
Governor's public appearance in 2016

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Gent Sejko, Governor of the Bank of Albania, 2016

CHAPTER I

PRESENTATIONS TO THE PARLIAMENTARY COMMITTEE ON ECONOMY AND FINANCE

- *Governor Sejko: Introductory statement to the Parliamentary Committee on Economy and Finance on the Annual Report 2015 of the Bank of Albania, 29 March 2016*
- *Governor Sejko: Statement at the hearing session of the Parliamentary Committee on Economy and Finance, about the draft-budget 2017, 22 November 2016*

Presentations to the Assembly

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



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...MUSAB TOPTANI
...RANDELI CALE
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...FERID YOKOPOLA
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...XHEMAL DELIALLISI
...ARISTIDH RUCI
...ZYHDI OHRI
...DR. MYRTEZA ALI STRUGA (DIBRA)



**GOVERNOR SEJKO: INTRODUCTORY
STATEMENT TO THE PARLIAMENTARY
COMMITTEE ON ECONOMY AND
FINANCE ON THE ANNUAL REPORT
2015 OF THE BANK OF ALBANIA**
-29 March 2016-

In 2015, the Bank of Albania has worked to successfully fulfil its objectives stemming from the Law "On the Bank of Albania", as well as all the other obligations arising from relevant sublegal acts and relations with our international partners.

*Honourable Chair of the Parliamentary Committee on Economy and Finance,
Honourable Members of the Committee,*

It is my special pleasure to present, in this hearing session with the Parliamentary Committee on Economy and Finance, the Annual Report of the Bank of Albania for 2015.

In 2015, the Bank of Albania has worked to successfully fulfil its objectives stemming from the Law "On the Bank of Albania", as well as all the other obligations arising from relevant sublegal acts and relations with our international partners. I would like to start my presentation, focusing on the activity of the Supervisory Council of the Bank of Albania.

1. Decisions of the Supervisory Council

At the beginning of 2015, the management team of the Bank of Albania was rendered complete. Thus, thanks to the support of the Assembly of the Republic of Albania, the vacant positions in the Supervisory Council were completed; the Governor, the Second Deputy Governor and Inspector General of the Bank of Albania were appointed.

During 2015, the Council met 15 times and approved 98 decisions. Of them, 63 consisted in acts approved for the first time, and 35 in amendments to existing acts. Eight meetings focused on the monetary policy decision, whereas four meetings focused on decisions about issues pertaining to supervision and financial stability.

The decisions have been communicated to the public through press conferences, full publication of relevant reports and explanation, on a case by case basis, in accordance with requests by various media outlets. All the reports compiled by the Bank of Albania on the monetary policy and financial stability have been fully submitted, within the envisaged legal time frame, to the Assembly of the Republic of Albania and its Committee on Economy and Finance.

In line with the above said, and in accordance with earlier public statements, the strengthening of governance has assumed a key place in the Supervisory Council decision-making process. From this perspective, I will now briefly focus on:

- ***Establishment of the Audit Committee***

The establishment of the Audit Committee is an important development with regard to strengthening the internal control at the Bank of Albania, especially the oversight capacities of the Supervisory Council. The meetings held in 2015 discussed the organisation and functioning of the Control [Internal Audit] Department, the audit universe and annual plan, main findings, risk assessment and effectiveness of the internal control system at the Bank of Albania. Another important aspect of the activity was to monitor the work for the preparation of financial statements in accordance with the International Financial Reporting Standards.

- ***Approval of the internal audit policy***

The approved internal audit policy, followed by the revision of the Regulation on the Functioning of the Control Department, defines clearly the position of the activity of the internal audit within the organisational structure of the Bank of Albania. This document provides for the implementation of the Standards for the Professional Practice of Internal Auditing and the Code of Ethics, and specifies the line of reporting of the Inspector General to the Audit Committee, the Supervisory Council and Assembly of the Republic of Albania.

• ***Approval of the new Statute of the Bank of Albania***

The new Statute provides for the compliance of many of the provisions for the organisation and functioning of the Bank of Albania with the best practices of the European System of Central Banks. Among others, I would like to mention:

- specification of duties and responsibilities of the Administrators of the Bank of Albania;
- specification of procedures for the replacement of the administrators, during their absence or when they are unable to act;
- reformulation of provisions that stipulate the administrative and financial independence of the Bank of Albania by approximating them to the provisions stipulated in the Statute of the European Central Bank.

• ***Approval of the Medium-Term Development Strategy and Budget for 2016-18***

The medium-term strategy summarises key objectives and major ambitions of the Bank of Albania for the next three years. Following are some of the strategic objectives of the Bank of Albania:

- maintaining price stability around 3%;
- strengthening financial stability;
- strengthening banking supervision;
- enhancing financial market security and efficiency;
- enhancing and approximating institutional capacities to the European model.

To materialise the strategy, the medium-term budget has been prepared for the financial management of the institution in the upcoming three years.

• ***Approval of the new organisational structure of the Bank of Albania***

The new structure of the Bank of Albania adapts the activity of its units to the needs and new processes imposed by economic developments and changes in the banking legislation. Moreover, it aims at improving the institution's management and strengthening the internal control.

The establishment of the specialised unit to monitor and manage the operational risk is a crucial step in this regard. Also, the new structure aims to strengthen the vertical and horizontal control in compliance with international best practices, models and standards.

- ***Strengthening cash security and management systems***

The Supervisory Council and other administrative structures have reviewed the entire regulatory framework for the security and protection of physical values and information at the Bank of Albania, enhancing both human and technology-related elements. A series of decisions have been made to strengthen the security measures and physical monitoring of the premises where cash is stored and processed, in the form of banknotes and coins. Significant improvements have been made to procedures related to the inventory, processing and storage of banknotes, including those for destruction. Particular attention has been paid to setting clear criteria to guarantee high integrity of the employees designated in charge of values or assigned in other units engaged in control, supervision or other similar activities.

2. ECONOMIC DEVELOPMENTS AND MONETARY POLICY

The Albanian economy continued to improve in 2015. The growth rate accelerated compared to the previous year, and the main indicators of economic and financial equilibriums have been overall improving. Thus:

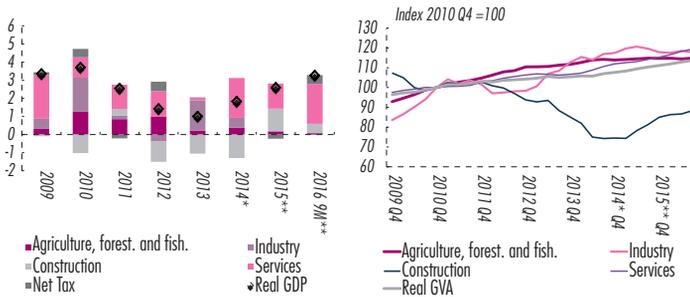
- current account deficit reduced;
- budget deficit fell 1.6 percentage points against the GDP;
- firms' balance sheet appear more liquid;
- banking system non-performing loans and profitability indicators have been improving.

However, aggregate demand remains insufficient to fully utilise production capacities. Subsequently, the internal economic environment has exercised low pressures for rising inflation, which have been further strengthened by the disinflationary trend noted in international markets. While upward, inflation continued to range below our 3.0% target, during the past year.

*

Following, I will present a summary of the macroeconomic backdrop underlying Bank of Albania's monetary policy decisions and their results. According to INSTAT data, the Gross Domestic Product rose 2.7% during the first three quarters of 2015. Available data suggest that the economy continued to grow at a similar pace even in the fourth quarter.

*Chart 1 Annual growth of real GDP (in %) and contribution of production-side components (pp). Trend of real GVA in economy and sectors**



Source: INSTAT and Bank of Albania. * Preliminary data. ** A preliminary assessment.

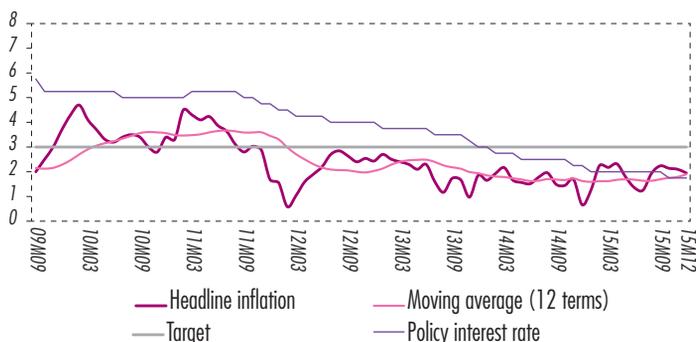
*Indices of the real GVA for the economy and its sectors reflect the trend of the relevant value added, calculated as the moving sum of quarterly values for four quarters, based on 2010 Q4.

From the sectorial perspective, the sources of growth are broader than in the previous year. With a few exceptions, all the sectors have contributed positively to the expansion of economic activity.

From the demand perspective, economic growth was driven mainly by the expansion of private investments and improvement of the balance of trade exchanges with partner countries. Private consumption showed volatility, but its contribution was positive during the third quarter. Fiscal policy continued the consolidating stance. In line with previous statements, fiscal consolidation is the right approach for preserving the macroeconomic foundations. Consolidation creates more space for the expansion of the private sector and produces long-term benefits for the Albanian economy, for its capacity to withstand various shocks.

However, while associated with higher employment and utilisation of production capacities, the growth of aggregate demand has not been adequate to absorb all the spare capacities in the economy. Unemployment averaged 17.5% in 2015, reflecting the unused capacities in the labour market. Thus, pressures on the rise of wages, productions costs and profit margins were weak. Annual inflation averaged 1.9% for 2015, up 0.3 percentage point from a year earlier.

Chart 2 Inflation, policy rate and target



Source: Instat and Bank of Albania.

To address low inflationary pressures, the Bank of Albania continued to implement an accommodative monetary policy. It lowered the key interest rate, increased the liquidity injection in the banking system and engaged publicly in maintaining the accommodative monetary policy stance in the medium-term period. The key interest rate fell to the new historic level of 1.75% at the end of 2015.

These decisions have aimed at creating the appropriate conditions for boosting domestic demand, and for the return of inflation to target in the medium term. Moreover, our monetary policy has been transmitted in lower interest rates across all financial instruments in the domestic currency.

During the fourth quarter, the transmission was also helped by the shift of the budget deficit financing, from domestic to foreign resources. The shift has increased the liquidity in domestic financial markets significantly and has reinforced the downward trend of their interest rates.

Consequently, the average interest rate on loans dropped further during 2015. Combined with the measures taken for reducing non-performing loans, monetary stimuli were reflected in the easing of credit standards. Excluding the effect of write offs from the balance sheets, credit to the private sector grew by ALL 12 billion, or 2.2% in the past year. The monetary policy pass through was reflected also in the reduction of the euroisation in the Albanian economy. At the end of 2015, lek credit to the private sector amounted to 41% of total loans, from 32% at the end of 2010.

The Bank of Albania expects credit to perform better in the medium term, but this projection remains largely dictated by the further improvement of the crediting climate in Albania. Against this backdrop, I take the opportunity to reiterate that the national plan for addressing non-performing loans should be considered as a non-negotiable prerequisite for the growth of credit in the future. In parallel, pressing ahead with structural reforms agenda will provide for faster and more sustainable development of the Albanian economy.

3. BANKING SYSTEM HIGHLIGHTS

For 2015, indicators of banking sector soundness were evidently better than the regulatory requirements for solvency, liquidity and specific-risks provisioning levels. These indicators show a satisfactory level of resilience even when adverse macroeconomic scenarios are assumed.

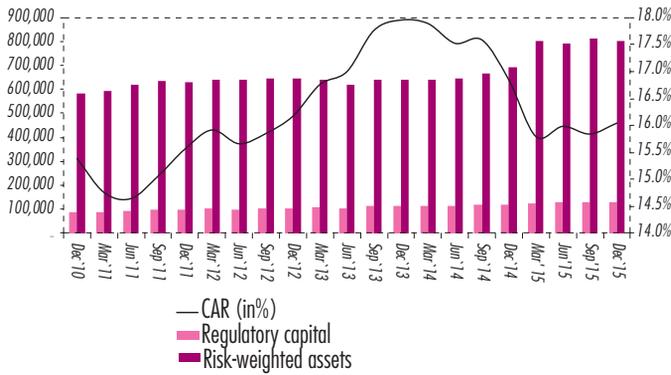
The number of banks operating in the Republic of Albania remained unchanged, at 16 banks. The major part of the banking sector is owned by subsidiaries of EU-based banking groups that exercise their activity in accordance with the Albanian legislation and in accordance with Bank of Albania's regulatory framework in force.

During 2015, the American Bank of Investments entered the Albanian banking market, the first investor since 2009. This development is considered as a very positive one for promoting competition within the banking system. At the end of 2015, banking sector assets expanded by 2%, reaching 91.3% of the Gross Domestic Product. The activity continued to be financed by the growth of public deposits by 2.6%, accounting for 83% of the total banking sector balance.

Average profitability indicators improved during 2015. The Return on Assets (RoA) stood at 1.2% and the Return on Equity (RoE) stood at 13.2%. This financial result forms a good basis for the stability of the banking system.

The capital adequacy ratio stood at 15.7%, notably higher than the 12% minimum required in the regulatory framework. Good capitalisation remains a feature of our banking system. It was maintained due to the continuation of positive values in net financial result.

Chart 3 Capital adequacy ratio and its components



Source: Bank of Albania.

Addressing the non-performing loans issue has been one of the major engagements of the Bank of Albania throughout 2015. For the first time, after a four-year period, the level of non-performing loans fell below 20%. Decisions taken by the Bank of Albania have constantly increased the pressure on the banking system, which, in turn, has added the efforts for managing non-performing loans through restructuring, execution, provisioning and their write off from the balance sheet, accordingly.

The inter-institutional initiative materialised in the Plan of Measures for Reducing Non-Performing Loans, which consists in a multidimensional action of legal, fiscal and regulatory improvements, contributed to lowering the stock of non-performing loans to 18.2 % at the end of

2015. This plan includes other steps over the course of 2016, which will render the positive result even more visible in the system.

“...in 2015 the banking system was tested by the psychological pressure arising from the Greek crisis; however, it passed the test successfully. On the other hand, the situation served to test the effectiveness of prudential measures that the Bank of Albania had taken in due time.”

Moreover, in 2015 the banking system was tested by the psychological pressure arising from the Greek crisis; however, it passed the test successfully. On the other hand, the situation served to test the effectiveness of prudential measures that the Bank of Albania had taken in due time.

4. BANKING SUPERVISION

During 2015, we have worked on further bolstering banking supervision. In concrete terms, we have worked on the following:

- Implementation of the risk-based supervisory policy;
- Implementation of the risk assessment manual and of the new bank assessment system;
- Implementation of the new regulation for calculating the capital adequacy ratio in compliance with Pillar I of Basel II.

The implementation of these contemporary methodologies guarantees a high degree of compliance with international best standards, rendering our approach able to identify the risks in due time and dictate taking corrective measures for preventing the occurrence.

Another achievement in terms of the approximation with the standards of EU homologous institutions was the positive assessment of the confidentiality regime of the Bank of Albania by the European Banking Authority (EBA). In October 2015, through a Memorandum of Cooperation, this Authority certified this regime as in full compliance with the relevant EU standard, including the Bank of Albania in the list of non-EU supervisory authorities that may take part in the work of EU colleges of supervisors.

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In the framework of the system's supervision, during 2015, a considerable number of on-site examinations were carried out. Upon completion, the examined institutions were left relevant recommendations to make the necessary improvements and to draft a plan of measures, whose implementation will be rigorously monitored. In the past year, the process of licencing continued for new financial institutions such as microcredit and electronic money institutions and a considerable number of foreign exchange bureaus.

5. OTHER ACTIVITIES OF THE BANK OF ALBANIA

i. Payment systems

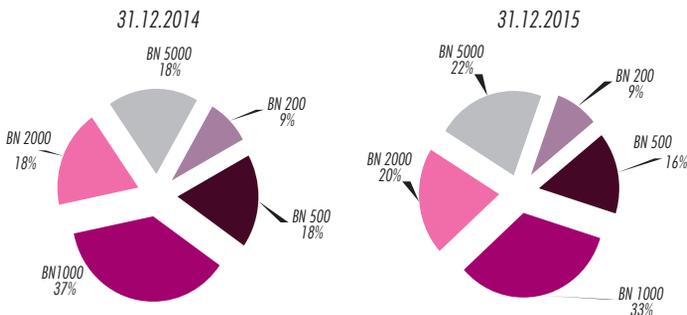
In 2015, the Bank of Albania undertook a series of measures to improve the regulatory framework and oversight procedures for the payment systems. The approval of the Regulation "On licensing, regulation, and oversight of payment systems and clearing houses" is one of the main steps that will promote private initiatives for the clearing and settlement of payments.

In October 2015, the National Committee of Payment Systems met for the first time. The Committee will serve as a forum for discussing issues related to payment systems and instruments, to support the decision-making process by the relevant institutions. Another development in the area of payments is related to the methodology "On the reporting of electronic money instruments by electronic money institutions", which preceded the licencing of two electronic money institutions in 2015.

ii. Currency issue

In the framework of its unique function as the issuer of the national currency, the Bank of Albania continued to fulfil the needs of the economy for banknotes and coins, in accordance with contemporary standards for their quality and security features. Compared to 2014, the structure of the currency in circulation has changed. Thus, the number of higher denominations, ALL 2000 and ALL 5000 increased. Also the use of coins increased, as their value rose by 8.2%.

Chart 4 Structure of banknotes in circulation



Source: Bank of Albania.

iii. Foreign-exchange reserve management

The reserve management continued to be conducted in accordance with the regulatory framework in force. The primary objective of the reserve management is the principle of liquidity and security. In line with our policy and international standards on adequacy, we continued in this year to ensure that the reserves are at adequate levels and in conformity with our goal.

Year 2015 was characterised by a further decline in negative territory of interest rates for treasury issues in the euro area. Thus, for the euro portfolio, the possibilities of investment with a positive rate of return, compared to the previous year, are reduced significantly. Regardless of this fact, the result created by the management of the reserve portfolio for 2015 was positive.

iv. Legal service

The improvement of the legal and regulatory framework has been a constant priority for the Bank of Albania. During the year, the Law "On Savings and Loans Associations" was drafted, consulted and submitted to the Assembly of the Republic of Albania for review. The law regulates the SLAs licencing, supervision and activity in accordance with the best standards. In close cooperation with the Albanian Deposit Insurance Agency, amendments have been drafted to the Law "On deposit insurance", which improve the implementation of the Law on SLAs and include certain categories of legal persons in the deposit insurance scheme. The law on the treatment of banks facing financial difficulties, also known as the Resolution Law is another important project we have been working on during 2015 and are still working in cooperation with the World Bank. Significant work has been carried out also with regard to the regulatory framework.

v. Monetary and financial statistics

Last year was a successful one for the Bank of Albania in its role as one of the three national agencies producing statistics. Expanding statistical information, and perfecting some of the methodologies underlying the statistical product of the Bank of Albania have been evaluated positively by international institutions, making thus significant progress towards the approximation with Eurostat and IMF standards.

“Expanding statistical information, and perfecting some of the methodologies underlying the statistical product of the Bank of Albania have been evaluated positively by international institutions, making thus significant progress towards the approximation with Eurostat and IMF standards.”

In 2015, the Bank of Albania published, for the first time, the annual information on the flow of foreign direct investments by country, flow of foreign direct investments by economic activity and situation of foreign direct investments by country and economic activity.

vi. Research

During 2015, the Bank of Albania completed over 20 empirical studies and analyses dedicated to problems and potential solutions for issues related monetary policy effectiveness and safeguarding financial stability. During 2015, the revaluation of the Macro-econometric Model of the Albanian Economy was completed. The process improved the identification and interpretation of cause-effect macroeconomic correlations.

Research work has been presented in various events and conferences, including those organised by the Bank of Albania, notably, the 9th Workshop of Economic Research in Southeastern Europe "Rethinking Economic Policies and Central Banks' Methodologies", where 20 research papers were presented by central banks, academic institutions and the Bank of Albania.

vii. Communication

Enhancing the transparency is a constant priority of the Bank of Albania. During 2015, we have aimed at establishing permanent channels of communication with the public. They reflect Supervisory Council's monetary policy decisions, the underlying factors and expected results. The periodic reports of the Bank of Albania publish comprehensive analysis on economic and financial developments, the outlook for the short and long term, and the performance of the banking sector along with the risks facing the financial stability of Albania.

Events organised with representatives of the banking system, business community, specialised international institutions are another aspect of

our communication with the public. Examples include the Forum on "Promoting credit growth" in April 2015, "Albania Financial Forum III" organised with the International Monetary Fund in June 2015, and a meeting with the banking system discussing on "The economy and banks: present and future challenges" in September 2015.

viii. Public education

The launching of the Museum of the Bank of Albania was the main highlight in the area of public education. Designed as an interdisciplinary museum, it integrates numismatic, historic and educational functions, which contribute to enhancing the financial literacy of the public in general and of the younger generation in particular.

ix. European integration

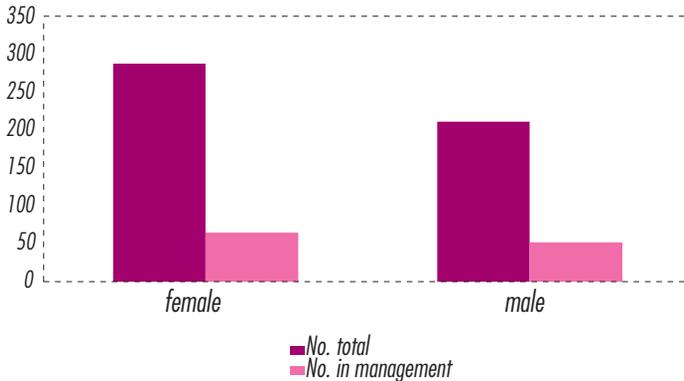
Another important aspect of our work has been the contribution of the Bank of Albania in the context of approximation to the European Union. The Bank of Albania has intensified its cooperation with the European Central Bank, central banks of the European System, and European structures that regulate financial aspects in the EU. At the same intensity, we strengthened the cooperation with the International Monetary Fund, the World Bank and the Bank for International Settlements, as well as regional central banks.

The Bank of Albania has continued its contribution to the reporting for the Progress Report and the National Plan for European Integration, leading Chapter 4 "Free movement of capital" and Chapter 17 "Economic and monetary policies" and contributing in 6 other chapters of the Acquis.

x. Human resources

Improvement to the organisational structure of the institution has constantly been at the focus of human resources policies, with the main aim to enhance the efficiency of the activity of the Bank of Albania. It seeks to provide a better coordination and communication between the units, especially the successful implementation of engagements arising from strategic objectives and the approximation with the model of the European System central banks or the European Central Bank.

Chart 5 Number of employees in management



Source: Bank of Albania.

The policies in the area of human resources have aimed at promoting the most experienced and proficient employees, through a professional competition. Staff motivation policies have aimed at preserving the stability and continuity of staff. Particular attention has been paid to observing gender equality.

The professional development of the staff is realised, among others, through participation in specialised training organised by central banks or international financial institutions. In addition to enhancing professional capacities, there are also possibilities for the exchange of professional experiences and familiarisation with the most contemporary central bank theories and practices.

xi. Information technology

In 2015, the aspect of Information Technology saw several achievements. The AFISaR system started to operate. It is a central electronic register for the documentation of each element involved in the issue and transactions with securities by the Albanian state. Other achievements include:

- automation of the reporting system for banking activity indicators;
- integration and optimisation of the IT network utilisation, reducing therefore operational costs of the Bank of Albania;
- automation of accounting transactions in Bank of Albania branches and improving information processing and storing capacities.

xii. Internal audit

In 2015, in addition to planned audits, auditing and non-auditing commitments were carried out, upon the request of the Supervisory Council, Audit Committee, Administrators and Inspector General.

Another important development in this regard was the Quality Assessment for the Control [Internal Audit] Department at the Bank of Albania by the De Nederlandsche Bank (DNB). Conducted for the first time, the assessment serves as an important development plan for strengthening the audit activity in the future.

During 2015, nine full-scope audits were conducted. In addition, three full-scope audits started in 2015, but were completed in the first months of 2016, bringing the total number to 12. The findings and recommendations of each audit have been addressed to the heads of the respective units, the Administrators of the Bank of Albania, the Audit Committee and the Supervisory Council, as part of the periodic reporting by the Inspector General.

xiii. Financial activities of the Bank of Albania

After intensive efforts by our staff members with the assistance by foreign experts, and in close communication with the external auditor, for the first time in 2015 the financial statements were compiled in accordance with International Financial Reporting Standards (IFRS). This is a qualitative development for enhancing the financial transparency at the Bank of Albania.

The Bank of Albania's financial statements in accordance with the IFRS are expected to be finally approved on 30 March 2016, at the Supervisory Council meeting. It will also include the opinion of our external auditor, KPMG Albania. Following the Supervisory Council's approval, the statements will be sent to the Assembly of the Republic of Albania for information.

“For the first time in 2015 the financial statements were compiled in accordance with International Financial Reporting Standards (IFRS). This is a qualitative development for enhancing the financial transparency at the Bank of Albania.”

*Honourable Chairman,
Honourable Committee Members,*

The presentation of the activity of the Bank of Albania is a key moment for its annual activity. In my brief presentation, I tried to speak about all the aspects of our activity, and shared our expectations and objectives for the period ahead. In the full version, we have tried to include more data, analyses and informative sections. I hope that the Annual Report 2015 is in line with the expectations of the Assembly, and take this opportunity to assure you that the Bank of Albania will continue its endeavours to improve its performance towards perfection in the future.

Price stability, banking system solidity, credit recovery, market supply with liquidity, reducing non-performing loans, implementation of best practices of supervision, strengthening of governance and enhancing communication with the Assembly, the state institutions and our strategic partners will be major objectives for our work in 2016 and beyond.

Thank you for your attention!

Bank of Albania activity highlights for 2016:

Price stability, banking system soundness; lending boosting, market supply with liquidity, reduction of non-performing loans, implementation of contemporary supervision standards, governance strengthening, enhance transparency, and increasing communication with the Assembly, the public institutions, and our strategic partners, are the major targets that will guide our work in 2016 and further.

**GOVERNOR SEJKO: STATEMENT AT THE
HEARING SESSION OF THE PARLIAMENTARY
COMMITTEE ON ECONOMY AND FINANCE
ABOUT THE DRAFT BUDGET 2017**

-22 November 2016-

*Honourable Chairman,
Honourable Members of the Committee,*

The steady and long-term development of Albania has been and is a constant priority of Bank of Albania's work. Therefore, accomplishing this objective requires not only applying prudent monetary and fiscal policies, but also their constant and efficient coordination.

The approval of the budget and the accompanying fiscal package is decisive for the country's economic development. The budget and the relevant fiscal package outline the short and medium-term priorities for public finance, contribute to the long-term profile of growth and development by supporting with funds the structural reforms, and orientate the private sector development by determining the incentives on consumption and investments. Therefore, the Bank of Albania appreciates the opportunity to be able to present to this hearing session our opinion on the draft-budget 2017.

In compliance with our legal mandate and the scope of our expertise, the opinion of the Bank of Albania on the draft-budget 2017 will focus on the following:

- Albania's development perspectives, intertwined with the monetary and fiscal policies;
- Fiscal projections and public finance stability; and,
- Effects of projected public borrowing on the domestic financial markets.

At the end, there are some suggestions on possible measures to boost the effectiveness and stability of public finances.

1. THE EXPECTED PERFORMANCE OF THE ECONOMY AND ITS INTERACTION WITH THE MONETARY AND FISCAL POLICIES

The Albanian economy has shown signs of recovery over the past two years. This performance reflects the recovery of private consumption and investments, whereas the external environment has been and remains unfavourable. The expansion of the private sector activity was supported by our accommodative monetary policy and was favoured by the consolidating fiscal policy implemented during this period. This policy mix has brought financing costs down for the private sector and has improved the liquidity situation in the economy.

The 2017 budget takes into account forecasts for the real economic growth at 3.8% and an increase in the nominal value of the gross domestic product to 6.3%.

As detailed in the draft-budget and in the accompanying explanatory notes, such economic growth will be supported by the continuation of the combination of the monetary stimulus with the fiscal consolidation policy. However, the intensity of the fiscal consolidation in 2017 is foreseen to be somewhat lower than in 2016.

The Bank of Albania deems that the expected economic developments and the sustaining policies constitute an acceptable and consistent starting point for drafting the budget for 2017.

Economic activity at home is expected to mark an improved growth over the next two years. The monetary stimulus will support boosting domestic demand, keeping financing costs down for private consumption and investments. In parallel, the fiscal policy is expected to pursue a consolidating trend, as illustrated by the improvement by 0.2 percentage point in the primary balance-to-GDP ratio and the forecast for the reduction by 2.7 percentage points in public debt-to-GDP ratio.

“The Bank of Albania has supported and continues to support the fiscal consolidation policy, deeming that - in balance - it contributes positively to the country's long-term and stable growth.”

The Bank of Albania has supported and continues to support the fiscal consolidation policy, deeming that - in balance - it contributes positively to the country's long-term and stable growth. The continuation of the consolidating trend in the fiscal policy reduces risk premiums, mitigates the effect of the public sector on domestic financial markets, and increases the space for lending to the private sector.

2. FISCAL PROJECTIONS AND PUBLIC FINANCE STABILITY

Based on the macroeconomic backdrop and measures regarding the fiscal package, described above, the draft-budget 2017 envisages:

- Public revenues amounting to ALL 436 billion, or 27.3% of the GDP. This forecast implies an increase by 6.9% from the expected revenues level for 2016 and reflects mainly the broadening of the taxable base, in response to the expected economic growth. On the other hand, the effect from changes to the fiscal package is relatively small;
- Public expenditures amounting to ALL 467.2 billion, or 29.3% of the GDP. This projection implies an increase by 6.5% from the expected level of expenditures level for 2016;
- The budget deficit amounting to ALL 31.2 billion, or 2% of the GDP. This level of the deficit stands 2.4% higher than that expected for 2016. In terms of financing, the deficit is envisaged to be financed at around 60% from domestic resources and 40% from external resources;
- A reduction of the public debt, from the expected 71.8% of GDP, at the end of 2016, to 69.1% of GDP at the end of 2017. This projection is in conformity with a requirement of the Organic Budget Law (OBL). Moreover, it is consistent with the programmed budget deficit level and economic growth projections, but it does not take into account the effects of potential volatilities in the exchange rate.

In relation to these projections and their implications for the stability of public finance, the Bank of Albania identifies the following:

2.1 On fiscal projections

Excluding the potential effects of the electoral year, which often - and regrettably - are materialised in a reduced efficiency of the tax administration, the Bank of Albania deems that the projected level of public revenues is realisable. However, the Bank of Albania considers that, like in the case of macroeconomic projections, the balance of risks to this projection has shifted on the down side. Against this backdrop, it is encouraging that the budget of 2017 incorporates some buffers

against the potential non-realisation of revenues, in the form of various budget contingencies envisaged up to 0.5% of the GDP. However, such contingencies may not be sufficient. Our opinion about the optimum manners for the treatment of uncertainties and risks in forecasting is detailed in the last section.

2.2 On compliance with OBL requirements

As noted in the accompanying explanatory notes, the Bank of Albania finds that the draft-budget 2017 complies with the legal requirements laid down in the OBL.

Thus, beyond the reduction of the public debt:

- The expected nominal GDP is within the International Monetary Fund projections, detailed in the last publication of the World Economic Outlook.
- The projected level of capital expenditure is higher than the programmed level of public borrowing;
- The draft-budget 2017 envisages a contingency of funds equal to 0.9% of total expenditures (ALL 4 billion), to offset adverse effects from the exchange rate and interest rate volatility on the level of public debt;
- The draft-budget 2017 does not envisage revenues from privatisations.

“The Bank of Albania deems that the programmed reduction of public debt is a positive step toward enhancing the fiscal stability and reducing the weaknesses that arise from the still-high level of public debt.”

2.3. On public finance stability

The Bank of Albania deems that the programmed reduction of public debt is a positive step toward enhancing the fiscal stability and reducing the weaknesses that arise from the still-high level of public debt.

Also, the OBL sets out certain legal requirements, which:

- require the progressive reduction of the public debt during each fiscal year;
- anchor the macroeconomic framework to IMF projections; and,
- limit the concentration of the budget deficit in certain periods of electoral years,

These requirements help to discipline the fiscal policy, improve public finance stability, and enhance the interest of investors, both domestically and internationally, in Albanian debt instruments.

3. PUBLIC SECTOR BORROWING AND DOMESTIC FINANCIAL MARKET

The draft-budget 2017 envisages domestic borrowing amounting to ALL 19.8 billion. The liquidity situation in the domestic financial market and the low interest rates provide the premises for accommodating the aimed borrowing level.

However, the Ministry of Finance and the Government of Albania should give due attention to the even distribution of borrowing and budget expenditures, in order to reduce domestic markets' volatility. Also, the Ministry of Finance should constantly monitor the absorption of borrowing in domestic financial markets, in order to enable the constant re-calibration of debt instruments with market requirements.

Concluding, the Bank of Albania would like to present some suggestions, which - in our opinion - would contribute to the process of drafting and implementing the Budget in the future.

4. SUGGESTIONS AND RECOMMENDATIONS

4.1 Forecasting, Uncertainty and Risk Management

The forecast on the revenue of the budget - like any other economic forecast - is surrounded by uncertainties and risks. The proper acknowledgment and understanding of this fact necessitates measures to identify and quantify them, and paves the way to effectively manage the possible consequences.

In line with our previous suggestions, the Bank of Albania deems that the drafting and implementation process of Budget would benefit from the establishment of alternative budget scenarios, which would be implemented in the event of large deviations from the forecast.

The Bank of Albania, in the light of priority to comply with budget deficit and fiscal consolidation objectives, suggests that the implementation of the budget 2017 should regard the following:

- In the event the budget revenues are less than the planned level and the difference is higher than the contingencies foreseen in the budget, then the Government should take additional measures to comply with the budget deficit levels. This implies the reduction of budget expenditures commensurate to the level of unrealised income.
- In the event the budget revenues are above the planned level, and the difference stems from faster than projected economic growth, such revenues should be saved, by proportionally reducing the budget deficit.
- In the event the budget revenues are above the planned level and the difference stems from the improved fiscal management, such revenues may be spent, affecting neither the budget deficit nor the fiscal consolidation intensity.

4.2 Structure of financing and public debt

The way the budget deficit and public debt are financed is as important as their level. The financing structure of the Albanian debt was and remains stable. The domestic debt is shifting towards longer-term maturities, and its sensitivity against short-term volatilities on interest rates is downward. In parallel, the external debt is mostly in concessionary terms and has long-term maturity.

Nevertheless, the Albanian public debt showed an increasing trend of financing from external resources. In the last decade, the share of external debt to total debt increased by 16 percentage points.

For this reason, the Bank of Albania draws the attention on the increasing exposure of debt servicing cost and level against exchange rate volatilities. This implies the need for added attention to external borrowing, in particular to the one in commercial terms, which should be considered as the last option in the list of possible financing resources.

“The Bank of Albania draws the attention on the increasing exposure of debt servicing cost and level against exchange rate volatilities.”

4.3 Further rationalisation of the selection process of public investments

The selection process of public investments has improved considerably over the last years. This is realised, amid others, through the rationalisation of non-budgeted public commitments, the disciplining of several-years-long projects, and the improvement of selection mechanisms.

Nevertheless, the Bank of Albania deems that there is still room for improvement. The application of a formal cost-profit analysis for public investments in certain fields, such as health and education, culture, defence or various social programmes may be difficult from the economic standpoint, even problematic from the ethic one.

Nevertheless, the selection process of other public investments, in particular those in infrastructure, may be further improved, through the formalisation of the process and the standardisation of assessment techniques for the economic profitability provided by alternative projects. This would be another positive step to increase the efficiency of the Albanian public finances and support the stable and long-term growth of our economy.

4.4 Budget implementation pattern throughout the year

The uneven distribution of expenditures and public borrowing has been and remains a problem in the Albanian public finances. The Bank of Albania has been emphasising constantly that their concentration in the last quarter of the year tends to reduce the effectiveness and increase the volatility of financial markets.

“The Bank of Albania deems that further efforts should be made to improve the distribution of expenses and borrowing throughout the year. The anchoring of the budget implementation and monitoring in quarterly plans could be a valuable instrument in this regard.”

In this context, we deem that further efforts should be made to improve the distribution of expenses and borrowing throughout the year. The anchoring of the budget implementation and monitoring in quarterly plans could be a valuable instrument in this regard.

Thank you for your attention!



KONFERENCË PËR SHTYP

RAPORTI I NDËRMJETËM I POLITIKËS MONETARE

21 DHJETOR 2016



CHAPTER II

PRESS CONFERENCES ON MONETARY POLICY DECISIONS

- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania 3 February 2016*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania 6 April 2016*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania 4 May 2016*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania 6 July 2016*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania 3 August 2016*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania 5 October 2016*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania 9 November 2016*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania 21 December 2016*

Press conferences on monetary policy decisions

The Supervisory Council of the Bank of Albania meets 14 times a year, of which 8 are dedicated to monetary policy decisions. The monetary policy is formulated in the light of the main objective of the Bank of Albania – achieving and maintaining price stability. After each meeting, at 16.00, the Governor explains to the public, in a press conference the decision of the Supervisory Council on the monetary policy stance and the underlying analysis. At the end of the conference, the Governor answers to questions by the journalists at the conference.

BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 1.75% - 3 February 2016 -

*Economic growth will further improve in the medium-term horizon
Inflation is expected to return to target in the second quarter of 2018
The achievement of the Bank of Albania's target requires maintaining the accommodative monetary
stance
The Supervisory Council reiterates the need for the continuation and acceleration of structural
reforms*

The Supervisory Council met today in the second meeting of 2016 and reviewed and decided on the interest rate. Let me now explain our assessment and conclusions in greater detail.

New data for the third and fourth quarters of 2015 show that economic activity in Albania is moving along a positive trajectory. Our analyses and forecasts suggest that the Albanian economy will continue to see positive growth rates in the next three years. Economic activity is expected to return to equilibrium in the first quarter of 2017 and inflation is expected to return to target in the second quarter of 2018.

These forecasts have not changed our previous assessments. The direction and intensity of expected developments reflects: (i) actual dynamics of the Albanian economy; ii) expected improvement of the external environment; and (iii) maintaining the accommodative monetary policy stance over the forecast horizon. Let me now briefly explain these factors.

During the second half of 2015, the economy performed on the up side of our expectations. As a result, the expected economic growth for the year was revised slightly up. Based on the current trends, the Bank of Albania expects economic growth to accelerate somewhat in 2016. In the meantime, inflation is expected to average around 2% in this period.

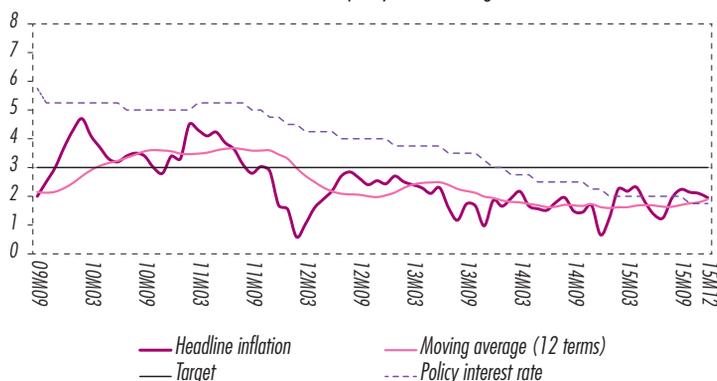
According to INSTAT data, the Albanian economy posted 2.98% growth in the third quarter, driven mainly by the increase in investments and recovery of the activity in the services sector. Indirect data for the fourth quarter suggest that growth remained in positive territory.

Analysing the available information, the Bank of Albania deems that private investments will continue to grow, fuelled by foreign direct investments, improvement of firms' financial situation, due to payment of arrears, and easing of financing conditions by the banking sector.

Also, household consumption has seen growth whereas its determining factors - employment, wages and consumer confidence - showed improvement. On the other hand, Albanian exports are suffering from the sluggish performance in Albania's trading partners and unfavourable conjuncture in international markets. In addition, public spending fell during 2015, reflecting the strong fiscal consolidation by the public sector.

Inflation rose slightly during the fourth quarter, averaging 2.1%. Inflation went through a progressive rising trend in the second half of the year, reflecting in part the improvement of economic activity and the transitional effects of the low comparative base against the previous year. However, in line with our previous statements, inflation remains below Bank of Albania's target. This performance illustrates the fact that employment and the capacity utilisation rate remain below their potential. It also highlights the need for stimulating economic policies in the medium term.

Chart 6 Inflation, policy rate and target



Source: INSTAT and Bank of Albania.

The unfavourable situation in Albania's trading partners and international markets has not contributed to the economic activity in Albania in the second half of 2015. Developments in Greece, low oil and commodity prices, and frequent fluctuations in the financial markets have led to low demand for Albanian exports and did not encourage credit growth. This

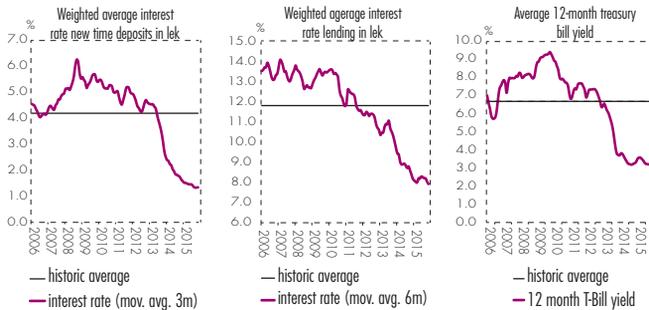
situation is expected to slightly improve over 2016. While monitoring actual economic trends and international institutions' projections, the Bank of Albania judges that the external environment is expected to strengthen in the medium-term horizon, and increasingly support economic growth in Albania.

Moreover, economic growth over this period is expected to be driven by the improvement of financing conditions and credit recovery. This expectation reflects a combination of a series of underlying factors.

First, the strong accommodative monetary policy stance has brought interest rates in financial markets to historic minimum levels. The Bank of Albania deems that these rates will remain below the historic average over the next two years.

Second, the issue of the euro bond led to the reduction of public borrowing in domestic financial markets. This has subsequently brought interest rates further down - even beyond signals given by the monetary policy - thus contributing to the increase of the monetary policy stimulus in the economy. In accordance with the medium-term budget plan, the Bank of Albania deems that the effect of this factor will be also present over the next two years.

Chart 7 Interest rates in the economy



Source: Bank of Albania.

Third, the implementation of the plan of actions for reducing non-performing loans will contribute to the easing of credit standards and the increase in bank credit supply.

In view of the above arguments, economic growth will further improve in the medium-term horizon, fed initially by the domestic demand and later by the steady growth of exports. This growth will help in the gradual return of inflation to the 3% target.

Bank of Albania's analysis suggests that the actual monetary conditions are adequate for achieving the inflation target within a medium-term horizon. Based on this judgement, the Supervisory Council decided to keep the key interest rate unchanged at 1.75%.

Following, in the light of achieving our inflation target and economic growth approaching its potential, based on the available information, the Bank of Albania judges that the intensity of the monetary stimulus will not weaken throughout 2016 and our monetary conditions will remain accommodative in the next two years.

Lastly, I would like to reiterate the need for the continuation and acceleration of structural reforms. These reforms are the only instruments to place the economy on a faster growth track as well as a principal tool to bolster Albania's economic and financial stability.

“The intensity of the monetary stimulus will not weaken throughout 2016 and our monetary conditions will remain accommodative in the next two years.”

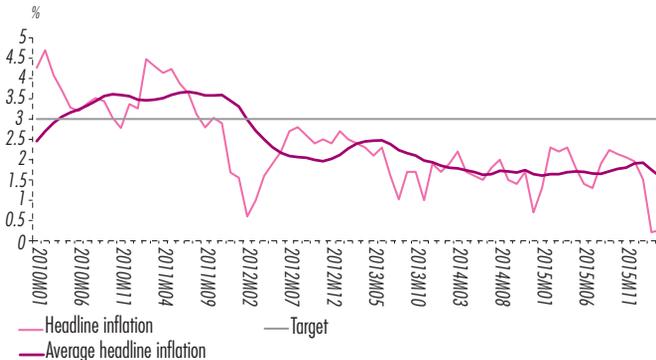
BANK OF ALBANIA LOWERS THE POLICY RATE TO 1.5% - 6 April 2016 -

Supply-side shocks are expected to be transitory and not to impair the return of inflation to target
The Albanian economy is on a positive development track
Inflation is expected to return to target in the second quarter of 2018
The easing of the monetary policy aims at reducing interest rate fluctuations in the interbank market and contributing to the pass through of Bank of Albania's monetary policy easing

The Supervisory Council of the Bank of Albania reviewed today the intermediate monetary policy report. Intensive attention was paid, during the discussions, to the analysis of the actual and expected performance of inflation, and its implications for the monetary policy.

These analyses confirmed the previous conclusions of the Bank of Albania that the rapid fall of inflation, during the first two months of the year, reflects the effect of low oil and food prices. The new information on the real sector's activity is overall in line with our expectations and does not signal any fall in aggregate demand. Consequently, supply-side shocks are expected to be transitory and not to impair the return of inflation to target, within the time horizon communicated previously by the Bank of Albania.

Chart 8 Annual inflation and Bank of Albania's target



Source: INSTAT and Bank of Albania calculations.

Yet, supply-side disinflationary pressures will continue to keep inflation at low rates for some months ahead. The Bank of Albania has, therefore, revised down its inflation forecast for 2016. Against this backdrop, the Bank of Albania considered that the intensification of the monetary stimulus to the economy is imperative. Based on these developments, the Supervisory Council decided to lower the key interest rate by 0.25 percentage point. This decision aims at guaranteeing the return of inflation to target in the medium term.

Let me now explain our assessment in greater detail.

Annual inflation recorded a rapid decline in the first two months of the year. Its annual rate fell to 0.2% in February against the 2% recorded in December 2015. Our analyses show that the fall reflects the combined effect of three factors: (i) low inflation from food items, especially fresh seasonal products; (ii) direct and indirect effect of low oil prices; and, (iii) high comparative base of prices in the same period a year earlier. These three factors explain around 3/4 of the fall in inflation during this period.

Table 3 Food and fuel contribution to inflation decline (in pp from December 2015)

Category	February 2016	March 2016
Food	-1.6	-1.4
Fuel - Direct effect	-0.2	-0.3
Fuel - Indirect effect	-0.5	-0.7

Source: INSTAT and Bank of Albania's staff calculations.

The effect of the high comparative base is expected to disappear within the month of April. On the other hand, low oil and food prices have impaired the inflation performance in all the countries of the region and our trading partners. Looking ahead, these factors are expected to continue to exercise their impact on inflation in the coming months. Thus, updated forecasts suggest that inflation will range around 1.9% at the end of 2016, compared to 2.3% in our previous forecast.

Regarding the factors having a steady and long-term impact on inflation, aggregate demand and capacity utilisation rate in the economy, our judgement has not changed. Domestic inflationary pressures are still weak, reflecting the below-potential economic activity and the still-low pressures for a rise in wages and production costs.

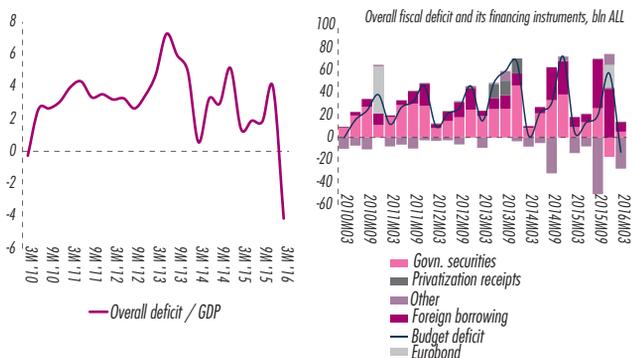
The Albanian economy is, however, on a positive development track and these pressures are expected to rise gradually in the medium-term horizon. Inflation is expected to return to target in the second quarter of 2018, in line with the expected progressive improvement of the Albanian economy.

New data on economic activity are in line with our expectations.

Direct information on the performance of private consumption and investments is not available, but indirect data obtained from fiscal and foreign trade indicators suggest for their positive performance.

On the other hand, the fiscal policy adopted a consolidation stance in the first two months of the year. Budget revenues recorded two-digit growth rates in the period, while public expenditures reduced and the budget balance resulted positive for around ALL 9.9 billion. In accordance with the approved budget, the fiscal policy stance will remain consolidating throughout 2016, but the intensity of consolidation is expected to be downward in the rest of the year.

Chart 9 Budget deficit and its financing



Source: Ministry of Finance, INSTAT and BoA's staff estimates.

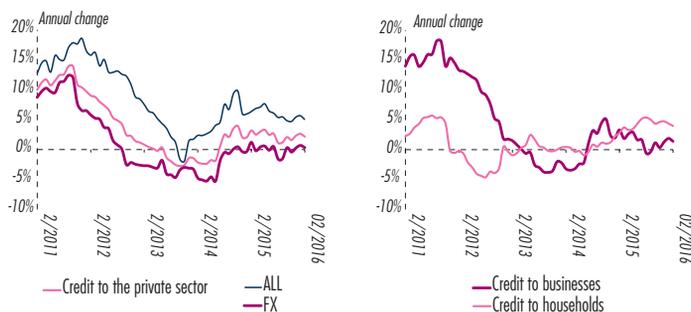
The performance of Albanian exports was impaired by low oil prices in international markets. Trade deficit expanded by around 11.8% during January-February, in response to the fall in exports and rise in imports.

In line with our earlier assessments, the external environment is expected to remain unfavourable for the growth of exports of Albanian goods during 2016.

As a result of the accommodative monetary policy stance of the Bank of Albania, financial markets are characterised by ample liquidity and interest rates are trending down. Recently, these trends have been reinforced by the shift of public borrowing in foreign markets. The costs of funding the public and private sectors are close to minimum historic levels. Also, liquidity premiums are downward and the activity in the interbank market has improved.

Nonetheless, lending remains sluggish. Cleaned up from the effect of non-performing loans write off, the portfolio of bank credit to the private sector recorded 2.6% annual growth in January. In line with our previous statements, the sluggish credit performance reflects the low demand for loans and the tight supply by banks. Looking ahead, the credit demand is expected to improve in the medium-term horizon, in accordance with the expected improvement in the economic activity. On the other hand, the Bank of Albania deems that the solution of issues pertaining to non-performing loans and collateral execution will have a primary impact on the improvement of the credit supply.

Chart 10 Credit to the private sector by currency and by economic agents



Source: Bank of Albania.

In conclusion to the discussions, the Supervisory Council decided to lower the key interest rate by 0.25 percentage point. After this reduction, the key interest rate falls to 1.5%.

This further easing of the monetary policy aims at providing an additional impulse to economic activity, by stimulating the growth of domestic demand and increasing its support with banking credit. The economic activity strengthening is expected to intensify domestic inflationary

pressures, compensating for the disinflationary trends originating externally.

Also, this action signals the determination of the Bank of Albania to guarantee the stability of prices, in conformity with its medium-term inflation target. The Bank of Albania reiterates that it is committed to and has the necessary instruments available for achieving this objective. Looking ahead, it will constantly monitor prevailing economic conditions and stands ready to further ease the monetary policy stance, in the event disinflationary supply shocks affect the medium-term perspective of price stability.

However, based on the disposable information and on the interpretation of our forecasts, the Supervisory Council evaluates that the monetary stimulus will not weaken during 2016.

To support the monetary policy decision and a swift operation of the interbank market, in today's meeting, the Supervisory Council decided to narrow the interest rate band applicable in the interbank market, from 3.5 percentage points to 2.5 percentage points. This band is determined by the overnight deposit facility rate and the overnight lending facility rate. After the lowering of the key interest rate and the narrowing of the band, the new interest rates on overnight deposits and lending facilities will be 0.25% and 2.75%, respectively.

These changes target the applicable conditions at which the Bank of Albania trades liquidity with commercial banks. This operation is aimed at reducing interest rate fluctuations in the interbank market and contributing to the pass through of Bank of Albania's monetary policy easing.

“The Bank of Albania will constantly monitor prevailing economic conditions and stands ready to further ease the monetary policy stance, in the event disinflationary supply shocks affect the medium-term perspective of price stability.”

BANK OF ALBANIA LOWERS THE POLICY RATE TO 1.25% - 4 May 2016 -

*Bank of Albania expects economic growth to improve and inflation to gradually return to target
The achievement of the Bank of Albania's target requires maintaining the accommodative monetary
stance throughout 2016*

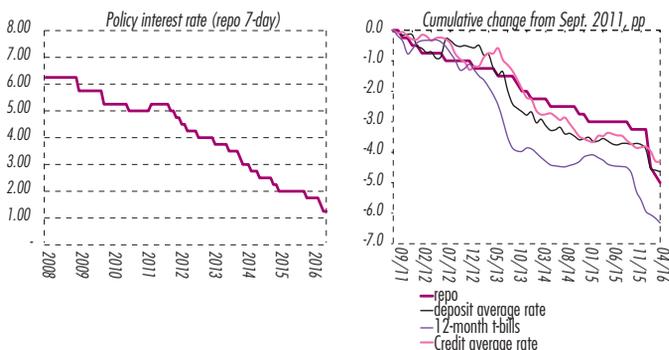
*The Bank of Albania is prepared to take all the necessary measures for maintaining price stability
The monetary policy should be associated with the intensification of the pace of structural reforms
and constant efforts for improving the business climate*

The new economic and monetary information for the last months has been overall on the down side of our expectations. Economic growth for the fourth quarter of 2015 resulted somewhat lower than projections, and inflation for the first quarter of 2016 recorded a strong and unexpected drop as a result of supply-side shocks.

Irrespective of these developments, the Bank of Albania deems that the Albanian economy remains on a positive development trajectory. In the medium-term horizon, we expect economic growth to improve and inflation to gradually return to target. Yet, new information illustrates the risk and uncertainties surrounding the materialisation of this scenario. Thus, the external environment appears deteriorated in terms of both the growth of our exports and the disinflationary pressures arising from it - whereas the business confidence and climate in the Albanian economy continue to remain volatile. These developments tend to decelerate the return of the economy to equilibrium and of inflation to target.

In response to them, in line with the analysis and projections of the Monetary Policy Quarterly Report approved today by the Supervisory Council and the previous monetary policy stance, the Supervisory Council decided to lower the key interest rate by 0.25 percentage points. The lowering of the key interest rate aims at boosting the monetary stimulus to the economy. Through the lowering of interest rates in the financial market, our monetary policy seeks to support the further growth of credit, consumption and private investments. This move signals also the will of the Bank of Albania to take all the necessary measures for maintaining price stability, in accordance with its inflation target.

Chart 11 Base interest rate and pass-through to other interest rates



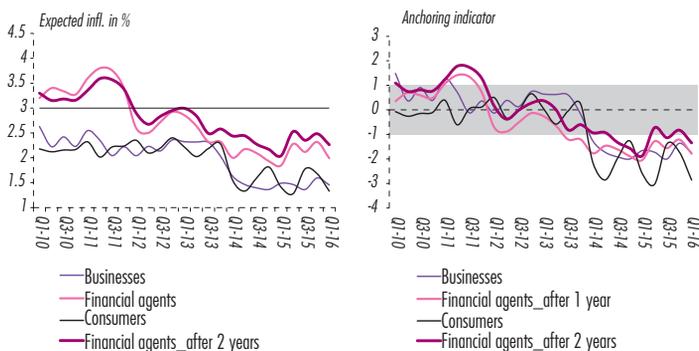
Source: Bank of Albania and MPD calculations.

Let me now make an overview of our analyses and conclusions in greater detail.

In the first quarter of the year, inflation averaged 0.7%. Within this quarter, inflation recorded a sharp decline over the first two months to stabilise at the 0.3% level in March. Inflation fell due to supply-side shocks, in the form of low inflation from food items and the slump in oil prices, as well as due to technical factors of the high comparative base of the same period in the previous year.

These shocks originate, to a large extent, in the global markets and are reflected in a rapid drop of inflation across all the countries of the region. Their effect on inflation is expected to be transitory. Yet, it will be

Chart 12 Inflationary expectations of various economic agents



Source: Ministry of Finance, INSTAT and BoA's staff estimates.

present in the second quarter, to be gradually cancelled out in the third and fourth quarter. In response also to economic growth, at the end of 2016, the level of inflation is expected to be around 1.9%, down from the 2.3% projection in the previous Quarterly Report.

While the drop in inflation in the first quarter was caused by supply shocks, overall inflationary pressures at home remain low. Aggregate demand, monetary expansion and inflation expectations do not signal a rapid recovery of inflation towards the target.

Though upward, aggregate demand is not yet able to generate full utilisation of production capacities both in the labour market and the capital market. Therefore, pressures on the rise of wages and production costs remain weak, which is reflected in low core inflation rates.

According to INSTAT data, the Albanian economy grew by 2.2% in the fourth quarter of 2015. The balance of available information suggests that it has recorded similar growth rates in the first quarter of this year. From the sectorial perspective, economic growth has been driven by the expansion of the activity in construction and services, while the activity in industry showed weakness due to the unfavourable conjuncture in global markets and Albania's trading partners. From the aggregate demand perspective, economic growth is driven mainly by the expansion of household consumption and private investments.

These trends are expected to surround economic growth even during 2016. For this year, economic growth is expected to be somewhat higher than the 2.6% rate registered in 2015, but somewhat lower than our previous assessments. The expansion of economic activity will be supported by the continuation of the positive trend in consumption and private investments. Their growth is expected to be financed mostly by private sector savings and foreign direct investments projects. It will also benefit from more favourable financial conditions that are expected to exist for 2016.

In response to the accommodative monetary policy stance and reduction of public borrowing in domestic markets, the financial environment is characterised by ample liquidity and low interest rates. In addition, the exchange rate is stable, financial balance sheets of firms, households and the banking sector improved, and credit standards eased. These stimulating financial conditions, however, have not been translated yet in steady credit growth, as a result of the reluctance amid economic and

financial agents. Excluding the effect of the loan write off from banks balance sheets, the portfolio of credit to the private sector recoded 2.4% average annual growth in the first two months of the year.

The Bank of Albania judges that the banking system should be more realistic and bold in its decisions to lend. The complete transmission of monetary policy effects in financial markets will be accompanied with an increase in banks' interest to lend. Moreover, the success of the plan of measures for reducing non-performing loans will contribute to lowering the perceived credit risk. Both factors create premises for a better outlook of credit performance.

In the medium-term, economic growth is expected to improve over 2017 and 2018. In this horizon, it is expected to reflect better the effects of the accommodative monetary policy and find greater support from the improved global environment. The Albanian economy is expected to return gradually to equilibrium during 2017, contributing to the return of inflation to target around the end of 2018. Both projections show a slight deviation from the previous forecast, while the balance of risks remains on the down side.

To create more adequate monetary conditions for achieving the inflation target, the Supervisory Council decided to lower the key interest rate to 1.25%. Also, the Supervisory Council decided to keep the overnight deposit facility rate unchanged at 0.25%, and cut the overnight lending facility rate to 2.25%.

Based on the available information, the Supervisory Council deems that the monetary stimulus may increase further during 2016, while the upward cycle of interest rates will not start out before 2017.

Concluding, the Supervisory Council points out that the accommodative monetary policy stance is a necessary, though not sufficient, precondition for generating faster and steadier economic growth. This policy stance should be associated with the intensification of the pace of structural reforms in the economy, and constant efforts for improving the business climate and reducing - actual or perceived - risk premiums in the economy.

“The Supervisory Council deems that the monetary stimulus may increase further during 2016, while the upward cycle of interest rates will not start out before 2017.”

BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 1.25%

- 6 July 2016 -

The Albanian economy grew over the first half of 2016
Financial markets continue to be characterised by ample liquidity and downward trends of interest rates
The current monetary policy stance is assessed as adequate for meeting our objectives
The monetary stimulus will not weaken throughout 2016

In today's meeting, the Supervisory Council of the Bank of Albania reviewed the monetary policy intermediate report. In conclusion to the analytical information and forecasts presented, the Supervisory Council decided to keep the key interest rate unchanged, at 1.25%.

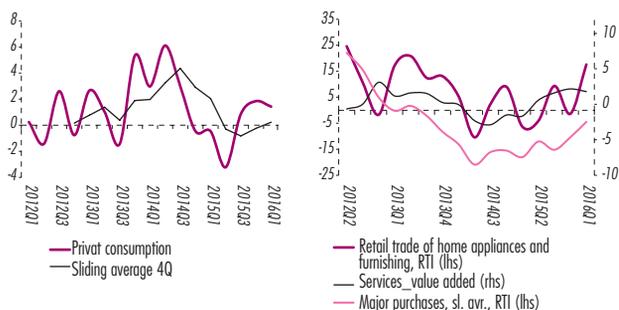
The new available data show that the Albanian economy and its monetary indicators have developed in line with our expectations. In line with these forecasts, economic activity and inflation have increased.

The balance of available information suggests that the Albanian economy grew over the first half of 2016, supported by the expansion of private consumption and investments. The worsened external trade balance and the budget surplus, created over the first half of year, acted on the opposite direction.

The expanded private consumption reflects the increase in employment and disposable income, and is supported by the accommodative monetary policy, the adequate financing conditions and the increase in consumer credit. The positive contribution of investments reflects the expanded private investments, both domestic and foreign investments, while public investments were down. The expansion of private investments benefited from the ample liquidity and the low interest rates in the financial markets. The Bank of Albania expects an increase in the private domestic demand even during the second half of year. However, business and consumer confidence remains volatile, thus showing the still unconsolidated position of the private domestic demand as a driver of economic growth.

In parallel, the weak economic performance of our trading partners, the fall of prices for some of our traditional export products, and the high bill of import of some of the foreign direct investments in Albania, led to the expansion of the trade deficit by 26.3%, over the first five months of the year. The Bank of Albania deems that a similar picture will persist in the

Chart 13 Private consumption and indirect indicators



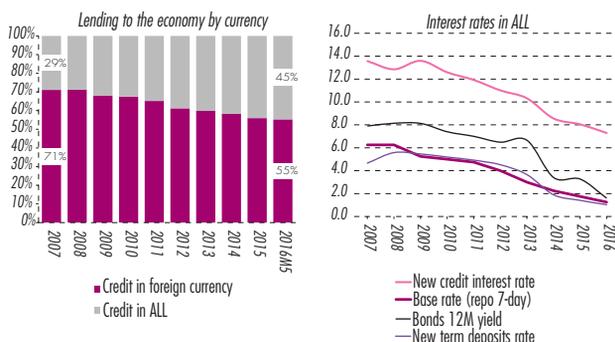
Source: INSTAT and Bank of Albania.

second half of year, and the external trade exchanges will not support economic growth during 2016.

The surplus of the public sector's financial activity amounted ALL 18.2 billion as at end of May 2016, compared to a deficit of ALL 10.6 billion in the same period of the previous year. This strong fiscal consolidation reflected the growth of revenues and the contraction in budget expenditures. In particular, the latter reflected the reduction of capital spending, remaining below the respective planned level. In line with the budget projections, we expect the pace of public expenditure to accelerate and the fiscal consolidation to slowdown during the second half of the year. Nevertheless, the Bank of Albania re-emphasises that a more even allocation of budget expenditure would help to decrease the fluctuations of the economic activity and financial markets.

In response to the accommodative monetary policy stance of the Bank of Albania, financial markets continue to be characterised by ample liquidity and downward trends of interest rates. The latest monetary stimulus is transmitted also to the financial market, where the interest rates of lek credit fell by around 1.0 percentage point, while the yield curve of government securities has shifted downwards, on average by 1.20 percentage points. The performance of deposits and liabilities in the banking system's balance sheet is stable. Nonetheless, lending remains sluggish. Cleaned up from the effect of non-performing loans write off, credit to the private sector recorded 2.5% annual growth in April. The recovery of banking credit remains a precondition for steady and long-term growth, and will be one of the medium-term objectives of the Bank of Albania and of other public authorities.

Chart 14 Credit and interest rates in ALL



Source: Bank of Albania.

Annual inflation stood at 0.7% in May, being in the direction and at the intensity expected by the Bank of Albania. The improvement of economic activity drove to the increase of core inflation, while the decrease of supply-side shocks effects was accompanied by the decrease of disinflationary pressures imported from the external markets.

The new information and the update of forecasts have not changed our outlook for the future. The economic growth projection for 2016 remains unchanged, whereas short term inflation forecasts have shifted slightly upwards and medium term inflation projections have not changed. In conjunction with these forecasts, the Bank of Albania expects a progressive improvement of economic activity in the medium term. These improvements will contribute to the gradual increase of inflation and its return to target by the end of 2018.

The effects of the accommodative monetary policy continue to be transmitted to the financial markets and the current monetary policy stance is assessed as adequate for meeting our objectives.

In accordance with these conclusions, the Supervisory Council decided to leave the key interest rate unchanged at 1.25%. The Supervisory Council estimates that in the absence of unpredicted shocks, the monetary stimulus will not weaken throughout 2016. In addition, the Supervisory Council decided to not alter the interest rate corridor in the interbank market, at 0.25% for the overnight deposit interest rate and at 2.25% for the overnight lending rate.

At the conclusion of the analysis, the Bank of Albania evaluates that the risk balance on the expected medium-term developments continues to

trend down. In particular, the Bank of Albania is attentively following the Brexit phenomenon and the consequences it may have for the Albanian economy.

Our analysis shows that the Albanian economy and financial system are immune to the direct shocks that may come from the expected exit of the United Kingdom from the European Union. Our trade exposure to the United Kingdom, in the form of imports and exports is almost negligible. Also, direct or financial investments originating from the United Kingdom in Albania are low, while remittances account for a little higher than 10% of total remittances. In parallel, the Albanian banking system has a low exposure to the most extreme fluctuations of the British pound and British financial system.

On the other hand, Albania has a higher exposure to possible indirect shocks that Brexit may have on the European economy and financial system. The latter are our main economic and trading partners. Any negative reaction of them would be transmitted to Albania as well.

Related to these indirect effects, the Bank of Albania emphasises that:

- **First, the materialisation probability of the extreme shocks is relatively low.** We are confident that the stakeholders included in discussions will know to avoid unpleasant situations to everyone. Nevertheless, we are continuously monitoring the situation.
- **Second, the Albanian economy and financial system appear to be more prepared to weather possible shocks, compared to similar previous situations.** We will continue to work aiming to increase their readiness and immunity.
- **Third, in the event of a further worsening of the situation, the Bank of Albania has the will and the right instruments to guarantee the accomplishment of its price stability objective and to support the activity and soundness of the financial system.** In particular, the monetary policy would undertake a stronger stimulating nature, by initially using the remained space for conventional instruments, and further addressing, if necessary, non-conventional monetary policy instruments.

At the conclusion of this press release, the Supervisory Council reconfirms the message that, in the absence of negative shocks, the medium-term development perspective of Albania remains positive.

“The Albanian economy and financial system are immune to the direct shocks that may come from the expected exit of the United Kingdom from the European Union.”

BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 1.25%

- 3 August 2016 -

*The Albanian economy and financial markets have performed in line with the expectations
The accommodative monetary policy helped in lowering financing costs
Inflation recorded progressive increase in the second quarter
The actual monetary policy stance is assessed as adequate for complying with the price stability objective in the medium-term horizon*

In the meeting held on 3 August 2016, the Supervisory Council of the Bank of Albania reviewed the Monetary Policy Report for the second quarter. At the conclusion of the discussions on the presented projections and analyses, the Supervisory Council decided to keep the key interest rate unchanged, at 1.25%. Moreover, the Supervisory Council decided to keep unchanged the interest rates on overnight deposits and credit facilities, at 0.25% and 2.25%, respectively.

The Albanian economy and financial markets have performed overall in line with our expectations. Economic activity expanded in the first half of the year, inflation showed upward trends in the second quarter, and the accommodative monetary policy stance provided for a liquid financial environment with low interest rates.

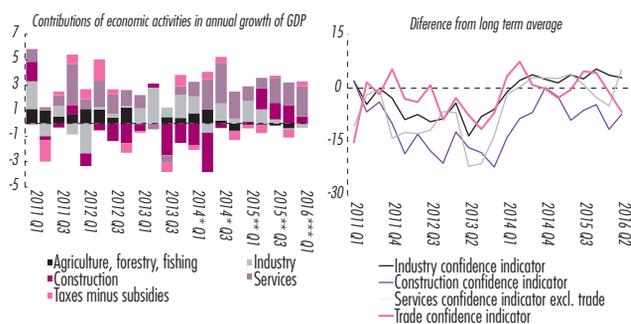
Against this backdrop, our medium-term projections have not changed and the actual monetary policy stance is assessed as adequate for complying with the price stability objective in the medium-term horizon.

Inflation recorded progressive increase in the second quarter. At the end of June, annual inflation increased to 1.2%, mainly attributable to the rise in food and rent prices.

In macroeconomic terms, inflation returned to an upward trajectory driven by the reduction of foreign disinflationary pressures and strengthening of domestic pressures. This trend confirms our assessments for the transitory effect of supply-side shocks that led to the fall in this indicator during the first quarter. It also reflects the improvement of the economic activity in Albania.

Economic growth in the first quarter resulted in the up side of our expectations. According to INSTAT data, the Albanian economy recorded 2.96% annual growth in first quarter of the year. The growth reflects the improved activity in services and construction, while the activity in industry and agriculture continued to fall. Indirect available indicators suggest similar growth rates even in the second quarter.

Chart 15 Gross Domestic Product by output and confidence indicators



*Semi-final data **Provisional data. ***First estimate.
Source: INSTAT and Bank of Albania.

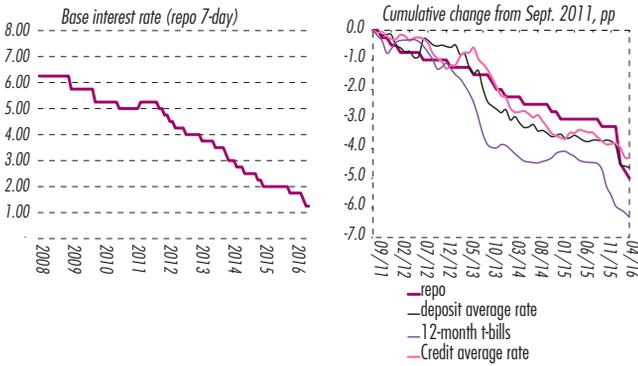
Economic growth for the first half of the year reflected the combined effects of the accommodative monetary policy and consolidating fiscal policy implemented in Albania. Economic activity expanded as a result of the increase in private domestic consumption and investments. Their growth reflects the improvement of firms and households financial balances, positive developments in the labour market, reduced uncertainties and the resurgence of the construction market. The monetary stimulus and improvement of financing conditions also contributed to this performance. On the other hand, trade with abroad and public sector activity did not favour economic growth. Our exports continue to suffer from the unfavourable price conjuncture in international commodity markets, but this factor was offset somewhat by the improvement in tourism. Moreover, the fiscal policy maintains the consolidation stance, with a higher intensity than the planned level.

In view of the trends evidenced in the first half of the year and the financial conditions of the economy, economic growth and expected inflation during 2016 were revised slightly upward.

Financial markets appear calm, with low interest rates and ample liquidity. The monetary stimulus pass-through to these markets is reflected

in lower financing costs for the Albanian economy. Interests rates hit new historic minimum levels across the entire spectrum of financial instruments, over the second quarter. The accommodative monetary policy stance has brought down costs for financing consumption and investments, and has eased the costs of servicing credit and debt, without generating negative consequences for the financial system's soundness indicators. In particular, banking sector's liquidity and capitalisation maintain adequate levels.

Chart 16 Base interest rate and pass-through to other interest rates



Source: Bank of Albania and MPD calculations.

Credit performance showed trends of improvement in the second quarter. Cleaned from the write off effects, the bank credit portfolio recorded around 3% annual growth, on average. This performance owes largely to the annual expansion by 6.4% of lek credit, while the portfolio of foreign currency credit remained almost unchanged from the previous year.

Yet, its annual growth rates remain sluggish. The sluggish credit growth continues to reflect both the low demand and the tight supply for this product. The Bank of Albania deems that the bolstering of demand and the further improvement of supply for credit remains a precondition for steady medium-term and long-term growth in Albania. For that reason, the complete implementation of the action plan for the treatment of non-performing loans is pivotal. For the same-stated reason, we welcome the justice reform and deem that - among others - it will pave the way for a more transparent and reliable legal setting for the commitment of parties in long-term contracts.

The new available information and update of analyses have not produced any significant changes to our medium-term forecasts. In this horizon, we expect economic activity to improve progressively, reflecting also the favourable financing conditions. The Albanian economy is expected to return to equilibrium in the second half of 2017, which would create premises for the return of inflation to target in the second half of 2018.

These forecasts are conditioned by the fact of maintaining the stimulating monetary policy over this period. The monetary stimulus is expected to remain unchanged over 2016.

The balance of risks remains on the down side. It is further reinforced by, direct or indirect, potential Brexit implications for the economy and financial system in Albania.

The Bank of Albania judges that the positive trajectory of economic and financial developments will be maintained in the period ahead. In any case, our monetary policy stance will be in line with our inflation target and the need for further consolidation of sources of economic growth.

“The monetary stimulus is expected to remain unchanged over 2016.”

BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 1.25%

- 5 October 2016 -

The return of the economy to equilibrium and the firm convergence of inflation to target will materialise only in the medium-term horizon

The Supervisory Council judges that the current monetary policy stance is adequate

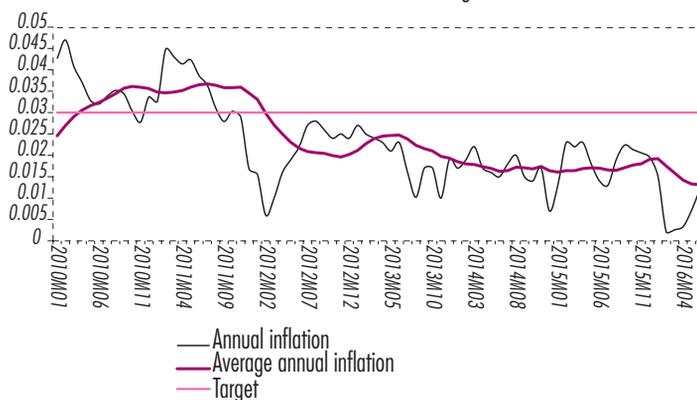
The monetary and fiscal policies serve and are sufficient only to ensure the return of the economy to its equilibrium and maintain the economic and financial stability in Albania

The acceleration of the economic growth potential will depend on the range and ambitiousness of the structural reform programme

The new information analysed in this monetary policy report resulted, overall, in line with our expectations. Economic activity continues to expand inflation has been upward, whereas financing costs remain around the lowest historical levels.

The new information has not changed our projections. Such projections suggest that the return of the economy to equilibrium and the firm convergence of inflation to the target will materialise only in the medium-term horizon.

Chart 17 Annual inflation and target



Source: INSTAT and Bank of Albania calculations.

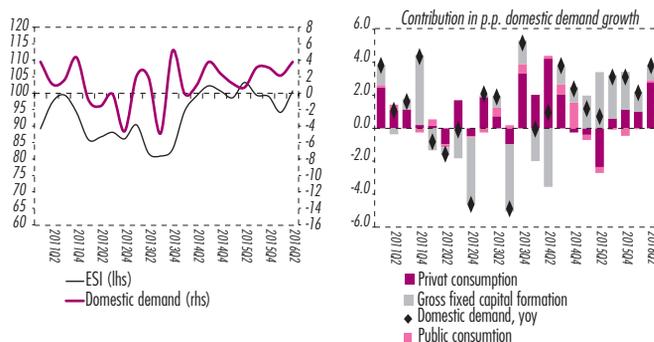
Against this backdrop, the Supervisory Council judges that the current monetary policy stance is adequate. The liquid financial environment with low interest rates, dictated by the accommodative monetary policy, is necessary for boosting the further growth of economic activity and guaranteeing the return of inflation to target.

The consumer price inflation reached 2% in August, continuing on an upward trajectory, against the low values recorded in the first quarter. Inflation rates rose as a result of the increase in food and oil prices.

In macroeconomic terms, the rise in inflation reflects the effect from growth in aggregate demand and reduction of supply shocks from low food and commodity prices in global markets.

Available data suggest that the Albanian economy continued to grow during the second and third quarters, at rates comparable to the first quarter. Growth was driven by the expanded domestic demand from the private sector, whereas foreign trade and the consolidating fiscal policy contributed to the opposite side.

Chart 18 Economic sentiment and structure of domestic demand



Source: INSTAT and Bank of Albania.

The favourable financial environment, growth in employment, improvement of economic agents' confidence and continuation of high inflows of foreign direct investments contributed to the increase of consumption and private investments. The Bank of Albania deems that these aggregate demand components will continue to lead economic growth in the quarters ahead.

On the other hand, the deepening deficit of foreign trade has not contributed to Albania's economic growth. This performance was mainly dictated by the increased imports, in response to the positive investment cycle in the economy. In parallel, the low foreign demand for certain typical Albanian exports for example, oil and raw materials such as minerals - decelerated our exports. The external economic environment is expected to remain unfavourable in the near term; but, the trade balance with abroad is expected to improve gradually in the medium-term horizon.

The consolidating fiscal policy was translated in budget surplus, amounting to around ALL 13.7 billion, over the first eight months of the year. The compliance with the planned levels of the budget deficit for 2016 implies that the fiscal policy will be stimulating in the rest of the year. This compliance requires also the acceleration of expenditure in the remainder of the year. The Bank of Albania deems that a more even distribution of budget expenditure throughout the year would improve their effectiveness and reduce the volatility in economic and financial indicators.

The monetary stimulus, transmitted through the lowering of the policy rate, has been already transmitted to the financial markets. These markets have been, overall, calm, although certain segments have seen added volatility. The interest rate on loans and deposits continued to stand close to their historical minimum levels throughout August. Conversely, yields on government securities have risen in the last auctions. The rise reflects a correcting trend of their rapid fall in the first half of the year, as well as temporary imbalances of demand and supply for these instruments.

Lending to the economy continues to grow, but this performance remains sluggish. Cleaned from the loan write off process in the balance sheets of the banking system and the exchange rate fluctuations, lending to the economy grew at 4.2% annually in August. The credit portfolio posted 6.9% annual growth in lek, and 2.3% in foreign currency. In sectorial terms, consumer credit performed relatively better than credit to enterprises. The slowdown of the monthly growth of the credit portfolio in July and August is expected to be a temporary phenomenon. This development, however, shows the unsteady credit performance in Albania and reiterates the need for continued structural reforms, which would contribute to reducing credit risk and increasing credit demand.

Based on the available information, the Bank of Albania deems that the expected outlook for economic and financial developments, as presented in the previous quarterly report, remains valid. We foresee economic activity will progressively improve over the next two years. The improvement will contribute to the return of the economy to equilibrium over the second half of 2017, and of inflation to target over the second half of 2018. At the same time, the available information, suggests that the balance of risks in the medium-term horizon continues to remain on the down side.

Taking into account the expected fiscal consolidation, the Supervisory Council deems that the achievement of our inflation target will require adopting an accommodative monetary policy stance over this period.

In accordance with these judgments, the Supervisory Council decided to:

- keep the policy rate unchanged at 1.25%
- keep the rates for the overnight deposit and loan facilities unchanged at 0.25% and 2.25%, respectively

Furthermore, the Supervisory Council assesses that the intensity of the monetary stimulus will not diminish during 2016.

In conclusion, the Supervisory Council finds it appropriate to stress that the monetary and fiscal policies serve and are sufficient to only ensure the return of the economy to its equilibrium and maintain the economic and financial stability in Albania. On the other side, the acceleration of the economic growth potential will depend on the range and ambitiousness of the structural reform programme.

“The Supervisory Council deems that the achievement of our inflation target will require adopting an accommodative monetary policy stance over this period.”

BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 1.25%

- 9 November 2016 -

*The Albanian economy continued to show signs of improvement
The updated round of medium-term projections expected trajectories of economic growth and
inflation have not changed
The economic activity in Albania will continue to grow during this period and will return to
equilibrium over 2017
The return of the economy to equilibrium and the stabilisation of the external environment will
establish the conditions for a progressive increase of inflation in the medium term
The current monetary policy stance is adequate to meet our inflation target*

The Albanian economy continued to improve over the last two quarters. Economic activity grew progressively. Inflation is gradually moving towards the target, while financial markets remain calm and financing costs remain at their lowest historical levels. These tendencies reflect the Bank of Albania's accommodative monetary policy stance, the improved confidence in the economy and eased shocks from the external environment.

The new information analysed in this monetary policy report has resulted, overall, in line with our expectations.

In this updated round of medium-term projections expected trajectories of economic growth and inflation have not changed.

Against this backdrop, the Supervisory Council estimates that the current monetary policy stance is adequate to meet our objective.

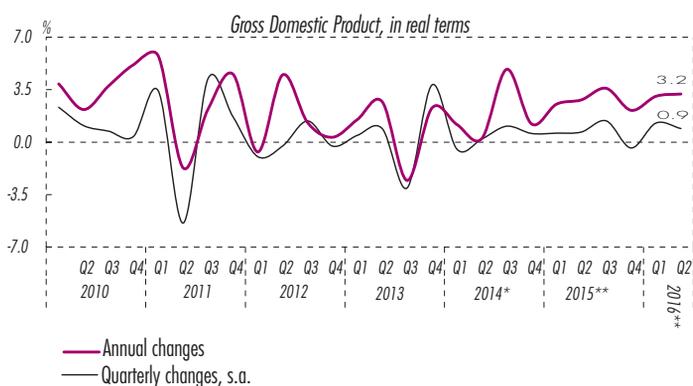
In the third quarter, inflation averaged 1.9%, up compared to the low values recorded in the previous two quarters. Inflation fell at 1.5% in October. The increase of inflation during the third quarter and its fall in October were affected by the inflation fluctuations of food and oil.

The rise in inflation during the second half of year reflects the strengthening of inflationary pressures from the domestic demand and the reduction of disinflationary pressures from abroad. The expansion of economic activity in Albania drove to the increase of employment and decrease of unemployment. The gradual shift of economy towards equilibrium paves the way for an increase in wages and production costs in the medium-term horizon. These trends sustain the upward trend

in core inflation. On the other hand, as expected, the impact of external shocks on inflation has declined and imported disinflationary pressures have subdued. These factors have affected and are expected to continue to support the upward trend in inflation in the medium term.

INSTAT data for the second quarter of the year indicated the Albanian economy had grown at 3.2% annually. Available data suggest that the economic growth in the third and fourth quarters will remain at similar rates.

Chart 19 Annual and quarterly GDP



Source: INSTAT and Bank of Albania.

In terms of sectorial contribution, economic growth reflected expanded activity in services, mainly due to a good performance during the tourism season. On the other hand, the production sector which consists of industry, construction and agriculture - was almost at the same level as in the previous year.

On the aggregate demand side, economic growth was driven by the strengthening of domestic demand, in response to improved household consumption, whereas foreign trade provided a high negative contribution.

Consumption and private investments were the components with the highest effect on economic growth. They expanded as a result of improved confidence, increased employment, higher capacity utilization rates, and higher FDI's inflows. In parallel, the accommodative monetary policy stance has created the optimal conditions to stimulate consumption and to finance investments.

On the other hand, the expanded domestic demand has been accompanied by a rapid growth of imports. Due to unfavourable conjunctures in international markets for our products, this growth was

not offset by a simultaneous expansion in exports, despite higher tourism revenues. As a result, foreign trade activity contributed negatively to economic growth in the second quarter.

Finally, fiscal policy continues to consolidate, leading to a budget surplus of around ALL 10.6 billion until September. The completion of public spending according to the budget deficit plan for 2016, suggests that the contracting impact of fiscal consolidation on economic growth will be lower in the last quarter. Nevertheless, the Bank of Albania evaluates that in the future, a more evenly distributed borrowing and deficit would improve the effectiveness of public finances and would reduce the economic and financial volatilities they generate.

This new round of medium-term projections has confirmed our previous expectations.

The Bank of Albania estimates that economic activity in Albania will continue to grow during this period and will return to equilibrium over 2017. Private consumption and investments will drive economic growth. On the contrary, foreign trade is expected to have a secondary role in growth and fiscal policy is expected to remain consolidated.

The return of the economy to equilibrium and the stabilisation of the external environment will establish the conditions for a progressive increase of inflation in the medium term. Annual inflation is expected to reach 2.3% four quarters ahead and return to target over 2018.

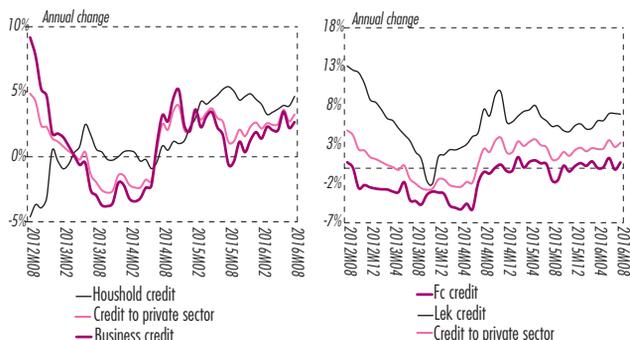
Taking into account the expected fiscal consolidation, these forecasts are conditional on a consistent implementation of an accommodative monetary policy over this period.

Our monetary stimulus, transmitted through the policy rate cut, through a continuous injection of liquidity and through forward guidance, has led to a considerable decrease in financing costs in financial markets. The interest rates on loans in lek stand at an historical minimum level, favouring a stable growth in the credit portfolio in lek. Excluding the effect of write offs from balance sheets, the annual increase of this portfolio was about 8.2% at the end of September. This portfolio had the highest share in the growth of total credit portfolio. Total credit to private sector recorded an annual growth of 3.3% as at end of September. In parallel, low interest rates ease the existing debt's servicing costs, help improve the real sector balance sheets' and favour the further improvement of consumption and investments.

The low interest rates and the liquid and well-capitalised banking system are positive premises for the growth of credit and the financing of economic growth. Nevertheless, banks' lending policies

remain conservative, due to the tightening of supervisory and regulatory measures at the European level, and the perception of high credit risk in Albania. For that reason, the Bank of Albania welcomes the insofar implemented measures and believes that a complete and timely implementation of the Action plan for reducing non-performing loans will significantly improve the financial environment in the country.

Chart 20 Credit to the private sector by currency and economic agents (annual change %)(%)



Source: Bank of Albania.

In addition to the implementation of the other levels of the current structural reform packages, these measures will help fulfil our medium-term objectives and further expand Albania's economic growth potential.

Based on the above analysis and forecasts, the Supervisory Council estimates that the current monetary policy stance is adequate to meet our inflation target.

Against this backdrop, the Supervisory Council decided to:

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

Furthermore, based on the available information on the expected developments and risk about them, the Supervisory Council assesses that the intensity of the monetary stimulus will not diminish prior to the second half of 2017.

“The Supervisory Council assesses that the intensity of the monetary stimulus will not diminish prior to the second half of 2017.”

BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 1.25%

- 21 December 2016-

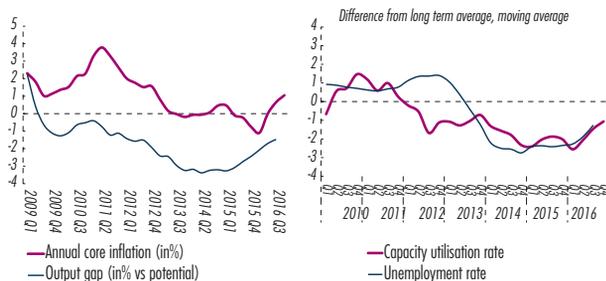
The Albanian economy will continue to improve in the medium term. Inflation is expected to increase progressively and to return to target within 2018. Financial markets have completely reflected the monetary stimulus. Funding costs to the economy have stabilised into low historical levels, creating the premises to promote consumption and investments. The current stance of the monetary policy is adequate to fulfil our inflation target.

The new information analysed in this monetary policy report has been - overall - in line with our projections.

Data from the real and financial sectors show an improving economic activity, inflation rising gradually towards the target, and a favourable financial environment for accomplishing our objectives.

The updated round of our analysis and projections suggests that the Albanian economy will continue to improve in the medium-term horizon. In accordance with these projections, economic activity is expected to return to equilibrium within 2017 and inflation to target within 2018. Inflation in November was 1.9%, up by 0.4 percentage point from the previous month. The rise in headline inflation reflected the rise in food and oil prices inflation, whereas inflation of other basket items remained relatively unchanged.

Chart 21 Economy cycle indicators



*Output gap is the average of a number of measurements on which the moving average method is applied. The capacity utilization rate gap is calculated as the deviation of the actual value from the historical average, while the gap of presented unemployment rate is the difference of the average historical rate with actual value.
Source: INSTAT and Bank of Albania.

The upward trend of inflation over 2016 was dictated, to a larger extent, by the increase in domestic inflationary pressures, in response to the growth of aggregate demand and the improvement in the capacity utilisation rate. The better utilisation in the labour and capital markets has

created the premises for the increase in employment and wages, and has contributed to the improvement of the firms' operation margins. These trends are reflected in the continuous increase in the core inflation.

In parallel, the rise in inflation was fuelled by the weakening of foreign disinflationary pressures and the upward trend in inflation expectations.

The new information on economic activity is positive. Economic growth is assessed to have picked up in the second half of 2016, after the 3.1% growth in the first half. Growth was bolstered by the recovery of private consumption and investments, and underpinned by the increase in wages and employment, the improvement of confidence and the favourable financing conditions. In parallel, economic activity in the second half of the year was supported by the acceleration of the realisation of budget expenditures and the upward foreign demand in tourism.

The Bank of Albania expects a progressive improvement of economic growth over the next two years. The recovery of private demand will continue to be the main driver of growth, whereas the fiscal policy will remain on the consolidation side, and the external environment will continue to be characterised by weaknesses and uncertainties. In line with the recovery of economic activity, and supported by the expected reduction of foreign disinflationary pressures, inflation is forecasted to mark a progressive increase and return to target within 2018.

The combination of the accommodative monetary policy with the consolidating fiscal policy will contribute to this pattern of developments. This combination addresses our objectives and challenges at an optimal level. Through the support of aggregate demand, our monetary policy stance creates the premises for the return of inflation to target. On the other hand, through the reduction of the public debt, the fiscal policy consolidation stance contributes to the reduction of risk premiums in financial markets and increases the space for credit to the private sector.

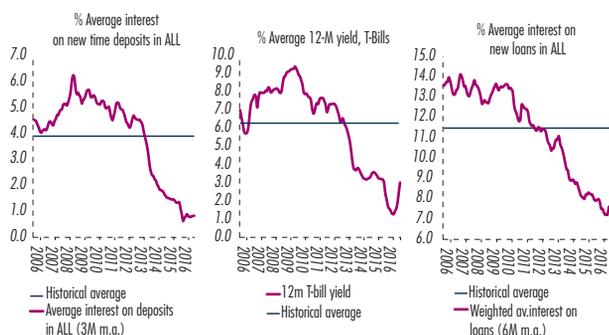
The monetary stimulus has been transmitted through lower levels of the policy rate, liquidity injection operations and the forward guidance instrument.

Financial markets have reflected this stimulus to a complete extent. Financing costs in the economy have settled at low historical levels, creating thus the premises for boosting consumption and investments. The recent volatilities noted in interest rates in certain segments of the financial markets are assessed to reflect specific developments in these markets and have not contributed to a tightening of monetary conditions in the economy.

Credit recovery continued in October as well. Excluding the effect of the write offs from the banks' balance sheets, the total credit portfolio recorded 2.9% annual growth, in October. This growth rate reflected to a complete extent the dynamic performance of the new lek credit, whose portfolio registered 9.2% annual growth, in October, whereas the foreign currency credit remains sluggish.

The Bank of Albania expects a better credit performance in the next years, although banks' lending policies remain conservative. In this regard, the Bank of Albania deems that the improvement of the credit environment also in response to the joint action plan of measures for reducing non-performing loans will enable the further reduction of risk premiums and will pave the way for a better performance of both credit and economic activity in Albania.

Chart 22 Main interest rates in Albanian financial markets



Source: Bank of Albania and MPD's estimates.

Judging from the above analysis and forecasts, the Supervisory Council estimates that the actual monetary policy stance is adequate for meeting our inflation target.

Against this backdrop, the Supervisory Council of the Bank of Albania decided to:

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

Furthermore, based on the available information, the expected developments and risks surrounding them, the Supervisory Council deems that the intensity of the monetary stimulus will not diminish before the second half of 2017.

***“The Supervisory Council deems that the intensity of the monetary stimulus will not diminish before the second half of 2017.*”**



REPUBLIKA E SHQIPËRISE
MINISTRIA E FINANCAVE



CHAPTER III

PRESS CONFERENCES WITH THE IMF MISSION AND THE MINISTER OF FINANCE AND ECONOMY

- *Speech by Governor Sejko at the joint press conference with the IMF Mission and the Minister of Finance, 22 March 2016*
- *Speech by Governor Sejko at the joint press conference with the IMF Mission and the Minister of Finance, 28 June 2016*

Press conferences with the IMF Mission and the 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 organized with the Governor of the Bank of Albania, the Minister of Finance.

ON THE COMPLETION OF THE SEVENTH REVIEW OF THE ARRANGEMENT OF ALBANIA WITH THE IMF - 22 March 2016 -

In accordance with the agreed agenda, during the last two weeks, we have held intensive talks with the IMF mission, which focused on the Review of the Arrangement with the IMF. Also, in the framework of Article IV discussions, talks focused on identifying those structural problems that hamper economic development in Albania.

The Review concluded that economic indicators and macro-economic policies have been in line with our projections and commitments, despite the challenges facing the Albanian economy during this period. Moreover, Article IV discussions noted the need for accelerating structural reforms, which should pave the way for faster and steadier development.

Let me now present a summarized opinion of the Bank of Albania on the country's economic performance and the policies we have implemented and should continue to implement in the future.

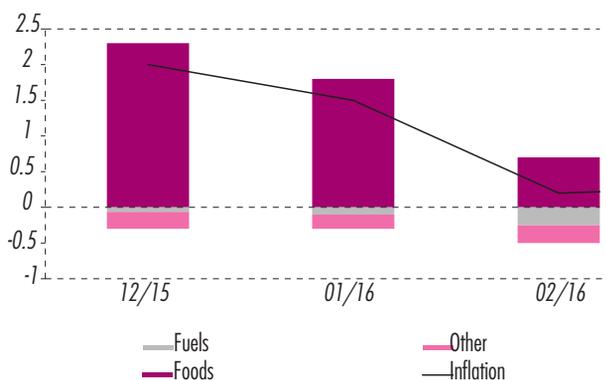
The Albanian economy continues to be on a positive development trajectory. Economic growth accelerated during 2015, driven by the expansion of investments and improvement of the balance of trade with abroad. Private consumption showed signs of recovery in the second half of the year, whereas public consumption remained limited, in accordance with the fiscal consolidation strategy.

During this period, economic activity expanded, among others, thanks to the monetary policy and supervisory and regulatory measures by the Bank of Albania. Our accommodative monetary policy stance has contributed to lowering interest rates further down, mitigating liquidity pressures and maintaining the confidence of financial markets in price stability. In parallel, our supervisory and regulatory measures have contributed to reducing non-performing loans and improving the financial soundness of the banking sector. These developments are a prerequisite for sustainable crediting to the economy in the future.

Inflation remains at low levels, below our target. This performance has reflected the unutilized production capacities in the Albanian economy, and the disinflationary tendencies arising from trade exchanges with abroad.

In particular, over the first two months of 2016, inflation dropped, descending to 0.2% in February. Our analyses suggest that it dropped due to external factors, namely the pronounced fall in food and oil prices in global markets. As such, the rapid drop in inflation and its low levels represent a supply shock to the Albanian economy, rather than a disinflationary situation, which is related to actual or expected recessionary situations. Its effect on inflation is expected to persist for some time ahead; however, it will only be a transitory one.

Chart 23 Contribution to inflation by category (in pp) and annual inflation (in%)



Source: INSTAT and Bank of Albania's staff estimates.

Regardless of these conclusions, the Bank of Albania is constantly monitoring the situation. It has all the proper instruments to prevent long-term negative effects that may arise from low inflation, and stands ready to use them, if necessary.

Our projections suggest that the Albanian economy will improve progressively over the next two years. The improvement of the growth rate will contribute to strengthening the economic and financial equilibriums in Albania, and will be a determinant factor for the return of inflation to target in the medium term-horizon.

The balance of risks surrounding this projection is mostly on the down side. Thus, the expansion of economic activity continues to be decelerated by unfavourable economic developments in the euro area, low oil prices in global markets, as well as the still hesitating behaviour of many economic and financial agents to undertake long-term business projects.

Against this backdrop, the Bank of Albania deems that economic policies and structural reforms should focus on the following:

- Continuation of the actual combination of economic policies, based on the stimulating monetary policy and the consolidating fiscal policy. The monetary policy will remain accommodative over this horizon and the intensity of the monetary stimulus may be further strengthened if that is judged as necessary. Fiscal consolidation mitigates the structural weakness in Albania and creates more space for expansion in the private sector.
- **Implementation, without delay, of the plan of measures for tackling and finding a final solution for non-performing loans.** This plan seeks to reduce the crediting risk and increase the bank credit supply in Albania. Its success is an essential precondition for the medium and long-term growth of the Albanian economy.
- **Acceleration of structural reforms,** especially in relation to completing the infrastructure, improving the business climate, expanding the knowledge, and improving the labour market.

Against this backdrop, the Bank of Albania deems that economic policies and structural reforms should focus on the following:
- Continuation of the actual combination of economic policies, based on the stimulating monetary policy and the consolidating fiscal policy.
- Implementation, without delay, of the plan of measures for tackling and finding a final solution for non-performing loans.
Acceleration of structural reforms.

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

AT THE CONCLUSION OF DISCUSSIONS ON THE EIGHTH REVIEW OF THE ARRANGEMENT WITH THE IMF

- 28 June 2016 -

In the last two weeks we have been engaged in intensive discussions with IMF Mission representatives, in the framework of the review of the IMF arrangement. The discussions focused on: the analysis of the current situation of the Albanian economy and financial system; identification of development prospects and challenges facing Albania; and the policies to be implemented with a view to supporting the country's development.

The conclusions of our discussions may be summarised in three main points:

- (i) Economic activity appears upward and the development outlook remains positive.
- (ii) Yet, the external environment is unfavourable and the Albanian economy continues to face structural weaknesses, which decelerate the pace of growth.
- (iii) Therefore, the monetary and fiscal policies should continue to generate a prudent economic stimulus, whereas structural reforms should accelerate their pace.

In this context, the Bank of Albania deems that the arrangement with the IMF and the measures envisaged as part of the Eighth Review provide a consistent framework for drafting and implementing a programme for the country's development .

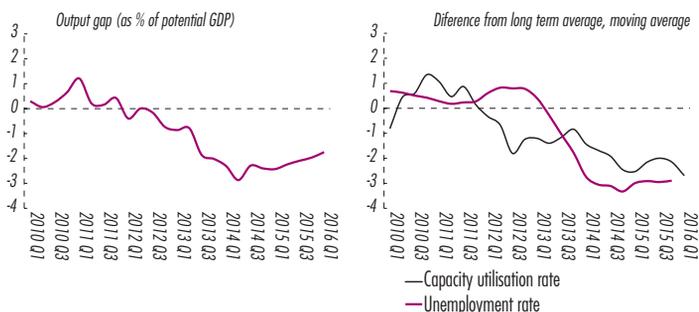
Let me now present in greater detail the opinion of the Bank of Albania.

The growth pace of the Albanian economy continues to show progressive improvement. The improvement reflects the expansion of domestic demand - that is increase in consumption and private investments - whereas foreign demand appears weak and fiscal policy continues the consolidating trend. The new information obtained in the first half of the year is in line with this judgement.

The intensity of supply shocks, which led to the rapid decline in inflation over the first half of the year, seems to decrease. Inflation recorded a slight increase in May, reaching at 0.7%. This performance confirms our judgement about the transitory nature of the above-

mentioned shocks. However, our analyses confirm that the balance of inflationary pressures is still weak. Economic activity remains below potential, suggesting that the return of inflation to target will be a gradual and medium-term phenomenon.

Chart 24 Cyclical economic indicators



* Output gap is the average of several measurements for which the moving average has been applied (for 2016 Q1 the GDP short-term forecast is used). Capacities' utilisation rate and unemployment gaps are calculated as a divergence of the actual figure from the respective historical averages.
Source: INSTAT and Bank of Albania.

Our monetary policy has assumed a stronger stimulating stance over 2016. After two consecutive cuts in April and May, the key interest rate currently stands at 1.25%. The strengthening of the monetary stimulus has led to lowering the interest rates across all segments of the financial market, thus stimulating the increase in consumption and private investments. The Bank of Albania deems that the financial setting - characterised by low interest rates and ample liquidity - should encourage banks for a more positive approach towards lending.

Banking sector's soundness indicators have been improving, in response to economic activity recovery and other measures undertaken by Albanian authorities. Liquidity and capitalisation indicators maintain good parameters, whereas the stock of non-performing loans - albeit fluctuating - has been put under control.

Our projections have not changed: the Bank of Albania expects economic activity to improve progressively over the medium-term horizon. This performance will continue to be sustained by stimulating financial conditions and growth of private domestic demand. It will contribute to the improvement of economic and financial equilibriums in Albania and to the return of inflation to target within 2018.

The realisation of these objectives requires maintaining the actual mix of economic policies. The monetary policy will maintain the stimulating trend over the medium-term horizon, while the intensity of the monetary stimulus will not decrease for some quarters ahead. On the other hand, the fiscal policy should maintain its consolidating trend.

The balance of risks related to expected developments remains on the down side. The expansion of economic activity continues to be decelerated by the unfavourable economic performance in the euro area, which is further complicated by the Brexit, as well as by the behaviour of economic and financial agents, who continue to show reluctance in undertaking long-term business projects.

Against this backdrop, the Bank of Albania deems that economic policies and structural reforms should focus on:

- **Maintaining and further strengthening the economic and financial stability.**
- **Accelerating structural reforms,** especially with regard to: improving the legal setting and business climate; encouraging domestic and foreign investments, completing the infrastructure; enhancing productivity; and, improving the labour market.
- **Expanding crediting, to support the country's medium-term development.** Issues related to credit growth were addressed at length in the Albania Financial Forum IV. The Forum's conclusions will serve as a road map in our joint efforts for lending to return to the desired levels.

Concluding, I would like to underline that the Bank of Albania will remain committed to maintaining price stability and strengthening financial stability in Albania. In parallel, and in accordance with the engagements in the framework of this arrangement, the Bank of Albania will continue to work to further improve the regulatory framework and to further develop the financial infrastructure in Albania.

Thank you for your attention!

“The Bank of Albania will remain committed to maintaining price stability and strengthening financial stability in Albania.”

CHAPTER IV

SPEECHES AND PRESENTATIONS AT CONFERENCES

- *Governor Sejko addresses the Supreme State Audit Annual Review 2015, 1 February 2016*
- *Speech by Governor Gent Sejko at the press conference on Bank of Albania highlights for 2015 and priorities for 2016, 3 February 2016*
- *Address by Governor Sejko at the discussion forum on "Bank - Business relationships: lending perspective 2016", 3 March 2016*
- *Governor Sejko at the High-Level Seminar on "Rethinking Monetary-Fiscal Policy Coordination", jointly organized by the Bank of Slovenia and the IMF, 20 May 2016*
- *Welcome address by Governor Sejko at the Annual Conference 2016 "Aligning monetary policy with financial stability", 27 October 2016*
- *Governor Sejko: Address to the Tenth South-Eastern European Economic Research Workshop, 1 December 2016*
- *Governor Sejko: Statement to the press conference on the Bank of Albania activity highlights in 2016 and its priorities for 2017, 21 December 2016*

Conferences and workshops

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

GOVERNOR SEJKO ADDRESSES THE SUPREME STATE AUDIT ANNUAL REVIEW 2015 - 1 February 2016 -

*Your Excellency President of the Republic of Albania,
Dear Chairman of the Supreme State Audit institution,
Honourable Chairman of the Parliamentary Committee on Economy
and Finance,
Your excellency Ambassador Lu,
Your excellency Minister,
Dear representatives of public institutions,
Honourable MPs, dear professors, dear participants,*

It is a special pleasure for me to be here today on the occasion of the annual review of the activity of the Supreme State Audit (ALSAI) for 2015. ALSAI is among the most important constitutional institutions in Albania, whose objective - ensuring good management of public finances - is highly significant.

The effective use and certification of public funds in conformity with the laws regulating the economic and financial activity of the public sector, on-going public communication, in relation to irregularities and relevant responsibilities have been at the focus of ALSAI's work in recent years. In this perspective, the role and mission of the ALSAI are highly important; therefore, the issues raised in ALSAI's reports should be thoroughly analysed. They are both necessary and preventive instruments for the institutions subjected to ALSAI's audit.

“ALSAI is among the most important constitutional institutions in Albania, whose objective - ensuring good management of public finances - is highly significant.”

Notably, the Bank of Albania and ALSAI have had a fruitful cooperation, in line with both current and prospective dynamics and developments. We have made constant and joint efforts so that the conclusions and recommendations left by ALSAI become a useful, guiding, helpful, and corrective tool.

In view of the insofar experience, this combination is an essential component in the work of audit institutions. I have believed and still do believe that auditing is a key instrument, which serves to further perfecting public sector governance. The ALSAI has contributed and will continue to contribute to identifying various problems facing public institutions, divergences from legal and regulatory framework, with subsequent financial effects, and their correction, in accordance with legal requirements and international standards.

Focusing on the future role of ALSAI, I am confident it will increase the contribution to perfecting the three main dimensions - oversight, analysis, and vision - of public governance. More specifically,

- With regard to the oversight dimension, the great dilemma is whether public entities are accomplishing their mission in detecting and preventing corruption;
- With regard to the analysis dimension, the great dilemma is whether these institutions are making responsible decisions about economic policies, development programmes, operations and the achieved results;
- With regard to the long-term vision dimension, the great dilemma is whether the right directions and future challenges facing auditors are properly determined.

Hence, approximation of the auditing role with the best and contemporary international standards, learning about specifics and characteristics of the audited entities, and further intensification of inter-institutional cooperation during the processes are some of the elements having a key role in the work and results of this institution.

In conclusion, I am fully confident that, by promoting the above-stated factors, the ALSAI will continue to perform at its best vis-a-vis the duties and challenges imposed by current developments and will succeed in accomplishing its mission towards the improvement of institutional governance.

Thanking you for your attention, I wish you success in your work in 2016!

SPEECH BY GOVERNOR GENT SEJKO AT THE PRESS CONFERENCE ON BANK OF ALBANIA HIGHLIGHTS FOR 2015 AND PRIORITIES FOR 2016 - 3 February 2016 -

Year 2015 was a challenging one in the light of maintaining and consolidating the economic and financial stability and of improving the institutional framework of the Bank of Albania.

The Bank of Albania has provided substantial contribution to maintaining and consolidating macroeconomic balances and financial stability in Albania.

The accommodative monetary policy, implemented throughout 2015, was a pivotal underlying factor for ensuring an economic and financial environment with low interest rates, amid ample liquidity. The prudential supervision of banks, the regulatory improvements, along with the intensive exchange of information with European and international counterparts contributed to strengthening and safeguarding banking system's financial stability.

“The Bank of Albania has provided substantial contribution to maintaining and consolidating macroeconomic balances and financial stability in Albania.”

The beginning of 2015 coincided with a set of institutional decisions adopted by the Parliament of Albania and the Supervisory Council of the Bank of Albania, which provided the ground for the return of public confidence to the institution. In concrete terms:

- the management structure of the Bank of Albania was completed;
- the Audit Committee, composed of three Supervisory Council members, started its activity;
- the Inspector General resumed reporting to the Supervisory Council;
- the Medium-term Development Strategy and Medium-term Budget for 2016-18 were approved;
- the new organisational structure was approved;

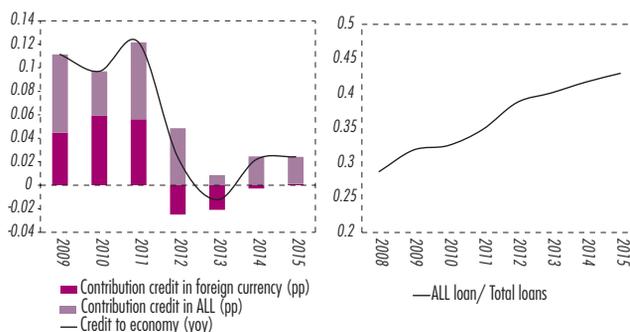
- the head offices renovation and construction works were completed; and
- the Museum of the Bank of Albania was launched.

These highlights contributed to strengthening good governance, accountability and subsequently enhancing public confidence in the Bank of Albania.

The monetary policy intensified the simulating stance during 2015. The Bank of Albania lowered the key rate twice, continued to inject the necessary liquidity in the financial markets and clearly communicated the future monetary policy stance. Our monetary policy was successful in easing the financing conditions in the economy and helped in the return of the Albanian economy to a positive development track.

In particular, interest rates on new lek loans and servicing costs of existing credits fell. Lek credit increased, offsetting the continuous fall of the credit portfolio in foreign currency. Also, the share of lek credit in the total credit portfolio has been increasing, from around 28% in 2008 to 43% in 2015. These actions have played a vital role in accelerating the economic growth during the last two years.

Chart 25 Performance of credit and its contributors (in %)



Source: Bank of Albania.

During 2015, the banking system continued to expand its activity. Financial soundness improved, while capitalisation and liquidity stand at optimal parameters, at 16% and 41%, respectively.

According to the latest data, as at November 2015, the performance of deposits was positive, increasing over EUR 130 million, thus confirming the public trust in the banking system.

After long-standing efforts, having increased for seven years, we provided for the reduction of non-performing loans below 20%. The lowering of the non-performing loans ratio, as financing costs in the financial market stand at minimum historical levels, allows for a reliable recovery of credit to economy in the period ahead. We believe that, as a result of the joint action plan with the Government, the non-performing loans ratio will continue to fall in the year ahead.

Also, in 2015, a new investor, the American Bank of Investments, entered the banking market, being the first one after 2009. We consider the new investment as a very positive development for the promotion of competition within the system. The Bank of Albania will continue to promote banking system consolidation and adhere to rigorous requirements for a responsible and proactive management of each bank. In 2015, the most delicate developments coincided with the complex political and financial situation in Greece. The banking sector in general and individual banks in particular weathered with success all the difficulties.

The Bank of Albania, in addition to the constant monitoring of developments in Albanian banks with Greek capital, intensified the communication with the respective authorities in Greece and in the euro area. The above-stated situation served to test the efficiency of the measures on securing liquidity. On the other hand, they promoted the spirit of solidarity and fair competition among banks.

Another important aspect of our work was the contribution in the framework of Albania's approximation to the European Union. In 2015, we intensified the cooperation with the European Central Bank, ESCB central banks, and other European bodies dealing with financial regulations of the Union, notably the cooperation agreement with the European Supervisory Authority. We strengthened, at the same intensity, the cooperation with the International Monetary Fund, World Bank and Bank for International Settlements, and regional central banks.

The Bank of Albania has also undertaken concrete steps about the development of payment systems. The National Committee on Payment Systems was established in October 2015. This is an inter-institutional committee that will contribute to enhancing the security, stability and efficiency of the national payment systems in Albania.

The Law on Savings and Loan Associations (SLAs) has been drafted and is pending approval by the Parliament. This law regulates the licensing, supervision and activity of the SLAs in compliance with the best standards. In close collaboration with the Albanian Deposit Insurance Agency, amendments to the Law on Deposits Insurance have been drafted. These amendments consist in new norms addressing the SLAs and include legal persons in the insurance deposits scheme.

The past year was successful also regarding the information technology. Although such projects are less visible to the public, they are of key importance. At the beginning of 2015, the AFISaR system started operation - this is the central electronic register for the documentation of each element that accompanies the issue and transactions with securities issued by the Albanian state. In the meantime, other successes achieved with regard to information technology include:

- automation of the reporting system of banks to the Bank of Albania;
- integration and optimisation of the IT network utilisation, thus reducing operational costs of the Bank of Albania;
- automation of accounting operations at BoA branches; and
- increase of information processing and storing capacities.

Bigger challenges lie ahead of us in 2016.

Another important objective is boosting credit to support the private sector, certainly at lower interest rates. The business plans of banks for 2016 render us optimistic in this regard. Meanwhile, once again I emphasise that our monetary policy stance will remain accommodative in 2016. Furthermore, private sector's demand will be low throughout 2016, thus creating premises to increasingly channel the banking system's liquidity to the private sector.

I would like to guarantee the banking system in Albania that the Bank of Albania will be a reliable, open and serious partner, in compliance with its mandate, implying its supervisory function. One of the main aspects in our work will be the compilation of a particular law to deal with banks facing a difficult financial situation, also known in our daily jargon as the Resolution Law. This is in the light of an important contemporary directive of European Union, which we are working to introduce in our banking legislation.

Last, but not least, we will continue our efforts during 2016 for the further institutional perfection the Bank of Albania, aiming a fast approximation to the model of ESCB central banks.

“The Bank of Albania will be a reliable, open and serious partner, in compliance with its mandate, implying its supervisory function.”

The new organisational structure and the three-year development strategy of the Bank of Albania will guide a set of decisions of the Bank of Albania's Supervisory Council to improve legal and sub-legal acts. The daily activity of the Bank of Albania's departments, the mobilisation and motivation of human resources, efficient management of funds for the financing of the activity, the strengthening of the internal audit and risk management in the activity of the Bank of Albania will be the main priorities in our work during 2016.

Thank You!

“The daily activity of the Bank of Albania's departments, the mobilisation and motivation of human resources, efficient management of funds for the financing of the activity, the strengthening of the internal audit and risk management in the activity of the Bank of Albania will be the main priorities in our work during 2016.”

**ADDRESS BY GOVERNOR SEJKO AT
THE DISCUSSION FORUM ON "BANK
- BUSINESS RELATIONSHIPS: LENDING
PERSPECTIVE 2016",
- 3 March 2016 -**

*Dear representatives of business community in Albania,
Dear banking system executives,
Dear participants,*

It is a great pleasure to open the discussions in this meeting between representatives of the business community and the banking sector.

I have always believed that the business sector is the engine driving the economy forward. It is the main contributor to employment and, hence, to fulfilling the goal to improve the citizens' welfare. The role of the banking sector in the economy is equally important. Its mission to effectively manage the savings of the population in supporting the economic development is vital to the long-term prosperity of a country.

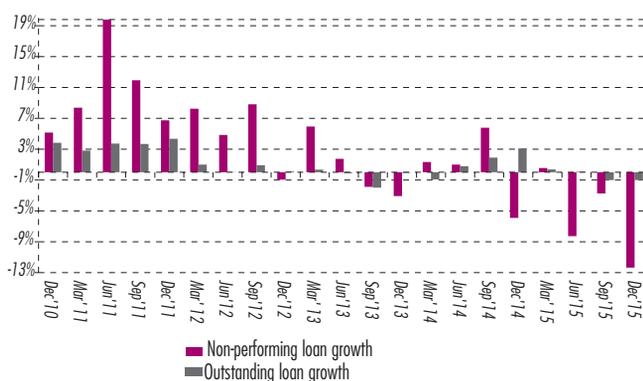
In the post-crisis period, we are facing a situation we had never imagined before. Many structural ambiguities and weaknesses surfaced along with their aggressiveness. The worsened credit portfolio was one of the most problematic developments, being highly intensive and uniform across all products.

This undesirable development decelerated lending to the economy, contributing negatively to a further increase of non-performing loans (NPLs). The vicious circle continued for a long time, peaking when NPLs shared 25% in total loans.

Notably, this problem is facing not only Albania but also the global economy. Emerging economies, especially the regional economies, experienced strong shocks. Financial systems, currencies, consumption and investments were mostly affected. Many of the business plans, compiled and implemented in the pre-crisis period, failed, driving to the increased insolvency for many large borrowers. This situation existed for 5-7 years, until 2015, the year I would consider as the long-expected turning point.

For the first time, attributable to the coordinated efforts among all institutional stakeholders, we provided the grounds for a considerable reduction of NPLs. I have addressed this issue before. I would rather not repeat myself, but I would like to bring to your attention today an effort, an attempt, an initiative to analyse jointly the causes and the reasons why we are in this situation. Most importantly, we should discuss and reach clear conclusions on ways to boost lending to the economy.

Chart 26 Performance of non-performing loans portfolio and loan portfolio compared to the previous quarter (in %)



Source: Bank of Albania.

The developments in recent years drive to the conclusion that the relationship or interaction between the two communities represented in this room stands at low historical levels. The most meaningful indicator, in this regard, is the low level of lending. From the frequent contacts with the banking industry and business representatives, I understand that the parties see the problem in the other party. In many cases, banks adopt rather rigid and excluding positions, while many business' representatives do not understand that compliance with contractual obligations is the basis for the success of the market economy. I may bring numerous examples, but I assure you, this is not the goal of this meeting.

Dear participants,

The Albanian economy has entered into an interesting phase and the signs on its recovery are present on daily basis. In the second half of 2015, there is an increasing consensus on the acceleration of economic activity beyond the forecasts at the year start. Based on the current trends, I deem that the economic growth acceleration will be a distinctive feature during 2016 as well.

The available information leads us to the conclusion that private investments have shown a positive performance. Foreign Direct Investments, easing of financing conditions in the banking system, and improved financial situation of businesses due to the payment of arrears have all contributed positively. The reforms implemented recently have provided the first effects. With time, in addition to the other reforms in the joint agenda with the International Monetary Fund, we will have higher and more stable economic recovery.

Our expectations were reinforced by the recent comments by the IMF's Executive Board of Directors in the approval of the Fifth and Sixth Review under the Extended Arrangement, which enabled the disbursement of the next tranche for EUR 72.4 million, for Albania. The Albanian economy is on a positive development trajectory and domestic demand will continue to gather strength as a result of the further materialisation of reforms, the IMF notes.

The IMF also assesses positively the accommodative monetary policy implemented by the Bank of Albania and constant efforts to reduce the stock of non-performing loans and boost lending.

“The IMF also assesses positively the accommodative monetary policy implemented by the Bank of Albania and constant efforts to reduce the stock of non-performing loans and boost lending.”

In addition, the IMF welcomed the structural reforms by Albanian authorities to strengthen public finances through a further fiscal consolidation. The IMF also noted the insofar progress and the need for the steadfast implementation of those measures aimed at improving the business environment and promoting economic growth.

All the above lead to the conclusion that the environment is more attractive and the incentives to boost lending are more significant. I believe that the Bank of Albania has done its duties in this regard. In concrete terms: First, the strong accommodative monetary policy stance has brought interest rates in financial markets to historic minimum levels. The Bank of Albania deems that these rates will remain below the historical average level, over the next two years. In the light of achieving our inflation target and of economic growth approaching its potential, based on the available information, the Bank of Albania will not reduce the intensity of the monetary stimulus throughout 2016 and the monetary conditions will remain stimulating in the next two years.

Second, the issue of the euro bond led to the reduction of public borrowing in domestic financial markets. This has brought interest rates further down - even beyond signals given by the monetary policy - thus increasing the monetary stimulus in the economy.

Furthermore, the pullback of public sector from domestic borrowing provided for the liquidity "pie" to be made entirely available to the private sector. In accordance with the medium-term budget plan, the Bank of Albania deems that the effect of this factor will be also present over the next two years.

Third, liquidity situation and financial soundness of banking system is rather promising to credit economy. During 2015, the banking system expanded the activity, improved the financial performance, and remained well-capitalised and had ample liquidity. The profit of the banking system amounted to around ALL 15.7 billion. The financial result improved attributable to lower financing costs and lower credit risk provisions. The return on assets and return on equity were further improved. The number of banks making profits increased. Albeit at a slower pace, public deposits expanded in 2015, maintaining their share of around 82%. The measures implemented in the last three years to tackle non-performing loans have started to yield results.

The credit quality improved and the ratio of non-performing loans fell from 25% to 18%, mainly as a result of restructuring and write off of loss loans from banks' balance sheets.

Fourth, the implementation of the plan of measures for reducing non-performing loans will free the banking system from the stress and the nervousness accumulated over time. This will drive to easing of credit standards and increase of banking credit supply by the banking system. Fifth, the expectations are more optimistic even in the overall international context, including the approach of supervisory and regulatory institutions, and at the level of large banking groups.

All these reasons have led us to believe that there is a great potential to credit economy. In fact, we believe that lending to the economy in 2016 will grow at higher rates than in the previous year. This is reflected also in the business plans of the banking system for 2016, where particular banks with a considerable share in crediting, have planned ambitious growth compared to 2015. I hope, and I will insist, seeing this objective materialise in the economy.

As I mentioned at the beginning of my address, I would like to invite you to discuss for a new beginning. The conditions are already ripe. The economy is growing, business opportunities are in place, liquidity is ample, and prices are convenient.

I urge the banking system to leave behind a relatively passive approach. One should understand that it is time to turn back to the traditional activity of the commercial bank, that is, crediting to economy. This is the mission of commercial banks in the economy and I invite you to fulfil this goal successfully.

“I urge the banking system to leave behind a relatively passive approach. One should understand that it is time to turn back to the traditional activity of the commercial bank that is, crediting to economy. This is the mission of commercial banks in the economy...”

Be no longer hostage of some old practices of failed loans! Draw the right lessons and increase the communication with your head offices! Explain the Albanian reality to them and the opportunities for investment! Convince them that there are a lot of activities with guaranteed return, hence they should be credited.

I would like to let you know that the management chain of the Bank of Albania is not satisfied with the current situation. In the meantime, the many reasons or claims that may have risen cannot justify that apathy or lack of risk appetite for investment. We will be increasing our pressure in this regard. I invite you to swiftly take corrective measures to better credit the economy.

On the other hand, I urge the business community to raise the level of professionalism in drafting and implementing the projects they submit for crediting. The business should pay great attention to the genuine financial and legal assistance, prior, during and after the signing of the contracts. You should adopt a contemporary management philosophy. The governance of your enterprises should be responsible; meanwhile it is to your benefit to build realistic projects, in terms of size, location and resources. Keep in mind that productivity guarantees high return. Do not neglect the research and invest in qualified human resources! Although, they appear as simple pieces of advice, allow me to clarify that the underlying reasons for many unsuccessful practices are exactly the elements I mentioned.

I would like to guarantee you that the Bank of Albania will be a reliable, open and serious partner, in compliance with its mandate, implying its supervisory function. We will continue to improve the legal and sublegal framework to reflect the relevant best standards and European directives regarding the micro and macro-prudential supervision.

The Bank of Albania will place fulfilling the commitments deriving from the National Action Plan for Tackling Non-performing Loans at the centre of its efforts. We will firmly cooperate with other public authorities, the World Bank and the International Monetary Fund, or the further reducing the stock of non-performing loans.

As in the past, the stability of the banking system is a top priority. In this regard, the Bank of Albania will continue to contribute also in the framework of the Financial Stability Committee in Albania.

Dear representatives of business community and banking system,

At the end of my speech I would like to emphasise once again that in this room we represent three groups of interest. In order to be successful, we need to help and cooperate with each other.

I would like to appeal once again to you to enhance the mutual understanding and cooperation.

Thank You!

“The stability of the banking system is a top priority. In this regard, the Bank of Albania will continue to contribute also in the framework of the Financial Stability Committee in Albania.”

**GOVERNOR SEJKO SPEECH TO
THE HIGH-LEVEL SEMINAR ON
"RETHINKING MONETARY-FISCAL POLICY
COORDINATION", JOINTLY ORGANIZED
BY THE BANK OF SLOVENIA AND THE
INTERNATIONAL MONETARY FUND**

- 20 May 2016 -

*Dear Panel Moderator,
My honourable fellow Panellists,*

I believe this seminar provides a perfect platform for exchanging insights on the coordination of monetary and fiscal policies. This issue is quite topical from the perspective of challenges central banks are facing today. Before going into more detail on the topic of this panel, I would like to share some thoughts with you regarding the coordination of monetary and fiscal policies.

The price stability mandate of the central bank and their operational independence does not lessen the need of effective coordination between monetary and fiscal policies. At a strategic level, the foremost objective of the macroeconomic policy is to achieve sustainable growth, in a context of price stability and a viable external account.

This goal requires the contribution of both the fiscal and the monetary policies, within their respective domains, as well as a fair degree of coordination amongst them.

On a macro scale, a balanced policy mix and an effective policy coordination requires:

- **Policy sustainability:** monetary and fiscal policies need to be on a sustainable path. Prevailing academic consensus requires this sustainability to be anchored in simple and effective policy rules, such as an inflation targeting regime and some kind of fiscal sustainability law. Furthermore, sustainability is mutually reinforcing: inflation expectations can only be anchored if the fiscal policy does not rise destabilizing fears while, at the same time, the fiscal policy can be more sustainable if it is not burdened by excessively high interest rates, fuelled by a not so credible monetary policy;

- **Policy credibility:** monetary and fiscal policies need to be credible. Policy credibility arises from a combination of a clear and sustainable policy framework, the right structure of incentives, as well as a positive track record;
- **Policy awareness:** in other words, the recognition of different goals, different transmission channels and different time frames, informing and constraining monetary and fiscal policies.

“ Policy credibility arises from a combination of a clear and sustainable policy framework, the right structure of incentives, as well as a positive track record.”

In the long run, a balanced policy mix would minimize demand volatility, enhance the allocation of resources, and promote long-term growth. Effective policy coordination would limit the fiscal deficit to a level that can be financed via capital markets, without recourse to monetary financing, without distorting the allocation of resources, and without unsustainable external borrowing. Effective policy coordination would also bind monetary

policy towards achieving its price stability mandate, thus reducing long-term risk premia and supporting financial stability.

As a corollary to all what I mentioned, a weak stance in one policy area burdens the other policy area with excessive demands.

This brings me to the specific topic of this panel: conducting monetary policy when fiscal space is limited.

The aftermath of the recent crisis left all economies in the region struggling to reignite economic growth. Most of the countries are doing this while at the same time facing the pressing need to consolidate their public finances.

Albania is no exception. Although the repercussions of the crisis were not so severe, economic growth has almost halved compared to its pre-crisis trajectory. Aggregate demand is unable to generate full employment of labor and capital, while CPI inflation has continuously undershot our target. In this economic landscape, our monetary policy has taken an ever more expansionary stance: the policy rate - now at 1.25% - is at a historical minimum, which would have been unthinkable a few years ago; we have increased our liquidity injection operations as well as expanded the range of accepted collateral; and we have also made

use of conditional forward guidance as an alternative instrument of monetary policy.

On the other hand, our public debt jumped from around 55% of GDP in 2008 to around 72% of GDP today, on account of the joint action of automatic stabilizers and some degree of countercyclical fiscal stimulus. However, this fiscal expansion was thought to be unsustainable, especially given the difficult financing conditions in international financial markets. It was also thought to be counterproductive, because of crowding out concerns in the presence of tight liquidity conditions in domestic financial markets and because of negative feed-back loops through higher risk premia.

As a result, our fiscal policy is now locked on a consolidation path, aiming to bring the public debt below 60% of GDP within the end of this decade. This means the monetary policy remains the only countercyclical tool to stimulate economic activity. Taking everything into account, I believe fiscal consolidation, coupled to an expansionary monetary policy, delivers the correct policy mix in the country.

However, given our experience so far, I would like to conclude my speech on three observations:

- **First, monetary policy remains effective even in the presence of fiscal consolidation.** In Albania, we have been able to steer interest rates into a downward trajectory and to stimulate credit growth in the domestic currency. **However, the effectiveness of monetary policy is hampered by fiscal contraction.** While the two policies moving in opposite directions would not be ideal in the best of times, it is doubly so in the presence of balance sheet adjustment in the private sector and heightened risk premia and deleveraging in the financial sector.
- **Second, monetary policy can still achieve its goal of price stability in the presence of fiscal consolidation.** However, this statement needs to be qualified further. On a longer term perspective, inflation remains a monetary phenomenon. If a central bank is committed to its price stability mandate and given enough time for the monetary transmission mechanism to work, there should be no reason why we should not be able to meet our inflation targets. However, there are two caveats here:

- *In pursuit of its inflation target, a central bank can and might be*

forced to engage in un-conventional monetary policy tools. This is very much the case when central banks are flirting with the limits of conventional instruments of monetary policy (zero lower bound of policy rates or extreme risk aversion in the financial system). As we know, un-conventional tools can be both distortionary and present us with the risks of unintended consequences in terms of financial stability. Under certain premises, the risk associated with employing un-conventional monetary policy tools might be sufficiently strong to revisit the scope or the speed of fiscal consolidation;

- *A prolonged undershooting of the inflation target might decouple inflation expectations from the inflation target of central banks requiring a more active monetary policy. This is not an argument against the policy mix per se; rather, it is a reminder of the crucial role that central bank communication and management of expectations should have.*

- Third, we should avoid burdening monetary policy with too many goals or risk losing our credibility. With public finances highly indebted, politicians have been only too happy to place the burden of economic recovery on central banks. As central bankers, we might enjoy this visibility, but we must be cautious on not getting carried away. We must always remind ourselves of what monetary policy can and cannot achieve: we can ultimately

“... we should avoid burdening monetary policy with too many goals or risk losing our credibility. We must always remind ourselves of what monetary policy can and cannot achieve”

affect nominal variables in the economy, i.e. the price level, but we can affect neither long-term growth nor general prosperity in the economy. To that extent, I think we must always remind politicians on carrying out their duties on structural reforms and make best use of the breathing space provided by monetary policy.

Thank you for your attention!

**WELCOME ADDRESS BY GOVERNOR SEJKO
AT THE ANNUAL CONFERENCE 2016
"ALIGNING MONETARY POLICY WITH
FINANCIAL STABILITY - THEIR OBJECTIVES,
RESPONSES AND INTERACTION IN TIMES
OF UNCERTAINTY"**

- 27 October 2016 -

*Your Excellency Prime Minister,
Your Excellencies Ambassadors,
Honourable Members of the Government,
Ladies and Gentlemen,
Dear Mr Anastasakis,
Dear guests,*

It's my great pleasure to welcome you to the Annual Conference of the Bank of Albania 2016. The conference is organised in cooperation with the European Studies Centre of St Antony's College, University of Oxford.

This year's conference will focus on two main topics that prevail in the analyses and debates among policymakers, academia and professionals circles:

- First, possible implications from the Brexit; and
- Second, determining the modalities for coordinating the monetary policy with the macroprudential policy and measures, in the new reality we are facing.

Together with guests from European and regional central banks, international institutions and academia, we will be discussing about the current challenges, and appropriate policies and instruments central banks need to employ.

I am confident the proceedings of this Conference will produce more clarity for all participants, policy makers and private sector representatives alike.

Let me elaborate in greater details the perspective of the Bank of Albania on these two topics.

- Initially, I would like to present the backdrop of the current economic and financial situation.
- Next, I would like to share the Albanian and regional perspective on the possible implications from Brexit.
- Concluding, I would like to present an overview of challenges facing the two main central bank policies: the monetary policy and the macroprudential policy.

1. ALBANIA AND WESTERN BALKANS IN THE POST-CRISIS PERIOD

The last global crisis affected the economic, financial and social dimensions of the human activity. By size of shock, complexity of challenges and interdependence of transmission channels, the crisis was unprecedented, for decades. It started as turbulence in certain segments of the financial system to later transform into a fully-fledged crisis of the system; before long, it was transferred to the real sector. This shock caused immense loss in production and employment levels, reduced the welfare and put to test the stability of growth and development models in many countries.

Western Balkan countries were not at the eye of the cyclone of the global crisis. Yet, while at the periphery, the effects of the crisis became increasingly stronger on the region, as well. The decline in foreign demand, increased uncertainties, tightening of financing conditions and deleveraging in the region decelerated the economic activity and evidenced a series of structural problems.

“...central banks were obliged to explore untrodden paths. The intensity of the accommodative monetary policy was unimaginable a few years ago. Oftentimes, this policy relied on employing non-conventional instruments, which had not been tested before, but now have a legitimate claim to be enlisted in the arsenal of central banks.”

I would rather not list all the channels and consequences of the global crisis, but I would like to say that withstanding the crisis required revising many conventional policies and practices.

First, central banks were obliged to explore untrodden paths. The intensity of the accommodative monetary policy was unimaginable a few years ago. Oftentimes, this policy relied on employing non-conventional instruments, which had not been

tested before, but now have a legitimate claim to be enlisted in the arsenal of central banks.

Second, to guarantee the sustainable and long-term development of the economy, special attention was paid to the financial stability aspect, both at system and institutional level. In this regard, a series of supervisory and regulatory policies were adopted.

Third, interaction between fiscal soundness and economic and financial stability became necessary, thus conditioning the space for action and reaction by public finances.

Lastly, many development models - relying more on debt and consumption, rather than in investments and productivity - proved to be short lived. These models have required and still require the continuation of radical structural reforms to reconceptualise business models in many countries and guarantee sustainable and long-term growth.

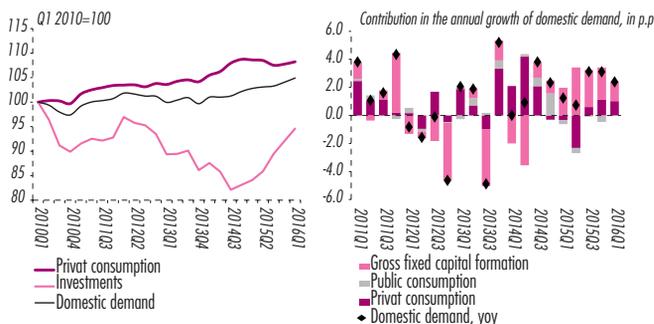
While debates continue on the suitability and efficiency of the instruments used to withstand the crisis, it is unquestionable that - overall - these instruments managed to prevent the worst and gradually create premises for further growth of the global economy.

The situation described above is true for the Western Balkans as well. The stimulating economic policies, structural reforms and adjustment of internal and external imbalances have yielded their effects. The economies in the region seem to be set on the growth path, and are now based on a better understanding of the determining factors for the long-term development, and a more comprehensive framework of endorsing policies. The experience gained and the lessons learnt are undoubtedly elements that will help us steer safely, as we navigate our way into the future.

As a typical Western Balkan country, Albania is in a similar development stage to its peers.

Our analyses and forecasts confirm that the Albanian economy is on a positive track. Economic growth is expected to improve progressively over the next three years. Such growth continues to be fuelled by the recovery of the domestic private demand.

Chart 27 Structure of domestic demand and performance of main components



*) Indices are constructed on the four-month moving average of real values.
Source: INSTAT and Bank of Albania.

The accommodative monetary policy of the Bank of Albania, the improved financing conditions and strengthening of private agents' confidence are considered as the main elements underlying the recovery.

The gradual return of the economy to equilibrium will help improve economic indicators across the board, more specifically:

- increase in employment;
- return of inflation to target;
- reduction of public debt; and
- further strengthening of private sector balance sheets.

“The accommodative monetary policy of the Bank of Albania, the improved financing conditions and strengthening of private agents' confidence are considered as the main elements underlying the recovery of the domestic demand.”

The acceleration of economic growth in Albania attests the private sector dynamism. This is an encouraging development given that the fiscal policy implemented over this period focused on showing prudence and rendering public finance healthy, while the macroprudential policy and measures of the Bank of Albania have sought to further strengthen financial stability. As a result of our measures, the Albanian banking sector is sound, with high degree of capitalisation and

liquidity, and positive levels of profitability.

The conditions for lending in Albania have improved and are on the course of constantly improving. In the light of its mission, the banking sector should translate these positive premises in more lending:

- showing far-sighted decisions;
- assessing properly the development perspective of the Albanian reality;
- utilising the potential from various sectors of the economy.

On the other hand, the phenomenon of non-performing loans - which reflects to a large extent the retroactive effect from the crisis shocks - is being addressed, although a lot remains to be done until its eventual solution.

Dear guests,

When we discuss about the development perspectives, as policy makers, we may not ignore the risks and challenges we face. Relations with our economic and financial partners in the euro area have been and continue to be a source of progress as well as an open channel of shocks.

As a region, we have generated and consumed crisis, but recently the balance has been notably on the consumption side.

Beyond economic and financial problems, the global crisis was also reflected in notable social problems. These problems have materialised in different forms in different countries, but the anti-globalisation movement is a common thread of tension in global economic developments. This movement has produced various results: in some places it has been reflected in increased protectionist barriers, in other places in isolationist policies, in others in repatriation of capital and refocusing of activity in home countries. The result of the 23 June referendum on the relationship between the UK and the European Union is one of them.

The anti-globalist movement and barriers to the free movement of goods, people and capital appear as harmful to the overall global economy. However, their negative effects fall disproportionately on emerging countries, such as Albania, and the Western Balkans in a broader sense. Let me know outline our assessment on the potential negative implications resulting from Brexit and the relevant effects on the central banks in the region.

2. POTENTIAL IMPLICATIONS RESULTING FROM BREXIT FOR ALBANIA AND THE REGION

Brexit is certainly a determinant factor for the European Union and the euro area. As such, it has left its mark in Albania and the region. It may be accompanied by direct or indirect, short-term or long-term negative effects in the labour, goods and services markets.

Overall, the direct implications for Albania and the region are assessed as minor ones, given that trade exchange with the United Kingdom is low. To illustrate my point, the export of Albanian goods to the UK accounts for only 0.2% to the total over the past ten years, whereas the share of imports amounted to around 1.1%.

The stock of British foreign investments in Albania shows low rates, whereas the impact of emigration and remittances indicators is somewhat higher, but still a non-determinant factor.

On the other hand, indirect effects would depend on Brexit's impact on the European economy and banking system. Brexit may also translate into institutional developments that will affect the rules of European economic and financial market development, as well as European integration processes. In other words, implications for Albania and the region potentially exist, but still remain difficult to identify. I would rather not dwell very long on this topic; however, I do believe that today's discussions will help us understand these processes and assess in advance the potential political and economic implications and consequences for our countries.

I would like to stress that all of us in the Western Balkans remain hopeful that Brexit will not generate centrifugal forces, which harm our European integration processes, initiate setting barriers to free trade and movement of people, and encourage further fragmentation of the European financial system.

3. MONETARY POLICY AND FINANCIAL STABILITY IN THE POST-BREXIT PERIOD

The coordination of the monetary policy with the necessary measures for safeguarding financial stability remains a challenging issue for policy makers even in better days. The challenges to this coordination may only strengthen, if Brexit implications assume the negative dimensions listed above.

Let me emphasise that, in Bank of Albania's vision, the monetary policy oriented toward price stability, and the supervisory and regulatory policy oriented toward financial stability contribute to the sustainable and long-term development, and are complementary to each other. This creed is fully tested by experience, both in the world and in Albania.

In the long-term horizon, the Bank of Albania is confident that the investment we have made in promoting financial stability will bear its fruit with regard to sustainable development, and will increase the space for monetary policy manoeuvring. In addition, accomplishing our price stability objective would enhance the confidence in the national currency, reduce volatility and foster transparency in financial markets, thus contributing to the sustainable development of the financial system.

Meanwhile, in the short-term, the coordination of monetary policy and financial stability often present challenges and compromises. In this context, setting clear priorities, using the right instruments, and communicating transparently central bank actions and objectives are key elements for the success of our work.

Concluding, I would like to reiterate that I am fully confident that in the course of the day, all the issues I posed above will be elaborated in greater detail. I do believe that the contribution of the eminent panellists and active input from all participants will be an added value in this regard.

I wish the best of success look forward with the greatest interest to the outcome of your deliberations.

Thank you for your attention!

“The Bank of Albania is confident that the investment we have made in promoting financial stability will bear its fruit with regard to sustainable development, and will increase the space for monetary policy manoeuvring.”

GOVERNOR SEJKO: ADDRESS TO THE TENTH SOUTH-EASTERN EUROPEAN ECONOMIC RESEARCH WORKSHOP

- 1 December 2016 -

Dear participants,

I am privileged to open the 10th South-Eastern European Economic Research Workshop organised by the Bank of Albania, and welcome all new and returning friends. I would like to congratulate Bank of Albania' experts that present every year their research works for discussion.

This year's workshop will focus on the main topics that prevail in the economic, political and academic debates in the field of economy, finance and central banking. The topic of this workshop is: 'Including monetary policy and financial shocks and trends in modelling and policy analysis'.

The focus was placed on these topics on the grounds that the central bank and policy decisions should take into account an increasing number of shocks that are arising not only as a consequence of economic, but also of political, legal and regulatory phenomena. The challenges that monetary policy and financial stability are facing reflect the problems of the society in the economic, social and geo-political aspects. These challenges are best reflected in the non-effective functioning of the pass-through mechanism that should transmit and amplify the positive effects of central banks' decisions. These challenges increase ambiguity, uncertainty and volatility in goods, services and financial, markets, broaden and intertwine the nature of shocks and place the authorities vis-à-vis new and unprecedented phenomena.

These developments render the well management of monetary policies and financial stability even more difficult. As a result, scientific research needs to: explore and propose new solutions, more efficient empirical and theoretical models for policy implementation by central banks; assess the effects of the adopted policies; and, carefully observe the side effects in the economy or the financial system, which

“...scientific research needs to: explore and propose new solutions, more efficient empirical and theoretical models for policy implementation by central banks.”

“The Bank of Albania is interested in identifying potential shocks and their modelling with a view to guaranteeing optimal solutions in terms of prices, economic activity, employment and financial system soundness.”

may potentially accompany such policies. Due to unconventional monetary policies, central banking is practically in unexplored territories; therefore, it is necessary to carry out an assessment of how the economy reacts to shocks under such circumstances. The Bank of Albania is interested in identifying potential shocks and their modelling with a view to guaranteeing optimal solutions in terms of prices, economic activity, employment and financial system soundness. For that reason, we invite you to discuss openly and thoroughly all the papers that will be presented during these two days. This would serve to discuss about their findings, improve them and assess their effectiveness for the Bank of Albania' decision making.

The Bank of Albania deems that the economy and the financial system are currently sound and in line with our expectations and forecasts. The present indicators of prices and economic growth are not yet at their long-term equilibriums; however, they do not present surprises that would call for immediate attention of the Bank of Albania and change of monetary and financial stability policies. They are in line with our expectations and are very well serviced by the actual decision-making course of action.

In concrete terms, consumer prices, the main objective of the monetary policy, returned to an upward trajectory and are expected to progressively approach the 3% target. Economic activity remains stable, at positive figures, reflecting a slight upward trend, and is expected to perform along similar trends in the future.

Nevertheless, the current figures appear still far from the optimal conditions and there is place for further improvement in both the inflation rate and the economic activity. In addition, there is place for faster growth of lending and monetary expansion, yet, subject to the situation in the balance sheets of the private sector and banking system. The fall in interest rates is transmitted to all segments of the financial market, contributing to the decrease of existing credit costs and providing the possibility for investments in new projects. The monetary policy transmission has helped somewhat to mitigate the negative effects and improve the households and firms' balance sheets. Also, it is noteworthy that, during this time, lending in the domestic currency has increased;

this is translated into a success for both the transmission of the monetary policy and the soundness of the financial system and the private sector.

The monetary policy decisions have helped the economy by not causing adverse effects on the banking system soundness indicators. An accommodative monetary policy, potentially, has side effects; but, they have not materialised thanks to the duly and prudential management of the monetary policy intervention. In our daily work, we pay special attention to maintaining a sound system and our decisions take into account potential implications on the banking system at home.

In perspective, the short-term shocks of the past have turned into stable equilibriums in the medium term and the non-traditional policies, which are turning into conventional instruments of policy making in our partners, have encouraged a new behaviour among economic and financial agents. These changes affect the Bank of Albania's ability to stimulate the economy and mitigate the effects from economic shocks during times of difficulties that may arise in the future. The researches will assess whether we are experiencing a new equilibrium or other problems exist in the transmission of accommodative policies, and whether the resilience and reactions against these shocks remain similar to the pre-crisis periods.

In the meantime, regulatory and adjustment processes that accompany monetary policy decision-making (especially those that will follow the return of the past to normality) may trigger temporary shocks with effects on both the European economy and the small economies related to it. Again, it is the duty of research to investigate potential shocks and model them in the framework of models corroborating central banks decision-making. This situation is not unique to Albania, but is a global-wide problem. Therefore, we are happy to see here participation from all the regions, whose research will introduce new experiences, of benefit to us not only from their conclusions but also from the methodologies they have applied.

Fortunately, the topics that will be discussed address the whole spectrum of central banks' interest and will enrich our experience with the opinion and focus of your scientific research. I hope you will find Bank of Albania's experience interesting, informative and valuable for your current and future scientific research.

I take this opportunity to thank the regional and European central banks for their high consideration and valuable contribution to the reputation of our research workshop.

Finally, I wish you a successful and fruitful Workshop and hope to meet you again in future activities of the Bank of Albania.

Thank You!

**GOVERNOR SEJKO: STATEMENT TO
THE PRESS CONFERENCE ON THE BANK
OF ALBANIA ACTIVITY HIGHLIGHTS IN
2016 AND ITS PRIORITIES FOR 2017
- 21 December 2016 -**

Dear media representatives,

As this press conference is the last one for 2016, I take this opportunity to briefly inform you and the Albanian public on some highlights in the activity of the Bank of Albania for the year just closing.

SUPERVISORY COUNCIL DECISIONS

The Supervisory Council exercised its activity in 2016 in accordance with the powers set out in the law on the Bank of Albania and relevant bylaws.

In 2016, the Supervisory Council convened in 15 regular ordinary meetings. Of them, eight were dedicated to monetary policy decisions, divided in four quarterly and four intermediate monthly meetings. Four other meetings focused on issues related to banking supervision and financial stability, whereas the rest were dedicated to decisions on specific issues, of relevance to the work of the Bank of Albania.

The Supervisory Council approved 130 decisions, regulations, and instructions of general application; of them, 78 were approved for the first time and 52 consisted in amendments to existing acts.

Among them, notably the following:

- a) Approval, for the first time, of the Policy for the Operational Risk Management at the institutional level and the establishment of the Operational Risk Management Unit;
- b) Establishment and functioning of committees and specialised units, which enable the improvement of the management and control of financial values and physical assets of the Bank of Albania.

In addition, the Supervisory Council of the Bank of Albania has complied,

in a timely and transparent manner, the obligation for accountability to the Assembly of the Republic of Albania. The Chairman of the Council, the Governor of the Bank of Albania, has participated in hearing sessions on specific issues, as per the request of Parliamentary Committees.

The Supervisory Council has paid special attention to the reports of the External Auditor, of the Inspector General and of the Supreme State Audit. In all the cases, these reports have been analysed by the Audit Committee, which has informed the Supervisory Council about the recommendations that have been left and the status of their implementation.

MONETARY POLICY DURING 2016

I would like again to underline that the Albanian economy, despite the challenging situation in our main trading partners, has shown clear signs of improvement throughout 2016.

Certainly, our accommodative monetary policy has played a primary role in this regard.

“The Bank of Albania deems that its formulated and implemented monetary policy has provided a substantial contribution to supporting the sustainable and long-term development of Albania.”

Our interventions - through the lowering of the policy rate, supply of the financial market with liquidity, or the forward guidance - have been provided at the due time and intensity. They served to calm the financial markets' pressure, enabled the reduction of financing costs at their historical minimum levels, contributed to accelerating the recovery of economic activity and to the return of the inflation' trajectory to the aimed track.

The Bank of Albania deems that its formulated and implemented monetary policy has provided a substantial contribution to supporting the sustainable and long-term development of Albania.

BANKING SECTOR AND ITS STABILITY

During 2016, the banking sector continued to expand its activity, while its liquidity and capitalisation indicators remained at high levels and the financial result is positive.

I would like to emphasise that, thanks to the diligent implementation of the plan of measures on the reduction of non-performing loans, the level of non-performing loans appears as contained and the hedging of credit risk through provisioning is assessed as satisfactory.

To a large extent it reflects our conscientious work with regard to banking supervision. In parallel, the Bank of Albania has improved the legal and regulatory framework.

Let me now share in greater details our work in this aspect during 2016.

Inter-institutional plan for the reduction of non-performing loans

The inter-institutional plan, conceptualised in 2015, took a more complete shape in 2016.

“Thanks to the diligent implementation of the plan of measures on the reduction of non-performing loans, the level of non-performing loans appears as contained and the hedging of credit risk through provisioning is assessed as satisfactory.”

First, through the approval of several regulatory amendments by the Supervisory Council of the Bank of Albania, there is now greater clarity related to the criteria and procedures for the loans write off from the banks' balance sheet, and the treatment of real estate taken into ownership. Additionally, these amendments facilitate the creation of a functional market of non-performing loans, as well as a faster identification of the information in the Credit Registry.

Second, the approval by the Assembly of the Republic of Albania of the legal package, related, amongst other things, to bankruptcy and execution processes, completed the second and most important pillar of this plan. The Bank of Albania evaluates that, the effects of the legal amendments, the experience gained by banks, the loss loan write off as well as the further recovery of the economy will create real stimuli for a gradual and sustainable decrease of non-performing loans.

Bill "On bank recovery and resolution in the Republic of Albania"

This bill is aimed at protecting the public interest in the case of a stressed situation of the financial sector, by avoiding the use of taxpayers' money. This is realized through structural changes, both binding and preliminary,

and the creation of a fund with contributions from financial institutions, for a sole purpose: to cover funding needs in the event of a crisis.

I would like to emphasise that this is a preventive measure, which further strengthens security networks in Albania.

Law "On Savings and Loan associations and their Unions"

In the framework of endeavours for a more adequate regulation of savings and loan associations, in 2016 the Parliament adopted the new Law: "On Savings and Loan associations and their Unions"

The new law provides for a comprehensive regulation of all aspects of a SLA's activity, from the moment of its establishment and licensing until its dissolution and liquidation. Pursuant to the law, the Bank of Albania reviewed thoroughly the bylaws that regulated the functioning of SLAs and their Unions.

OTHER ACTIVITIES

Special attention has been paid to the financial and material management of the institution. In March 2016, for the first time, we enabled the preparation and the approval of the Bank of Albania's financial statements in accordance with the International Financial Reporting Standards.

Throughout the past year, we continued to support and promote the use of electronic payment instruments. In the framework of the functioning of the National Payment System Committee and in cooperation with the World Bank, a number of projects are undertaken aimed at promoting the use of modern instruments and increasing the financial inclusion of the population, with a view to reducing the use of cash in the economy.

The Bank of Albania has intensified its work on aligning the methodology of financial statistics with international standards and harmonizing them with EU standards.

During 2016 the regulatory framework on the issuance of money and management of monetary values was further improved through the adoption of six new regulations, five guidelines and four manuals, of normative character. Beyond the more effective management of

the processes in cash activity, the ultimate goal was to minimize the operational risks.

In 2016, the research contributed to the decision-making process of the Bank of Albania. Our research has been widely discussed in scientific activities of the Bank of Albania, which have stirred the interest of not only decision makers but also of the public as well.

With regard to information technology, in 2016 as number of processes was automated, notably the full integration of Bank of Albania's branches in its central systems.

Public's financial education is another aspect of our work. For 2016, activities in the field of economic and financial education included around 21 institutions and 13000 children, youth and teachers. The Museum of the Bank of Albania welcomed about 1,900 visitors.

- **In the end,**

I would like to underline that the Bank of Albania is prepared to start another challenging year. I am delighted to say that the Bank of Albania has the proper potential to contribute to the fulfilment of fundamental objectives for the further recovery of the economy, price control and guaranteeing financial stability. The Bank of Albania will continue to be a serious, transparent and a fully responsible partner with regard to the fulfilment of all legal obligations.

Concluding this statement, I would like to give a special thanks to all of you, representatives of the media, for the time, attention and the consideration to our communications with the press. The space you have dedicated for our statements has served to spread the Bank of Albania's messages to both economic agents and the public at large.

Therefore, on behalf of the Supervisory Council, I thank you for this valuable role!

Thank You!

“The Bank of Albania has the proper potential to contribute to the fulfilment of fundamental objectives for the further recovery of the economy, price control and guaranteeing financial stability.”



CHAPTER V

INTERVIEWS

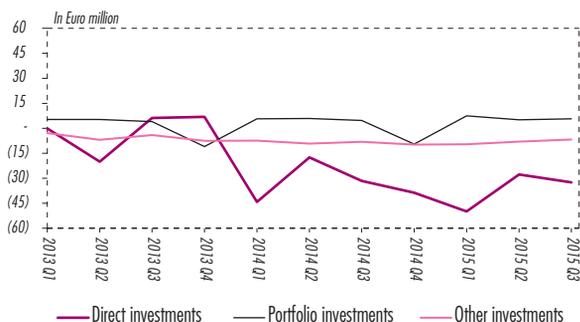
- *Interview with Gent Sejko, Governor of the Bank of Albania. Top Channel TV, 14 January 2016*
- *Interview with Gent Sejko, Governor of the Bank of Albania. "Top Story", Top Channel, 1 March 2016*
- *Interview with Gent Sejko, Governor of the Bank of Albania. ABC News TV, 16 March 2016*
- *Interview with Gent Sejko, Governor of the Bank of Albania. Voice of America, 20 April 2016*
- *Interview with Gent Sejko, Governor of the Bank of Albania. Monitor magazine, 23 May 2016*
- *Interview with Governor Sejko, Governor of the Bank of Albania, Kapital – Vizion+ TV, 27 May 2016*
- *Interview with Governor Sejko, Governor of the Bank of Albania, "Ekopolitike" OraNews TV, 14 July 2016*
- *Interview with Gent Sejko, Governor of the Bank of Albania, Top Channel (TCH) TV, 7 December 2016*
- *Interview with Gent Sejko, Governor of the Bank of Albania with Albanian Radio-Television, 24 December 2016*

INTERVIEW WITH GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA. TOP CHANNEL TV - 14 January 2016 -

TCH: *We have just said goodbye to a difficult year for the Albanian economy. What are the expectations for this year? Will 2016 be a better year for the economy, enterprises and households?*

Governor: Indeed year 2015 was a difficult one, but data as of November show that there have also been some positive results in 2015. I would rather not get into technical details and figures, but we expect the GDP growth to be 2.7%, for 2015, in line with the forecasts of the Bank of Albania, and of the International Monetary Fund. For 2016, our expectations are positive. We expect economic growth to be above 3%, driven by the growth of domestic demand and consumption, and of foreign investments. In 2015, we saw a higher level of foreign investments and expect to see the same trend continue in 2016. Also, we expect the economy to improve due to the increased support for financing, crediting by commercial banks.

Chart 28 Primary income from investments



Source: Statistics Department

TCH: *The Bank of Albania is committed to a series of monetary policy easing. You have lowered the key interest rate 14 times and the results have been, to some extent, arguable. Are you considering other forms of monetary policy easing, beyond the conventional ones?*

Governor: The accommodative monetary policy of the Bank of Albania has given its effects. The lowering of the key interest rate has helped expand the credit portfolio; however, our expectations are more ambitious. We would very much want to see higher than forecasted economic growth, in order for both households and enterprises to really feel the effect of this growth. The Bank of Albania has been constantly analysing and studying all the other alternative ways and forms for promoting investments and fostering economic recovery. One of these forms is the quantitative easing (QE). For the first time, the QE was applied by the Fed. However, we have a different and specific situation. Our banks have liquidity surplus, in other words, they do not need liquidity. The challenge is to transfer this liquidity from the financial sector to the economy. We have not reached conclusions, yet. We

“The Bank of Albania has been constantly analysing and studying all the other alternative ways and forms for promoting investments and fostering economic recovery.”

are still analysing the situation. It is too early to draw conclusions. Once we judge that it will be necessary to intervene, whether through the QE (which I see as a little more complicated, because there is no need for it), or other financial mechanisms or instruments to bolster lending and investments, this fact will be made public. But, we have not reached any conclusion yet; we are still in the process of making our analyses.

TCH: *This means that one option may be the targeted lending schemes.*

Governor: All the options are open and subject to analyses. Targeted lending schemes are also subject to analyses. Certainly, one of the main aims is to boost lending. In parallel, we monitor the development of the economy. If the economy performs well, bank lending performs well and even increases, it will not be necessary to intervene. If we see that economic growth and lending do not perform according to forecasts, then it will be necessary to intervene.

TCH: *Together with the Government, you have drafted an action plan for reducing non-performing loans. How is this plan working, and what are your expectations?*

Governor: This action plan has produced effects. I am happy to say that the level of non-performing loans (NPLs) has dropped from 25%

to 20% and we expect their level to constantly fall, as a result of the measures set forth in the action plan. This plan consists in the write offs from the banks' balance sheet, and the restructuring of portfolios that have positive and optimistic projects for the future. In cooperation with commercial banks, we are oriented towards negotiations and healthy agreements with enterprises. We target those enterprises that have positive projections and are worth restructuring and supporting in the future. Likewise, those enterprises that have no hope and no future should be subject to revaluation by commercial banks, with the monitoring of the Bank of Albania; it is better to bring to an end the policy of further losses. This will also require its own time. What we see and judge as a positive development is that this action plan is giving effects and we expect to see these positive effects in 2016, as well.

**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA.
TOP STORY, TOP CHANNEL TV
- 1 March 2016 -**

TCH/Sokol Balla: *This is the first year of your term in office as the Governor of the Bank of Albania, what changes have taken place in a year?*

Governor Sejko: Many things have changed, especially regarding the governance. The Bank of Albania was established soon after the fall of communism; following a transitional period, it got consolidated and strengthened. The theft at the cash processing centre shocked the foundations of confidence, but I was privileged to be the governor of the Bank of Albania in the period following that event. Issues related to cash handling, the improvement of governance, and the internal audit needed to be tackled. I want to emphasize that the Bank of Albania has been constantly improving its key functions.

TCH: *The scandal that involved the Bank of Albania was the biggest or among the biggest in Albania. Now, let us turn to September 2014, the arrest of the former Governor. What did you feel at those moments, as a banker, and did you expect to become the next Governor?*

Governor Sejko: I did not think to have that position. I felt shocked as the Bank of Albania is the bank of banks in Albania and bankers are sensitive to any event related to the financial system.

TCH: *Did this event affect the banking system?*

Governor Sejko: De facto, no, but it had a psychological impact on the whole financial system.

TCH: *Now, eventually the court found Fullani not guilty and he has requested compensation for removal from the post Do you think he is doing the right thing and what is his responsibility so far?*

Governor Sejko: The process ended and was assessed by the relevant investigation bodies and the courts. It is the right of every citizen to request their legitimate right, whether a moral or material one.

TCH: *Until the moment of the decree for your appointment, you were unknown. You were known among bankers as senior official of a commercial bank. But, how did your name pass from banks to the political table, or directly to the President?*

Governor Sejko: It passed directly through my application. The discussion on the appointment of the new governor arose after the removal of Fullani. There was a statement by the Prime Minister Rama, that the new Governor would be elected from the banking and financial system. As far I remember, many experienced bankers, including myself, replied to the invitation by the President of the Republic. I felt honoured and privileged when I was decree. The support by all parties increased the responsibility and the desire to continue the work at BoA.

TCH: *Nevertheless, it was not your first time in BoA.*

Governor Sejko: I started my career in that building in 1992 as the Head of the Credit Division at the National Commercial Bank.

TCH: *You are lucky to inaugurate the renovated building, and Fullani has a merit in this regard...*

Governor Sejko: Fullani has the merit of the initiative of the project on the new building. The discussions on the renovation of the building have taken place over many years, since '93-'94. The premises were deteriorated to the point that it had become difficult to work inside them. The selection of the project was one the best things.

TCH: *Was it a difficult decision not to invite Fullani at the inauguration ceremony?*

Governor Sejko: I was abroad on an official trip for two weeks and I did not have detailed information about the protocol matters; but to be correct, the former Governor had not been pronounced not guilty yet, and he himself was focused on working in this regard.

TCH: *BoA is the institution that everybody looks up to. You took office while it was covered by a heavy corruption shadow, and subject to financial abuses and thievery. Was it reflected in the first day of your job?*

Governor Sejko: Yes, it was. The Bank of Albania went through an extremely difficult situation and its image was heavily marred during that time. We

saw the media and public opinion protesting rightly on what has happened. When I started, I found a heavy psychological situation. The Bank needed to breathe and strengthen the self-confidence. Many things have changed. The Governor is appointed and the membership of the Supervisory Council is completed. We have been constantly trying to restore the image of BoA.

TCH: *What are the measures taken in order for these events not occur again?*

Governor Sejko: Many measures are taken. It should be emphasised that it was not only the internal audit that failed in this case. Other institutions also failed in verifying the figure of that person, as he held a certificate of security, and had passed through many filters. In this history, the internal audit system failed, and there was a lack of vigilance.

TCH: *Who gives this certificate?*

Governor Sejko: These are standard certificates. The background check of the person is subject to a filtering procedure, since the high school and of many attestations. The Institutions are AIS, Ministry of Interior, etc. Thefts have occurred also in other countries, for example, in France, England. But, in our case the situation has continued for a long time. Nevertheless, I am not an investigative authority.

TCH: *I think that you have conducted an audit. How is the situation?*

Governor Sejko: We have conducted more than one audit. We have accomplished fundamental changes. Since the beginning of 2015, we have tried to improve the internal audit system, to carry out radical changes in all the monitoring and prevention aspects. We have taken the experience of the Bank of France. When the Bank of France saw our security elements, they assessed that in some of them we were even more advanced than them. This shows that the human factor is crucial.

Since the beginning of 2015, we have tried to improve the internal audit system, to carry out radical changes in all the monitoring and prevention aspects.

TCH: *Now, one year and half has passed, can we trust BoA again?*

Governor Sejko: Absolutely, BoA may be trusted again, for many reasons. I mentioned the undertaken measures to guard the cash in our

vaults, but BoA is a broader concept and with many other elements. It is one of the best institutions in Albania. This is reported by the international financial institutions and international companies, such as the IMF and the World Bank. BoA is the most highly regarded institution as a result of the work of its experts and all the staff of the Bank of Albania.

TCH: *You have lowered the interest rates twice and this is not a good sign for the economy...*

Governor Sejko: We have exercised our role to boost economic growth and the welfare of the citizens. This is an instrument that is used everywhere. We have tried through our monetary policy to lower the interest rates on credit. The important thing is that the monetary policy has had its impact since we have seen an increase of lending in lek against lending in foreign currency. Currently, 43% of the credit portfolio is in lek. The monetary policy aims to promote lending, investments and consumption.

TCH: *You are moving towards negative interest rates, the aim being for commercial banks to take the money and increase the chances that this money is lent to enterprises and households. How much of an impact do you think these measures will have?*

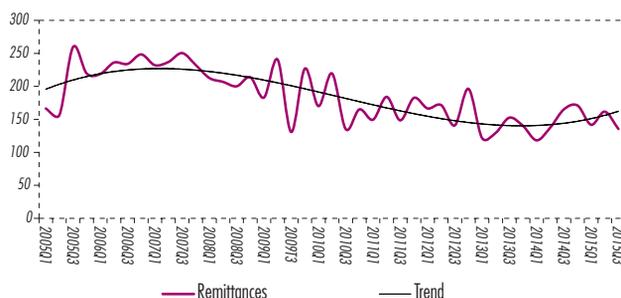
Governor Sejko: Interest rates were lowered to standardise these rates with those of the European Central Bank and the objective was not just to stimulate lending in euro. Of course, this will also affect the reorientation of deposits in euro, but our main objective with an accommodative monetary policy is to promote lending for investments in lek, as well as in euro. As a result of the lowering of the interest rates, lending in the domestic currency has increased.

TCH: *The lending trend in lek has a symbolic value. Strengthening the image?*

Governor Sejko: This is just one aspect. Historically, the lek has been a stable currency if we look at the exchange rate over the years. Many colleagues are astonished by this. There was an occasion in 2008 when we had a depreciation as result of the beginning of the crisis, but afterwards it has preserved its stability.

TCH: *It seems that Albanians prefer the euro, why should we try to borrow in lek?*

Chart 29 Remittances (net flows, in Euro million)



Source: Bank of Albania.

Governor Sejko: If the income is in lek, you avoid losing from the exchange rate and meanwhile the credit interest rates are equated equalized. Remittances made possible for the lek to maintain its stability; this because of the large supply of foreign currency as well. But remittances have decreased, hence the Albanian economy should reorient itself towards output and exports.

TCH: We see the economic growth from 2005 to 2015, with the surplus peak in 2007-2008 due to the fight against informality and the introduction of the flat tax. The curb afterwards is falling, reaching in 2013 its trough, while over the years it has increased, to reach 2.7% last year. If we look at the figures on deposits, there has been an increase of EUR 130 million, but this increase does not indicate a good economy, since this money is not spent...

Governor Sejko: Of course it is not a good sign and does not show the desirable consumption. There is a propensity to save. The word crisis can be heavy, but economic stagnation and uncertainty are additional dangerous things. When the level of consumption falls, people are reluctant to spend. If consumption falls, demand for various goods falls, production drops as well, and thus the economic downturn begins. BoA has one of the instruments it can use, the policy rate, while the overall economic environment has an impact as well.

TCH: The global economic crisis has been one of the longest ones. Should we expect the recovery to be long too?

Governor Sejko: Other crises have been deep too, but the recovery has been faster. This crisis is the first happening in a period of peace, without a war before or after it. Crises have their specific natures, the latter ones are a consequence of the cold war in some aspects, but no a consequence of an armed war. Many structural reforms have been undertaken in the euro area, showing the first elements of recovery, contrary to the USA, where signs came sooner.

TCH: *We have had a higher growth than the region and the entire Mediterranean.*

Governor Sejko: Yes, we have had a growth from the construction sector and those related to it, to around 8%. Not being fully integrated with the international markets, we thought that our economy would not be affected. In many conferences, specialists and experts told us that the impacts will be felt much later than in the developed countries. The crisis certainly hit us, but Albania was fortunate enough not fall into recession. We survived the crisis. The lowest economic growth level has been 1.1% in 2013, followed by a gradual growth. In the current year, 2016, we forecast that we will have a higher growth than last year's 2.7%. Also, the growth trend is important because it gives indications on which direction we are heading. However, the right direction is not easy.

TCH: *You are sounding like Secretary Kerry...*

Governor Sejko: Such growth rates are not easy; we need the support of continuous structural reforms. They should not remain just as slogans but they should be seriously carried out. We will try to return the economy to equilibrium.

TCH: *We have had an increase of non-performing loans, or those that have been taken and are not repaid. We have had a number of collaterals collected by the banks. How much should the level of these loans be so that the economy may breathe freely?*

Governor Sejko: Non-performing loans should be zero, but this is utopia. The lower they are the better it is. Together with Serbia, we are the two countries with the highest level. We have been able to decrease them from 22.7% to 18.2% in December 2015. We hope to reach 15% at the end of this year. This will boost commercial banks' optimism to lend.

TCH: *Banks have ample liquidity available to increase loans, but they invest in foreign funds.*

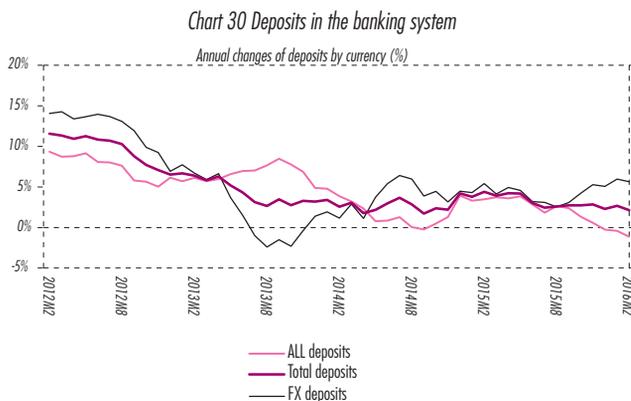
Governor Sejko: First, we have a weak demand and a lack of serious creditworthy projects. They are somewhat more pessimistic in lending when they see such a high level of non-performing loans. But, lending also depends on the strategy of parent banks of those banks that operate in Albania, which have preferred deleveraging to expansion.

TCH: *This decrease of lending has been due to loans to households or enterprises? Or both?*

Governor Sejko: Households have repaid more regularly. Large enterprises have been hit harder by the crisis and, consequently, are facing more difficulties. So, the impact of large enterprises on the non-performing loans has been higher. In addition, our efforts to improve the situation of several large companies have contributed to the decrease of non-performing loans.

TCH: *Regarding financial soundness, non-performing loans and delays in the repayment of big loans remain issues of concern. But non-performing loans may decrease even further by restructuring them. Meaning, to give enterprises more time to repay their loans and with lower interest. However, the government has a role to play as well, apart from you, in reaching an agreement on debt restructuring.*

Governor Sejko: It is very clear, but at the same time, complicated. Yet, the essence is exactly what we seek to achieve in collaboration with commercial banks. We want to identify clients with difficulties who have a prospective to recover. Your chart showed the situation of the financial stability in Albania. We have adequate capital and ample liquidity surplus, which means that banks are well capitalised and secure. They also have liquidity to lend to households and/or enterprises. The money is in the banking system and the challenge is how to turn it into lending for the interested parties. Through our macroeconomic policy, we want to stimulate lending. We want to have non-conservative, but productive, loan growth and incentives. On the other hand, we want to have a sound deposits' situation, most of which are from households. It is exactly this money that is lent to enterprises. As for your question on what we have done to coordinate between banks and enterprises, this week I called on a meeting between banks and the largest business companies, to share concerns and issues more openly and transparently. We have worked a lot during 2015. After the appointment as Governor, I had a meeting with banks and Mr Cani and Mr Ahmetaj, where we discussed the issues and how to solve them.



Source: Bank of Albania.

TCH: *The bankruptcy law is considered by the government and enterprises as part of structural reforms in this regard, what is its impact and why is it delaying?*

Governor Sejko: The law affects the relationship between credit institutions and their clients. There have been failures to comply with contracts, also banks need to be revitalized and steer away from lending stagnation, leading toward bankruptcy those enterprises with no future. The law is one of the fundamental laws that sets the rules of the game. Enterprises have demands for banks; but, at the same time, enterprises must respect their obligations.

TCH: *Is it true that there is a high number of enterprises that would close down if the law on bankruptcy came into force?*

Governor Sejko: No, not entirely. Not all enterprises would go bankrupt and close down. Some of them do generate income. The majority of enterprises in our country rely on other business activities; they generate income from one activity and use them for another activity. This should not continue any more, but we must rely on the crediting-borrowing system. In most cases, the courts have ruled on the borrowers' side, and as a result banks have not been able to execute the collateral, thus increasing their pessimism. This must end and clear rules must be set. Each party must fulfil all its duties and obligations. We do not tend to support banks against enterprises but all parties must be supported professionally, as banks are also business consultants. We need to safeguard financial stability and steer them toward a healthy lending.

TCH: *The bank stated that you are considering the possibility of putting more money into circulation in the market?*

Governor Sejko: We will not put more money into the market. Although the currency issue is one of BoA's main tasks, we are not planning to do so. We can re-print banknotes to replace the damaged ones, to increase their quality, but not the monetary mass, in order to increase inflation. Inflation is below 3%. We cannot achieve BoA's inflation target, and we cannot push inflation up through this element. The money we have in our pockets has become really worn out. Perhaps the time has come to study the forms of new issues.

TCH: *I am asking because when discussing about the trust in the Bank of Albania, we would like this to be as far from the influence of the government as possible. We know that through just a phone call additional money has been put in circulation in the market, such as the case in 1997. The relationship politics - banks has been very strong, although it has been weakening. Does an increase of money in the market means this is a government request?*

Governor Sejko: Everything is formalized by law, way different compared to the past. Government intervention is much more limited. We have an agreement with the IMF, and such intervention is not easy. Beyond the relationship with the government, this is an element to stimulate the economy and economic growth, because the crisis is accompanied by deflationary situations. An increase of the amount of money in the market would increase consumption, lending. We have seen it being used by the Federal Reserve, by the European Central Bank, but not here in Albania. There is still room for lowering the interest rate. We can still continue with this, even if we see that growth will not go as expected, that the lowering of the interest rate will not have an impact as we would want it to, or that government reforms will not succeed; then, we will take alternative measures, but that does not mean that we will go right away to the extreme. If we are to follow our projections, it will not be necessary to increase the amount of money in the market. We only want to replace old banknotes with new ones.

TCH: *We see there is an accordance between what BoA, the Government, IMF, WB and EBRD say regarding the growth trend of the economy, but putting it on a path of sustainable development remains a challenge for all governments and banks. Economic growth rates are negligible, especially with regard to employment. Does the pattern of development and structural reforms you see for the future concur with that of the Government?*

The Albanian economy needs to be reoriented toward a manufacturing economy. The Albanian economy must be able to compete and export its products.

Governor Sejko: The Albanian economy needs to be reoriented toward a manufacturing economy. The Albanian economy must be able to compete and export its products. We are in a difficult regional economic environment. If we have a look at the statements of all central banks, they call for serious structural reforms. We have started to change the economic model and if reforms are undertaken seriously, they will have an effect. Some reforms are painful, and have their own effects. There are many elements combined together. Social, financial and other elements, but reforms need to be undertaken. There is no development without a reform and without formalization of the economy. These reforms should be thoroughly studied and in order for them to give effects.

TCH: *As regards the justice reform, does the current draft satisfy you?*

Governor Sejko: I would like to say that the Bank of Albania sees the impact the reform would have on the relationship between enterprises and banks, to address the issues between banks, enterprises and households. In our view, the reform in the justice system is seen for the effect it may have in this regard. I have emphasized to the Parliamentary Committee on the Economy and Finance that non-performing loans have become a national interest for the fact that due to obstacles in [collateral] executions lending has contracted; in turn, shortage of lending has led to the absence of economic growth.

TCH: *To what extent do reforms diversify the economy?*

Governor Sejko: Structural reforms are much wider and are related to quite critical elements. Health, education and energy fall outside the area of responsibility of the Bank of Albania. Regarding informality, the government considers it an operation, we want to turn it into a reform, a well-studied reform in order to have people pay their taxes.

TCH: *The government takes pride in being able to return \$ 740 million in debt to enterprises, why did this not have an effect on the investments? It failed to revitalize them.*

Governor Sejko: Practically, had the Government not paid the arrears, the problems would have been much bigger. The payment of arrears to enterprises gave a great deal of help to the relevant enterprises. We

expected liquidation of the loans, but perhaps non-performing loans were higher and the payment of arrears helped the enterprises considerably.

TCH: *We are not talking about loans that business were granted from commercial banks, we are talking about invisible debts, business to business...*

Governor Sejko: This would require more study. It has improved the business situation but it has not improved the financial system.

TCH: *The government has just received a long-term loan from the IMF; on the other hand, it has announced that for the first time it is decreasing its debt, don't you find these to be contradictory?*

Governor Sejko: They are not contradictory. The government has an agreement with the IMF. The government is heading towards fiscal consolidation and we support it. Debt is at alarming levels and this is accompanied by problems; high debt decreases the competitiveness of the Albanian economy in comparison to others. We expect debt to reach 60% in 2019. The fact is that the trend is heading towards fiscal consolidation and serious work has to be done to reduce debt. We support debt reduction, but we must be careful with public investments.

TCH: *Everyone suggests the government that, in order to have economic growth, there must be public investments...*

Governor Sejko: We seek foreign direct investment and public investments to remain within the framework of debt. The investments would increase only in the event of a better collection of revenues.

TCH: *Does it make any difference for you when the government replaces the direct interlocutor with you, the Minister of Finance?*

Governor Sejko: We, as the central bank, have an institutional relationship and this relationship has been correct. We have had a very good spirit of cooperation. We see no issue in changing the ministers. There could be a problem if the Finance Minister weren't a specialist of the relevant field, as it would take us a long time to get him updated.

TCH: *Should the government do something to fix the business atmosphere?*

Governor Sejko: We are a financial regulatory institution. We advise on structural financial reforms.

TCH: *If you were to grade the performance of the Government, what is your evaluation for its fiscal policies and economic model?*

Governor Sejko: I would grade the desire of the government to fight informality with a high score, because at some point it had to start. However, this is a very complex process and the evaluation test continues; therefore, we cannot give a grade at this point. Albania is a country with very high informality, which also hampers the capital market (stock market). I consider the fight against informality as a positive step and I hope that this will continue at the right pace.

**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA.
ABC NEWS TV
-16 March 2016 -**

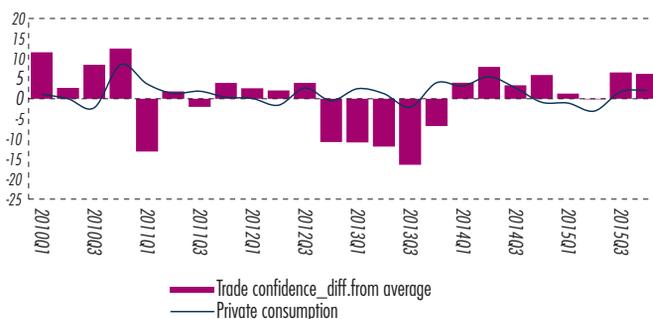
ABCnews: *Recent data on inflation seem to challenge your efforts to boost consumption and keep inflation within your target band. What is the Bank of Albania considering, in concrete terms, and what suggestions do you have for the Government, which perhaps should also intervene at this point?*

Governor: We are conducting our analyses for more accurate assessments related to the impact of various factors contributing to the downtrend of inflation in February. Following this performance of inflation, we have once again made a comprehensive analysis of the situation and factors contributing to the fall of inflation. We should, however, keep in mind that this fall is only in monthly terms. One contributing factor to this figure could have been the high base of food price inflation in February last year, due to the floods in Albania. I would like to emphasise that we are not in a deflationary situation. It is true that inflation is currently below the 3% target of the Bank of Albania. I think and judge that the fall in inflation at the level of 0.2% is the inflation only for this month. The Albanian economy and the level of inflation stand below the required level; on the other hand, our projections point to higher economic growth in 2016. The fall in inflation is more attributable to the fall in oil prices in global markets, rather than to a drastic fall in consumption.

ABCnews: *Nonetheless, some elements of declining consumption are evident.*

Governor: Consumption is not currently at the highest possible level. This is the case not only in Albania, but also across the entire region, as its countries are facing economic difficulties and stagnation. However, the trends are upward and positive, and we expect consumption and investments to grow in the forthcoming months.

Chart 31 Private consumption and confidence in the trade sector



Source: INSTAT and Bank of Albania.

ABCnews: *In fact, credit data are downward again. Your efforts have been reflected very well in the marked reduction of non-performing loans; however, they have not been reflected in the growth of credit. Do you plan to undertake additional measures?*

Governor: In the past year, credit continued and increased to the level of 1.76%. The banking and financial system in Albania generates EUR 400-500 million new loans every year. This means that credit did not stop, but that its growth decelerated below the levels that we aim and seek to have, in order to provide the right impetus to the level of economic growth. For the first time in 2015, non-performing loans fell from 23% to around 18%, more precisely to 17.6% according to our latest statistics. This is a positive development for providing the stimulus and triggering the optimism of commercial banks and financial sector to boost credit growth. We should keep in mind that the central bank, with its accommodative monetary policy, contributes to the supply side, whereas lending is related also to the demand side. It is a clear fact that we have had low aggregate demand for credit, which is related to many elements such as the perception of investors and of the market about the performance of the economy. There is some hesitation. Of course, economic difficulties, facing not only Albania but also the rest of the region, have an impact on the initiatives of investors and the level of consumption and investments. Against this backdrop, demand for loans is not so high or optimistic. These two elements are intertwined. On the one hand, the central bank and the financial system are trying to boost lending. Conventional monetary policy measures have been taken by both our central bank and the European Central Bank. Such measures

have contributed to credit continuation, as credit price has been lower. This means the monetary policy has yielded its results; prices have fallen across all the segments in the financial market, not only for credit but also for government securities and all the other segments, although the supply side counts most.

“In its advisory role, the Bank of Albania gives expert advice about the structural reforms, within its realm of expertise.”

ABCnews: *At this point, are you taking into consideration to intervene or suggest possible interventions?*

Governor: We are certainly discussing with the government. In its advisory role, the Bank of Albania gives expert advice about the structural reforms, within its realm of expertise. In the meantime, the government has undertaken and continues to undertake a number of structural reforms, which are giving and will give the effects in due time.

ABCnews: *Could you mention more specifically, which ones?*

Governor: Action against informality is an element that will undoubtedly help prevent unfair competition and will support those businesses with a clear orientation in the market place. Moreover, this action will have a positive impact on the banking and financial sector, as it would prevent the application of different standards of financial reporting by borrowers, and facilitate, in turn, banks' decision on credit.

ABCnews: *Are you considering non-conventional policies?*

Governor: I have mentioned in previous discussions that we are not facing such a situation so as to need to use the quantitative easing, employed by central banks in many countries. There are many elements and criteria that condition and determine the use of quantitative easing, as a non-conventional method of the monetary policy.

Overall, I would say that the Albanian economy has not been in recession. This term is used when the level of economic growth is close to zero. Commercial banks have liquidity surplus. On the other hand, we do not judge that inflation will be close to zero. In practice, irrespective of the inflation rate in February 2016, in annual terms, inflation averaged around 2%. We need to see over time both the performance of inflation rising and the performance of the banking system and the performance

of bank lending. For the moment, the indicators reveal positive growth trends. Economic growth in 2015 stood at 2.7% and we are confident that in 2016 economic growth will be higher than in 2015. In 2016, we expect economic growth to hit 3% or higher.

“We are not considering the implementation of the quantitative easing, as the market and the financial system have ample liquidity.”

We will have to make our adjustments over time, depending on the resulting performance and figures, but for the moment we do not envisage any revision to the economic growth level. We have conducted our analyses; we have also taken into account the impact from global factors and the effects from the fall in oil prices. Of course, in the event of further developments and adverse factors, we will revise economic growth for 2016; but for now we do not have such elements. We expect economic growth to be fuelled by the growth in investments and domestic consumption. The Bank of Albania has implemented an accommodative monetary policy by lowering the interest rate and has announced that the monetary policy will remain accommodative in the forthcoming two years, in the short and medium-term. As I said, we are not considering the implementation of the quantitative easing, as the market and the financial system have ample liquidity. On the other hand, if necessary and over time and if lending will not perform at the proper pace, we are considering the possibility to realise stimulating credit schemes. That does not imply it will happen; we are only analysing the forms of such schemes.

ABCnews: *Which sectors do you think may be stimulated and enhance consumption? I believe the key to all this is to set consumption in motion.*

Governor: We are not at the moment to think about preferring or supporting a certain sector over other sectors. We would prefer credit to support all the sectors and all the businesses. Commercial banks, with their strategies, have projected more credit to support the small enterprises segment. The underlying reason may be the credit risk. Micro enterprises and households may be verified more easily and pose lower credit risk.

On the other hand, the Bank of Albania would rather have credit extended across all segments, especially in the corporate (larger enterprises) segment. This is the most important segment and the engine that drives economic growth. If this segment moves forward, others will follow along, as they serve as subcontractors to the larger enterprises.

ABCnews: *The monetary policy is almost exhausted, facing limited opportunities. Are you considering providing any suggestion about government policies? For example, on the pensions part. Apparently, to enhance consumption, the currency in circulation should be added to the demand side rather than to the supply side.*

Governor: We think that there is some more room to continue with the accommodative monetary policy. On the other hand, there are also many alternative forms to enhance consumption, as you mentioned, for example higher pensions, unemployment benefit, or other alternative forms to stimulate various prices for various products in various sectors. This is a vast area in which the government may focus. The Bank of Albania has its role and we are focused in our reforms related to the financial sector, to stimulate the credit supply, and growth of investments and consumption.

“The Bank of Albania has its role and we are focused in our reforms related to the financial sector, to stimulate the credit supply, and growth of investments and consumption.”

On the other side, structural reforms and initiatives are within the realm of the government. I am very confident that the Government of Albania, as well as the central bank, will analyse and monitor the performance and developments in the economy and will make appropriate decisions to achieve the objectives.

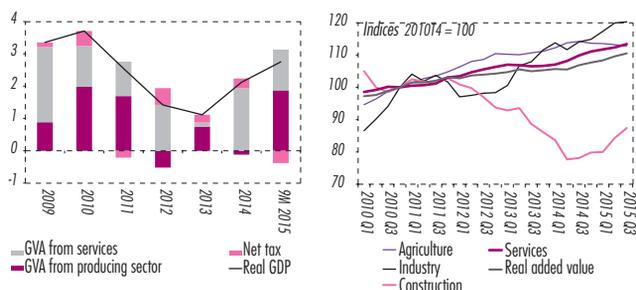
Note: *The interview was conducted on 10 March 2016.*

INTERVIEW WITH GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA. VOICE OF AMERICA - 20 April 2016 -

VoA: Mr. Sejko, the main topic of the International Monetary Fund and the World Bank [Spring] Meetings was on stimulating economic growth. Speaking about Albania, we have seen improvement, but not as much as expected. For 2015, the forecast was 3% and that figure was revised down to 2.6%. For 2016, growth was forecasted at 3.4%, but the World Bank, several days ago, revised this rate down. According to you, what is hampering the acceleration of Albania's economic growth?

Governor: As you said, economic growth for 2015 was 2.6%. The Bank of Albania's forecasts, in concord with the International Monetary Fund, were revised down for 2015. In addition, two key factors that we have mentioned before contributed to this performance. First, the floods at the beginning of 2015 influenced the prices of agricultural products and consequently the level of economic growth. Second, during the summer, the crisis in Greece contributed significantly to the level of economic growth, as many other internal and external factors are involved. We have stated that we have revised our forecast from 3% to 2.5-2.7%. This has been the forecast by the Bank of Albania, and de facto, at the end of the year, according to the latest official data, Albania's economic growth stood at 2.6%.

Chart 32 Annual performance of real GDP (in %) and contribution of production-side components (in pp). Trend of real GVA in economy and sectors*



* Indices of the real gross value added (GVA) for the economy and its sectors reflect the trend of the relevant value added, calculated as the moving sum of quarterly values for four quarters, based on 2010 Q4.
Source: INSTAT and Bank of Albania.

As we have stated before, I want to emphasize once again that economic growth should have been higher. However, the economic growth is trending upward and that shows that the economy has a positive development inclination. In 2013, Albania's economic growth stood at 1.1%, in 2014 at 2%, and 2015 closed at 2.6%. The Bank of Albania forecast for the current year is more conservative, at 3-3.2%. The World Bank's forecast is at 3.4%, or 3.2%; but, this not what matters most. What I want to emphasize is that it is not the figure the counts, whether 2.7, 2.6 or 3.2, but the positive trend. If we can keep a positive growth trend, then we are in the positive direction.

VoA: *During 2016, economic growth is expected to be driven mostly by foreign investments, also thanks to two major projects, namely the TAP project that has already begun, and the construction of a hydropower plant in Southern Albania. Meanwhile, a German companies' survey shows that the business situation has deteriorated. A similar trend has also been noted by the American Chamber of Commerce in Tirana or other foreign investors and associations. For countries like Albania that expect growth to be driven mostly by foreign investments, is the deterioration of the business climate or the concerns raised by the foreign investors about this climate, a matter of concern?*

Governor: Of course it is a concern that must absolutely be at the focus of our attention, mostly the government's attention, but also of all the other participants who have a role and an impact on the overall business environment, the economic environment and in any other development policy in the Republic of Albania. There are certainly many factors that contribute to the business climate, both external and internal factors. It is a known fact that the situation in the region and in the euro area is not positive, our trading partners in the euro area are not in their best days, and the Albanian exports are significantly affected by their economic difficulties. Prices of oil and agricultural products alone have had a strong influence in the Albanian exports. Apart from these, there are many other elements and factors that must be taken into account.

Obviously, foreign investments' growth is the main goal. During 2015, we have seen foreign investments grow 11.5%. This growth has also been a result of the expansion or the reinvestment of existing foreign investments in Albania. For 2016, we have two major investments: the TAP project and the hydropower plant you mentioned. Certainly, our objective is to attract foreign investments in Albania through our development policies. Therefore, we have coordinated our financial and

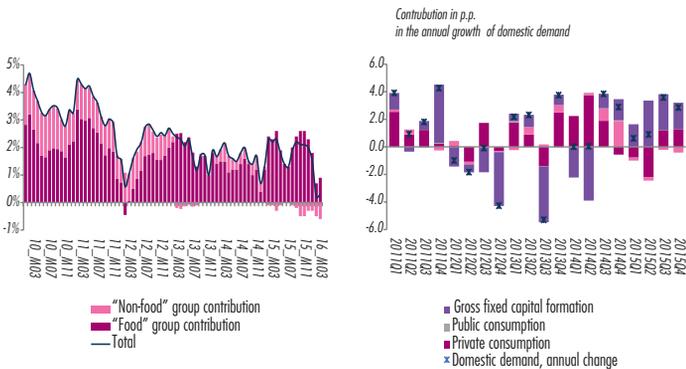
monetary policies with the government's policies for Albania to be an appealing market for foreign investments.

VoA: *These last days, INSTAT published a study, which stressed consumer spending. In the United States, consumer spending is the engine of the economy. In Albania, consumer spending has decreased. What does this mean for the economy and will their decrease have an impact on it?*

Governor: Consumption is one of the main elements that contribute to economic development, because it is connected with investments. The higher is consumption, the higher are production and employment rates. Consumption is connected with real factors pertaining to employment as well as with psychological factors. In a situation of economic stagnation, of crisis or post crisis, consumption has been always affected by the propensity to save. So, consumers are inclined to save, under the psychology of uncertainties about the future. Practically, what we are trying to do is to give real information about the economy and obviously an increase in consumption would contribute positively to economic growth in Albania.

VoA: *The Bank of Albania has published a survey that shows that consumers' confidence in the economy has fallen, which automatically brings a decrease in consumption. On the other hand, we have noticed inflation in Albania has fallen to very low levels. Would you say Albania is at risk from these deflationary tendencies?*

Chart 33 Annual inflation by group and annual growth of domestic demand



Source: INSTAT and Bank of Albania.

Governor: These are dis-inflation rather than deflation tendencies, since the inflation rate has not been negative. It has been low, e.g. 0.2% in February and 0.3% in March. Inflation decreased as a consequence of the decrease in oil prices in international markets and agricultural prices. The Bank of Albania has revised downwards the inflation forecast for 2016. From 2.3% we have revised it at 1.9%. Thus, we expect the inflation to be at 1.9% at the end of 2016. But, we have not revised our forecast that inflation will return to our 3% target by mid-2018.

As far as consumption is concerned, as you said, we are trying with our accommodative monetary policy, lowering the interest rate to boost consumption. The decrease of the interest rate in the national currency contributes to the increase not only in lending but also in spending and investments from deposit holders. With the decrease of the interest rate on deposits, both households and businesses would have a greater interest in alternative forms of investments.

VoA: *You have stated in the past that the instrument available to the Bank of Albania is the interest rate and that applies only for the part of the economic activity that is conducted in the national currency. Your instruments may be near exhaustion and you have said that you are not the only ones that can pull the economy out of its difficulties or stimulate its development. Where do you think the focus should be placed to stimulate the economy to grow faster, once you no longer have these instruments available in your hands, in which structural reforms?*

Governor: The main instrument of a central bank is the monetary policy, through which it tries to boost economic growth, preserve the macroeconomic and monetary parameters, and safeguard financial stability. Of course, the objective of the economic growth cannot be achieved only through Bank of Albania's instruments. This is a clear and known fact. Otherwise, it would have been very easy and we would have already achieved the objective.

This is a global-wide phenomenon. We have just returned from the International Monetary Fund and the World Bank meetings. In their presentations, IMF Director Lagarde and other senior representative said clearly that central banks alone cannot achieve the objective of economic growth, without a proper coordination of monetary policy and fiscal policy, as well as specific reforms for each country. These are achieved through well-oriented leadership and political

dedication, and clearly-defined strategies. Albania has undertaken and continues to implement structural reforms. Some of these reforms have yielded their positive effects, such as the energy reform and the territorial reform. Meanwhile, the reform against informality is in progress and is a very important one. These reforms, we have said it before, need time in order to produce effects. Again, only through the coordination of monetary policies with the reform in the fiscal sector and other structural reforms will the targeted economic growth be achieved.

“Central banks alone cannot achieve the objective of economic growth, without a proper coordination of monetary policy and fiscal policy, as well as specific reforms for each country.”

****Note: The interview was conducted on 19 April 2016***

**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA.
MONITOR MAGAZINE
- 23 May 2016 -**

The Bank of Albania decided to cut its key interest rate again. Specifically, what do you expect to achieve from this latest move, and how do you expect banks and other relevant stakeholders to respond to this move?

Governor: The underlying reasons for the further easing of the monetary policy were made public in the latest press conference that followed the decision of the Supervisory Council. However, taking advantage of your question, and in the public interest, let me explain them briefly.

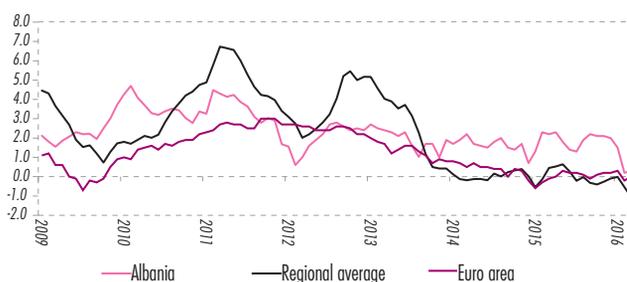
The primary objective of the monetary policy of the Bank of Albania is achieving and maintaining price stability. To achieve this objective, we make decisions based on continuous analyses of the current situation and periodic updates of the outlook. The aim of the analyses and projections is to answer three questions: (i) what are the current trends in the economy and financial markets, (ii) what is the outlook for the performance of prices and economic activity and do projections diverge from our targeted objectives; and (iii) against the backdrop of the possible divergence, are the monetary conditions adequate and do we need to change the monetary policy stance.

We eased the monetary policy in the form of two key rate cuts in April and May with a cumulative effect of 0.5 percentage point, in response to the conclusions of the analysis and the quarterly monetary policy report. In concrete terms:

- *First*, the Bank of Albania concluded that the drop in prices in international markets was reflected in a sharp fall of inflation by 1.7 percentage points, during the first quarter of 2016. Moreover, available information suggests that foreign inflationary pressures, over the medium term, will be lower than our previous assessments. The fall in inflation was not an isolated phenomenon in Albania. On the contrary, inflation rates declined similarly in all our trading partners during the first quarter of 2016. For instance, inflation fell by -1 percentage point across the region, and by -0.5 and -1.3 percentage points, in Italy and Greece, respectively. Currently,

inflation in the euro area, Italy and Greece and other regional countries stands in negative territory. Disinflation pressures have affected the entire region including Albania, since it has an open economy and is an economically integrated country.

Chart 34 Inflation rate in regional countries and euro area



*Region includes: Bosnia & Herzegovina, Bulgaria, Kosovo, Croatia, Monte Negro, Macedonia, Rumania, Serbia.

- *Second*, the Bank of Albania concluded that the economic activity continues to pick up, although it is still characterized by uncertainty and risks. The performance of our trading partner economies remains weak. The prices of some of our main export items in global markets - such as oil and minerals - are low, whilst the hesitation of customers, investors, and financial system remains present. The combination of these factors tends to decelerate the recovery of economic activity in Albania.
- *Third*, the logical conclusion of the above analyses is that the factors that determine the medium-term inflation performance appear weaker compared to our previous analyses and the uncertainty surrounding them has increased.

Along these lines, the Supervisory Council deemed that the monetary conditions should be further eased. Thus, we have lowered the key interest rate from 1.75% to 1.25%. In terms of the regional context, other central banks in the region have also taken similar steps during this period. The Bank of Hungary and the Bank of Serbia reduced the interest rate by 0.25 and 0.30 percentage point, respectively, whilst the Bank of Croatia and the Bank of Romania have employed other instruments to increase the monetary stimulus.

Let me now explain what we expect from this accommodative monetary policy.

- *First*, the key rate cut is expected to be followed by the lowering of interest rates across the entire spectrum of the financial system. The cost of funding - firms, consumers and financial system - are expected to be further reduced. This is the first segment of the monetary policy transmission mechanism, which has been effective in the past and will continue to be so in the future.
- *Second*, the reduction of the cost of funding - both for new loans and servicing existing loans - incentivises consumption and private investments, which together are key components of what is known as the domestic demand. Consumption and private investments were the main contributors to economic growth in the second half of 2015, and are expected to maintain this contribution in 2016 as well. The increase of the monetary stimulus provides the right conditions for the further strengthening of these drivers, while foreign demand remains weak, and the public sector's demand appears limited as a result of the fiscal consolidation strategy.
- *Third*, and equally important, the monetary policy reaction aims to convey once again the message that the Bank of Albania has always been committed to maintain its price stability objective.

Moreover, the Bank of Albania has a complete set of instruments it will not hesitate to use. This is a crucial moment, which I would like to emphasize once again, because the long-term success of the monetary policy depends on its ability to control inflation expectations. In Albania, like in many regional countries, these expectations tend to reflect, to a large extent, the past developments. The decline of inflation due to supply-side shocks may cause a fall in inflation expectations. This implies directly a tightening of monetary conditions, as what matter most are the real interest rates rather than the nominal interest rates. This phenomenon amplifies in time and size the effect of supply-side shocks, which we are facing at the moment. Our quick action and the aggressive forward guidance on the monetary policy stance should be considered in this context as well. Its objective is to convey a strong

“The key rate cut is expected to be followed by the lowering of interest rates across the entire spectrum of the financial system. The cost of funding - firms, consumers and financial system - are expected to be further reduced.”

and clear message regarding the Albanian economy and financial market. The Bank of Albania will take all the necessary measures to comply with its legal objective of price stability, in other words for the return of inflation to 3%.

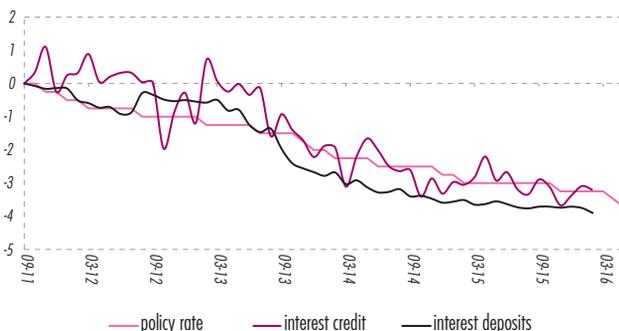
Thus, this monetary stimulus will give a new incentive to the domestic demand through further easing of financial conditions. Hence, it will help boost economic growth, increase employment and wages, and enable the return of inflation to target by 2018, despite the weakening of inflationary pressures in international markets.

During the last two years, the Bank of Albania has been very aggressive in terms of continuously lowering the key interest rate, but apparently the effect has not been so tangible in the economy, especially in terms of credit growth. What is your explanation on this?

Governor: I would not agree with the implication that the monetary policy has not provided tangible effects in the economy, not because I am the Governor of the Bank of Albania, but because facts and figures prove the opposite of this implication.

Since September 2011, when the Bank of Albania started the accommodative monetary policy cycle, the key interest rate has fallen by 4 percentage points, from 5.25% to 1.25%. This reduction is fully transmitted in the financial market. Thus, for the same time horizon, interest rates of lek loans, reduced by 3.8 percentage points, the yield on the 12-month T-bills reduced by 6.3 percentage points, whilst interest rates of lek deposits reduced by 4.1 percentage points. This implies a complete pass-through of the monetary policy. This also means that the cost of funding for the three main economic agents - private sector, public sector and financial sector - is reduced. Certainly, this reduction has not been always consistent - at times, the speed of its transmission has been uneven - but, overall, we have managed to administer the interest rates in the financial system, and this is what we expect to achieve even after the recent monetary policy easing.

Chart 35 Cumulative interest rates change from September 2011, p.p



Source: Bank of Albania.

Thanks to the reduction of funding costs lek loans grew. During the cycle of this monetary policy easing, the lek loan portfolio increased on average by 8% a year - with a cumulative growth of 41% - while the foreign currency loan portfolio saw 7% cumulative reduction. The ratio of lek loans to foreign currency loans increased from 33% to 44%. This positive performance would not be possible without the easing monetary policy stance we have adopted.

Chart 36 Share of credit in Lek to private sector



*The effect of non-performing loans written off balance sheet is excluded from the data on credit.
Source: Bank of Albania.

Related to the credit, let me draw your attention to another argument, which we have emphasised earlier. The majority of loans in Albania are indexed and the accommodative monetary policy helps reducing the servicing costs for existing loans. In a rough estimate, the Albanian

enterprises and households in a year benefited around ALL 8 billion because of the reduction of funding costs. This is a considerable support given to them and a figure that is translated in additional annual consumption and investments in the economy.

Beyond the effect in interest rates and credit, I must highlight two other aspects of the monetary policy action.

- First, the accommodative monetary policy is associated with the increased amount of liquidity injected in the banking system. Thus, for 2011- 2015, these injections averaged ALL 24 billion, compared to ALL 18 billion average in the five previous years. The increased injection of liquidity not only enables the banking system to function better, but also contributes to the increase in credit and investments in the economy.
- Second, our accommodative monetary policy creates opportunities for a more convenient exchange rate in the Albanian economy. In its absence, lek exchange rate would be higher and inconvenient for the Albanian economy. It would be a disadvantage for our exporting firms, it would not stimulate the activity of firms that compete with imports and it undoubtedly would result in financial difficulties for a category of firms, and a slower economy growth.

To summarize what I already said and to answer to your question of whether our monetary policy has or has not been effective: It has clearly been effective in all the above introduced channels and dimensions. To reinforce my argument, let me ask you a question: Were it not for this policy stance we have adopted, what would the Albanian economy and financial system be like? Undoubtedly, the answer would be: apparently worse. Both firms and consumers would suffer from high funding costs, trade balance would worsen, and the financial condition of the private and public sectors would be exacerbated. Also, indicators of consumption, investment, economic growth, employment and wages would be certainly lower than what we have today.

To conclude the discussion on monetary policy, I would like to share with you another issue: Is the monetary policy transmission at its optimal levels? The answer to this question is "not completely". There are several reasons for this:

- The high level of uncertainty and perceived risk dictates the demand for consumption, investments and credit, despite the funding cost of

- these activities. In other words, the reaction the real sector to better funding conditions is somewhat lower than the historical levels.
- The situation in our trading partners' economies and the international financial markets appears problematic and discourages investments and lending in Albania.
 - The Albanian economy has to face not only cyclical weaknesses but also structural problems in the form of over-investment in certain sectors or low competitiveness of Albanian products in foreign markets. Restructuring and economic growth are two processes happening at the same time, although the first process does not favour the second.

In the major part, all these obstacles fall outside the ambit of the monetary policy or the central bank mandate. However, the above problems of the transmission mechanism do not render the pursuit of a stimulating monetary policy as undesirable. Instead, they illustrate the need for maintaining or strengthening the monetary stimulus, highlighting the necessity for structural reforms in the economy.

Inflation resulted low for the third consecutive month, according to data published by INSTAT. How would you explain this trend which is becoming more persisting and how is it related to the slowdown of consumption? Does the Bank of Albania consider this low-inflation period as a risk?

Governor: Contrary to the significant and rapid decline of inflation in February, the inflation rate standing at 0.3% in April was not a surprise to the Bank of Albania. Somehow, it reaffirmed our opinion that: the decline of inflation came as a result of external factors; this fall is expected to be temporary; and, the deflationary situation does not threaten Albania. Since you asked, I would like to clarify that the available information and our analyses suggest that low inflation rates are not related to the decline of consumption. According to INSTAT, consumption grew during the second half of 2015, and we deem this trend will continue in 2016. On the other hand, I think we have strong arguments when we deem that the inflation decline is a result of supply-side shocks, given the performance of this indicator in the region, and disinflationary pressures in two specific categories: food and fuel - whose prices dropped significantly in international markets.

The deceleration of inflation decline may be considered as the first step toward the normalization of the situation. Of course, it is still too early to be certain whether inflation will continue its uptrend from now on. Our projections suggest this trend will crystallise only in the third quarter. However, the stabilization of inflation decline and rise in core inflation confirmed the conclusions of our analysis.

In your last statement you said that this policy stance should be associated with the intensification of the pace of structural reforms in the economy, and constant efforts for improving the business climate and reducing - actual or perceived - risk premiums in the economy. Can you explain what do you mean by it and what specifically do you recommend in terms of structural reforms and improvement of the business climate?

Governor: Thank you for the pertinent question. Opinions on the problems and prospects of the country's development often converge on the need for structural reforms. The Bank of Albania has adopted the call for structural reform as an integral part of its press releases. It aims to draw attention on the fact that these reforms are necessary to increase the potential development of Albania. This potential cannot be expanded through monetary and fiscal policies but it is absolutely necessary in order to accelerate the pace of convergence in the European Union. From the position of the central bank, this appeal aims to point out that certain elements of the structural reform are necessary to improve the monetary policy transmission mechanism.

Considered as a philosophy of action, the structural reform should aim at adopting the best standards from the global experiences. This applies to infrastructure, education, healthcare, legal system, and other fields. If we want to succeed, the final product should be a productive and competitive economy in the global markets, as well as a flexible economy to weather challenges and withstand various shocks.

In practice, three structural reforms are identified, those that: improve the efficiency of the institutions; liberalize and make the real economy more flexible; and, develop the financial sector. In this context, I would like to emphasize that the synthetic indicators of the Doing Business Report and Global Competitiveness Report provide a good guideline, which helps in creating an overview of the needed reforms in Albania in order to unleash the economic potential and accelerate the growth pace.

I would rather not repeat the conclusions of these reports, but I find it necessary to emphasize that Albania still has much to do in terms of: (i) completing the development of infrastructure, which means a modern and efficient network of transport, water, electricity and other basic services supply, as well as a modern information technology infrastructure; (ii) enforcement of contracts and protection of property rights, and this is related directly to the legal framework and the way the law is implemented; (iii) education, especially for a better alignment of our labour force qualification with labour market requirements; (iv) fight against corruption and conflict of interest, in both public and private sectors, in view of fair competition and its promotion; (v) improvement in governance and adoption of modern management methods, in both public and private sectors; and (vi) further expansion of financial system, especially in the capital market segment.

“In practice, three structural reforms are identified, those that: improve the efficiency of the institutions; liberalize and make the real economy more flexible; and, develop the financial sector.”

The list I just mentioned is not exhaustive. Many of the mentioned issues are addressed by either partial or complete structural reforms; others require greater commitment of financial resources and cannot be concluded in the short run. However, the need for a coherent reform and development strategy and the good will to boost them is what I want to emphasise.

Bankers have claimed that one of the main reasons for credit slowdown is the lack of demand from large enterprises. According to you, what are the main reasons for the sluggish lending in the economy for 2015, despite the continued easing of the monetary policy stance by the Bank of Albania, and the reduction of interest rates at a record level?

Governor: The Bank of Albania has continuously written and discussed and communicated the reasons of the sluggish growth of the loan portfolio. Let me first make a clarification before I comment on this subject once again: it does not mean that the banking sector does not lend despite the lending portfolio's slow growth. The new loan granted only for investment and house purchase purposes, in 2015, amounts to around EUR 550 billion, or around 6% of the GDP. However, the loan portfolio growth is quite lower, since this portfolio has a relatively short term maturity.

When I say that the banking system remains active in lending, I do not mean to object to the fact that credit growth is low and far from what we would like it to be.

Regarding the reasons, this performance seems to reflect a low credit demand by the real sector of the economy, as well as a tight credit supply by the banking sector.

The low demand is of course the first main factor, which explains the slow growth of the credit portfolio. This demand has a rational component that relates to the cyclical position of the Albanian economy and the presence of unutilised production capacities that reduce the need for investments to expand the activity. It also has an emotional component related to expected growth and risk perception for the future. I must say that during the past two years demand has naturally tended to be somewhat lower, due to the payment of arrears by the public sector amounting to ALL 54 billion, improving thus the liquidity position of Albanian firms, and reducing their need for bank credit.

Bank credit supply appears somehow subdued and bank's lending policies are conservative. On the one hand, this reflects the high level of non-performing loans and bank's concerns for the enforcement of collateral. We have, therefore, emphasised the major role of the implementation of the action plan to address the non-performing loans, a key instrument for improving the bank credit supply. On the other hand, the subdued credit supply reflects new supervisory and regulatory policies in the European Union, whose effect extends to Albania through the activity of EU-based banking groups that operate in Albania.

Investment opportunities in bank deposits are shrinking (BoA applied negative interest rates on euro deposits, ECB's rates are negative as well, government requirement for treasury bills fell after the issuance of the Euro-bond, credit demand is weak), while the banking system earnings fell significantly in the first quarter. What do you expect the banks reaction to be to this situation? (Some bankers have claimed that they could discourage new deposits and increase loan rates).

Governor: The answer to this question is simple: we expect banks to become more interested and more active in lending. We expect the bank credit supply to improve and better respond to credit demand, which is expected to increase.

Meanwhile, in terms of financial results for the first quarter, the main reasons for the fluctuations in banks profit are associated with the fluctuations in provisioning expenses. The financial performance of the banking sector and the economic situation affect each other mutually. Therefore, I would like to highlight once again the message of the Bank of Albania: the banking sector should be more committed to lending since it benefits both the economy and the sector itself.

Is there a risk for the environment with low interest rates to turn into a boomerang for the banking system and the whole economy?

Governor: The experience in other countries and the theoretical analyses show that low interest rates place banks in front of several alternatives: They can try to anticipate or offset this decline in several ways (often combined), such as: a) expand their investments in longer-term instruments, with higher yields; b) increase lending; c) increase the income share provided by alternative sources, such as fees or different commissions for operations offered to clients; d) reduce the overall operational costs, such as the case of spending cuts for maintenance of the branches' network, as well as automation of various processes or transactions, or outsourcing a part of them; e) reducing the commitment for the collection of the financial resources that are not justified by the income from their investment through quantitative restrictions or applying different commissions on them.

The Bank of Albania is monitoring the developments to assess the way banks are operating amid low interest rates. It must be noted that the decline of interest rates, which was stronger in the past two years, contributed positively to the profitability of banks, as they were able to preserve the net interest margin so far, and benefited from the revaluation of investments sensitive to interest rate (e.g. long-term securities). As a matter of fact, according to our accounting standards, the banking sector profit was significant in 2015. But, as we point out in our last Financial Stability Report, banks have significantly lowered the expenses for interests on the liabilities side, thus limiting the opportunity for further accommodation, in case of further decline of return rates on investments. Consequently, the pressure on the value of financial performance has increased.

In these terms, we have highlighted that it is necessary that banks use their profit in a better way, aiming to strengthen their capital position. On the other hand, our attention remains focused on the performance of credit

portfolio. Our regular on site bank examinations have aimed at the timely identification of non-performing loans, and the strict implementation of the regulatory requirement to write off the loss loans from the balance sheet. For the customers to be well informed, we are also monitoring the implementation of regulatory requirements by the banking sector with regard to the transparency of prices for banking product and services. Within the potential impacts that the environment with low interest rate has on the economy overheating or on certain segments of the market (e.g. real estate market), we assess that the risk we are dealing with is low, as long as credit growth remains low. Regarding the performance of the banking sector deposits', the latest data show that deposits in banks continue to increase, albeit at a moderate pace. There have been cases of savings shifting toward extreme maturities, thus pointing out the need of risk monitoring by the banking sector.

In conclusion, I think that the environment with low interest rates has had an impact on the banking sector activity. So far, in terms of the net financial result of the sector, overall, this impact has been positive. But this environment poses challenges to both the banking sector and the Bank of Albania, in terms of maintaining the sector's financial performance and the management of processes associated with the banking activity and the control of various risks. The Bank of Albania is aware of these challenges and our duty, as the supervisory authority, is to ensure that the banking sector is financially sound and active in supporting the economy with credit.

How is Bank of Albania's plan on lowering non-performing loans progressing? To what extent, has the non-performing loans indicator improved owing to the write offs, restructuring, or repayment of non-performing loans?

“The action plan for reducing non-performing loans is drafted in cooperation with the Albanian government. It is a result of long-standing efforts by the Bank of Albania to raise the stakeholders' awareness on non-performing loans issues, whose treatment requires a coordinated reaction not by the banking system alone.”

Governor: The action plan for reducing non-performing loans is drafted in cooperation with the Albanian government. It is a result of long-standing efforts by the Bank of Albania to raise the stakeholders' awareness on non-performing loans issues, whose treatment requires a coordinated reaction not by the banking system alone, but by all the relevant institutions acting together. We have assessed the right understanding of this phenomenon

by the Albanian government and its commitment to addressing several issues in the right direction.

By the end of March, the Bank of Albania fulfilled all its institutional commitments in the framework of this plan, mainly related to the regulatory amendments. In concrete terms:

- Effect of countercyclical measures taken by the Bank of Albania is extended until December 2016.
- Terminology related to loans write off from the balance sheets was changed.
- Several regulatory acts regarding collaterals owned by banks were amended. Their retention period was extended up to seven years, while banks will have to create a provisioning fund for them; on the other hand, the risk level when calculating the capital adequacy will rise to 150%.
- Requirements for licensing companies interested in buying bad debt are eased.
- Credit Registry improved, including the start of the legal process as well as restructured loans.
- Coordinated efforts for the treatment of large exposures in more than one bank, during 2015, contributed to the decrease of non-performing loans.

The projected legal amendments in the action plan for reducing non-performing loans continue. As far as we know, the draft law on bankruptcy is still being discussed by the government, while the rest of legal amendments will be implemented soon. In spite of this, as the majority of tasks in this action plan are of legal nature, their effects are expected to be materialized in the short and medium term.

The ratio of non-performing loans fell to 18.2% at the end of 2015, mainly due to the write off from the balance sheet of loans categorised as loss loans for more than three years, in accordance with the regulatory measures taken by the Bank of Albania. However, the obligation for the repayment of these loans remains and banks continue to pursue legal procedures for recovering them.

The restructuring and the repayment of non-performing loans are dynamic processes with continuous ups and downs, and, have a later effect on the non-performing loans indicator. The restructured loan needs a minimum of six month to be paid regularly and only then it can be

reclassified in only one higher category. So these effects will be evident later in time. We had a slight increase of this indicator during the first quarter of 2016, due to the implementation by the banking system of the Bank of Albania's regulations regarding large exposures in the brink of bankruptcy. Although this indicator rose by 1% during the first quarter (predicted by us), we believe that we will achieve the target of reducing this indicator to 15% by mid-next year.

You have stated that the Bank of Albania has a plan for quantitative easing and directly funding private banks. To what extent has this plan developed, what is the plan for its realization in concrete terms and what are the expected results?

Governor: We have stated that in the framework of contingency plans - Bank of Albania is exploring the cost-benefit ratio that alternative instruments of monetary policy present. This does not mean we are preparing to use the quantitative easing instruments. This is only one of the alternative instruments of the monetary policy, and it seems the least useful for the Albanian reality.

Before I further discuss on the above issue, allow me a brief parenthesis. The Bank of Albania is committed to a long accommodative cycle of the monetary policy. This cycle drove to the reduction of the key interest rates at very low levels.

Our interest rate at the moment seems adequate to meet our inflation target and stimulate economic growth. However, the risks' balance is shifted downward. If these risks materialised, then the Bank of Albania would consider further easing of the monetary policy, hypothetically speaking, if necessary, through other reductions of the key rate.

The Bank of Albania deems that: (i) there is still room for further reduction; and (ii) this instrument remains effective for the monetary stimulus pass-through in the economy.

However, always hypothetically, the use of traditional instruments of monetary policy has a limit. This limit is related to a natural lower bound of the key rate - close but above zero - or to the total lack of effectiveness of this instrument.

Being a forward looking institution, the Bank of Albania has analysed the possible options that can be used if the two following conditions are fulfilled simultaneously:

- (i) The space or the effectiveness of conventional monetary policy instruments has been totally exhausted; and
- (ii) Monetary stimulus must be further increased.

This is exactly what we mean when we refer to them as contingency plans. These plans are not the Bank of Albania's commitment to take a certain action, but are reaction options conditioned by certain circumstances.

Speaking of alternative instruments, I would like to highlight that our analysis are based on theoretical literature and on the experience of other central banks.

These instruments suggest that the most used non-conventional instruments can be categorised in one of the following categories: (i) quantitative easing; (ii) credit easing; (iii) long-term liquidity injections; and (iv) unconditional commitment of the monetary policy to pursue a certain course.

Quantitative easing implies increased liquidity in the economy through the purchase of securities and debt securities of the government which, have historically been a typical instrument used by central banks to manage liquidity. Central banks of USA, euro area, UK and Japan have undertaken similar operations, when the key interest rate fell close to zero, and the liquidity requirement for financial markets was extremely high. Credit easing once again implies liquidity increase in the economy, but this time changing the structure of the central bank's balance sheet. This means that the central bank buys other instruments of the financial market, thus ensuring liquidity increase in certain segments of the market. This instrument is used by the ECB and the Federal Reserve under the same conditions as before or in addition to quantitative easing, but it is not used as much by other banks. Long-term liquidity injections, as its name indicates, are temporary long-term operations of liquidity increase in the economy. Some operations do not have a particular destination - the case of LTRO operation (Long Term Refinancing Operations used by the ECB) - some others do have a particular destination - the case of TLTRO operation (Targeted Long Term Refinancing Operations) used by the ECB, and Funding for Lending operation used by the Bank of England

and the Bank of Hungary. Unconditional commitment of monetary policy is not a frequently used instrument, mainly used by the Bank of England in the form of strict time limits.

For Albania, I would emphasize that the potential adoption of these instruments should be done in accordance with the Albanian financial market specifications, which is characterized by high short-term liquidity. Because of this, quantitative easing does not seem to be significantly beneficial. Likewise, the lack of alternative financial instruments impedes the use of credit; in addition, the presence of liquidity pressures or problems in certain segments of the market is a prerequisite for the success of this instrument. The unconditional commitment of the monetary policy seems undesirable in Albania's case, as a result of a relatively high volatility of macroeconomic indicators. Thus, the option of long-term liquidity injection- contingent on meeting certain quantitative objectives for the credit portfolio and price growth of this credit-seems the most interesting.

All I can say at the moment is that we are carefully evaluating all the alternatives, and whether their usage will be necessary, and everything will be transparent in due time.

During a special interview for Monitor, some bankers were concerned on whether the intention of quantitative easing was the cancellation and/or the undertaking by the Bank of Albania of debts of big bad borrowers. What is your opinion on this?

Governor: I'd like to clarify that this option is neither taken nor being taken into consideration by the Bank of Albania. Moreover, this is something we consider to be unnecessary and, why not, even wrong.

It has not happened in any of the world's central banking experiences for the simple reason that this would be a fiscal rather than a monetary operation. Even when central banks have accepted commercial credit as collateral for liquidity injections, these have been performing credits; moreover they have had a market price transparency. Albania's banking system does not suffer from lack of collateral. Albania lacks derivative instruments and a transparent and reliable market price for them. The write-off would be a positive development, but this operation should start as a result of financial market incentives and - in the absence of strategic considerations - there is no need to add burden to the Albanian taxpayers.

**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA.
"KAPITAL", VISION PLUS TV
- 27 May 2016 -**

Vizion+: *This is the first interview of Governor Sejko with "Kapital". In fact, the Governor rarely appears in television studios, but quite often in public, to present analyses of the monetary policy of the Bank of Albania, as well as to inform regularly on key interest rate decisions. Let me ask you a question to help the members of the public that are not economists. What is the level of the key interest rate and what is the importance of this rate, which the central bank determines periodically?*

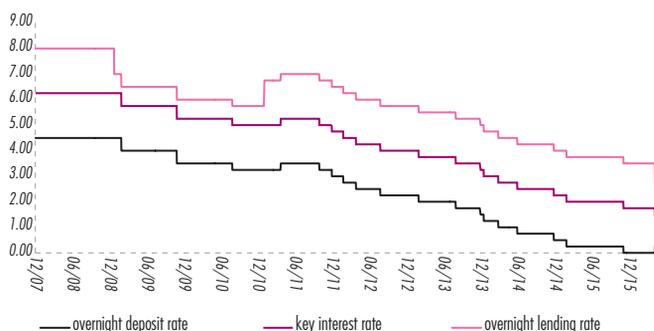
Governor: First, I would like to thank you for the invitation. Back to your question, the key interest rate is the main instrument of the central bank that influences the interest rates in the financial market, i.e. the interest rates on: loans, deposits, securities and bonds.

At this rate, the central bank finances the market and the financial system and lends to commercial banks. This rate is then transmitted via other interest rates in the financial market. The key interest rate is the instrument employed for the monetary policy transmission, about which we can say that we have been successful. We are talking about the interest rates in the domestic currency, the Albanian lek, since the central bank of Albania, sets the interest rate for the Albanian lek.

Vizion+ : *In April and May, the Bank of Albania lowered the interest rate at the all-time low. In fact, is the current 1.25%, the historically lowest rate or is this level similar to other moments?*

Governor: No, this is the historically lowest key interest rate. As we have stated in our monetary policy statements, it has been the lowest level ever. Years ago, the interest rate for the Albanian lek has been at quite high levels, 14-15, maybe even 17%. Over the years, however, the interest rate has been declining.

Chart 37. Key interest rate and overnight facilities



Source: Bank of Albania.

Vizion+: *If I am not mistaken, the drastic decline of the interest rate started in 2011.*

Governor: The decline has started since 2008, but it has been more drastic since 2011.

Vizion+: *Is the decline of the interest rate linked to the global crisis?*

Governor: Yes. The decline of the interest rate is linked to the global crisis, the domestic macroeconomic situation, and other elements that affect this situation. The interest rate is one of the basic instruments of the monetary policy and central banks across the globe, including the United States and the euro area, have lowered it. So, the phenomenon of lowering the key interest rate has continued throughout the post-crisis period, from 2008 onwards.

Vizion+: *What are the implications of low interest rates for the currency and for the economy, and of high interest rates, by contrast? What is the difference for this instrument of the Bank?*

Governor: We have repeatedly stressed in our monetary policy statements, interviews and other reviews that by lowering the interest rate we intend to boost consumption, investments and lending. A lower interest rate means that households and businesses can get loans at a lower cost, hence a cheaper price. The interest rate on loans in the domestic currency has fallen sharply in recent years and this has led to significant increases in credit.

Vizion+: *But the public, the households and the businesses do not necessarily respond to this stimulus from the Bank. What are the data that you have? Is it true that this interest rate has brought this result?*

Governor: It is true. This is evident from the figures. Often there are comments and opinions that are based only on phenomena and analyses without considering the figures, but we talk on the basis of figures since they are undisputable. They show the transmission of monetary policy to the economy and the effect of the interest rate. According to figures, lending in the domestic currency since the beginning of the application of the accommodative monetary policy stance has increased by 8%, annually. In other word, loans in domestic currency share 45% in the total credit.

Vizion+: *That is to say, the country's economy has received 8% more bank lending every year?*

Governor: Yes, credit in lek has increased. Households and businesses have preferred to take credit in lek and this trend is growing. This means that the monetary policy of the Bank of Albania has functioned in terms of lending and the monetary policy transmission has been positive. So, the impact of the monetary policy on lending has been complete and continuous. We are talking about credit in lek, because the euro is widely used in our economy and foreign currency loans continue to account for the major part of the credit portfolio.

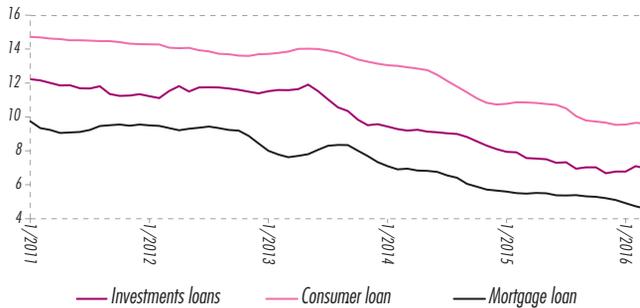
Vizion+: *So, in Albania one can borrow both in lek and euro, but the bulk of loans today is denominated in the domestic currency?*

Governor: In Albania one can borrow both in lek and euro. Banks have lent in lek, euro and US dollar, but there is no demand for the latter, due to a number of elements.

First, credit is taken depending on its price. Households and businesses have preferred credit in euro as its interest rate has been significantly lower than that in lek. So, the instalment has been lower for euro loans. Based on simple calculations, households and businesses preferred to take credit in euro. As interest rates on the lek credit have fallen, the interest rates are almost equal to those on euro credit. The European Central Bank has also cut the interest rates. We mentioned earlier that the accommodative monetary policy stance is implemented in the euro area and other countries. The interest rate is lowered by other the central

banks as well. Therefore, the cost of credit is reduced for the foreign currency as well as for the lek.

Chart 38. Interest rates of loans in lek



*Interest rates are shown as a 6 month moving average.
Source: Bank of Albania.

Vizion+: *What is the main underlying reason for the Supervisory Council to lower the interest rate? Which is an indicator that the public can understand?*

Governor: I said it; the reason is to boost lending, consumption and investments.

Vizion+: *It is noted that the economy is not credited enough and the bank intervenes. Is it that simple?*

Governor: It is both simple and complex. Lowering the interest rate comes from several models of complicated macroeconomic monetary policy. I would rather not go into the specifics and spare the public of explaining these models; however, the Bank of Albania, like all other central banks, aims to boost credit growth, consumption and investment, and consequently economic growth and improving the welfare of the population.

The main objective of the Bank of Albania is to maintain price stability and safeguard the financial stability. By easing the monetary policy, meaning by lowering the key interest rate, which in the central bank terminology is called "application of an accommodative or easing monetary policy", we aim at the growth of consumption, investments and lending. On one hand, we said that lending in the domestic currency

has increased, supported by figures despite comments and analysis. On the other hand, we aim to encourage depositors to find alternative forms of investments, since the decrease of the key interest rate also contributes to the decrease of the interest rate on deposits.

Vizion+: *I will ask you especially about deposits, because people are particularly interested in them. But, let us focus on the last question, perhaps, about the interest rate. How are interest rates in Albania compared with the region? Have the economies and the central banks of countries with similar economies operated in the same way as the central bank of Albania? What does this comparison show?*

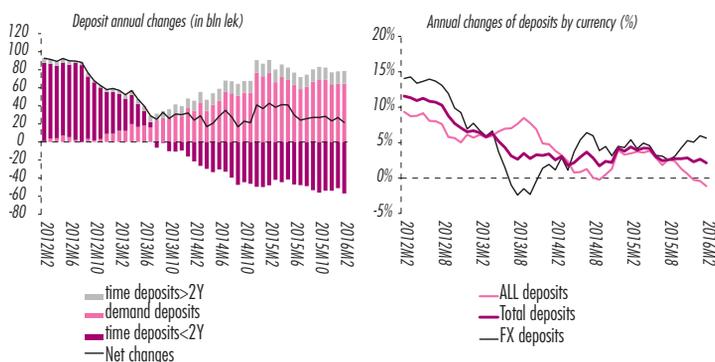
Governor: All the banks of the region have operated similarly; they have reduced the interest rate on an on-going basis. The central banks of Macedonia, Montenegro, Hungary and other countries have started to apply unconventional monetary policy methods in addition to interest rate cuts. But, generally interest rate reduction was applied in all the economies of the region, since they have all had similar macroeconomic phenomena to Albania. Also, they are affected by a trend of low inflation.

Vizion+: *You mentioned a little bit the issue of deposit. Lowering the interest rate lowers the cost of credit, but also lowers the interest of the people to put their money in the bank, because they go hand in hand, isn't it the case? So, people do not make significant profit by putting their money in banks. Perhaps they want to keep it at home or make an investment that they probably did not intend to when they were profiting interests from deposits. According to some data, citizens' savings in banks have shrunk by 10% over a period of about a year. Is that a concern for the banking system?*

Governor: For the moment, this is not a concern for the banking system. According to figures released by the Albanian Association of Banks and reported by banks to the Bank of Albania, the banking system has ample liquidity and is well capitalized. In Albania, the loan-deposit ratio is 50%. So, the banks have a huge surplus of deposits, which is also a cost for them, and these deposits are often put in other banks. Our goal as a central bank, but also of the commercial banks, is to translate this deposit portfolio in the loan portfolio, since lending profitability is higher. The decline in deposits is a result of the monetary policy. Given a lower key interest rate, households and businesses will try to find alternative forms of investment, since profitability from deposit interest rates is not

as high as it used to be. We did not go into negative rates, despite comments on nominal or real rates of interest.

Chart 39 Deposits in the banking system



Source: Bank of Albania.

In simpler words, before, citizens preferred deposits as interest rates were higher than, for example, a specific rent that they might have taken. Now interest rates are reduced and individuals may be encouraged to invest in real estate, which will bring a better income than keeping the deposit. So, the income from rent would be higher. In this case, the purchase of real estate would be boosted; therefore consumption would be boosted indirectly. We took a very simple example, but it is valid for all other sectors.

Vizion+: Lowering the interest rate apparently boosts the desire to invest in financial schemes outside banks, whose lawfulness is doubtful. Recently signals for the revival of several such schemes seem to have intensified. For example, citizens claim they receive calls from so-called companies, inviting them, enticing them, to invest say 2,000 euros for a faster profit, etc. What is the position of the central bank and how does it see this phenomenon?

Governor: Regarding your point about these companies, there are several online platforms that exist and operate worldwide. Of course, there may be such platforms that try to benefit through abusive methods in certain financial situations. These phenomena are observed in Albania, too. Fortunately, the Albanian citizens after 1997, when they lost huge amounts of money in the pyramid schemes, are now more aware and more sensitive. But, while they are more cautious, the risk still exists. For a more lucrative offer, citizens may become victims of fraud. The central

bank is a member of the Financial Stability Advisory Group (FSAG), which consists of the Minister of Finance, the Governor of the Bank of Albania, Chair of the Financial Supervision Authority, the Director of the Deposit Insurance Agency.

Vizion+: *Is this group alarmed by the emergence of such phenomena?*

Governor: In FSAG meetings, we have analysed situations and informed the public through a press release, so that the citizens are more aware and do not fall prey to these schemes. We have clearly stated that any kind of investment in money should be done through the institutions licensed by the Bank of Albania, such as banks and other non-bank financial institutions.

Vizion+: *Some of such companies may be licenced whereas others may be not, but they perform similar operations and call people on the phone, to make a similar offer.*

Governor: The Albanian capital market is not that developed. Indeed, banks are the primary institutions. Other than bank deposits and government securities, we do not have developed instruments like other countries do. The stock market and other capital markets are underdeveloped. If one would like to invest in international markets, the information would be limited, since we have no access to financial information of international markets. Individuals and businesses would like a guarantor within the Albanian market to trust, to invest their savings or money in international markets.

Vizion+: *In this case, there is no guarantee?*

Governor: There is guarantee only if the investment is made through banks or institutions licensed by the Bank of Albania, but not in the cases that you say. In such cases, there is absolutely no guarantee, these may even be scams. Frankly, citizens should not make investments over the telephone. Taking advantage of this interview, and the opportunity to address the audience, I want to stress once again that no investment, no deposit must be made over the phone.

“There is guarantee only if the investment is made through banks or institutions licensed by the Bank of Albania. In other cases, there is absolutely no guarantee, these may even be scams. Frankly, citizens should not make investments over the telephone.”

Vizion+: *Who should intervene in the state structures hierarchy? For example, in Vlorë, there are two or three schemes that sell virtual products and people who present such schemes. Which is the relevant state structure that will have to intervene in this case and stop the phenomenon?*

Governor: The Financial Stability Advisory Group, including the Ministry of Finance, has informed the public through our press releases. The Bank of Albania is responsible for financial institutions that are licensed by it. On the other hand, we have alerted the other law enforcement bodies too, including the Intelligence Service, the State Police, and the Prosecution. So we have consulted and shared this concern with other institutions as well. The truth is that the phenomenon has not grown much. There is a possibility for the phenomenon to increase; these fraudulent schemes can benefit especially in periods when interest rates offered by licensed financial institutions, such as banks, are downward. Besides pure fraudulent schemes, there are schemes that are based on the pyramid concept, the so called Ponzi schemes, which initially perform,

but their final destiny is loss for citizens. So any scheme, which operates without a license and does not pay taxes, is built on fraud. They are obviously subject to prosecution and investigation from other institutions, such as the Criminal Police, the Economic Crime Police, and the Prosecution. Raising the awareness of the population is very important, and that is why I emphasized that we have been very careful to disseminate the information, especially to households.

“Any scheme, which operates without a license and does not pay taxes, is built on fraud; hence they are obviously subject to prosecution and investigation from other institutions.”

They have limited financial information and could be lured by a particular situation. So they have to be very cautious.

Vizion+: *Now let's talk about inflation. In Albania, for three consecutive months in a row, inflation is low, around 0.3%. In other words it is 10 times less than Bank of Albania's target. What does this rate mean for the economy and the Bank of Albania and what are its consequences?*

Governor: Low inflation was not foreseen by the Bank of Albania, and it is worth mentioning that this does not constitute any problem. Inflation

as a concept has to do with the price increase. Even, if we do not have high inflation, it does not mean we do not have price increase. On the contrary, we can see that we have price decrease, but it is important to note that we do not have a deflationary situation. We have said it several times, this is a temporary situation.

Vizion+: *So, deflation means prices dropping, an anaemic economy that is to say, for the general public to understand.*

Governor: Yes. The problem would be if there was a prolonged disinflationary period, with inflation rates not in the levels forecasted by the Bank of Albania. This does not mean that there will not be a projected development of the economy.

We have noticed that consumption is one of the main drivers of economic growth. The price is demand-supply related; if there is no sufficient demand, supply prices will not increase. This is the basic economic logic. Currently, the consumption level is not enough. As we stated, consumption is the main driver of economic growth; therefore, this is the main reason for which we want to see inflation increase.

If we take it as a separate concept, outside the general macroeconomic concept of economic growth, there is nothing wrong with lowering of prices, because in the end, the population would benefit from it.

Vizion+: *But not such a lowering of prices that would suppress the economy and demand...*

Governor: That's the issue.

Vizion+: *Any extreme is harmful...*

Governor: Of course, any extreme is harmful. Until recently, our main concern has been inflation. Bank of Albania's inflation target is at 3%.

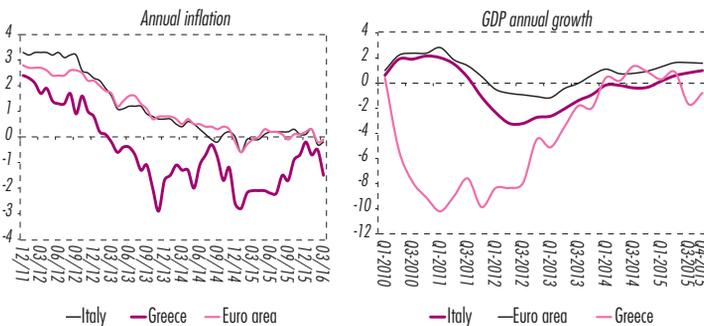
Vizion+: *According to INSTAT data, consumption has increased in the second half of the previous year. But, you know that there are economists whose outlook for the economy is gloomy and they associate low consumption with the low level of inflation. What is your opinion about the relation between consumption and inflation and specifically with the current situation of the economy?*

Governor: Inflation in the last two months was at the lowest levels. Now we wait for INSTAT for the next month figures. We have stressed that the inflation rate has come as a result of external factors, mainly from the fall in oil and mineral prices in international markets, but also from lower prices of agricultural products. So, according to INSTAT and our analyses, we did not perceive that the low inflation has come as a result of a strong decline in consumption. In the second half of 2015, consumption has resulted in an increase of 6% and this trend persists. The available data do not show a contraction of consumption, which affects disinflationary tendencies.

We are monitoring the situation. We stressed that according to the projections of our macroeconomic models, this is a temporary situation, which will continue during the first half of 2016 and is expected to adjust in the second half of this year. We expect closing 2016 with the inflation level standing at 1.9%, revised down from the previous 2.3% forecast. According to Bank of Albania forecasts, the level of inflation is expected to return to the 3% target by 2018.

I want to bring to your attention that the decrease in inflation is a regional and European phenomenon. Inflation has fallen drastically in Italy and Greece, 0.5% and 1.3%, respectively. In some countries, the level of inflation is in negative territory. Albania has a lower-than-forecasted increase, but we are not in a deflationary situation. The level of inflation in the past two months has been 0.2% and 0.3%, so we are not in the minus price level.

Chart 40 Inflation rate and GDP growth in the Euro area



Source: OECD.

Vizion+: *Is there a risk of deflation or is it just theory?*

Governor: There is always the risk of deflation in situations of economic stagnation, since we are an open economy. We do not expect deflation, but a temporary situation of low inflation rates. Officially, based on our models, we forecast that 2016 will end with inflation standing at 1.9%. Your question is: is there a risk of deflation in theory? To say that there is a risk, it does not mean that the risk will occur. For example, there is a risk that there may be an earthquake, but we are not saying that it will occur. The sharp decline in the prices of oil and minerals showed that there is a supply-side risk too; meanwhile, we also may see an increase of supply from abroad.

Inflation is measured on the basis of a basket of consumer goods and services, with a particular formula. The basket includes the prices of some goods and services that provide the main impact on the final result of inflation. So, some of them have a higher impact. The prices of oil, minerals or food products have fallen sharply in international markets, and that has certainly affected the calculation of inflation. But this should not be confused with the decreasing level of consumption.

It is not only the issue of consumption, but also that of exports. These are prices that affect the level of exports and that are associated with the increased levels of economic growth. It is a known fact that Albania is importer and exporter of oil, exporter of minerals and exporter of agricultural products; any decline in prices in these three categories would reduce revenues from Albanian exports.

Vizion+: *There is a concern for the level of credit to the economy. In fact, the economy is currently credited at lower-than-expected levels. What is happening?*

Governor: Good question. Commercial banks have continued to credit, but at lower levels than we expected. This has been for two reasons: a weak aggregate demand for credit from all business segments and a tightening policy from the commercial banks, mainly due to the strategies of their parent banks attributable to the adverse impacts of the crisis in the euro area.

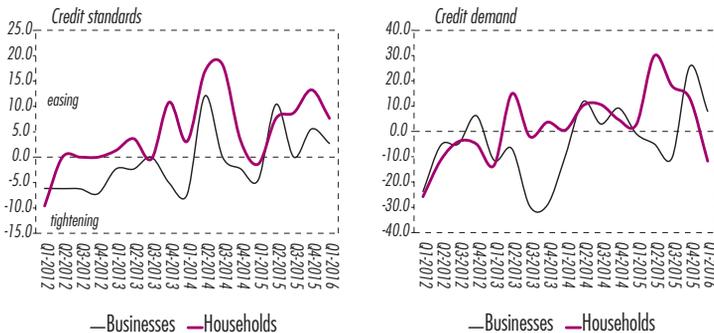
We have repeatedly urged banks to be more proactive in terms of lending. We have constantly emphasized that the Albanian economy is operating below its potential, which means that there is still untapped

potential. Therefore, we have called on the banks with their expertise and their network of branches - 500 branches in addition to 16 banks across the country - to exploit these potentials and continue lending.

Vizion+: *However, the popular sentiment is that banks are tight-fisted, that they do not give money easily; I'm talking about the popular sentiment...*

Governor: We must bear in mind that banks are very sensitive, because they are institutions of trust. As such, all of us, including the two of us, entrust our savings to the banks, which means that we have entrusted them with the endeavours of a lifetime. So, the bank is the most trusted institution where we leave all our labour and life savings. What happened in 1997 with the pyramid schemes should not and cannot happen ever again with banks. They are regulated and monitored institutions, which work with customers' deposits. The Bank of Albania's main objective is to achieve and maintain price stability and the level of inflation, in view of economic growth, which comes as a result of a vital and sufficient crediting. Also, Bank of Albania is responsible for safeguarding the financial stability of banks. If the bank credits in such a haphazard way, then that would affect financial stability and not just the capital of the banks, but mostly the deposits. So, maintaining the balance between the goal of the monetary policy and the economic growth and financial stability is one of the objectives, and one of the most delicate issues in our work as central bankers.

Chart 41 Credit standards and demand



Source: Bank of Albania.

Vizion+: *A naive question. Why don't banks give more credit? You said that banks have liquidity, are solid and have 50/50 loans and deposits ratio, at a time when, as to my knowledge, in Western countries there are more loans than deposits. So, what should be done to encourage lending?*

Governor: In line with what I was saying, two elements are combined: the sensitivity of banks and the prudence of the central bank in terms of financial stability. On the one hand, banks should be stable, liquid, with adequate capital in order to safeguard deposits. On the other hand, they must contribute enough to the economy of the country through lending. Banks have a set of rules through which they operate; there are laws and regulations that govern the banking activity and we, as a central bank, strictly monitor their implementation. Meanwhile, banks themselves, from their parent banks, have strict rules to abide by. During the period of economic boom, banks have been more active and this has created a high level of non-performing loans. This is the reason why banks are no longer as active in crediting currently.

Vizion+: *At the beginning of the previous year, non-performing loans stood at around 25%, and at the end of the year they fell to 18%, also thanks to some actions or decisions by the central bank. Can you explain them to us? By writing them off the balance sheet, what happened with the non-performing loans?*

Governor: In Albania, non-performing loans rose, this is not something to be proud, to the highest levels in the region along with Serbia. Albania's non-performing loans amounted to 25% of the total credit. This turned into an alarming situation; one in four loans was a non-performing loan. Hence, we had to address this situation.

This situation was a result of many elements: primarily by a proactive or an overoptimistic situation by banks before 2008, combined with a general deterioration of the economic climate after 2008, when businesses faced financial difficulties in their operations. We needed to address this situation in cooperation with the Government of Albania. We developed an action plan, which addresses several elements, because no institution would have been able to resolve the situation of non-performing loans alone.

“We developed an action plan, which addresses several elements, because no institution would have been able to resolve the situation of non-performing loans alone.”

The solution or the address of this situation was a matter of national emergency since it had an impact on the level of lending and economic growth, and consequently the level of welfare of the population.

Vizion+: *And therefore it was decided that some of the loans should be written off from the balance sheets?*

Governor: No. This decision was based on the principles and the standards of international accounting. There is nothing special or new here. All institutions, not only banks and corporations, but also other legal, financial or commercial entities, in case they have a loss which is carried in the balance sheet for more than three years, have the obligation to write them off from their balance sheets.

Vizion+: *What happens after that to the debtor? So, who ever has taken a loan and for three years does not pay any instalment, with this intervention of the central bank, does it mean that he has gotten away with it; i.e., he has enjoyed the borrowed money and will not be held accountable anymore?*

Governor: Absolutely not the case. The borrower or the debtor, who is unable to repay the debt to the bank, does not get away with it, because the contract is in force. Here, we are talking about a financial operation that has to do with the balance sheets of the banks. We have stressed several times that the loans that have been written off are not forgiven. The majority of these loans are brought to court in enforcement proceedings or are blocked - a problem that we have stressed as the courts have blocked many cases and has adversely affected the performance or the return of these loans to the banks. Meanwhile, many other collateralized loans have been executed; banks have taken possession over these collaterals and are trying to sell them. Overall, the portfolio of non-performing loans is well collateralized. Although banks have difficulty in recovering liquidity or in selling these assets, they are not exposed to loss in any way. If a loan is not performing, then the bank assumes ownership of the collateral.

Vizion+: *Meanwhile there has been rumour that there are also several large companies, to the point of insolvency or in difficult conditions, which are in the group of those companies that have not repaid the loans, hence they are bad debtors. What is the impact of these major companies in the domestic economy?*

Governor: These companies have a large share in the total of non-performing loans. These companies are actually groups of companies and not all companies within a group have failed. Generally, these groups have a business model, where some of the companies are profitable and others have failed, but the shareholders of these companies have refused to close down the failed part. Thus, within the group, good companies continue to fund the bad companies. These companies within the group are borrowers in some banks and create difficulties in their financial situation and in the banks as well. This becomes a chain reaction among companies and banks. Obviously, early action on the bankruptcy of companies that do not generate enough income, would be good for both banks and for these financial groups. These companies must accept a defeat policy at a certain point, in the event that their business does not generate profit. This is a matter of mentality and concept. What we have noticed in Albania is that many businessmen find it difficult to accept the fact of failure and insist stubbornly that these businesses have not failed. In fact, they have failed and it is better to shut down and not generate other losses, so that they do not survive at the expense of other businesses.

Vizion+: *They must go into a bankruptcy process, right? Meanwhile the new bankruptcy law is in progress as well. What is the role of this law or what is missing in this process, since it has become essential or necessary to have a new bankruptcy law? What is the most harmful behaviour for the economy?*

Governor: Before we explain the bankruptcy law, it should be clear that the loan agreement is an executive title. This agreement includes a collateral, whether a real estate asset or any other debt title. So, the loan is taken against a pledge, which means that if the loan is not returned, the bank executes the collateral.

What has happened and is happening is that individuals using legal loopholes have gone to court and blocked the execution of collateral by the banks. This has prevented banks from repossessing the collateral. If the court respects the law and the contractual relations borrower-lender, the bank will be able to execute the collateral. Certainly, banks would be a little tired, but would have these collaterals translated in liquidity and the level of number of non-performing loans would not be so high.

Albanian courts have favoured businesses and individuals against the banks, since banks are seen as cold, capitalistic, and rich institutions.

As long as Albania is governed by the rule of law, of rights, contractual relationships should be applied equally to both sides. This has created major problems, since the phenomenon is aggravated and influences the overall situation of financial stability or overall economic growth, where banks and the financial system have a key role. We are concerned about the financial stability, the macroeconomic situation, the economic growth, to increase the well-being of the Albanian citizens and these are all related phenomena. The issue is not whether the central bank is seeking to do justice; the issue is related to the effect we expect the justice reform to have on the improvement of these processes I just mentioned.

Vizion+: *Often you talk about structural reforms in the economy. Obviously this is a bit of an abstract term, probably not very easy to grasp for the general public. How can we understand in simpler terms what you have in mind when you put emphasis on structural reforms in the economy?*

Governor: Structural reforms are comprehensive and very broad. Practically, we have divided these reforms into three groups, structural reforms in the public and financial institutions, structural reforms in the real economy and structural reforms in the financial sector.

Vizion+: *So financial institutions too.*

Governor: Structural reforms include a very wide range, since they deal with all the aspects of the economic and social life of a country. Obviously that is a standard expression, but it involves many things. Structural reforms are related to the economic level of the country. For Albania, we can mention the reform in economy, in employment, where currently the Albanian Government is addressing the issue of providing trained workforce in line with the market demand, the reform in the energy sector, which has been the most problematic vis-a-vis other sectors. Another reform is in the field of fiscal issues and fight against informality...

Vizion+: *I just wanted to ask you about the fight against the informal economy. What are the effects of this fight? Has it been efficient?*

Governor: Recent data suggest that the fight against informality has been efficient. Income collected for this quarter is much higher than the income collected the same period in the previous year. Apparently,

the tax administration, despite all the problems that might be facing, is collecting more.

Vizion+: *There have been discussions and debates in this regard. There are also those who think that this fight is too fierce probably and did not give positive effects, or that has contracted the economy, or that has contracted consumption or people may be frightened somewhat by the fact that they must pay the bills and there is not anymore tax evasion etc.*

Governor: There are many positive and negative factors on both sides. The level of informality in Albania was a problem, because it was too high. It is difficult to measure it because it is informal, but based on the estimations by the IMF, or the World Bank or other institutions it was assumed at around 50% and higher. At these alarming levels of informality, a determined intervention was necessary. I do not want to emphasize the principles, since principles and rules of the game are standard ones.

As long as we want to integrate into Europe and our final goal is European integration, for which there is undisputed political and social consensus, we do not need to question some reforms. These reforms may have their "costs", like the energy reform which affected the poor part of the population. Purchased goods must be paid; the same we can say about the fight against informality: taxes must be paid. If there is a fiscal regime, of course every taxpayer, business or individual is obliged to respect the law. On one hand, courts must protect banks, which are powerful financial institutions, foreign or Albanian ones. On the other hand, individuals, whether rich or poor, should respect the law and pay the taxes. Of course the state should make allowances for the poor with other social reforms, but these are matters for discussion. In principle, there is no question that there should be a formality, taxes should be paid and no one is against this.

In the current situation, when the level of informality was so high, the Government undertook a reform. I am very confident and I have stressed that this was an emergency situation and a reform was necessary. We congratulate and support the fight against informality. Was this fight 100% perfect? I do not know about that; it might be impossible to do everything 100% perfect. But has this operation yielded results? We are seeing that result, since figures suggest revenues are higher. This reform must continue, this what we have advised. As we have noticed there is

a fiscal reform, which is being implemented by the Ministry of Finance. More details may be given by the General Directorate of Taxation, which will affect the on-going improvement of fiscal structure in Albania. In principle, it is important to break the mentality of tax evasion. This is important and must function. Taxes must be paid. The banking and financial industry, the public administration and all its employees are regular taxpayers of this state and this is not a small part. The same should be true for the private sector. There is no reason for the private sector to work with two standards. This sector should work, like the part of the foreign investors who are mostly serious. Informality brings distortions, unfair competition and a contortion of the market.

Your question pointed to the severity of the fight against informality and its tightening effects, but in fact there are other negative effects, which distort the market. At a first glance, it seems like with informality there is higher income, but in the long run there is no development, there is no space.

Vizion+: *You mentioned the cooperation with the Albanian government. By law, the Bank of Albania is an independent institution. Is the bank truly independent? What is the relationship with the government? Does the government interfere with the work of the Bank? Because the experience of the past years has shown that in certain moments in Albania the Bank occasionally did not know or was not able to maintain its position as an independent institution. What happens nowadays?*

Governor: The Bank of Albania over the years has increased its role and independence. The Bank of Albania operates under the law "On the Bank of Albania", which clearly defines the role, objectives, tasks and functions of the central bank. We may revise it soon, to improve it on the process of European integration, but not to change the role and its main objectives, since they are well defined in the law. The Bank is protected in terms of independence and functioning by law. In a few words, historically, the role and independence of the central bank have increased. Quality, expertise, professionalism, and the independence of the institution have been increasing over the years. During the period that I have served as the Governor of the Bank of Albania, relations with the government have been very correct. For the sake of truth, there has been no interference, neither directly or indirectly.

Vizion+: *Mr Sejko, you have been Governor of the Bank for 16 months. Has the shock been overcome, following the theft in August 2014 from the central bank? There were stolen about USD 7 million in cash at that time and the Bank went through a not that easy psychological shock? How did you find it and according to your opinion what is the situation today at the Bank of Albania?*

Governor: I believe that the difficult situation that the Bank of Albania underwent over the ugly incident of theft of the treasury, which created a shock in the trust and the image of the central bank, has been overcome. We are witnesses that all the main papers and television news featured bad comments about the central bank regarding the theft. I stressed it earlier when we were talking about that commercial banks that they are institutions of trust and the central bank, as the main bank, is the main trustenshrining institution for the state treasury; it does not take deposits, but maintains the state treasury. Any shock at this level of trust can accompany the entire financial system and this was a very bad news that weighed on the psyche of the Bank of Albania itself and its employees.

This was the situation I found when I was appointed. I have said it previously, also for the sake of independence that I mentioned, the Bank of Albania is a consolidated institution with a very good group of professionals and works quite well. The central bank was jeopardized in some elements of its administration, not essential ones. The central bank was not affected in its basic functions like the monetary policy, financial stability, banking supervision and cash operations. It has grown professionally and the expertise has not been affected.

The central bank was jeopardized in some other elements like the treasury, the administration, etc. This has been the main challenge for me as the Governor. Meanwhile, being also a period of economic difficulties, in this situation, it was difficult not only in relation to improvement at the Bank, but also in relation to reacting vis-à-vis the economy.

The central bank has overcome the difficult situation. We have made radical changes over the past year; we have made procedural changes, human, infrastructural, and technological changes in the internal control system. It's a very long list and I do not want to become boring for the viewers.

Vizion+: *Has the central bank regained the trust?*

Governor: You can evaluate this via a public survey, but I do believe it has regained it. I know that within the institution, the bank has regained the confidence of its employees. We work with maximum capacity. If it has won or not the public's confidence that is for the public to say; however, I believe that it has.

Vizion+: *A few days ago you held a meeting with the ambassadors accredited in Tirana. Since it was not a tradition, why was such a meeting with the ambassadors necessary? What did the Bank of Albania require from the ambassadors of the other countries?*

Governor: In the process of communication with the interested groups I have tried to address all of them. We conduct regular meetings with the managers of commercial banks, which are somehow ambassadors in Albania for the financial sector and the economy, meetings with big companies, meetings with the media, and conferences with academia. I consistently receive requests and have conducted bilateral meetings with almost all the ambassadors of the larger countries and all these meetings consisted in the discussion of economic developments since the central bank obviously can speak only for the economy. Seeing that there was a fairly large demand by the ambassadors I decided to hold an annual meeting with the ambassadors, as an interest group.

In the first place, this meeting served to share and make transparent the information that we have. Moreover, given the current situation, we note that there is enough interest and Albania needs foreign investments. Increased foreign investments contribute to economic growth and ambassadors have an important role in this regard as interlocutors for many foreign investments.

In the capacity of the regulatory institution, the Bank of Albania is interested in the financial sector. The ambassadors play a role in the commercial aspect, thus we wanted to make a presentation of the financial and economic situation and to invite the ambassadors to help in attracting foreign investments, and improve Albania's image. The image is a different issue. We are aware that Albania has a worse image than it is in reality. We noticed this during contacts with many foreign investors as well as visitors.

Those who come for the first time are positively impressed, because perception is much more negative than the reality. Albania is a country with many infrastructural problems; on the other hand, there are also many positive elements. Therefore, we need to promote a positive perception for our country.

“The ambassadors play a role in the commercial aspect, thus we wanted to make a presentation of the financial and economic situation and to invite the ambassadors to help in attracting foreign investments, and improve Albania's image.”

Vizion+: *In your speech to the ambassadors, you said that the Albanian financial environment is characterized by: ample liquidity, low interest rates, stable exchange rate and eased lending standards. But what are the biggest risks for the Albanian economy today, beyond these standards that you have seen in a positive way and have presented as such to the ambassadors?*

Governor: These statements relate to what I just said: in order to make it clear to the ambassadors that there is real potential for some banks. We have stressed that we may have bank mergers, something that has happened in the region, and it is good that the ambassadors become aware that the financial system is sound, if there will be foreign investors. On the other hand, it serves as a positive element in the whole Albanian economy, to show that there is ample funding capacity. If a foreign investment comes to Albania, besides other necessary elements, the soundness of the financial system and its ability to support any type of project with loans and financing are also important. This was the reason why I presented the situation of the financial sector to the ambassadors.

Vizion+: *According to the Bank of Albania, economic growth and inflation in 2016 will be lower than earlier forecasts. What is the meaning and the implications of these revised forecasts?*

Governor: We have highlighted that the economic growth in 2015 was close to 2.6%, while in 2014 at 2%, and in 2013 at 1.1%. We have emphasised that Albania has entered a positive development trajectory. We expect growth to be over 3% this year, but the figure does not matter. It does not matter if the economic growth is 3.2 or 3.3 or 3.4%; what is important is the positive trend.

Of course, Albania would need an economic growth rate of over 4%

- 4-5% - in order to reach the target levels that will lead us towards the European integration. Despite this, taking into account the context of the situation in the region and in the euro area, we consider that if we keep a positive trend of growth it means that the economy is improving and along the way we will overcome the defects and our time will come. It's important that we do not have stagnation, that we continue to grow. The economy has been growing and the central bank expects growth

“The important thing is the steadiness of growth and that the structural reforms are undertaken, including our role as central bank with our accommodative monetary policy stance and the role of the financial system, to provide a steady contribution, a positive contribution towards this economic growth.”

to continue. This is expected also by other international institutions like the World Bank, International Monetary Fund and the European Bank for Reconstruction and Development. Often, it is like playing with numbers, but it does not matter at all because it is just a forecast. The important thing is the steadiness of growth and that the structural reforms are undertaken, including our role as central bank with our accommodative monetary policy stance and the role of the financial system, to provide a steady contribution, a positive contribution towards this economic growth.

Vizion+: *Nowadays, little is discussed about the impact from the crisis in Greece. In Albania we have a large number of banks, with Greek capital. What is the situation of Greek banks in Albania today?*

Governor: The crisis in Greece created a difficult situation for us last summer. For the sake of truth, I was in my early days as Governor and we went through a very worrying period. We have experienced the crisis in Greece, as if it was a crisis in Albania itself. I can say this without any misconception, because the Albanian economy is very much linked to the Greek economy and we have three Albanian banks with Greek capital operating in Albania. All three of these banks are important, or as we say in our language as central bankers, they pose a systemic risk, and therefore we have been monitoring this situation closely.

Table. Highlights of foreign banking groups operating in Albania

Change (%)	Raiffeisen Bank International	Intesa San Paolo	Alpha Bank*	Piraeus Bank*	National Bank of Greece*	Societe Generale
Assets**	-0.40%	6.00%	-6.60%	-2.00%	-4.30%	9.40%
Credit	1.30%	3.70%	-7.80%	-3.00%	-11.50%	3.70%
Deposits	-0.10%	3.90%	-14.00%	-3.00%	-7.60%	5.50%
Loan-loss provisions	-33.30%	33.00%	-25.00%	-1.00%	-55.10%	-
Net profit	-23.80%	-14.80%	7.50%
Ratios						
Non-performing loans	10.40%	9.00%	37.40%	40.00%	-	5.10%
Net interest margin	2.76%	-	2.81%	2.81%	2.80%	-
Capital adequacy ratio	17.60%	12.90%	15.90%	16.70%	16.70%	16.70%
Bank' s share in Albania to the group	1.73%	0.15%	0.68%	0.63%	0.29%	0.04%

*The data refer to the end of 2016 Q1.

** Change from the end of the previous year for balance sheet items.

Note: *(...) shows pronounced change of this indicator (higher than 100%), while (-) shows non-available data for this indicator in the publications of the respective bank.

Source: Official websites of banking groups.

This situation was overcome fortunately, in the first place for Greece and the Greek citizens themselves, and then for us, who are highly integrated, since over 40% of direct foreign investments in Albania are from Greece. Most of the Albanian emigrants are employed in Greece. Most of the import-export activity is carried out with Greece. Greece and Italy are our two main trading partners. Any deterioration or improvement of these two countries would have a positive or negative impact on Albania. Increasing unemployment in Greece has brought down the level of remittances and this has contributed later on to the decline of the GDP in Albania.

Psychological situation of Albanians in Greece was aggravated. We are in constant contact because of the large number of Albanians living there. Almost every Albanian family has a member or a relative who is employed in Greece. Therefore, the crisis is felt both financially and psychologically. This also affects the consumer psychology in Albania. Of course, this crisis was felt more in the banking system, because as we said banks are those that keep the deposits and we were afraid of the risk of contagion due to panic. This was a frightening situation for us. But the banks survived very well. Banks were well capitalized and with a good liquidity situation. There was an intense withdrawal of deposits; banks responded to depositors, deposits went from Albanian banks with Greek capital towards other banks. This happened over a period of several weeks, until an agreement was reached and deposits returned

back in these banks as people calmed down. Banks resisted quite well and continued their normal operations.

Now, these are banks with very stable parameters, with a sufficiently high capital adequacy, operating quite normally, despite the financial crisis and the psychological stress they went through. Based on our stress tests, which we perform as a central bank to test the stability of banks, these banks have withstood the stress, and have successfully passed this period, are sustainable and continue their normal operations. I believe that we are not in a situation to discuss anymore the sustainability of Albanian banks with Greek capital, it is been surpassed.

Of course the financial and banking markets will have developments in the future, there will be mergers or sales; we are not against this. As the regulatory authority we will look very carefully at any new foreign investor who will enter the financial sector. This was one of the aims of the meeting with the ambassadors: to have a financial system as sustainable as possible and to entrust the money of the Albanian depositors to powerful financial institutions.

Vizion+: *You have led for about 15 months now the Bank of Albania. You went through a difficult period for raising the marred image of the bank, the Greek crisis. Perhaps someone might say that you are too young to run the Bank of Albania. How is your age compared with the previous governors? Are you really the youngest governor?*

Governor: I'm not the youngest governor. In terms of experience, I graduated in 1991 and I have worked in the banking and financial system for 25 years; I believe it is adequate experience. All governors in Albania, starting from the first Governor Ilir Hoti, have been younger than me. I was appointed as the Governor of the Bank of Albania at the age of 47. The youngest governor has been Mr Kristaq Luniku, at the age of 34. Also Mr Cani, when he was appointed Governor, I am very sure that he was younger than me. I am the oldest governor appointed, compared with all the other governors appointed in the Republic of Albania. I believe that around the age of 50 years old, it is quite normal in one's career to be appointed governor.

**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA.
“EKOPOLITIKË”, ORANEWS TV
- 14 July 2016 -**

OraNews: *A few days ago, there was a Supervisory Council meeting and a subsequent press conference. What is the situation of the Albanian economy for the first half of 2016, and which are the problems addressed by the Bank of Albania?*

Governor: As I stated at the press conference, the Albanian economy continues to maintain a positive development trajectory. The data and indicators clearly show that the economy has been growing over the first half of 2016. The recent data from the Albanian banking system show that credit has grown, albeit at a moderate pace. Also, deposits and other indicators of the banking and financial system appear upward. The level of public debt has continued to consolidate its reduction trend. Inflation, which showed a drastic fall in the first months of this year, has started to pick up.

Thus, the overall core indicators show the economy has entered into a positive development trajectory. This does not mean that everything is perfect. The indicators, I mentioned, are not at the desired level for the Bank of Albania. Our inflation target is 3%. We aim to reach the target by the end of 2018, while in May 2016 inflation stood at 1.2%, considerably up from 0.2-0.3% at the beginning of year, though still below the Bank of Albania's target. In addition, employment data and other data were also below the aimed levels.

All the measures and efforts committed by the Bank of Albania and the Government through structural reforms, aim to drive the economy ahead, to achieve the target. In a few words, I would say that economy is moving along the right direction, in a positive growth trajectory, but it has not reached the destination yet.

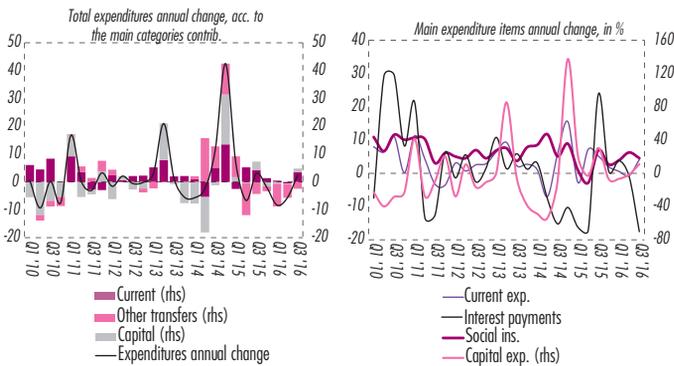
OraNews: *It is frequently said that the economy is performing below its potential, due to the European crisis the effects of which reached Albania in a second round. Yet, there are also the effects of governmental policies. In the latest report of the Bank of Albania, at a press conference, you called for public investments to be distributed*

throughout the year, and, increase at least for the remaining months. Is fiscal consolidation affecting negatively the growth of the real economy?

Governor: At the first glance, the impression is that fiscal consolidation is providing a negative impact. The truth is that it does have its effects. Albania has a high rate of public debt, and it is indispensable to reduce this level down from 72%. The new fiscal rule, made into a law, aims at reducing the public debt, which may be achieved only through a consolidated fiscal policy.

The Bank of Albania has continuously supported the fiscal consolidation implemented by the government. In this regard, the Bank of Albania has harmonised its monetary policy to the consolidated fiscal policy. This is in line with the lowering of the policy rate, in other words our accommodative monetary policy. Obviously, fiscal consolidation establishes some restrictions on making investments or increasing budget levels; however, this is indispensable for ensuring a long-term stability of public finances. The more stable the public finances are, the lower the public debt is, the more attractive Albania becomes to foreign investments in the future. The Albanian products will be more competitive in international markets.

Chart 42 Expenditures



Source: Ministry of Finance.

OraNews: Data from the Ministry of Finance show that, at least in the realisation of public investments, capital spending has slowed down. This has been a problem for many years. The argument and explanation from the Ministry of Finance point to the procedures. Do they impede or disincentive the economy?

Governor: In the last press conference on the Supervisory Council's decisions, we highlighted that we would prefer to have a more even distribution of public investments throughout the year. An investment carried out at the beginning of year, in January or in February, has not the same effect with an investment carried out in December, which is at the end of the year. We expect the level of public investments to increase in the rest of the year. On the other hand, revenues are realised at a rather considerable level. That stands above the forecast. Public investments were at the projected level and there are expected to increase. Public investments, along with foreign direct investments and domestic investments, will provide a breath to economic growth. That is why; we require public investments to grow, as it will provide a balance in the fluctuation of the domestic financial markets.

OraNews: *According to the recent data of the Ministry of Finance, unlike in 2014 and 2015, revenues have performed positively in the first five months of 2016. The Government, for the first time, is revising the budget up, not down. We all expected a reallocation of surplus revenues to increase wages and pensions, but it seems that it will not be the case - at least based on what was said at the last press conference with the Ministry of Finance, the IMF and the Bank of Albania. Would you advise for a possible raise of wages and pensions, given that consumption has contracted, notwithstanding the increase of inflation? At the beginning of the year you said that the fall in inflation would be a temporary phenomenon, and eventually inflation increased.*

Governor: In our knowledge, there is no substantial revision of the budget for the remaining part of the year. If we had a raise in wages for this part of the year, it would weight on public investments. Budget review is an exclusive right of the Government. The focus of the Bank of Albania is maintaining key macroeconomic and monetary parameters. Absolutely, we would have preferred to have had a higher level of public investments. We talk about real increase of payments, because there is a nominal growth, as wages, as far as I know, are indexed against the inflation level. In line with the agreement with the IMF, the latest decision was to not have an increase of wages for the remaining part of the year. We would have preferred to see the realisation of the budget, and all the interconnected elements within the budget realisation, in a long-term growth plan. This will probably be seen in the next year, but at the moment the situation is as explained above.

OraNews: *In the first part of the year, based on the monetary policy statement of the Bank of Albania, the growth was mainly driven by the recovery in consumption and private investments. Meanwhile, only a few months earlier, the Bank of Albania published the Economic Sentiment Indicator, which shows a considerable fall in all indicators for consumers, businesses, and services and the industry, practically in the main branches of the economy. This obviously shows an uncertainty and a concern, a lack of confidence that economy agents have with regard to our economy. What is the situation? Have the Albanian consumers and businesses overcome this problem?*

Governor: We may refer to uncertainty as a lack of confidence. It is an indicator that affects the level of optimism for consumption and investments from the Albanian consumers. The truth is that consumption has increased based on the figures for 2015 H2. The increase continued during this year as well. On the other hand, confidence indicators, according to the surveys conducted by the Bank of Albania, have shown continuous fluctuation. This is more obvious, as many factors contribute in this regard. There are psychological factors which relate to both the external and internal environment, but mainly to the external environment. We know that the euro area is not experiencing a situation of the desired recovery towards the economic growth. And the consumer is obviously affected psychologically. Meanwhile, in internal markets, the information is always volatile. There are also a number of other contributing elements, such as political conflicts, which affect the consumer confidence indicator.

The truth is that there is a mismatch between the figures, the indicators of economic growth and the perception. Confidence indicators are always a perception and overall the economic reality performs always some steps faster than the confidence indicator. The confidence indicator follows the economic reality in cases of both improvement and deterioration. Based on figures, we deem that the economy is moving moderately towards improvement. Also, confidence will follow growth, despite its fragile level.

OraNews: *Has the aggravated political climate had its impact in this regard?*

Governor: Like in other countries, the political climate always has its effect. Take for instance what happened with Brexit. In a small country such as Albania, the political climate has its impact. There are also many

other elements, but the political climate is one of the factors that affects the consumer confidence indicator.

OraNews: *Have government reforms affected the disposable income of citizens?*

Governor: The structural reforms of the Government have affected and will continue to affect. There are short-term and long-term effects, short-term and long-term perceptions. We have already discussed that structural reforms in the economy do have a short-term cost, which have adverse effects on the consumer confidence indicator. Certain reforms, such as the reform in the energy sector or that against informality are sensitive to certain categories of the population and the impact from the perception of the consumers is negative. Yet, in a long-term plan, these reforms will provide positive results and consumer confidence will improve gradually. Government reforms are undertaken to change the economic model, which is oriented toward a productive economy, not based on remittances in the model applied in the previous years. We should be somewhat patient and wait for the results and the efficiency of these reforms. Then we will see that the consumers' behaviour for consumption and investments will go in parallel with the reforms. We are half the way there and we are making the relevant assessments. It is important for reforms to continue and not get stuck in the middle of the way, to be carried out until the end.

OraNews: *Following up on the economic model concept... The current ruling majority promised a new economic model. Do you see this model materialised in these three years of governing?*

Governor: A representative of the government would provide a better answer. However, I may say that the Bank of Albania monitors the situation. The structural reforms of the government alternated with the structural reforms carried out by the central bank related to the financial sector are expected to yield their results for the Albanian economy. These reforms are undertaken to boost the economy and economic growth, improve employment and the welfare of the Albanian citizens.

We have noted that several structural reforms are carried out in those fields and sectors of the economy that needed emergent intervention, such as the energy, pensions, and education sectors and the action against informality.

Some of these reforms generate some social costs; for example, the reform in the energy sector has affected the income of some of categories of the population. Also, the fight against informality had some effects on some taxpayers, who were in breach of their tax dues and the applicable legislation. They have generated higher income by not paying the taxes. But in the long run the budget, as we are noticing, will realise higher income than the actual realisation. It would establish the possibility to realise higher public investments, which would in turn affect the life of the Albanian citizens and provide more possibilities for investment in education, infrastructure, and health and other sectors of economy. It would provide a chain reaction.

A major part of these reforms have been carried out in consultation with and under the supervision of international partners. The Republic of Albania has an Agreement with the IMF and all developments take place in the framework of this agreement. Also, these reforms are assessed under this framework. I re-emphasise that it is crucial that these reforms continue with the right intensity and not stop half the way. Only the successful completion of the reforms would make the economic model efficient and provide the expected results in the medium and long run. In this context, the Bank of Albania would be able to achieve its objectives and targets related to inflation, economic growth and the financial system stability. Related to the reforms, our accommodative monetary policy stance has aimed to boost economic growth, in the context of the increase of consumption, investments and lending.

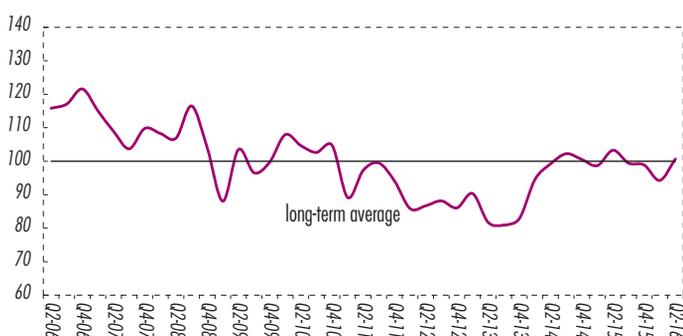
OraNews: *We will talk more on the second part of the interview on the continuous measures you have undertaken for the reduction of Lek cost and their effect on deposits, loans, bonds, treasury bills and the economy as a whole. To finish off with the inflation issue, which was one of the main concerns in the last months? INSTAT data showed that inflation stood at 0.2% in February, and then 0.3% and 0.7% in the following months. It appears that we have somewhat left the deflation risk behind. The latest data show inflation stood at 1.2% in May 2016.*

You have said in previous statements that inflation fall would be a temporary phenomenon; in fact, the fall was mainly affected by uncertainties in international markets, where oil and commodity prices were down, implying that the effect was imported from abroad. On the other hand, it appears there is a contraction of consumption. The uncertainties have been constantly shaking confidence, causing to be volatile, even though it may be a perception. What is expected from now? Another fact is that, during the first part of the year, you said that

economic growth was driven by the private consumption, while exports and the government stimulus through public expenses were negative, at the opposite direction; that is what we should expect in the rest of the year, consequently. Looking at the inflation chart for Albania, and comparing it to inflation in the countries in the region and in the euro area, the fall of inflation was not typical only in Albania, but it is a trend affected by the performance of international financial markets, with oil prices falling throughout this period, and of primary commodity prices, mainly in minerals, which is the main item of Albanian exports.

Governor: First, consumption, from the available data, has not fallen. It has been up. Consumer confidence indicator has been volatile, for the above mentioned reasons. In February, inflation fell drastically. In addition, there was a somewhat alarming situation that was quite normal. But, we were not in a deflationary situation. Nevertheless, the fall in inflation at 0.2%, was absolutely concerning. We emphasised, based on our local and regional analyses, that this would be a transitional situation of inflation, from the view that the fall of inflation at 0.2 and 0.3% was affected by the external supply-side factors, such as oil and mineral prices. The drastic fall of these prices contributed to the inflation level. Also, the fall in the price of agricultural products affected the inflation level, but oil and mineral products provided the main impact.

Chart 43 Economic Sentiment Indicator (ESI)



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

Inflation in Albania has been high. The fall in inflation at these levels coincided with the IMF regular mission. During the discussions, the IMF representatives stated that Albania seems to match the inflation figures of those of the international market, as we had been rather higher than the market. According to our analyses, we estimated that inflation would

be low only temporarily to rise later. We expect inflation to increase in the second half of year, in the absence of other shocks on the fall of prices. We deem that the inflation rate has reached the minimum, with the lowest prices of oil and minerals. Inflation will also rise due to the growth of consumption and domestic investments, in the second half of year. The forecast of the Bank of Albania is that inflation will be 1.9% in 2016, revised down compared to 2.3% estimated at the beginning of the year. Inflation is acceptable, compared to the region and the euro area, albeit it is far from the 3% target of the Bank of Albania.

Businesses boost the economy, as the main contributor to the economy of a country, the main generator of jobs. It seems that recently the relationships between the business and government have been tensioned. We have seen the reaction of the American Chamber of Trade and Commerce, German Chamber of Trade and Commerce, Foreign Investors Association. Their surveys have shown that the business climate in Albania has deteriorated.

OraNews: *At what extent is this affecting the economy and the fact that the Albanian economy is developing below the potential?*

Governor: The main topic of discussion between the business community and the Government has been the tax issue. That is, the tensioned climate you mentioned, was mainly related to taxes. Especially after the beginning of the action against informality, there was a reaction. This is understandable, as it affects the business performance. On the other hand, businesses have rights and obligations. The balance is attained only through harmonisation. On the one hand, businesses should first understand they have to comply with the law and pay taxes. In this regard, there is a reaction from businesses. On the other hand, the Government should be as correct as possible. It should lower the corruption level and react over the business' needs. Only through the support of businesses, the desired levels of economic growth may be achieved.

OraNews: *Would you recommend a possible reduction of taxes in the fiscal package of 2017, as it is under discussion and is expected to become public?*

Governor: The main objective of the Bank of Albania is maintaining the key macroeconomic and monetary parameters. Fiscal policies, the increase or decrease of taxes are an exclusive right of the Government. We would like to have a rather simple fiscal policy, to be functional

and provide positive results in collecting the taxes. There are a lot of pros and cons, positive and negative sides, regarding the applied fiscal packages, flat or progressive tax. This is an exclusive competence of the Government. It is a political issue. It is important to have as less revisions as possible of packages in the fiscal system. Tax and fiscal systems should be revised rarely. They should be simple and functional. This would be our advice, but in the end, its up to the Government to decide whether to reduce or increase the taxes.

OraNews: *Economic growth forecasted at 3%. You showed to be more conservative than the IMF and Government which forecasted the objective to be 3.4%. You stated the objective 3% even a few days ago when presenting the monetary policy report at a press conference. In this second press release, are you loyal to this figure, do you think that you adopt a conservative or realistic approach in this regard?*

Governor: We think we are realistic and not conservative. But, it doesn't matter. The important thing is to be correct in the results of our analyses. We implement a contemporary monetary policy model; however, there are many variables in it. We have continuously remained faithful to the model. But, we have always discussed the forecast. The forecast is a forecast. The higher the economic growth, the better it is. Even if the economic growth was 3%, I would say it is very positive. That is in line with the fact that economy has entered into a positive development trajectory. Economic growth trend is continuing and the effects of structural reforms, both by the Government and the Bank of Albania, are providing their results. Amid an unfavourable economic and financial environment in the euro area, the difficulties stemming from the international markets and the reluctance of external and internal agents, the 3% growth is positive. Of course, it is far from the 4-5% rate which would really contribute to Albanian citizens' budgets. Thus, such economic growth levels are desirable, but we are in a post-crisis period. It is important that Albania did not fall in recession after 2008.

“We implement a contemporary monetary policy model; however, there are many variables in it.”

It successfully weathered the crisis shocks and now is oriented towards certain reforms, which will bring an economic growth. Also, there are other unpredictable factors that may affect economic growth. That is, we try to make a forecast, but a forecast remains a forecast. At the beginning of the year, prices of oil and mineral products fell, and that was not forecasted. This fall

affected the inflation level. Hence, we revised our analysis. Economic growth may be revised down, or even up, based on the events that may occur.

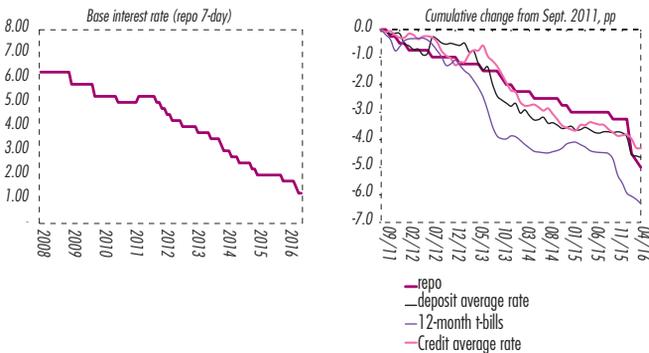
OraNews: *The policy rate has been lowered 16 times, in the course of the accommodative monetary policy that has started since 2011. What is its effectiveness, given that the lek cost, currently stands at the historic minimum, at 1.25%?*

Governor: The monetary policy of the Bank of Albania has been effective. First, this was reflected at the level of credit growth in the domestic currency, as the monetary policy of the Bank of Albania has aimed to increase lending, also to encourage consumption and investments. Lending growth in the domestic currency, since the start of an accommodative monetary policy by the Bank of Albania, has been up. We have noted that the monetary policy is reflected in the reduction of the interest rates in three segments of the financial market, credit, deposits and Government securities.

OraNews: *Has it been this even?*

Governor: Yes. Since the beginning of the accommodative monetary policy implementation, interest rates across all the segments of the financial market have been down, by around 4 to 5 percentage points. Hence, the accommodative monetary policy of the Bank of Albania has been effective and is reflected in the interest rates. The reflection of the accommodative monetary policy, implemented by the Bank of Albania, drove to the increase of lending in lek. This is a positive element as it prevents the exchange rate risk in the repayment of loans.

Chart 44 Base interest rate and pass-through to other interest rates



Source: Bank of Albania.

First, we aim to boost lending, and as long as credit in the domestic currency is up, this is a positive element. Also, the monetary policy aims to bolster consumption and investments. On the other side, it lowers interest rates on deposits, which have a negative impact on savers. Obviously, any stance of the monetary policy will have its effects on one side or the other. We consider in total balance the effects of the monetary policy stance. The accommodative simulating monetary policy aims to boost economic growth.

OraNews: *Regarding credit, while interest rates are lower, bank lending is still anaemic. Does that mean it is not the only contributing factor?*

Governor: The truth is that, according to recent figures, credit has been up even during the last month. This is a positive indicator. The latest data of the financial system situation show a moderated growth of credit, though not at the desirable levels. This is the reason why we jointly organised the fourth Albanian Financial Forum with the IMF, the World Bank, the local financial system and international institutions to analyse the Albanian economic situation and the growth potential of lending. We aim to have adequate lending that sustains economic growth, and on the other hand, have a stable Albanian financial system. That is, lending should not threaten the stability of the financial system but positively contribute to economic growth. It is not only the monetary policy. We have had an effective monetary policy. The accommodative monetary policy has proven to be successful as shown by the figures. But, it also has its restrictions. First, the monetary policy is not the only instrument that ensures economic growth. Government's structural reforms and other broader reforms are crucial, which, in concert with the accommodative monetary policy, will drive to the wished result.

OraNews: *That means you have been alone, in a certain way, with the monetary stimulus.*

Governor: No, we have not been alone. In fact, we have been a team. We have continuously collaborated and coordinated our action with the Albanian Government. We haven't been alone, at all. We do have a harmonisation of the monetary policy to structural reforms, as I mentioned to the fiscal consolidated policy. Thus, we have not been alone in this regard.

Back to the discussion on lending, we would have liked a higher growth, but not too high. If we refer to the figures on credit growth in the pre-crisis period, in 2008, this growth was at 30%. We would not like to have such a high growth of lending. It would be very good to the economic growth, if such. It is impossible to be because of the weak aggregate demand for credit. On the other hand, this would affect the increase of non-performing loans. We would prefer an increase higher than 2.5-2.7%.

OraNews: *What would that be? What is the optimum?*

Governor: Between 5 and 10%. This would be an increase that would comply with the desired economic growth and at the same time would maintain the risk criteria. This would positively affect the financial stability situation. This is in the form of an equation. The Albanian financial system, rightly, states that the credit demand is weak. This system with the highest level of non-performing loans has its hesitations, as pessimism increased in taking the decision for new lending. On the other hand, it is deemed that certain industries of Albania have potentials which may generate sound credit. Hence, the monetary policy is restricted by many elements, such as the euroisation of economy, because our monetary policy applies only to the lek and not euro. The European Central Bank implements the monetary policy on euro, as it is the ECB that sets the interest rates.

OraNews: *Do Albanians prefer using the euro in loans, deposits and also in their transactions?*

Governor: Even though the lek is the dominant currency, in several sectors, especially that of real estate, prices are set in euro. A considerable share of the loan portfolio is in euro, around 55%, from around 80% that it used to be. Anyhow, the exposure remains dominant in euro. Obviously, we suggest that entrepreneurs, investors and bank's clients that perform their activity and generate their revenue in euro should continue to work with credits in euro. But others, who generate their revenue in lek, are advised against the unnecessary exposure in foreign currency. And in this aspect, the monetary policy, by lowering the interest rate, has provided a positive contribution by encouraging the clients to shift toward the lek credit. Of course, credit has increased, this is a good sign. In recent years, the goal has been to work with short-term loans and practically amortize the loan portfolio. The amortization rate means that credit growth isn't shown by numbers. But, we must be clear that

banking system has continued lending in the post-crisis period as well. Hence, although growth appears moderate, lending has continued.

OraNews: *You said that business' demand is weak and that is related to uncertainties and the overall climate of the economy. Are the banks showing tightening policies?*

Governor: Surely what you say is an element. This is a consequence of the banks tightening policies. On one hand, the lending rate renders economic agents hesitant about certain investments, to embark on certain projects as a consequence of the overall economic climate, in the region as well as in the euro area. Certain bank policies have reflected precisely this reality. After 2008, international banks operating in Albania have adopted policies not as "aggressive" as in the pre-crisis period; hence they have had a certain contraction. Their objective has not been growth, but a decrease in dominance. This is reflected as well in the objectives these banks have had about lending in certain countries, including Albania. In this aspect, we do not have an appetite by banks for credit growth. Another factor is the effect from the level of non-performing loans (NPLs). The growth of the rate of the NPLs certainly influences the pessimism of the banks for lending. This is a quite negative element; therefore, we have addressed it and have created a plan of measures, in collaboration with the Albanian government and other actors to decrease the NPLs level.

The low aggregate domestic demand is a consequence of the economic agents' hesitation for projects and investments, as well the banks' tightening policies for growth, which in turn have led to moderate lending growth. But, fortunately the growth has continued. All our efforts as central bank in collaboration with the banking and financial system are to discuss and review the best ways for lending growth in accordance with the potential and the new economic model of the country, if we can call it this way. Thus, it is important that the banks are well oriented, despite NPLs, which will be treated according to the plan of measures. The important thing is that lending continues in the right direction, where there is less risk and more opportunity for development and growth. We have seen that banks have responded positively to the regulatory policies of the Bank of Albania, but this is a process that takes some time to be implemented.

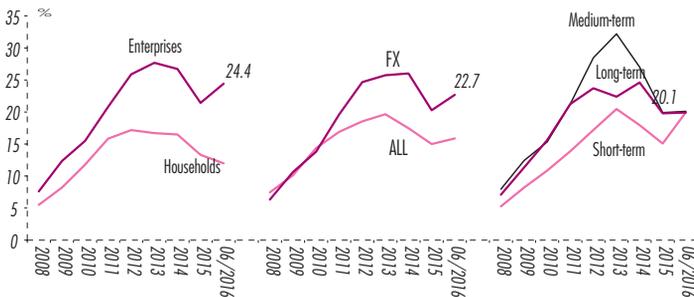
OraNews: You have recently appealed to banks to begin lending to businesses, and not be too conservative. For someone who listens as an outsider and does not work every day with lending and its problems, it seems that businesses are in trouble and do not want credit. This may be normal because they are not sure if they can make an investment, thus do not have reasons to borrow money from the bank. On the other hand, banks do not give loans because of the overall situation, NPLs situation and it seems that all this is a vicious circle. Meanwhile, the banking system continues to generate profits, so it is a comfortable situation to continue in this kind of environment. Is there a solution to this situation?

Governor: The banking system is not exactly in a comfortable situation, since their business is lending. The other revenues that are generated through a passive activity would not be very long term. Bankers surely are aware of this point. But, the issue is that we have a clear orientation toward the lending potential in relation between demand and supply, we are working with banks. There is potential; there are industries that have development opportunities for the future.

OraNews: If we look at the ratio of non-performing loans, it has been a growing indicator despite the plan of measures that we will discuss below.

Governor: The ratio of non-performing loans is high. It currently stands at 19.5%.

Chart 45 Non-performing loans in the Albanian banking sector



Source: Bank of Albania.

OraNews: *What are the lending potentials?*

Governor: The potentials firstly are oriented toward risk differentiation and mostly toward the level of microcredits, for small and medium-sized enterprises and households, more than toward supporting corporative clients, big clients. The latter bear a greater risk and the banks are "frightened" as a consequence of this level of non-performing loans.

OraNews: *Which have been the vast majority, 36 larger companies, 65%?*

Governor: Numbers do not matter.

OraNews: *These larger companies have the major part of NPLs, meaning they are the bad clients, not the small businesses, this is the idea?*

Governor: This is the reason, in this situation, for banks to have diversified risk by reorienting toward the so-called retail loans. Growth has come mostly from supporting this segment. There is nothing wrong, despite that generally the engine of the economy are big businesses, and those must be supported. But since big businesses are in trouble and they don't have projects or initiatives for projects the support for these businesses must be more studied and financially greater. Thus the banks have reoriented in this direction. The Bank of Albania, also as result of analyses carried out by other institutions (the Ministry of Economy and other institutions) have noticed that there are quite a good number of potential industries like agriculture, tourism, mineral processing, etc. that have potential and are easily creditable. It means that despite the economic difficulties, there are clients with the potential to take loans and to develop businesses.

OraNews: *So you are optimist for the lending trend in the future?*

Governor: I'm very optimist about the lending trend in the future, with better harmonization or better identification of the market needs for credit. But, that is affected by the informality rate. We must not forget that in addition to the high level of NPLs, a difficulty for the banks is the level of informality and financial reporting.

OraNews: *Two balance sheets... Are there still businesses that require credit with two balance sheets?*

Governor: As a rule we have avoided it and banks have included this in their risk criteria. This creates difficulties for the clients that take loans, since they have to be correct with their tax payments, they must have certified and consolidated financial statements. On the other hand, there might be clients with a healthy business, which are correct in their payments. They generate revenue in their business and their relation loan/investment is in quite a good condition, thus the banks practically can support very well these clients with loans. In this aspect, there is a potential that might be untapped and the banks should identify. Since we are talking about banks, let's say that from the 16 banks that operate in the Republic of Albania, some have a greater impact, some smaller, but in their total they have a net of 500 branches across the territory of the Republic of Albania. They are mostly concentrated in big trade centres and cities. Meanwhile, the agriculture sector is covered by several microcredit financial institutions.

Chart 46 Number of bank branches/agencies through the years



Source: Bank of Albania.

OraNews: *Remaining in the banking system, there have been several bank robberies. There have been many questions about the physical transport of cash and so on. Currently, what would be the comment of the Bank of Albania about this attitude, since you have approved a regulation too?*

There have been many questions related with the fact if the physical transport must be allowed, and about the manner it is done.

Governor: First, for the part of the question related to the physical transport, and relevant comments, there has been a certain reaction, which is right, and anyone would have been worried when hearing about millions, but the question is, where does this money go? Historically, the surplus cash is transferred by airplane toward foreign banks. This has to do with cash management and the issue here is not at all whether Albanians' money goes abroad, since the money comes and goes. Meaning, we are supplied with cash and we transfer the surplus cash, this is a question of cash management. The need for cash obviously is managed in the same way, taking the money back from these banks when needed. The quantity of cash corresponds to the bank accounts and these accounts are reconciled through the corresponding banks. Obviously, this discussion has been done when discussing deployments abroad too. Albanian banks have excess liquidity, the loan to deposit ratio is 50 to 50.

OraNews: *So they do not give loans, they cannot keep the cash, hence obviously they transfer it abroad...*

Governor: The surplus funds in foreign currency are established by foreign banks, since there is a form of interest rate there; while lek would be invested in treasury bills of the Albanian government. Following this logic, the surplus cash would adjust through the inflows and outflows transferred.

OraNews: *So it is a normal procedure.*

Governor: It is a very standard and normal procedure. There is no issue with this procedure, which has functioned and will continue to function, since this is how it functions throughout the world. The issue is how safe is cash from being attacked by the criminal activity. So, do the safety criteria ensure that the money will be protected during their transport or on the premises where the banking activity is exercised within the offices and bank branches? The record has shown that this money has been attacked several times during their transport. So, transport carries a greater risk than the banks' own premises. This is logical, since the banks do a management within their premises, keeping lower amounts in their branches and the hit would have smaller consequences given that this money is also insured. The central bank, after the various robbery events and in close collaboration with the State Police, has revised the regulation for the security criteria to increase them. First, for the situation that the banks have in their premises, since they are responsible for the

physical security of the cash within the premises where the banking activity is exercised. Simultaneously we have advised the State police through a very productive collaboration to increase the security measures during transport. Also, there have been some regulatory changes. The companies that transport the money are private security companies, which are licensed by the State Police. The State Police also declared that it is reviewing the law in terms of increasing security measures, while private transport measures are increased as well. The Bank of Albania through the regulation enforces banks, first to perform the transport of monetary values with private security companies; and second, the money to be insured by insurance companies. These are the two main elements.

OraNews: *About this last robbery, was the money insured?*

Governor: Of course the money was insured. But, the important thing is that such events do not happen anymore. Therefore, the security measures should be strengthened. I want to highlight that the repetitions of this events, for the values it represent, does not hurt the stability of the financial system.

OraNews: *What is the negative effect?*

Governor: First, the negative effect is the loss from the banks. They have a consolidated financial situation, but it is still a loss. The greater negative effect is not the financial loss, but the loss of the good opinion that foreign investors have regarding the security. The banks themselves are direct foreign investors. In case the events repeat themselves - because sporadic events happens everywhere in the world, but is the repetition that turns them into a phenomenon - then this will be another alarm signal, like the high level of non-performing loans. This would create insecurity in the banks' situation as foreign investments in the Republic of Albania. For this reason we have addressed this and for this reason we want these events to be transparent and minimized in the future...

OraNews: *Mr Sejko, as a consequence of the monetary policy of the Bank of Albania, the deposits interests have fallen noticeably, nowadays it is almost inconvenient to keep your money in the bank, at least for the one year deposits. Has this had a negative, perceivable, effect on the consumers?*

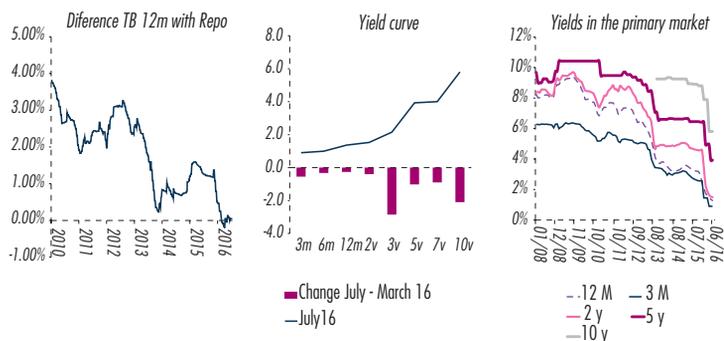
Governor: I highlighted that the easing monetary policy of the Bank of Albania aims to encourage consumption, investments and lending. This is an international debate, related to the savers and revenues from saving. We have seen this debate lately in Germany as well between the Minister of Finance and the Governor of the central bank, but also in many other countries. Of course the monetary policy will be reflected on both sides. It is reflected in the deposits interest rate, but we must not forget that we have a great number of citizens that are borrowers. The low interest rate has affected positively this side. We must understand that we are in a period of economic difficulties, and not only us but the entire euro area. It is a monetary policy that is being implemented as standard by all the countries. First, it was implemented by the United States of America and has given its results, and then it spread in the euro area. The same policy is implemented by the European Central Bank.

The low interests rate policy aims to grow the level of consumption, otherwise the depositors will keep expecting revenue only from their deposits, without investing, without consuming. We aim to grow consumption and to grow alternative investments.

OraNews: *Is this happening?*

Governor: Obviously it is happening, since consumption has grown. We said there is a correlation between the consumer confidence and the real economy indicators. Naturally, consumption has grown based on figures, but growth rates and the response rates will be seen in the future.

Chart 47 Interest rates in securities market



Source: Bank of Albania.

OraNews: *Where can the money be invested remains a great dilemma. Treasury bonds interest has fallen noticeably, it was almost 1.3% in the last auction for one year bonds, two year obligations were 1.5% in the last auction, and deposits interest has fallen noticeably and is not convenient to keep the money in bank. For those who have money, where can they turn to? Since there are several online trading schemes, for which you have appealed to people to be cautious, where can the money be put?*

Governor: The best would be for the banks to increase lending, in a healthy manner, in the sectors we talked about. And gradually with increasing profitability as the economy grows, we will raise the interest rates and naturally the profit of depositors will increase as well. So this is the ideal situation, which for the moment we aim to achieve in time. I cannot give a practical orientation, since actually it is not the duty or the role of the central bank to say where someone might invest and where are the alternative investments. There are many alternative investments according to the many segments.

OraNews: *I'll make the question simpler. There are investments in electronic platforms, online platforms. First, it was the Financial Supervisory Authority that appealed for caution, by this is also the institution that should monitor these kinds of investments, and then it was the turn of the Bank of Albania. You have also held the meeting of the financial stability with the participation of not only the FSA but also of the Ministry of Finance. To what extent is this problem a concern and what do you recommend concretely to the citizen to be cautious of?*

Governor: The Minister of Finance, the Financial Supervisory Authority and the Deposit Insurance Agency, as the responsible authority for licencing these online platforms participated in the meeting of the Advisory Group for Financial Stability. The discussion about this element was started rightfully so by the FSA. We analysed this. The truth is that this phenomenon is not alarmingly spread, but the first signs of these platforms are appearing in the market. We have reacted in order to sensitize the Albanian citizens as much as possible to invest their money as safely as possible. So, after the meetings of the Advisory Group for Financial Stability, we had a press release, where we have drawn the attention of all the citizens to not invest in unknown platforms, since they are going to be prey of fraud schemes, in case they are attracted by high interest rates. Citizen should invest only in licenced platforms. To

grow the transparency on our webpage we have tried to release their list as well, but the Financial Supervisory Authority has published the part of online platforms licenced by this authority. There are a limited number of licenced platforms, about whom the authorities take responsibility.

Investments in international financial markets have several elements that are unknown in the Albanian market. There is a lack of information, and practically only licenced institutions and some banks can provide this type of service to the clients. These are the appropriate institutions that will be transparent and will give the appropriate counselling to the client for the risks he undertakes.

OraNews: *It is individual right, so each person must check it online and see whether the platform is licenced or not.*

Governor: We have advised our clients to invest their money only in licenced institutions, either from the Bank of Albania, or from the Financial Supervisory Authority. Every investment outside the licenced institutions bears a great risk and the probability of fraud schemes is very high. In this case, the citizens must be very cautious. Especially in this situation where the interest rates are so low, schemes that try to attract citizens prevail, and not only won't the client get the promised profit, but they will lose the principal.

OraNews: *Meanwhile the informal lending market has been developing in Albania. It is found mainly in the construction sector, but also in some other sectors of the economy. It is booming, at a time when banks are deterred from lending, despite the growth which as you said is not at the desired levels. How disturbing is this phenomenon currently?*

Governor: The informal market has always existed. The central bank has performed several surveys related to the informal market. It is a little difficult to derive accurate indicators from surveys, since there is a hesitation in reporting. The main concern related to the informal market has been that the depositors interests are not touched, meaning that we do not have so many borrowers that a good number of depositors cannot enter in a certain investment. Meanwhile, by law, individual borrowing and lending is legal and there is no issue there. Obviously the informal market could be a parallel market as well. Some positive business projects can solve each other necessities without going through financial intermediation. This would not be that much of a problem with the depositors, since the informal market has certain contracts. The

agreement would be done on the base of a notarial contract, maybe even giving some collateral.

The main concern has been that financial institutions not licenced by the Bank of Albania should not be able to conduct business without a licence for lending. Hence, they should not collect deposits and give loans since this can create the premises for pyramidal schemes, which can cause losses to the citizens. As we have observed, this element has not evolved and we will put the maximal effort so that this phenomenon doesn't develop. Related to the informal market, we would

“It is advisable that any type of investments should be done through licenced financial institutions and banks, since these are specialized to conduct analyses for lending and to evaluate all the risks' elements.”

like to draw the attention of the citizens so that they would be as careful as possible in alternative investments and to analyse risks. It is advisable that any type of investments should be done through licenced financial institutions and banks, since these are specialized to conduct analyses for lending and to evaluate all the risks' elements. Individuals themselves are not specialized to do risk analyses on investments. But, on the other side, it is the right of any individual to choose individually his own form of lending and borrowing, taking the risk upon themselves.

OraNews: *In the conditions when the credit market in the country is stuck in a stalemate, so we do not have the pace we would like in lending to the economy, will you advise the reopening of the Tirana Stock Exchange? That was an old project, it was a department at the Bank of Albania that became independent, until a year and a half ago when the government closed it, because it did not perform any function, simply had operative expenses. In the conditions where the Albanian economy currently is, do we need a capital market?*

Governor: The development of capital markets would surely be quite a positive element, not only in the conditions of the Albanian economy, but in the condition of the region's economy. Obviously a secondary market, a parallel capital market would have had a great effect in the efficiency of the financial intermediation. Banks would not be the only financial institutions to support lending and economic growth, but we would have also capital transaction through the capital market. There have been several initiatives, which have failed. The major one was the Tirana

Stock Exchange, that closed down since it did not have any activity for several years. The main element that affects the development of the capital market is the level of formality. Quoting, listing, certifying must be done on the base of certified balance sheets, since stock transaction must have a certain level of verifiability. In case we have a high level of informality, the capital market would become more a speculation centre than a centre where capital is sold and bought properly.

OraNews: *Is this the right moment since we have the anti-informality initiative and the control of the level of risk base of the large companies?*

Governor: In any moment, there can be private initiatives to create the Tirana Stock Exchange. Surely, this should be consolidated. It is one of the objectives of the Bank of Albania, but anyway this objective will come at the right moment and the right time, there is no need to be hasty and take an initiative, which would not have any effect. It is welcomed and any initiative will be analyzed on the base of predetermined criteria. To be realist, the market is still at primitive levels and with high levels of informality. The level of informality must fall and the market must be regulated so that the creation of a stock exchange is efficient toward stock transactions and the development of a parallel capital market. This is my thought in this moment, it will need time.

OraNews: *Several investment funds have been licenced, some economy experts cast the doubt that part of the non-performing loans we mentioned, which have reached 19.5% and that we will discuss further on are bought through them. Is this true?*

Governor: Investment funds are funds which manage the liquidity surplus and mainly have invested in the purchase of securities of the Albanian government, because it is the only instrument, the only government security. The Financial Supervisory Authority licenses and supervises these investment funds.

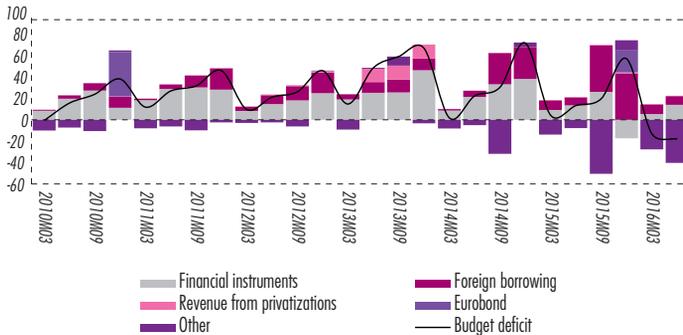
It is not true that they are buying part of the non-performing loans. We have not detected it and we do not have this concern. There are some analyses done by certain "analysts", which might create some conspiracy theories which are unfounded. I have heard them, but I have no concern.

OraNews: *The monetary policy is accompanied by a reduction in treasury bills' interest rates and bonds. One investment less for the Albanian citizens, and they are expected to further decrease. It seems*

that the Government was the only one which benefited from this. In the factual budget report there are approximately ALL 1.4 billion less that are paid for the domestic debt by the executive.

Governor: The government has borrowed mainly through Euro bond in international markets. Such thing was done in order to let the excess liquidity in the banking system free to support with credit the growth and the development of the Albanian economy. We have stated this before as well. Of course, the government has also benefited from the reduction of interest rates, concerning the domestic borrowing. But the biggest cost of debt has been associated with the Euro bond. Thus, the impact of monetary policy, interest rates have decreased in all three segments of the financial market, loans, deposits and securities as well. The latter is a segment that would certainly feel the impact. At the moment, we are not planning a further reduction of the interest rate because as we previously mentioned, the indicators at the beginning of the year had a positive performance. And if we meet the foreseen objectives- at the economic, inflation, and credit growth level as well as at the level of other indicators- then of course, the accommodative monetary policy will or maybe not be in such levels. Everything needs to be adjusted.

Chart 48 Budget deficit and its financing instruments (cumulative)



Source: Ministry of Finance.

OraNews: So, hasn't the monetary stimulus been exhausted?

Governor: No, it has not been exhausted.

OraNews: Can we expect a further reduction?

Governor: Monetary stimulus has not been exhausted and the policy rate stands at 1.25%. There is still room. Only if the consumption, investments, economic growth and inflation are to be lower than our forecast; if there will be foreign shocks which would lead to the deterioration of different macroeconomic indicators, then we will be forced to undertake a further reduction or unconventional measures. But at the moment these are all alternatives. At the moment we are monitoring the indicators.

OraNews: *What do unconventional measures imply?*

Governor: As we have already discussed, unconventional measures are quantitative easing, pursued by the central banks of various countries.

OraNews: *In order for money to be produced and then injected into the economy?*

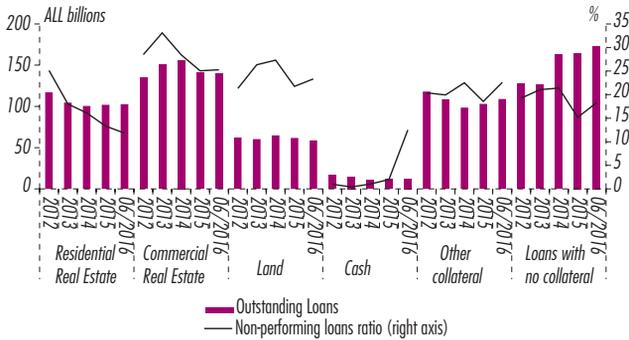
Governor: Not exactly. That would be the last step. There might be quantitative easing measures aiming to stimulate lending, yet again to have their impact by lowering credit price and injecting the liquidity in the financial system with lower prices compared to those of the market in order for the lending to be stimulated. This has probably been one of the very first unconventional measures that England, Hungary and other countries in the region have pursued.

Regarding quantitative easing, unconventional measures are far from the Albanian reality as there are several criteria that must be met. First, the ratio of liquidity is high, and we do not need liquidity. Second, we are not in recession like some EU countries that have undertaken these measures after they have fallen into it. Inflation indicator was at deflation level, while we are neither in deflation nor in recession. We have enough liquidity. Based on the macroeconomic indicators, we are not ready to undertake unconventional measures. All central banks have had an easing monetary policy. We will have to wait and see what is going to happen.

OraNews: *One of the concerns raised in the Bank of Albania's report is the fact that the collateral executed by banks in the last four years has significantly increased. In other words, due to credit repayment, the banking system has taken the collaterals or mortgages that were left as collateral for granted loans. It seems as if the banking system has already taken the nature of a real - estate or real estate agencies. How concerning is this phenomenon?*

Governor: The phenomenon of the non-performing loans is concerning and this is related to the execution and collateral being owned by the bank. When non-performing loans' rate is high, banks are forced to manage or execute the collaterals, as they would have to retrieve their funds and liabilities. The growth of non-performing loans portfolio is associated with increased collaterals obtained from banks. It is not true that banks have become real estate agencies. What is happening is a worldwide standard. Of course, within their departments, banks may create certain units for the real property management.

Chart 49 Outstanding loans and non-performing loans by collateral



Source: Bank of Albania.

OraNews: What's the risk at a time when construction market itself is a little stagnant, if there is no demand, or there may be demand for small apartments only? They may be left with the property instead of having the money they are in need of. Is this the concern?

Governor: This poses no risk regarding the construction market. There isn't a single problem.

OraNews: Can the value of the property which is used as a collateral drop?

Governor: The market regulates itself. Banks have attempted to sell these collaterals within the market values. There might be a tendency for price drop, since the bank will want to cover its obligation. Although there is a standard rule that any reversal from the property sale which is bank's obligation is returned to the customer. Not all the money is taken from the bank. The rest, if it happens to be above this level, is returned to the customer.

The problem is that banks are financial intermediaries. They are not real estate agencies. This is a burden for banks. This is why we changed our regulation, in order to make it easier for the banks to keep these properties in their balance sheets. We have created a time extension up to 7 years, in order for them to be covered with provisioning loss as well.

OraNews: *So this is not a concerning situation right?*

Governor: Right, this is not a concerning situation. This is a consequence of the high number of non-performing loans.

OraNews: *In regard of non-performing loans... Despite the fact that banks removed from their balance sheets ALL 23 billion of loans that were not expected to be returned, non-performing loans decreased to 18.2% by the end of December 2015. During the first months of 2016, this indicator increased up to 20% according to the association of banks, whereas indicators of a few days ago decreased to 19.5%, which is still considered high. What is happening, why aren't the loans being returned?*

Governor: The level of non-performing loans will definitely fluctuate, it can't just keep declining. It is important that starting from 25%, the indicator has continued its downward trend. So, the plan of measures we have undertaken has affected, both the issuance of loans from the balance sheets, and restructured loans which are turned into still performing loans.

OraNews: *Do such cases exist?*

Governor: Of course. In some cases non-performing loans grew from 18.2% to 20%. This happened mainly because of our two clients Kurum and Armo, whom we have previously mentioned in the Economic Commission Report. Kurum has given the main contribution to this, being provisioned by 100% after the declaration of bankruptcy. Although the customer has paid and performed in the banks where he had his accounts, as a result of the regulation requirements for the management of reserve funds for covering loss loans, banks were forced to provisioning at 100%. Armo's provisioning had been done earlier. Both these cases have impacted the growth by 1% of non-performing loans.

OraNews: *So, the fact that there are other customers as well who are not returning the loan, is not considered a concern?*

Governor: No, this has been the main impact. There might be other clients as well who might worsen and others who might improve. It is important for the trend to be upward. We can't expect to have 0% NPL since such thing is impossible. On the other hand, NPLs that are above current levels are a concern. In general, we would prefer clients who perform and return their loans to those who do not pay. Despite this, lending remains important. We are referring to a percentage, since non-performing loans ratio is a non-performing loan in relation to outstanding loan. If the outstanding loan, and lending would increase then non-performing loans would decrease. This would improve the overall economic climate and indirectly non-performing clients would be able to generate incomes and there would be an improvement. Generally speaking, a better economic situation, supported by an increase in lending would lead to the reduction of non-performing loans.

OraNews: *Which were the main recommendations and messages that were given in the last forum that you organized with IMF?*

Governor: The forum addressed these objectives: identification of the potential of the Albanian economy; assessment of the Albanian economy; and of the opportunities that the Albanian economy has to grow. In what way do Albanian banks identify these opportunities, what are their strategies to harmonize, to share thoughts and concerns with other banks and to make a good presentation from different parties, Albanians and other countries of the regional economies, to make the adequate comparisons and to understand the ways through which they can develop. It was also discussed about and analysed the impact that non-performing loans have, since last year this forum focused on non-performing loans. I emphasise that non-performing loans influence the optimism or pessimism of bank' decisions in terms of lending. We must consider all the opportunities for credit growth except of one element which we have addressed in cooperation with the Government. Credit growth is an element which impacts the economic growth. It is a prerequisite and it is not the only one, because we have had economic growth that was not a result of credit growth, rather it was a result of the increase in foreign investments, other investments, and consumption. There are many other elements which affect the economic growth. Lending is one of the most important prerequisites that affect economic growth, but sometimes with the good will to encourage economic growth, it is somehow stressed too much, and while doing so, we forget all the other functional elements that affect economic growth.

OraNews: *Mr Governor, there has been a plan of measures of the Albanian government and the Bank of Albania also to lower non-performing loans. There are some large enterprises, non-performing loans of which make up to 65% of the total stock, there is also this law on bankruptcy which was drafted by the Ministry of Justice and IMF. It is now in the Parliament awaiting approval. How is this plan being implemented and how will the debt of these large enterprises be solved. It appears as if this debt is dictating the lending policy in the Albanian banking system.*

Governor: The plan of measures was drafted last year. One of my main objectives as the Governor of the BoA, is addressing the problem of unreturned loans, because as we mentioned this is a big obstacle that prevents credit growth. We tried to include all the elements that would impact the banking sector for the return performance from these loans. Of course this plan had its own results. It included legal, regulatory and fiscal amendments. After being discussed for many years, this plan led to the write off of loss loans with over 3 year maturity from balance sheets. Although, I highlight it once more, this does not mean that these loans were forgiven, financial statements simply are eased and they were left as items outside the balance.

OraNews: *Businesses will pay the liabilities anyway.*

Governor: Banks are acting in the same way. We discuss in terms of accounting aspect, financial aspect in the balance sheets and financial statements of banks, which while eased, will improve the banks' financial indicators, such as capital adequacy, liquidity and profitability indicators. Based on these indicators, lending decision-making continues to get optimistic. These loans continue to be there and they lead to the decrease of non-performing loans, only in terms of figures. And as I previously mentioned, many other loans were restructured. The difficulty was caused by some large exposures, which have been present in more than one bank. They were syndicated loans.

OraNews: *So, you are saying that there are loans in several banks and this fact makes them difficult to be treated.*

Governor: This makes the decision-making process a bit difficult since it is not only one bank involved in this decision-making. There are two, three, four banks which need to agree with each other on the restructuring scheme. This has been under the supervision, monitoring and the coordination of the Bank of Albania. We've had our role in the framework of a project of the World Bank which provides assistance for

the Bank of Albania in order to coordinate the work through banks for the restructuring of loans. At the same time, there is the insolvency law that you mentioned. We discussed about the collateral execution. The impact of regulatory incentives is related to the collateral execution with extra-judicial procedures. For those companies that see no future, the insolvency law would create the possibility....

OraNews: *...for banks to be the first to get repaid...*

Governor: Banks would be the first to get repaid. It would also affect borrowers' situation, since some borrowers have businesses that are not profitable and they continue to keep going through other companies' expenses. The closure of these companies would make the economic and financial situation of the borrowers' easier, thus having better income and at the same time to have a correct relationship with banks. These are key elements of the measure plan regarding the decrease of non-performing loans.

OraNews: *Is there a defined deadline on which the issue of large companies having this problem with several banks will be solved?*

Governor: There aren't and there is no need to have such deadline. Cases differ from one another. Banks have deadlines. Deadlines are legal. There are some regulations and in accordance with them, in case the client does not respond within a certain period of time, it will be classified as doubtful, substandard, with loss loan. After 360 days, the bank will start with the procedures for the execution of the collateral, with respect to the law.

OraNews: *To cover the risk....*

Governor: It is important that non-performing loans portfolio is well collateralized, i.e. fully collateralised.

OraNews: *Is there any risk regarding depositors?*

Governor: There is no risk regarding them. Being a financial intermediary, banks need money not properties. The bank has assets, but it should turn them into money in order to cover losses from the failure to return the loans and at the same time, to respond to the depositors, because loans are granted from depositors' money.

The Bank of Albania considers the justice reform as very crucial in this regard. This helps for the perfection of the judicial system for granting

the right to the party that actually deserves this right. In concrete terms, the bank has its right to execute the collateral in order to answer to the depositors, who ultimately are Albanian citizens.

OraNews: *Did the delayed processes have any impact on bank's balance or on the high level of non-performing loans? There are some cases that are above trial...*

Governor: There are many cases above trial, but this was the exact problem, court delay of these cases. Thus, banks have the right to use the loan agreement as an executive title for the collateral execution, on the other hand, no progress is made since they are delaying these processes continuously. Certainly, at the end, the trial might be obtained from the bank but worth mentioning is that as long as the bank cannot take its money back, there is an additional cost.

OraNews: *Mr Governor, during these last minutes of my show I wanted to know your opinion on Brexit's impact, the British referendum which puts Britain out from the European Union. The concerns of the International Monetary Fund were made known to us, a few days ago, during IMF position on the level of the euro area economy being affected. We suffered the consequences during this second phase of its effects, what happened in the neighbour countries and countries of the old continent. In Albania during 2008, we experienced the financial global crisis. Does Brexit poses any risk to Albania?*

Governor: Britain comprises approximately one-sixth of the EU's economy. Only as a result of this indicator, the International Monetary Fund and all the international institutions, during their analysis, will take into consideration the impact that Brexit has. This is an element that will have its impact, but for now the impact is still unclear. There was a very large fluctuation in the international markets at the very first moment the referendum results showed the exit of the Britain from EU. London itself is known to be an international financial centre. We will have to wait and see what is going to happen since it is still unclear, stock exchanges' fluctuations and the loss are quite large.

OraNews: *Two trillion pounds were estimated by Standards & Poor's...*

Governor: Obviously, large losses. This was the first effect of Brexit, it was the expected effect, but no one could tell whether Great Britain would leave EU or not, and no one knew how much the loss would be. These are results of perception and they are unexpected. Responsiveness to stock exchange is the sensitivity and the perception created by the

exit, thus it is not a real economic effect.

OraNews: *Scared money as said in economy; Are we prepared in case this risk happens to be not just a perception and not affect only stock exchanges?*

Governor: As we have previously stated, Albania is not fully integrated with the UK. Foreign investments level is close to zero. Import-export trading exchange is approximately 0.6%. In Albania remittances are the highest in percentage. They account about 10-11% of the total remittances. We do not expect remittances to drastically drop, but as a result of the devaluation of the pound, this would affect the income that Albanian families would have when they'd exchange this currency with ALL in Albania. But this is a not so indicative income when it comes to influence the increase or decrease of the Albanian economic growth. What impact it will have in euro area and our main trading partners we will have to wait and see. Euro area is known to be Albania's main commercial partner, especially Italy and Greece.

OraNews: *According to the latest data, Germany as well.*

Governor: Yes, correct. So, any impact of the euro area would affect the region as well as Albania. To be realistic, Albanian economy is smaller, but we can feel the influences. It was thought that the financial crises of 2008 would not affect Albania since Albania has a non-integrated market, but within two-three years, Albania was affected by the consequences of the crises. Albania managed to survive the crises but its effects were felt. The same will happen with Brexit. It is important for the euro area to remain united, in terms of economic and political perspectives. So, it is important, to not have further exits, not have a chain effect which will then create further volatility in international markets, especially in the euro area. Any effect would be unpredictable. It would then affect our region and Albania.

OraNews: *Then, it would be a general effect.*

Governor: It would be probably a general effect, but these are just assumptions. What can be seen from the survey results of the early days, is that there is a setback from the political perspective, or "regret" from the UK, knowing the loss caused by the Brexit. So knowing the losses it seems to have repented, but this is the result of surveys and the media. It's a very complex situation.

OraNews: *Is there the possibility for Scotland to exit UK?*

Governor: Normally it might be. These are all positive elements for the consolidation of the euro area. Lately, we have noticed that far-right parties in the euro area lost points whilst the Chancellor Merkel earned.

OraNews: *It seems as if there is no risk for extremism or other exits, apparently.*

Governor: After a certain loss, it is normal for unity situations to be created, but this doesn't mean it will be consistent in the future. We will see. Many challenges lie ahead of the euro area and consequently for the Albanian economy. What really matters is to be guided in our model and our structural reforms. It's important that we do our job.

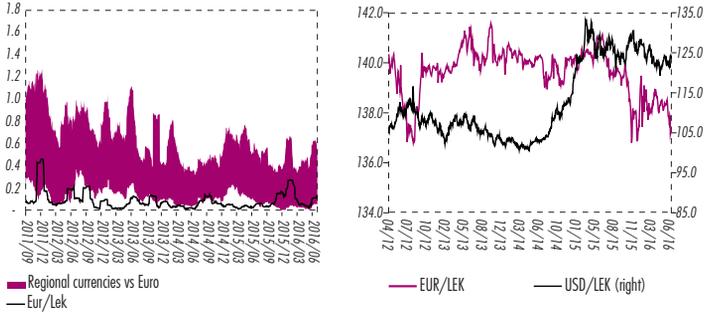
OraNews: *Pound is falling. It reached the lowest decline since 1985 in Britain. The reaction was immediate in Albania as well. In exchange agencies in Albania, pound is exchanged with ALL 159. Does the foreign-exchange reserve of the Bank of Albania get affected since a part of it is in pound?*

Governor: Bank of Albania's foreign exchange reserve is well diversified, and just a small part of it is in pound. In total we had a profit of EUR 7.5 million, since the initial changes after Brexit. So this was the profit as a result of the change in exchange rates of pound, Euro and US dollar. This is an everyday assessment. Bank of Albania's foreign reserve is consolidated and what's in pound is negligible. Worth mentioning is the fact that we have sufficient pound to meet the economy and citizens' need in case there will be such requirement. Again the effect that pound has on the Bank of Albania's foreign reserve is negligible. To highlight it once more, the exposures of the system to pound are really low, both for banks and households. There are very few deposits in pound and almost zero credit granted in it. Given the fact that we have no trading activity with the UK, we have no savings or currency circulation in pound, like we do with Euro.

OraNews: *Will this affect Euro? It seems as if there is a weakening of the Euro and a strengthening of the US dollar due to the internal factors since it is the tourist season. Many immigrants come back from abroad, and no one can tell the impact that can only be felt in September when the new season starts and the situation becomes clearer.*

Governor: Only when September ends will we be able to tell the impact it had on Euro. Lek strengthened whilst Euro and Pound weakened.

Chart 50. Exchange rate volatility (left) and Exchange rate in the domestic Forex market (right)



* excluding Turkey
 Source: Bank of Albania.

Meanwhile, during the summer season, immigrants' revenues in Euro lead to the strengthening of Lek and weakening of Euro, but such thing remains to be seen.

Albanian currency, however, remains stable. It was able to resist extremely well in time compared to foreign currencies. Currencies of the regional countries, that are not part of the Euro area, fluctuated and depreciated much more than Lek. This implies that the Albanian economy has resisted quite well throughout the crises and it continuous to do so.

OraNews: So it's for our own good to demand for loans in lek, keep our money in deposits in Lek and invest in Lek?

Governor: Loans in Lek are convenient for us in case we generate our income in ALL. In case we sell our products or our income is in ALL then it is for own good to demand loans in Lek, in order to avoid the foreign exchange risk. Regarding deposits, it doesn't matter whether we keep them in ALL or foreign currency.

OraNews: Mr. Governor, thank you for this interview here in "Ekopoliitikë"

Governor: Thank you!

**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA,
TOP CHANNEL (TCH) TV, 7
- December 2016 -**

TCH: *The Bank of Albania has proposed to the Parliament a draft law on Bank Recovery and Resolution. What does this draft law consist in, and what prompted it?*

Governor Sejko: The 2008 crisis showed that various countries faced financial crisis and used public funds to cover financial losses incurred by banks that were in difficulty. The purpose of this draft law is to avoid the use of taxpayers' money and instead to use a certain fund to be collected by the contributions of financial institutions and to be managed by the Deposit Insurance Agency. The aim for drafting this specific law is to be in line with the relevant EC directive. However, it does not imply that we have problems with the banking system, as the latter is well capitalised and has ample liquidity. No bank has difficulty and, hence, for the moment, there is no need for this this draft law to be used.

TCH: *How will this law protect the interests of depositors and citizens?*

Governor Sejko: This draft law clearly lays down the parameters and criteria in situations when the bank is mismanaged and the recovery and resolution authority would directly intervene to manage the institutions that are facing problems and remedy the defects in management.

TCH: *How are the deposits performing and what is the situation of the entire banking system?*

Governor Sejko: We have noted no problems with regard to the performance of deposit growth. Our financial system has apparently a surplus in liquidity and deposits. The challenge of the Albanian economy is to transpose these funds into sound credits for the economy.

TCH: *But, there was an upward trend in the non-performing loan portfolio this year. What is the reason for that?*

Governor Sejko: This increase was specifically attributable to two large clients, which had a considerable impact on the financial system. At

the same time, I would like to emphasise that the non-performing loans also increased due to a more prudent supervisory work by the Bank of Albania. We have required banks for a more prudent reclassification of portfolios and an increase of provisions. We expect non-performing loans to decrease at the end of year, to ALL 7.2-7.3 billion. At the same time, credit restructuring provided a positive impact at the absolute value, of ALL 7.4 billion. Hence, we expect the non-performing loans rate to improve.

TCH: *The reasons why the non-performing loans have increased are being discussed extensively. Is the mismanagement of banks one of these reasons?*

Governor Sejko: Credit portfolio grew considerably, at 25-30% per year, until 2008 and many risk parameters and criteria were disregarded amid banks competition to generate portfolios, but the period was overall optimistic. The non-performing loans we have nowadays mainly derive from this period. Of course, there are also elements of mismanagement. It is unavoidable. That is why the central bank has reflected accordingly. Through our examination reports, we have addressed the problems and we have undertaken the relevant measures.

TCH: *Is this credit growth rate sufficient to sustain the economic growth?*

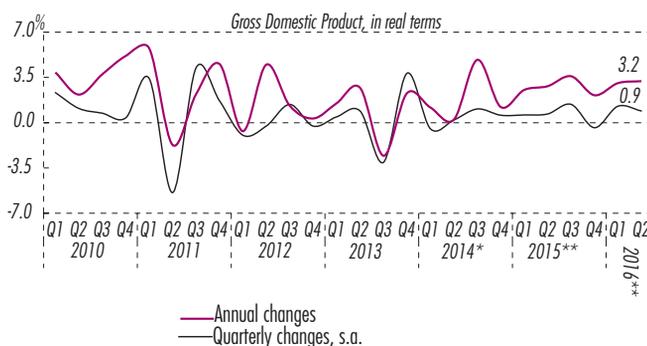
Governor Sejko: Economic growth requires a higher but stable lending level, oriented towards serious projects, in order to contribute to economic growth and to also maintain financial stability and prevent the generation of new non-performing loan portfolios.

INTERVIEW WITH GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA. ALBANIAN RADIO-TELEVISION - 24 December 2016 -

RTSH: Mr Governor, how would you assess the performance of the Albanian economy during this year?

Governor Sejko: The positive growth trend continued in 2016. During the second half of 2016 the economic growth was 3.1%. There are no final figures out yet, but the economic growth is expected to be between 3.3 and 3.5%.

Chart 51 Annual and quarterly GDP



Source: INSTAT and Bank of Albania.

RTSH: Within the target?

Governor Sejko: Of course, within the target and within our forecast. As a matter of fact, the Bank of Albania has been a little conservative in its forecasts, but economic growth has progressed well. The important fact is that the economic growth trend has been positive therefore for two-three consecutive years we have had a continuous economic growth.

This economic growth was a result of increased consumption and domestic private investments. The Bank of Albania has followed an accommodative monetary policy, which has also affected the funding sources of this economic growth.

RTSH: *Did the Albanian economy face any weakness during 2016? Which was its biggest weakness?*

Governor Sejko: The low level of exports' diversification could be considered an essential weakness of the Albanian economy. Albania exports mainly minerals and oil and because of this, it is highly sensitive to the price of these exports. Inflation declined to 0.2-0.3% in the beginning of the year, in February and March. This decline was due to the impact on the price of the products that we export. The level of economic perception is another weakness of the Albanian economy. The perception is way more negative than the economic reality in Albania. This perception has an impact attributable directly to foreign and domestic investments. Informality is another negative factor for the Albanian economy. Initiatives to fight informality have provided positive effects in relation to income. Thus, income increased however informality in Albania remains high.

RTSH: *Mr Governor, the Bank of Albania together with the Government launched a national plan of measures to reduce non-performing loans portfolio. It should be mentioned that during this year the non-performing loans portfolio did not reduce, on the contrary, it slightly increased. Why did this happen, can this be considered a failure of the measures plan? Why did this plan fail?*

Governor Sejko: The plan did not fail, on the contrary, the plan was well-studied and it affected all the elements and factors that would have their impact in the improvement of the non-performing loans ratio. Non-performing loans are not created during a single year. They are created and have increased over the years. Of course there are many elements of the plan of measures that will be implemented in 2017. The Parliament recently adopted the law on bankruptcy. Other laws that address the issue of non-performing loans have been adopted as well. We expect another write-off of non-performing loans from the banks' balance sheets, which will lead to the reduction of non-performing loans. We also expect to have a sufficient positive restructuring of the non-performing loans portfolio.

RTSH: *What does the Bank of Albania expect for 2017 given the fact that this year the elections will be held and every time there is elections, the politics often disrupts the economic balances.*

Governor Sejko: We do not expect major fluctuations or deviations from our forecasts despite the fact that this is a year of elections. There are positive and negative elements, related to the election year. The increase of public investments is one of the elements that affect economic growth. On the other hand, there are negative elements, such as a lower income. However, these elements may offset each other in their balance thus not have any impacts. It is important that the electoral process is carried out correctly and there are no political issues. If we will be able to have a normal election year, likewise it has been before in Albania, if we will be able to complete it successfully, the economic forecast will certainly not change. We expect the economic growth to be higher next year than this year.

RTSH: *Mr Governor, what about the former Dajti hotel building?*

Governor Sejko: The former Dajti hotel building will be part of the Central Bank, since there are employees who work in other premises rented for this purpose so the former Dajti Hotel building will accommodate them all.

RTSH: *Is there any deadline?*

Governor Sejko: We believe that the building will be reconstructed between two to three years. I think that the reconstruction will start in the beginning of the coming year. There are many problems and challenges since that building is extremely damaged and we aim to make it as good as it was before, to preserve its authenticity, without changing it from the original.

