaknesses of the Albanian economy.

2. FISCAL PROJECTIONS AND SUSTAINABILITY OF PUBLIC FINANCES

From Bank of Albania's perspective, the budget should primarily observe two important and correlated objectives. First, it should be a realistic budget based on careful forecasts. Second, this budget should serve to the long-term sustainability of public finances.

According to draft budget projections:

- budget revenues are expected to amount to ALL 417.7 billion over 2016, or around 27.3% of GDP, increasing 4.9% in annual terms, compared to the level planned for 2015.
- public expenditures for 2016 will amount to around ALL 452.1 billion, or 29.5% of GDP. In annual terms, expenditures are expected to shrink by around 0.9% compared to the previous year;
- budget deficit for 2016 is estimated at ALL 34.4 billion, or around 41% lower than a year earlier. In terms of GDP, budget deficit is estimated at around 2.2% of GDP, down by 1.8 percentage points from the level of 2015. The reduction is due to the completion of the payment of arrears (whose impact is 1.3 percentage points) and the discretionary fiscal policy (whose impact is 0.5 percentage point).
- primary balance for 2016 is positive, around 0.3% of GDP, improving around 1.5 percentage points from the previous year. The current balance is estimated to have a surplus of around ALL 34 billion, or around 2.2% of GDP, slightly improving from the previous year.

In Bank of Albania's view, the budget revenue forecast is careful. Our estimations for tax revenues are close to the estimations of the draft budget. Also, the Bank of Albania deems that the draft budget introduces some structural improvements, in particular with regard to the improvement of the primary balance, which measures the impact of the budget on the public debt and the maintaining of the current positive balance,

“...The Bank of Albania estimates that the realization of draft budget projections will mark a turning point in the trajectory of public debt level. The Bank of Albania draws the attention on the fact that this debt level remains high and continues to constitute an obstacle for the country's development.”

which approximates the efficiency of the use of public revenues. These improvements should be included and further detailed in the budget in the coming years.

Related to public debt level, the Bank of Albania estimates that the realization of draft budget projections will mark a turning point in the trajectory of public debt level, estimated to fall from 72.6% of GDP in 2015, to around 71% of GDP in 2016. Nevertheless, the Bank of Albania draws the attention on the fact that this debt level remains high and continues to constitute an obstacle for the country's development. Its steady reduction will require, therefore, maintaining a consolidating fiscal policy for many years ahead. In the first place, it requires a bipartisan political will and consensus, a philosophy that I invite everyone to adopt.

3. DRAFT BUDGET AND THE DOMESTIC FINANCIAL MARKET

The financial activity of the Government has an unquestionable impact on the domestic financial markets. This becomes more sensitive in countries like Albania, where the financial system is relatively undiversified and the public sector has a large impact on liquidity indicators and interest rates.

Draft budget 2016 envisages new public borrowing in the domestic financial markets amounting to around ALL 21 billion. In the light of the liquidity situation and interest rates' structure in these markets, the Bank of Albania estimates that this objective is feasible and has a low impact on the liquidity situation, as well as on the level and the slope of the interest rates curve. These developments provide more room in the banks' balance sheets to increase credit to the private sector.

***“...To increase fiscal transparency and prevent large budget deviations, the Bank of Albania suggests complementing it with alternative fiscal plans, whose implementation would be conditioned by potential deviations of revenues from the planned level.*”**

In the conclusion, I would like to provide some suggestions of the Bank of Albania for the budget of 2016 and for further structural improvements in the management of public finances.

4. SOME SUGGESTIONS OF THE BANK OF ALBANIA

4.1 Revenue forecast and budget risk management

To increase fiscal transparency and prevent large budget deviations, the Bank of Albania suggests complementing it with alternative fiscal plans, whose implementation would be conditioned by potential deviations of revenues from the planned level.

In line with our previous communications, the Bank of Albania deems that economic growth sources do not yet appear consolidated and the balance of risks continues to be on the down side. In other words, the probability for deviation on the down side from the projection of public income is higher than the probability for deviation on the up side. Fiscal authorities should continue to show due diligence, in order for the budget deficit and public debt to stay within the planned levels.

In the event the budget revenues are lower than the projections, the Bank of Albania suggests the preliminary identification and the ranking of expenditures by importance or profitability, for the fiscal adjustment, based on the reduction of expenditures, to be transparent and effective. Likewise, in the event of revenues performing better than the projections, we suggest determining in advance whether to allocate the additional income to improve the fiscal position by lowering the deficit and the budget or to spend them maintaining the budget deficit and fiscal policy direction unchanged.

The Bank of Albania suggests that:

(i) in the event budget revenues are higher than planned, attributable to the economy growing faster than the forecast, the additional revenues should be used for reducing debt. This reaction increases the fiscal spaces to withstand possible shocks in the future, without impacting the economy negatively.

(ii) in the event budget revenues are higher than planned, attributable to the more positive effect of the fight

“...In the event the budget revenues are lower than the projections, the Bank of Albania suggests the preliminary identification and the ranking of expenditures by importance or profitability, for the fiscal adjustment, based on the reduction of expenditures, to be transparent and effective.”

against informality or the improved fiscal management, the additional revenues may be used for capital expenditures. This reaction does not affect the fiscal stimulus in the economy.

4.2 Attention should be given to the expenditure structure in the future

The ratio of current spending to capital spending has trended down for several years. Capital spending has a more considerable and longer-term impact on the indicators of economic activity. Furthermore, Albania is at a stage, when capital spending is important for improving infrastructure and unlocking growth factors.

The Bank of Albania suggests intensifying the efforts in order for this trend to be corrected in the years ahead, within the limits imposed by the commitment for fiscal consolidation.

4.3 Structure of financing public deficit and debt

The Bank of Albania estimates that foreign currency borrowing increases the risks from possible exchange rate volatility. The domestic financial markets have the capacity to cover the level of domestic borrowing planned in the budget during the next year, without exerting pressures on liquidity and interest rate indicators. In this context, the Bank of Albania suggests to consider foreign financing with commercial terms as a contingency plan, conditioned by the appearance of strong tensions in the domestic financial markets or their inability to cover the level of domestic borrowing.

4.4 Long-term sustainability of public finances

Lastly, the Bank of Albania continues to emphasize the need for introducing a fiscal rule, which will discipline the fiscal policy and will ensure the long-term sustainability of public finances. The explanatory report of the draft project foresees that this law will be introduced in the framework of the comprehensive review of the organic budget law.

The Bank of Albania suggests considering the adoption of a fiscal rule as a separate and priority initiative, detached from other objectives of the organic budget law review. In addition, this rule will introduce a reliable and transparent commitment of the Government on the reduction of public debt, and will stipulate maintaining the needed space for capital expenditures.

“...The Bank of Albania suggests considering the adoption of a fiscal rule as a separate and priority initiative, detached from other objectives of the organic budget law review.”

*Banka e Shqipërisë ul me 0.25 pikë përqindje normën bazë
Niveli i ri i normës bazë është 1.75%*



CHAPTER III

PRESS CONFERENCES ON MONETARY POLICY DECISIONS

- *Bank of Albania keeps the policy rate unchanged at 2.0%, 4 March 2015*
- *Bank of Albania keeps the policy rate unchanged at 2.0%, 6 May 2015*
- *Bank of Albania keeps the policy rate unchanged at 2.0%, 1 July 2015*
- *Bank of Albania keeps the policy rate unchanged at 2.0%, 6 August 2015*
- *Bank of Albania keeps the policy rate unchanged at 2.0%, 2 September 2015*
- *Bank of Albania lowers the policy rate to 1.75%, 4 November 2015*
- *Bank of Albania keeps the policy rate unchanged at 1.75%, 16 December 2015*

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 2.0% - 4 March 2015 -

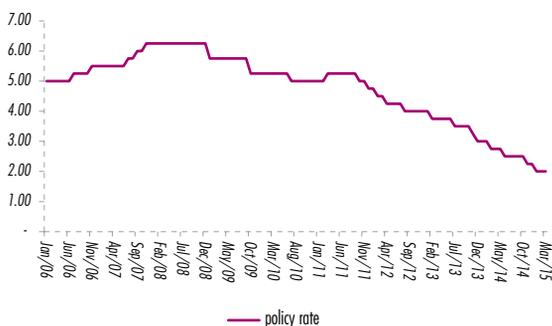
Bank of Albania projections suggest that economic growth will progressively improve in 2015 and 2016. Inflation is expected to return to the 3% target in the medium term. It will remain, however, below the target over the largest part of this time horizon.

The monetary policy will remain accommodative in the period ahead.

The monetary stimulus will support the recovery of domestic demand and the return of inflation to target.

Today, on the 4 of March 2015, the Supervisory Council of the Bank of Albania reviewed and approved the Intermediate Monetary Policy Report. After scrutinizing the current and expected performance of inflation and other economic indicators, the Supervisory Council of the Bank of Albania decided to keep the policy rate unchanged at 2.0%.

Chart 4 Policy rate



Source: Bank of Albania.

The domestic and external economic environment has generated low inflationary pressures.

According to INSTAT data, annual inflation was 1.3% in January, up from the rate registered in December. Inflation fluctuations in the last two months have been determined mainly by the volatility in food prices. The fall in food inflation in December and its rise in January were driven by developments in international markets and the performance of domestic production. In parallel, the decline in oil prices has generated downward pressure on inflation. Prices of other consumer goods' categories did not display any significant change. The rise in inflation in January was in line with our projections; however, the rate of inflation remains below Bank of Albania's target.

The Bank of Albania evaluates that inflationary pressures will increase gradually and inflation will return to target within the medium term. However, Bank of Albania evaluates that inflation will remain below the target for the most of this period. Its performance will continue to be determined by the degree of recovery in economic growth, supply-side domestic and external shocks, and economic and financial agents' inflation expectations.

The Albanian economy is assessed to have improved in 2014. According to INSTAT data, the economic activity grew by 1.4% during the first nine months of the year. We expect the growth rate to accelerate in the fourth quarter, driven by the strong fiscal stimulus in this period.

Due to damages caused by floods in the south of the country, our projections on the performance of the economy during 2015 are revised slightly downwards. However, their effect is expected to be temporary and the economy is projected to remain in an upward trend in the medium term. Economic growth for 2015 is projected to be higher than that in the previous year. The expansion of economic activity will continue to be driven, to a large extent, by private sector growth. Foreign demand is expected to play a small positive role and the speed of fiscal consolidation is expected to be reduced.

While upward, our projections suggest that the economic activity at home will remain below its potential in 2015, generating incomplete utilization of production capacities. Incomplete capacity utilization is underpinned by a relatively high unemployment rate and is reflected in low pressures on wage increases and production costs. In parallel, the weak aggregate demand does not allow for the increase in businesses profit margins. In the medium term, the expected improvement in economic growth will bring the economy back to equilibrium and will increase demand-side inflationary pressures.

From the supply side, the decline in food and commodity prices in global markets and the increase of domestic agricultural production are expected to exercise downward pressures on inflation during 2015. However, their negative impact on inflation is expected to phase out in the coming years.

Inflation expectations will have a similar direction of their impact. In the short term, economic agents expect low inflation rates. This projection does not encourage the growth of consumption and of investments. Moreover, it tends to be factorized in low prices in future contracts between economic agents. Inflation expectations will shift upward, as inflation rises.

Considering the above arguments, the Bank of Albania estimates that - with a high probability of occurrence - inflation will range 1.8-4.4% four quarters ahead.

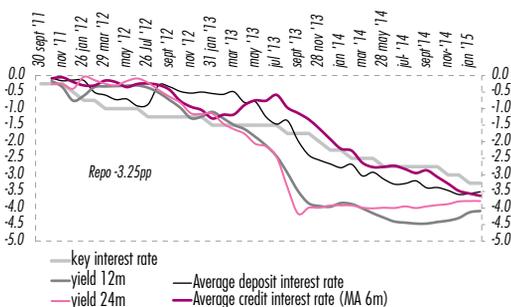
The balance of risks to the inflation projections remains on the down side. Downward risk factors to the inflation projections are slower economic growth, stronger decline of global prices and materialization of second-round effects from lower oil prices at home. On the other hand, a factor that may contribute to a faster increase in inflation in the future is the increase in prices of agricultural products as a result of damages to agricultural land from recent floods.

In line with these assessments, the monetary policy should remain stimulating in the period ahead. The monetary stimulus will support the recovery of domestic demand and ensure the return of inflation to target.

In January, the Bank of Albania lowered its key interest rate to 2.0% and signaled the continuation of this monetary policy trend for some quarters ahead. The monetary stimulus increased progressively through the lowering of the key interest rate, through the continuation of eased conditions of liquidity injecting operations, and through forward guidance to the public. This policy is aimed at cutting the costs of lending to the economy with the ultimate goal supporting demand growth and return of the economy to equilibrium. It has also signaled the commitment of the Bank of Albania to comply with its inflation target.

Taking into consideration the time lag, the structural problems and the various shocks on financial markets and economic activity, the transmission of the monetary policy has been adequate, but not yet complete.

Chart 5 Response of interest rate across various segments to policy rate cut (right)



Source: Bank of Albania.

The monetary stimulus has been transmitted to the financial markets, but the response of the economy to better lending terms continues to remain weak. The accommodative monetary policy is reflected in lower interest rates for lek loans and has contributed to the constant growth of this loan's portfolio. Credit expansion, however, remains low as a result of the sluggish demand for credit and banks' conservative lending policies. The Bank of Albania asserts that the financial markets and agents have sound and liquid balance sheets, but they continue to be risk averse into undertaking long-term investments.

In conclusion, the Supervisory Council decided that the actual monetary policy stance is appropriate and decided to keep the key interest rate unchanged at 2.0%. The new information analyzed at the meeting does not change our evaluations for the current situation of the economy and financial markets, and expectations for their outlook. The current monetary conditions are adequate for ensuring the return of inflation to our 3.0 % target in the medium term. Judging from the expected developments and the balance of risks surrounding them, the Supervisory Council deems that the monetary policy of the Bank of Albania will continue to maintain its stimulating nature, for some quarters ahead.

The monetary policy of the Bank of Albania will remain accommodative, for some quarters ahead...

BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 2.0% - 6 May 2015 -

Bank of Albania projections suggest economic growth will progressively improve in 2015 and 2016.

Inflation is expected to return to the 3% target in the medium term.

Financing conditions and monetary policy pass-through to the economy are expected to improve in 2015

Today, on 6 May 2015, the Supervisory Council of the Bank of Albania reviewed and approved the Quarterly Monetary Policy Report. After discussions on the recent economic and monetary developments in Albania, and their future course, the Supervisory Council of the Bank of Albania decided to keep the key interest rate unchanged, at 2.00%. In the judgment of the Council, the actual levels of the monetary stimulus are adequate for achieving the inflation target in the medium term.

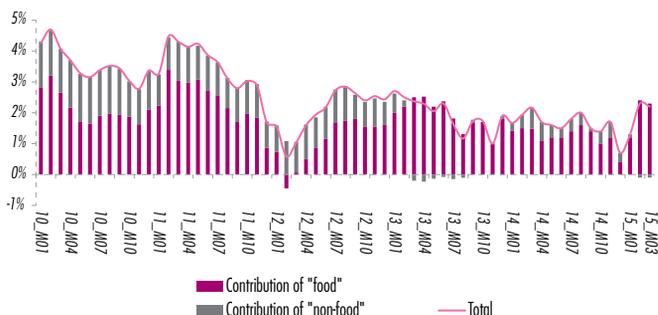
* * *

Annual inflation averaged 1.9% in the first quarter of 2015, standing higher than the previous quarter and our projections. Core inflation, which measures longer-term trends of price performance, continued to trend up in this quarter. However, the increase in first quarter inflation beyond estimates was mainly due to the rise in food prices. In the Supervisory Council's assessment, this development reflected the reduction of the supply of fresh food products and is expected to have a temporary effect on consumer prices.

Long-term inflationary pressures from the demand side are upward; however, they remain weak. While economic activity continues to improve, the Albanian economy still has spare production capacities.

According to INSTAT data, the annual growth of the value added was 1.9% for 2014. Economic growth reflected largely the recovery of domestic private demand, and a positive contribution by public spending in the last quarter. Based on available information, the Bank of Albania estimates that the positive growth rates continued in the first

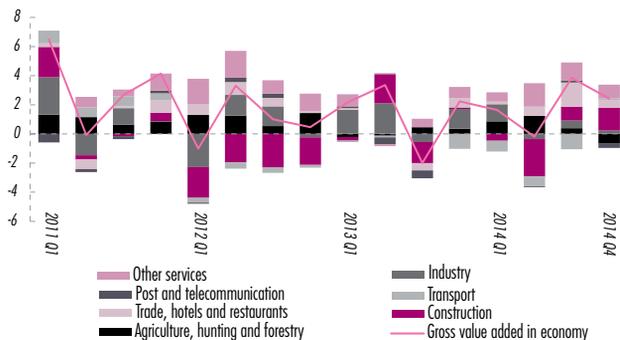
Chart 6 Contribution by food and non-food categories to annual headline inflation



Source: Bank of Albania.

quarter of 2015. Economic growth for this period is assessed to have slowed down temporarily, because of damages caused by floods on the agricultural sector and reduction of oil production, in response to the sluggish conjunctures in global markets.

Chart 7 Contribution by sector to value added



Source: INSTAT and Bank of Albania.

Yet, economic growth for 2015 is projected to be higher than in the previous year. Economic activity is expected to be driven by the strengthening of private consumption and investments, aided by the stimulating monetary conditions and increased risk appetite in financial markets. In addition, the budget and fiscal plans for 2015 envisage a lower intensity of fiscal consolidation, which is being already noticed

in the budget indicators for the first quarter of the year. The above-described situation is expected to persist in the years ahead. The expected improvements in economic activity will gradually contribute to reducing the negative output gap, until its closing in the next year.

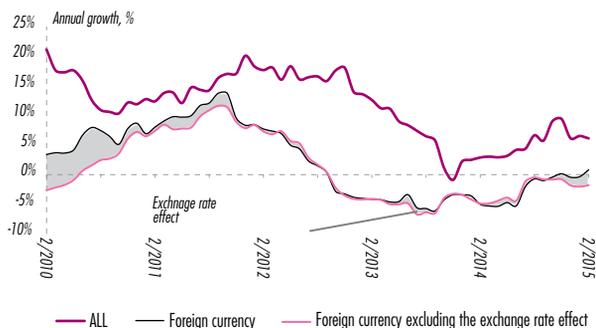
The latest available information and our new economic projections do not change the expected medium-term trajectory of inflation. In line with the improvement of the economy, inflation is expected to rise gradually during 2015 and beyond. Inflation is expected to average around 2.2% four quarters ahead, to return then to target within a three-year horizon. Insofar economic developments and their outlook have dictated the pursuing of an accommodative monetary policy. This policy has aimed and succeeded to lower the cost of financing the economy, to support the growth of demand and return of inflation to target. Its transmission to lower interest rates has resulted adequate, but its reflection in credit growth is slower.

Credit expansion is low, albeit the banking system is well capitalized and liquidity and profitability indicators stand at adequate levels. The sluggish credit performance reflects the weak credit demand, as well as the conservative approach by banks. The model of budget deficit financing during this year is expected to ease the terms of lending to the private sector. The shift of public borrowing from the domestic to the foreign market will create premises for further lowering of interest rates, and boosting banks' interest to lend. Also, the expected addressing of non-performing loans through a comprehensive national platform would relieve banks' balance sheets and improve their approach to lending. These developments are expected to materialize in better lending terms during the current year and a better transmission of the insofar monetary stimuli to economic growth.

* * *

The Supervisory Council finds that the performance of the economy is overall in line with our expectations. Due to supply-side shocks in the first quarter, inflation rates resulted higher than we expected. This gave rise to the need to revise slightly downward the expected economic growth for 2015. Their effect, however, is expected to be transitory and our assessments for the medium-term performance of inflation and of economic activity have not changed. Economic growth is expected to gradually improve in the years ahead. The Albanian economy is projected to approach its potential during 2016, which would create adequate premises for the return of inflation to target over the policy-relevant horizon.

Chart 8 Credit to economy by foreign currency



Source: Bank of Albania.

The strengthening of aggregate demand will be the main driver of economic growth in the short and medium-term period. In the long term, however, the Bank of Albania emphasizes the need for deeper structural reforms, as a pivotal instrument for generating sustainable economic growth. Structural reforms should aim at increasing the productivity of the Albanian economy and expanding the markets for our products. This will be realized, among others, through establishing a modern development infrastructure, creating a favorable business climate, and continuous investment on human resources capacity building.

Based on our analysis and projections, the Supervisory Council deems that the actual monetary conditions are consistent with the achievement of the price stability objective and that the monetary policy will remain accommodative for some quarters ahead.

The monetary policy of the Bank of Albania will remain accommodative, for some quarters ahead...

BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 2.0%

- 1 July 2015 -

Bank of Albania projections suggest economic growth will progressively improve in 2016 and 2017.

Inflation is expected to return to the 3% target in the medium term.

The Greek crisis does not show direct impact; the banking system is not exposed to the Greek public sector or private groups.

The Albanian banking system is financially sound, amply liquid and well capitalised.

Today, on 1 July 2015, the Supervisory Council of the Bank of Albania decided to keep the policy rate unchanged at 2.0%.

Let me share with you the underlying reasons and expected effects relating to this decision.

Inflation performing below the target and cyclical weakness of the economy have determined the pursuit of an accommodative monetary policy in recent years.

While this policy's outcome resulted in the expected direction, inflation persists below the target and the economic activity remains below potential. The performance of these indicators dictates maintaining the direction and intensity of the monetary stimulus.

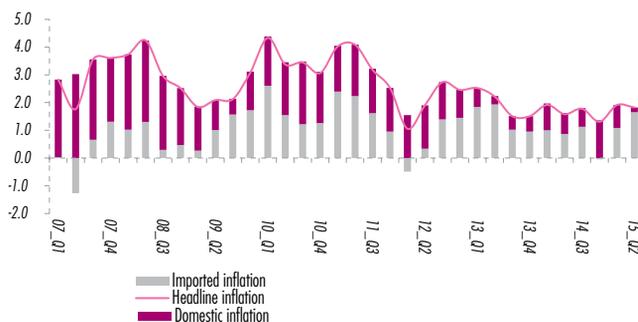
Inflation was characterized by an upward trend in the first five months of the year, yet this trend is fragile and inflation remains below the target.

The rate of inflation descended to 1.8% in May, being in line with our assessments for a temporary effect of supply-side shocks during the first quarter of the year. The fall in food prices in May and in the global oil prices led to the fall in inflation in this month. Other CPI basket items continued to provide low and steady contribution to the increase of domestic inflation.

The performance of inflation continues to reflect low inflationary pressures, arising from both cyclical weakness of the economy and

low inflation rates in global markets. These factors are expected to remain present for some quarters ahead. Inflation is expected to range within the 1.8-2.2% interval during 2015, and is expected to pursue an upward trajectory towards the target, over the next two years.

Chart 9 Imported and domestic inflation contribution to annual headline inflation



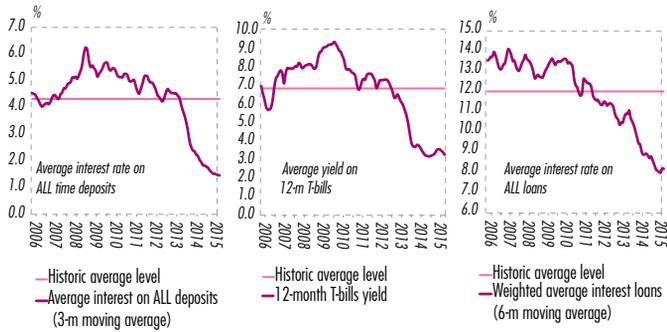
Source: INSTAT and Bank of Albania estimations.

The economy is expected to grow, gradually, and economic activity is expected to remain below the potential during 2015.

Incoming data from the real sector endorse our previous assessments for the slowdown of the economy during the first half of the year. From the production side, economic activity suffered the consequences of floods and fall in global oil prices. From the demand side, economic growth was driven by the improvement of the balance of exchanges in goods and services with abroad. Private domestic demand is assessed as weak, although it has made a small positive contribution to economic growth. In particular, private consumption was affected by the payment of electricity bills in arrears. On the other hand, the fiscal policy and indicators continued the consolidation path. Budget deficit was downward until May, whereas public expenditures were slightly up in annual terms.

The accommodative monetary policy stance is reflected in overall downward interest rates, but the response of the economy to better financing conditions remains slow.

Chart 10 Interest rates in the economy



Source: INSTAT and Bank of Albania.

The monetary stimulus has been transmitted in financial markets: costs of funding the public and private sectors are currently at their historical low levels. Financial markets operate at good liquidity levels, but the banking sector appears hesitant for financing long-term projects. Moreover, households and businesses show low interest to finance consumption and investments through bank loans. Therefore, lending growth in the first four months of the year was lower than expected. The Bank of Albania expects lending to grow at slow rates in 2015, and faster in the years ahead. Sound balance sheets of the banking system, the programme for the treatment and reduction of non-performing loans, and the expected recovery of credit demand are expected to trigger a faster growth of lending.

Concluding the analysis, the Supervisory Council of the Bank of Albania deems that the incoming information does not alter our expectations for economic and financial developments in the medium term.

The economic slowdown noted in the first quarter is expected to be temporary. Thus, our projections on the expected economic developments in the medium term do not change. Economic growth is expected to improve during the second half of 2015 and in the next two years. Stimulating monetary conditions will boost the growth of consumption and investments, hence creating premises for the acceleration of economic growth and the return of the economy to equilibrium. A better capacity utilization will drive the rise in wages and employment, and the firm return of inflation to target.

The firm return of inflation to target will require keeping the interest rate low for some quarters ahead.

In accordance with these projections, the current direction and intensity of the monetary stimulus in the economy is adequate for compliance with our inflation target.

The velocity of the return of inflation to target is assessed as consistent with maintaining economic and financial balances. Based on the analysis and projections, the Supervisory Council deems that the firm return of inflation to target will require keeping the interest rate low for some quarters ahead.

In today's meeting, the Supervisory Council of the Bank of Albania analyzed the most recent developments in Greece, the potential risks and spillover channels, and the actions of the Bank of Albania to manage them on an on-going basis.

The Supervisory Council informs the public that the financial system is completely sound, with ample liquidity and a high capitalization rate. For a number of years, the Bank of Albania has implemented a policy of added prudence towards the banks with Greek capital holding, imposing on them more conservative conditions related to the capitalization and the liquidity levels. The latest data show that the Albanian banking system is exposed to neither the Greek public sector nor to other private Greek groups. Banks with Greek capital in the Albanian banking system share 15% of the total banking system, compared to 25% at the end of 2008.

The Supervisory Council emphasizes that the decisions by Greek authorities related to control over the movement of capital or the temporary interruption of the banking activity in Greece do not affect, neither directly nor indirectly, the Albanian banking system activity, including the licensed banks with Greek capital. The latter are Albanian entities which conduct their activity in full compliance with the legal, regulatory and supervisory framework that is applicable in the territory of the Republic of Albania.

The Supervisory Council assures the public that it is closely and continually monitoring the situation inside Albania and abroad. We are carefully assessing any scenario that may arise from the evolution of the Greek crisis, which may dictate a revision of our economic projections. In any

event, we stand ready to undertake all the necessary measures to comply with our objective of price stability. In collaboration with our strategic partners, particularly the International Monetary Fund and the European Central Bank, we will take the appropriate actions to safeguard and preserve intact the economic and financial stability of Albania.

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BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 2.0%

- 6 August 2015 -

Bank of Albania projections suggest economic growth will progressively improve in 2016 and 2017.

Inflation is expected to return to the 3% target by the end of 2017.

Bank of Albania is open to take additional measures with a view to achieving its objectives

Supervisory Council reiterates the need for continuing and accelerating structural reforms.

In its meeting today, the Supervisory Council of the Bank of Albania reviewed and analysed the quarterly monetary policy report. The new available information is overall consistent with our projections. Deviations from these projections and fluctuations in some economic and financial indicators over this quarter are estimated to be transitory.

Our judgment on inflation dynamics and economic growth in the medium term has not changed. In accordance with these projections, **the Supervisory Council deemed that the actual key interest rate is appropriate for achieving the price stability objective. Against the backdrop of the current circumstances, the Supervisory Council decided to keep the key interest rate unchanged, at 2.0%.**

Following I will explain in greater detail the analysis and conclusions underpinning this decision.

Inflation is expected to rise gradually towards the target over the next two years.

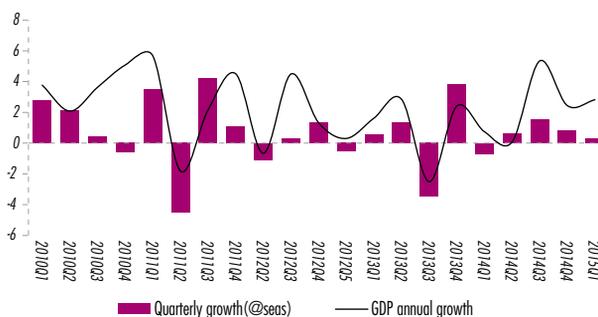
Annual inflation averaged 1.8% in the second quarter. Significant fluctuations in inflation, over the first half of the year, reflected the dynamics of unprocessed food prices. These prices were highly volatile during February - April, also due to the floods in some low-lying areas in Albania.

From the macroeconomic perspective, the slow rise in prices reflects the effect of the weak aggregate demand and relatively low global prices. The effect from these factors is expected to persist in the short-term horizon. For 2015, inflation is expected to average around 2%. Bank of Albania's projections suggest that inflation rates will continue to rise further over the next two years and will see a sustained return towards our 3% target by the end of 2017.

Inflation's return towards the target will be supported by the gradual recovery of the economy over the coming years.

To a larger extent, forecasts for inflation in the next two years are corroborated by our projections for a progressive growth of the economy and fuller utilization of production capacities in the years ahead.

Chart 11 Annual and quarterly GDP



Source: INSTAT and Bank of Albania.

The most recent economic data are in line with the above-mentioned assessments. Economic growth for 2015 is expected to outpace the rates recorded in the previous year. According to INSTAT data, in the first quarter, economic activity grew 2.8% in annual terms. This rate was higher than our expectations and reflects mainly the growth in investments and net exports. Indirect available data point to similar growth rates for the second quarter.

The Supervisory Council deems that the second half of the year will see slower growth rates, due to the potential negative effects from developments in Greece. However, the agreement reached in July 2015 is a starting point for the normalization of the situation there.

Subsequently, potential subsequent effects in Albania will concentrate on a temporary reduction in trade activity and remittances, without affecting the financial system's activity. As such, these effects are expected to be transitory.

From the monetary policy perspective, projections for economic growth and inflation in the medium term assume special importance. The Albanian economy is projected to see faster growth pace in the next two years. The balance sheets of the banking sector and the private sector, the external economic environment and the overall business climate are expected to improve over this period. These developments will support the expansion of domestic and external demand.

Economic growth will be supported also by favorable financing conditions.

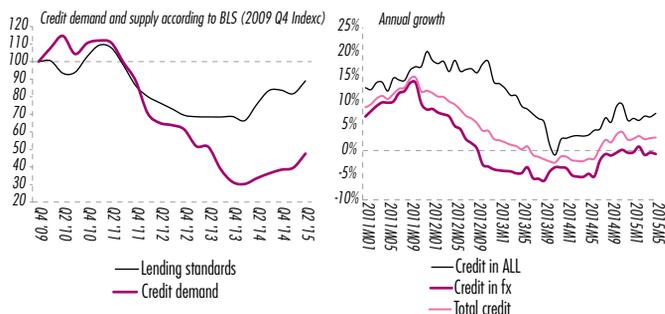
For a relatively long time, the monetary policy stance has been accommodative. The continuous lowering of the key interest rate, the forward guidance by the Bank of Albania for remaining in this territory in the future, the expected reduction of risk premiums and improvement of banks' balance sheets and financial soundness indicators are premises for further easing of financing conditions for the economy.

The Albanian financial markets continue to be characterized by a good liquidity situation. Lending interest rates and government securities' yields are close to their historic minimum. In response, lek lending has increased whereas the costs of servicing the debt to the private and public sectors has decreased.

Lending dynamics have been more positive in the second quarter. Thus, lending to the resident private sector grew 2.4% in annual terms in May, a higher rate than that recorded at the end of the first quarter. Credit growth was driven by the annual growth of lek lending by 7.5%; foreign currency lending, however, fell 0.7%. From the sectorial perspective, lending to households continues to record higher growth rates than lending to businesses.

The Bank of Albania expects a gradual improvement of lending for the rest of the year, and a progressive improvement of it in the next two years. This improvement will be supported by demand growth, low interest rates and reduced perceived risk in domestic and global financial markets. In particular, as government's demand for financing in

Chart 12 Lending to the economy*



* The data, in the left chart, show a weighted average of lending survey results for enterprises and households. The chart shows the index of net cumulative balance since 2009 Q4.
Source: Bank of Albania.

the domestic market is expected to subside, more space will be created for the growth of lending to the private sector.

Also, the Supervisory Council deems that the successful implementation of the measures for reducing the non-performing loans stock will boost banks' willingness to lend.

The portfolio of non-performing loans narrowed by around 2 percentage points in the second quarter, mainly in response to regulatory measures undertaken by the Bank of Albania at the year start. This is an encouraging signal with regard to cleaning the balance sheets of the banking system. However, according to the approved inter-institutional plan of measures, it should be supported with legal improvements that will prevent the growth of non-performing loans and provide a rapid solution for them. In this context, the Bank of Albania would like to draw the attention of all public agencies engaged in this project to the need for a swift and rigorous implementation of the commitments we have jointly undertaken. Achieving Bank of Albania's objectives will require maintaining the accommodative monetary policy stance for some quarters ahead.

The increase of the monetary stimuli is consistent with the expectations for a consolidating fiscal policy during this period. As we have said before, the fiscal consolidation reduces risk premiums for the country and facilitates the pass-through of our monetary policy measures to the financial markets.

Based on the available information and on our assessments and projections, the Supervisory Council deems that the actual levels of the monetary stimulus will be upheld until at least the first half of 2016. On the other hand, the balance of risks remains on the down side. The Bank of Albania is closely monitoring the situation in Greece and its impact on the Albanian economy.

In the event developments there produce a strong, negative and extended impact on the Albanian economy, the Bank of Albania has the appropriate instruments and remains ready to take additional measures with a view to achieving its objectives.

Concluding, the Supervisory Council reiterates the need for the continuation and acceleration of structural reforms. Among others, these reforms should aim at sustainably improving the business climate, boosting the productivity and competitiveness of the Albanian economy, promoting domestic and foreign investments, and enhancing the economic and financial stability in Albania.

...The actual levels of the monetary stimulus will be upheld until at least the first half of 2016.

BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 2.0%

- 2 September 2015 -

Bank of Albania projections suggest economic growth will progressively improve in 2016 and 2017.

Inflation is expected to return to the 3% target by the end of 2017.

Bank of Albania stands ready to take appropriate measures with a view to achieving its objectives.

Economic growth and lending should be underpinned by continued reforms and further improvement of the business climate.

In the meeting held today, the Supervisory Council of the Bank of Albania reviewed the intermediate monetary policy report. The new information analyzed in the report has been broadly in line with our expectations, although some indicators result on the downside of projections. Thus, our assessment on the medium-term dynamics of inflation and economic growth has not changed.

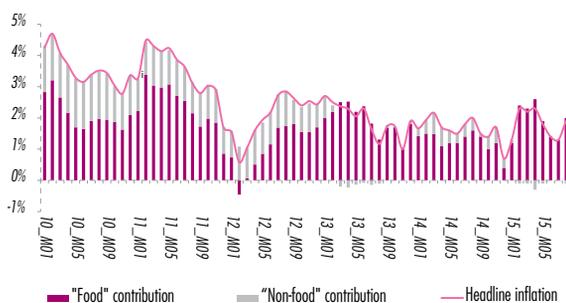
At the end of discussions, the Supervisory Council concluded that: the actual and expected trend of the development of the economy, the actual monetary stimulus and the expected improvement of the monetary policy transmission mechanism will enable the return of economy to equilibrium and of inflation to target within a medium-term horizon. Against this backdrop, the Supervisory Council decided to keep the key interest rate unchanged, at 2.0%.

In the following, I will explain in greater detail the analysis, projections, and conclusions underpinning this decision.

Inflation is expected to rise gradually towards the target over the next two years

Inflation fell slightly in July as a result of lower prices of seasonal fresh foods. Our analysis suggests that these products' inflation fell in the summer months as agricultural production rose during this period. For this reason, this factor is expected to have, to a large extent, a transitory effect. Other consumer prices in the basket did not see significant changes.

Chart 13 Contributions by food and non-food categories to annual headline inflation



Source: INSTAT and Bank of Albania calculations.

From the macroeconomic aspect, low inflation rates reflect the effect of the sluggish aggregate demand and the low level of commodity and consumer prices in global markets. This effect is expected to persist in the short term. For 2015, inflation is expected to average around 1.9%. Our medium-term projections for inflation have not changed, but suggest that inflation rates will continue to rise over the next two years, and see a sustained return towards our 3% target by the end of 2017.

Inflation is expected to return to target as the economy recovers gradually, in the years ahead

The new economic information analyzed in this report is consistent with the above assessments.

New data on foreign trade for June complete the picture for the second quarter. The deficit of trade exchanges in goods fell 4.6% in annual terms, during the period, dictated mostly by the fall in imports of electrical energy. While the external environment remains unfavorable, we expect foreign trade to contribute positively to economic growth in the rest of the current year, and beyond.

New fiscal data for July point to a slight increase in revenues, and deceleration of public spending. The budget deficit for the first seven months of the year stood at around 45% lower than in the corresponding period in the previous year. Consistent with the medium-term fiscal plans, the Bank of Albania expects the consolidating fiscal policy to continue in the next two years.

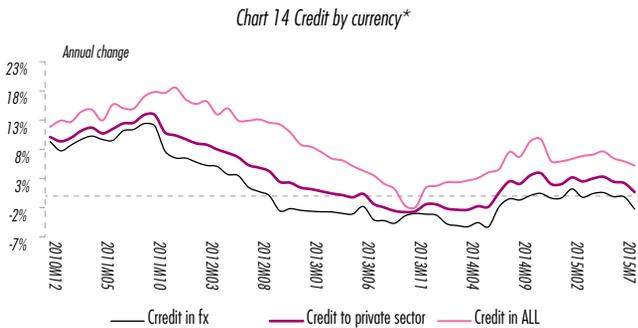
Our assessment on the actual and expected performance of private consumption and investments has not changed.

In line with these considerations, the Bank of Albania expects economic growth to improve in the years ahead. The expected improvement of the financial situation in the economy, the amelioration of the external environment, and of the overall business climate will contribute to such growth.

Private domestic demand and economic growth are expected to be supported by the improvement of financing conditions

Bank of Albania’s monetary policy stance remains deeply accommodative. The historical minimum levels of the key interest rate, our liquidity injection operations, and our commitment to maintain this stance in the period ahead have contributed to the overall reduction of costs of financing the economy.

The new data subject to analysis suggest that the interest rates will remain at historical low levels, irrespective of the monthly fluctuations. In response, lek lending has increased 6.4% annually, whereas the cost of servicing the debt to the private and public sectors has decreased. Lending, however, continues to grow slowly as a result of the stubbornly-sluggish demand, conservative bank policies, and high risk premiums on lending. In addition, in response to regulatory measures by the Bank of Albania, the second quarter was characterised by the accelerated write-off of non-performing loans from banks’ balance sheets. Excluding



Credit analysis is based on monetary data adjusted for written off loans. Data are adjusted based on banks reporting for such loans and based on micro data from the Credit Registry. Source: Bank of Albania.

the effect of the write-offs, in annual terms, total lending to the resident private sector rose 2.4% in June, unchanged from the previous quarter.

The Bank of Albania expects lending to perform somewhat better in the rest of the year, and improve progressively in the next two years. This improvement will be supported by both the growth of demand and reduction of the perceived risk in domestic and foreign financial markets. Against this backdrop, the Supervisory Council considers that the implementation of measures for reducing non-performing loans will boost banks willingness to lend and enhance the monetary policy pass-through in the economy. Also, economic growth and acceleration of lending should be sustained by the continuation of structural reforms and further improvement of the business climate.

At the end of the analysis, the Supervisory Council concludes that achieving the objectives of the Bank of Albania will require maintaining the accommodative monetary policy stance.

Maintaining the monetary stimulus is - among others - consistent with expectations for a consolidating fiscal policy over the period.

Based on the available information and on our assessments and projections, the Supervisory Council estimates that the monetary stimulus will not weaken until at least the first half of 2016.

On the other hand, the Supervisory Council deems that the balance of risks continues to be on the down side. The Bank of Albania will be monitoring the situation with priority and, contingent on new developments, stands ready to take all the necessary measures for achieving its objectives.

The Supervisory Council deems that the monetary stimulus will not weaken until at least the first half of 2016.

BANK OF ALBANIA LOWERS THE POLICY RATE TO 1.75% **- 4 November 2015 -**

*Achieving BoA's objectives, requires additional monetary stimulus. The stimulating trend will be maintained for a longer period than the previous assessment.
Inflation is expected to return to the 3% target at the beginning of 2018.
Balance of risks remains shifted to the down side.
Bank of Albania has the proper instruments and remains ready to take additional measures with a view to achieving its objectives.*

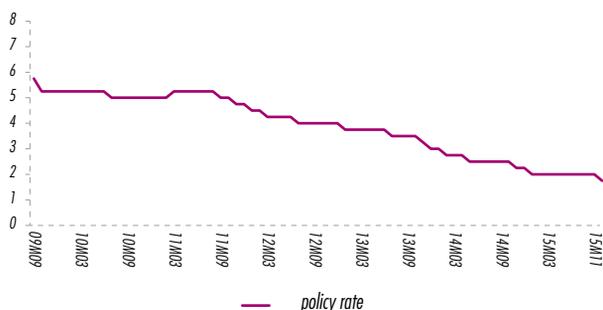
The Albanian economy continues to pursue a positive trajectory. However, aggregate demand, output and employment stand below their potential and medium-term pressures on inflation remain weak. The new economic and financial information has been in line with our projections, but economic growth and credit performance resulted on the downside.

The outcome of the new forecast round points to the conclusion that the expected scenario of future economic and monetary developments has not changed significantly compared to the previous round. In the medium term, the Bank of Albania expects inflation to return gradually to target, corroborated by the progressive improvement of economic growth. However, unlike previous forecasts, current projections suggest that the return of the economy to equilibrium and of inflation to target will require a somewhat longer time. Also, these projections suggest the need for stepping up the monetary stimulus in the economy to bolster domestic demand and strengthen the credit channel.

Therefore, in its meeting, the Supervisory Council decided to lower the policy rate by 0.25 percentage points. After this reduction, the policy rate is reduced from 2.00% to 1.75%.

Following, I will explain in greater detail the underlying reasons and expected outcome.

Chart 15 Policy rate



Source: INSTAT and Bank of Albania.

Inflation is expected to rise progressively in the medium term.

In the third quarter, inflation averaged 1.8%. While the rate was similar to that of the previous quarter, inflation recorded significant fluctuations during the period. These fluctuations were triggered mostly by food prices.

The analysis of available information suggests that, in the short run, low inflationary pressures will persist. Average inflation is expected to range around 2% for 2015, and 2.2% for 2016. In the medium term, inflation is expected to rise and return to Bank of Albania's 3% target by the first quarter of 2018.

The gradual recovery of the economy will be the main factor for the return of inflation to target.

Economic activity stood at 2.5% in the second quarter, being close to our forecasts. Economic growth was driven by investments and improvement in the balance of trade exchanges with abroad. Conversely, private consumption fell attributed to households' stronger propensity to save. Available data suggest that the Albanian economy will register similar growth rates in the second half of 2015. Economic activity in this period will expand driven mostly by the growth in investments and improvements in the trade balance.

The Albanian economy is expected to further improve in the medium term. Economic activity is expected to accelerate driven by the easing

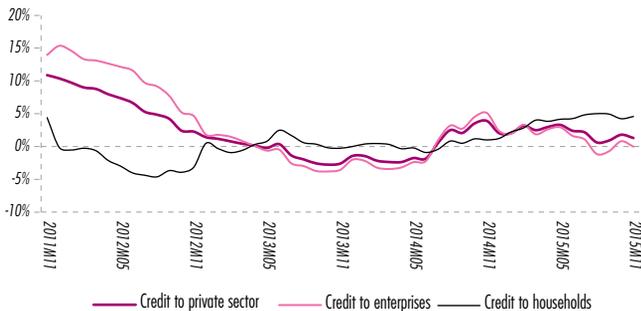
of financing standards, reduction of uncertainties and improvement of the external economy. Economic growth will be financed by the use of accumulated private sector savings and foreign capital inflows. Also, the economic activity will expand due to the increasing support with bank loans in the second half of the forecast horizon.

A new monetary impulse will support better consumption, investments and lending.

Albanian financial markets are liquid and stable, but financial agents continue to show low risk appetite and reluctance to finance long-term projects. The accommodative monetary policy implemented by the Bank of Albania has driven the interest rates on loans to the historic minimum and boosted credit demand. In response, the lek credit portfolio continued to show positive performance; the annual growth rate of this portfolio stood at 5.2% in August, and its share in total loans rose to 41%.

Lending, however, remains sluggish, especially in business loans and foreign currency loans. The annual growth of the credit portfolio subdued to around 1% in August. The reduction was dictated by the low business demand for financing and tightened conditions of banks supply for loans. Moreover, the payment of arrears by the public sector has provided an alternative source of liquidity and financing for businesses, introducing an additional temporary effect on the decline of credit demand.

Chart 16 Credit by economic agents



Source: Bank of Albania.

In conclusion of the analysis and discussions on the outlook, the Supervisory Council evaluates that to achieve Bank of Albania's objectives the monetary stimulus needs to be increased and the stimulating stance needs to be maintained for a longer period than our previous assessments.

Based on these conclusions, the Supervisory Council decided to reduce the policy rate by 0.25 percentage point. After this reduction, the policy rate declines from 2.00% to 1.75%. In accordance with the assessments and projections for the medium term, the Supervisory Council deems that the monetary policy stance will remain accommodative throughout 2016.

The swift implementation of the agreed plan of measures for preventing and resolving non-performing loans is a major priority aimed at reducing the perceived credit risk in Albania. In addition to macro-prudential measures in effect since 2013, in line with recent international experiences, the Bank of Albania is analysing the possibility of introducing additional stimulating measures.

* * *

Finally, the Supervisory Council deems that the monetary stimulus provides the necessary time for conducting structural reforms and mitigates the costs of the reforms on the economy. However, it may not provide for a sustainable long-term economic growth and should not be considered as a substitute for the reforms.

Therefore, the Supervisory Council reiterates the need for the continuation and acceleration of structural reforms. These reforms should aim at sustainably improving the business climate, boosting productivity and competitiveness of the economy, promoting domestic and foreign investments, and enhancing the economic and financial stability in Albania.

The Supervisory Council deems that the monetary policy stance will remain accommodative throughout 2016.

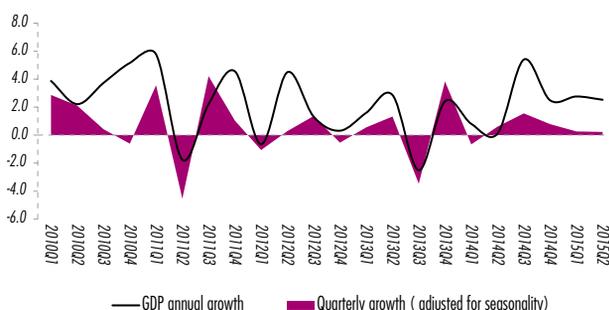
BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 1.75% - 16 December 2015 -

Bank of Albania projections suggest economic growth will progressively improve in 2016 – 2017. Inflation will rise gradually toward the target in the medium-term horizon. The return to target will be driven by the expected recovery of the economy in the years ahead. Achieving Bank of Albania’s objectives requires maintaining an accommodative monetary policy stance. Balance of risks remains shifted to the down side.

The Supervisory Council of the Bank of Albania reviewed today the intermediate monetary policy report. The Supervisory Council found that, albeit limited, new economic and monetary data analyzed in this report were overall in line with expectations.

Thus, the new information does not change our assessment of the current and expected performance of the Albanian economy. The Bank of Albania expects a progressive improvement of economic growth over the next two years. This growth will enable the return of the economy to

Chart 17 Quarterly and annual GDP



Source: INSTAT and Bank of Albania.

equilibrium and of inflation rate to target, within a medium-term horizon. In line with these conclusions and following the lowering of the key interest rate in its previous meeting, the Supervisory Council deemed that the current monetary stimulus is at adequate levels. **Based on the above analysis, the Supervisory Council decided to keep the key interest rate unchanged at 1.75%.**

Let me now explain these issues in greater detail.

* * *

- **Our analysis and projections suggest that inflation will rise gradually towards the target, in the medium-term horizon.**

In October and November, inflation stood at 2.1%. This performance represents a deceleration of the fast-rising trend of inflation in the two previous months. It also confirms our earlier assessments of this rise due to temporary factors, while overall inflationary pressures remain low. In terms of components, the level of inflation was determined by the contribution of the high inflation of foods, especially fresh and unprocessed foods. Prices of other consumer basket items contributed, overall, to the down side of inflation for this period. From the macroeconomic perspective, the below-target inflation rate continues to reflect the below-potential growth of the Albanian economy. The insufficient growth of aggregate demand generates unutilized capacities in the labor and capital markets, which are associated with low pressures on the increase of production costs, profit margins and core inflation. Moreover, inflation fluctuations over the recent months have reflected supply-side shocks, in the form of fluctuations in imported inflation and supply in foods.

The Bank of Albania judges that the negative output gap and low prices in international markets will continue to be present over a short-term horizon. Their downward effect on inflation will offset the upward effect of high food prices. Inflation is, therefore, expected to average around 2.3% in 2016, and to trend up and return to our 3% target by the beginning of 2018.

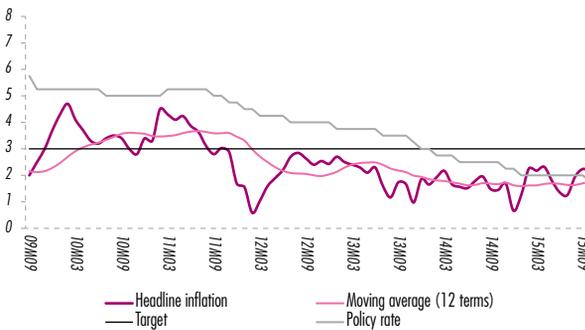
- **The expected recovery of the economy in the years ahead will underpin the return of inflation to target.**

The recovery is expected to reflect the increase in private consumption and investments during the period, whereas exchanges with abroad are

expected to provide a small positive contribution and the fiscal policy to pursue a consolidation trend. The new available information is overall consistent with these assessments.

The deficit in trade exchanges of goods marked 1.6%, slightly expanding in annual terms, during July-October, mostly on the account of the fall in the value of exports of crude oil and base metals. The fall in exports in the recent months reflects, to a large extent, the transitory effects of global prices' conjuncture. Albanian exports are expected to perform better in 2016, although dynamics in our trading partners appear as still problematic.

Chart 18 Inflation, policy rate and target



Source: INSTAT and Bank of Albania.

New fiscal data for October point to an increase in revenues, and deceleration of public spending. The latter were driven by downward payments for arrears, compared to the previous year. The budget deficit for the first ten months of the year stood at around 43% lower than in the corresponding period in the previous year.

- **Economic growth will be supported by the further improvement of financing conditions.**

The Bank of Albania continues to implement a stimulating monetary policy. This policy stance has driven down the costs of financing in the economy, to historically minimum levels. It has contributed to the steady growth of the credit portfolio in the national currency and has supported the expansion of private consumption and investments.

The monetary stimulus picked up further, following the lowering of the key interest rate in November. The transmission of this move in the financial markets has been satisfactory; yet, it remains incomplete.

During the last two months of the year, the financial markets appear as liquid, the soundness indicators of the banking system are positive and the interest rates are shifting on the down side. These trends are expected to pick up further in 2016, reflecting our monetary policy stance and the significant reduction of public borrowing in domestic financial markets.

Loan dynamics showed a slight improvement in October. Excluding the effect of loss loan write offs, the annual rate of credit growth increased to 1.8% in October, from 0.9% in September. This positive development reflected mainly the growth in loans to enterprises.

Despite the improvement in October, lending remains sluggish, attributable to weak demand, conservative bank policies, and high credit risk. Credit growth is expected to remain at moderate levels in the short term and to pick up gradually in the next year.

The expected improvement of economic activity in Albania and the effect of measures for reducing the non-performing loans stock will sustain the growth of credit demand and banks' willingness to accommodate this demand.

Furthermore, the Supervisory Council reiterates that economic growth and acceleration of credit will be driven by the continuation of structural reforms and improvement of the business climate.

- **At the end of the analysis, the Supervisory Council concluded that achieving the objectives of the Bank of Albania requires maintaining the accommodative monetary policy stance.**

Keeping the key interest rate unchanged at today's meeting will create more space for the complete transmission of the monetary stimulus, given in 2015, to the financial markets and the economy.

Based on the available information, and on Bank of Albania assessments and projections, the Supervisory Council deems that the monetary policy will remain accommodative throughout 2016.

The Supervisory Council also judges that the balance of risks continues

to be on the down side. The Bank of Albania will closely monitor the situation and, contingent on new developments, stands ready to take all the necessary measures for achieving its objectives.

The Supervisory Council deems that the monetary policy will remain accommodative in 2016.



REPUBLIKA E SHQIPERISE
MINISTRIA E FINANCEVE



CHAPTER IV

PRESS CONFERENCES WITH THE IMF MISSION, MINISTER OF FINANCE AND MINISTER OF ECONOMIC DEVELOPMENT, TOURISM, TRADE AND ENTREPRENEURSHIP

- *Fourth review under the IMF arrangement completed, 17 March 2015*
- *Fifth review under the IMF arrangement completed, 30 June 2015*
- *Fifth and sixth reviews under the IMF arrangement completed, 10 November 2015*

Press conferences with the IMF mission, Minister of Finance

In 2015, 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.

FOURTH REVIEW UNDER THE IMF ARRANGEMENT COMPLETED

- 17 March 2015 -

Dear media representatives,

During the last two weeks, an International Monetary Fund (IMF) team visited Tirana, to conduct, together with Albanian authorities, the fourth review of the arrangement. In Bank of Albania's perspective, the economic and financial developments have been relatively positive. Notwithstanding the problems the Albanian economy has encountered, it has recorded growth and a range of economic and financial balances of the country have improved. The economic policies and the legal, regulatory and institutional reforms by the Albanian authorities have played a significant role in this regard. These development policies are anchored in the arrangement that Albania has with the IMF and have benefited from the credibility and financial assistance of the International Monetary Fund and the World Bank. The Bank of Albania deems that the reforms that Albania has started should continue, to provide sustainable and long-term growth.

I would like now to outline Bank of Albania's opinion on the country's economic and financial situation, and to list the priorities of our work in the framework of this arrangement.

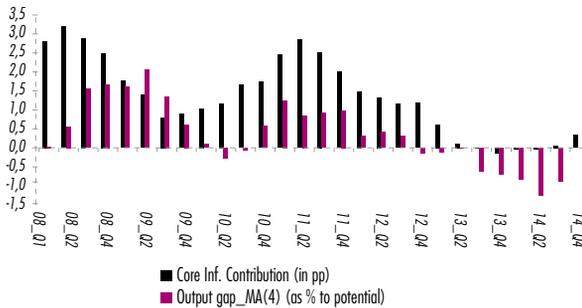
The Albanian economy posted growth in 2014, which is expected to further accelerate in 2015. Increase in consumption and private investments, owing to the improved financing terms, confidence and private sector balance sheets, was, and is expected to continue to be, the main driver of the economy's performance. On the other hand, the public sector has been and

“Notwithstanding the problems the Albanian economy has encountered, it has recorded growth and a range of economic and financial balances of the country have improved. The economic policies and the legal, regulatory and institutional reforms by the Albanian authorities have played a significant role in this regard.”

remains committed in the path to fiscal consolidation, whereas the external environment continues to face problems and pose challenges to the increase of Albanian exports. In the short run, the increase in consumption and private investments is sufficient to generate initial triggers for economic growth, but the long-term growth of the Albanian economy should rely more on the improvement of its competitive profile and growth of exports. Therefore, we deem that the acceleration of structural reforms has a unique role in supporting economic growth.

Inflation continued to stand below our target. Internal inflationary pressures have been upward, but the fall in prices in global markets decelerated the return of inflation to target at home. The monetary policy stance of the Bank of Albania has become strongly accommodative. This policy stance aims at reducing the financing costs of the private sector, in order to sustain the return of the economy to equilibrium and of inflation to target, in the medium-term horizon.

Chart 19 Output gap* and contribution of core inflation



* The estimated series of the output gap is attained applying the moving average in four terms.

Source: Bank of Albania estimations; INSTAT.

In our view, the indicators of economic activity and inflation are performing in the right direction; however, the sustainable achievement of targets will need time and will imply keeping low interest rates for some quarters ahead. Overall, the main indicators in banking system activity improved. Liquidity, profitability and capitalisation indicators are at good levels, while the ratio of non-performing loans has trended down. The Bank of Albania has continued to work for the regulation and prudent supervision of the banking system, pursuant to the legal obligations, as well as to sustain its steady development.

Also, we have cooperated with:

- (i) other public agencies, to improve the legal framework, align regulatory practices, and identify measures for withstanding systemic shocks;
- (ii) international financial institutions, to develop loan restructuring programmes; and,
- (iii) foreign regulatory institutions and parent banking groups operating in Albania, to exchange information.

I would like to reiterate that the banking system is solid, liquid and well capitalised for conducting its intermediary function. However, credit growth continues to appear sluggish, due to tight bank lending policies. Maintaining and strengthening banking system soundness is to everyone's benefit, as this is the only system that, with its funds, may sustain long-term economic growth. Lending is expected to improve slightly during 2015. The Bank of Albania, however, expects an increasingly active role of the banking system in lending and will also take all the needed measures to encourage it.

At the conclusion of discussions, the Bank of Albania shares the view that economic policies are performing overall in the right direction.

In compliance with its legal duties, and pursuant to its institutional commitments in the framework of the arrangement, the Bank of Albania will continue to work on:

- Maintaining price stability, in accordance with its 3.0 % inflation target. The Bank of Albania will continue to implement its monetary policy in accordance with the targeted inflation regime and free-floating exchange rate regime. The monetary policy will remain on the easing side, aiming at enhancing transparency of communication and its effectiveness.

“... The Bank of Albania will continue to work on:

- Maintaining price stability***
- Maintaining adequate foreign currency reserves***
- Supporting banking system stability***
- Completing the project for adopting the new IFRS standards on compiling financial statements...”***

- Maintaining adequate foreign currency reserves.
- Supporting banking system stability, by exercising its duties as the regulator and supervisor of the banking system. Special attention, in this regard, will be given to addressing factors determining non-performing loans. For this purpose, the Bank of Albania will cooperate with the banking industry and other national authorities to swiftly address this issue. Moreover, the Bank of Albania will continue to work on improving the infrastructure that assesses and addresses risks facing the overall financial system, in the framework of recommendations left by the Financial Sector Assessment Program.
- Completing the project for adopting the new IFRS standards on compiling financial statements.

FIFTH REVIEW UNDER THE IMF ARRANGEMENT COMPLETED

- 30 June 2015 -

Dear media representatives,

In line with the already established practice, in the past two weeks, we have constantly met and exchanged views and opinions with International Monetary Fund representatives. As always, these meetings serve to make a comprehensive analysis of economic and financial developments, with a view to identifying the necessary measures for a steady development.

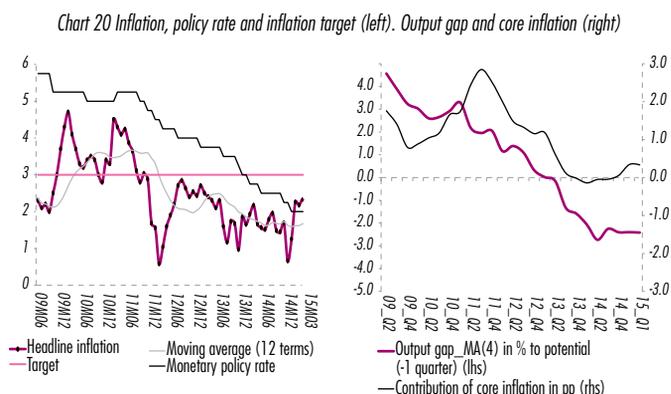
Following, I will present a summary of Bank of Albania's opinion.

The Albanian economy is on a positive development trajectory, irrespective of the shocks we have been facing in the first half of the year. Economic and financial balances in Albania are sound. The Banking system is liquid and well capitalized; Albania's public debt is in control; and, the financial situation of Albanian businesses and households is improving. Long-term development resources for the country remain stable.

This situation is an outcome of economic policies oriented towards stability, which we have undertaken. In view of the latest developments in Greece, I would like to emphasize that the external environment appears challenging, but Albania's economy and financial system are capable to withstand even extreme shocks. The short-term costs that we have paid due to structural reforms and fiscal consolidation show their benefits exactly in such moments.

"...The Albanian economy is on a positive development trajectory, irrespective of the shocks we have been facing in the first half of the year. Economic and financial balances in Albania are sound. The Banking system is liquid and well capitalized; Albania's public debt is in control..."

Under the current circumstances, it is necessary for economic and financial policies to continue to be guided by the philosophy of prudence. We are able and ready to take additional measures, if necessary. I would like to assure the private sector that the development perspectives for the Albanian economy remain positive. Albanian businesses and households should continue, uninfluenced, with their consumption, investment and development plans.



Source: INSTAT and Bank of Albania.

Let me be more concrete with regard to the above.

Economic and financial developments have been overall in line with our year-start projections, but incoming information has resulted on the down side of our expectations. Therefore, the Bank of Albania has revised down the expected economic growth for 2015. Yet, in our judgment, shocks are expected to have only a transitory effect on economic activity indicators and not affect the medium and long-term trends of development. Economic growth is expected to improve in the second half of the current year and in the two years ahead, which would enable the return of inflation to equilibrium.

Notwithstanding the above said, the Albanian economy continues to operate below its potential and inflation remains below Bank of Albania’s target. These developments require maintaining stimulating macroeconomic policies for at least some quarters ahead.

The Bank of Albania has urged and supported the fiscal consolidation trend, pursued by public finances. Fiscal data, overall, are in line with

this target, albeit work should still be done with regard to the rigorous implementation of public borrowing and spending plan.

The monetary policy implemented by the Bank of Albania is at very stimulating parameters. Interest rates and financing costs are at historical low levels. The Bank of Albania has ensured that the market is fully supplied with liquidity and has provided long-term guidance on the monetary policy direction.

In accordance with the monetary policy direction, the Bank of Albania has continued to implement easing supervisory and regulatory measures. Also, we will announce a major project very soon, aimed at addressing definitely the issues related with the treatment and reduction of non-performing loans. All these measures have contributed to and are expected to better support the Albanian economy with funds.

As I said above, the economic and financial equilibriums of Albania are solid. The current account deficit improved in the first quarter and the Albanian foreign exchange position is quite positive. Banking system's liquidity and capitalization indicators have been improving. The growth of non-performing loans decelerated and the Albanian banking system is profitable.

Taking into account the international setting, I would like to guarantee the public that the banking system has no direct exposure to the Greek crisis. Our analyses, both at individual bank and system level, confirm that that it would maintain the soundness and normal operations even in extreme adverse scenarios. Lastly, the implementation of the IMF arrangement not only guarantees the stability of the public debt, but also provides us with the possibility for additional funds to withstand any unexpected and unwanted development. The arrangement is an insurance policy, which should assure all the economic actors for the country's financial soundness.

* * *

Dear media representatives,

Concluding, I would like to re-emphasize Bank of Albania's commitment to safeguarding the country's economic and monetary stability. In our judgment, the adopted policy framework provides a sound and coordinated development platform.

Pursuant to our legal requirements and the development programme, the Bank of Albania will continue to work on:

- **Maintaining price stability and sustaining the country's development.** Under the current scenarios, the monetary policy stance will remain accommodative for several quarters ahead. We are, however, willing to take any additional measures necessary to maintain price stability and the purchasing power of Albanian households.
- **Safeguarding the country's financial stability, in cooperation with all the stakeholders.** We are in constant contact with our international partners and other public agencies. Our analyses show that the banking system is stable. However, even under shocks, we have detailed plans of measure available to avoid financial constraints.
- **Developing the financial system** further through the implementation of measures agreed upon under the FSAP arrangement and provided for in cooperation with the continued IMF assistance.
- **Continuous improvement of the Bank of Albania**, with a view to enhancing its professionalism, reputation and independence. In this context, the Bank of Albania will continue to work on improving the control and management systems, to reduce operational risks and improve communication and transparency.

In addition, the Bank of Albania emphasizes the need to continue structural reforms, which will allow faster, more sustainable and more inclusive growth for different social levels of the society.

“The Bank of Albania emphasizes the need to continue structural reforms, which will allow faster, more sustainable and more inclusive growth for different social levels of the society.”

FIFTH AND SIXTH REVIEWS UNDER THE IMF ARRANGEMENT COMPLETED

- 10 November 2015 -

Dear media representatives,

In the last two weeks, we have been engaged in intensive talks with the IMF Mission. As always, discussions focused on the exchange of views about economic and financial developments, and the efforts to identify the appropriate policies and instruments for moving forward, towards the country's sustainable development.

Overall, we shared with the Mission convergent views in relation to the issues we are currently facing, policies and reforms that we need to undertake, as well as the proper coordination and prioritization. Following is a summary of the Bank of Albania's opinion.

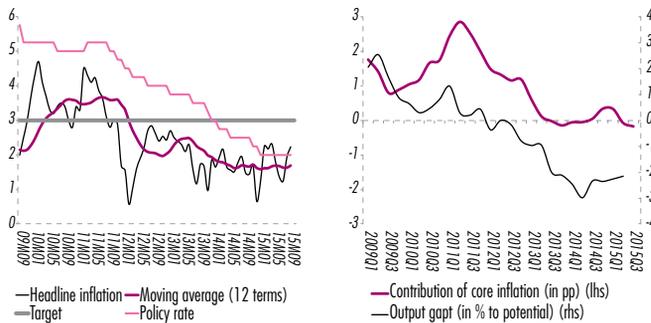
The Albanian economy registered positive growth rates in the first half of the year. Preliminary data suggest that these rates will persist in the second half. The Albanian banking system remains solid, characterized by good liquidity and capital levels. Developments in Greece had no contagion effects on our financial soundness indicators, reflecting thus the public confidence in the system and the impact of the measures undertaken by the Bank of Albania.

“...The Albanian banking system remains solid, characterized by good liquidity and capital levels. Developments in Greece had no contagion effects on our financial soundness indicators, reflecting thus the public confidence in the system and the impact of the measures undertaken by the Bank of Albania ...”

The Albanian economy, however, continues to operate below its potential and inflation remains below the Bank of Albania's 3% target. The growth pace is still insufficient for ensuring full employment and its

sources are not yet consolidated. Also, the external environment remains challenging, the high uncertainty continues to dictate consumption and investments, and credit growth stands below the desired levels.

Chart 21 Inflation, policy rate and inflation target (left). Output gap and core inflation (right)*



* Output gap is the average of some estimations on which the moving average method is applied.
Source: INSTAT and Bank of Albania.

In response to this situation, in the last meeting of the Supervisory Council, the Bank of Albania decided to further increase the monetary stimulus by lowering the key interest rate to 1.75%. This move aims at reducing financing costs and boosting consumption and investments. Taking into account the expected disbursement of the Eurobond, the Albanian financial system is expected to operate against the backdrop of ample and low cost liquidity, during 2016 and beyond. In the meantime, economic activity is expected to return to potential and inflation to target within the medium-term horizon.

But, to realize this scenario, measures in the following aspects need to be taken:

- **Maintaining the actual stance of macroeconomic policies.** The Bank of Albania deems that the actual composition of macroeconomic policies, based on the stimulating monetary policy and consolidating fiscal policy stance, is the right one for the Albanian economy. At the same time, this composition will ensure economic growth and mitigate the risk arising from public debt levels. The Bank of Albania will continue to maintain a stimulating monetary policy stance, for as long as inflation has not firmly returned to target.

- **Reducing uncertainties and improving the business climate, across all the segments of the economy.** From our analyses, uncertainty is one of the reasons that continues to decelerate consumption and investments in Albania. Its mitigation, by enhancing transparency and fostering political consensus, would help establish a more favorable environment for economic growth.
- **Boosting lending, by reducing credit risk.** As we have previously stated, the implementation without delay of the national platform for addressing issues related to non-performing loans, is a necessary step for turning lending into a sustainable and efficient source of financing the Albanian economy.
- **Albania's outlook remains positive, but sustainable growth requires a combination of the short-term economic stimulus with the long-term structural reforms.** With regard to structural reforms, I would like to underline some of the concrete commitments of the Bank of Albania, as the monetary authority, in the framework of the arrangement with the IMF. The Bank of Albania will:
 - continue to exchange information and cooperate with the European Banking Authority and other counterpart institutions, to coordinate supervisory measures and regulatory practices;
 - review some regulatory requirements, to promote restructuring, cleaning or sale of non-performing loans from banks' balance sheet;
 - take further measures to improve the functioning of the Credit Registry.

Concluding, I would like to thank the IMF Mission for their honest discussions and cooperation.



CHAPTER V

SPEECHES AND PRESENTATIONS AT CONFERENCES

- *Speech by Governor Sejko at the “European economic governance and EU accession process: what role for central banks” conference organized by the National Bank of Serbia, Belgrade, 28 May 2015*
- *Governor’s intervention in 6th ECB Conference on CESEE: “CESEE, old and new policy challenges” Frankfurt, 10 June 2015*
- *Speech by Governor Sejko at the Summit of finance ministers and central bank governors: “The financial future of the region”, 12-13 June 2015, Becici, Montenegro*
- *Speech by Governor Sejko at the round table on “The economy and banks, present and future challenges”, organized by the Bank of Albania and Government of Albania with the banking system, 16 September 2015*
- *Speech by Governor Sejko at the Conference “Do crises change economic fundamentals in SEE?”, hosted by the Bank of Albania, organized in cooperation with the South East European Studies at Oxford, 30 October 2015*
- *Speech by Governor Sejko at the 9th Workshop of Economic Research in Southeastern Europe “Rethinking Economic Policies and Central Banks’ Methodologies”, 3 December 2015*
- *Opening remarks by Governor Sejko at the Presentation of the EBRD Transition Report 2015-16, 17 December 2015*

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.

**SPEECH BY GOVERNOR SEJKO AT THE
“EUROPEAN ECONOMIC GOVERNANCE
AND EU ACCESSION PROCESS:
WHAT ROLE FOR CENTRAL BANKS”
CONFERENCE ORGANIZED BY THE
NATIONAL BANK OF SERBIA
- Belgrade, 28 May 2015 -**

Dear colleagues,

In my opinion, this session raises important questions, which are essential for complying with the requirements of the new economic governance of the European Union (EU), and necessary for good policy analysis and decision making from each central bank.

The discussion today emphasizes the role of the central bank in preparing for Chapter 17. However, it is important to mention that additional chapters, such as those dealing with financial services, Chapter 9, or taxation, Chapter 16, are also relevant to this discussion. These chapters have significant influence on issues such as prices, output, consumption, and investments and are, therefore, often crucial to central bank policy. A similar claim can be made for chapters 23 and 24, which deal with law enforcement and collateral execution, and Chapter 18, which deals with statistics.

Challenges:
1. The ability of the central bank to produce, analyze the current economic developments and forecast expected ones that meet the requirements of the EU governance process.
2. Coordination, cooperation and joint discussion within and outside the central bank.

The correct implementation of these chapters interacts directly or indirectly with the central bank's role on monetary policy, financial stability, banking supervision and, last but not least, its role as a statistical agency.

Turning to the challenges of the central bankers with regard to Chapter 17 obligations, there are two important topics that deserve the utmost attention. I would like to use the Bank of Albania as an example to illustrate my ideas.

The first one is the ability of the central bank to produce, analyze the current economic developments and forecast expected ones that meet the requirements of the EU governance process.

During the last twenty-five years, the objectives and policy instruments of the Bank of Albania have gone through significant changes. Eventually, the Bank of Albania evolved into a modern institution that safeguards price and financial stability, at the same time fulfilling banking supervision and other traditional central banking duties.

The Bank of Albania produces detailed analyses and forecasts for main key macro-economic indicators that are relevant to monetary policy, financial stability, monetary operations and banking supervision. The current monetary policy framework is inflation targeting, and decision making is based primarily on inflation forecasts and shock analysis scenarios.

A substantial amount of research has been dedicated to the statistics compilation, analysis, and forecast tools, which are regularly published and documented. They enable the central bank to understand and forecast not only inflation, but also relevant information, including the fiscal sector, employment, real economy, and foreign developments. When all taken together, it is easy to understand that the Bank of Albania has the capacity to generate a significant volume of accurate analysis, forecasts and shock scenarios for almost every indicator and development in the Albanian economy. However, technical cooperation with the European Central Bank (ECB) and its member central banks would be a great support to our experience and expertise.

The second topic I would like to dwell on is coordination, cooperation and joint discussion within and outside the central bank. This is crucial. Currently, we share with the [EU] Commission forecasts and analyses based on the most recent domestic economic developments and conduct regular face-to-face yearly meetings. Most importantly, the central bank has the same level of representation as the Ministry of Finance in the discussions regarding economic and monetary policy.

However, despite all of this, more can be done, especially in terms of raising the level of cooperation with the ECB and other financial oversight institutions, such as the European Banking Authority (EBA). Let me illustrate this through some ideas.

The central banks of candidate countries would benefit from regular participation in meetings, discussing important changes to the legal and institutional monetary and financial infrastructure. It would be beneficiary for us to be briefed on the current coordination practices of the ECB members with the Commission and how the governance procedures and framework are streamlined among national authorities and the Commission.

Advances in research and the speed of change in policy practices and tools, render it necessary to share up-to-date information on decisions undertaken by both the ECB and the EBA.

Internal research at the Bank of Albania indicates that policy decisions made by the ECB and the EBA, in the context of the new and innovative monetary and macro-prudential policy tools, could have a significant effect on our economies. These shocks, and their potential effects, are valuable information that should be correctly modelled and incorporated in our forecast models.

As a result, I believe that it is necessary for candidate countries to have a formal role during the discussions of the technical committees and the ability to provide their views on matters of importance to them. These opinions will give a chance to EU authorities to know the potential implications of their decisions and provide them with the basis for future renegotiations of the goals and objectives.

Last but not least, the establishment of regional technical research and policy networks to discuss the economic performance of individual countries will serve as a learning process. The central banks in the

“...it is necessary for candidate countries to have a formal role during the discussions of the technical committees and the ability to provide their views on matters of importance to them. These opinions will give a chance to EU authorities to know the potential implications of their decisions...”

region should use this opportunity to cooperate frequently and share their experiences in modelling, analyses and forecasts. A regional network would help in coordinating these issues, as well as improving the process and procedures in preparation for the new EU economic governance procedures and the EU Accession process in general.

To conclude, I think that there are no major obstacles in our way, but enhancing the current state with the adoption of the best practices from both EU-based and international institutions, or euro area central banks, could bring additional benefits to the new economic governance process. It will help both the Commission and the candidate countries' central banks to improve communication and cooperation and produce the best outcome in terms of economic and monetary policy, to achieve real convergence, stability and prosperity.

The establishment of regional technical research and policy networks to discuss the economic performance of individual countries will serve as a learning process. The central banks in the region should use this opportunity to cooperate frequently and share their experiences in modelling, analyses and forecasts.

GOVERNOR'S INTERVENTION IN 6TH ECB CONFERENCE ON CESEE: "CESEE, OLD AND NEW POLICY CHALLENGES"

- Frankfurt, 10 June 2015 -

Dear participants,

I am honored and privileged to be in this important conference among distinguished professionals of the banking and financial industry! I want to start by thanking the organizers for the invitation to be here, as well as to congratulate the ECB on its new building: I wish it is as functional, as it is beautiful!

Coming from the banking industry, I have been feeling the impact on the banking activity arising from the changing economic and financial environment due to recent global financial crisis. Since my appointment as the new Governor of the Bank of Albania at the beginning of this year, I have been seriously estimating the challenges we face in order to maintain the stability of our banking sector and ensure that it is fit to play its role in support of Albania's economic growth.

In my intervention today, I would like to share with you how we see the impact of changes in the financial landscape, including those in supervision superstructure, on the financial system of CESEE countries and more specifically on Albania's one.

With that being said, please let me start with the supervision superstructure and the relevant changes in the post-crisis financial landscape.

Since the beginning of the global financial crisis, there have been significant changes in the financial landscape. These changes have been driven by a combination of:

- 1) pre-crisis excesses;
- 2) restructuring measures;
- 3) international financial regulatory reforms.

Pre-crisis excesses were due to:

- increasing financial integration and innovation;
- misalignments between incentives for risk-taking and risk-provision;
- weaknesses in monitoring and supervision (especially lack of monitoring and assessment of systemic risk development, as well as cross-border interaction issues).

Such pre-crisis excesses led to risks coming from:

- higher (and often, hidden) concentration of exposures and interconnection, especially on a cross-border level;
- over-indebtedness (both in private and public sectors);
- unrealistic increase in both financial and real asset prices.

Hence, restructuring measures were necessary to address inherent risks in the financial institutions, which were coming from:

- high leverage;
- falling asset quality;
- funding constraints;
- insufficient capitalization;
- fragmentation and conflicts of interest in supervision.

Such measures were associated with public intervention in the financial system (mostly banks), increasing further the linkage between "banks and sovereigns" and creating more "moral hazard". At this point, a financial regulatory reform was necessary at international level, to address such risks.

Under the guidance of the G20, broader and more comprehensive regulatory reforms were designed, with a special contribution by the Basel Committee, the Financial Stability Board, the IMF, the WB group and many others. Such reforms were aimed to:

- strengthen the resilience of the financial system;
- avoid future similar crisis.

In more details, such reforms included:

- Improving the surveillance superstructure of the financial system, through:
 - establishing institutions with macro-prudential powers to monitor,

- assess and address systemic risk (in EU – ESRB, ECB; in US - FSOC; in UK – FPC; etc.);
- reducing fragmentation and possible conflicts of interest in supervision, and achieve supervision consistency: notably in EU through the “Banking Union/Single Supervisory Mechanism”: ECB – EBA - ESRB; in UK - BoE – PRA - FPC;
- new directives to ensure timing and effective restructuring of banking business (BRRD);
- better design and use of tools to assess resilience of financial institutions to risks, like stress-testing (in EU – EBA/ECB).
- Improving the financial system infrastructure, through:
 - better protecting the “core” banking activity from other activities like “proprietary investment” through new rules and proposals (in US – the “Volcker” rule; in UK – proposals of the “Vickers” Commission; in EU – proposals in “Liikanen” report);
 - improving clearing and settlement of securities transactions and streamlining financial reporting;
 - improving deposit guarantee schemes
- Improving in banks under “Basel III”:
 - the quantity and quality of the capital;
 - the funding structure;
 - their risk management requirements and capabilities.

To summarize, the legacy of previous financial excesses and the following crisis, is a changing financial landscape ultimately determined by international financial regulatory reform, local financial market characteristics and the crisis impact itself.

Following, in the second part of my speech I would like to briefly share some thoughts about possible implications for emerging markets and economies, including those in the CESEE region. Such implications are determined by:

- (1) local financial system features and inherent risks;
- (2) political and macroeconomic developments;
- (3) approach to reforms’ implementation.

In terms of financial system features, compared to advanced economies, in CESEE, the financial system is generally characterized by:

- more reliance on retail (longer-term) funding and more “buy to

- hold” business model;
- wider use of foreign currency in retail transactions;
- less complex financial system, good level of capitalization and simpler approach to risk management;
- serving as “host” to foreign financial institutions (usually from EU advanced economies)
- higher reliance on banking to finance the public and private needs;
- evolving regulatory framework of the financial system.

In terms of political and macroeconomic developments, CESEEs are generally characterized by:

- efforts to develop the financial system and integrate more the local economy in the regional and global one (in Europe, the process is driven by the process of European Integration);
- stronger macroeconomic developments, which have seen improvement in inflation due to more effective monetary policy, better use of economic resources and better fiscal management.

However, in terms of approach to international financial regulatory reforms implementation, given their features, the CESEE will have to consider that:

- staying “out” is not an option;
- less financial integration is not an option;

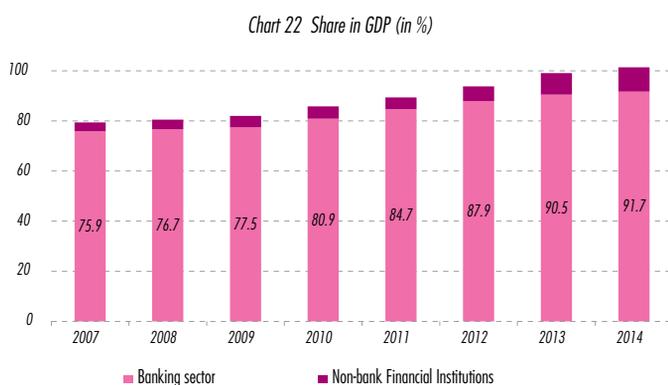
and, given the complexity of reforms, preparations should progress quickly, although the pace of change should be carefully weighted and prioritized with local market features.

In this regard, to my opinion, the CESEE may feel some stress impact during the process of reforms implementation, which will come most likely from:

- deleveraging, in terms of lower “parent” support for liquidity and lending to local economy;
- cross-jurisdictions similarity in economic and financial cyclicity;
- cross-border cooperation in supervision;
- possible capital movements and impact on exchange rate;
- political process as, in the SEE, the EU integration process is determinant;

Nevertheless, there is no option on “holding back” from the reforms for a long time, given the unstoppable process of financial integration and globalization. Hence, an early start of a pacing approach to financial regulatory reform is appropriate.

In the last part of my speech I would like focus on the impact on Albania’s financial sector and economy and possible ways to avoid/mitigate negative externalities



Source: Bank of Albania.

The features of our financial system are similar to those of other CESEEs. In fact:

- in Albania, the banking sector dominates the financial system;
- banking activity is concentrated and controlled by foreign banks (87% of the assets);
- in total, there are 16 banks and the 4 biggest ones possess 68% of total assets.
- home countries are: Austria (1 bank), Greece (3), France (2), Italy (2), Turkey (1), Bulgaria (1).
- banks play the main role in meeting the private and public financing needs, and they rely heavily on local deposits to finance their activity;

Changes in the regulatory superstructure, and enforcement of the regulatory requirements, have had an important impact on Albania’s financial sector and economy. More concretely:

In the financial sector, we have experienced:

- deleveraging in local financial assets investments, particularly seen at subsidiaries of European banking groups, as they try to meet requirements coming after EBA and ECB stress tests;
- increasing preference by financial institutions to place local funds in foreign investments (abroad).

In the economy, such behavior by some of the banks has materialized in:

- lower financial intermediation to both private and public sector;
- negative impact on economic growth.

However, the stability of both financial system and macroeconomic framework has been saved and at this point I would like to state that we believe that there can be found ways to further avoid or mitigate any negative externalities.

On deleveraging, the Bank of Albania has raised the concern on such phenomena directly with the EU counterparts, but also through its role in Vienna II Initiative. In this regard, we have highlighted the need to establish effective mechanisms to restore healthy lending to economies of non-EU countries, where subsidiaries of EU banking groups operate.

Furthermore, we consider it important to ensure that macro-prudential policies undertaken in the Euro-area, and banking group solutions originating from the EU, should take into account the relevant impact on non-EU host countries' financial stability, where systemically important EU bank subsidiaries operate. This could be bridged also by an effective exchange of information in the supervisory colleges, in accordance with the new EU directive for the recovery and resolution of banks, and particularly by working to remove barriers for non-EU host countries to come closer to the European forums and be able to participate and exchange their views.

Despite some negative externalities that could be temporary, at the Bank of Albania, we do believe that the Banking Union/Single Supervisory Mechanism and the new role provided to ECB will also serve to improve the supervision of the banking sector in our country. This will come not only by much more consistent approach in supervision practices, but also through improving the coordination framework between home and host supervisors. In this regard, at the Bank of Albania, we are willing

and hopeful that we can establish a much stronger working relationship with the ECB.

Akronime:

- CESEE – Central, Eastern and Southeastern European countries
- ESRB – European Systemic Risk Board (EU)
- FSOC – Financial Stability Oversight Council (USA)
- ECB – European Central Bank
- EBA – European Banking Authority
- FSB – Financial Stability Board
- PRA – Prudential Regulation Authority (UK)
- FPC – Financial Policy Committee
- BRRD – Bank Recovery and Resolution Directive (EU)

**SPEECH BY GOVERNOR SEJKO AT THE
SUMMIT OF FINANCE MINISTERS AND
CENTRAL BANK GOVERNORS: "THE
FINANCIAL FUTURE OF THE REGION"
- 12-13 June 2015, Becici, Montenegro -**

Monetary policy in the leading developed economies, which are currently living through a prolonged period of practically zero interest rate, and abundant amounts of liquidity, has unintentionally caused consequences in international foreign exchange markets.

The unprecedented moves during the previous years have started a significant shift in terms of exchange rate movements among the currencies of the major players of the global economy; e.g. when the Federal Reserve reduced its fund rate close to zero in 2009 and proceeded with quantitative easing programs thereafter, it was considered by many as a hidden currency war. The same could be said for the ECB, and many other central banks.

However, due to trade and financial linkages with the euro, historical preferences toward the US dollar and low interest rates of the Swiss franc, exchange rate developments of these currencies bear the most significant effects inside the CESEE economies.

In the case of Albania, we are mainly concerned with the euro and the US dollar only due to the fact that Albania was the latest economy to slightly embrace the Swiss franc. By the time it was presented in the market, the central bank was already concerned by the larger share of foreign-currency loans and stopped further expansion by means of macro-prudential regulation (higher provisions and collateral required).

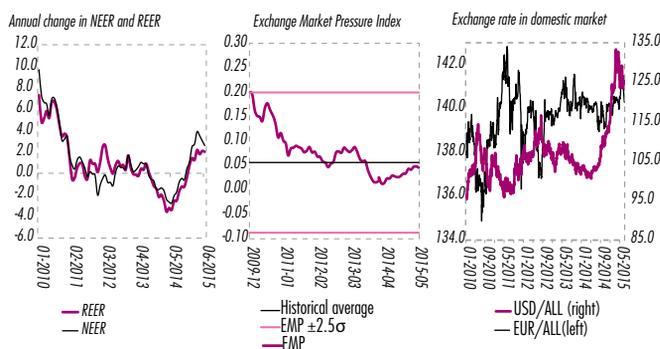
"... the Albanian lek has been one of the most stable currencies among all floaters in CESEE or emerging Europe."

On the other hand, euro developments are especially important in terms of our real economic activity, export competitiveness and financial developments, since a substantial amount of trade and of banks' assets & liabilities (almost half of savings and more than 50% of loans) are held in euro. Meantime, the US dollar is also important as a means of trade and currency of savings.

The outbreak of the crisis caused a lot of concerns in Albania especially with respect to financial stability issues (given that 75% of the outstanding loan portfolio was denominated in foreign currency, mainly euro). However, the Albanian lek has been one of the most stable currencies among all floaters in CESEE or emerging Europe.

Perhaps surprisingly, the Albanian lek emerges as the least volatile currency of all. In the past five years or so, its coefficient of variation is less than 1, whereas that of other currencies varies from 3 to 13 times higher than Albania's. This performance has been helpful in terms of financial and price stability (inflation rate in Albania is also noticeably less volatile) but, on the other hand, has prevented/postponed a much needed adjustment in trade flows related to consumption and investments. In general, our analysis indicates that the Albanian lek exchange rate fluctuations against the US dollar and Swiss franc have mostly reflected their position relative to the euro, which is the main and most important currency in terms of trade and financial transactions. Currently, our economy is more and mostly sensitive to shocks in the euro area, while the response to US or other economic policies follow that of the euro area.

Chart 23 Annual change in Nominal and Real Exchange Rate indices; EUR/ALL and USD/ALL exchange rate performance



Source: Bank of Albania.

To our best understanding, lek's performance against hard currencies despite large external deficit, falling remittances, and easing monetary policy reflected in the narrowing gap of policy rates between Albania and euro area (the difference was 4 per cent four years ago and it's less than 2 today), reflects two important facts:

- First, unlike other CESEE countries, Albania has not integrated its production and industrial structure with the euro area. In addition, financial intermediation was almost entirely supported by domestic deposits, which have consistently covered more than 100% of outstanding credit. Therefore, at the outburst of the crisis, we did not experience large and substantial capital outflows.
- Second, the relative sluggish transmission mechanism (due to balance sheet problems and pessimistic expectations related to the situation in neighboring Greece) has not responded proportionally to interest rate reduction. Under these conditions, ECB's quantitative easing program has supported further the Albanian lek's resistance against euro.

In conclusion, I would like to say that this cherished stability of the Albanian lek against the euro is a valuable asset. However, long-term stability will depend on future growth, inflation, as well as patterns and terms of trade. The Albanian lek will continue its free float to reflect market forces, and relative stance of the monetary policy.

**SPEECH BY GOVERNOR SEJKO AT THE
ROUND TABLE ON “THE ECONOMY
AND BANKS, PRESENT AND FUTURE
CHALLENGES”, ORGANIZED BY THE
BANK OF ALBANIA AND GOVERNMENT
OF ALBANIA WITH THE BANKING
SYSTEM**

- 16 September 2015 -

*Your Excellency Prime Minister,
Honored representatives of international institutions,
Dear bank executives and representatives,*

This meeting seeks to once again draw the attention on non-performing loans, an issue that has been discussed extensively over the recent years. It aims at fostering the shared and concrete commitment to reduce the stock of non-performing loans, increase the financial intermediation by the banking sector and underpin Albania's economic growth.

Following, I would like to list some facts.

The high level of non-performing loans has not affected the banking sector's stability. Liquidity and capitalization indicators remain adequate and the financial performance has been positive and improving.

But, the still-high percentage of non-performing loans has contributed to a higher perception of risk by banks; in turn, they have adopted a more conservative approach to lending.

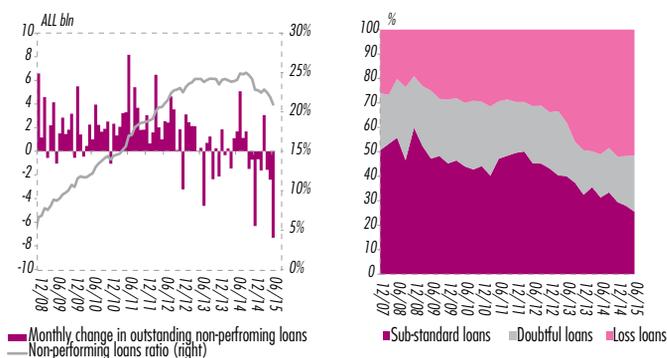
Our survey data point to tightened lending standards; meanwhile, the lending volume, albeit positive, is still considered as low.

The credit quality has improved during this year. The non-performing loans ratio, after peaking 25%, fell to around 21% in July 2015. We believe this improvement reflects the measures taken in the last 2-3 years, of which I would like to single out:

- a) Amendments to the law “On income tax” at the end of 2013, to facilitate the loan loss write off from the balance sheet;

- b) Amendments to the Code of Civil Procedures in September 2013, to improve the collateral execution process;
- c) Entry into force of a regulation of the Bank of Albania, which renders obligatory the write off of loans classified by banks as “loss” for a period longer than 3 years;
- d) the work accomplished in cooperation with the commercial banks to restructure loans when the borrowers are exposed to more than one bank.

Chart 24 NPLs ratio and NPLs structure (right)



Source: Bank of Albania.

Albeit the number of non-performing loans subject to the execution process has been significantly up, the improvement of the credit quality reflects mainly the loan loss write offs from banks’ balance sheet.

For the first half of 2015, its value amounted to around ALL 11 billion. The write off from banks’ balance sheet is both healthy for the bank and useful for the economy, as it:

- provides a more realistic picture of the banks’ loan portfolio, releases the capital and improves their financial balance;
- improves bank processes, thanks to a more efficient use of human, financial and technical resources, and redirects the focus of the bank toward new loans;
- improves the overall functioning of the financial market, as it contributes to the market “exit” of non-competitive businesses;
- contributes positively to the market participants’ assessment of the banking sector (ratings) and, subsequently, to the assessment of Albania’s economy;

- provides conditions to better manage debt collection, though always accompanied with the necessary message that this does not erase forgiving the borrowers debt.

In our case, the process of loan loss write off from banks' balance sheet is not a detached process from real developments. On the contrary, it reflects the gradual improvement in non-performing loans.

In concrete terms, over the last two years, the growth rate of non-performing loans has decelerated at extraordinary rates, banks' annual spending for provisions has fallen, and new loans, especially those denominated in lek, have been stable.

On their side, banks have been increasingly committed to this process. Usually, it happens when the effectiveness of the process improves and/or banks expectations for lending improve.

Ladies and gentlemen,

I would like to point out that although the credit quality has improved, the level of non-performing loans is considered as still high, and it should be lowered at a faster pace. This is a complex process that puts to test the adequacy of the legal framework, as well as the coordination and consistent implementation of institutional policies.

These challenges were identified in the Annual Forum organised in June. Some of them acknowledge the need for improving the legal framework. Others point to unifying, in a single law, important stipulations about the execution of executive title, which are currently envisaged across several laws.

***“... although the credit quality has improved, the level of non-performing loans is considered as still high, and it should be lowered at a faster pace.*”**

We should be aware that a part of the difficulties arise from the dimensions of this problem; also, until a while ago, the justice system lacked the experience and specialised expertise on these matters and is still facing inadequate capacities to handle such practices. However, inadequate legal provisions and their inconsistent implementation in practice render the collateral execution process tedious, uncertain and costly for the parties involved.

The coordination of institutional policies is another key process to respond to various problems in a timely and appropriate fashion. For example, the recent Action Plan for the resolution of non-performing loans represents a new level of communication and commitment of public institutions and the Bank of Albania to find a sustainable solution.

Many of the issues concerning the banking industry, which the Bank of Albania considers as crucial, have been incorporated in this Plan. For example, the preparation of the draft law "On bankruptcy", a commendable effort by the Ministry of Justice, represents a significant development and unique opportunity to render the resolution of a financial obligation as an enforceable, predictable, and efficient process.

Concluding, I would like to underline that reducing the level of non-performing loans is closely related to the magnitude of financial intermediation by the banking sector.

The need to redirect private investments towards new sectors in the economy, the small market size, problems related to the low quality of financial reporting by private entities, and slowdown of economic growth rates in Albania have dictated an unstable private demand for loans.

Therefore, it is important to find, in addition to macroeconomic policies, new alternatives to boost domestic demand, promote optimism in the economy and contribute positively to businesses and consumer expectations. The acceleration of economic growth would provide the conditions for faster and steadier improvement in the level of non-performing loans.

"... it is important to find, in addition to macroeconomic policies, new alternatives to boost domestic demand, promote optimism in the economy and contribute positively to businesses and consumer expectations."

**SPEECH BY GOVERNOR SEJKO AT THE
CONFERENCE “DO CRISES CHANGE
ECONOMIC FUNDAMENTALS IN SEE?”,
HOSTED BY THE BANK OF ALBANIA,
ORGANIZED IN COOPERATION WITH
THE SOUTH EAST EUROPEAN STUDIES AT
OXFORD**

- 30 October 2015 -

*Your Excellency Prime Minister,
Dear Governors and senior central bank representatives,
Your excellences ambassadors,
Dear guests, friends and colleagues,*

I am delighted to welcome you to the annual conference of the Bank of Albania organized in cooperation with the South East Europe Studies at Oxford. It is a pleasure to see that this cooperation brings together old and new partners.

This has been a tough year full of challenges for the Albanian economy, consequently for the work of the Bank of Albania. The full recovery of economic growth and its further improvement in the future are and remain one of the top priorities of our work for the year.

The prolonged crisis has impelled us and homologous institutions across the world to review many of the economic axioms, which we had taken for granted for a long time. It is not by accident that the main topic of the conference focuses on the causality and solutions for long-term problems we are facing during this period.

Over the five year period, the Albanian economy has been growing in positive territory, yet, below its potential. This is a global

“... Bank of Albania has been actively using two main instruments, the monetary policy and macro-prudential one, to give its contribution for a swift and systematic closure of the negative output gap in Albania.”

phenomenon in the post-crisis period, extending across the entire South East Europe, which has experienced even lower growth rates.

I hope that during this conference we will have the opportunity to analyze in depth the reasons behind this situation, sources that feed it and the difficulties it imposes on the business model and financial intermediation. Furthermore, it would be useful to discuss on the options available to policymakers and the way out of this situation, which, I believe, is a temporary situation rather than a long-term economic equilibrium.

The Bank of Albania has been actively using two main instruments, the monetary policy and macro-prudential one, to give its contribution for a swift and systematic closure of the negative output gap in Albania. The Bank has continued to implement an accommodative monetary policy lowering the key interest rate to the historic 2% level.

Notwithstanding the skepticism that has accompanied this process, the lowering of the key interest rate is reflected in a wide range of interest rates in the financial market, including those on loans and government securities. The fact the economy continues to grow below its potential, does not necessarily reflect the absence of an effective transmission channel for the monetary policy. We are increasingly convinced that, above all, we have a weak aggregate demand, which is not generating the much needed stimuli for the recovery of the economic activity.

Recent data, however, render us more optimistic. The real sector is showing signs of constant recovery, corroborated by some positive developments in the external economy. I would like to underline that a clearer prospect of the political and economic situation in Greece will have a positive impact over the upcoming period. The Bank of Albania has been continuously monitoring the developments in our Southern neighbor, aware of the various risks that could spill over in the Albanian economy. But, thanks to the precise and duly interventions, especially in the banking sector, these risks never materialized.

The constant easing of the monetary policy seems to be reflected especially in investment indicators, with the domestic and foreign ones showing significant improvement over the first half of the year. On our side, we are happy that these investments were not only due to public sector interventions, but also a substantial component by the private sector. This makes us believe that well-studied projects by the investors, coupled with an increasingly sound and pro-investment business climate,

will serve as main drivers for the economy towards both higher and more sustainable growth in the near future.

In accordance with the best contemporary practices, the Bank of Albania has endeavored to enhance the transparency in its communication with the public, not only about the actual decisions but also about our forecasts. The Bank of Albania has constantly conveyed to the economic agents the idea that the monetary policy will remain accommodative and will sustain the revitalization of the economy. As a result, we hope that the forward guidance on the monetary policy stance of the Bank of Albania will be adequately understood by all market agents and the public.

Banks and entrepreneurs should use this opportunity to boost their activity resting assured that the central bank will continue to sustain and support their activity.

In addition to the monetary policy easing, the Bank of Albania has paid special attention to the reform in the financial sector and the prudent supervision of the banking sector. The Chair of the Board of Governors of the Federal Reserve System, Ms. Yellen, in a statement not long ago leaves no doubt about the necessity of reforms in the financial sector, I quote "... a sine qua non for sustained economic recovery following a financial crisis is a thoroughgoing repair of the financial system."

From the perspective, in cooperation with the Parliament, government and other public regulatory entities we have undertaken a series of legislative and regulatory initiatives, aimed at creating incentives for the recovery and assurance in lending. Thanks to the reforms we have undertaken during this year, we have started to reap the first positive results as regards the situation of the non-performing loans.

"... in cooperation with the Parliament, government and other public regulatory entities we have undertaken a series of legislative and regulatory initiatives, aimed at creating incentives for the recovery and assurance in lending."

As a result, the ratio of the non-performing loans fell for the first time after almost seven years of continuous rise. The write off of loss loans, as I have explained in previous statements, was the finalization of joint

inter-institutional efforts. During this process, we have been assisted and overseen also by important international financial institutions such as the World Bank and the International Monetary Fund.

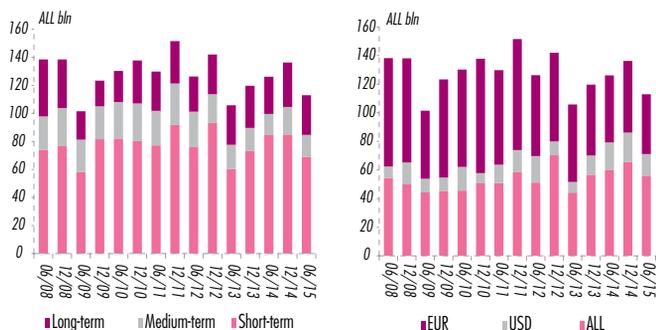
Beyond the non-performing loans issue, the banking system continued to be well capitalized, liquid and financially sound. The issue of non-performing loans will require some more time to resolve, but this should not keep us from the recovery of the credit activity at home. For as long the positive performance of the other above-mentioned indicators continues, the banking sector has room and the potential to credit convincing projects and investments. In my judgment, it is important to administer with courage and persistence the prevalent perception that non-performing loan have forced banks to adopt a very conservative approach to lending.

To permanently address this problem, additional measures have been taken and will be taken in the future. I would like to briefly focus on the latest initiative in this regard: a coordinated plan between the Bank of Albania, Government of Albania, Association of Banks, and International Monetary Fund, consisting in two main pillars:

- The first pillar relates to the drafting and completing the legislation that regulates lending from the moment of concluding a contract until the final repayment, including disputes among the parties. These changes aim at making more precise in legal terms all procedures related to banking activity, bailiff services, borrowers and other relevant state institutions.
- The second pillar is related to the regulatory framework of the activity of the banking system, therefore, related to the day to day activity of the Bank of Albania and the banking system. We have identified the regulations that will be subject to amendments. In addition to the objective for creating higher flexibility in relation to certain aspects of the activity in the treatment of the credit portfolio, we will aim at adopting a new concept: the "background check" of the client in relation to bank borrowing. We believe that this new element will help banks assess the borrowing potential of each client.

In spite of what I said above, it is a fact that, recently, lending in the national currency has seen positive growth over the months. This phenomenon, among others, has been accompanied with a positive side effect at a higher speed and intensity in the pass through mechanism of the monetary policy in the economy.

Chart 25 Distribution of new credit by maturity (left) and currency (right)



Source: Bank of Albania.

Dear guests,

As I pointed out, at the beginning, economic activity at home remains in a positive trajectory, but it has not yet reached the level we wish it were. Research at the Bank continues to confirm that the Albanian economy has unutilized potential and that the closing of the gap remains the main challenge for policymakers. Interventions through both the monetary policy and macro-prudential elements insofar have not succeeded to definitively close the gap. I listed these facts intentionally as the conference of this year is called "Do crisis change economic fundamentals?" These interventions are main actions central banks are allowed by the legislation, and recommended by the most modern theory.

If these interventions fail to introduce a long-term positive equilibrium for the economy, then a question arises naturally: what else should be done?

The answer is in the phrase "structural reforms". While the phrase may have often been speculated, the truth firmly confirms: only the willingness to project and undertake courageous and visionary reforms is the golden key to success".

This fact was strongly emphasized in the final statement of the Ministers of Finance and central bank Governors of 24 most developed nations, (Financial Committee of the IMF) in the annual meeting of the IMF

organized earlier this month in Lima, Peru. A secure sustainable long-term growth requires timely-implemented and well-sequenced structural reforms which remain critical to raise productivity, potential output, and living standards; they should bolster confidence in the economy and reduce social inequality.

“...Similarly to the rest of South East Europe, Albania needs a new path, in which investors will be able to see again profit opportunities. It is vital for all of us, for the region to detach itself as fast as possible from the perception as an irrelevant geographical area, fragmented, with insignificant human, financial and economic potentials.”

Concluding, I would like to underline the support of the Bank of Albania for a series of reforms undertaken recently as part of the medium-term agreement between the Government of Albania, Bank of Albania and the International Monetary Fund.

Similarly to the rest of South East Europe, Albania needs a new path, in which investors will be able to see again profit opportunities. It is vital for all of us, for the region to detach itself as fast as possible from the perception as an irrelevant geographical area, fragmented, with insignificant human, financial and economic potentials. We should do anything it takes, at any

cost, to restore once again the trend and vitality this region showed before the crisis.

**SPEECH BY GOVERNOR SEJKO AT
THE 9TH WORKSHOP OF ECONOMIC
RESEARCH IN SOUTHEASTERN EUROPE
“RETHINKING ECONOMIC POLICIES AND
CENTRAL BANKS’ METHODOLOGIES”
- 3 December 2015 -**

Distinguished guests, Workshop participants, Ladies and Gentlemen

I am privileged to address you all for the opening of the 9th South Eastern European Economic Workshop, here in Tirana. In line with the tradition of this event, we once again attempt to complement the need for research with the need for policy novelties. Please allow me to say that judging from the contributions and the presence in this workshop, I am confident that this event will fulfill its commitments and expectations and provide all of us with useful and practical lessons.

It is important to emphasize the global and national economic background in which this event takes place and these are very difficult times. The global recession remains present. The European core was shaken not only by events in Greece, but also in Spain, Portugal and Italy, and remains fragile. The recent developments from the Middle East will add to hardships and overstretch available resources. Therefore, economic activity might take a longer time to return to its previous glorious days. Despite the fact that our region has managed to remain on the positive side of economic growth, the hardships were quick to reach us as well. Economic and income growth is not what it used to be and inflation continues to break new low records.

Central banking has received its share of challenges and hardships as well. Continuous standard monetary policy easing was

***“...The non-standard interventions (micro and macroprudential policies) require special attention and resource allocation in order to properly manage their implementation and have an impact on the general economy.*”**

coupled with micro and macroprudential policy interventions. Even interventions like quantitative-easing in the euro area were brought into attention and implemented, but still the general economy seems slow to react properly.

Furthermore, the issue is not about monetary policy alone. The non-standard interventions (micro and macroprudential policies) require special attention and resource allocation in order to properly manage their implementation and impact on the general economy. Additionally, maintaining financial stability requires additional central bank action to prevent possible negative spillovers from the financial sector toward other areas of the economy.

***“...maintaining financial stability requires additional central bank action to prevent possible negative spillovers from the financial sector toward other areas of the economy.*”**

Thus, the general economic difficulties have placed central banking at a cross-road in relation to its principles, policies and management. Moreover, even though the requirement to maintain price stability remains appealing, dangers do not occur only from inflation. Exchange rate fluctuations have provided additional hazards, particularly within economies where foreign currency transactions dominate.

Additionally, financial stability challenges are present even at higher levels. Credit demand reaction to continuous monetary policy stimulus has been sluggish, reflecting the poor expectations of consumers and enterprises on future developments. Supplementary easing of the general requirements for obtaining credits did not have the expected impact and that can be observed in the recent dynamics of aggregate demand components. Unquestionably, financial agents are into profit making and it is their duty to search and find alternative clients if the traditional end-users are unwilling or uncommitted to new credit. Besides that, the need for financing will stimulate end-users to search and find alternative sources. This raises the question at more strategic levels associated with credit efficiency allocation and informality.

Allocation deficiencies tend to intensify in times of crises reflecting usually a condition of over-lending in certain sectors, which are most probably with poor spillover effects on the rest of the economy. In the meantime,

the sectors that are truly productive might remain detached from financial sources, thus with little stimulus to move forward. Even worse, these sectors might revert informal lenders to compensate for their financial needs. This is also an activity that booms in times of crisis and, since these activities are entirely unmonitored by financial regulators, they could dangerously harm and diminish the ability of financial regulators to influence the economy at large.

Having mentioned all these arguments, I would like to return to our event and emphasize how the challenges mentioned above are translated into challenges for central banking research. I am most glad that all issues have been addressed at the different panels of this workshop. Additionally, although we are yet to hear them, I am most confident that the policy implications suggested in these contributions are relevant and important. The question remains: are they practical and can they be easily adapted?

This question involves the major challenge for research both at this workshop, and in general. It is your duty to provide a balance between the academic properties of research and its practical endeavors. The academic properties will guarantee a standard of research enriched with methodological novelties and points of view. Furthermore, the practical patterns would allow policy makers to fully and easily implement your policy proposals making them relevant.

This is the main expectation that I have from this event and I am confident it will be fulfilled at the end of these two days.

Without further ado, I would like to give a warmly welcome and congratulate you all for your good work and for being here today.

OPENING REMARKS BY GOVERNOR SEJKO AT THE PRESENTATION OF THE EBRD TRANSITION REPORT 2015-16

- 17 December 2015 -

*Dear representatives of the EBRD,
Dear friends and colleagues,*

I would like to first welcome you to the Bank of Albania premises. We are here today for the presentation of EBRD's Transition Report 2015-16. I am certain that an open discussion of this report will provide a new perspective on the actual problems facing the country and possible solutions.

In my brief address, I will focus on three key moments. First, as the host of this activity, I would like to say a few words on the importance of the Transition Report and its highlights. Second, as the Governor of the Bank of Albania, I think that a preliminary assessment of their applicability for Albania is suitable. Third, it is also necessary to make a very brief summary of EBRD's crucial contribution in the transition process.

1. Transition Report and highlights for the current year

The Transition Report ranks high in the list of professional analysis for the economies of our region and beyond. This annual report is more than just a summary statement of the current economic and financial situation. It is a coherent guideline for formatting the development agenda for transition countries, highlighting the structural growth issues and the macro and microeconomic weaknesses for these countries. To illustrate my point, I would like to bring again to your attention that

"...The Transition Report ranks high in the list of professional analysis for the economies of our region and beyond. It provides a coherent guideline for formatting the development agenda for transition countries, highlighting the structural growth issues and the macro and microeconomic weaknesses for these countries.

the Transition Report over the past years has focused on topics such as: the impact of the global financial crisis on the region (in 2011); challenges arising from the integration in global economy networks (in 2012); reasons for a prolonged transition (2013); and problems arising from technological and financial innovation in emerging economies. All these topics have fully resonated with the past and current challenges facing Albania.

This year's main topic in the Report relates to the need for creating a new financing model in transition countries. This conclusion comes naturally from the context of economic and financial dynamics in them. Seven years on since the start of the crisis, economies in transition continue to see sluggish growth. The experience has shown that economic recovery is hampered by cyclical weaknesses and structural problems in the real sector. In contrast to previous crisis, economic recovery after the last financial crisis has been and continues to be constrained by the weak performance of bank lending and lack of alternative financing options.

To sum up, the Report points out that the level of development and diversification of our financial systems does not correspond to the quality and quantity of the needs for investment. For a number of reasons, the divergence has been increasing in the post-crisis period and, unless tackled with priority, it may become a serious obstacle in our development path. The Report puts forward concrete proposals for overcoming the obstacles. The proposals refer both to the expansion and the qualitative improvement of the functioning of the financial system.

The Bank of Albania has been constantly paying attention to credit-related problems. In our last annual conference, we discussed extensively on the deficiencies in the current financing model of the Albanian economy. I would not

“...The report points out that the level of development and diversification of our financial systems does not correspond to the quality and quantity of the needs for investment. For a number of reasons, the divergence has been increasing in the post-crisis period and, unless tackled with priority, it may become a serious obstacle in our development path.”

wish to claim or say that the Bank of Albania has all the answers and all the tools to solve such issues. But, I may say that the Bank of Albania has made a good diagnosis of the situation and is making maximum efforts to boost credit and ensure sustainable development of the financial system.

Let me now summarize in brief Albania's position vis-à-vis the main challenges highlighted in this year's Transition Report.

2. Challenges to the development of the financial system in Albania

- The report suggests that transition countries have seen a significant fall in the rate of investment. This fall is not justified by cyclical or fundamental factors and affects the long-term growth of these economies.

The Bank of Albania has constantly pointed out that the global economic and financial crisis took a toll on the country's development. One of the most evident effects was the decline in investments, from 36% of GDP in the pre-crisis period, on average, to around 28% of GDP, on average, in the following years. In part, it owes to the decline in investments in residential buildings, which is a natural adjustment of the swift growth that this segment experienced in the pre-crisis period. In parallel, it owes to the decline in investments in machineries, equipment and infrastructure, which contributes negatively to the development potential of the country.

According to some estimates, the level of the per capita capital stock in Albania accounts for around 40% of the average level of this indicator in the euro area. This capital level is certainly insufficient to support the convergence with the living standards in these countries. Therefore, we should keep promoting investments and expanding potential growth as a constant priority in our work.

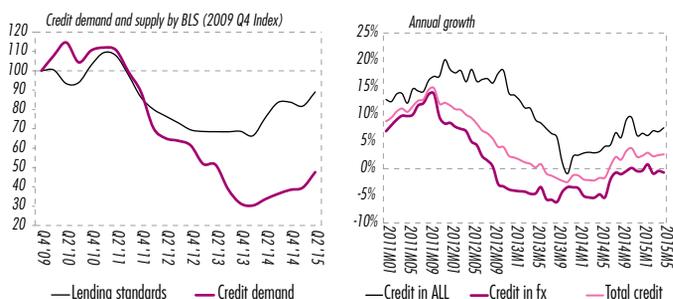
Table 1 The share of segments of the financial system to GDP over years

Licensing and Supervising Authority	Financial system	2008	2009	2010	2011	2012	2013	2014	2015 H1
Bank of Albania	Banking sector	76.7	77.5	80.9	84.7	89.6	90.5	91.7	92.7
	NBFIs	1.7	2.2	2.7	2.5	2.7	2.5	2.7	2.7
	SLAs and Unions	0.7	0.8	0.8	0.7	0.8	0.8	0.8	0.8
Financial Supervision Authority	Insurance companies	1.4	1.5	1.4	1.5	1.6	1.6	1.7	1.8
	Pension funds	-	0.01	0.01	0.01	0.02	0.03	0.04	0.05
	Investment funds					1.21	3.7	4.5	4.8
Financial intermediation		80.5	82.01	85.81	89.41	95.93	99.13	101.44	102.8

Burimi: Bank of Albania, AFSA.

- According to the Report, the growth of investments in transition countries continues to be constrained by a lack of funding sources. Particularly, bank credit supply appears to have faced constrains, due to structural changes in the European banking sector and the legacy of problems in the financial systems of transition countries.

Overall, the banking sector dominates the financial systems in our region's economies. This financial structure has helped channeling foreign savings into local loans, but this process was accompanied by high euroisation in the pre-crisis period and a rapid growth of non-performing loans in the period that followed it. Credit supply contracted significantly in the post-crisis period. European banking groups faced financial difficulties and deleveraged from many transition countries. At the same time, the new regulatory environment in the European Union, the high euroisation level and the rapid growth of non-performing loans weighed on the balance sheets of the real and financial sectors of the economy.

Chart 26 Lending to economy*


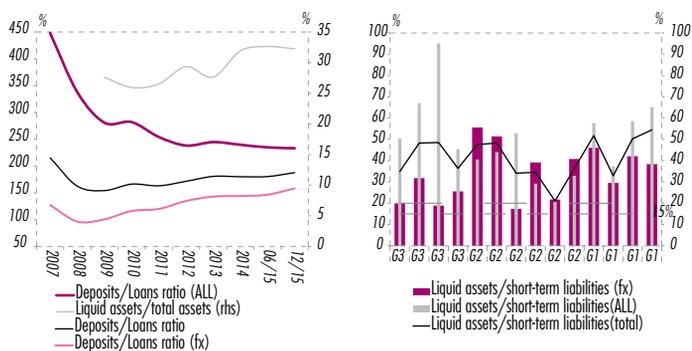
*The data in the right chart shows the weighted average of BLS results to enterprises and households. The chart shows the net cumulative balance index since 2009 Q4.

Source: Bank of Albania.

A number of parallels may be drawn between the performance of the financial system in Albania and in the countries of our region. The banking sector dominates the financial system, accounting for around 90% of total financial assets. Bank credit saw a sharp increase over 2004-2008, from 8% to 35% of GDP. In the following period, the credit growth rate slowed down notably, currently standing at around 36% of GDP. Moreover, the euroisation of credit in Albania was very high in the pre-crisis period, with approximately three out of four credits denominated in a foreign currency. However, this trend has shown evident improvement in the following period, with the ratio of domestic currency credit to foreign currency credit standing at around 40%. The trajectory of non-performing loans has performed similarly to that in the countries of the region. In the post-crisis period, these loans increased rapidly; their ratio to total loans peaked to around 25% in 2014 to later pursue a clearly downward trend.

On the other hand, the financial system in Albania has its own specific characteristics. A positive feature is the fact that the banking sector activity in Albania relies on domestic sources of funding. Currently, the ratio of credit to deposits is around 50% and the banking sector is characterized by high liquidity, especially in foreign currency. This feature has served as a buffer for the Albanian market against global market volatility.

Chart 27 Liquidity structure of banking sector



Source: Bank of Albania.

Unlike many countries in the region, bank runs in Albania were sporadic and relatively limited. Likewise, the high level of investments in Albania

was sustained by considerably high level of FDIs. In the post crisis period, these investments were around 8% of GDP and served as a substantial buffer to bank credit slowdown.

- Lastly, the Transitional Report presents some concrete suggestions on the further restructuring and development of the financial system. Among others, this system should be further diversified in terms of its segments and products and rely mostly on domestic savings. Also, the banking sector and businesses should appear more rational in the financing strategies.

Naturally, these suggestions are among the most important contributions of this Report. I would like to also emphasize that Albania has taken a series of important steps to increase domestic savings, such as: pensions system reform, energy sector reform accompanied with the lowering of its fiscal subsidizing, and the return of public debt to a downward trajectory. Also, the Bank of Albania, in the capacity of the monetary, supervisory and regulatory authority of the banking system has taken concrete steps to boost credit demand and supply. These measures have aimed at lowering the financing cost, tackling non-performing loans, introducing more prudential rates against foreign currency credit and encouraging credit restructuring. Also, we have urged banks and businesses to design more rational and visionary business strategies.

On the other hand, capital market segments remain unexplored. The development of this segment, at both, local and regional level, continued to be constrained by the lack of expertise and of financial literacy, the inadequate standards of transparency and good governance of businesses. Capital markets may provide an alternative platform for the financing of businesses, moreover so, if these markets would succeed to draw the interest of big players of the global financial markets.

I would like to close my opening remarks with a few words about the unique role of the EBRD in the transition process in Albania.

3. EBRD and Albanian transition

Beyond the advisory function, the EBRD has provided important contribution and concrete support through financial investments in crucial areas of the economy. Recent data show that the EBRD has invested in both the private and public sector, around EUR 940 million in the

Albanian economy through 70 projects, in areas such as: infrastructure (around 34%); energy (around 28%); development of financial infrastructure (around 23%) and various projects in the field of industry, trade and agri-business (around 15%).

In particular, I would like to highlight that the guarantee line the EBRD has provided to the Albanian Insurance Deposit Agency is an additional safety net to our entire financial system and has considerably contributed to its normal functioning.



CHAPTER VI

PRESENTATION AND INAUGURATION CEREMONIES

- *Speech by Governor Sejko at the inauguration of the renovated headquarters building and the Museum of the Bank of Albania, 30 October 2015*

The inauguration of the renovated building and the Museum of the Bank of Albania

On 30 October 2015, the Bank of Albania inaugurated the renovated headquarters building, and opened the Museum of the Bank of Albania. This symbolic date coincided with the 77th anniversary of the first inauguration of the building in 1938.

The Governor of the Bank of Albania, Mr Gent Sejko, welcomed in this ceremony the Prime Minister of Albania, Mr Edi Rama, central bank governors and senior representatives, diplomats accredited in Albania, government ministers, Members of Parliament, heads of independent Albanian institutions, representatives of international financial institutions, officials of commercial banks and other financial institutions operating in Albania. The ceremony was also attended by representatives of many institutions in the fields of architecture, history and culture, Albanian and foreign collectors, and former employees of the Bank of Albania.

SPEECH BY GOVERNOR SEJKO AT THE INAUGURATION OF THE RENOVATED HEADQUARTERS BUILDING AND THE MUSEUM OF THE BANK OF ALBANIA

- 30 October 2015 -

*Your Excellency Prime Minister,
Honorable Ministers,
Your excellencies ambassadors,
Dear friends and colleagues,*

I am very privileged to welcome you to the inauguration of the renovated headquarters building and the Museum of the Bank of Albania. Your presence in this hall shows the high consideration of the role and special importance of this institution in maintaining macroeconomic balances and the financial stability in Albania.

The building we are inaugurating today is undoubtedly one of the most prominent architectonic achievements in Albania. Built in accordance with the state-of-the-art contemporary standards, the renovated building preserves the main elements of Rationalism, from the original project design. The large volumes, symmetry and the emphasized lines in façades in harmony with the modern building already attached to the traditional one. The passionate work of Architect Morpurgo, finalized in 1938, was further enriched by the interesting project of professor Petreschi, finalized in the form we are inaugurating today.

“...The building we are inaugurating today is undoubtedly one of the most prominent architectonic achievements in Albania. Built in accordance with the state-of-the-art contemporary standards, the renovated building preserves the main elements of the philosophy it belongs to...”

In terms of structural, mechanical, and technical aspects, the building is upgraded with the latest technology in the relevant fields, thus fully guaranteeing contemporary standards for the work conditions of the employees.

In terms of functionality, the building is convenient for conducting primary, representative and auxiliary activities. It has meeting rooms, conference room, and other social and educational facilities.

I would like to thank Professor Petreschi for the idea and the realization of this natural fusion of the old with the modern.

The inauguration of the building is the best occasion for us to inaugurate today a modest achievement of our work over years. Following a world-wide tradition, the Bank of Albania will finally have its own Museum, which is officially inaugurated today. Money, with all its dimensions, is at the heart of the Museum. The Museum exhibits not only physical transactions and money's role in different economic development stages in Albania, but also the way how this precious asset has evolved physically, from the uncommon shape in ancient times, through its sophistication along the centuries, up to its modern shape, whether visible and not, through digital transactions.

Nevertheless, it is not conceptualized only as a currency museum, hence the name the Museum of the Bank of Albania. The Bank of Albania is the central bank of Albania and it has an important mission to accomplish. I believe that each age group and various groups of interest will be able to find interesting facts and information regarding the past and present of the Albanian currency. Furthermore, visitor will find other stylized and interesting information related to the banking system, functions of the Bank of Albania , instruments that it employees, and certainly the European future of the country, including its monetary integration.



Dear guests,

The inauguration of the renovated headquarters building and of the Museum coincides with a challenging situation to the domestic and external economy. Fully responsible for its mission, the Bank of Albania will continue to be a reliable voice for important analyses and decision-making for economic and financial matters in Albania. The economic and financial stability of the country are very important to us. As we discussed today at the Conference, our short and long-term objectives are oriented towards boosting the economic activity at home, towards price stability and towards the financial soundness of the banking system.

“...The inauguration of the renovated building and of the Museum coincides with a challenging situation to the domestic and external economy. Fully responsible for its mission, the Bank of Albania will continue to be a reliable voice for important analyses and decision-making for economic and financial matters in Albania...”

Contemporary premises serving for both work and scientific research purposes are an added value for the Bank of Albania to successfully accomplish its constitutional mission. Before concluding my short welcoming address, I would like to say thank you to:

- The European Central Bank for the assistance provided in the consulting and selection stages of the project.
- All the external collaborators and the relevant public institutions, for their assistance to finalize the Museum in the due time and quality.
- The employees of the Bank of Albania for their devoted work and contribution for the realization of these projects.
- I am confident these premises will be a source of motivation and prosperity both for us and for the next generations.

I am confident these premises will be a source of motivation and prosperity both for us and for the next generations ...



CHAPTER VII

INTERVIEWS

- *Interview with Gent Sejko, Governor of the Bank of Albania. Voice of America, 23 April 2015*
- *Interview with Gent Sejko, Governor of the Bank of Albania. Top Channel TV, 28 June 2015*
- *Interview with Gent Sejko, Governor of the Bank of Albania. Klan TV, 16 July 2015*
- *Interview with Gent Sejko, Governor of the Bank of Albania. OraNewsTV, 6 October 2015*
- *Interview with Gent Sejko, Governor of the Bank of Albania. "5 questions by Babaramo". Report TV, 2 November 2015*
- *Interview with Gent Sejko, Governor of the Bank of Albania, Vizion Plus TV, 26 November 2015*
- *Interview with Gent Sejko, Governor of the Bank of Albania, Shqip Newspaper, 14 December 2015*

**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA.
VOICE OF AMERICA
- 23 April 2015 -**

Voice of America: *I would like to start this interview with a question about the current problems facing Albania. Apparently economic growth in the past year was 1.89%, against the 2.1% target; in other words, growth rates were not at the expected level. What might be the problems, in your view?*

Gent Sejko: First, I would like to thank you for inviting me for an interview in your studio.

It is true that, in 2014, the Albanian economy posted 1.9 or 1.89% growth. But, accurate decimals are not what matter most in these growth rates. What is important is that economic growth in 2014 was higher than in 2013. The Albanian economy grew 1.4% in 2013. For 2014, the Bank of Albania had forecasted 1.8% growth, whereas the Government of Albania and the IMF had forecasted 2% growth. Irrespective of the small difference, this figure shows that the economy grew progressively in 2014 compared to 2013, and this is a good signal for the Albanian economy. Our forecasts for 2015 show that growth rates will be higher. We expect the economy to grow faster than in the past year. There are, however, a number of factors and complex problems connected to economic growth.

Voice of America: *To the best of my knowledge, the IMF's growth forecast for Albania is 3%, and EBRD's 2.5%. What is your projection in figures and what do you think will drive such growth?*

Gent Sejko: As I pointed out earlier, the Bank of Albania also projects higher economic growth. It does not matter whether it is 2.8 or 3.2%. What truly matters is that the trend of growth remains positive. The Bank of Albania, similarly to the IMF and in cooperation with the IMF, projects 3% in 2015. But the Albanian economy is facing many challenges and difficulties, just like many other countries in our region. At present, the Albanian economy is facing problems, like any other country in our region, relating to the investment climate, consumer confidence and consumption. The problems that are present in the Greek economy would

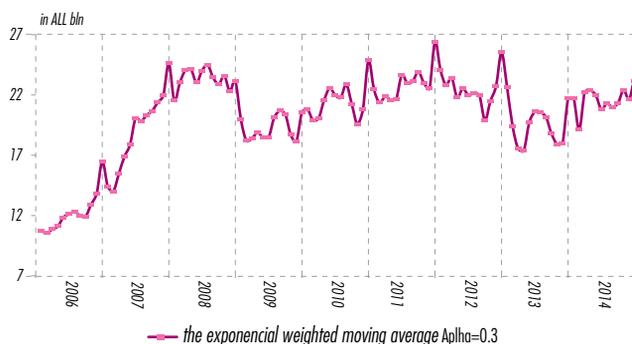
inevitably spill over to the Albanian economy. This is an element that may have a negative impact on Albania's economic growth in 2015.

Moreover, the low lending and credit levels had a negative impact on the economy. We expect, in 2015, an increase in lending to the Albanian economy. In other words, we expect banks and the banking system to be more active. It will be a factor with a very positive impact on economic growth

Voice of America: *I would like to say something at this point. The Bank of Albania has intervened 13 times to lower the key interest rate, to boost lending to the economy. This has not happened, though. What is the path you would choose?*

Gent Sejko: It is true. The Bank of Albania has lowered the key interest rate several times, consecutively during 2014. It has been in line with the policy and strategy of the Bank of Albania for an accommodative monetary policy. We will continue to implement this policy during 2015. We must note that in 2014, though at low levels, lending, nonetheless, grew. Credit growth posted 4.6%. This growth is certainly a result of the accommodative monetary policy of the Bank of Albania and the lowering of the key interest rate to the all-time low of 2%.

Chart 28 New credit and the exponential weighted moving average of new credit, (alpha=0.03)



Source: Bank of Albania.

Voice of America: *Is this an enduring or seasonal trend?*

Gent Sejko: This is an enduring trend in the long-term. It may be seasonal, in terms of the first quarter of 2015, when growth is not as

high as expected. This is a normal development at the beginning of the year, if we see the history of growth of lending and of the economy over the years. This happens because both businesses and banks are not proactive in lending at the year start, as this period corresponds to the closing of balance sheets. Generally, both credit and economic growth is higher around midyear, especially in the second half of the year.

Returning to monetary policy and interest rate, I would like to answer the question more precisely. Growth was around 4.6%, but had the Bank of Albania not implemented its policy to lower the key interest rate, lending would have seen lower rates, with a subsequent lower contribution to economic growth. It must be noted that the instrument of the key interest rate cut, a conventional method employed by the Bank of Albania, has had an impact only on the national currency portfolio, but not on the euro portfolio. Albania is an euroised economy and the highest level of outstanding loans is denominated in euro. But, the share of Albanian lek loans has been increasing, approaching a 50/50 ratio to euro loans, and its trajectory is upward. This is a very positive element, which not only contributes to growth in the national currency, but also prevents the risk arising from exchange rate on non-performing loans, which are very problematic presently.

Voice of America: *Let us talk about bad loans. Payment of arrears to businesses was expected to contribute to trimming down bad loans. But such a thing was not verified. Do you have data on the share of arrears paid to businesses that has been used for bad loan repayments?*

Gent Sejko: We certainly do. The Bank of Albania has conducted its analyses on the part of payment of arrears. It is a fact, as you said, that the payment of such arrears by the Government to large firms did not produce a significant effect on reducing bad loans. We should, however, be aware that had arrears not been paid, non-performing loans would have been much higher. What happened is that businesses had many liabilities and great need for liquidity. We should mention that the payment of arrears was a very positive step, which has given an impetus to businesses, regardless of its impact on reducing non-performing loans.

After the arrears were paid, businesses have been able to pay back a significant amount of the debt they owed to other companies or subcontractors. As a result, the business climate improved and surely a share of the paid arrears has contributed to reducing non-performing

bank loans. The payment of arrears has improved businesses balance sheets, rendering them more creditworthy. This is a positive factor that will contribute to the cooperation between banks and businesses. We are cooperating with the Government of Albania with regard to all factors and elements that help reduce non-performing loans.

Voice of America: *After the latest IMF mission, You and the Minister of Finance committed to undertake concrete steps for measures that need to be taken for reducing non-performing loans. What is the current situation?*

Gent Sejko: There is a very serious initiative by the Bank of Albania, in cooperation with the Government and the Ministry of Finance to address the issue of non-performing loans. Though downward, the NPLs are still considerable, currently standing at 22.5% from 25% they used to be. That is, there is a downward trend, which is a very positive element. We aim at lowering it further, as non-performing loans mar the business climate and keep banks from lending, which would, in turn, contribute to economic growth. The Bank of Albania, in cooperation with the Government and the Ministry of Finance, is drafting a plan with concrete measures to help banks and tackle all problems that affect credit performance and non-performing loans repayment. Both the Minister of Finance and I have met intensively with commercial bank executives. We have offered our full support and assistance on all problems they are facing in the legal and regulatory aspects. In the meantime, we expect the banks to be more proactive in tackling the non-performing loan portfolio.

“...The Bank of Albania in cooperation with the Government and the Ministry of Finance, is drafting a plan with concrete measures to help banks and tackle all problems that affect credit performance and non-performing loans repayment.

Practically, there is a plan of measures on loan restructuring and write off from balance sheets. In this regard, the legal system and Ministry of Justice play an important role. Regarding the execution of collateral, the law has been amended, but oftentimes we see that problematic cases get stuck in courts and deadlines are postponed; these have a negative impact on the return of cash in commercial banks. Concerning these problems, in cooperation with the Ministry of Finance and the IMF, in

June, we will organise a special forum, and in September we will draft a strategic programme to tackle this problem, and find an ultimate solution for it.

Regardless of all the steps taken by the Bank of Albania and the Ministry of Finance, the main element that will help reduce non-performing loans is the growth of lending to the economy, as non-performing loans are related to the total granted loans. If more room is provided, commercial banks will be able to lend proactively, and the ratio of non-performing loans will fall. If we include the measures taken insofar, the issue of non-performing loans will no longer be a problem in the Albanian financial system. We expect from banks, and encourage them, to be proactive in lending; however lending should be prudent, regulated and well monitored. That is, to have sound and healthy new loans.

Voice of America: *Has the Bank played its role in monitoring these loans?*

Gent Sejko: The Bank of Albania has certainly played its role and continues to play it through banking supervision and other functions and units at the Bank of Albania, such as the monetary policy, financial stability, analyses and statistics. This problem is not present only in Albania, but also in many other countries. During the Spring Meetings, we learned that all the countries in our region are facing similar problems. Non-performing loans are not only a regional but also a global problem now, accompanied by elements of the crisis, and Albania is not immune to it. Neighbouring countries are facing challenges, and their problems are reflected in the situation of our imports and exports, as well as of businesses operating in Albania.

Voice of America: *On the same topic of troubles in neighboring countries, the financial situation in Greece is worrying for the European Union. An agreement has not been reached yet. Are you prepared for the potential scenario of Greece exiting the euro area, and how is that expected to affect Greek banks operating in Albania?*

Gent Sejko: We are undoubtedly prepared for any potential scenario. We would not want to see Greece exit the euro area, if we take the worst case scenario. However, it is our duty to be prepared for all scenarios. This is one of the primary roles and duties of a central bank, as a regulatory and legislative body in the financial system. The Bank of Albania has been, since long, analyzing all potential scenarios to be

prepared in the case of an eventual exit of Greece from the euro area. I would like to iterate that the Greek crisis started years ago and the Albanian economy has been subject to adverse shocks and negative effects from the Greek crisis since a few years ago. Practically, we have seen downward remittances. And we somehow expected it. Also, the high unemployment rate in Greece has led some Albanian emigrants to return and, with their savings, make some investments at home. On the other hand, as regards the level of imports and exports, it is true that Albania has a high level of foreign investments originating from Greece, but the level of Albanian exports to Greece is low, merely 3%. This is a positive factor that shows that we are hedged, to some extent, against exports to the Greek economy. What is more sensitive is the banking and financial system. We have three Greek banks operating in Albania. I would like to underline, to be honest and accurate, and not simply give a positive message, but state the truth about it, that these banks are well capitalized and have added capital from their parent banks in the last years. Their capital adequacy ratio stands at 17%, well above the required rate by the Bank of Albania and have ample liquidity. In other words, the two basic security elements in these banks are very stable and at very good levels.

Voice of America: *According to the press, you have called on these banks not to be very exposed...*

Gent Sejko: No, we have not made such a call. Greek banks, just like the other foreign banks operating in Albania, have their investment portfolios both in lending and in placements in foreign banks, since the excess liquidity will be placed in foreign banks. What is important is that these banks are from important and robust countries, Zone A banks. We have observed and monitored and Greek banks do not have have exposures to the home country, parent banks, against the risk that they may have. Greek banks do not have placements in the home country. They are liquid. They have placements, just like other banks do. We have not urged these banks, because we see no reason to do so.

On the other hand, we have taken regulatory measures for the Greek banks to be "isolated", or immune to any shock from the Greek crisis. They are licensed to operate in the Republic of Albania as separate banks and, a deterioration in the Greek economy, except for depositor's confidence, would not have real and strong factors against these Greek banks, as their capital is dedicated and paid in Albania. These banks are financially self-sufficient. They hold the deposits of Albanian depositors and conduct their business in the territory of the Republic of Albania. Under these circumstances, we see no concrete serious reason,

but certainly confidence. We should be clear that confidence would affect not only Greek banks, but also any bank. It is crucial not to shake unnecessarily the confidence of depositors and clients.

Voice of America: *The latest report by the Bank touches on the issue of business and consumer confidence, which has decreased due to the economic and financial situation. How do you see this trend? Is the economy moving in the right direction?*

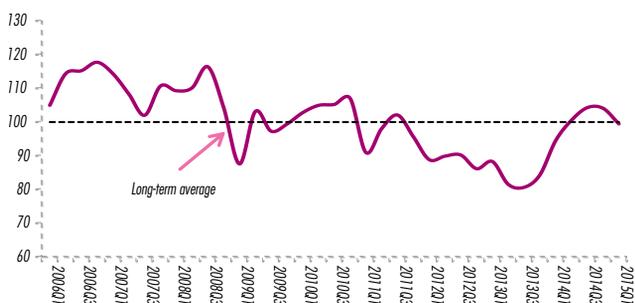
Gent Sejko: We conducted a survey. It is a statistical survey we regularly conduct. In the first quarter of 2015, data from the business and consumer confidence survey showed that the confidence was down, indeed. This result is due to the situation in the region, not only in Albania, but also in Italy, Greece, etc.

Voice of America: *Let us speak about the internal factors that have contributed to this performance of confidence.*

Gent Sejko: Among the domestic factors I would highlight the level of exports and imports and of foreign investments, which are then

***“...we have taken regulatory measures for the Greek banks to be “isolated”, or immune to any shock from the Greek crisis. They are licensed to operate in the Republic of Albania as separate banks and, deterioration in the Greek economy, except for depositor’s confidence, would not have real and strong factors against these Greek banks, as their capital is dedicated and paid in Albania.*”**

Chart 29 Economic Sentiment Indicator (ESI)



Source: Business and Consumer Confidence Survey, Bank of Albania.

followed by employment. Of course, we have not had the right level of foreign investments and I would say that the challenge of the Albanian economy, the Government of Albania, and all the other regulatory and institutional stakeholders in Albania is to attract foreign investments. If we have a higher level of investments, employment will increase, economy and lending will grow, and, consequently, consumer confidence will improve. From the surveys we have seen that figures are low for the first quarter, but expectations, especially from businesses, are positive for the rest of 2015. It is important to emphasize that we should be aware that with regard to attracting foreign investments, the Government has the major role, through structural reforms and packages that need to be prepared for this purpose.

Voice of America: Do you agree with the economic policies implemented by the Government of Albania?

Gent Sejko: Insofar the Government has undertaken a number of structural reforms. We are aware that Albania has many problems and not all of them may be addressed at once. It is impossible. It is important to start with the main concerns, those that are a priority. And the Government of Albania has started with reforms in the energy, infrastructure and other sectors of the economy. They have produced their positive results, of course. It takes time for reforms to produce results. It is important that we are on the right track and that economic growth in 2014 has shown that the Albanian economy is moving towards growth, as our expectations and cooperation with the IMF are showing that we can achieve the expected growth. I would like to reiterate that the situation in our region, situation in Greece, could have its negative impacts. At the start of the year, exports fell. So, we are facing challenges and difficulties, and should be aware that there are positive elements and factors that render us optimistic, just as there are factors that we need to address. We need to keep focusing on structural reforms. The Bank of Albania has been a part in these structural reforms, especially in the banking and financial systems. We have used all our instruments relating to monetary easing, and boosting lending to the economy. But these instruments need to be complemented by comprehensive structural reforms across all the sectors of the Albanian economy.

**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA.
TOP CHANNEL TV
- 28 June 2015 -**

The Albanian Banking System is immune to the Greek Crisis.

Top Channel TV: *What is the extent of non-performing loans and what is their impact on the Albanian economy?*

Gent Sejko: Non-performing loans hamper lending growth. They represent a considerable share in the banks' portfolio. Accounting for 22.8% of the total credit stock in the banking system, they are sufficient to create a state of pessimism in terms of lending and economic growth.

Top Channel TV: *The Albanian Financial Forum III was held last Thursday. What was discussed during the Forum, and were non-performing loans at the focus of this Forum?*

Gent Sejko: Fruitful discussions in the Forum referred to all the problems related to non-performing loans in Albania.

Top Channel TV: *What were the recommendations of the Forum?*

Gent Sejko: We concluded with an action plan, which lays down more clearly the strategies for addressing non-performing loan concerns. They consisted in the voluntary restructuring of non-performing loans. That means that banks, in cooperation with their clients, agree on debt restructuring, with a view to helping businesses make positive progress and avoid having them addressed by courts. The Forum also discussed about collateral, for cases when they are at the point when there is no hope of restructuring. Other problems that were discussed in the Forum included loan write-offs from balance sheets and the fiscal treatment of loans in the balance sheet. There are problems with the postponement of cases of collateral execution with regard to collection and resolution of problems for non-performing loans. We hope that the judiciary system will address the issue of non-performing loans positively.

Top Channel TV: *About Greece, are there any chances for an immediate solution?*

Gent Sejko: The Greek politics and people are facing two options. One option is to accept the creditors' offer with the plan of measures relating to pensions and taxes. The other option is to refuse the plan of measures, which would lead Greece into a political and economic collapse.

Top Channel TV: *Are there any grounds for Albanian citizens to worry about? Would the Greek scenario have a negative effect on the Albanian economy?*

Gent Sejko: It has had its effects in these past five years, with the main impact on the imports and exports and the further reduction of remittances, which would be insignificant, as they have already fallen. I would like to emphasize that the Albanian banking system is immune. Since the onset of the Greek crisis, the Bank of Albania has taken a number of regulatory and supervisory measures to provide for a normal functioning of Greek banks in Albania. Banks with Greek capital that operate in

“...Albanian banks with Greek capital have excess liquidity and capital. That means they are well capitalized. The capital ratio for Greek banks stands above the average, standing at around 17%, against the 12% regulatory requirement.”

Albania are subsidiaries, not branches of these banks. We have taken measures for them, from the legal and organizational perspective, to be independent from Greek parent banks. Albanian banks with Greek capital have excess liquidity and capital. That means they are well capitalized. The capital ratio for Greek banks stands above the average, at around 17%, against the 12% regulatory requirement. Moreover, Greek banks operate with almost 100% Albanian deposits. It must be noted that a situation of lack of confidence by depositors is present; however, we have taken measures for having ample liquidity, and we do not expect any problem. There may be also positive developments in the Albanian economy, as the Albanian emigrants return home, together with capital inflows. We have noted that at the onset of the Greek crisis capital flowed in, as emigrants withdrew their savings from banks in Greece and deposited them in banks in Albania. This phenomenon has been also present during these days. Deposits in Albanian banks are growing, due to the situation of lack of confidence in Greece.

**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA.
KLAN TV
- 16 July 2015 -**

***The agreement between Greece and the European Union
mitigates the effects of the Greek crisis in Albania***

Klan TV: *What is the situation of the financial stability in Albania, in the light of recent developments in Greece? Do you confirm the previous assessments, that the Albanian banking system is immune to the Greek crisis and which are the latest assessments?*

Gent Sejko: We confirm the assessments regarding financial stability in the Republic of Albania. The financial stability remains sound, is well capitalized and has surplus liquidity in commercial banks, notwithstanding the situation in Greece. As emphasized previously, banks in Albania have surplus liquidity. Given that, our challenge and objective, as a central bank, in cooperation with the Associations of Banks and commercial banks, consisted in increasing lending to economy, in order to contribute to economic growth in Albania. In this context, we have identified situation of liquidity surplus, which is in contrast to the current situation in

“...the situation in Greece has affected the commercial banks in psychological, but not in economic and financial terms. We have monitored and continue to monitor the situation every day, and have noted an entirely normal situation in our banking system, notwithstanding the situation in Greece.”

Greece, where banks are closed and have introduced capital controls. I would say that the situation in Greece has affected the commercial banks in psychological but not in economic and financial terms. We have monitored and continue to monitor the situation every day, and have noted an entirely normal situation in our banking system, notwithstanding

the situation in Greece. We hope this situation will remain as such in the days to come. I would like to underline the positive news on the agreement between creditors and the Government of Greece. The agreement offers a breathing space not only to banks and the financial system in Greece, but also to the Greek state, population, politics and the whole economic, financial and social situation, notwithstanding the austerity measures. As far as we know, EUR 85 billion is provided to Greece, of which EUR 25 billion will be used to re-capitalise banks. Yesterday, the Greek parliament ratified this Agreement and from the moment of the ratification in the Greek parliament to the ratification in some of EU member state' parliaments, the EU decided to approve a "bridge" loan of EUR 7 billion, aiming at providing a breathing space, and capital support to Greek banks. We see positive steps, positive movements. The important thing is that the Agreement between Greece and its creditors was reached. This will certainly provide positive developments in comparison to the "Grexit" scenario.

Klan TV: *When you say that the impact is only psychological, have we had any case of citizens showing fearfulness or uncertainty about the banking system?*

Governor Sejko: We are conscious that a large number of Albanian citizens have emigrated to Greece, over several years. Maybe the figure is not properly precise, but more than 500 thousand Albanian are estimated to live and work in Greece. It would be a naive thing to say there is no psychological impact at all. Absolutely, there is a psychological impact, as these people are in constant contact with their families and the impact of the difficult situation in Greece is reflected in the opinion and psychology of the Albanian citizens. In these days, there have been some withdrawals from the Albanian banks with Greek capital and transfers to other banks. Nevertheless, these withdrawals are insignificant as a ratio to the liquidity and capital of these banks. Notwithstanding the situation in these days, these banks continue to have a stable situation and surplus liquidity. That is, the central bank has introduced no limits as to level of withdrawals or capital movements. The Albanian banks with Greek capital have been able to serve, correctly, to their customers. But, I would like to emphasize again, the agreement will calm the situation of parent banks in Greece, which will be also reflected on the overall psychological situation in Albania, and in the activity of banks, which is the most delicate part related to the financial stability.

Klan TV: *Would you say that reaching the agreement may be translated into either a migrants' return or fall in remittances? Also, you have stated in your last statement that, one of the risks may be with regard to trade or return of emigrants or fall in remittances. Do you still stick to this declaration?*

Governor Sejko: Absolutely, reaching the agreement is a positive step. We are very happy that finally an agreement is reached, first to alleviate the overall situation in Greece, the economic and financial situation there and ultimately the Greek people. The premises are more positive and the return of emigrants is estimated to be at lower levels, from what might be if the agreement had failed. One could accurately predict if emigrants will return and what their number will be, should the situation in Greece worsen. It is to be emphasized that the crisis in Greece has started since five years ago. A considerable number of emigrants have returned from Greece during these years. Of course, there could be a slight fall in remittances and a return of emigrants, but the Albanian economy has already faced and has experienced shocks from the Greek crisis. We consider that the agreement will provide a positive impact on the stability of every emigrant (whether living in Greece, Albania or elsewhere) also on the performance of remittances. However, we have taken all the measures to be prepared in the event of a fall in remittances.

Klan TV: *Related to remittances, is there any figure on the first half of this year?*

Governor Sejko: The data of the first quarter of 2015 suggest that remittances, overall, increased. Remittances from some countries have fallen, but overall they were up. Also, capital inflows were up, mainly attributable to the fact that, a part of capital and deposits from Greece have returned to Albania. Deposits in the Albanian banking system showed increase in remittances from other countries as well, such as England or Germany. Hence, if we refer to a short-term quarterly period, remittances in Albania increased and in these regard the Greek crisis has had no impact. But in a long-term period, taking into account the "Greek" factor, we consider that remittances might fall. This forecast is corroborated by the difficult economic and financial situation in Greece, which later will be reflected on an increase of unemployment. This will apparently affect the Albanian emigrants as well, as unemployment is reflected in this segment of the society.

Chart 30 Primary income balance (net flows, in euro million) and remittances (net flows, in euro million)



Source: Bank of Albania.

Klan TV: *INSTAT previously published the latest data for the first quarter of this year, related to the Gross Domestic Product, an estimated growth of 2.82%. How do you comment this figure?*

Governor Sejko: The 2.82% growth rate of the Gross Domestic Product (GDP) is in line with our projections. Our forecast for 3% growth at in 2015, adjusted recently with the IMF Mission at 2.70%, is completely in line with this growth for the first quarter. This is a positive figure for the GDP, showing the economy is moving on a growth track and the structural reforms by the Albanian Government, along with the financial reforms that we have implemented as the Central Bank are providing their results. If we refer to historical trends, the beginning of the year grows at lower rates, while the second half has higher growth. If we had the same historic trend, the economic growth would have been above 2.82%, but, referring to the crisis situation in Greece, we shall carefully monitor the latter and will see what this growth will be in the next quarter. It is important that we have a good start regarding the economic growth and an

“At the beginning of the year, we have promised that we will increase transparency and will review all the conditions and criteria for protecting consumers’ interest. The new Regulation that we have adopted aimed at reducing some commissions and interests of banking services”

achievement of our objectives, attributable to the structural reforms implemented insofar.

Klan TV: *Does this figure show that our economy is not affected by the crisis, but continues to grow in line with the forecast?*

Governor Sejko: This figure shows that the Albanian economy is in the right direction. Thus, despite the impact from the Greek crisis, we have recorded a growth of around 2.82%. The economic growth would have been higher if there was no impact from the Greek crisis. Thus, notwithstanding the Greek crisis, our economy continues to grow at a positive pace.

Klan TV: *Relate to the recent regulatory amendments by the Bank of Albania, to improve lending and the message to the borrowers, what will these amendments bring about? What is the situation of lending in Albania?*

Governor Sejko: Lending increased during the first half of this year as well. We promised at the beginning of year, to increase transparency and review all terms and conditions on the protection of consumer's interests. The newly adopted Regulation aims at reducing some of commissions and fees of banking services. We cut the pre-payment penalty applied on both consumer and mortgage loans, with the purpose the consumers, the Albanian borrowers to benefit from the interest rates and commissions. We cut the prepayment penalty on loans from 2% to 1% and within one year to 0.5%. Also, we have reviewed other criteria. The borrowers may withdraw from a credit agreement within two weeks in case of a consumer loan and within one week in case of a mortgage loan, with no consequences. We have reviewed the loan agreement criteria between the bank and the consumer to favour the households. The whole regulatory review aimed at protecting consumers' interests vis-a-vis the banking services. Obviously, there is a commission on the prepayment of a loan, as the bank itself conducts its business and we cannot zero it, but we have tried to be correct, fair in defending the interests of both parties, mainly of the Albanian consumers. In the last meeting of the Supervisory Council, we reviewed the regulation on capital adequacy ratio, in terms of providing breath space to commercial banks, on the investments of the Albanian government securities in foreign currency. In more concrete terms, we changed the weighting rate, from 100% to 50% to provide to the Albanian Government and commercial banks the possibility to take a loan in foreign currency from commercial banks.

**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA.
ORANEWS TV
- 6 October 2015 -**

OraNewsTV: *How would you rate the situation of the Albanian economy and the potential for economic growth this year?*

Governor Sejko: During the first half, the economic growth rate was around 2.8%. This has been deemed as a positive growth also in statements following Supervisory Council meetings. In the meantime, we expect similar growth rates for the second half of 2015.

In summer, the Bank of Albania revised economic growth forecasts. The IMF has also revised the economic growth outlook for 2015, from 3% to 2.7%, due to negative factors arising from the crisis in Greece, with potential consequences on exports and imports, remittances and the banking system. We have been monitoring closely the situation there and it appears that the political situation in Greece has been eventually resolved. The bailout has been approved and will be disbursed and the risks arising from the Greek economy are considered as lower for the remainder of the year.

In the meantime, there are positive expectations for the growth of consumption and foreign investments in the second half of 2015. If we refer to the first half of the year, foreign investments in the economy surged 36%, and a similar performance is expected for the second half.

The economic stability and the positive situation in place will sustain economic growth. These are not, certainly, the expected growth rates and this has been the reason why we have revised down our projections, as the economy is operating below its potential. When the economy operates below potential, growth rates are not optimal, but there is a positive element in it: there is potential. And when there is potential, it must be utilised. The potential is utilised through structural reforms, which we have been constantly referring to structural reforms undertaken by all the actors, the government, the Bank of Albania, business associations and other market operators, etc. The central bank's is making maximum efforts for this. First of all, in the framework of our functions, we are

pursuing an accommodative monetary policy accompanied with stimulating macroprudential policies for the banking system, for maximum contribution to economic growth and financial stability. Moreover, we are also acting as a coordinator between the government and other actors, for best coordination towards economic growth and stability during the current year and the years ahead.

OraNewsTV: *You mentioned structural reforms to stimulate the economy. The “anti-informality” initiative is considered as one of them. What would be its impact on the economy?*

Governor Sejko: About the government initiative we are conducting our analyses, which are still in process, and conclusions are yet to be drawn about the precise impact on the economy. What I have stated, and it valid both in practice and in theory, is that the anti-informality initiative may in the first steps have a negative impact in the economy because the Albanian economy has /suffered from a very high level of informality.

This is a known fact, it is not confidential information. As the operation rolled out, many businesses closed their shops and queued to register, which showed they were unregistered and paid no taxes. This has been a formalization period in the aspect of registration, and in the aspect of reformatting these businesses. They will be repositioned in the market and will start paying taxes.

Therefore, they need to once again revisit their business plan in the light of tax payments. In this aspect, perhaps in the short-term period there may be a negative impact, but in the long-term period, there will be undoubtedly a positive impact. Informality breaches many market balances and suffocates the economy. It only appears to give a boost to the economy that business and households benefit. In fact,

“...the initiative against informality should continue, and be translated and viewed as a continued reform, in order for the markets to be properly formatted. It should not be seen as a temporary initiative, but as a permanent one, constantly implemented. If this initiative is implemented in the long term, the effects in the economy will be undoubtedly positive and will materialize by the beginning of next year.”

informality contributes to budget revenues falling short of expectations, consequently of investments from the budget. Informality contributes to an unfair competition, deformation of a number of economic parameters. The fight against informality is absolutely one of the top priorities and most important actions to be undertaken.

I underline again, it is a positive undertaking. In addition, I would like to point out that this initiative against informality should continue, and be translated and viewed as a continued reform, in order for the markets to be properly formalized. It should not be seen as a temporary initiative, but a permanent, constantly implemented. If this initiative is implemented in the long term, the effects in the economy will be undoubtedly positive and will materialize by the beginning of next year.

This is my theoretical opinion, in this conversation with you, as I said earlier, we are conducting our studies. Very soon we will have a clear assessment report. Summarizing, I may say that in the short term we will see a reforming that may generate negative short-term effects, but in the long term the reform against informality will be a serious reform that will generate positive effects. In relation to the banking and financial system, we have stated that the fight against informality is very important.

For years, the banking system has been suffering from the incompliance with certain financial statement standards, such as operation with two balance sheets for lending purposes. Had banks insisted on only the fiscal balance sheet, they would not be able to lend, because this balance sheet did not reflect the real company income. According to the fiscal balance sheet, they did not have enough profit to justify the credit approval. Whereas the real balance sheet was more optimistic. Hence, we had a balance sheet for tax authorities, and one balance sheet for the bank to show the real situation. However, how would this real situation be certified? The bank would make maximum efforts to understand the reality, through cross-checking and inspections at business sites, but things were not that easy for larger companies.

In practical terms, the banks operating in Albania, especially subsidiaries of EU-based groups have tightened the risk criteria. One of such criteria is the requirement for the official/fiscal balance sheet. It has been a while since banks have not lent based on two standards, but this has also led to not lending even to certain businesses whose real data were more optimistic.

OraNewsTV: Has this been one of the reasons of a lending deceleration?

Governor Sejko: There are a number of reasons for this lending situation and this is one of the reasons. The deceleration is related to non-performing loans. The non-performing loans (NPLs), also known by the public as bad loans, is an element that increases banks pessimism in lending.

Much is being said, and much is being commented. We have drafted an action plan in coordination with the government with a view to fighting and addressing all elements to remedy the issue non-performing loans in the banking system. These elements consist in legal initiatives, such as the law on bankruptcy, the code of civil procedures, training of bailiff offices, central bank regulatory acts, and collateral execution, which is very important. We have brought up the issue of collateral execution in a recent table with the prime minister and the banks.

Non-performing loans are crucial because they trigger either optimism or pessimism for bank's crediting; however it is not the only element. We should be clear that non-performing loans is not the only element that hampers lending; it is one of the main elements that fuels pessimism in decision-making. Why I say that? Banks have ample liquidity and a high capital adequacy ratio. The liquidity ratio in Albania, which is a key element, the loan to deposit ratio stands at 55 per cent. Banks have 40 per cent of their short-term liabilities as liquid assets. Their capital adequacy ratio is close to 16%. This means they have adequate capital. Thus, against this backdrop, the banking system is stable, liquid and capable of lending. The problem is on the other side, it is about a weak aggregate demand and the risk perception level by banks vis-a-vis businesses.

OraNewsTV: Banks have accepted two-standard balance sheets to lend. Does that imply that they have been part of and have encouraged informality and now face this situation?

Governor Sejko: Informality is not the only cause of non-performing loans. The main cause of non-performing loans is the excessive optimism of banks during the economic boom period 2000 - 2008. The economy has seen credit growth at 30-40% of the portfolio every year. In practice, in every country we have seen similar growth rates. Later, the situation was accompanied with high levels of non-performing loans. This growth rate, so optimistic and aggressive, would inevitably lead to problems

related to credit performance. Thus, in Albania we saw excessive optimism. This has normally happened in all the countries of the region and in the euro area. That is to say, it is the same phenomenon. Albania is not an isolated phenomenon. These are phenomena that we encounter in the euro area and in the region in similar terms.

OraNewsTV: *Taking into account that there are 35 companies that allegedly have the largest share in the stock of non-performing loans in Albania, is there any chance for banks to collect the money they have lent?*

Governor Sejko: Absolutely. There are many chances for this money to be collected. The collection is first about banks to negotiate and restructure such loans directly with these businesses. These are large businesses that operate with more than one bank and practically own more than one company. And the situation of these businesses is not equally good or bad in each bank. In some banks, some businesses appear more positive, in others more negative. This will depend on the negotiations and operation of various businesses they have in the respective banks.

The purpose of this initiative of the Bank of Albania, in coordination with a World Bank project started two years ago, is to coordinate the banking system, to restructure such loans in a coordinated fashion, to find the best solution for restructuring and provide an impetus.

In principle, banks will have to determine which companies and businesses have no future and their collateral should be executed, and which companies have positive chances that may continue their business; restructuring should be applied for them.

For those cases that banks are deemed as having no future, they should be sent for collateral execution, that is, address in courts. Collateral will in fact be executed even without having to go to the courts, because it is now an executive title, following the recent legal amendments. Execution of collateral would help banks retrieve their money, the money they have disbursed when they lent.

The problem then rests with the judiciary system ruling more in favor of clients than of banks, protracting therefore cases and blocking the collateral execution process and liquidity retrieval. Of course the bank needs liquidity rather than assets, because a bank is a financial

intermediary and not an asset management fund. This situation has contributed to the deterioration of the non-performing loan portfolio, consequently to the pessimism of banks. Many banks that operate in Albania are subsidiaries of EU-based banks and have standard risk criteria, with a strict risk perception.

When we speak about banks and the banking system and think that it is not actively enough to support businesses or that the interest rates are high, we need to bear in mind, and be aware of a number of things. First, we need to understand that banks operate with the deposits of Albanian citizens, which have increased. The increase is another element of discussion, related to the citizens' inclination to save rather than consume. The main objective of the central bank, however, is financial stability. Of course, we also seek to stimulate economic growth through the monetary policy, while preserving the financial stability of the banking system. Since deposits, and not the bank's capital, account for most of bank liquidity, it is pivotal for banks to administer these deposits with maximum seriousness with regard to lending.

Banks are financial intermediaries; they accept deposits and inject them in the economy through lending. This is how the market works. If the banks have a high risk perception because of a non-performing loan, as it has been the case, they will certainly be more prudent and their optimism for lending will fall.

In this regard, the central bank is very prudent to maintain the equilibrium because first of all we are interested in the security of the deposits of the Albanian citizens. At the same time, we are interested in the optimism and liquidity injection in the economy for serious and creditworthy projects. Banks would undoubtedly compete against each other for serious projects.

There is one problem related to undertaking risk. There are many projects indeed in the economy. There are projects that need financing but do not have enough capital and banks would not assume 100% of risk to finance these projects. Banks may be partners in business, but businesses should normally have a share in the capital, in the form of an immovable property or liquidity. Perhaps some parallel investment funds or investment banks would help in this regard. We are thinking of finding alternative ways in risk participation in parallel with banks, to push these projects forward.

OraNewsTV: *Will you seek to reactivate Tirana's stock exchange?*

Governor Sejko: This is one of our long-term strategic objectives, not a short-term one. It is a long-term one, but we need to start working towards its reactivation. However, I may not say precisely when we will be able to reactivate the stock exchange.

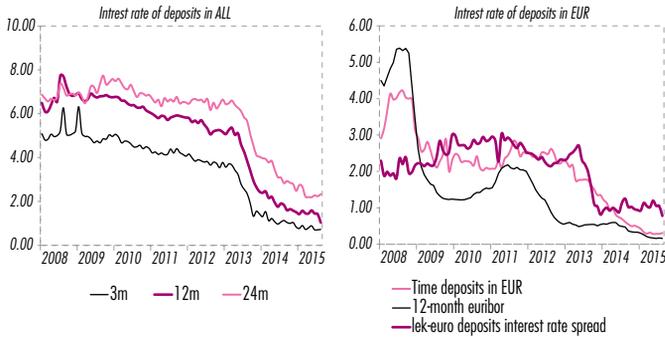
In this regard, informality has a substantial influence. Against the backdrop of the current level of informality, we may not reactivate Tirana Stock Exchange because it requires a clear listing of companies, an accurate listing with certified balance sheets and true figures to understand the reality and enhance reliability. The stock exchange may not operate if capitals are not certified, because the market would then be speculative. We could ask for it, but this does not depend only on the Bank of Albania. As a regulatory institution, we will cooperate with the Ministry of Finance, the government and other stakeholders to develop the capital market in Albania. It is one of our strategic objectives.

OraNewsTV: *Since September 2011, the Bank of Albania has lowered the key interest rate 13 times. The banking system has been conservative in reflecting these cuts, as rates on deposits were lowered more than rates on credit. Why do you think this has happened?*

Governor Sejko: Let's address both questions clearly. First, this is a perception. The lowering of the interest rates on loans and deposits, which has been discussed by many analysts. But this is a perception. If we refer to figures in 2010, the average interest rate on deposits was 5.2%; currently the interest rate on deposits is 1.5%, that is 3.7% down. The average interest rate on loans was 13%; currently it must be around 8.3%, that is more than 4% down. The same applies to the T-bill yields falling from 8% to 3.4%. That is about 3.5-4% down. The key interest rate of the Bank of Albania set by Supervisory Council decision has fallen from 5.25 % to 2%, in other words 3.25% down.

"...the central bank is very prudent to maintain the equilibrium, because first of all we are interested in the security of the deposits of the Albanian citizens. At the same time, we are interested in having optimism and liquidity in the economy for serious and creditworthy projects..."

Chart 31 Interest rate on new deposits

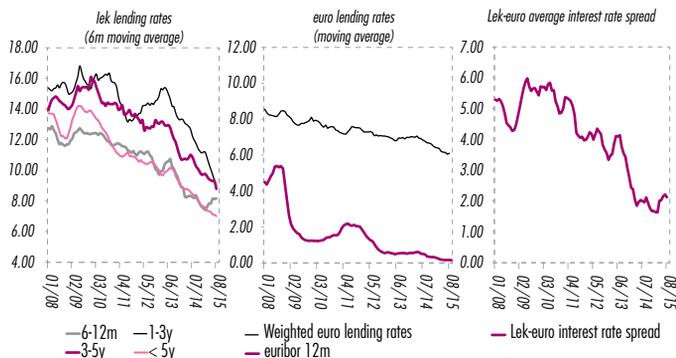


Source: Bank of Albania.

These figures only show that the stimulating monetary policy implemented by the Bank of Albania has produced the effect. This policy has been transmitted properly in the Albanian financial system, in both aspects at the same speed. Our figures prove that. Thus interest rates on loans have fallen; this fall is the same or probably higher than the interest rate on deposits. The interest rate on loans has fallen from 13 to 8%, reflecting Bank of Albania's accommodative monetary policy. This is about the interest rates on lek loans, as the bulk of the credit stock is denominated in foreign currency, mainly in euro. This portfolio has changed due to the accommodative monetary policy of the Bank of Albania, lowering the key interest rate in lek. This is another very positive step showing that the monetary policy has produced its effects: the interest rate in lek is down, and lending in lek is up. This has also contributed to preventing the exchange rate risk in credit repayment. If businesses operate in lek, that is if they generate their income in lek, their costs would rise if lek depreciated, hence running the exchange rate risk. Thus the policy has had another positive effect. However, apart from this effect, if we refer only to the fact of the interest rate, both for lek and euro, the interest rates on loans have fallen. In addition, we should take into account another very important element, often overlooked in debates or discussions: risk perception. The interest rate does not determine only the cost of and profit spread of the bank, it also assigns a risk premium, risk perception.

The higher the risk in an economic setting, the higher the interest rate. This applies everywhere, across all developing economies, not only in Albania. We may not draw a comparison between a 2% rate in

Chart 32 New credit interest rate



Source: Bank of Albania.

Germany and an 8% rate in Albania. Of course the risk perception is many times lower than in Germany, because it is a much more formalized economy compared to the Albanian economy.

OraNewsTV: *But many experts do not consider banks' profit as normal...*

Governor Sejko: First, I would like to point out that we, and I mean not only the central bank, but all the Albanian citizens, we should be happy when banks realize profit. Banks are capitalism institutions, cold, profitmaking, as all the corporates that operate in a market economy, in Albania and elsewhere. But banks operate with deposits and this is a very sensitive issue. When the banking system makes sound profit, it means the banking system is sound, thus creating security for the liquidity and deposits. The fact that banks are in profit should not be seen as a negative thing but as a positive development. Why should banks be in loss? It is a very good thing that they realize profit.

OraNewsTV: *Profit, but not so high... Normally you buy lek cheap and sell it dear?*

Governor: If we refer to data, the profit rate is around 2-2.3% higher than in the previous year. These are approximate figures. The banking system has always made profit, until the moment it had the first impact from the non-performing loans.

OraNewsTV: *You don't want to admit it then?*

Governor Sejko: The profit rate is the result of the spread between loans and deposits. The lowering of the interest rate on deposits and on loans has a certain spread. I believe that this profit rate has been continuously in the banking system. It is not that there is a profit rate in the banking system, but there is a continuity, there is a certain profit amid an economic setting in difficulty. Because the economic environment is in difficulties, banks are perceived to realise "high profit". In this aspect, we should be happy they are realising profit. If a business went bankrupt, it would affect the industry where it operates. But it would also create a positive effect as it would boost competition in this industry with a positive impetus. Meanwhile, in the banking industry, the systemic risk creates very serious problems across all the system, followed by more serious consequences.

OraNewsTV: *I would insist, just as businesses and experts say, that the banking system has high profit rates and we are not talking about seeing banks in loss, it is a good thing they make profit. But they may not buy lek cheap and sell it dear. Are high interest rates one of the reasons that have kept credit?*

"...When the banking system makes sound profit, it means the banking system is sound, thus creating security for the liquidity and deposits. The fact that banks are in profit should not be seen as a negative thing but as a positive development."

Governor Sejko: Thank you for the very good question. No, the interest rate is not the main reason and this must be emphasized. We should understand that the interest rate is not the factor for which banks do not lend or the main factor keeping clients away from credit? Clients that are problematic would accept a higher interest rate compared to more serious clients.

First of all, interest rate have been lowered at the same level, respectively, both on loans and deposits, according to our monitoring, which are accurate and known public statistical figures. The interest rate represents the risk premium and, as I explained earlier, the interest rate on loans reflects also the economic setting. On the other hand, the interest rates are determined by the market, banks have operational independence.

We have moved away from direct instruments to indirect instruments of the monetary policy since 1993, when through direct instruments commercial banks were imposed interest rate bands they had to abide by. As the economy and the financial market evolved, we have moved towards indirect instruments; we set the key interest rate by a decision of the Supervisory Council and the market reflects it. What is important is the way how the monetary policy is transmitted. This has been transmitted to the economy in the right direction and in both aspects.

Back to your question. It is not the interest rate the reason why banks do not lend. It is the risk perception, the lack of serious projects and a mismatch of the businesses demand for certain projects and banks criteria to support them with loans. What matters most is the history. When clients (corporates, small businesses, or households) have a poor performance, they are not creditworthy and this is a principal banking standard. If the clients need a loan, which may be not covered by their revenues, than the bank may not approve this loan, because there is no optimism. If the client applies with a certain risk level for example to buy an apartment for EUR 100,000 but does not contribute in the purchase of this apartment with a certain share, but requests total funding, the bank would say no, I contribute only 70%. The bank says you should put in 30% of the apartment and share the risk together.

OraNewsTV: *Do banks share this?*

Governor Sejko: The same applies to businesses. Banks often require the same as in the above example. Businesses request higher coverage for investments, for lack of liquidity.

OraNewsTV: *Are banks sharing the risk?*

Governor Sejko: They have certainly shared. We should be clear about it; lending has continued, though not at the desired pace. It has not continued at the pace we want to it to be in order to have an impact on economic growth. For as long as we have seen loans outstanding grow, especially during this year it saw positive growth, it means that lending continues at a good pace, though not the desired one. Had the lending stopped, the portfolio would have contracted. Indeed, it fell in August, compared to the previous year. But, this was due to the seasonal effect, as lending always falls in the summer to rise again in the last four months of the year. Also, it fell due to the psychological effect from the Greek crises. To sum it up, I would say that the interest rate is one element, but

not the main factor for not lending. Therefore, interest rates have fallen, the accommodative monetary policy has been transmitted and reflected in the economy. Again, always speaking about lek lending, because in the case of the euro lending the Euribor is determined by the European Central Bank. The main factor that keeps lending from the desired levels is the perceived risk level by banks and the lack of serious projects by businesses. These are the main underlying reasons.

OraNewsTV: *Will the initiative against informality affect lending? Only two weeks ago, the General Anti-Money Laundering Directorate sent an order to banks to accept businesses with only one balance sheet. Will this affect lending, taking into account the insofar practice in the majority of cases?*

Governor: We have agreed with the government and will continue the fight against informality gradually. We have an agreement, part of the plan of measures that the Bank of Albania has with the Prime Minister's Office, for its implementation in 2018. In the meantime, we have already reflected it in our regulations. The banks have been asking for it for a long time. We are talking about the larger businesses; they do not accept to apply two standards because they do consider fiscal risk as one of the key risks. This should be viewed from this perspective. If all the clients declared their income immediately - let us say hypothetically that all clients declared and paid the taxes regularly, then we would have a very positive impact on lending. In a real situation, their income would be higher and it would be easier for banks to approve loans for them.

Of course, this is a hypothetical situation. In a real concrete situation, not all the clients will have to declare, because the initiative against informality will move gradually and efforts will be made by the market, because there are many other factors that have an effect. Of course, not all will be formalized very soon and some businesses may go bankrupt.

This may have positive effects on competitiveness in the long term. I said in theory, we see this in the long term and not in the short term. One thing is certain: if accurate balance sheets are submitted to the bank, then banks will find it easier to make a decision to grant the loan. Of course, we are presuming that revenues are not disclosed accurately. The fight against informality is waged because revenues are higher than declared. When presented to the banking and financial system, such revenues increase the optimism in decision-making. Then we may discuss when balance sheets will be approved, how will revenues be

taken, what will be the procedures, but this is a principle discussion. In the long term I am confident that this initiative will be translated in reform, and will have a positive impact on the economy.

OraNewsTV: *The Bank of Albania has identified in the Monetary Policy Report for the first quarter of this year that the action in the energy sector to collect past dues reduced the annual consumption by 1.2%. You said you are analyzing the effect that the initiative against informality will have and that you may not draw a conclusion? Would it be an effect, even a short-term one, if consumption is affected?*

Governo Sejko: Effects on consumption could certainly be present. However, not so much. The initiative related to the energy sector that you mentioned was more sensitive, as it affected a good part of the population. Figures showed that a good part of the population had not paid the electricity bills; not only households but also businesses. Of course that would affect consumption. Related to the households, not businesses, the payment of electricity bills, since past due bills were also paid, would reduce consumption. This is common sense. Then, things will gradually fall into place. The same would apply to the initiative against informality. We are studying whether this would contribute most to price rise.

Practically, if businesses paid taxes, they would logically attempt to transfer the cost, this tax, to the end-buyer. From the perspective of the Bank of Albania, since our objective is targeted inflation at 3%, this would increase inflation towards the target. But, if we see it from a broader social perspective, with regard to the economy, it would be a negative element. However, market elements are self-regulatory. The economy does not have a forecast, it has many elements, many effects, and many factors that constitute the whole and create a certain balance.

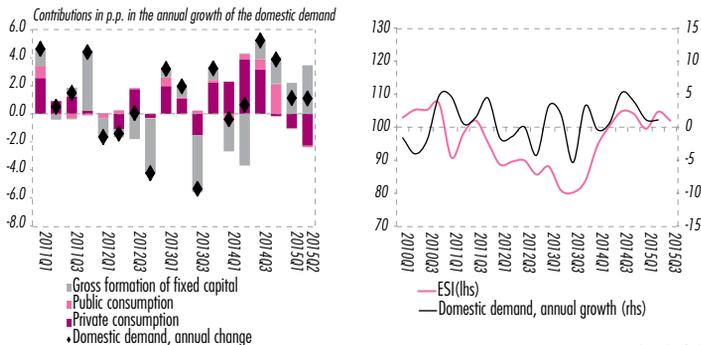
We are, therefore, studying the potential effect more in the light of prices than of consumption. Of course that if prices rise, consumption falls. But, consumption is also related to other psychological factors, such as tendency to save or to spend. This depends on consumers' optimism for the future, and elements related to the economic situation.

OraNewsTV: *Does the growth of deposits reveal that we are unsafe in the future? This growth is identified in some regular monetary policy reports*

Governor: It is true there is a growth in deposits. As I have mentioned in the previous interviews, it is an element that affects the psychology of individuals to neither undertake investing initiatives nor make purchases, but rather adopt a saving inclination, at moments of crises. It is a known fact that Albania and the region are not living in an optimistic or economic recovery, but in a stagnation situation. This is reflected in the psychology of individuals. Absolutely, households are inclined to save more. For example, the sale of luxury goods, such as cars or furniture items has fallen. The daily consumer goods have the highest sales and are dominant, due to the crisis psychology. The economic growth and recovery drive to a higher optimism for households, and in practice they spend more. If they spend more, they may need loans, because expenditures are not 100% covered.

A part of their needs is covered by savings and the rest by bank loans. In that way deposits fall, and bank lending increases. On the contrary, if savings increase, lending falls, as there are no investing initiatives.

Chart 33 Structure of domestic demand (contributions in its annual change) and Economic Sentiment Indicator ESI (long-term average=100)



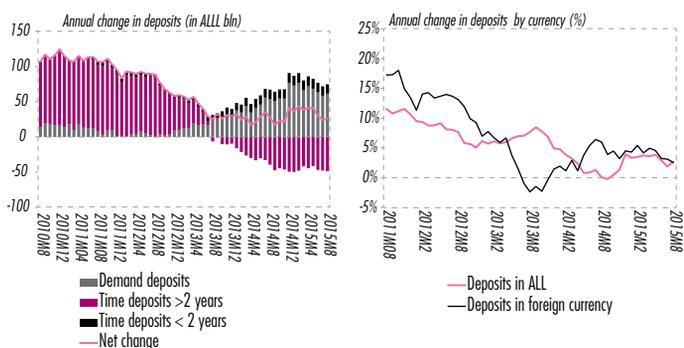
Source: INSTAT and Bank of Albania.

OraNewsTV: Is the low inflation a problem to the Albanian economy? At present, inflation stands below the lower bound of Bank of Albania's target.

Governor Sejko: At present, inflation stands below the target. Bank of Albania's inflation target is 3%. We expect it to reach this rate in

2017. This year, inflation averaged 1.8%, owing to the low inflationary pressures and a weak aggregate demand in the economy. Food prices, which account for the major share of the prices basket, 39%, have also contributed to this performance. The decelerated rise in food item prices and the fall in oil prices have contributed to the low inflation rates.

Chart 34 Developments in deposits



Source: Bank of Albania.

OraNewsTV: Isn't that a concern?

Governor Sejko: Obviously, it is not a positive element, but it does not constitute a concern.

OraNewsTV: The Government aims to borrow EUR 300-500 million in the international market, through the Eurobond. The Bank of Albania monitors the international market and the fluctuation in the interest rates. Is this a favorable moment? What is your assessment related to the interest rate upon which the Eurobond may be issued?

Governor Sejko: Albania has an agreement with the International Monetary Fund and the World Bank, hence constituting a security and guarantee criterion, which affects and would affect the Eurobond interest rate as well. The markets determine the interest rate on Eurobond.

Obviously, the interest rate is somewhat higher compared with the previous period when we could have issued the Eurobond; however, the interest rate is lower than the debt interest rate borrowed in the previous years. First, I would say that we should be concerned about

having the adequate liquidity and it would be preferable to take this liquidity through the Eurobond from the external market in order to free domestic liquidities for lending to businesses in Albania. This is the most important thing. Absolutely, this Eurobond shall replace the Eurobond of EUR 30 million due to be matured very soon, in October. The Bank of Albania would prefer that any addition on EUR 300 million be spent to narrow/close budget deficit. This is what we have suggested the Albanian Government. This depends on the management of funds by the Government itself, as funds may be spent for investments as well.

First, as I mentioned above, in terms of liquidity, it is very important to conclude the Eurobond.

Second, it is about the price, we wish it were as cheap as possible, but it is the market that determines the price. Nobody guarantees that the market will be more favorable at a later time. That is, we need liquidity as the Eurobond is maturing. We cannot discuss the price before the liquidity, as we would face difficulties.

Otherwise, we would have to address the domestic market, but its prices would be probably higher than in the international markets. If you need a house today, you may not wait for the price to lower. Nobody guarantees that the price will fall, it may well increase. Then, this is the time. It is a positive and necessary step, and we advised the Government to take this step. This issue is discussed by the experts in a number of TV programmes, and is understood properly. This is the gist of the matter: absolutely the Eurobond should be issued.

**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA.
"5 QUESTIONS BY BABARAMO".
REPORT TV
- 2 November 2015 -**

Report TV: *I would like to start with a growth figure, by the Bank of Albania as a referee over parties and as one of the most specialized institutions about the country's economic growth. What is your projection on the economic growth for Albania in 2015?*

Governor Sejko: Firstly, welcome to the newly inaugurated premises of the Bank of Albania.

Report TV: *Very interesting premises indeed...*

Governor Sejko: I'm glad you like them...

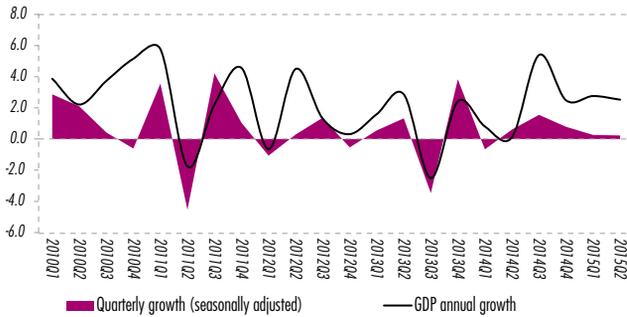
Regarding your question, economic growth is one of the main economic elements, an on-going subject of discussion. It is one of the main objectives of the Government, as well as of the Bank of Albania and other relevant institutions. Economic growth has been projected at 3%, in consultation with the International Monetary Fund.

Report TV: *Does this mean... it was projected at 3% at the beginning of the year?*

Governor Sejko: Yes, it was projected at 3% at the beginning of the year, but this rate was revised down during the year, driven by several factors. Currently, we expect growth to range from 2.5 to 2.7%. We cannot talk with preciseness because it is not about an accurate measurement, it is about projections.

I would like to clearly explain that the reasons of the downward revision are mainly related to a not so optimistic environment in the euro area, which is still not showing the expected results, with all the ECB reforms, such as the quantitative easing, i.e. ample liquidity injection into the

Chart 35. Annual and quarterly performance of GDP



Source: INSTAT and Bank of Albania.

economy. Despite this program and other measures to promote economic stimulus, growth in the euro area remains below 1.8%, according to the information that we have.

Other reasons are related to domestic factors such as the decline in the minerals' price, the decline in oil prices and the crisis in Greece, which has affected the activity of many Albanian manufacturers and exporters, driving to falling exports. All these elements provided drove forecasts downward, from 3% to 2.5-2.7 %.

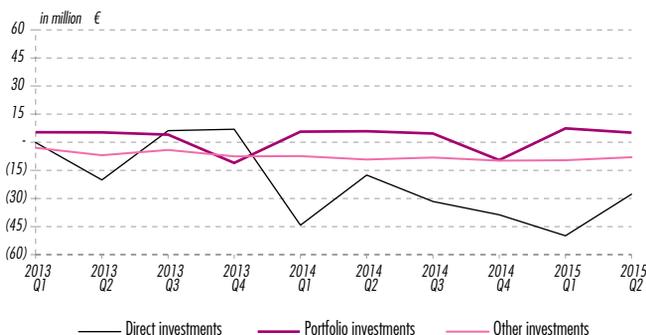
Also, as we already mentioned at the beginning of the year, the flooding situation has affected the agricultural sector. These are the negative elements that have contributed to the correction of economic growth.

But there are also positive elements, such as the significant increase in foreign investments.

Report TV: *In what sectors in the Albanian economy are these foreign investments mainly conducted? From the public point of view, it seems as if everything has stopped and foreign investors are reluctant to come to Albania.*

Governor Sejko: It is true that there is such a perception about foreign investors and we would normally urge for more major investments. However, foreign investments have already been made in some sectors such as, services, re-exporting and industry. All these sectors have been listed and declared by the Statistics Institute.

Chart 36 Primary income - from investments



Source: Bank of Albania.

We expect more foreign investments and more lending to the economy, - for which we will discuss later on- so that the Albanian economy will grow, especially in the upcoming years.

Economic growth forecast is set above 3% for the upcoming years. This is our projection. We should note that all the elements and factors are correlated with each other. So, if foreign investments and lending to the economy increase, without any doubt, economic growth will increase, unemployment will decrease, and so on. So, there will be an overall improvement of the business situation in Albania. But, this is not that simple, it is not easy to be achieved.

Report TV: *So you say that there are foreign investments, which have increased in comparison to previous years, but at the same time, an internationally acknowledged index, such as Doing Business, ranks Albania 37 places below. What can you say about this? Is there a hostile business situation in Albania? A hostile climate or what's going on?*

Governor Sejko: I wouldn't say it is a hostile situation, but it relates related to the reforms. For example, a series of reforms were undertaken, associated with the construction industry. The Government stopped giving building permits, because of the chaotic situation in construction and now the aim is to reform it in terms of protection and regulation of the territory in order to have a consistent approach to this industry. This, however, has had its toll on the construction sector.

Further, the undertaken structural reforms have provided their own negative short-term impact. Many reforms in their early stages have had a negative impact rather than a positive one. But, if properly implemented, in the long term, they will certainly have a positive impact. For example, until the very moment that the market is properly regulated, the reform against informality will probably have a negative impact.

I believe that all these elements that we mentioned would have contributed to the Albania's the classification that you mentioned. The goal is to successfully conclude the reforms, speaking in terms of the Government. As the central bank, we have our reforms relating to the banking and financial system. I believe that in the next year we will see positive results

Report TV: *What is the sector of the economy that somehow affects this modest growth?*

Governor Sejko: The main sectors that have contributed to this modest growth are services, agriculture, tourism, during the summer, re-exporting sectors and processing of raw materials.

These are the sectors of the economy on which we should focus and stimulate more. Agriculture and tourism are two of the main sectors where reforms are implemented. The agricultural sector has seen a very good growth rates, albeit still low compared to the total of the overall growth.

Report TV: *How has the agricultural sector improved?*

Governor Sejko: Reforms are being implemented. The agricultural sector has grown significantly, but its growth is still low compared to the overall economic growth. But, in general, the 3% economic growth projection is revised down referred to the factors that I previously mentioned.

Report TV: *Clear enough, you said that there will be stimuli for economic development and the biggest stimulus is lending. However, we notice bank lending in the Albanian economy has slowed down. How do you explain this? What has led to this performance?*

Governor Sejko: This situation has started since the beginning of the economic crisis in 2008. It has gradually deepened, but there is no inhibition of lending. So, lending to the economy has slowed down, reflecting the general economic situation.

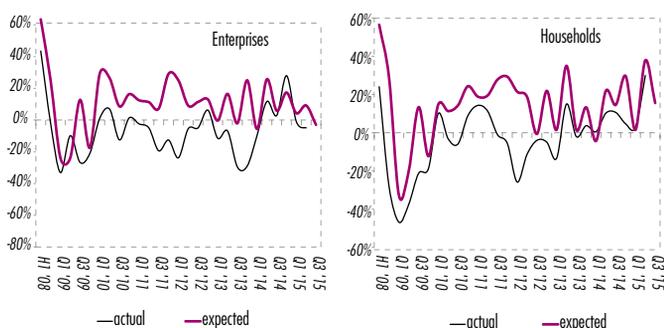
Until the beginning of the crisis, end of 2008- beginning of 2009, the situation had been overly optimistic. Banks lent excessively to the economy across various industry segments, businesses, individuals, small and medium-sized businesses, as well as corporates.

The arrival of the economic crisis was not reflected right away, but rather gradually on the situation of lending to banks, in the form of a general situation in the euro area and in our region, and was then reflected in the Albanian economy and in the tightening of lending standards by commercial banks to customers and to the economy. Banks have tightened risk criteria, thus becoming more conservative. It is quite normal that in such a situation, banks become more conservative. Moreover, the demand for credit and the submission of long-term projects to banks have declined.

We have a liquid banking system, which has the needed funds to sustain the economy. And this is a core element, because we could have experienced what some countries in South-east Europe experienced, a banking system whose loan-deposit ratio stands at 100%, therefore not having enough funds.

On the other hand, commercial banks apply tight risk criteria and aggregate credit demand is weak, especially from major customers or corporations, in our jargon. These major projects would have a really big impact on the economy.

Chart 37 Credit demand (net balance)



Source: Bank Lending Survey, Bank of Albania.

I remember when I worked for commercial banks during 2008-2009. By continual contacts with business, we had a considerable demand, a fairly large number of projects, which were submitted to us to finance and credit them. Of course, banks financed some of these projects in accordance with the criteria they had. But today such demand is not present for a number of reasons, as a consequence of an economic stagnation, resulting in a more discreet business situation. The business itself can't make long-term prognoses and predictions in order to know whether it would be profitable in the long run or not. But banks have their criteria. So there are problems in both sides.

The Bank of Albania is trying to find a solution to this stagnation, but we are not dealing directly with the projects by businesses.

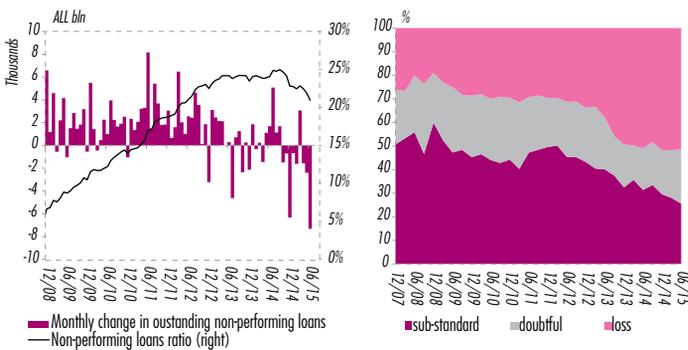
Report TV: *You said that non-performing loans are a difficult moment, to encourage or discourage by the commercial banks. What is their level, which once reached 25% of the total loans?*

Governor Sejko: The level of the non-performing loans is still high, about 20.2-20.3%. It has decreased from 25% to approximately 20%.

Report TV: *What happened to the 5%? Banks simply cleared the balance sheets and now non-performing loans are called lost?*

Governor Sejko: In the accounting concept, those are called lost, meaning that for over three years they have not been performing and were not paid back to the banks. Therefore, banks have written off these

Chart 38 Non-performing loans ratio and structure of non-performing loans (right)



Source: Bank of Albania.

loans from the balance sheet. But they are not totally written off, which means, that banks continue to follow them, and whenever banks have collections from these loans, they will pass to bank earnings. To sum it up, because these loans do not perform, they are removed from the bank balance sheets under the international accounting standards, leading to the decline of the stock of non-performing loans. Including performing and non-performing loans, the total loans stock increased 4.5% (period on period). Meanwhile, due to the effect of writing off of non-performing loans from bank balance sheets, this increase is only 0.5%. The write off has led to the reduction of non-performing loans, thus it has improved bank indicators and increased their optimism.

Report TV: *Please, let me clarify a figure. At a first glance, it looks like 5%, which are the non-performing loans, are written off from the balance sheets and everything continues smoothly. Is there the possibility that more non-performing loans have been written off, say more than 5%? Also, is there a possibility for the non-performing loans to continue to increase, is this the case?*

Governor Sejko: No, this is not the case. The figure represents many elements. That means the non-performing loans may have new loans as well as returning non-performing loans.

Report TV: *What's the trend? Are there any non-performing loans added to those that are not anymore, do banks consider them lost?*

Governor Sejko: There are loans that can become non-performing loans, but there are other loans that can be improved or restructured. The new loan has its own impact, because this is a ratio. If we have no new loans, the non-performing ratio increases. If the total loan ratio doesn't change, then the level of non-performing loans will increase. But, even if it doesn't increase, the level of good loans will decrease. If good credit increases, if lending to the economy increases, the non-performing loans will improve. But even if it doesn't improve, if the banks do not undertake the reforms they are undertaking for this portfolio, generating new loans to reduce the percentage is enough to give the banks and the economy a boost.

On the other hand, because the level of non-performing loans is high, other banks feel pessimistic about giving new loans. This, combined with the low aggregate demand, creates a deadlock situation, both in the financial system and the economy. It is exactly this deadlock that

encourages us to undertake reforms and measures to boost lending. We also collaborate with the government to undertake other structural reforms to boost the creation of large projects, which will affect the whole economy, increasing the employment rate and providing further developments.

Report TV: *Last month, I interviewed both the Minister of the Economy and the Minister of Finance. In relation to non-performing loans, they told me that in cooperation with the Bank of Albania, a law is drafted to provide a solution to this phenomenon. I asked them both to explain but I couldn't understand the technicalities of this law, how will it work? What does this law imply? What happens to someone who is an entrepreneur and cannot repay the loan?*

Governor Sejko: This is not a draft law, but a set of measures which provides a series of legislative changes. Primarily, it is the law for bankruptcy which is reviewed. It is also about legal amendments relating to real estates, the legal treatment of borrowers, the enforcement of collateral, which is one of the most important elements affecting the loans performance. There are many other acts and regulations that we have discussed about what banks may do in relation to the treatment of non-performing loans. What I would say is that, basically in Albania, banks in relation to the courts are seen as capitalist institutions.

Report TV: *Do you mean "Capitalist" in a pejorative sense?*

Governor Sejko: Banks are seen as institutions that have money. This is the reality that we have experienced. Generally all court cases of banks dealing with customers have been ruled in disfavor of the banks. This has created a disadvantage for banks in judicial relations with the borrowers and this has certainly influenced the decision making.

Report TV: *I would like you to answer my question as a former executive of a commercial bank. What is understood by this legislative package? As I understand, this package is aimed to assist the banks, right?*

Governor Sejko: This package will serve to the legal treatment of all the elements, in assistance of both banks and clients.

Report TV: *It wouldn't be wrong for it to be in favor of banks so the banks would take their money back and channel them again into the market. How will it work?*

Governor Sejko: Of course, if the right were on the banks' side. Any legal change would give its impact on the treatment of problematic cases. I'll give you an example. In case a customer does not repay the loan and has left a real estate as collateral then the bank is entitled to execute this collateral to get back the money and to ease the loss as much as it can. In such situation, the normal functioning of this process would create a normal position of the bank on loan decision-making process.

In case those banks, especially foreign banks, notice that there is no enforcement of the collaterals by courts, in case they notice that there are delays of this process, they will be much more conservative in terms of new loans. We accuse the financial system and the banking sector for being conservative, but we forget that if these banks do not retake anything, then of course they will be more conservative. We cannot ask them to tolerate the risk criteria, against the backdrop of an unregulated legal system.

Report TV: *In the immediate execution of the collateral, the bank believes that it cannot....*

Governor Sejko: With the proper execution of the collateral that the bank judges as such.

Report TV: *What else does the plan specify?*

Governor Sejko: In the case of the write-off, fiscal facilities are foreseen for the banks in order to not affect the payment of taxes, the closing of balances at the end of the year.

Report TV: *Let's talk about this a bit more. So the taxpayers have to pay for all the non-performing loans?*

Governor Sejko: No, it has nothing to do with that.

Report TV: *But since there are fiscal facilities does it mean that the bank will not pay the taxes?*

Governor Sejko: If the bank has incurred a loss, certainly it will pay less tax. The profit tax is what defines the profit in accounting terms.

Report TV: *What else is provided in this package?*

Governor Sejko: Other regulatory changes introduced in this package relate to the treatment of bad borrowers and debt restructuring. What we want to address are not only the non-performing loans or collateral execution, but also cases which might have positive performance therefore they need a restructuring. It can be a debt restructuring with some terms and other facilities.

I will not go into technical details, but practically banks are viewing the non-performing loans from two aspects: in terms of the execution or bankruptcy of the hopeless cases and in terms of restructuring of cases that have the opportunity to move forward. In such situations, we would like to support banks as well as the businesses so they will be able to overcome this delicate financial situation.

Normally, the Bank of Albania is not the only one helping. This is an institutional reform, coordinated with the executive and other stakeholders. The Ministry of Justice has its own specific role within the executive, which is working on the review of the whole legislative package. The Albanian Association of Banks is also involved in the identification and the treatment of specific cases. Meanwhile, the Bank of Albania has a specific project with the World Bank (WB) which is dealing with the treatment of the non-performing loans in cooperation with the Association of Banks, and with all the institutions.

Report TV: *What does the assistance consist of? Is it a technical assistance through the World Bank?*

Governor Sejko: It is technical assistance to the process since they have similar experiences.

Report TV: *Will they reimburse the damages?*

Governor Sejko: This is not the issue. Neither the World Bank nor any other institution has to pay for the damages.

Report TV: *In the specialized economic press it is written that 35 Albanian companies share over EUR 1 billion of non-performing loans. Can you confirm this figure, Mr Governor?*

Governor Sejko: What's more important than the exact figure is the fact that a number of large companies have the largest share in the portfolio of non-performing loans. What is happening is a phenomenon.

In the Bank of Albania's annual conference, the Chief Economist of the central bank of Macedonia presented more or less the same situation. Practically a limited number of large corporations have the majority of non-performing loans. These clients are the ones I mentioned above, who are being judged and evaluated whether they are to bankrupt or if they should be restructured thus to continue with the business.

Report TV: *In what therapy will of this intervention consist? The public perception is that these "oligarchs" are the tumour of the economy. How will the intervention be?*

Governor Sejko: On a case-by-case basis, we'll see.

Report TV: *On what financial criteria?*

Governor Sejko: Financial criteria are clear. If the business has positive prospect, has positive development projections, then the decision to support this business will be positive. In case that the business does not have positive projections, then of course this business should be closed. Sometimes, businesses themselves can decide to do so. If a business sees that it has no positive prospect, it may decide to close the activity. In practice, this is a bit more complicated because these clients or these corporations own more than one business (they own many businesses) and are exposed to more than one bank. Their balance and financial situation need to be consolidated and only after this consolidation, judgment and evaluation need to be done. You can simultaneously own a construction, a telecommunications, a complex financial business, so you could own a conglomerate of businesses, some of which could be positive, some not. Then as a corporation you have to decide whether a business should be closed or not. All this should be seen in relation to banks as well. In some of these banks, these businesses appear better, while in some other banks they appear worse. So, the situation needs to be carefully analyzed in order to understand which are the businesses that have no future - by taking the decision to close them, accompanied by the necessary actions from legal authorities, and which are to be restructured, for which banks on their part should be more proactive.

An aggravated situation in terms of non-performing loans would affect decision-making of the banks, as they often have excessive bureaucracy. If banks in 2008-2009 had been proactive in restructuring the portfolios of non-performing loans, exactly the portfolios that we have today, the situation would have been better. This situation would not be so

deteriorated for banks and businesses themselves. Faced with a difficult situation, the bureaucracy made them waste time in the decision-making process and now they are facing this situation. At some point, someone has to decide which should be restructured, which should move forward and which should file for bankruptcy.

Report TV: *So, based in your experience, are these loans based on substantial collateral that covers the loan value or are we dealing with fictitious figures, figures that even if the bank tried to collect this collateral, it wouldn't serve them any good.*

Governor Sejko: This is one of the most positive elements of the financial system. The portfolio of non-performing loans is collateralized. This means that there is enough and substantial collateral to cover these loans. When provisioning the portfolios banks ask the Bank of Albania to consider the collateral, because we ask them 100% provisioning. Banks seek to provide less provisioning, as they say their loans are collateralized and there is no need for 100% provisioning. This is a technical discussion. You are asking whether there is or not collateral. Loans are well collateralized, with the exception of particular cases. So overall, the portfolio of non-performing loans is well-collateralized. The real estate market is the problem. The problem is whether this collateral is executed or not, if it is sold at the right time at the right amount.

Report TV: *Have there been collateral executions?*

Governor Sejko: Yes...

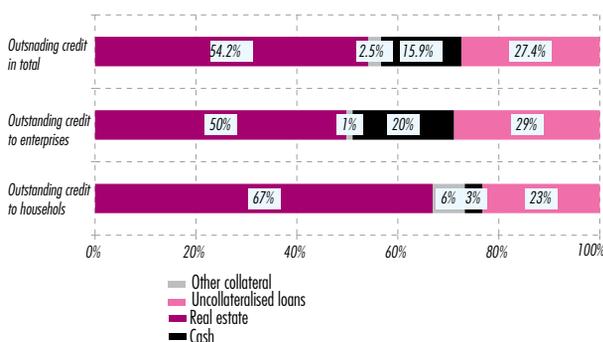
Question: *Has there been any effect, has there been a market?*

Governor Sejko: There have been executions of the collateral. But there are difficulties, intertwined with the judiciary, the enforcement process, etc. However, a serious undertaking, a serious commitment by the banks would make it possible for the collateral to be sold.

Report TV: *Governor, I would like to insist on a fact. For at least six years the Bank of Albania has cut the key interest rate at each meeting to historical minimum levels aiming to help commercial banks, to boost lending to the economy by lowering interest rates even below the level of inflation, banks apply interests on deposits which are below the level of inflation. However there is no boost to lending to the economy. What other incentives would discourage banks from this stagnation of their operation?*

Governor Sejko: First it must be said that lending has continued. Throughout this situation, there have been discussions of this kind. Citizens and the media have requested from banks to lend more. In the first place, I must say that banks have continued to lend. Lending has been increasing. We say that lending has been increasing, but this increase has been moderate.

Chart 39 Level of collateral coverage of loans by type



Source: Bank of Albania.

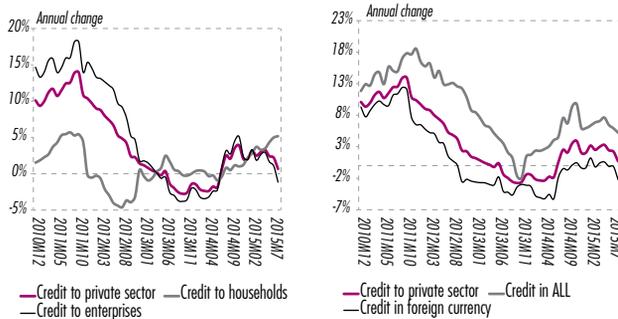
Report TV: How much was this increase?

Governor Sejko: This increase has been low, as I previously mentioned, at 4.5% this year. If we exclude the effect of the write off of the loans from the balance sheet, it remains 0.5%. Banks continue to fund annually. There may be EUR 500-600 million new loans in the economy by commercial banks. This is a fact. Given that the portfolio and the loan stock are depreciated, we get the net increase. Of course, not all banks lend equally, some are more active, and others are less active. But, overall, we lending has continued, it hasn't stopped. This must be said firstly.

However, we would like to see higher credit levels to reach the levels of the economic development we are looking for. Albania has not fallen into recession; the lowest level of economic growth was at 1.3%, in 2013. In 2014, we were at 2-2.1% and this year we expect to reach 2.5-2.7%. Here is the IMF mission and practically everything is under review. What's important is that the trend continues to be positive. If we

end this year at 2.5-2.4%, I'm being conservative by saying 2.4%. I would consider this as a positive trend. If this trend continues during the next year, although above the 3% - our projections are for 3.3% - this means that we are on the right path to achieve it. This means that the reforms taken by the Government and by the Bank of Albania are having effect.

Chart 40 Credit by economic agents and currency*



*Credit analysis is based on monetary data adjusted for credits taken from banks' balance sheets. Data adjustment is based on the reports by banks on these credits and is based on micro data taken from the Credit Registry.
 Source: Bank of Albania.

Your question was about the interest rate, monetary policy of the Bank of Albania and its effects on the lending increase and the economy. It is true that we have reduced the interest rate about 13 times over the past two years, including the period before I became the Governor. We have not made any interest rates cuts during my term. I have also emphasized at other times that the transmission of the monetary policy in the economy has been the right one. So this monetary policy has had its effect.

Report TV: *And let me make another intervention. As far as I remember, the figures of one report of the Bank of Albania overturned the politicians claim that the Greek crisis was a fatality to the Albanian economy. I think it is the opposite, due to the crisis of the Greek banking system, Albanian immigrants no longer send remittances; they have withdrawn all the deposits they held in Greek banks and brought them in Albanian banks. Not sure whether you can confirm this to me or not, but since 2008 up to today, the deposits portfolio in Albanian commercial banks has doubled. So, for 5-6 years Albanian banks have doubled the amount of money they held say five years ago. What happens to these, which economy do they fund?*

Governor Sejko: This does not apply only to the Greek crisis. This has also to do with the overall economic situation. In a situation where we do not have the appropriate level of economic growth and optimism for the future - like before 2008 - people have no investment or consumption initiatives. Therefore, consumption drops because the consumer feels the need of security more than the need to invest and of course this affects the growth of deposits.

Regarding the Greek crisis, we've had remittances from migrants. We have highlighted in the previous discussions that the Greek crisis may be associated not only with the risk for Greek banks operating in Albania - a danger perceived during July and was successfully overcome - but also with new deposits. In fact, this was accompanied with new deposits. Fearing the safety of the banks in Greece, non-Greek banks operating in Albania are seen as safer. A large number of immigrants have practically returned from Greece during this period. Certainly by returning, they not only brought their knowledge, but their savings as well, thus increasing the deposits. But the increase of deposits in Albania has come mainly as a result of the failure to undertake investment initiatives and the decrease in consumption as a result of the psychological effect, which makes people tending to save more, fearing they will end up unemployed. These are phenomena which are expected in certain situations.

To answer your question, interest rates have decreased and this means that the monetary policy has given its transmission effects on the economy, because domestic loans have increased considerably in comparison to the foreign loans. Domestic loans are affected by the reduction of the key interest rate of the Bank of Albania, since we can only reduce the interest rate of the lek currency. There has been a decrease in the interest rate of the euro (as one of the main currencies used in Albania) because the European Central Bank has lowered its interest rates. So, overall interest rates are lowered, the transmission of monetary policy of the Bank of Albania has given its effects. I repeat, what is lacking is the projects and the long-term undertakings from businesses.

Report TV: *So you're saying that banks are willing to lend, but there are no projects?*

Governor Sejko: There are no projects that meet the criteria to be credited.

Report TV: *They also say something else. About 60-70% of Albanian's*

deposits are held by the subsidiaries of European banks that operate in Albania and implement European Central Bank regulations. These banks should use a part of the deposits for provisioning, i.e. not lend but keep it as guarantee. They have chosen to keep the Albanian's deposits as guarantee, since being a not very consolidated market, we should not take risks. Is this a reality?

Governor Sejko: Not at all.

Report TV: *How can this reality be discouraged?*

Governor Sejko: It's not what it is, and I want to clear things up. There is no restriction, or any request for deposits held at foreign banks, which operate in Albania, to be used as provisions.

Report TV: *Not at headquarters I imagine.*

Governor Sejko: Yes. I want to specify it without getting into too many technical aspects. Funds movement is free. Liquidity surplus in the domestic currency, it is held at the Bank of Albania, the central bank of the country which is the regulatory authority, whereas surplus in a foreign currency are held in the corresponding foreign banks, just like in every other country. Banks would result in a loss if they did not place these free funds on a deposit.

So, once again, the domestic liquidity surplus is given as a loan, the rest is put in deposits at the Bank of Albania. The foreign currency surplus is placed at non-resident banks. Measures have been taken for the exposures, i.e. with its regulations the Bank of Albania takes actions to diversify the risk, so there won't be a concentration of these deposits in certain banks. There are several terms that 10-20% of the surplus in relation to the bank's regulatory capital should not be concentrated but must be distributed in order to share the risk. The criteria require these funds to be placed in the best banks of zone A, and not in offshore banks. For the implementation of these criteria, we supervise and check whether these deposits are placed in the safest banks in order to have a better distribution and diversification of the risk. But, these funds are not provisions, and are not as you said, blocked from the parent bank. They are simply available funds. We want these funds to be injected into the economy. Therefore, to encourage banks in this regard, we have prepared a package of countercyclical measures and a package of macroprudential measures.

Report TV: *What do these measures consist of?*

Governor Sejko: These measures relate to the capital adequacy ratio. For the banks that have a loan increase from 4 to 10% per year, we have eased the requirements on the capital adequacy ratio, so we ask to inject less capital in order for them to be encouraged to give more loans. For banks that have placed their funds in the form of deposits mentioned above, we ask for a capital increase, a capital addition. We cannot force them to do so as banks have their own operational independence. Within the regulatory framework, they perform their commercial activities. Otherwise, we would assume the direct management of these banks. But they are not in administration; they are in a sound financial situation and operate in a market which has and its own spaces. With our macro-prudential measures we are trying to steer these banks' activity towards the economy stimulation and lending. As the central bank, this is our role and function. These measures have provided their effect on lending. For this reason we've have prolonged the applicability until the next year, since they were temporary. Besides the interest base rate, we are looking for other measures that we can take in order to boost lending. Now we are analyzing, studying the best practices of European and East European countries.

Report TV: *We won't have to apply negative interest rates, we hope?*

Governor Sejko: I do not think so. Now it is too early to say anything, but I believe we won't have to. The cut of the interest key rate, the injection of liquidity into the economy and the pursuit of a monetary policy with a long-term message on the interest rate are some of the measures that we have taken. We have oriented the market that will implement an accommodative monetary policy stance for the period ahead as well. This has transmitted a message to the market.

Report TV: *Governor, are Greek banks in particular safe since they are subsidiaries of a country which is in deep crisis? Is there any bank that is on the verge of collapse? Or is this a naive question to ask?*

Governor Sejko: This is a good question.

Report TV: *So, there isn't any banker that says that the bank is on the verge of collapse...*

Governor Sejko: If there were a bank on the verge of collapse, then

we as a central bank would have to exert all our legal and regulatory rights to manage its collapse situation. As the central bank, we are the regulator of the banking system, and the bankruptcy is managed by the regulators.

Chart 41 The share of Albanian banks with greek capital for the period 2008-June 2015



Source: Bank of Albania.

There is no bank on the verge of collapse. The most delicate situation occurred in summer, not only for Albania but also for all the countries where the subsidiaries of the Greek banks operated. During that period, we were constantly coordinated with the governors of the region, of Serbia, Macedonia and of all the countries where Greek banks have subsidiaries. Greece itself passed a very difficult period and we were very concerned about the difficult period of economic policies during the summer, as this not only impacted the overall economic situation, the import-exports and decline in remittances, but also the financial system and the banking system in Albania. Practically, we have three banks, which, as I've highlighted before, had a very good liquidity situation and adequate capital.

Report TV: Did panic affect these banks?

Governor Sejko: Yes, it did. Panic was the reason these banks had a significant liquidity withdrawal during those days. They endured the panic with their own funds, and could resist the withdrawal of liquidity for several months. Despite the withdrawal, the situation was normalized. Liquidity returned to those banks, so the situation is the same as it was before.

It must be said that Albanian banks with Greek capital are banks that have been operating in Albania for years and not only have these banks contributed to the Albanian economy but they also have a sound financial situation. In fact, not only these banks, but all banks in general that operate in Albania have a sound financial situation. We say that they have excess liquidity and capital adequacy. These are two basic elements that indicate that the banking system is healthy.

The banking system is sound. The Bank of Albania in its role to regulate and to maintain financial stability is satisfied that the banking system is sound. On the other hand, in terms of monetary policy transmission, we need a banking system that contributes to and stimulates the economy. Banks benefit from this because the more loans they give the more profit they make. Their profits would increase, the economy would grow, deposits would be invested, customers would be more inclined towards consumption, and employment would increase. So everything would work out in a situation of economic recovery. The situation in Albania is also a reflection of the situation in the region and the euro area. The European Central Bank has passed to the negative interest rates and has also made strong liquidity injections into the economy through their Quantitative Easing Programme. This program was a theory of Stanley Fischer, Vice-Chairman of Federal Reserve's Board of Governors. This programme has shown positive effects, has been proven in the United States during the crisis.

The United States have now overcome the crisis. Now it is being applied in Europe. According to the European Central Bank statements, we have positive messages of the return of the economic growth despite it being below potential. We say that our economy is below its potential and we are working on closing the negative output gap. The same situation is found in the euro area. Under these circumstances, given that the measures taken by the European Central Bank are gradually giving effect, the overall situation is expected to be reflected in the Albanian economy, financial system and banking system.

Returning to the discussion about banks, the banks themselves have criteria that are in a consolidation process in their home countries. There are banks operating in Albania that are originally from Italy, France or Greece, all euro area countries regulated by the European Central Bank. Of course, these banks are subject to the measures and regulations taken by the European Central Bank. Some banks have reflected the economic activity of the period before the crisis and have large exposures to risk.

This situation makes them more regulated and less aggressive than they were before. It orients them toward rearrangement processes rather than toward big investments. To put it in simple terms for the public these banks have stepped back, is Greek banks as well. Yesterday, we heard that the latest reports and analyses require a recapitalization of these banks with a capital injection of EUR 14 billion for all the 4 major groups that operate in the economy. This was called a success, because the expectations were for higher values of recapitalization. So they need to be recapitalized. They have identified exactly what their need for capital is and have potential to do so.

I emphasize the fact that the banking system in Albania is capitalized, healthy and there is no risk of collapsing. Right now, we are discussing about lowering the level of non-performing loans in order to boost banks' optimism regarding loans. We are trying to make them invest their deposits and lend to the economy. But, on the other hand, we try to create a positive environment and economic situation, with healthy requirements projects, funded by the commercial banks.

Report TV: *The last question I'd like to ask you concerns the former Dajti hotel, which was bought by the Bank of Albania 4-5 years ago and remains a ruin. What will happen with that building? There is this speculation that the government will buy it back from the Bank of Albania to restore it into what it was before, a hotel.*

Governor Sejko: We held the inauguration ceremony and perhaps you heard the Prime Minister's speech. But despite this, when I came to the institution of the Bank of Albania as its Governor, I found the Bank's staff working in two separate buildings. DAJTI hotel was purchased in the amount of EUR 30 million. Currently, half of the employees of the Bank of Albania are accommodated in the headquarters, in the original building of the central bank and the rest is working at the building that is rented by the Bank of Albania, until the complete reconstruction of former hotel Dajti building. Projects had started and were under construction. This was the situation in which I found these projects. So the former-hotel Dajti was purchased and registered under the Bank's ownership.

Report TV: *And there is no turning back.*

Governor Sejko: There is no turning back because it was such a legal and financial situation in which it would be impossible to go back. The media has discussed and commented a lot regarding Dajti

Hotel. Normally I haven't had any discussion or any problem, except the questions I had in the Parliamentary Committee of Economy and Finance regarding the future of Dajti hotel. Meanwhile, the clarification procedure has continued by submitting the respective documents to the National Territorial Planning Council. It decided that DAJTI hotel will become a bank. For your information, there has been some discussion regarding the back yard of hotel Dajti building, for both the underground and above-ground parking space as there are many bridges around there. Because Lana stream used to run in that area long ago, it needs a lot of investments. Hence the former Dajti hotel will be part of the central bank. Hereby, in every South Eastern Europe countries I have seen, central banks are the most classical looking buildings, symbolizing the stability of state treasury. Central banks are located in the best, most beautiful and most solid part of the city. On the other hand, central banks are institutions that can preserve the cultural heritage and simultaneously invest in this regard for the buildings. Whether it would be better as a hotel or a bank is an old story now, and it's not up to me. I've found it in this situation and I am obliged to abide by the law and follow this situation

I. BABARAMO/Report TV: Mr Sejko, I thank you for the interview.

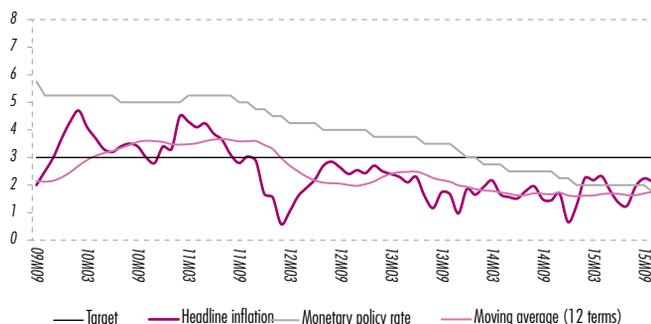
Governor Sejko: Thank you for visiting.

INTERVIEW WITH GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA, VIZION PLUS TV - 26 November 2015 -

Vision Plus TV: *This month, the Bank of Albania used its monetary policy instrument again, reducing lek interest rates to the historic minimum. If we take account of the 2.1% inflation rate as well, then the interest rate on deposits for the first time posts at a negative value. What are the implications for Albania and depositors, and the public debt of the Albanian Government? To what extent is the monetary policy combined with the fiscal one?*

Governor Sejko: Thank you! As we said in our last statement, on 4 November 2015, the Supervisory Council of the Bank of Albania decided to lower the key interest rate to 1.75%. Following this reduction, the rate now stands at the historical minimum, in line with the stimulating monetary policy that the Bank of Albania has been implementing for some time now, and is affected by the economic background in Albania, in the region and beyond. The Bank of Albania lowered the key rate in the light of its primary objective: maintaining price stability. At the same time, this reduction aims at boosting lending and economic growth. The reduction of the key interest rate, aimed at reducing the cost of funds in the economy, is a monetary policy instrument broadly employed by the

Chart 42 Inflation, monetary policy rate and target



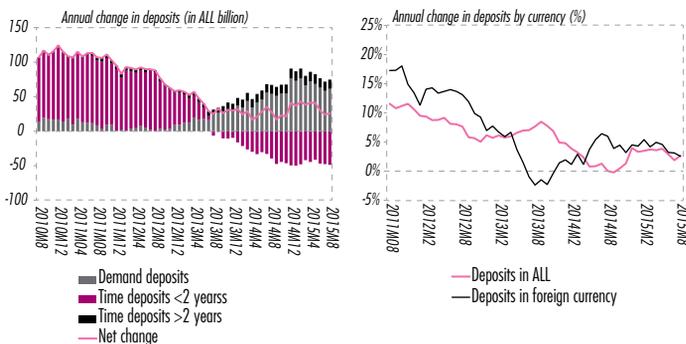
Source: INSTAT and Bank of Albania.

central banks, initially, by the Federal Reserve, the Central Bank of the United States. This policy has provided its effects. Also, the European Central Bank has lowered the interest rates to negative levels. The Bank of Albania has done the same thing. Similar to other central banks, the Bank of Albania tries to encourage lending by lowering the funds' costs, that is, the cost of credit price.

It should be said, that price and interest rate are not the only elements that impact lending, as in that case, there would be a simple correlation: the lower the interest rate is reduced, the higher lending would be. As we have previously emphasised, the risk perception considerably affects the stance of financial institutions. Now, this is about the supply and demand. As a central bank, we try to affect the supply side, in order for the latter to be rather attractive to the market and the customers. On the other hand, banks themselves see a high risk level, while businesses are reluctant to invest.

We are simultaneously working with banks, to consider also other possibilities, in addition to the key interest rate instrument. First, the Supervisory Council is analysing all the elements and other factors that may be used in the future to simulate lending, as, judging from the figures, lending has not increased at the expected levels.

Chart 43 Performance of deposits



Source: Bank of Albania.

On the other hand, deposits are certainly affected by the decrease of interest rate. This is done exactly for the people, households and businesses, to undertake higher investment initiatives, to increase

consumption and investments. A low interest rate on deposits drives the customers of banks and large financial institutions to look for alternative investment opportunities. As I stated at the beginning, other central banks have even lowered the interest rate even further. Currently, the European Central Bank has shifted to negative interest rates. Currently, the average inflation rate stands at 1.8%, compared to our 2% projection for the year. It does not mean that this level is too below the expected level of inflation. It is true that the currently implemented interest rate is low, but this rate remains higher than interest rates in other countries.

Summarising, I would say that the central bank employs the interest rate as the main instrument to boost lending, economic growth and welfare; it also promotes initiatives and investments in the economy.

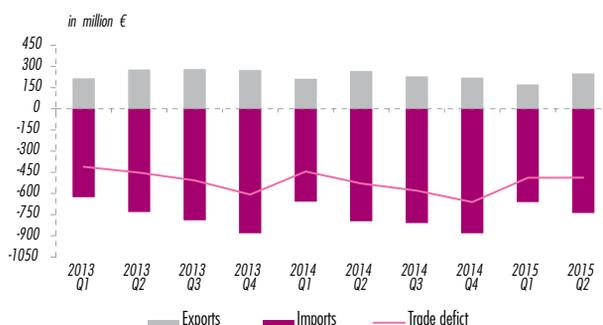
Vizion Plus TV: *You mentioned that the Bank of Albania is discussing with banks on other instruments to boost lending, also an inter-institutional plan is in place, where the Bank of Albania is one of the key institutions, for the write off of loss loans, also non-performing loans. At what stage is this action plan? And what is your opinion, is it a matter of willingness or of possibilities?*

Governor Sejko: To be realistic and coherent with the economic situation, it is not only a matter of willingness, but also of possibilities. Businesses, particularly larger businesses in Albania, have been going through a difficult process related to the macroeconomic situation in Albanian and in the region. We know that the Government was in arrears, which are already paid to the businesses. But, that was insufficient to provide an impetus to businesses to pursue the same trend in their investing initiatives in projects.

On the other hand, the economy has encountered difficulties in terms of imports and exports. Exports have fallen due to the economic difficulties in the main trading partners of Albania, such as Greece and Italy. Absolutely, this has affected the turnover level of companies and the level of foreign direct investments. For example, re-exporting companies have re-directed their products to other markets, moving away from Greece and Italy, in search of other markets such as Germany or other countries that have a demand for these products.

Businesses have had their difficulties, some of which have been in place for a while. In parallel, commercial banks have adopted a more conservative approach, which is also due to parent bank policies.

Chart 44 Export and import of goods



Source: Bank of Albania.

The parent banks, which operate in the European Union countries, are regulated and monitored by the European Central Bank. Amid a regional crisis situation, these banks are not as “aggressive” as they used to be. Surely, this fact affects their lending policies, as they perceive higher risk rates not only in Albania but also in the region.

Vizion Plus TV: *In your opinion, what is the role of the judiciary system, according to discussions with commercial banks?*

Governor Sejko: In this context, the Bank of Albania, together with the Government and other actors, has drafted a plan of measures to tackle the non-performing loans, which in Albania are higher than in the region, around 25%. Owing to the measures laid down in this coordinated plan with the Government and other players, the level of non-performing loans is reduced from 25% to 20%. This plan of measures consists in legal, regulatory and administrative measures to facilitate the relationship of banks with customers and the repayment of credit granted from commercial banks. This plan aims at clearly dividing those businesses, which have positive projections and may continue their activity, from those businesses which do not have positive projections and may go bankrupt. Naturally this plan is drafted in view of some laws, such as the law on bankruptcy, law on securing charges and other laws, which aim at facilitating the relationship with the court. It is rather important in practice to see the execution of collaterals reflected in the work of commercial banks.

The execution of collateral is very important. This process is detailed in the respective laws, but given that the non-performing loans are at a problematic level, as we have emphasized, it may be considered as a national issue as well, as it affects lending and economic recovery. Under these conditions, this issue should be given more attention and be addressed with priority. In simpler words, when collateral is not executed in time by banks, they are not able to recuperate the necessary liquidity to recover their financial situation. This affects the situation of banks, and in addition, their optimism to continue lending. For this reason, we aim to correct these elements, in order for banks to return to lending, that is, to normality and optimism for lending.

Notwithstanding this plan of measures, it is important to emphasize that in case lending will not continue, albeit the measures taken to reduce the level of non-performing loans, their percentage will remain high, as, at the end of the day, non-performing loans is a ratio to total loan. The aim of this plan of measures is to encourage lending to boost economy, but it should be said that businesses have their difficulties. We aim at increasing optimism, investing initiatives and consumption. Our expectations for the future are that consumption and investments will increase. This will come in parallel developments: the structural reforms by the Government, the financial reforms of the Bank of Albania and the macro economic development of the of Albania's trading partners.

Vizion Plus TV: *The Parliament is discussing these days on the new budget for 2016 and the fiscal package. According to the Bank of Albania, how much do the new budget and fiscal package encourage the economy for 2016? And a forecast and expectation of the Bank of Albania for the economy, how much will it grow in 2016?*

Governor Sejko: I will answer starting from the last question. Related to the economic growth, as it was emphasized in the last press conference, Bank of Albania revised down the forecast for the economic growth, from 3% to the range between 2.5 and 2.7% for this year, while in the next year the projections range between 3 and 3.4%. Projections become more precise over time, however this is our projection. The revisions are made because of the elements that we have already explained.

Economic growth was not at the expected levels, but growth still continued. Albania was never in recession. The economic growth trend is important. We are waiting for the end of year data. If we perform

according to the forecast, that is the recent 2.5% growth forecast and if we score an economic growth higher than 3%, very prudently, I would estimate it positively as the performance and trend would continue positively. These are only projections.

Related to the budget, the Bank of Albania is always focused on the main basic parameters. It is important to lower the budget deficit, that is, to keep it under control and monitor budget deficit through a fiscal consolidating policy. We have coordinated and harmonized our monetary policy with the consolidated fiscal one, always with regard to lowering the budget deficit.

The last issue of the Eurobond is another element, which affects what I said previously, creating free funds to simulate economy. In other words, turning to external debt has freed liquidities for bank lending to businesses and the Albanian economy. This budget, as far as we have seen, aims at continuing the consolidated fiscal policy. This is in line with our advice on lowering the budget deficit and continuing the consolidated fiscal policy.

Regarding the fiscal package, the Ministry of Finance and the Government have conducted their analyses. As I said, the Central Bank' goal is to preserve the macroeconomic parameters. The taxes and fiscal package

“...The Bank of Albania has provided the respective advice and opinions related to the budget, always for the purposes of maintaining the main macroeconomic parameters, to continue the consolidated fiscal policy and lower budget deficit.”

discussed by the Government are in line with the policies that are implemented in view of the structural reforms, also for the purposes of the Albanian Government's policies. The relevant expertise and analysis are carried out by the Ministry of Finance. The Bank of Albania has provided the respective advice and opinions related to the budget, always for the purposes of maintaining the main macroeconomic parameters, to continue the consolidated fiscal policy and lower budget deficit. This is our goal. As long as we see that these parameters are under control, perform in the right direction and upheld, it is the right of the Government to decide the fiscal and tax policies to be implemented by various levels. This is a right of the Albanian Government.

INTERVIEW WITH GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA, SHQIP NEWSPAPER

- 14 December 2015 -

Shqip: *At the beginning of November, the Government renewed the Eurobond for EUR 450 million. Did the Government consult the Bank of Albania on how it is spending this amount of money?*

Governor Sejko: The Government and the Bank of Albania communicate constantly on topics related to debt financing and performance of domestic financial markets. Of course, the refinancing of the Eurobond, through the issue of an instrument with similar terms but at a lower cost, has been a part of this communication. The Bank of Albania has stated even before its opinion about this issue, both in bilateral exchange of opinions with the Ministry of Finance and in

our public communication. The issue of a new Eurobond has released the necessary funds for paying the existing obligations of the Albanian government, around EUR 300 million, without exerting pressures on interest rates, liquidity indicators or the exchange rate in the domestic financial markets. On the other hand, it is true that the new Eurobond was issued for a higher amount than that of the maturing Eurobond. The difference, around EUR 150 million, in our knowledge, is being used and will be used to lower debt. This move keeps the budget deficit and public debt at the planned levels, and helps to further release liquidity in the domestic financial markets.

“...the issue of a new Eurobond has released the necessary funds for paying the existing obligations of the Albanian government, around EUR 300 million, without exerting pressures on interest rates, liquidity indicators or the exchange rate in the domestic financial markets.”

Shqip: *Together with PM Rama, you have said you have a plan for decreasing the level of non-performing loans and increasing the level of credit to the economy. What does this plan imply for the Bank of Albania?*

Governor Sejko: The plan of measures for decreasing the level of non-performing loans in the banking system consists in a series of legal and regulatory amendments to enhance the effectiveness of the judiciary system with regard to the compliance with contractual terms between banks and borrowers; it will also help enhance the effectiveness of the banking system in tackling the non-performing loans.

In more details, in the last meeting of the Supervisory Council, we approved the extension of the deadline for the prudential measures taken by the Bank of Albania to fuel up credit through the assessment of risk coefficients for the credit portfolio and placements abroad. Other regulatory amendments relate to the terminology of NPL write offs and the change of the timeframe for holding the collateral seized by banks. The treatment of larger groups with the highest level of past due loans, the improvement of the regulatory framework in relation to companies that buy non-performing loans portfolio and the improvement of the credit portfolio, to include in it, court cases currently in process and all other liabilities of households and companies are some of the other measures the Bank of Albania envisages. The last, but not the least

measure is the decision that, as of January 2018, the Bank of Albania will require from commercial banks and other lending institutions to base the consideration and approval of a loan application only on the tax-compliant financial statements, as approved by tax authorities. This will be an important step towards the further formalization of doing business.

“...The last, but not the least measure is the decision that, as of January 2018, the Bank of Albania will require from commercial banks and other lending institutions to base the consideration and approval of a loan application only on the tax-compliant financial statements, as approved by tax authorities. This will be an important step towards the further formalization of doing business.”

Shqip: *Have you drawn conclusions on the consequences of the Greek crisis on our banks and economy?*

Governor Sejko: The so-called “Greek crisis” started in 2010 and peaked in two occasions, in year 2012 and summer of 2015. From

the very beginning, we assessed that the most possible impact on the Albanian economy would be a possible contamination through:

- Trade exchange between the two countries:

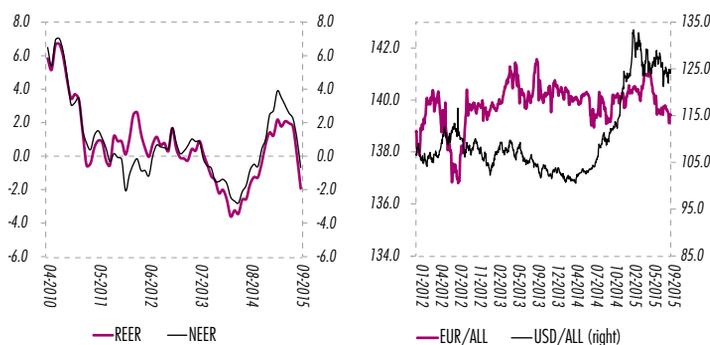
The Greek crisis would, in this case, had a negative on the down side of exports, remittances and FDI flows. On the other hand, the contraction of the Greek economy would bring imported prices and inflationary pressures down.

- The banking sector, mainly through the financial situation of Albanian banks with Greek capital:

The negative effect, in this case, would be the decrease in the market share for these banks, as a result of necessary actions for restructuring their activity. Depending on the crisis course of evolution, the economic and financial situation of [Albanian] emigrants and the uncertainties about banking system stability in Greece could shake the public trust in Albanian banks with Greek capital. A possible stress transmission channel would be the exposure of Albanian banks with Greek capital to parent banking groups in Greece. The situation would have been even more complicated had Greece left the euro area and adopt a national currency.

In relation to the first channel, we have found that due to the relatively low share of exports to Greece (only around 1.4% of the GDP), the effect was totally manageable. Through adjustments in operational costs, businesses were able to hold on to the markets. When needed, they resorted to

Chart 45 Annual change in NEER and REER; EUR/ALL and USD/ALL exchange rate performance



Source: Bank of Albania.

new markets. Due to the sectors where investments from Greece are concentrated (mainly telecommunications and banks) investment flows have been overall stable and Greece continued to be one of the main partners in the Albanian economy as regards foreign direct investments. In relation to remittances, the Greek crisis has urged many Albanian emigrant households to return and ultimately settle in Albania. As a result, in 2013 for example, remittances were up. Overall, remittances have been steady during this period and expectations on the down side have not materialized. About the exchange rate, the Albanian lek had some depreciation pressures over 2012-2013, but afterwards the exchange rate has been very steady.

About the second channel, I would like to point out that our prudence has been present and evenly distributed over the period. Thus, I may say that thanks to the ongoing efforts, we succeeded to see:

- Gradual decrease of the share of Albanian banks with Greek capital, driven by the need for these banks to focus on the restructuring of their activity, to improve the financing infrastructure, reduce the level of non-performing loans, cut operational costs, and improve the financial result and capitalization levels;
- Evident improvement of the liquidity and capitalization situation throughout the period;
- Complete transformation of “branches” of Greek banks in “subsidiaries”, thus enhancing the legal control of the Bank of Albania over these institutions (following amendments to the law “On Banks in the Republic of Albania” at the end of 2011);
- Reduction to almost “zero” exposure to parent banks. As a result, the introduction of capital controls and closure of banks in Greece in summer did not affect, not even peripherally, the capacity of Albanian banks with Greek capital to carry out normally their daily financial operations.

About this topic, I would like to ultimately say that despite the psychological effect on bank clients

***“...despite the psychological effect on bank clients around Greek crisis developments, in no case did these banks or the banking sector had any problems related to the operational liquidity, which is their ability to settle in due time all the liabilities to their clients.*”**

around Greek crisis developments, in no case did these banks or the banking sector had any problems related to the operational liquidity, that is their ability to settle in due time all the liabilities to their clients. Throughout the period, the Bank of Albania was in communication and close monitoring of the financial situation and developments in Albanian banks with Greek capital, and in communication with the respective authorities in Greece and euro area. Moreover, we have been in close communication with the supervisory and regulatory authorities of the financial system in Albania, to consolidate joint actions for monitoring the situation. It is our pleasure to say that the Albanian banks with Greek capital, and the banking sector in general as well as the Albanian authorities were well coordinated in their efforts to secure the resilience of both individual banks and the overall banking sector, and to withstand the financial stress of that moment.

Shqip: *According to BoA's observations, how is the Albanian economy performing in the last quarter, and will the economic growth forecast materialize?*

Governor Sejko: It has been around a month since the last analysis on the Albanian economy, at the beginning of November. I would like to draw the attention once again that, based on the analysis of the entire corpus of available direct or indirect information on economic and financial developments, the Bank of Albania updated the economic growth forecast for 2015. New forecasts for 2015 point to economic growth ranging 2.5 -2.7%, that is revising slightly down our previous forecasts. Based on available information and Bank of Albania staff analyses, the Supervisory Council concluded that this revision owes mainly to temporary supply-side shock and the trend in the medium-term and long-term development remain positive. However, judging on the balance of factors affecting inflation, and to address the weakness in the credit channel, the Bank of Albania deepened the monetary stimulus in the economy, by lowering the key interest rate to 1.75%, a new historic

“It is our pleasure to note that the Albanian banks with Greek capital, and the banking sector in general as well as the Albanian authorities were well coordinated in their efforts to secure the resilience of both individual banks and the overall banking sector, and to withstand the financial stress of that moment.”

low rate. This move generates more monetary stimuli to boost lending, consumption and investments, thus contributing to boosting economic growth and achieving our inflation target. New economic and monetary data do not diverge significantly from our expectations, which renders us optimistic about seeing the forecasts realized.

Shqip: *How will the Bank of Albania contribute to achieving the goal for GDP growth?*

Governor Sejko: The Bank of Albania has a direct legal mandate for maintaining price stability. However, in compliance with our philosophy and modern central bank practices, price stability may not be considered as separated or unrelated to economic stability. In other words, inflation may be under control only if the economy is in balance, and in this perspective there is not long-term conflict between price stability and sustainable and long-term development. On the contrary economic stability is a precondition for price stability. This parenthesis says that our monetary policy, which in a narrow meaning aims the return of inflation to the 3% target, serves at the same time to bolster aggregate demand and economic growth. By lowering the key interest rate we have lowered the costs of funding for the economy. In the meantime, constant liquidity injection aims to provide a functioning within normal financial markets of businesses and households.

The transparent communication and forward guidance on the monetary policy is useful as it orientates economic agent expectations, reduces uncertainties and creates further stimuli for the recovery of consumption and investments. All these are part of the classic arsenal of central bank instruments and we will not hesitate to use them, even in higher dose if necessary.

Yet, monetary policy is not the only contribution of the Bank of Albania to fostering economic activity. In parallel, as the supervisory and regulatory authority of the banking system, the Bank of Albania has undertaken a series of supervisory and regulatory measures, some of which serve directly to boosting lending or improving bank-client relations. For example, measures to boost lending by reducing capital requirements and credit risk, measures to discourage foreign currency outflows, and other measures to alleviate the financial burden of businesses by stimulating the loan restructuring process. Other measures, such as those to enhance banking system transparency, improve the payment system functioning, establish and maintain the payment registry contribute to this purpose,

i.e. to stimulate lending and economic activity. The Bank of Albania will continue to take all the necessary measures for compliance with its price stability objective and other duties related to financial stability. These actions sustain steady and long-term growth for the Albanian economy.

“The Bank of Albania will continue to take all the necessary measures for compliance with its price stability objective and other duties related to financial stability.”

PHOTO GALLERY

Presentation of the new Governor of the Bank of Albania 6 February 2015



*Governor Sejko meets with the IMF mission, the Ministry of Finance and the Ministry of Economic Developments, Tourism, Trade and Entrepreneurship
17 March 2015*



Governor Sejko at the joint meeting with the IMF mission, Minister of Finance and the Minister of Economic Development, Tourism, Trade and Entrepreneurship 17 March 2015



Spring meetings IMF-WB, April 2015



IMF GOVERNORS

Washington, D.C.



Bank of Albania meeting on "Promoting Lending to the Economy" 8 April 2015



Governor Sejko with HE Ambassador Donald Lu, 24 April 2015



Governor Sejko presents the Annual Report to the Parliamentary Committee on Economy and Finance 29 April 2015



Governor Sejko meets the Chairman of the Parliamentary Committee of Economy and Finance 29 April 2015



Governor Sejko attends the 33rd Governors' Club of Central Asia, Black Region and Balkan countries May 2015



Governor Sejko attends the conference organized by the National Bank of Serbia, Belgrade 28 May 2015



Governor Sejko attends the summit of Finance Ministers and Governors, Bečići, Montenegro 12 – 13 June 2015





Governor Sejko with HE Leonidas Rokanas, the Greek Ambassador 2 July 2015



Governor Sejko. Interview with Klan Tv, July 2015



Governor Sejko visit at the Bank of Italy 9 September 2015



Round table of the Bank of Albania and Albanian Government with the Banking System, 16 September 2015



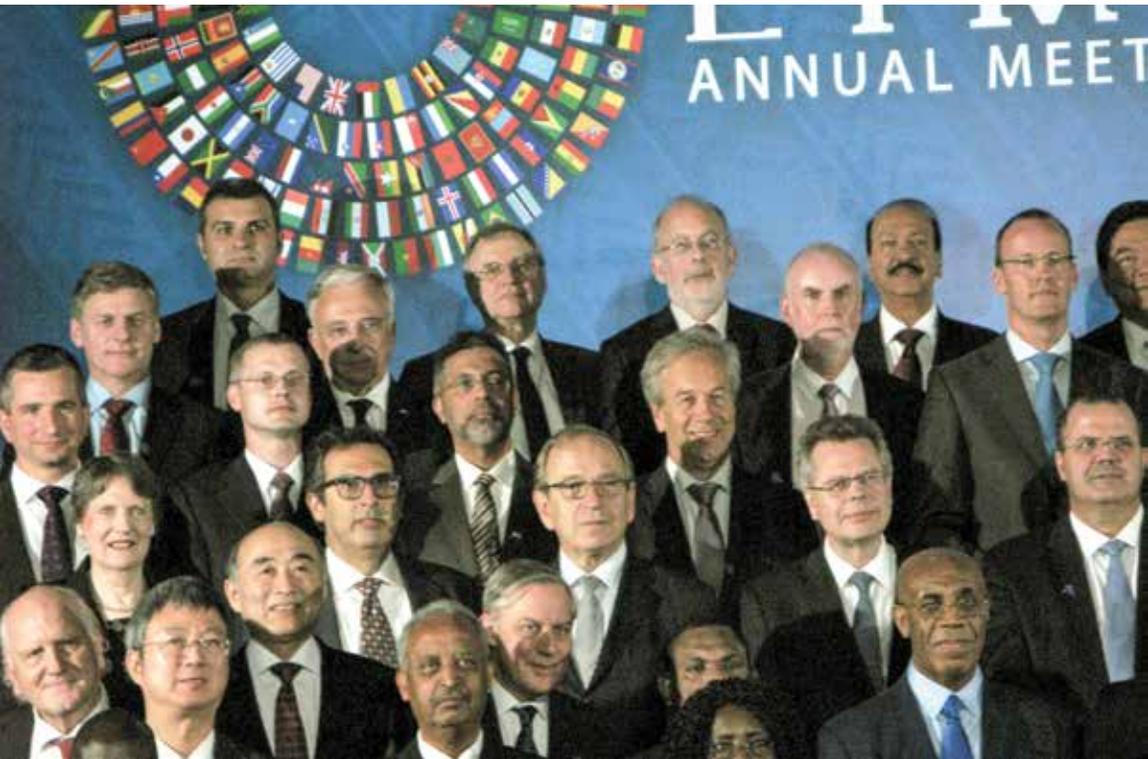
Governor Sejko at the Governors' Club of Central Asia, Black Sea Region and Balkan Countries Tbilisi, Georgia, 25-27 September 2015



Meeting on the implementation the Bank Recovery and Resolution Directives standards 5 October 2015



Annual meetings IMF-WB, October 2015





Governor Sejko with HE Hellmut Hoffmann, Ambassador of Germany 22 October 2015



Governor Sejko with economics journalists, 22 October 2015



Governor Sejko attends the "Hong Kong- Albania Trade and Investment" Forum 27-28 October 2015



Bank of Albania Annual Conference 30 October 2015





Governor Sejko. Interview "5 Questions by Babaramo" Report TV, 2 November 2015



Governor Sejko meets Ms Elke König, Chair of Single Resolution Board 3 November 2015



Governor Sejko with the Advisory Group of the European Fund for Southeast Europe (EFSE) 18-19 November 2015



Governor Sejko. Interview with Vizion Plus 26 November 2015



9-th South Economic Research Workshop 3 – 4 December 2015



Governor Sejko presents BoA's opinion on draft budget 2016 to the Parliamentary Committee on Economy and Finance, 9 December 2015



Governor Sejko presents the EBRD's Transition Report 2015-2016, 17 December 2015



End-of-year reception with media representatives 22 December 2015



