Governor’s public appearance in 2018
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CHAPTER I - Presentations to the Parliamentary Committee on Economy and finance

Gent Sejko, Governor of the Bank of Albania, 2018
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.

CHAPTER I
PRESENTATIONS TO THE PARLIAMENTARY COMMITTEE ON ECONOMY AND FINANCE

- Governor Sejko presents the Annual Report 2017 to the Parliamentary Committee on Economy and Finance, 10 April 2018
- Governor Sejko presents BoA’s Annual Report 2017 to the Parliamentary Committee on Economy and Finance, 17 May 2018
- Governor Sejko presents BoA’s opinion on the Draft Budget 2019 to the Parliamentary Committee on Economy and Finance, 19 November 2018
CHAPTER I - Presentations to the Parliamentary Committee on Economy and finance
GOVERNOR SEJKO ADDRESS TO THE PARLIAMENTARY COMMITTEE ON ECONOMY AND FINANCE PRESENTING THE ANNUAL REPORT OF THE BANK OF ALBANIA

Honourable Chair,
Honourable Members of the Committee,
Thank you for your invitation!

I have the pleasure of presenting today the work and the achievements of the Bank of Albania over 2017.

I would like to start my presentation emphasising that 2017 was marked by progress in the Albanian economy and the financial system. According to Instat data: the Albanian economy grew by 3.8% in annual terms and created around 79 thousand jobs in the private non-agricultural sector, the unemployment rate and the current account deficit decreased, whereas inflation has been trending up. In parallel to developments in the real sector, interest rates in the financial markets remained low and soundness indicators of the banking system have been improving. In particular, the ratio of non-performing loans fell to 13.2% at the end of the year, down by around 5 percentage points from a year earlier. All these indicators show the cyclical position has improved and provide encouraging signals regarding the outlook on economic growth.

The Bank of Albania provided its contribution to the improvement of the economic and financial landscape. This contribution was materialised through:

- Implementing an accommodative monetary policy stance, which supported economic growth, increase in employment and wages, and rise in inflation;
- Prudential supervision and proactive approach to banking regulation, contributing to the improvement of banking sector indicators;
- Enhancing the banking system security, by establishing specialised structures to administer the necessary interventions and restructuring in banks facing solvency difficulties;
- Promoting the development and efficient functioning of the payment system;
• Promoting financial education;
• Further fostering the institutional capacities of the central bank, through constant investment in enhancing professional skills, independence, accountability and transparency, as well as through cooperation and exchanging information and opinions with Albanian and international partners.

Our activity in 2017 was guided by the Medium-term Development Strategy 2016-2018. In addition, the Bank of Albania has paid particular attention to the implementation of the recommendations left by this Committee in the Resolution “On the assessment of the activity of the Bank of Albania for 2016”.

Let me first present an overview of the activity of the Supervisory Council, the highest decision-making body of the Bank of Albania.

1. ACTIVITY OF THE SUPERVISORY COUNCIL AND STRENGTHENING INSTITUTIONAL GOVERNANCE

The Supervisory Council has conducted its activity in line with the provisions of the organic law and the procedures established in the internal regulation on its organisation and functioning.

In 2017, the Supervisory Council held 15 meetings and took 82 decisions. In addition, it approved 29 regulations and 1 guideline for general application.

The highest body responsible for the Bank of Albania, the Supervisory Council has paid attention not only to complying with the legal obligations of the Bank, but also to strengthening the institutional governance, as an essential precondition for enhancing its credibility. In 2017, the Medium-term Development Strategy of the Bank of Albania, together with the medium-term budget, was updated.

The Medium-term Development Strategy of the Bank of Albania sets out the main objectives for the 2018-2020 period. It establishes the priorities in the main functions of the Bank of Albania and development of auxiliary services. Thus, the Bank of Albania
has adopted the model of a number of banks of the European System of Central Banks, which have a twofold strategic planning system: (i) a major planning process, once in 3-5 years; and (ii) a yearly update. The span of the application ensures adequate planning support for the guiding medium-term budget of the Bank of Albania for 2019 and 2020. For the first time, this year the capital expenditures and the projects included in the budget were preliminary approved by the Capital Expenditure Committee, a body established as a control measure over major expenditure and investments.

With a view to strengthening the internal audit process, the Audit Committee was established in 2015 and is composed of three members of the Supervisory Council. In 2017, this Committee exercised its duties with a view to support the strengthening of internal and external control lines. It met regularly, without the presence of the administrators, with the Inspector General. These meetings enabled the members of the Committee to learn about the internal control systems and risk management procedures. Upon the proposal of the Inspector General, and following consultations at the Audit Committee, the Supervisory Council approved, for the first time, the level of tolerance to the operational risk at the Bank of Albania.

The activity of the Supervisory Council has been faithfully published in our periodic press releases.

2. MONETARY POLICY OF THE BANK OF ALBANIA

The monetary policy decision making is based on a comprehensive, consistent and transparent set of macroeconomic analyses and forecasts. They are supported by the whole range of information available at the time of decision making, and the expertise and judgement of the Bank’s experts on the trends of economic development and the monetary policy pass-through mechanism.

I will elaborate on the underlying reasons of our decision making to maintain the accommodative monetary policy stance in 2017 and the assessment of its effects on the economy in the following.
2.1 Economic developments and monetary policy in 2017

The Albanian economy performed positively throughout 2017. The volume of economic activity trended upward, spare capacities in the labour market reduced, while the main indicators of economic and financial stability improved. Following are presented a few figures to illustrate it.

- According to Instat statistics, the volume of economic activity grew 3.8% in 2017, registering a positive dynamics compared to 2.2% and 3.4% growth in 2015 and 2016. The economic activity expanded on a broad base. From the aggregate demand, it was driven by the growth in consumption, investments and exports. The services, industry and construction sectors mainly benefited from this expansion of aggregate demand. A notable development in 2017 was the positive performance in tourism, which provided a positive impetus to economic growth. Together with the high levels of foreign direct investments, it contributed also to the increase in foreign currency inflows in the Albanian economy.

![Chart 1 Gross domestic product by output and confidence indicators](image)

*Contributions of economic activities in yoy real GDP*


- Employment increased by 3.3% in 2017, driven largely by the increase in the services sector. In parallel to the increase in
employment, the unemployment rate fell, from 14.2% at the end of 2016, to 13.4% at the end of 2017.

- The decrease in the current account deficit averaged 6.9% of the GDP in 2017, against the 7.6% registered in the previous year. Its improvement reflected the increase in tourism and other services of the business.
- Fiscal indicators marked consolidation, reflecting a low level of budget deficit and the maintained control over the public debt.
- From the financial aspect, the Albanian banking system maintained good indicators of liquidity, profitability and capitalisation. The financial situation of enterprises has been improving, as illustrated by their high liquidity levels and the progressive decline in the non-performing loans ratio.
- Lastly, inflation has been upward, averaging 2.0% from 1.3% in the previous year. The upward inflation reflected the improvement of economic activity, but its undershooting continues to reflect the operation of the economy below the potential, the low level of inflation in trading partner countries, as well as the strong exchange rate.

I would like to focus on the last item - the exchange rate. The appreciation of the Albanian lek over the last two years has been at the focus of the Bank of Albania, as a result of a comprehensive impact of this factor on the overall economic and financial indicators, including inflation. Our analyses show that the appreciation trend of the exchange rate reflects the improvement of fundamental factors, such as narrowing of the trade deficit and of the current account deficit, high levels of foreign currency inflows in the form of foreign direct investments, and the improved confidence in the national currency in the domestic financial market. For as long as such appreciation reflects the effect of stable economic and financial factors, it does not lead to harmful consequences for the Albanian economy. However, its effects appear in the form of reduced inflationary pressures in the domestic market. The appreciation of the Albanian lek is estimated to have reduced the inflation rate for 2017 by 0.2-0.3 percentage point.
In the context of the not-yet-complete utilisation of production capacities and of low inflationary pressures, the Bank of Albania maintained the direction and intensity of the monetary stimulus unchanged over 2017. The policy rate maintained the low historical level at 1.25%, creating thus the conditions for the reduction of the costs of financing for the real sector. Liquidity injection in the interbank market increased in terms of average volume and duration, enabling thus a normal functioning of the financial markets.

The accommodative monetary policy was successful in boosting domestic demand, which was the main driver of economic growth. The effects of the monetary policy on the economy were present in several aspects:

- First, lower costs for financing consumption and investments. The cumulative reduction of the policy rate by 5.0 percentage points since the beginning of 2009, has been accompanied by the cumulative drop in interest rates on loans, 12-month Treasury bills, and deposits in lek, by 6.9, 4.5 and 6.6 percentage points, respectively. Low interest rates have increased demand for new loans, and decreased the cost of servicing the existing loans. In response to them:
The volume of lek credit to the private sector increased by 7.2% in 2017, being the main contributor to total credit growth. The growth rate of the latter was only 3.3%, in response to the still sluggish credit demand and still conservative lending policies applied by banks.

The cost of servicing the existing loans was reduced. This financial saving creates scope for increasing consumption and investments, through the use of own funds.

Second, reduction of uncertainties among economic agents. The forward guidance on the monetary policy stance has guaranteed the private sector that the monetary stimulus will remain present in the quarters ahead, promoting their orientation toward consumption and investments.

Third, mitigation of appreciation pressures of the exchange rate, contributing to the improvement of the balance of trade exchanges and further growth of economic activity.

Fourth, strengthening of financial stability. The financial environment with low interest has improved the financial balances of borrowers, through bolstering the aggregate demand, easing the cost of debt servicing, as well as encouraging the restructuring of businesses and of existing loans.
Our assessments on the monetary policy impact show that its contribution to economic growth for 2015, 2016 and 2017 is around 0.2, 0.4 and 0.7 percentage point, respectively. In addition to the impact on growth rates, the positive contribution of the monetary policy has a cumulative impact on the level of economic activity. For 2017, the effect of the accommodative monetary policy on the level of economic activity in Albania is estimated at around 1.3 percentage points.

Growth in aggregate demand has led to higher employment and improved capacity utilization rates, boosting medium-term inflationary pressures; however, inflation remains below our target. The persistence of low inflation has been at the focus of our analyses. The consensus of these analyses is that the monetary policy has been and remains effective for boosting aggregate demand and guaranteeing price stability in the medium and long term.

Against this backdrop, the Bank of Albania remains confident that the return of the economy to its potential and the fuller utilisation of production capacities will be accompanied by faster increase in wages and productions costs. Inflation is, therefore, expected to return to the target within 2019.

This forecast is conditional to maintaining an accommodative monetary policy stance in the quarters ahead, and takes into account the continuation of the fiscal consolidation process. The continuation of fiscal consolidation has enabled a better transmission of the monetary stimulus to the economy and has helped reducing fiscal weaknesses and increasing the resilience of the public sector against future challenges. The coordination of the monetary policy with the fiscal policy is vital for strengthening the macroeconomic stability and ensuring sustainable growth. We deem that the current macroeconomic policy mix is adequate. On one hand, it maintains a stimulating resultant trend of main economic policies and, on the other hand, it addresses the weaknesses deriving from the relatively high level of public debt.
Honourable Committee members,

In response to your recommendation for on-going improvement of the monetary policy transmission mechanism, let me share with you some obstacles we have identified as well as our matrix with actions for addressing them.

2.2. Monetary policy and its transmission mechanism

In our judgment, the pass-through of the monetary policy effect to financial markets and the economy, in other words the transmission mechanism, continues to suffer from three structural obstacles.

The first obstacle is the relatively high level of the euroization in the Albanian financial markets and economy. The high euroization renders the monetary policy pass-through more difficult, as it reduces its scope and exposes the private agents and the financial system to exchange rate volatility. Aware of this fact, the Bank of Albania, the Ministry of Finance and Economy and the Albanian Financial Supervision Authority signed a Memorandum of Cooperation on increasing the use of the national currency (ALL) in the Albanian financial system and economy. In this (published) document, in the framework of the de-euroization objective, all the signatory institutions commit to identifying and undertaking actions within their area of competence.

In this framework, the Bank of Albania identified a package of measures that envisage the implementation of differentiated rates for keeping the required reserve for banks’ liabilities in foreign currency and in the national currency. This measure is aimed at encouraging financial intermediation in lek through a relative reduction of its cost. Furthermore, banks will be required to comply with higher liquidity requirements for liabilities held in foreign currency. To raise the awareness of borrowers in foreign currency about the potential risks of this form of borrowing, banks will be required to explain by concrete examples foreign currency credit risks and provide borrowers with an alternative and comparable credit in lek.
The proposals for these measures are discussed with the banking industry and the necessary amendments to the regulatory acts have been prepared.

The second obstacle is the still-low appetite of banks to expand lending. This behaviour continues to reflect the effect of two factors: (i) deleveraging policies for reducing exposure in the countries of the region, including Albania, implemented by parent banks from the euro area; and, (ii) perception of credit risk at home. While banks’ balance sheets have improved and the credit risk has diminished, the policies for reducing their exposure in countries outside the EU remain conservative. Such policies reflect also EBA’s new supervisory rules on reducing the exposure of European-based banking groups in South East Europe.

In the context of addressing this issue, the Bank of Albania has signed a memorandum of cooperation with the European Banking Authority College in 2015, on exchanging information and harmonising supervisory policies.

Regarding non-performing loans, the Bank of Albania continues to be committed to implementing the measures set out in the national plan for reducing them. The reduction of the credit risk, in parallel with the improvement of the banks’ balance sheets and economic growth, should be accompanied by more realistic lending policies by the banking system. This is a recurring appeal I have made in my public appearances. The implementation of such policies would create the conditions for fulfilling the needs of the economy for financing, which are expected to be upward in the future.

The third obstacle is the development level of financial markets and the narrow range of financial instruments. In 2017, the Bank of Albania, in cooperation with the Ministry of Finance and Economy and the World Bank explored options for developing the secondary market of Government securities and improving the functioning of the primary market. This project will help in the Government securities trading, increasing the investors’ base, and forming a yield curve that is a representative one for the economy. Such a curve enables a better management of liquidity for all the financial agents, as well as a better monetary policy transmission to financial markets. I would like, however, to underline that the development of markets is a long process, which requires cooperation by all economic and financial agents in the economy.
Turning to the contribution of the Bank of Albania in the overall improvement of the financial and economic context, I would like to present now our work with regard to safeguarding and promoting financial stability. The main aspects of our work consisted in strengthening the stability of the banking system, enhancing its resilience to shocks and adoption of international standards.

3. FINANCIAL STABILITY AND BANKING SYSTEM PERFORMANCE

In 2017, the activity of the banking system was stable and supported the safeguarding of the financial stability. As at the end of 2017, the share of its assets stood at 92.5% of the Gross Domestic Product (GDP). The main financial indicators of the banking sector activity improved, and the net financial result of the banking sector grew considerably in 2017. The return on assets (RoA) of the system increased at 1.54%, in December 2017, from 0.7% a year earlier, whereas the return on equity (RoE) increased at 15.7%, from 7.2%. The capital adequacy ratio was 16.6% at the end of 2017, up by around 0.2 percentage point from a year earlier.

The monitored indicators show a mitigation of risks to financial stability. In particular, credit risk fell considerably during 2017, as shown by the fall in non-performing loans. The liquidity risk continues to be low, while the banking system’s exposure to market risks remains significant.
Notwithstanding the positive developments, the Bank of Albania has continued to work for improving its supervisory capacities and further strengthening the regulatory framework.

The macro-prudential policy strategy was compiled and approved in 2017. The implementation of the macro-prudential policy was coordinated with a prudential and pro-active supervision. The supervisory practice improved regarding the methodology for banks control, the approximation of standards with Basel principles and the efforts to adopt the best international practices.

Let me now focus on the preparation of the regulatory framework on the Internal Capital Adequacy Assessment Process. This framework was prepared in the light of Basel principles and EU directives. The Internal Capital Adequacy Assessment Process is particularly important, as it complements the supervisory perspective with the self-assessment dimension of banks.

Significant changes have been made regarding the prevention process of money laundering, through the revision of the relevant regulatory framework.

The revision of the supervisory methodology on the qualitative assessment of the corporate governance in banks, of the functioning and independence of their committees, of the internal audit structure in assessing the risks and their functioning continued during 2017. In this project, we partnered with the European Bank for Reconstruction and Development.

Notwithstanding the progress made in reducing the non-performing loans, attention has been paid to the achievement of banks’ annual objectives regarding the situation of non-performing loans and the compilation of the Recovery and Resolution Plans for larger borrowers. Banks report regularly to the Bank of Albania on the level of their relationships with every borrower, as well as the expectations and plans on future developments, in compliance with our requirements. With assistance from the World Bank and the International Monetary Fund, a regulatory framework, aiming to encourage the collaboration and coordination of banks for addressing common borrowers, is being compiled.
CHAPTER I - Presentations to the Parliamentary Committee on Economy and finance

Special attention is being paid to the consolidating processes with the expected merger of two banks in Albania and the strategic plans on the re-positioning in the market depending on the dominant short and long-term factors.

In parallel with the work to improve the regulatory framework and the adoption of the best international standards, high priority has been given to on-site examinations. During 2017, fourteen full-scope and partial examinations were performed in banks, non-bank financial institutions, and savings and loan associations. The examinations showed that the performance of the banking sector improved in terms of: the quality of internal policies and their implementation; the establishment of adequate risk management processes; and, the implementation of the supervisory regulatory framework. Moreover, the non-bank financial institutions are assessed to have still space to ensure proper effectiveness, independence and authority. Some of the savings and loan associations were examined for the first time after the conclusion of the consolidation process and the separation from the respective unions.

The Law “On the recovery and resolution of banks in the Republic of Albania” entered into force in 2017. This Law designates the Bank of Albania as the Resolution Authority for banks and branches of foreign banks that conduct their activity in Albania. This Law is another step in adopting the European standards in the regulatory framework of
the Bank of Albania. In its role as the Resolution Authority, the Bank of Albania increases the security of the banking system.

In compliance with the legal requirements, the Resolution Fund was established to provide for the implementation of resolution tools. The Bank of Albania compiled the methodology for the calculation of contributions that each bank should pay and the procedure of the payment. The calculation methodology and fund management was the topic of informative meetings organised with banks and the Albanian Association of Banks.

We deem that the implemented policies and the undertaken measures have served to promoting monetary and financial stability, by contributing to safeguarding the economic and financial balances, necessary for sustainable economic growth.

Following, I will briefly summarise the work of the Bank of Albania regarding the promotion and development of the payment system.

**4. FUNCTIONING OF SAFE AND EFFICIENT PAYMENT SYSTEMS**

In the framework of strengthening the payment systems and payment instruments oversight, the Bank of Albania has worked to align the regulatory base to the international standards that guarantee the security and promote the efficiency of payment systems.

“A huge amount of work has been done to compile the draft-law on Payment Services, which approximates the EU’s Payment Services Directive. The implementation of this directive is expected to considerably contribute to improving the security and efficiency of payment services through promoting competitiveness, strengthening transparency and clearly defining the rights and obligations of these services’ providers and consumers. Also, it addresses the risks arising from technological novelties (Fin-Tech) in payment services. Currently, the Bank of Albania is in the consulting and
finalising process of the draft-law. The approval of this draft-law is an important step towards the implementation of the European Commission recommendations for the free movement of capital and for the adherence to the Single Euro Payment Area (SEPA).

The Bank of Albania also has the role of payment systems’ reformer. In this framework, the Bank of Albania continued to work on the consolidation of inter-institutional collaboration, through the National Payment System Committee (NPSC), which it chairs. The Committee has initiated several projects, most importantly the projects on the compilation and implementation of the draft-strategy for the reformation of the small value payments market, the increase of financial inclusion and the assessment of remittances market.

The successful accomplishment of the main legal obligations is supported by a range of other functions of the Bank of Albania. I will now briefly mention some of the improvements in these activities.

5. OTHER ACTIVITIES OF THE BANK OF ALBANIA

In the field of statistics, the Bank of Albania has intensified its work to align the methodology on statistics with the international standards and their harmonization with the acquis communitaire. In concrete terms, the methodologies on the preparation of financial soundness, interest rates, financial accounts and international reserve indicators are revised. The Statistics Code of Practice at the Bank of Albania was adopted for the first time. This code ensures integrity, quality, access and confidentiality in using and reporting the statistics, according to the international standards. Also, the Bank of Albania, for the first time, published the policy and calendar of statistics review, which ensures full transparency related with the review of released statistics. Since June, Albania implements the IMF’s Enhanced General Data Dissemination (e-GDDS). Some of the statistics are compiled by the Bank of Albania.

Regarding the international reserve management, regulatory amendments have been made to clarify the function of international reserve management and the responsibilities of decision-making structures, as well as to broaden the range of investment instruments in compliance with the adopted policies. As at end-2017, the international reserve was around EUR 3 billion, sufficient to cover 6.7 months of imports of goods and services, and 178% of the short-term external debt. The yield on its investment was slightly negative, due to the low interest rates of euro in international markets.
The economic and financial analyses and the decisions of the Bank of Albania are based on a broad research work within the institution. The Bank of Albania deems that the investment in human resources and in research techniques is always rewarding, taking into account the rapid structural changes in the economy and in the financial markets. The monetary policy transmission, the safeguarding of financial stability, the banking supervision and the coordination among these objectives were the main focus of working papers during 2017. The results are shared with national and international experts in scientific panels and are published in working papers. Also, the international experts have continued to assist to improve the macro-economic and statistical models, which support Bank of Albania projections.

Public communication is an important pillar in Bank of Albania’s activity for enhancing the transparency and public confidence in the institution. The classic channels of communication are supplemented with digital platforms, such as Twitter (information), YouTube (video) and Flicker (photos). The Bank of Albania has continued the practice of organising scientific conferences and national and international forums to share opinions with national and international partners and groups of interest. The Bank of Albania is committed in expanding financial literacy, for an informed public understands better and responds more adequately to the decisions of the central bank. Also, a financially literate public manages better its personal finances. This commitment is further concretised with
the establishment of the Museum of the Bank of Albania. During 2017, a range of informing and educational activities were organised at the Museum of the Bank of Albania with the participation of academics from various fields to share their knowledge with the public at large.

The Bank of Albania has strengthened the cooperation with the national and international institutions, through information sharing, and consultation and joint projects. During 2017, a number of memoranda of cooperation were signed with national and international partners.

Good governance in terms of the performance of the work processes, the efficiency in using the resources and risk management, is an element of the Bank of Albania’s accountability. In this light, I would like to mention the main improvements that have taken place in terms of internal audit systems.

The internal audit at the Bank of Albania is an independent activity from the management, ensured through the Inspector General, appointed by the Parliament.

6. INTERNAL AUDIT

The Operational Risk Management function was consolidated over 2017. The purpose of the Operational Risk Management is to manage properly the uncertainties, and to inform the decision-makers on the risks that may hamper the accomplishment of the Bank’s objectives, or to have adverse financial and/or reputational effects. The maturity level of operational risk management activity assessed by the international experts, increased at ‘managed’, thus crossing the ‘basic’ level. This maturity level shows that the operational risk management policy is guided by a risk matrix and a definite governing structure.

The application on the automated management of audits and operational risk management process was implemented over 2017. During 2018, the major part of internal audit activity is expected to be realised and documented in the new system. The risk assessment automation for audit purposes provides the planning of audits fully based on risks, in line with the international practice.
Honourable Chairman,
Honourable Members of the Committee,

At the end of my presentation, I want to assure you that the Bank of Albania will continue to be committed to following its legal objectives, and to implementing the institutional tasks and commitments.

I am confident that the Albanian economy and financial system will continue to see in the Bank of Albania a reliable, professional and transparent partner.

Thank you for your attention!

“The Bank of Albania will continue to be committed to following its legal objectives, and to implementing the institutional tasks and commitments. I am confident that the Albanian economy and financial system will continue to see in the Bank of Albania a reliable, professional and transparent partner.”
GOVERNOR SEJKO PRESENTS BOA’S ANNUAL REPORT 2017 TO THE PARLIAMENTARY COMMITTEE ON ECONOMY AND FINANCE
Publication date: 17.05.2018

“Three key messages that reflect the conclusions of the Bank of Albania analysis and have been the common thread in our public communications over the past year.
1. The economy and financial system in Albania marked progress during 2017.
2. The activity of the Bank of Albania in the past year has been in line with our legal obligations and the Recommendations of the Parliament.
3. The Albanian economy continues to face medium and long-term development challenges.”

Honourable Speaker,
Honourable Members of Parliament

The Bank of Albania views the accountability process as an essential element in its activity. This process complements our institutional independence, enhances transparency and reliability of the Bank of Albania and improves the effectiveness of our policies.

Therefore, I have the pleasure of presenting today the work and the achievements of the Bank of Albania in 2017.

I would like to start my reporting with three key messages that reflect the conclusions of our analysis and have been the common thread in our public communications over the past year.

First, the economy and financial system in Albania marked progress during 2017. The positive development trend is illustrated by the acceleration of economic growth pace, upswing in employment and decline in unemployment, and the improvement of financial balance sheets of the public and private sectors. This progress has brought our economy closer to its potential and has strengthened short and medium-term factors that support economic growth.
Second, the activity of the Bank of Albania in the past year has been in line with our legal obligations and the Recommendations of the Parliament. Our policy and instruments have had a positive, across-the-board contribution to our activities:

- Promoting economic growth, through an accommodative monetary policy stance;
- Strengthening financial stability, through a prudent and proactive supervisory and regulatory policy;
- Fostering development and enhancing financial system efficiency, through continued financial education, and cooperation and joint initiatives with other foreign and domestic agencies and partners.

Third, I would like to draw the attention on the fact that, albeit positive development outlook, the Albanian economy continues to face medium and long-term development challenges. Identification and mitigation of economic and financial vulnerabilities, prevention of potential risks, and continuation of structural reforms to accelerate the growth pace, are among the main challenges we face. Our duty, as policy makers, is to draft and implement action plans consistently and persistently, in order to duly address all the problems we face.

Let me now explain these issues in greater detail the issues, starting with a general overview of key economic and financial developments in the past year.

1. ALBANIAN ECONOMY AND FINANCIAL SYSTEM IN 2017

Year 2017 marked progress for the Albanian economy and financial system.

According to INSTAT data, the volume of economic activity grew 3.8% in 2017, registering a positive dynamics compared to 2.2% and 3.4% growth rates recorded in 2015 and 2016.

The economic activity expanded on a broad base and was underpinned, from the perspective of aggregate demand, by the growth in consumption, investments and exports. Economic growth benefitted from the improvement in the external environment, and was supported by the domestic favourable financing conditions and economic agents’ confidence.
From the sectoral perspective, the expansion of aggregate demand contributed to the growth of activity mainly in the services sector and in certain branches of the industry sector. A notable development in 2017 was the positive performance in tourism, which provided a positive impulse to economic growth.

Owing to economic growth, 79 thousand new jobs were created in the private non-agricultural sector. Total employment increased by 3.3% in 2017, driven largely by the increase in the services sector. In parallel to the increase in employment, the unemployment rate fell, from 14.2% at the end of 2016, to 13.4% at the end of 2017.

Inflation has trended upward in 2017, averaging 2.0% from 1.3% in the previous year. The uptick in inflation reflected the improvement of economic activity and strengthening of domestic inflationary pressures. Yet, this indicator continues to undershoot our target, reflecting the presence of spare capacities in the economy, the low inflation rates in our trading partners and the appreciated exchange rate.

The expansion of economic activity is accompanied by the improvement of some of the main economic and financial balances for Albania. Thus:

- The current account deficit decreased at 6.9% of the GDP in 2017, from 7.6% recorded in the previous year. Its improvement reflected the growth in tourism and other services of the business.
• Fiscal indicators registered consolidation, reflected in a low level of the budget deficit and in maintaining control over public debt.
• Lastly, the financial situation of enterprises has been improving, as illustrated by their high liquidity levels and the progressive decline in the non-performing loans ratio.

Interest rates in the financial markets remained low and soundness indicators of the banking system have been improving. The Albanian banking system maintained good levels of liquidity, and improved the profitability and capitalisation indicators. The Capital Adequacy Ratio recorded 16.6% at the end of 2017, upward by around 0.2 percentage point from a year earlier. As at end of 2017, the share of banking sector assets stood at 92.5% of the GDP.

The activity of the banking sector was stable, reducing the risks to financial stability. In particular, the credit risk marked significant reduction in this year. The ratio of non-performing loans fell to 13.2% at the end of the year, down by around 5 percentage points from a year earlier. The liquidity risk in banking activity continues to be low, while the banking system exposure to market risks remains present and subject to monitoring.

The improvement of the cyclical position of Albania and the encouraging signals on the economic growth outlook have also reflected the results of the work of the Bank of Albania. Let me explain in greater detail.

2. BANK OF ALBANIA ACTIVITY HIGHLIGHTS IN 2017

The activity of the Bank of Albania has been and remains oriented toward fulfilling our mission and legal obligations. Regarding the operational aspect, our activity in 2017 was guided by the Medium-term Development Strategy 2016-2018.

The two main aspects in our activity were monetary policy and banking sector supervision and regulation.

The monetary policy of the Bank of Albania continued to maintain the accommodative stance during 2017, in the presence of still incomplete utilisation of production capacities and weak inflationary pressures. The monetary stimulus was transmitted through maintaining the policy rate at the lowest historical level, at 1.25%, increasing the volume and
average duration of the liquidity injected in the interbank market and the forward guidance tool.

The positive effects of the monetary policy were present in several aspects.

- First, in lower costs of financing consumption and investments. The volume of lek credit to the private sector increased by 7.2% in 2017, providing the main contribution to total credit growth.

- Second, in reducing uncertainties of economic agents, encouraging them toward consumption and investments.

- Third, in mitigating appreciation pressures of the exchange rate, contributing to the improvement of the balance of trade exchanges and further growth of economic activity.

- Fourth, in strengthening of financial stability. The financial environment with low interest rates has improved the financial balances of borrowers, through boosting aggregate demand, easing the service cost of debt, as well as encouraging the restructuring of existing loans.
Our assessments on the monetary policy impact show that its contribution to economic growth for 2015, 2016 and 2017 is around 0.2, 0.4 and 0.7 percentage points, respectively.

Chart 9 Cumulative economic growth, real and excluding monetary policy contribution (left); cumulative annual GDP, real and excluding monetary policy contribution (right)

Also, the Bank of Albania has continued the efforts to improve the monetary policy transmission mechanism. Throughout 2017, we have worked on three main aspects:

- First, promoting the use of the national currency.

The high euroization renders the monetary policy pass-through more difficult, as it exposes the private agents and the financial system to exchange rate volatility. Aware of this fact, the Bank of Albania, the Ministry of Finance and Economy and the Albanian Financial Supervision Authority signed a Memorandum of Cooperation “On increasing the use of the national currency (ALL) in the Albanian financial system and economy”. In this memorandum, the signatory institutions commit to identifying and undertaking actions within their area of competence. In this framework, the Bank of Albania identified a package of measures, following the consultations with the banking industry, and which shall enter into force over the second half of 2018.
Second, enhancing the appetite of banks to expand lending.

Banks’ appetite for lending continues to remain relatively low, by reflecting the effect of two factors: (i) deleveraging policies for reducing exposure in the countries of the region, including Albania, implemented by parent banks from the euro area; and, (ii) perception of credit risk at home. The Bank of Albania, to address this issue, has continued the collaboration with the European Banking Authority Supervisory College, to exchange information and harmonise the supervisory policies. Also, our institution continues to implement the measures set out in the national plan for reducing the non-performing loans and improving the lending environment.

Third, fostering the development of financial markets and expanding the range of financial instruments.

In 2017, the Bank of Albania, the Ministry of Finance and Economy and the World Bank explored options for developing the secondary market of Government securities and improving the functioning of the primary market. This project will help to: increase the Government securities trading; enhance the investors’ base, and better manage the liquidity.

Regarding the financial stability, the Bank of Albania has continued to implement a prudential and pro-active regulatory and supervisory policy. In 2017, fourteen full-scope and partial examinations were performed in banks, non-bank financial institutions, and savings and loan associations. The examinations showed that the performance of the banking sector improved in terms of: the quality of internal policies and their implementation; the establishment of adequate risk management processes; and, the implementation of the supervisory regulatory framework. Moreover, the non-bank financial institutions are assessed to have still space to ensure proper effectiveness, independence and authority. The supervisory practice improved, regarding the methodology for banks control, the approximation of standards with Basel principles and the efforts to adopt the best international practices.

Particular attention was given to the consolidating processes and strategic plans of the banking system.
Also, the Bank of Albania, in 2017:

- compiled and approved the Macro-prudential Policy Strategy, which orients the use of regulatory instruments for enhancing the financial stability of Albania;
- prepared the regulatory framework on the Internal Capital Adequacy Assessment, compiled in the light of Basel principles and EU directives. The Internal Capital Adequacy Assessment Process complements the supervisory perspective with the self-assessment dimension of banks;
- made significant changes regarding the prevention process of money laundering, through the revision of the relevant regulatory framework;
- continued the work for the revision of the supervisory methodology on the assessment of the corporate governance in banks; of the functioning and independence of their committees; of the internal audit structure in assessing the risks and their functioning. In this project, we partnered with the European Bank for Reconstruction and Development.

Notwithstanding the progress made in reducing the non-performing loans, attention has been paid to the achievement of banks’ annual objectives regarding non-performing loans and the compilation of the Recovery and Resolution Plans for larger borrowers. Banks report regularly to the Bank of Albania on the level of their relations with every borrower, as well as the expectations and plans on future developments, in compliance with our requirements. With assistance from the World Bank and the International Monetary Fund, a regulatory framework, aiming to foster banks collaboration and coordination for addressing common borrowers, is being compiled.

The Law “On the recovery and resolution of banks in the Republic of Albania” entered into force in 2017. This Law designates the Bank of Albania as the Resolution Authority for banks and branches of foreign banks that conduct their activity in Albania. This Law is another step toward adopting the European standards in the regulatory framework of the Bank of Albania. In its role as the Resolution Authority, the Bank of Albania increases the security of the banking system.
In parallel with the above-mentioned aspects of its work, the Bank of Albania has paid attention and has worked to: strengthen the development of the payment system; improve the procedures and modalities for foreign reserve management; improve communication with public; deepen the research work; expand and improve statistics; increase financial literacy and financial inclusion; collaborate with domestic and international institutions.

I would like to highlight that Bank of Albania has been attentive not only to realising the legal objectives, but also to strengthen its institutional governance. In this context, the Medium-term Development Strategy of the Bank of Albania, together with the medium-term budget, was updated in 2017. For the first time, the capital expenditures and the projects included in the budget were preliminary approved by the Capital Expenditure Committee. Also, the Audit Committee continued the work throughout 2017. This committee conducts a monitoring function independently from the Bank of Albania management. In 2017, the Supervisory Council approved, for the first time, the level of tolerance to the operational risk at the Bank of Albania. It will help the efficient risk management, through the early identification and management of operational risk, in line with the established procedures.

We deem that the implemented policies and the undertaken measures have served to promoting monetary and financial stability, by contributing
to safeguarding the economic and financial balances, necessary for a sustainable economic growth.

Honourable Speaker,
Honourable Members of Parliament,

As I stated at the beginning of my speech, the development perspective of Albania remains positive. Nevertheless, we have and will continue to face challenges, which should be addressed with courage, vision and determination.

At the end of my presentation, allow me to present the vision of the Bank of Albania on the future of the economy and financial system, as well as on adequate development policies.

3. DEVELOPMENT PERSPECTIVES AND CHALLENGES

Supported by the favourable financing conditions, the further recovery of global economy and the strengthening of confidence in economy, the cyclical improvement of the Albanian economy is expected to continue in the medium-term horizon in the next two-three years. The growth of aggregate demand will encourage the further increase of employment and a faster rise in wages. The fuller utilisation of production capacities will enable the return of inflation to target within the medium-term horizon and will help improving the overall economic and financial equilibriums. The realisation of this scenario is conditioned by the lack of internal or external shocks on the Albanian economy or financial system. Also, it requires continuing the accommodative monetary policy stance and maintaining the consolidating fiscal policy trend. These policies’ coordination is vital for strengthening the macroeconomic stability of Albania. On the one hand, it maintains a stimulating resultant trend of main economic policies and, on the other hand, it addresses the various vulnerabilities.

Looking beyond the medium-term horizon, the Bank of Albania assesses that more needs to be done for strengthening the economic growth pace and increasing the Albanian economy’s resilience against shocks. Though the accommodative monetary policy provides a support in this regard, it cannot substitute the structural reforms needed for improving the whole functioning of the Albanian economy.
We deem these structural reforms should address some key issues:

- Further improvement of business climate, through: continuation of measures to reduce informality and promote fair competition; a thorough improvement and harmonisation of the legal framework and law enforcement; and cutting on bureaucracy and improving public administration efficiency. The improvement of the business climate is vital for attracting foreign investments and promoting domestic ones.
- Expansion of markets for Albanian products, through: promotion of Albanian products trademarks; promotion of regional integration; and acceleration of European integration process.
- Increase of Albanian economy efficiency, through: further investments in infrastructure, education and health; encouraging the increase of participation in labour force; and improvement of business management standards. Increased efficiency in the economy implies higher growth rates and higher welfare standards for the Albanian society.
- Increase flexibility and resilience of the Albanian economy, through: encouraging the restructuring process of enterprises; further improving the supervisory architecture and financial system regulation; and increasing prudence for public and private debt indicators. A more resilient and flexible economy weathers shocks easier and is re-oriented faster to development opportunities.
- Further expansion and diversification of financial markets, by working in parallel with the increase of savings in the Albanian economy, for a studied development of other segments of the financial market and for the prudent introduction of new products and financial instruments. The development and diversification of financial markets improves access to finance, by increasing the base of potential entrepreneurs and by providing a better management of personal finances. Also, it improves the financing structure of the Albanian economy and paves the way to the development of the country, in non-distant future, when, potentially, the role of banks and banking industry will be more reduced.

The Bank of Albania deems that the European integration process should be the guiding anchor to all development policies of the country. The pursuit of this objective requires collaboration and energies by all the relevant actors in this process, implying their willingness to afford the costs of the necessary policies and reforms for the integration of the country.
Honourable Speaker,
Honourable Members of Parliament,

Concluding, I would like to assure you that the Bank of Albania remains committed to complying with its legal objectives, and to fulfilling our institutional tasks and engagements.

Thank you for your attention!

“The Bank of Albania deems that the European integration process should be the guiding anchor to all development policies of the country. The pursuit of this objective requires collaboration and energies by all the relevant actors in this process, implying their willingness to afford the costs of the necessary policies and reforms for the integration of the country.”
Honourable Chair,
Honourable Members of the Committee,

First of all, thank you for the invitation and the opportunity to present the opinion of the Bank of Albania on the Draft Budget 2019.

I would like to emphasise that the drafting and approval of this Draft are among the most important moments in the economic life of the country. Therefore, we have always welcomed the constructive and professional discussion on the objectives, policies, instruments and projections, which, overall combined, determine a Draft Budget.

In compliance with the institutional mandate of the Bank of Albania, our opinion will focus on the correlation between the performance of the economy and the fiscal policy, as elaborated in the Draft. Next, I will present our judgement on the impact of the borrowing strategy and public debt management on the Albanian financial market. Then I will provide an overall analysis of Albania’s public finances stability indicators. Lastly, I will present some suggestions of the Bank of Albania for the period ahead.

Honourable Members of the Committee,

Detailing the governing policies in financial terms, the state budget should not be based simply and solely on the economic and financial reality of a country, but be viewed as an instrument for improving it. Let me start the presentation of Bank of Albania’s assessment on the domestic economic and financial developments and the relevant policies to support them.
1. FISCAL POLICY AND DRAFT BUDGET 2019

As we have also emphasized in our public communications, the Bank of Albania judges that the Albanian economy is set on a positive development trend.

The growth pace accelerated in the first three quarters of the current year. In part, the pace accelerated also as a result of the favourable hydric situation. In addition, employment increased and the unemployment rate fell, whereas the financial balance sheets of households, enterprises and the banking sector continue to improve. Likewise, the main indicators of the macroeconomic balances have improved:

- Average inflation approached closer to the target in 2018, despite the negative impact from the rapid appreciation of the exchange rate;
- Current account deficit has trended downward, mainly as a result of growth in Albanian exports;
- Non-performing loans ratio dropped to 12.9%, reflecting the improvement of balance sheets in the real sector, as well as the measures taken to address it; and,
- Fiscal reporting shows that the budget deficit remains at historically low levels, and the public debt has been decreasing.

Chart 11 Current account and net financial flows (moving sum of four quarters)

Source: Bank of Albania.
All these indicators suggest that the cyclical position of the Albanian economy is improving. In other words, the economy is moving gradually towards equilibrium.

The Bank of Albania deems that the outlook on economic growth remain positive. The sources of economic growth appear solid and diversified, in terms of both aggregate demand and production sectors. In parallel, the external environment remains overall favourable, although uncertainties and risks surrounding it remain present and are not entirely negligible.

Yet, the positive development trend would not have been possible without a proper mix of economic policies, i.e., the combination of the accommodative monetary policy with the consolidating fiscal policy. One the one hand, the monetary stimulus has enabled the lowering of interest rates; the boosting of crediting; and the easing of debt servicing costs. In turn, it triggered the expansion of aggregate demand and underpinned economic growth and employment increase. On the other hand, due to the fiscal consolidation has enabled the lowering of risk premia and of borrowing costs for both the private and public sectors, and has expanded the space for withstanding potential shocks in the future.

In our opinion, fiscal consolidation should remain the main anchor in formulating the fiscal policy and the main guideline for implementing the Budget in the future.

The Bank of Albania finds that the presented Draft Budget accomplishes this mission. In concrete terms, the Budget envisages:

- Reducing further the budget deficit, to 1.9% of the GDP against 2% expected for 2018;
- Maintaining the primary balance surplus, projected to stay at 0.5% of the GDP in 2019, as well;
- Reducing the public debt, to 65.5% of the GDP against 69.1% expected for 2018.

Moreover, the Bank of Albania deems that the Draft Budget 2019 is based on acceptable economic and fiscal projections. In particular, the
projected level of revenues is on the upside our projections, driven also by the projections for an improvement in the revenue collection process, but the differences in projections appear minor and have immaterial effects on the Budget.

Based on the above, we deem that the Draft Budget 2019 maintains the fiscal consolidation trend, remaining harmonised with the direction and intensity of the monetary stimulus and contributing to the reduction of the risk premia and the costs of financing in the economy.

Beyond the stabilising effect of the fiscal policy, and analysing the Draft Budget, along with the accompanying fiscal package, from the long-term perspective of the country’s development, the Bank of Albania finds the following:

1. The Draft Budget 2019, envisages public investments at 5.1% of the GDP. From the long-term development perspective, as well as taking into account the great need for developing and improving the country’s infrastructure, the Bank of Albania considers maintaining the high level of public investments as an important element of any Draft Budget.

2. The fiscal package accompanying the Draft Budget does not envisage radical changes in the tax system. Generally, the stability of the tax system is a welcomed development by both domestic and foreign investors. In particular, the Bank of Albania finds that the proposed reduction of the tax on dividend, from 15% to 8%, creates premises for Albanian businesses to have lower costs of financing with capital sources. The lower costs serve potentially to boost domestic and foreign investments, and contribute to improving the structure and enhancing the stability of the balance sheet of enterprises, increasing, therefore, the share of financing with capital sources and decreasing the share of financing with borrowed funds.

3. The Draft Budget 2019 aims at continuing the fight against informality. The Bank of Albania has supported and supports any initiative that promotes fair competition in the economy.
I will now focus on developments in financial markets and their interaction with the level and strategy of public debt financing.

2. FINANCIAL MARKETS, BUDGET DEFICIT AND PUBLIC DEBT

The Draft Budget 2019 envisages the budget deficit level to be ALL 32.9 billion, or 1.9% of the GDP. This level is envisaged to be financed ALL 25.7 billion (or 1.5% of the GDP) by funds ensured during 2018 and ALL 22.9 billion (or 1.3% of the GDP) by domestic financing. Conversely, the level of foreign debt is envisaged to be lowered ALL 15.7 billion (or 0.9% of the GDP).

In view of the two-fold objectives that the borrowing and debt administration strategy should have - to reduce the cost of financing and minimising the liquidity risk and debt volatility - the Bank of Albania deems that this financing plan is reasonable.

In line with our accommodative monetary policy, as well as supporting the fiscal consolidation process, the Albanian financial market appears calm, with low interest rates and good liquidity indicators. In particular, the banking sector appears liquid, well capitalised, with improving profitability indicators.

The borrowing strategy should continue to be oriented toward extending the average term of the debt, which reduces the risk of refinancing, and reducing the share of variable cost instruments, which decreases the volatility and increases the ability to project public debt servicing flows. In parallel, in the medium and long term, the public debt management should focus more on:

- Diversifying the investors’ base, increasing the attention toward expanding the domestic market by means of improving the functioning of the securities secondary market.
- Limiting the foreign currency borrowing, which - under a free exchange rate regime, applied in the case of Albania - is a premise for high fluctuations both in the debt level, and in the debt servicing costs.
- Empowering structures and improving strategies on debt management, implying a more integrated analysis of costs and benefits for various management strategies.
The need to improve debt management structures and strategies becomes even more pressing if we take into account two important trends:

- First, the trend of an increase in the share of debt financed at market terms against the share of debt at concessionary terms, exposes increasingly the debt level and its structure, as well as the health/soundness of the Albanian public finances, vis-à-vis the attention of international financial markets.

- Second, the debt financing over the recent years has benefited from a very favourable backdrop, in terms of low interest rates, both in the domestic and in the international financial markets. The continuous improvement of both the European and Albanian economies implies that these interest rates will be upward, in line also with the communications of the respective central banks.

Honourable MPs, the following sections presents a summary of Bank of Albania’s opinion on the long-term sustainability of public finances.

3. LONG-TERM SUSTAINABILITY OF PUBLIC FINANCES

The organic budget law sets out specific clauses, aimed at disciplining the fiscal policy with regard to efficiency in the use of funds and safeguarding and enhancing the long-term health of public finances.

The Bank of Albania finds that these clauses have been complied with. The projections for the gross domestic product are, in nominal terms, within the latest available projections of the IMF. Also, the trajectory of the public debt is downward, public investments are higher than the value of the budget deficit and the draft envisages contingencies for withstanding adverse volatilities in the exchange rate and interest rates. Also, a table of medium-term projections for public finances is attached to the Draft Budget. The table suggests fiscal consolidation will continue in the medium term horizon.
From this perspective, the Bank of Albania finds that the deficit of social security schemes, health insurance schemes and other social securities is at around 4.6% of the GDP or 2.6 times higher than the overall budget deficit. Analysed in greater detail, the deficit of the social security scheme, also known as the pension scheme, is expected to be at around 1.5% of the GDP, within the projections made in the reform of this system, and set on a downward trend. On the other hand, the deficit of the other schemes is more stable. Beyond the counter-cyclicality of various elements in these schemes, the Bank of Albania judges that spaces should be considered for further reducing their structural deficit.

The Draft Budget 2019 introduces a novelty in terms of explicitly assessing the potential risks to the realisation of the budget. The Bank of Albania welcomes this novelty and encourages that it become an integral part of annual and medium-term budget plans.

With regard to these risk scenarios, the Bank of Albania has the following comments:

- First, the assessment of the impact from potential negative shocks, on the economy and public finance, should be accompanied by the identification of measures that need to be taken in order to cut expenditures and comply with the budget deficit value.
- Second, the assessment of the risk arising from public-private partnership programmes, the so-called PPPs, suggests that deviations from the requirements of the law for annual PPP payments to the level of 5% of tax revenues of the previous year will be covered through the increase in revenues. The Bank of Albania judges that, beyond this regulatory mechanism for the purpose of complying with the legal ceiling, the potential increase in the budget deficit should be avoided by reducing budget expenditures. Moreover, this reduction should target - to the maximum possible extent - budget sectors that generate such deviations.
- The sanctioning of this principle serves to maintain budget balances, maintain balances in the inter-sectorial allocation of funds and discipline the contracting of such programmes. The Bank of Albania also suggests the need for implementing best standards in the aspect of accounting for their effect on debt indicators.

In the following section, I will present some additional suggestions by the Bank of Albania.
4. SOME SUGGESTIONS ON ENHANCING THE EFFECTIVENESS AND STABILITY OF PUBLIC FINANCE:

On the pace of fiscal consolidation in the medium term

Improvement of the cyclical position of the country, that is the fuller utilisation of production capacities of the economy, eases the burden of fiscal consolidation. The Bank of Albania suggests that, in accordance with the degree and pace of economic improvement, the possibility of accelerating the pace of fiscal consolidation in the medium term be taken into account. Such acceleration would contribute to accommodating the expected rise in the costs of debt servicing in the medium term, and increase the space for withstanding potential negative shocks in the medium and long term.

On the tax system

The Bank of Albania deems that, beyond the stability of the tax regime, another desired feature of the tax policies is the simplification of the system, with regard to reducing tax exemptions. Except for the case of protecting the people in need, a simple tax system eases the burden on tax system administration and tends to improve the efficiency in the allocation of resources in the economy.

On the further enrichment of the fiscal rule

The inclusion of clauses on fiscal accountability in the Organic Budget Law was a great step forward as concerns legal sanctioning of the fiscal stability. Meanwhile, taking advantage of the time and the accumulated experience, the Bank of Albania would suggest enriching the Law with the following clauses:

- Identifying a desired speed of fiscal consolidation over a one-budget-year horizon, in order to better guide the process in the medium and long term.
- Including ceilings on the overall contracted value of the PPPs. The Bank of Albania deems that the inclusion of ceilings on the overall contracted value of PPPs in the Organic Budget Law would supplement the limitation laid down in this law about on the maximum permissible limits for the allocation of funds for PPP services over a one-budget-year horizon. In addition, it would anchor, on a more stable basis, the potential budget obligations arising from PPPs.
On the pace of the realisation of budget expenditure throughout the year
The realisation of budget expenditures throughout the year continues to show more concentration in the fourth quarter. This phenomenon - repeated and dictated to a larger extent by the uneven realisation of public investments - creates unnecessary fluctuations throughout the year in liquidity indicators and interest rates in the domestic financial market. It also tends to render more difficult the control of expenditures and compliance with budget limitations, and reduce their effectiveness.

On the management of Public - Private Partnership programmes
Further to previous comments on such programmes, I would like to emphasise once again the need for: constantly improving professional capacities of units responsible for the assessment, contracting and monitoring of these projects, especially with regard to the legal and financial aspects. Also, the contracted PPPs in the field of public investments should be in conformity with the strategic medium and long-term programme of investments, as identified in the development programmes of the country.

Thank you for your attention!
CHAPTER II
PRESS CONFERENCE ON THE MONETARY POLICY DECISION

- Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision and the approval of the de-euroisation package, Publication date: 07.02.2018
- Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, Publication date: 28.03.2018
- Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, Publication date: 02.05.2018
- Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, Publication date: 06.06.2018
- Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, Publication date: 04.07.2018
- Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 1 August 2018, Publication date: 01.08.2018
- Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 3 October 2018, Publication date: 03.10.2018
- Governor Sejko: Statement to the press conference on the monetary policy decision, 24 December 2018, Publication date: 24.12.2018

Press conferences on monetary policy decisions

The Supervisory Council of the Bank of Albania meets 15 times a year, of which 8 are dedicated to monetary policy decisions. The monetary policy is formulated in the light of the main objective of the Bank of Albania — achieving and maintaining price stability. After each meeting, at 16.00, the Governor explains to the public, in a press conference the decision of the Supervisory Council on the monetary policy stance and the underlying analysis. At the end of the conference, the Governor answers to questions by the journalists at the conference.
CHAPTER II - Press conferences on monetary policy decisions
In today’s meeting, the Supervisory Council of the Bank of Albania reviewed and approved the Quarterly Monetary Policy Report. Based on its analyses and forecasts, we re-evaluated the adequacy of our monetary policy stance.

The following press release will inform you on the main conclusions reached by the Supervisory Council.

The new information analysed by the Supervisory Council resulted, overall, in line with our expectations. Similarly, our forecasts on the economic and monetary outlook have remained largely unchanged. The Supervisory Council found that the progressive recovery of the economic activity is facilitated and will continue to be facilitated, among others, by the accommodative monetary policy stance. Based on the above analyses, the Supervisory Council assessed that the actual monetary policy stance is adequate.

Inflation rose slightly in the fourth quarter of 2017, illustrating the short-term nature of supply-side shocks, which had driven it down in the previous quarter. Headline inflation increased mainly due to the increase in the inflation rates in categories related to housing.
Albeit upward, domestic inflation remains subdued and below the 3% target of the Bank of Albania. In the macroeconomic aspect, this performance reflects the cyclical development stage of the Albanian economy and subdued imported inflation rates.

Although set on an upward path, aggregate demand remains inadequate to fully utilise production capacities, as illustrated by the fact that the unemployment rate remains above its natural level, and firms report that capacities are not yet fully utilised. This phenomenon impedes the increase in wages, production costs and profit margins, in line with our inflation target.

In parallel, inflation in our main trading partner countries continues to record low rates. The appreciation of the exchange rate in the recent quarters has decelerated further their pass-through to the Albanian economy.

The analysis of macroeconomic indicators suggests that the Albanian economy continued to grow in the second half of 2017, albeit at a slower pace than in the first half. INSTAT data shows that the Gross Domestic Product grew by 3.55% in the third quarter, slowing down from the 3.9% average growth rate registered in the first half of 2017.

From the sectorial perspective side, economic growth continues to be supported by the activity in the services sector, whereas its deceleration reflects the deceleration of the activity in the construction sector and certain branches of the industry sector. From the aggregate demand perspective,
economic growth was supported mostly by the expansion in the private consumption, whereas its deceleration reflected the slowdown in investments and the negative contribution from foreign trade. Indirect available data suggest a similar performance of economic growth over the fourth quarter.

The monetary policy of the Bank of Albania has played a significant role in sustaining the upward trend of the economy and building up domestic pressures on inflation. The low policy rate, the use of the forward guidance for the markets, and the continuous liquidity injection in the interbank market have brought the private sector financing costs down, in turn, boosting consumption and investments. In parallel, the low interest rates have eased the debt servicing costs - therefore improving the soundness of the private sector balance sheets - and have attempted to decelerate the exchange rate appreciation pressures.

The financial markets appeared overall calm in the second half of the year. The interest rates on deposits and loans in the Albanian currency remain near historic lows, whereas the fluctuations in government security yields have not been transmitted to other segments of the financial market. On the other hand, the exchange rate resulted relatively steady over the fourth quarter; its appreciation was downward compared to the high levels recorded in the third quarter.

Against this positive backdrop, lending continues to be sluggish. Excluding the exchange rate effect, the portfolio of credit to the private
sector registered 5% average annual growth in the fourth quarter. In line with our previous statements, the total credit growth continues to be supported largely by the expansion of lek credit. Its portfolio recorded 7.9% average annual growth in the fourth quarter, whereas foreign currency credit grew by 2.4%.

Our analyses suggest that the slack credit growth reflects the simultaneous effect of the sluggish demand and tightened conditions from the supply side. The steady growth of lending will require the improvement of both demand and supply. In this regard, while our projections suggest demand will grow in the medium term, the Bank of Albania draws the attention to the fact that the banking sector should be more proactive in terms of its lending policies.

The banks financial soundness has been constantly improving. This performance is corroborated by the stable liquidity situation, the positive performance of profitability indicators and the progressive reduction of non-performing loans. The ratio of non-performing loans to total loans fell to 13.2% in December, reflecting the improvement of the economic activity, the effect of measures for reducing NPLs, and constant efforts by banks and firms to clean and restructure their balance sheets. In this context, the Bank of Albania believes that there is further scope for banks to factor in the reduction of the credit risk for easing their lending policies.

Our projections suggest the positive development trends will continue. The Albanian economy will continue to grow over the medium-term horizon, underpinned by the improvement in the external environment and the favourable financing conditions at home. These factors will absorb a part of the effect from specific shocks to certain sectors and of the reduction of the fiscal stimulus during 2018. The further growth of aggregate demand and a fuller utilisation of production capacities is expected to create the necessary preconditions for the return of inflation to target around mid-2019.

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

- Keep the policy rate unchanged at 1.25%; and,
- Keep the interest rates on overnight deposits and loans at 0.25% and 2.25%, respectively.
Also, based on the available information, the Supervisory Council:

- First, reconfirms that the intensity of the monetary stimulus will not diminish before the fourth quarter of 2018. Furthermore, the monetary policy is expected to remain accommodative over the medium-term horizon, to ensure a sustainable convergence of inflation with the target.
- Second, finds that the balance of risks to our projections remains on the down side.
- Third, emphasises once again that “beyond the cyclical dimension” the further acceleration of the economic growth pace requires a rigorous continuation of structural reforms. These reforms will contribute to enhancing the efficiency, expanding the production potentials of Albania and bolstering the resilience of the Albanian economy against potential shocks.

Dear media representatives,

Availing myself of this opportunity to communicate with the public, I would like to inform the public on a very important decision, taken today at the meeting of the Supervisory Council of the Bank of Albania. The decision relates to promoting the use of the national currency in economic and financial transactions. Known also as the de-euroisation package, this initiative is established now as a pan-national goal, in the light of the Memorandum of Cooperation signed last April. The Memorandum formalises the agreement for joint and coordinated efforts, at the national level, between three institutions: Bank of Albania, Ministry of Finance and Economy, and Albanian Financial Supervision Authority.

Before I go into further details about concrete measures, let me say a few words about this initiative.

The Bank of Albania deems that de-euroisation is a necessary and useful process in the long run, in terms of both enhancing the effectiveness of economic and financial policies and reducing the risks to the financial stability.
Our studies and analyses show that the use of foreign currencies in the domestic economic and financial ambit is relatively high. This phenomenon is related to the high use of foreign currencies in commercial transactions and as a medium for savings, in the form of deposits, or for financing, in the form of foreign currency loans.

In order to avoid any possible misunderstanding, I would like, first of all, to clarify for the public that the Bank of Albania does not intend to reduce to zero the use of foreign currencies in financial activities, but to reduce the level of euroisation to levels that are acceptable for economies of similar structure and size to our economy. What we would like to see reduced, diminished or minimised is the presence of open foreign currency positions and exchange rate risk taking, whether directly or indirectly, in an unstudied or unhedged manner, by consumers, firms and financial market agents.

Based on the above, and aiming at concretising our institutional commitment, the Supervisory Council reviewed and approved a package of decisions to promote the use of the national currency. In this regard, the following were approved:

1) First, the Policy Document “On the expansion of the use of the national currency in the activity of the banking sector and non-bank financial institutions, subject to regulation and supervision by the Bank of Albania”. The Document sets out the way the Bank of Albania will contribute to this process (also known as de-euroisation) and assess the impact of this contribution.

2) Second, some regulatory amendments, which finalise the work, carried out in the previous year for the identification, assessment and consultation with the banking industry, some measures that support the expansion of the use of the national currency in the activity of the banking sector. These regulatory amendments aim at making the foreign currency transactions in the banking sector more costly (i.e. less preferred) and promote mechanisms for raising the awareness of borrowers (especially those households that are unhedged against the exchange rate risk) on risks that accompany foreign currency borrowing. These changes will enter into force within the first half of this year.
Concluding, I would like to underline that this process requires long-term commitment; therefore, these measures may be supplemented by other measures in the future. In any case, the Bank of Albania will take action gradually and in consultation with the banking industry. In order for the process to be effective, it must be all inclusive. In this light, the Bank of Albania will maximally align its actions with other authorities that supervise the financial system and markets in Albania, and will consult with relevant European institutions.

“The monetary policy is expected to remain accommodative over the medium-term horizon, to ensure a sustainable convergence of inflation with the target.”
CHAPTER II - Press conferences on monetary policy decisions
The new economic and financial information analysed in the intermediate monetary policy report resulted in line with our expectations. The volume of economic activity and inflation continued to trend up in the first quarter of 2018, whereas financial markets were characterised by low interest rates and contained risk premia.

The update of our projections has not changed our outlook for future developments. The Albanian economy is expected to grow further in the medium-term horizon. The improvement of the cyclical position, reflected in an increasingly fuller utilisation of production capacities, is expected to add domestic inflationary pressures and enable the return of inflation to target during 2019.

*The output gap is the average of several measurements on which the method of moving average is applied. The capacity utilisation rate gap is assessed as a deviation of the current value from the relevant historical average, for each sector of the capacity utilisation rate survey. Later on, sectors gaps are weighted likewise in the economic sentiment indicator, and the four-terms moving average method has recently been applied. The unemployment rate gap is assessed as an unemployment gap average according to three methods, which assess the equilibrium rate of unemployment (NAIRU and NAWRU). The unemployment gap is stated as the difference of equilibrium unemployment rate to actual unemployment rate and then the method of the four terms moving average is applied.

Source: INSTAT and estimations of the Bank of Albania
Judging on this information, the Supervisory Council deemed that the monetary policy stance remains adequate for boosting economic growth and for the sustainable return of inflation to the 3% target.

Let me now explain our assessment in greater detail,

Inflation rose slightly in the first quarter of 2018, standing at 1.7% and 2.1% in January and February, respectively. The rise reflected mainly higher food, water and rent prices.

Yet, inflation remains below the target level. In macroeconomic terms, this performance reflects the combined effect from three factors:

- First, utilisation of production capacities, which remains incomplete, causes the increase in wages and production costs not to be in line with our inflation target.
- Second, foreign pressures on price increase appear weak, driven by the low level of inflation in our trading partner countries and the appreciation of the exchange rate of the Albanian lek.
- Third, economic agents’ inflation expectations remain below our target.

In our judgement, the decelerating effect of these factors will diminish gradually in the medium-term horizon.

*Chart 15 Firms and consumers’ inflation expectations (left), and financial agents’ inflation expectations (right), annual change in %*

Source: INSTAT and estimations of the Bank of Albania.
The new information suggests that economic growth in the first quarter was underpinned by the expansion of private consumption, and continuation of the upward trend of investments, and the acceleration of the pace of the realisation of budget expenditures. On the other hand, the deficit of trade in goods appeared volatile; it expanded in January and narrowed in February.

The expansion of aggregate demand continues to be accompanied by increase in employment and decrease in unemployment rates, as evidenced by labour market data for the fourth quarter of 2017. Yet, the increase in wages remains sluggish.

The positive performance of the economy was driven by our accommodative monetary policy stance, the improvement of confidence in the economy and the expansion of foreign demand for Albanian goods and services. It was also favoured by the reduction of public borrowing, which has brought risk premia down and has facilitated the monetary policy pass-through to financial markets.

The low interest rates have supported the increase in private consumption and investments, by bolstering lending and reducing the costs of servicing the existing debt. Excluding the exchange rate effect, the portfolio of total credit registered 5.8% average annual growth in January and February. Its growth continued to be supported mostly by the growth of lek credit, whose portfolio recorded 7.2% average annual growth during this period, whereas the portfolio of foreign currency credit recorded 4.7% growth.

In parallel, the accommodative monetary policy has also contributed to the reduction of non-performing loans, by boosting demand and encouraging credit restructuring. This indicator continued to remain at levels similar to the end of 2017.

The Bank of Albania deems that the gradual return of the economy to its potential and the fuller utilisation of production capacities will be accompanied by faster increase in wages and production costs, hence strengthening domestic inflationary pressures. Also, inflation in foreign markets is expected to rise, whereas the appreciation of the exchange rate is expected to diminish, thus enabling a more complete transmission of foreign pressures into domestic markets. Lastly, inflation expectations are expected to trend up, following the factual performance of this indicator.
In line with these assessments, annual inflation is expected to hover around 2.2% for 2018 and converge to our target within 2019.

Based on these judgements, the Supervisory Council decided to keep the policy rate unchanged at 1.25%. The Council decided also to keep the interest rates on overnight deposit and loan facilities unchanged, at 0.25% and 2.25%, respectively.

The Supervisory Council judges that the balance of risks remains on the downside. In particular, the recovery of the European economy remains subject of risks and uncertainties, whereas the supply for bank credit remains tight. Regarding the latter, the Supervisory Council deems that the progressive reduction of the credit risk should be accompanied by more realistic credit policies by the banking sector. This would create premises for fulfilling the needs of the economy for financing, which are expected to be upward in the future.

Reflecting on the available information, and projections from the baseline scenario and risks surrounding them, the Supervisory Council confirms that:

- the intensity of the monetary stimulus will not diminish before the fourth quarter of 2018;
- the monetary policy will remain accommodative throughout the medium-term horizon, to ensure the sustainable return of inflation to target.

Concluding, the Supervisory Council deems that the positive cyclical momentum of the economy should be used for stepping up the implementation of structural reforms, which, in turn, boost the pace of economic growth and increase the resilience to shocks. In particular, these reforms should aim at improving the business climate, enhancing efficiency and competitiveness and expanding the productivity potential in Albania.

“The intensity of the monetary stimulus will not diminish before the fourth quarter of 2018.”
CHAPTER II - Press conferences on monetary policy decisions

GOVERNOR SEJKO: STATEMENT TO THE PRESS CONFERENCE ON THE MONETARY POLICY DECISION OF THE BANK OF ALBANIA KEEPS THE KEY INTEREST RATE UNCHANGED AT 1.25%
Publication date: 02.05.2018

- The Albanian economy continues to maintain a positive development trend.
- Financial conditions remain overall adequate for achieving our inflation target.
- The current monetary policy stance remains adequate.
- The Bank of Albania stands ready to respond, through available instruments and in accordance with the monetary policy regime.

In today’s meeting, the Supervisory Council of the Bank of Albania reviewed and approved the Quarterly Monetary Policy Report. Based on our monetary and economic analysis, the Supervisory Council discussed about their outlook. The Supervisory Council concluded that the current monetary policy stance remains adequate and decided to keep the policy rate unchanged.

Let me now explain our conclusions and our monetary policy decision in greater detail.

The new information analysed in this Report suggests that the Albanian economy continues to maintain a positive development trend. Economic activity continues to expand and inflation has been upward, whereas monetary and financial conditions remain overall adequate for achieving our inflation target, in the medium-term horizon.

Inflation averaged 1.9% in the first quarter of 2018, registering a slight increase from the previous quarter. This increase reflected mainly higher rent price inflation, whereas food prices continued to be volatile and the inflation of the other items of the basket remained relatively low and stable.

From a broader perspective, the increase in inflation was favoured by the expansion of aggregate demand and domestic inflationary pressures; yet, it continued to decelerate, owing to low inflation in trading partners and strengthening of the exchange rate appreciation.
According to INSTAT data, the Albanian economy grew 3.4% in the last quarter of the previous year. Indirect available data suggest that a similar growth pace has been maintained also in the first quarter of the current year.

Economic activity expanded driven, to a large extent, by the increase in consumer spending and private investments. Conversely, the fiscal stimulus reduced during the period, whereas the international trade deficit expanded. The expansion of aggregate demand was reflected mainly in growth in the services sector and in certain branches of the industry sector.

In macroeconomic terms, growth was supported also by the improved confidence of the private sector, upswing in external demand and high levels of foreign direct investments, as well as the favourable financing conditions at home.

The expansion of the economic activity has led to a better utilisation of production capacities. It is reflected in the further increase in employment, fall in the unemployment rate, and improvement of balance sheets of Albanian enterprises. But, economic activity in Albania remains below its potential, which impedes the rise in wages and production costs. The accommodative monetary policy implemented by the Bank of Albania has been and remains an important factor for supporting Albania’s development. In response to this policy stance, financial
markets continue to be characterised by low interest rates, adequate liquidity situation and reduced risk premiums.

The banking sector continues to record adequate and improving indicators on asset quality, liquidity, profitability and capitalisation. Credit to the economy grew 3.3% on average, during the first quarter of the year, fuelled, to a large extent, by the 7% growth in the lek loans portfolio. The Bank of Albania finds that the expected increase in the need for financing should be accompanied by more realistic and flexible lending policies by the banking sector, so as not to condition the development dynamics in the future.

A notable development in the financial markets was the appreciating trend of the exchange rate.

Chart 17 Exchange rate trend in the domestic foreign exchange market

In relation to this phenomenon and in line with our previous stance, the Bank of Albania deems that the medium-term trend of the exchange rate, which started in the second half of 2015, reflects the action of fundamental factors. These factors materialised in an increased foreign currency supply, as a result of the improvement in the current account deficit, high levels of foreign direct investments, and reduction of risk premia in the domestic financial market.

On the other hand, the relatively rapid appreciation of the exchange rate in the past two months has reflected the action of specific factors
in the foreign exchange market. This performance reflects neither direct effects nor the objectives of our strategy for promoting the use of the national currency. As such, it is expected and estimated to be short term. In accordance with the identified trends and our conclusions on determinant factors of development, the update of our medium-term forecasts reconfirmed our previous expectations. The Albanian economy is expected to continue to grow in the medium-term horizon, on the back of stimulating financing conditions and the expected improvement in the external environment. The increasingly higher utilisation of production capacities will create the premises for domestic inflationary pressures to strengthen, bringing them in line with our inflation target. The strengthening of these pressures is expected to be adequate for offsetting the rapid and temporary appreciation of the exchange rate.

In line with these assessments, the Bank of Albania expects inflation to stabilise around the present level during 2018 and gradually increase in 2019. Our projections show that inflation will converge toward our target within the next year.

Judging on the above, the Supervisory Council decided to

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

In comparison to our previous assessments, the Supervisory Council judges that convergence of inflation to target will require a more accommodative monetary policy stance in the medium term. Based on the available information, the Supervisory Council deems that the intensity of the monetary stimulus will not diminish before the second quarter of 2019.

In addition, the Supervisory Council judges that the balance of risks to inflation has shifted further to the downside. Against this backdrop, should the intensity and duration of decelerating factors for the return of inflation to target be stronger than our current estimations, the Bank of Albania stands ready to respond, through available instruments and in accordance with the monetary policy regime.

“The Supervisory Council deems that the intensity of the monetary stimulus will not diminish before the second quarter of 2019.”
BANK OF ALBANIA CUTS KEY INTEREST RATE AT 1.00% AND APPROVES FOREIGN EXCHANGE PURCHASE OPERATIONS IN THE DOMESTIC FOREIGN EXCHANGE MARKET
Publication date: 06.06.201

- The performance of the exchange rate in May showed a faster and further appreciation
- The Supervisory Council deems, however, that the transmission of the exchange rate appreciation to consumer prices decelerates the return of inflation to target.
- The Supervisory Council assessed as necessary the further easing of the monetary policy stance.
- The Supervisory Council decided the undertaking of foreign-currency purchase operations in the domestic foreign currency market.

The employment of foreign-currency operations is and will remain ad hoc, against the backdrop of specific circumstances arising from the need for monetary policy response and the narrowing of the scope for conventional instruments’ action.

Dear representatives of the media,

In today’s meeting, the Supervisory Council of the Bank of Albania discussed the latest developments in the domestic financial markets. It focused, in particular, on the analysis of the rapid appreciation of the exchange rate, its expected implications for the inflation outlook in the medium-term horizon, and the assessment of the current monetary policy stance.

In the statement on 2 May, based on the analysis of underlying factors, the Supervisory Council assessed that the pace of exchange rate appreciation, until April, would have limited and short-lived effects on inflation.

However, the performance of the exchange rate in May showed a faster and further appreciation, exceeding the appreciation trend noted in the two previous years. It appears to reflect the formation of one-sided expectations – on the appreciating side of the exchange rate – by operators in the forex market.
Such expectations spring from information for an increase in foreign currency supply, mainly in response to the capital conversion of some banks, disbursement of a loan in foreign currency to a public company, and expectations for a good tourism season. As a result, the expectations have led to both an increase in supply and a decrease in demand for foreign currency.

The action of these factors – although assessed to be temporary – has resulted in a strong appreciation of the exchange rate. Such appreciation – which was identified as a risk factor in the Supervisory Council meeting in May – has strengthened downside pressures on inflation.

Our judgment on the situation and the economic and financial outlook in Albania has not changed. The development trend is expected to be positive, characterised by further economic growth, gradual convergence of the economy towards the equilibrium, and progressive build-up of domestic inflationary pressures. The Supervisory Council deems, however, that the transmission of the exchange rate appreciation to consumer prices decelerates the return of inflation to target. Also, albeit in the absence of changes in fundamental factors, one-sided and short-term expectations on the trend of the exchange rate appreciation, run the risk of being potentially transformed into stable and long-term expectations. The consolidation of such expectations and the creation of their self-fulfilling dimension may create a vicious circle, with a harmful impact on inflation and other economic indicators.
Based on the above information, the Supervisory Council assessed as necessary the further easing of the monetary policy stance. This assessment is fully consistent with our previous assessments and communications. Against this backdrop, the Supervisory Council decided to:

- Lower the policy rate by 0.25 percentage point, down to 1.00%;
- Lower the overnight deposit facility by 0.15 percentage point, down to 0.10%;
- Lower the overnight lending facility by 0.35 percentage point, down to 1.90%.

The increase in the monetary stimulus is expected to be accompanied by the further reduction of interest rates on loans and increase in the circulation of monetary assets in the domestic currency. Hence, it is expected to provide an additional impulse to aggregate demand, both through reducing the costs for financing consumption and investments and through the rebalancing of demand and supply for foreign currency in the financial market.

Furthermore, based on the need for creating adequate monetary conditions for maintaining price stability, and reflecting the reduction of scope for using the conventional monetary policy tool, the policy rate, the Supervisory Council decided the undertaking of foreign-currency purchase operations in the domestic foreign currency market. These operations will be carried out in accordance with the legal and regulatory frameworks.

Foreign-currency purchase operations are aimed to eliminate the temporary excess foreign currency in the market and decelerate the further appreciation of the exchange rate, which would hamper the achievement of our price stability objective. Hence, these operations will contribute to fulfilling and reinforcing the monetary stimulus, transmitted by means of lowering the policy rate. Moreover, they help the market to find the right price of the Albanian lek against other currencies, in line with the stable and long-term demand and supply balance for it.

“...The Supervisory Council finds it appropriate to underline that the exchange rate in Albania has, been, is and will continue to be a floating one, determined by demand and supply in the foreign currency market...”
Foreign currency purchase operations will be carried out for an adequate period, as necessary, with a view to achieving the relevant objectives.

The Supervisory Council finds it appropriate to underline that the exchange rate in Albania has, been, is and will continue to be a floating one, determined by demand and supply in the foreign currency market. Therefore, we invite once again all the operators of the economy and financial markets to avoid any unstudied, unhedged, and undesired foreign currency exposures.

The employment of foreign-currency operations is and will remain ad hoc, against the backdrop of specific circumstances arising from the need for monetary policy response and the narrowing of the scope for conventional instruments’ action.

“The increase in the monetary stimulus is expected to be accompanied by the further reduction of interest rates on loans and increase in the circulation of monetary assets in the domestic currency.”
Dear representatives of the media,


The new information analysed in this Intermediate Report suggests that the Albanian economy continues on a positive development trend. In particular, economic growth in the first quarter was higher than our expectations, while inflation was slightly up in April and May, compared with the first quarter. Financial markets are characterised by low interest rates and improving liquidity indicators, but the exchange rates continue to appear strong and credit growth remains sluggish.

The updated forecasts did not bring about considerable changes in the expected trajectories of future developments. The baseline scenario suggests that the Albanian economy will continue to grow, driving the build-up of domestic inflationary pressures. The appreciated exchange rate will tend to decelerate inflation over the next quarters, but the effect of this factor is expected to be transitional. Therefore, inflation is expected to steadily return to its target within 2020.

In these circumstances, the Supervisory Council deems that the current monetary policy stance, in its historical low of 1% of the policy rate and in the temporary program of interventions in the domestic foreign exchange market, remains adequate.
Let me explain in greater detail.

Annual inflation was 2.1% in April and May, against the average rate of 1.9% in the previous quarter. From the perspective of the basket composition, inflation ticked up as result of the increase in the prices of non-food items and of housing services. From the macroeconomic perspective, the increase in production costs and imported inflation continue to affect inflation at the same degree. Nevertheless, our analyses show that both components have already been affected by the exchange rate appreciation.

According to INSTAT data, the Albanian economy grew 4.45% in 2018 Q1. Indirect available data point to positive growth rates for the second quarter as well. From the sectorial perspective, the economic activity expansion was mainly driven by the growth in the industry sector, and in particular by the growth in production and export of electricity. From the perspective of aggregate demand, growth was driven by the expansion in private consumption, aggregate investments and the export of goods and services. The growth in imports hindered economic growth.

The expansion of the aggregate demand has led to a better utilisation of production capacities, particularly in the labour market. The unemployment rate fell to 12.5% and the average wage increased by 2.3% in annual terms. These developments suggest that the cyclical improvement of the Albanian economy has started to materialize in the increase of the domestic inflationary pressures.
Economic growth continues to be driven by a stimulating monetary and financial environment, the increase of employment and improved confidence and the upswing in the external demand. In response to the accommodative monetary policy of the Bank of Albania and fiscal consolidation, the interest rates in financial markets remain low and the liquidity situation is improving. The average interest rate on lek loans fell at 6.3% in May, supporting the reduction of borrowing costs and stimulating the annual growth by 6.6% of credit in lek. On the other hand, total credit to private sector recorded 4.9% annual growth rate in April and May, corrected for the exchange rate effect and the loan write offs.

Credit performance is affected by both low credit demand and the still tight lending policies implemented by the banking sector. Regarding the latter, the Bank of Albania deems that banks’ balance sheets are growing sound, as shown by the fall of non-performing loans ratio at 13.3% in May 2018. In addition, credit risk in Albania continues to fall, attributable to the cyclical improvement of the economy and the measures for the resolution of the non-performing loans. Under these circumstances, the banking sector should be more pro-active and attentive in meeting the medium and long-term financing needs of the economy.

Finally, financial markets were characterised by relatively strong unbalances in the demand and supply for foreign currency, which drove to the rapid appreciation of the exchange rate. In our view, this disequilibrium was generated by temporary factors in the foreign exchange market. Nevertheless, the resulting exchange rate appreciation
was assessed as harmful from the perspective of achieving the inflation target and triggered the intervention of the Bank of Albania to address it. The intervention in the market, approved on 6 June and implemented in the next days, has already provided positive effects, by decelerating the strong appreciation trend of the exchange rate and providing a more calm and normal foreign exchange activity in the market.

Our expectations for the future remain positive.

Based on the current development trends and their underlying factors, the Bank of Albania expects further growth of economic activity and a better utilisation of production capacities in the medium-term horizon. These developments will contribute to a faster increase in wages and production costs, enabling the return of inflation to target within 2020. The current monetary policy stance is an important supporting factor to these developments. The low policy rate guarantees low financing costs, whereas the program of intervention in the domestic foreign exchange market helps calm down the activity in the domestic foreign exchange market and prevents the exchange rate appreciation.

Judging on the above, the Supervisory Council decided to:
- Keep the policy rate unchanged, at 1.0%;
- Keep the overnight deposit and overnight lending rates, unchanged at 0.1% and 1.9%, respectively.

In line with our forecasts for the outlook and the risk balance surrounding them, the Supervisory Council judges that the return of the policy rate into an upward trajectory will not begin before 2019 Q2.

Also, the Supervisory Council considered as necessary to continue the intervention program in the domestic foreign exchange market. In this regard, the Supervisory Council reiterates that the foreign currency purchasing program is an extraordinary and temporary instrument of the monetary policy. The program is exclusively aimed at complying with the price stability objective and is dictated by the environment with low interest rates. As such, its duration will be only limited, conditioned by the prevention of the negative impact of the exchange rate on the achievement of the inflation target.

“The Supervisory Council judges that the return of the policy rate into an upward trajectory will not begin before 2019 Q2.”
The Albanian economy continued to pursue a positive development trend in the first half of 2018. Economic activity has been proceeding along an upward growth path, enabling thus the expansion of employment, increase in wages, improvement of firms’ financial situation, and gradual build-up of inflationary pressures.

These developments have been underpinned by the improvement in the external environment, the improvement of confidence in the economy, the favourable financial conditions, dictated by our accommodative monetary policy, and positive supply-side shocks.

Our expectations for the outlook remain positive. Yet, their materialisation requires maintaining the accommodative monetary policy stance, while the balance of risks remains skewed to the downside.

Average inflation registered 2.2% in the second quarter, upward from 1.9% registered in the first quarter. In particular, inflation hit 2.4% in June. The balance of inflationary pressures continues to be formed by a gradual build-up trend of domestic pressures and short-term fluctuations in the prices of specific items in the consumption basket.

The pickup in inflation in the second quarter reflected the resultant effect of two shocks in opposite directions. On the one hand, the rise in oil
prices in international markets led, in turn, to higher production costs and had an upward impact on inflation. On the other hand, the appreciation of the exchange rate decelerated the pass-through of foreign inflationary pressures to the domestic market. The effect of the first factor was more intensive in the second quarter, but this effect is expected to be shorter in time.

Our projections suggest that inflation will converge toward our target within 2020. This projection takes into account the positive dynamics of economic growth and our expectations for the return of the economy to equilibrium in the first half of the next year. Also, it is based on the assessment that disinflationary pressures from the appreciation of the exchange rate will remain transitory.

These judgments are corroborated by economic and monetary data of the first half of the year.

The Albanian economy grew 4.45% in the first quarter, and indirect data suggest positive growth rates will continue in the second quarter. The acceleration of the economic growth pace in the first quarter reflected the rapid growth in electricity production, in response to favourable weather conditions. In the longer term, the expansion of economic activity was supported by the pickup in private consumption and investments, whereas the deficit of external trade expanded and the fiscal policy continued the
consolidation trend. Indirect data suggest that these development trends have been carried into the second quarter.

The economic activity expanded, while employment improved and the unemployment rate fell to 12.5%. This is the lowest historical level of unemployment registered in Albania and suggests an increasingly fuller utilisation of production capacities in Albania. In response to it, the INSTAT reports that the average real wage increased by 2.3% in the first quarter, a positive premise for the gradual build-up of domestic inflationary pressures.

The domestic financial market remains calm and liquid, but appreciation pressures of the Albanian lek remain present in the foreign currency segment. The recent monetary policy measures - lowering the policy rate to 1.0% and intervention in the domestic foreign exchange market, with a view to preventing the rapid appreciation of the exchange rate, have proven to be effective.

The interest rates for the Albanian lek have been downward in the second quarter. Interest rates on loans, deposits and securities denominated in lek are currently at minimum levels. Credit to the private sector registered 5% average growth in the second quarter, with a more balanced contribution to growth between lek and foreign currency credit.

*Chart 22 Credit to the private sector by currency and economic agent*

Overall, credit growth is in line with the moderate improvement of credit demand. However, the bank lending survey suggests that credit
standards and loan terms and conditions applied by the banking sector remain conservative. The Bank of Albania finds that the fall in the credit risk and the steady improvement of balance sheets - as illustrated by the drop to 13.27% of the non-performing loans ratio - should be better reflected in the lending policies of the banking sector.

After the rapid appreciation of the exchange rate in the April - May period, the intervention of the Bank of Albania succeeded in calming the functioning of the domestic foreign exchange market and decelerated the appreciation of the exchange rate. Our analyses, however, suggest that the demand-supply ratio in the domestic foreign exchange market remains misbalanced, in part due to the high seasonal flows. In addition, the rapid and further appreciation of the exchange rate would impair the convergence of inflation towards our target in the medium term.

Judging on the above, the Bank of Albania deems that the current monetary policy stance remains adequate.

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

- Keep the policy rate unchanged, at 1.0%;
- Keep the interest rates on overnight deposit and overnight lending facilities, unchanged at 0.1% and 1.9%, respectively;
- Continue the purchase programme in the domestic foreign exchange market, aimed at decelerating the rapid appreciation of the exchange rate.

Maintaining an expansionary monetary policy stance in the medium term will serve to boost aggregate demand, contributing thus to employment gains, higher wages, and build-up of domestic inflationary pressures. The monetary stimulus is consistent with the fiscal policy consolidation and remains a necessary precondition for the convergence of inflation to our target within 2020.

In accordance with projections of the baseline scenario, and based on the available information, the Supervisory Council judged that the normalisation of interest rates in the domestic financial market will not resume before the second quarter of 2019.

“Supervisory Council judged that the normalisation of interest rates in the domestic financial market will not resume before the second quarter of 2019.”
BANK OF ALBANIA KEEPS THE KEY INTEREST RATE UNCHANGED AT 1.00%
Publication date: 03.10.2018

- Inflation slightly increased against the average level recorded in the first half of the year.
- The decelerating effect on inflation from the exchange rate appreciation will continue to be present for some quarters ahead.
- Bank of Albania interventions in the foreign exchange market proved to be effective with regard to stabilising the exchange rate in the third quarter.
- The accommodative monetary policy stance ensures the necessary stimulus for boosting the economic activity and for the return of inflation to our target.

Dear representatives of the media,

In today’s meeting, 3 October 2018, the Supervisory Council of the Bank of Albania reviewed and approved the Intermediate Monetary Policy Report.

The new economic and financial information, available and analysed in today’s meeting of the Supervisory Council, is overall positive and in line with our expectations. The volume of economic activity in Albania expanded, leading to a fuller utilisation of production capacities and increase in employment and wages, and build-up of domestic inflationary pressures. The financial situation of Albanian households and firms has been improving reflected, in turn, in the improvement of their balance sheets and the constant decline in the non-performing loan ratio.

These developments continue to be sustained by the improvement in the external environment, favourable financing conditions dictated by our accommodative monetary policy stance, the foreign direct investments inflows, and the higher electricity output owing to the favourable hydro situation in this year.

The updated projections reconfirmed our previous expectations for the positive performance of the economy and for the return of inflation to target within the medium-term horizon. Moreover, the Supervisory
Council deemed that, while the accommodative monetary policy stance will be necessary for guaranteeing the stability of economic growth, over the medium term, the intensity of this stimulus will be slowing down, in line with the pace of the improvement of economic activity and the speed of the return of inflation to target.

Inflation registered 2.3% and 2.2% in July and August, respectively, slightly upward from the 2.1% average registered in the first half of the year. The rise in inflation reflected the build-up of domestic inflationary pressures, the direct and indirect effects from the rise in oil prices in international markets and the high food prices. On the other hand, the appreciation of the exchange rate decelerated the imported inflationary pressures.

The Bank of Albania deems that the decelerating effect on inflation from the exchange rate appreciation will continue to be present for some quarters ahead. Yet, this decelerating factor will remain transitory and will not affect the return of inflation to target over the medium term.

Our projections suggest that inflation will converge toward our target within 2020. Such dynamics will be sustained by the continued expansion of aggregate demand, which will enable employment gains, rising wages, and higher profit margins in line with their historic rates.

According to INSTAT data, the Albanian economy grew 4.3% in the second quarter of 2018. Indirect data signal that the growth dynamic will continue in the third quarter. Economic growth was broad based, sustained by the growth in consumption and private investments, as well as the expansion of exports. On the other hand, the fiscal consolidation picked up its pace in the second and third quarters. Also, similarly to in the previous quarter, economic growth in the second quarter reflected the expansion of electrical energy output.
The economic activity expanded, leading to a fuller utilisation of production capacities. In the labour market, employment gains lowered the unemployment rate even further, to 12.4% in the second quarter. In accordance with our business activity surveys, the capacity utilisation rates hovered around 72% on average, upward from the average level recorded in the previous year. These developments sustain the strengthening and expansion of the base of domestic inflationary pressures.

Financial conditions for firms and households remain favourable, characterised by low interest rates and reduced risk premia. The financing costs of the banking sector, the private sector and the public sector are low, reflecting the accommodative monetary policy stance. The low interest rates for lek loans contributed to the expansion of the credit portfolio in the national currency, which remains the most preferred financing instrument and the main driver to the expansion of credit to the private sector. The annual growth of lek loans was 6% in August. At the end of this month, lek loans accounted for around 46.1% of total credit.
As we have previously noted, credit dynamics in Albania reflect the performance of credit demand and supply. In concrete terms, credit demand remains moderate, albeit showing an improving trend over the last quarters, whereas banks continue to apply tight credit conditions, especially for the enterprises segment. In this regard, the Bank of Albania evidences that the constant reduction of credit risk - as illustrated by the decline in the NPL ratio at 12.9% in August - creates the preconditions for banks to adopt a more proactive approach to lending.

The exchange rate remains appreciated against the currencies of our trading partners, but the appreciation trend decelerated over the summer months. Bank of Albania interventions in the foreign exchange market proved to be effective with regard to stabilising the exchange rate in the third quarter. Lastly, at the end of the touristic season, the foreign currency demand and supply appear as balanced, even in the absence of Bank of Albania interventions. Our analyses suggest that the exchange rate risk for achieving the inflation target has been diminishing.

Our expectations for the outlook are positive. The Albanian economy is expected to remain on a positive economic growth trajectory. The expansion of aggregate demand is expected to increase the degree of utilisation of production capacities, hence building up domestic inflationary pressures. In parallel, inflationary pressures from the external environment are also expected to pick up, as a result of the diminishing of the decelerating effect of the appreciated exchange rate.
In the medium term, the materialisation of this scenario requires maintaining the current macroeconomic policy mix. The accommodative monetary policy stance ensures the necessary stimulus for boosting the economic activity and for the return of inflation to our target. At the same time, the fiscal consolidation reduces the risk premia in the economy and increases the space for withstanding to potential risks.

In the long run, the acceleration of economic growth should be based on the continuation of structural reforms with regard to improving the business climate and promoting domestic and foreign investments, as well as enhancing the efficiency and expanding the potential of our economy.

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

- Keep the policy rate unchanged, at 1.0%;
- Keep the overnight deposit and overnight lending rates, unchanged at 0.1% and 1.9%, respectively.

The Supervisory Council deems that - based on the actual trends and the available information - the normalisation of interest rates in the domestic financial market will not commence before the second quarter of 2019. In any case, this normalisation will be implemented prudently to guarantee a sustainable convergence of inflation toward the target.

The Supervisory Council deemed that the demand and supply for foreign currency appear as stable and that the exchange rate appreciation is a lower risk to inflation.

“The normalisation of interest rates in the domestic financial market will not commence before the second quarter of 2019.”
CHAPTER II - Press conferences on monetary policy decisions
Dear media representatives,
Welcome to the last press conference for 2018.

Today, the Supervisory Council was briefed and discussed on the latest economic and financial developments in Albania, the outlook, the adequacy of the monetary policy stance, and other issues related to the organisation and management of the Bank of Albania. In the following, I will present a statement of the Supervisory Council on the monetary policy decision.

Although available information is partial and indirect, the analysed data suggest that economic activity in Albania trended upward in 2018 H2.

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**BANK OF ALBANIA KEEPS THE KEY INTEREST RATE UNCHANGED AT 1.00%**
Publication date: 24.12.2018

- The economic activity in Albania trended upward in 2018 H2.
- Economic activity expanded, supported by the accommodative monetary policy of the Bank of Albania.
- Our monetary stimulus has created a liquid financial environment with low interest rates, and has mitigated the effect of appreciation pressures on the exchange rate.

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* Core inflation for 2018 Q4 is the average of annual rate for October and November.
** The output gap is the average of several measurements on which the method of moving average is applied. The capacity utilisation rate gap is assessed as a deviation of the current value from the relevant historical average, for each of the Business Confidence Survey sectors. After, the gaps of the sectors are weighted as in the economic sentiment indicator, and finally is applied the method of the four terms moving average. The unemployment rate gap is assessed as an average of unemployment gaps according to three methods, which assess the equilibrium or structural level of unemployment (NAIRU or NAWRU). The unemployment rate gap is stated as the difference of equilibrium unemployment rate to actual unemployment rate and then the method of the four terms moving average is applied. Source: INSTAT and estimations of the Bank of Albania.
Economic growth is reflected in better utilisation of production capacities, as shown in an increase in employment, a decrease in the unemployment rate and a build-up of domestic inflationary pressures.

This performance has been overall in line with our previous expectations and does not bring about significant changes to our projections. Among other things, it evidences the positive impact of the accommodative monetary policy of the Bank of Albania and suggests that the current stance of this policy is adequate for both ensuring economic growth rates in line with the production potential of the country and guaranteeing the convergence of inflation toward the target within 2020.

From a sectorial perspective, expansion of economic activity appears to reflect, mainly, growth in industrial production and services. Nonetheless, available data show that electricity production’s pace of growth has been slowing down in the third quarter, suggesting a slight deceleration of the economic growth rate for 2018 H2.

From the perspective of aggregate demand, expansion of consumption and private investments and growth in Albanian exports appeared to have continued to underpin economic growth. On the other hand, fiscal policy consolidation in the third quarter and in most of the fourth quarter has been stronger than expected, leading to a slower-than-projected contribution to economic growth by public expenditures.

In balance, the overall context of economic and financial developments in Albania remains positive.

The Albanian economy continued to benefit from the positive performance of our main trading partner, the euro area, from improvement in the financial balances of households and firms, and from fiscal consolidation, which has reduced the risk premia in domestic financial markets.

In parallel to these factors, economic activity expanded, supported by the accommodative monetary policy of the Bank of Albania. The monetary policy has been transmitted through a low policy rate, the continuous injection of liquidity into the domestic financial market, the forward guidance instrument, and selective interventions in the foreign exchange market during the summer period.

Our monetary stimulus has created a liquid financial environment with low interest rates, and has mitigated the effect of appreciation pressures
on the exchange rate. Low interest rates have supported the expansion of credit: excluding the effect of the exchange rate and the lost loan write off, credit to the private sector increased by 4.9% and 4.5% in the third quarter and in the first two months of the fourth quarter, respectively. Low interest rates have also helped in restructuring loans, easing debt servicing costs and improving the stability of the financial system. The NPL ratio dropped to 12.7% in November, illustrating continuous improvement in the soundness of the banking sector. Lastly, temporary intervention in the foreign exchange markets has reduced misbalances in the supply and demand for foreign currency, calming the foreign exchange market and reducing exchange rate deviations from the levels suggested by fundamental factors.

Chart 26 Developments in the foreign exchange market

The growth of credit, the easing of borrowers’ financial burden, and reduction of exchange rate volatilities have encouraged consumption, investments, economic growth and employment gains, thus creating premises for the return of inflation to target in the medium-term horizon. Inflation stood at 1.8% in November, downward from the level registered in the third quarter and in October. In line with our previous expectations, this fall reflects a downward effect from the appreciation of the exchange rate on imported inflation. Our analyses suggest that this effect is expected to be transitory and will not affect the convergence of inflation to the target in medium term.
The update of projections in accordance with the baseline scenario confirmed our previous expectations for the return of the economy to equilibrium in the second half of the next year and of inflation to target in 2020. This performance is expected to be supported by the positive performance of the euro area and other trading and financial partners, the stimulating monetary and financial environment in Albania and the calming of exchange rate appreciation pressures.

In parallel, the Supervisory Council deemed that the balance of risks remains tilted to the downside. These risks are related to both potential shocks that may come from the external environment, and the speed at which the business climate and lending in Albania have improved.

Judging on the above, the Supervisory Council of the Bank of Albania deemed that the current monetary policy stance remains adequate.

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

- Keep the policy rate unchanged, at 1.0%;
- Keep the overnight deposit and overnight lending rates, unchanged at 0.1% and 1.9%, respectively.

Maintaining the direction and intensity of the monetary stimulus boosts aggregate demand growth, contributing to growth of employment, increase of wages and build-up of domestic inflationary pressures.

In accordance with projections of the baseline scenario, and based on the available information, the Supervisory Council judged that the increase in the policy rate will not resume before the second quarter of 2019.

Moreover, the Bank of Albania will continue to monitor the performance of the exchange rate and remains ready to use the available instruments to prevent the appreciation of the exchange rate to levels that jeopardise the achievement of the inflation target.

“The Supervisory Council judged that the increase in the policy rate will not resume before the second quarter of 2019.”
CHAPTER II - Press conferences on monetary policy decisions
CHAPTER III
JOINT PRESS CONFERENCE
WITH THE IMF MISSION AND THE MINISTER OF FINANCE

• Governor Sejko: Statement at the joint press conference with the IMF Mission Chief for Albania and the Albanian Minister of Finance, 20 November 2018

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

“In the framework of Article IV discussions of the IMF’s Articles of Agreement, IMF missions visit Albania and meet with representatives of its main institutions. At the conclusion of each visit, a joint press conference is held with the Governor of the Bank of Albania, IMF Mission Chief and the Minister of Finance and Economy.”
GOVERNOR SEJKO: STATEMENT AT THE JOINT PRESS CONFERENCE WITH THE IMF MISSION CHIEF FOR ALBANIA AND THE ALBANIAN MINISTER OF FINANCE, 20 NOVEMBER 2018
Publication date: 20.11.2018

On Article IV discussions with the IMF Mission

Dear media representatives,

In the last two weeks we have been engaged in discussions with the IMF Mission, which visited Albania in the framework of periodic Article IV consultations.

Such discussions focus on the current performance of the economy and financial markets in Albania, their outlook, as well as the adequate economic policies and necessary structural reforms that should be implemented and monitored with a view to guaranteeing sustainable development for the country.

I must say, with pleasure, that we share similar views on development trends, challenges that lie ahead, and the respective measures for tackling them.

Let me now present in brief the opinion of the Bank of Albania on these issues.

The positive trend of Albania’s economic development continued throughout the current year. From the perspective of aggregate demand, economic growth was supported mainly by the expansion of consumption, investments and Albanian exports. From the perspective of production sectors, economic growth reflected mainly the expansion of the industry and services sectors, driven to a large extent also by the rise in electricity generation. From the perspective of underpinning policies, economic activity expanded, favoured by the following:

• The accommodative monetary policy and the favourable financing conditions, in both domestic and foreign markets;
The fiscal consolidation, which has reduced the impact of the public sector on the domestic financial markets; and

The structural reforms programme, which, irrespective of the short-term costs, have started to yield initial results.
Economic growth has contributed to the overall improvement of Albania’s economic and financial balances. In line with our previous statements, the following is notable:

- Inflation edged up slightly, despite the containing effect of the sharp appreciation of the exchange rate, suggesting that the improvement of the cyclical position of the economy is beginning to be reflected in higher wages and other production costs;
- Albania’s external position has improved, reflected in the narrowing of the current account deficit;
- Budget deficit remains low and public debt has trended down;
- Lastly, Albania’s financial system is stable. The Albanian banking sector shows stable or improving capital, liquidity and profitability indicators. Our analyses and stress tests suggest that the sector is resilient to potential stressful situations, thus guaranteeing its ability to withstand shocks.

Such analyses show that the foundations of the country’s development remain relatively solid. The analysis is reflected also in our projections. In the baseline scenario, these projections suggest that economic growth will continue in the medium-term horizon, production capacities will be utilised in fuller terms, and inflation will converge to the central bank target by 2020.

These projections are conditioned by a series of factors.

- First, they assume that the external economic and financial setting will remain favourable to support Albania’s economic growth.
- Second, they do not envisage potential shocks, which, if materialised, would cause our economy or inflation to diverge from the expected trajectory.
- Third, the projection for the return of inflation to target assumes that the exchange rate will be more stable in the periods ahead. Based on the above, we judge that the balance of risks remains skewed to the down side.

In accordance with these projections, the Bank of Albania deems that the current policy mix is adequate. The fiscal policy is and should...
remain committed to lowering the debt level and diminishing fiscal vulnerabilities. On the other hand, the monetary policy should maintain the accommodative stance. The convergence of inflation toward the target implies that the intensity of the monetary stimulus will be diminishing over the medium-term; yet, it does not imply a change in the nature of the monetary policy. Lastly, our philosophy as well as the supervisory and regulatory measures will continue to balance the needs for promoting development vis-à-vis guaranteeing the stability of the banking sector and safeguarding the savings of Albanian citizens.

But, our duties as policy makers go further than this. With a view to accelerating the pace of development and enhancing its sustainability, the structural reform agenda needs to continue.

Let me now list some priority aspects.

First, the sustainable and long-term development of Albania’s economy requires further improvement of our financial system.

Further development of the financial system will contribute to increasing savings, facilitate financing of the private and public sectors and improve the structure of financing with capital and of financing with borrowed funds. Among other things, further development of financial systems will become increasingly indispensable in the context of the European financial market, which is showing lower focus and higher risk premia for financing emerging economies than in the past.

In this regard, the Bank of Albania and public authorities should continue working to improve the credit environment, among other things, by strengthening contract enforcement, implementing new legal and sublegal procedures related to collateral execution, and completion of the remaining duties under the national programme for the reduction of non-performing loans. The signing of a Memorandum of Cooperation in the field of banking supervision, between the European Central Bank and the Bank of Albania, will facilitate the exchange of information and enhance the security of European banking groups that operate in Albania. Likewise, the completion of the restructuring and consolidation process of the banking sector, which has had and will continue to have our attention, is an additional guarantee in this regard. In parallel, the development of other segments of the capital markets should be further encouraged, yet with prudence, so as to avoid missteps, and in harmony with supervisory and regulatory norms and standards for the banking sector.
Second, the structural reform agenda should be accelerated.

The second phase of this reform should aim at improving the education and know-how of the labour force, creating a legal, political, administrative and fiscal environment that attracts foreign developments and encourages domestic ones, and increasing the integration of Albania’s economy with the regional and European development infrastructure.

Third, the opening of accession negotiations with the EU should be viewed as a primary instrument for the advancement of Albania’s development.

The Bank of Albania judges that the fulfilment of the criteria for opening accession negotiations and the rigorous implementation of reforms that this process imposes should be the focus of the entire political spectrum in Albania.

Thank you for your attention!
CHAPTER IV
SPEECHES AND PRESENTATIONS
AT CONFERENCES

- Governor Sëjkà: Address to the graduation ceremony of the students of economics, University of Tirana, 12 January 2018
- Speech by Governor Sëjkà at the round table on: “Energy and Sustainable Economic Development - The Role of Economic Diplomacy”, 21 February 2018
- Governor Sëjkà: Address at the opening ceremony of the Money Week, 12 March 2018
- Governor Sëjkà: Opening remarks at the launching of the EBRD Transition Report 2017-2018, 11 April 2018
- Governor Sëjkà: Speech at the 39th Meeting of the Central Banks Governors’ Club of the Central Asia, Black Sea Region and Balkan countries, 15 May 2018
- Governor Sëjkà: Welcome address to the Joint BoA-ECB Regional Statistical Seminar, Tirana, 13 June 2018
- Governor Sëjkà: Speech at the regional summit on “Region’s Financial and Monetary Stability, Ten Years since the Crisis Outbreak”, in Beci, Montenegro, 18 June 2018
- Governor Sëjkà: Welcome address at the Conference on the “Modernisation of retail payment systems in Albania”, 21 June 2018
- Governor Sëjkà: Commencement Address at the graduation ceremony of the students of the European University of Tirana, 16 July 2018
- Governor Sëjkà: Opening address at the presentation by Patrizio Pagano, Executive Director for Albania at the World Bank Group, 18 September 2018
- Governor Sëjkà: Welcome address, the Second Conference of the Museum of the Bank of Albania, 20 September 2018
- Governor Sëjkà: Welcome address at the Annual Conference of the Bank of Albania, 1 November 2018
- Governor Sëjkà: Commencement address at the graduation ceremony of the students of economics, University of Tirana, 7 November 2018
- Governor Sëjkà: Welcome Remarks at the 12th SEE Economic Research Workshop, 6 December 2018
- Governor Sëjkà: Address at the year-end function organised by the Albanian Association of Banks, 13 December 2018
- Governor Sëjkà: Welcome address to the high-level meeting on the remittances of the Albanian diaspora, 14 December 2018
- Governor Sëjkà: Address to the end-of-year meeting with the media, 20 December 2018
- Governor Sëjkà: Press conference on Bank of Albania activity highlights for 2018, 24 December 2018

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: ADDRESS TO THE GRADUATION CEREMONY OF THE STUDENTS OF ECONOMICS, UNIVERSITY OF TIRANA

Publication date: 12.01.2018

Honourable Education Minister Nikolla,
Dear ALSAI Chairman Leskaj,
Dear Dean Kule,
Dear professors,
Dear students,

I am honoured and pleased to be today with you, in this special day for you, and for me too.

Today, you successfully reach the finish line after years of efforts, as you partially conclude a very important chapter of your life, that of education. I intentionally said partially, because education is a life-long challenge, which accompanies us throughout our life journey. Notwithstanding the length of time and the way we spend it, we are all part of a never-ending process of updating and increasing our knowledge.

I strongly believe you have reasons to feel proud, as you have reached an important milestone in your life. Now the doors of another world are opened to you, entirely different from the student life: the doors of real life, full of unknown challenges.

If you asked me about my advice to any of you, although it might sound somewhat a cliché, I would unhesitantly say: you may succeed only if you learn to stretch yourselves beyond the limits. To all of you that already have a clear idea of what you want to do with your life I wish you all the best of luck and success in your future endeavours. For all you that have not decided yet on your future course, I would encourage you to keep trying out, being confident in your instincts, with a strong will and persevering commitment.

“Education is a life-long challenge that accompanies us throughout our life journey. Notwithstanding the length of time and the way we spend it, we are all part of a never-ending process of updating and increasing our knowledge.”
Never give up on your ambitions and objectives. Never give up fighting for what you believe and always support people that care for you. Act with dignity, pride and honesty, always bearing in mind to be nobody but yourself in a world, which is doing its best to make you everybody else.

The world outside the auditoriums is more challenging. Brace yourselves to encounter tougher moments in life. Delusion, in many cases, is an integral part of our life. Therefore, I strongly advise you to firm up your stability. As the saying goes, “we are more vulnerable than we ever thought, but we are stronger than we ever imagined”.

You will have good days and bad days. Be capable enough and bold enough to overcome them with courage and optimism. Remember to draw your lessons, on a case by case basis, and share them with your friends and colleagues. Embrace any innovative idea, build continuous confidence, radiate positive energy and embrace any common dream that inspires human love, prosperity, integrity and good understanding. This is the way to build a better society than the present one, capable to withstand challenges and guarantee the future course of our nation.

Congratulations!
GOVERNOR SEJKO: SPEECH AT THE TIRANA ECONOMIC FORUM - ‘FUTURE BALKANS: TOWARDS A GLOBAL INCLUSION’ LEADERSHIP, INSTITUTIONS AND POLICIES CONVERGENCE 2017-2020
Publication date: 24.01.2018

Your Excellency Mr President,
Your Excellency Deputy Prime Minister of Albania,
Your Excellency Deputy Prime Minister of Kosovo,
Honourable Minister of Finance and Economy,
My fellow Colleagues and Honourable Participants,

It is a pleasure for me to participate at this Conference, convened to discuss on the importance of regional integration, which should be promoted by a forward-looking leadership and supported by the policies convergence.

I believe that the dialogue that focuses on sharing our vision for the future, the convergence of perspectives about the challenges ahead of us, and identifying the objectives and drafting agendas for joint action, will be a fruitful dialogue to all of us. Policy convergence, both within and between countries, promotes efficiency and minimizes negative spill-overs.

The role of institutions in the growth and development

Institutions are the backbone of any modern society, in as much as they generate and implement laws, regulations and policies of development, thus laying out the rules of the game in a market economy. From a broader perspective, these rules should provide for a stable and transparent environment, thus enabling a predictable and long-term decision-making process. They should promote fair competition and equality of opportunities, and they should engender fairness and social cohesion.
It is clear that richer economies and stable societies tend to have stronger and more stable institutions.

It is, therefore, my belief that our region should not subscribe to an ‘organic model’ of institutional growth. By ‘organic’, I mean a growth model where institutions catch up to economic development, and tend more to ensure a certain level of prosperity rather than instigate it.

To the contrary, I believe institutions and policies should lead the growth and development processes. In this context, our task as policy makers is to define goals, to identify impediments, and to undertake the required countermeasures. This, in essence, is the role of leadership.

Let me illustrate my point with just a few examples of the challenges facing us as a region:

- First, problems with the business environment, including corruption and informality, rank high on the list of growth impediments, both in Albania and in the region.
- Second, our economic and financial stability should be further enhanced, in order to increase our resilience to shocks and to decrease our financing costs.
- Third, it is becoming increasingly clear that our financial systems have become over-reliant on banks. Looking ahead, we should rely more on capital markets in order to finance domestic growth.
- Fourth, a common complaint frequently heard from potential foreign investors is the limited attractiveness of small and fragmented markets. While partly incorrect, we should do more to increase our trade and infrastructure integration.
- Fifth, in competing for the same pool of international investors, countries in the region often attempt to raise their individual profile through offering tax break or other subsidies. This race to the bottom does not prove to be productive.

Resolving any of these issues requires foresight, strong institutions, determined policy action, and regional coordination.
Institutions and integration

Our region is actively involved in the EU integration process. This objective is the lighthouse for our institutional reform efforts and has produced notable benefits. The EU integration is aiding authorities in the region to anchor their institutional reforms and policies. On the other hand, the EU institutions provide oversight and lend credibility to the process. Additionally, since individual countries are working towards common objectives, regional policy is better coordinated.

However, I also believe countries in the region could do more to share their experiences and learn from each other. Albania offers a positive example in terms of economic and financial stability. Macedonia has done exceptionally well in terms of attracting high-value-added FDIs. Serbia is on the regional vanguard of financial market development. All of us should learn from our individual success stories; all of us should avoid mistakes we have individually made in the past. Our countries share more commonalities than differences: what works for one is more likely than not to work for others, and vice versa.

Furthermore, I believe we should look at regional integration as a goal in itself, rather than as an instrument to EU integration. Joint EU integration would supersede certain regional integration frameworks, such as trade and factor mobility, but it would not supplant the need for further policy dialogue and common regional perspectives and solutions.

Let me now briefly describe the role of institutions in structural reforms in Albania.

Institutions and structural reforms in Albania

It is virtually impossible to do justice to the breadth and depth of reforms in Albania over the limited allotted time. Therefore, I will try to highlight only its main items.

- In order to improve our business environment, the Albanian authorities have engaged in comprehensive reforms of the property rights, of the tax regime, of the electricity sector, of the
general infrastructure, and remain engaged in the fight against informality. The most recent measure in this regard is a banking sector regulation that aims to put an end to the practice of lending through uncertified company balance sheets. Further, to enhance efficiency and tackle corruption and informality, a determined drive to improve the functioning of the public administration, which broadly speaking encompasses also the judicial system reform, has been undertaken.

- In order to increase economic stability and to improve financial resilience, we have initiated a wide ranging set of reforms. To that end, the Government has improved its public finance management procedures, has adopted a fiscal responsibility framework, and has undertaken measures to reduce debt. The Bank of Albania has strived to model itself after the ECB. Its professionalism has increased while its independence, transparency and credibility have all improved. Through a joint effort of institutional stakeholders, we have managed to reform the Financial Supervisory Authority and enhance the role of the Deposit Insurance Authority. Together with the Albanian government, we have implemented a comprehensive NPL resolution strategy, which has already brought encouraging results, we have approved a Bank Resolution Law and we have jointly designed a de-euroization strategy, aimed at tackling financial vulnerabilities, improving the transmission mechanism and intensifying the use of the domestic currency. We have also established a new inter-institutional Financial Stability Advisory Group, vested with coordination powers on systemically-important stability-related issues.

- In order to further develop financial markets, the Albanian authorities have accelerated the development of capital markets, through the establishment of the Albanian Stock Exchange, the licensing and functioning of several investment and asset management funds, the encouragement of the on-going consolidation in the bank and non-bank financial institutions, the tax encouragement of private pension schemes, the on-going efforts to improve the functioning of secondary markets for government papers, etc.

However, I am convinced the sharing regional experience would result in an additional impetus to the process. Furthermore, regional solutions can be sought to common problems. This brings me to my last point.
Improving regional cooperation

Coordination and cooperation cannot run standalone in an ever integrated and intertwined world. The same concept applies to our region, where policy initiatives, aimed at achieving a common objective, should be implemented jointly.

Let me highlight a few potential cooperation areas:

First, I believe there is scope for greater regional dialogue and greater policy convergence, at all relevant areas of public policy and private sector development.

Second, I believe there is more to be done in order to finish the job of regional integration. In particular, standards on products and services should be agreed upon.

Third, beyond the convergence of financial development policies, I remain convinced we should explore the idea of joint financial development projects. Although fraught with difficulties, a regional stock exchange is a meaningful potential project.

Fourth, I believe the region should strive towards establishing the lowest acceptable common denominator in terms of tax, labour market, financial sector, and environment regulation. ‘Beggar-thy-neighbour’ policies through constantly undercutting each other in any of these areas are only damaging the region in the long term. Fifth, the regional infrastructure remains rather fragmented. This refers not merely to the transport infrastructure, but also the electricity and IT network.

Honourable participants,

Some of the issues I professed here might seem utopian or unrealistic. However, I remain convinced that through an honest common endeavour, such ideas might, someday, in the not-too-distant future, become reality.

Thank you!
Dear Mr Ndroqi,
Dear Mr Minister,
Your Excellency Ambassador,
Dear guests,

I am delighted to be invited to participate and address this round table, taking into account that issues relating to economic growth, sustainable development and the European integration should be seen as integrated and interdependent topics.

I am confident that this round table will help us to identify such interdependence and design integrated development strategies.

Today’s economic, financial and geopolitical realities dictate the expansion of the scope of analysis and of the perspective of our economic policies. The globalization process, market expansion and the integration of production chains are challenges that we are facing and will increasingly face in the future. Like any other challenge, it may result beneficial if administered properly; conversely, it may cause cost and loss, if not understood and treated on time. On the positive side, integration and globalization offer financial capitals and enable access to larger markets for developing countries. On the negative side, integration and globalization foster competition between products, companies, and countries.

I would like to share with you today, my personal view on the role and importance of economic diplomacy.

But, before I present my point of view, let me say a few words about the current situation and perspectives of economic development in Albania. Last week, the Supervisory Council of the Bank of Albania conducted a quarterly periodic analysis on the Albanian economy and financial markets. Based on the available information, we concluded that
CHAPTER IV - Speeches and presentations at conferences

the Albanian economy continues to be characterized by a positive development momentum.

Economic growth in 2017 is expected to range 3.5%-4%. Demand growth has contributed to production growth, in a virtuous chain of consequences, associated with employment growth, improvement of the financial situation of households and enterprises, as well as the reduction of economic and financial imbalances.

Despite the weaknesses that continue to be present, economic growth is becoming more broad-based. In sectorial terms, the expansion of production has reflected the positive contribution from almost all sectors: industry, services, construction and agriculture. In terms of expenditures’ source, economic growth reflected the pickup in household consumption, the positive trend of domestic and foreign investments, as well as the growth of Albanian exports, in particular the export of tourism services. Lastly, in terms of development policies, economic growth reflected the monetary stimulus and fiscal consolidation, which enabled low interest rates and ample liquidity in the markets, as well as our prudent supervisory and regulatory policies; such policies have enabled a sound and profitable financial system, capable to lend.

The economic and financial stability of the country, the strengthening of growth resources, as well as the improvement of the global economic environment render us optimistic about the future.
Of course, as a policy-maker, the Bank of Albania has a lot of work to do, in order for these positive premises to become a reality. We are aware of this, and I think that our positive record in the past is the proof of our seriousness, dedication and results. However, from my point of view, I am certain that we can and should do more. Let me identify three main aspects in which economic diplomacy may focus.

Firstly, economic diplomacy should aim at trying to stir up interest to invest foreign capital in Albania. Over the last five years, foreign direct investments were around the average level of 8.7% of GDP, or around EUR 870 million per year, ranking us in the second place in the region, after Montenegro. However, Albania continues to remain the next to last in the region in terms of foreign investment stock and continues to be a country hungry for capital investment in all economic sectors.

Secondly, we must do more to have a better sectorial distribution of these investments. According to the available information, about 23% of foreign investments are concentrated in the energy sector and this is certainly something encouraging for the development perspective of this sector. But, on the other hand, sectors with high development potential, such as the processing industry, have lagged relatively behind in relation to attracting foreign investment.

Thirdly, economic diplomacy can help more to promote the made-in-Albania products, i.e. to expand the access to markets and to increase the penetration of our products in these markets.

Table 1 The main macroeconomic and financial indicators

<table>
<thead>
<tr>
<th>External sector</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current account (official transfers exempted in % of GDP)</td>
<td>-9.3</td>
<td>-10.8</td>
<td>-8.6</td>
<td>-7.5</td>
<td>-6.4</td>
</tr>
<tr>
<td>Imports of goods (fob, in % of GDP)</td>
<td>31.5</td>
<td>31.6</td>
<td>29.9</td>
<td>30.8</td>
<td>31.6</td>
</tr>
<tr>
<td>Exports of goods (fob, in % of GDP)</td>
<td>11.1</td>
<td>9.4</td>
<td>7.5</td>
<td>6.6</td>
<td>7.1</td>
</tr>
<tr>
<td>FDI inflows (in % of GDP)</td>
<td>9.8</td>
<td>8.7</td>
<td>8.7</td>
<td>8.7</td>
<td>8.3</td>
</tr>
<tr>
<td>International reserve (in EUR million, end of period)</td>
<td>2,015</td>
<td>2,192</td>
<td>2,880</td>
<td>2,945</td>
<td>2,994</td>
</tr>
</tbody>
</table>

Source: INSTAT, Bank of Albania, Ministry of Finance and Economy.

*Data on economic growth for labour market and the external sector are from 2017 Q3.
Dear participants,

In conclusion, I would like to add something regarding the energy sector and bank lending for this sector. The banking sector has always been interested in investing for the energy sector.

There have been several legal amendments to the law on concessions, a few years ago. These amendments have provided the legal grounds for investment in the energy sector. Dominated by banks - they account for over 90% of the financial sector - the financial sector has shown a considerable interest in supporting the energy sector through lending for projects of renewable energy, in particular hydro power plants. These loans make up a significant share in loans granted by commercial banks. Certainly, the crises of 2008 and the ensuing shock in the financial sector and the economy tightened the lending criteria for commercial banks. This tightening was present in all sectors, including the energy sector; however, lending continued. Banks continued to support the projects that comply with the criteria and there is consistently an interest in this sector.

Of course, the energy sector matured over time, so it has come to understand which are the risks and what it needs to do in order for commercial banks to support it with lending even more. It is in the common interest of investors in the energy field and commercial banks. This is one of the most profitable sectors, 23% of foreign investments in Albania are in this sector. We expect more investments in the future. The support of the banking sector for the energy sector would be a positive element in attracting foreign investments as investors often seek to share the risk with the Albanian financial system.

As a regulator, the Bank of Albania has supervised and supported the banking sector for it to further stimulate the energy sector as one of the industry’s main sectors.

Thank you for this round table and I am happy to answer your questions.
Dear Mr Pedrazzi,

Dear students, teachers and friends of the Global Week,

Like in previous years, I have the pleasure to welcome you today to our central building, and thank you for your participation in the Money Week 2018.

This is a special year as it marks a decade of Bank of Albania’s engagement in financial education, which meaningfully started with a Memorandum of Cooperation signed with the Ministry of Education.

Over these years, financial education and financial inclusion have increasingly held a significant place in our work, in designing and implementing numerous educational projects.

They are dedicated to different age groups, and consist of a variety of initiatives ranging from training and brochures to the high school elective module “Personal Finance in Your Hands”, the educational package for the elementary schools and the Albanian Money app.

Moreover, the Museum of the Bank of Albania, our utmost effort in this regard, offers a multifunctional space, where visitors may not only learn more about the monetary history in Albania and the central bank, but also deepen their financial literacy and expand their financial awareness.

As a result of all these valuable experiences, we have been able to participate with dignity in the Money Week, which, in 2018, is celebrated in more than 135 countries.

The week of 12-18 March 2018 is internationally known as the Money Week. Initiated by Child and Youth Finance International, with the support of the Organisation for Economic Co-operation and Development (OECD), and adopted by more than 23,000 organisations across the
globe, the Money Week is an annual financial awareness campaign built to inspire children and young people to learn about money matters, livelihoods and entrepreneurship.

The celebration of this Week aims at raising the awareness of the younger generation to be responsible future citizens and capable of making well-informed financial decisions.

Following the tradition from the previous years, the Bank of Albania, in cooperation with the Albanian Association of Banks, with the support of the Ministry of Education, Sports, and Youth, like many other institutions worldwide, will organize various activities to involve children and young people, teaching them how to manage money, to save money, to think financially, to understand the changes in the economic systems where they live, to earn income through entrepreneurship, and set the foundations for their future through financial literacy. In the light of these objectives, during the Week, a number of activities will be organised such as lectures, contests, and visits to commercial banks and the Museum, aimed at including as many students as possible.

This year’s motto “Money: You reap what you sow” highlights the importance of money matters as a necessary means to achieve and maintain welfare. The activities that will take place during this Week seek to draw the attention of the children and young people to the significance of personal finance and the impact of well-informed decisions on the personal success of each one of us individually, and of the whole society.

Like in any other educational activity of the Bank of Albania, beyond the message that we want to convey, we consider that the inspiration, originality and pro-active thinking are determinant elements for an effective comprehension of a complex, at the same time practical, topic such as finances.

We may proudly say that all the submissions for the contests are characterised by these elements, thus demonstrating that, though challenging, the financial education of children and young people may be and is possible. Moreover, their work and commitment is an incentive to us to introduce more ambitious projects and expand this activity,
geographically, each year.

The contests for students from nine-year schools and high schools have been welcomed and the number of participants has been higher each year. This year, around 55 nine-year schools, 14 high schools, 8 universities and over 1000 pupils and students in 14 cities were involved. This success is also owed to the teachers and professors, whose passion has contributed to materialising all these efforts.

Concluding, I would like to thank you all for the insofar cooperation and avail myself of the opportunity to invite all the participating institutions to continue and intensify the cooperation in the future, in the commitment to contribute to the future generations and the Albanian society.
GOVERNOR SEJKO: OPENING REMARKS  
AT THE LAUNCHING OF THE EBRD  
TRANSITION REPORT 2017-18  
Publication date: 11.04.2018

Dear Mr Colangeli,  
Dear Mr Sanfey,  
Dear participants,  

It is a special pleasure for us to host again the presentation of the Transition Report 2017-18 by the European Bank for Reconstruction and Development.

The Transition Report 2017-18 addresses some very important issues for transition economies, such as convergence of firm dynamics and productivity, the importance of road infrastructure to economic growth, and the new opportunities from the green economy.

It is a pleasure to note that the Report presents a positive assessment of the developments in the region. After some years of anaemic growth, the economic activity in the region shows recovery and the prospects remain positive, notwithstanding the geopolitical concerns and the internal and external challenges we face. Some regional countries grew faster than other countries around the world, of similar development level and market size. The capital inflows have been relatively considerable, driving to the narrowing of the interest rates spread in the region compared with those in large economies. More importantly, it seems that inflation is gradually returning to target levels and the accelerated economic growth in the Western Balkans is supported by bank lending and some major infrastructure projects.

Nevertheless, the Report notes that productivity growth slowed down; hence, the firm dynamics is identified as one of the main issues that should concern our region.

The main reasons of these developments seem to derive from some factors:

“After some years of anaemic growth, the economic activity in the region shows recovery and the prospects remain positive, notwithstanding the geopolitical concerns and the internal and external challenges we face.”
• First, the low capacity of markets and firms to regenerate, decelerates the replacement of non-productive firms with new innovative ones, and hinders the efficient allocation of resources.

• Second, small firms do not succeed in increasing their output or the number of employees. Studies show that their productivity is rather lower compared with larger firms. Smaller firms make up the majority of producing entities - around 80% in EBRD region, and 95% in Albania. For this reason, more should be done for the integration of smaller firms into global production networks, finding human capital, access in the financial system or capital markets.

The Bank of Albania deems that the development of the financial system is indispensable for the economic development of the country. In this regard, through our policies, we are trying to encourage a more efficient allocation of bank lending, in order for it to be less fragmented or concentrated in certain sectors of the economy.

Also, we are closely monitoring the financial and borrowing situation of micro-economic firms, including those in the agricultural sector. These firms have a considerable share in the gross value added and in the number of employed persons in Albania. Our recent surveys show that the primary concerns of smaller firms are: unfair competition; difficulties in finding markets to sell the products; and, to a lesser extent, limited access in financing or the cost of providing banking products and services.

We are aware that the growth of productivity, in particular for smaller firms, is very important for the economic convergence of Albania. The fulfilment of needs for investing capital is a main challenge for small producers, as they have less or no borrowing history in the financial system. For this reason, the analysis with micro data are already subject of discussion in the activities and conferences organised by the Bank of Albania, to understand the needs of small firms and how we can help to improve the infrastructure, aiming to increase their financial inclusion in the future.

Productivity is important as it determines the convergence speed towards the advanced economies. So far, the productivity convergence of our countries with advanced countries is guided mostly by a re-allocation of resources from state-owned firms to private firms. Nevertheless, this process has not succeeded to move further forward to the development of innovative products. Unless these trends change, the Albanian and
regional firms will likely lose competitiveness against their EU partners. Overall, it means that the economic convergence and the equality of income with EU countries will be considerably delayed. In a more specific aspect, the European integration processes will slowdown, as far as our firms will not be able to withstand the competitiveness pressures.

For this reason, I think that the regional and Albanian authorities should continue with the implementation of structural reforms, which aim to:

- Increase the formalisation level of the economy, as a tool for raising competitiveness, for promoting consolidation, for improving the governance of firms, and for lowering their financing costs;
- Promote the development of firms in fields where the region and Albania provide competitive advantages, such as tourism or the agro-industry, and in those fields that have high value added, such as the information technology or the financial services.
- Development capital markets, as a tool to support new and innovative firms and as a partner to share the financial risk of entrepreneurs in the stage of the expansion and development.

Dear participants,

Let me emphasise that, notwithstanding the focus on the future challenges, the report shows optimism for the region. It notes that, unlike the other emerging economies, the presentation of productive industries will contribute to the increase of employment.
Also, the regional integration in industry has the capacity to generate growth of productivity, to better compete with the imports and contribute to the growth of regional exports. The institutional adoption and convergence is considerably important for the integration of Albanian firms in the global output chain, and for strengthening their sophistication and specialisation in the global market.

Another potential for the transition to an innovation-based economy is “The green economy”, where the convergence capacity of the existing producing processes in other processes releasing less carbon may be considered as an opportunity for the further development of our region.

Regarding the future, the report assesses positively the reforms undertaken by the Albanian authorities. The macroeconomic environment is assessed as stable and prospects show the positive growth pace will be maintained. Trade, construction, transport and industry, as well as the narrowing of the deficit in the external sector of economy contributed most to the economic growth in 2017. At the same time, the financial system activity continued to reflect considerable improvement and showed good resilience to operational risks. The indicators of financial result, capitalisation and liquidity evidence the considerable improvement of credit quality and show the importance to continue the implementation of the measures undertaken by the Bank of Albania.

Also, the Report evidences that the projects and investments in infrastructure have contributed to economic integration of Albania with regional countries, providing a positive effect on higher productivity and more opportunities. We assess that TAP investment will provide positive effects on the energy infrastructure and will contribute to higher productivity through lower costs and covering the needs for energy capacities, thus reducing one of the structural weaknesses of the Albanian economy (the reliable supply with energy).

Concluding, I would like to highlight the suggestions found in the report that it is now the time for the financial sector to focus on firms, as the basis for employment, innovation, productivity and economic growth. Thus, the development policies should focus on the firms and their future, as a source of convergence growth. The economic development policies and priorities, at micro and macro level, should focus on: the improvement of the institutional and financial infrastructure; the development of the capital market; the investments in infrastructure; and, the regional integration.
Dear participants,

The EBRD Transition Report 2017-18 is an important document to all of us. Irrespective of our status as decision-makers, policy-makers, researchers, academics or journalists, the Report provides ample information to further corroborate our analyses and conclusions.

I invite you to further read the Report and materialise its conclusions rationally and responsibly in your analyses for the present and the outlook of our economy, and beyond.

Thank You!

“It is now the time for the financial sector to focus on firms, as the basis for employment, innovation, productivity and economic growth.”
Dear Mr Chairman,
Ladies and Gentlemen,

It is a great pleasure to be among colleagues, in this 39th Meeting of the Governors Club, and to discuss with you our common economic challenges and prospects. I highly appreciate this opportunity to share views and experiences, assess the progress made and reflect on our policy priorities and policy options.

The topic of this panel, the sustainability of the global recovery, is gradually gaining importance amongst policy-makers. Ever since the financial crisis took hold, our focus has been on dealing with the aftershocks of the crisis and on fueling a rapid recovery. After a long, hard road, the global economy is gaining pace. Global growth rates are accelerating and jobs lost during the crises have been almost fully recovered. In addition, economic sentiment is high, globalization and integration are mitigating inflationary pressures, while a moderate upturn in business investment provides additional reassurance for growth. The latest forecasts confirm this picture. They point to a continued, synchronized and broad-based recovery.

The baseline is therefore positive, at least in the short to medium term.

However, as policy-makers, we should try to see beyond the horizon. Once we turn our attention there, we can identify several risk factors that might potentially affect global growth.

Without pretending to be exhaustive, the risks I want to share with you are the following:

“As policy-makers, we should try to see beyond the horizon. Once we turn our attention there, we can identify several risk factors that might potentially affect global growth.”
1. Divergences around free and global trade;
2. Insufficient structural reforms;
3. Financial markets turbulences; and,

Let me briefly expand on each of them.

On global trade

Global trade, financial integration and the free movement of goods, capital and people, is a key ingredient to the unprecedented economic success story of the post-war period. From a global perspective, open markets allow for a more efficient allocation of resources and provide better employment opportunities. This is crucial to Albania and the region we are located in, the SEE region, which represents a multitude of small and open economies, in the process of convergence to EU.

Therefore, recent tensions and potential protectionist policies are not exactly encouraging. Though the general view is that a trade war will be avoided, the uncertainties are already high. I believe it is our duty to work towards preserving – and possibly enhancing – the spirit of free trade.

On structural reforms

The past crisis highlighted a broad range of structural problems and provided the political stimulus for determined structural reforms. In advanced economies, much of the focus has been on the financial system regulation and on the sustainability of public finances.

From a developing country perspective, such as Albania, and many countries of the SEE region, the challenge has been threefold:

- The need to revise our economic growth models, by improving external competitiveness and increasing internal flexibility;
- The need to rebuild fiscal buffers, through further fiscal consolidation; and,
- The need to enhance domestic savings and to attract further FDIs, especially in the wake of increased risk aversion among global private and institutional investors.
These challenges require determined action and strong political commitment. With the memory of the crisis fading, I’m afraid the political will for structural reforms might slow down. The goal of EU integration can enhance in this regard, but it is not a substitute to the strong domestic ownership of reforms.

On financial markets turbulences

After years of low interest rates and the search for yield, financial agents have built up large exposures in the global financial system. The risk here derives from the fact that the expected normalization of monetary policy in – at least – a few big economies might shake global financial markets. Evidence was seen some time ago in the stock markets, with the so called ‘taper tantrum’. The large rise in U.S. bond yields during mid-2013 triggered a nearly matching increase in interest rates in many foreign economies, driving down the prices of risky assets globally, providing only a limited preview of potential dangers that might arise from an untimely or not enough clear policy action. Therefore, communicating the key elements of an exit strategy in due time and comprehensive manner, would greatly improve the prospects for a smooth normalization process in developed economies. This will consequently mitigate any risk of potentially unwanted spillovers abroad and encourage a stronger and more resilient global economy.

On geopolitical risks

This is a subject where we – as a profession – are perhaps less qualified to discuss. Therefore, I will limit my comments only on pointing out that a revival of geopolitical tensions can only spike prices, spook investors, and disrupt the normal flow of goods and capital. The connection between geopolitical risks and growth prospects can be even stronger for developing countries and can make them ever more exposed to risks in distant geographical location. Developing countries are very vulnerable to trade flow disruptions with which their economic progress is tightly combined. In addition, heightened risks due to geopolitical tensions can have implications on the so far progress reached in financial and technological integration, so vital in any developing country’s progress towards a high income economy.
Dear Colleagues,

As central bankers we are either directly responsible for, or stakeholders in, mitigating these risks. What would be a few effective guidelines for informing our policy response? Allow me to conclude my speech with sharing a few thoughts on them.

I’ll start from the last one, i.e., the mitigation of financial market turbulences. From a global perspective, I believe an appropriate communication and information sharing will be fundamental. In a financially integrated world, no country is an island. The monetary policy normalization in developed countries might cause unintended consequences in developing economies, which in turn might spill back into the developed world.

From a developing country perspective, such as Albania, we have further work to do in order to reduce NPLs, to improve the supervision of the non-bank segments of our financial system, and to increase the resilience of our financial institutions and financial markets.

On the need to upgrade our growth models, I believe such a monumental task will require a higher focus on export-competitive industries and a general drive to increase productivity and flexibility. As the saying goes, every long journey starts with a simple step. In our case, I think that increasing investment in human capital and promoting market-friendly reforms should be the key first step, in the right direction.

On the need to improve fiscal buffers, I believe we should insist on anchoring fiscal consolidation in clear and transparent fiscal rules. These fiscal rules should be both enough flexible—to allow for some degree countercyclical stimulus—and sufficiently robust—in order to avoid repeated fiscal slippages.

In terms of attracting FDIs and preserving inbound financial flows, we have to further improve our business environment and to expand regional integration. These objectives are not easy to be achieved; hence it is necessary to shift from the short term policy fixes and the discretionary decision-making. To achieve economic and political stability and an economic structure helpful to foreign and domestic investment, public policy needs to be carefully and intelligently designed with clear long-term
objectives to be achieved. Enlargement of human capital, better quality of infrastructure, of legal framework and more efficient bureaucracy can all influence a significant improvement in the business environment and attractiveness of the market, to provide excellent opportunities for investors.

Finally, on the need to preserve global trade, we have to explain better and lobby harder in favour of the established historical trends of trade openness and global integration. The latter have proved instrumental on interconnecting the world, bridging distant lands and facilitating the technological boom with overall benefits passing equally to developed and less developed nations. We should not let a reversal to happen and should be prepared to articulate well and decisively the achievements the world has witness throughout this era of intensified trade and global integration.

Ladies and Gentlemen,

Correcting the problems of the past and setting the global economy on a path of sustainable growth is a common responsibility. We all share the benefits of global growth. We should all share the responsibility of ensuring its sustainability.
GOVERNOR SEJKO: WELCOME ADDRESS TO THE JOINT BOA-ECB REGIONAL STATISTICAL SEMINAR, TIRANA, 13 -14 JUNE 2018

Publication date: 13.06.2018

Dear participants!

It is a pleasure for me to be here today and open the regional seminar on central bank statistics.

On behalf of the Bank of Albania, I would like to thank the European Central Bank for co-organising this seminar in Tirana. Also, I would like to welcome all representatives of central banks from the region and beyond, and all the participants in this seminar.

The series of regional statistical seminars, organised by the ECB, provides an important forum for exchanging views on statistical requirements, formulating policies and discussing most recent developments on central bank statistics-related issues.

We are all aware that having reliable, adequate, and timely data is a key element for decision making.

Ten years on, after the latest financial crisis, the fundamentals of the global economy, the architecture of the global financial system and the decision-making process are set on a constant restructuring process. The statistical function faces similar challenges. While the economies, markets and institutions develop, pressures mount on statistics to “follow the trend and pace” of such development. The emergence of the so-called “information gap” is inevitable in a fast-changing world, but our duty as statistical agencies is to increase speed up efforts to close this gap as soon as possible.

In the following, I would like to focus on the main challenges facing statistics, especially those that are pivotal for the successful realisation of the central bank functions. Overall, the crisis revealed the need for richer and more effective statistics, to serve both the monetary policy and the macro-prudential policy.
Like never before, it is necessary for us to be informed and analyse economic data on several dimensions and at a granular extent.

The financial sector’s growth and complexity highlight the importance of safeguarding financial system stability, as an essential element of central bank functions. The objective of financial stability has existed since the very establishment of the central bank institution. But, in the last decade, there is a clear focus on identifying potential threats to financial system stability, and constant attention on minimising them.

Likewise, achieving and maintaining price stability through monetary policy has changed. Economic and financial analyses realised in central banks are becoming increasingly dependent on complex models, which enable a simultaneous analysis of the real economy, financial markets and interaction with foreign trading and financial partners. Therefore, the quality and reliability of the statistical information becomes particularly important.

In response, in recent years, the Bank of Albania has worked across several dimensions to enrich and enhance the statistical information.

Since June 2017, Albania has been implementing the IMF’s Enhanced General Data Dissemination System e-GDDS) and is committed to fulfilling a series of strict requirements for the production, dissemination and documentation of statistical data.

Moreover, in the framework of the European integration process, the Bank of Albania has intensified its work on methodological aligning of statistics with the international standards and their harmonization by acquis communitare. Thus, the Bank of Albania has adopted the regulation on the reporting of interest rate statistics, approved for the first time the “Code of Practice on Statistics at the Bank of Albania”, and has started its work for the alignment of monetary and financial statistics reporting.

Modern statistics may not be perceived without the strong support of the information technology, regarding collection, compilation and dissemination of statistics. In this regard, in 2017, the Bank of Albania finalised the inclusion of all reporting entities to the Bank of Albania in
the Electronic Regulatory Reporting System. We have also initiated a project on “Automated compilation and dissemination of external sector statistics”. This project is an important cornerstone to build a solid architecture for the further development of other statistical blocks.

Dear participants!

Economic data are becoming increasingly subject to research and analysis by policymakers and financial market participants. The mechanisms established by the European Commission are adding pressures on statistics to provide high-quality data.

On the other hand, inter-institutional coordination is the key to success for producing multi-dimensional statistical data. In this context, I would like to underline the importance of cooperation between the Bank of Albania and INSTAT, which has been very fruitful until now and I am confident it will continue to be successful in the future.

Concluding, I would like to extend my most sincere appreciation to the lecturers and contributors to the seminar, who will share their experiences with us. I hope that everyone will be able to benefit from the constructive discussions and contributions during this two-day seminar.
Dear Guests,
Fellow Colleagues,

It is a pleasure to be amongst you today and to be able to share opinions on some of the most pressing challenges we are facing at the moment. I would like to focus my remarks on the topic of exchange rates. In particular, I would like to focus on how the monetary policy reaction should be based in the exchange rate movements. I take my premise from the rapid appreciation episode we experienced recently in Albania, which forced us to launch an FX purchase program as a last line of defence towards ensuring medium term price stability.

To cover this topic, first I intend to briefly discuss on various monetary policy regimes. I will then discuss on the implications of exchange rate movements for inflation targeting central banks. To conclude, I will give you a short overview of recent exchange rate developments in Albania and our reaction towards them.

1. THE CHOICE AND IMPLICATIONS OF EXCHANGE RATE REGIMES

A useful starting point on this topic would be to discuss the different options we have. We are fully aware that small open and financially integrated economies have to choose between running an independent monetary policy aiming to preserve macroeconomic stability,
usually defined in terms of an inflation target, and fixing the exchange rate. Both these options have their benefits and drawbacks.

The first option – i.e. that of running an independent monetary policy – means central banks can adjust domestic interest rates and domestic liquidity conditions, in order to preserve macroeconomic stability and to accommodate potential shocks to their economies. Furthermore, exchange rate movements and corrections act as a shock absorber to various external shocks. But on the other hand, central banks give up from the option of pursuing exchange rate stability, both as a nominal anchor and as an instrument of promoting international trade.

The choice of the second option – i.e. that of fixing your exchange rate – revolves around two main assumptions. The first is that exchange rate stability promotes external trade. The second is that importing credibility from the anchor foreign central bank, such as the ECB, helps promote overall domestic monetary stability. But on the other hand, this choice means central banks give up from the option of running an independent monetary policy, or at least they accept to lose a large piece of this independence. Consequently, they have to rely more on macro-prudential tools or fiscal policies, in order to accommodate domestic shocks or to mitigate the impact of external ones.

Our region offers a large variety of monetary regime choices. I will not attempt to do any analysis here but I will limit my remarks to saying that the inflation targeting and the flexible exchange rate regime we have chosen in Albania has served us perfectly well.

Our monetary framework has strengthened our successful transition and has increased the resilience of our economy. Over the past two decades Albania has enjoyed: (i) rapid economic growth, – with GDP growth averaging at 5 percent; (ii) price stability, – with inflation rates averaging at 2.4 percent; and, (iii) a rapid monetization, - with financial assets increasing from 52 to 92 percent of GDP.

Furthermore, the flexible exchange rate has proved to be a reliable shock absorber. The Albanian lek depreciated by around 11% in the aftermath of the 2008 crisis. This depreciation occurred in the face of reduced external demand, decreased capital inflows, and higher risk premia in the domestic financial market. This helped us regain some external competitiveness, but it also allowed us to pursue an expansionary monetary policy and to avoid recession.
CHAPTER IV - Speeches and presentations at conferences

2. EXCHANGE RATE MOVEMENTS UNDER AN INFLATION TARGETING REGIME

An exclusive commitment to price stability does not necessarily mean that central banks can afford to ignore exchange rate movements.

In small open economies, such as ours, exchange rates have both, a direct effect on prices through the imported goods, and an indirect one through their impact on cost competitiveness, external balances and aggregate demand. Therefore, our macroeconomic forecasting and monetary policy analysis models prescribe an important role to the exchange rate. Furthermore, in financially euroized economies, such as ours, exchange rate movements tend to have financial stability implications. Rapid depreciation increase NPLs, while prolonged periods of appreciation tend to impose financial risks and encourage further euroization.

In designing the appropriate monetary policy response, we have to distinguish between trend movements driven by fundamentals, and short term volatility driven by sporadic factors or market imperfections.

Inflation targeting central banks should strive to avoid leaning against trend movements

"Short term exchange rate volatility is normal in a fully flexible exchange rate regime. The reaction of central banks should depend on their impact on inflation, which in itself depends on the intensity and duration of such volatility."

Source: Bank of Albania.
in the exchange rate. As long as these movements are in line with fundamentals, these trends represent structural adjustments that do not move the economy away from equilibrium. On the other hand, short term exchange rate volatility is normal in a fully flexible exchange rate regime. The reaction of central banks should depend on their impact on inflation, which in itself depends on the intensity and duration of such volatility. The stronger the duration and the higher the intensity of the shocks, the bigger would be the expected impact on inflation, the greater the risk of rapid shifts in inflation expectations, and the higher the need for a systematic reaction of monetary policy.

3. EXCHANGE RATE MOVEMENTS AND THE BANK OF ALBANIA REACTION TO THEM

The above mentioned facts have guided our reaction to the recent appreciation of the exchange rate in Albania.

The trend appreciation started around the second half of 2015, but it gathered considerable pace in 2018. Lek appreciated on average by 2.3 percent against the euro in 2016 and 2017, while it appreciated by around 7 percent during the first half of 2018.

Our analyses indicate clearly differing explanations for the pre and post 2018 appreciation.

The 2016-2017 lek appreciation has been largely in line with improving fundamentals in the economy. Some of these structural improvements include:

• Declining current account deficits, on account of improved exports;
• Increased capital inflows, on account of high FDIs;
• Reduced financial market risk premia and increased confidence in our financial institutions.

On the contrary, the rapid appreciation we experienced in 2018 has been largely a FX market driven phenomenon. News of a sudden and sustained influx of foreign currency induced one-sided expectations in the FX market. These expectations were reflected in an accelerated supply of foreign currency and delayed demand for it, generating a vicious cycle of continued appreciation.
The Bank of Albania did not react upon the real appreciation trend of the past two years. While minor miss-alignments were still present, we assessed the trend was largely driven by improving fundaments. Thus, it allowed us to focus our monetary policy on achieving our 3 percent inflation target.

We also did not react upon the recent financial market driven appreciation, in full consistence with our monetary policy and exchange rate regimes. We expected for the market to self-regulate and contain these shocks. However, this did not prove to be the case and the exchange rate appreciation accelerated.

A re-assessment of its implication on price stability indicated this appreciation was not compatible with our price stability target over the medium term. Under these premises, the Bank of Albania was forced to act.

- We lowered the policy rate to a new historical minimum of 1 percent.
- We clearly communicated the Bank of Albania did not assess this appreciation to be in line with fundamentals, anymore.
- Lastly, we announced the initiation of an FX purchase program in the domestic market. This program was aimed at controlling the pace of appreciation, removing the excessive short term FX supply and reversing expectations and one-sided bets in the market.

In regard to this last one, I would like to emphasize the main features of it:

First, it was undertaken as measure of last resort, when the space for further conventional policy rate cuts was limited. Therefore, any additional monetary policy stimulus would need to make use of unconventional instruments.

Second, it was clearly communicated to the market to be of both an exceptional and a temporary nature. Therefore, it does not represent a shift from our commitment to a flexible exchange rate regime, and should not be represented as such.

As a result, these measures proved to be efficient and now the exchange rate movements are going back to normality.

Thank You!
Dear Deputy Prime Minister
Dear media representatives,
Dear participants and colleagues,

Welcome to this conference, whose topic, I would say, is a challenge and promotes the modernisation of the retail payments in Albania.

The Bank of Albania has constantly noted in its communications that the safe and efficient development of payment systems is a key objective not only to support monetary policy implementation and safeguard financial stability, but also to serve as an important tool for formalised and sustainable economic development.

In addition to the focus on payment systems - as a fundamental pillar for the functioning of financial markets and the economy in general - the Bank of Albania is paying increasingly more attention to their development from the perspective of financial inclusion. The main goal in this regard is the broad use of payment instruments in the everyday life of citizens.

*Chart 32 Volume of payment instruments in years-number (left) and use of payment instruments by households and enterprises during 2017 (right)*

Source: Bank of Albania
This new way of development aims to identify and satisfy the needs of the smallest component of the economy - households and enterprises. Taking into account the conditions of the Albanian market, with a low level of financial inclusion and education, and the relatively high costs for the provided services, our goal is to urge the banking system to offer citizens easily-accessible and cost-effective services, supporting thus the objective for broader financial inclusion.

Therefore, it is both necessary and challenging to intervene in this aspect, especially as we are experiencing rapid and comprehensive developments in technology. Most of the aspects in our everyday life are becoming subject to digitalisation and automated processes and the modernisation of payment systems, in turn, is becoming increasingly important.

The research and analyses carried out by the Bank of Albania with the assistance of the World Bank clearly show that the promotion of digitalisation and innovation in the payment market contributes considerably to the reduction of costs of these instruments, providing services that are easily accessible and affordable by everyone. In Albania this development is considerably lagging behind other countries, with which we aim to approximate in the framework of European Union integration process; hence, its promotion becomes even more important both in the framework of this integration, and in the broader context of international markets.

The modernisation of these systems through digitalisation will be achieved through a well-regulated development and clearly-set goals in the medium-term strategy, which will be presented later today during the Conference.

The transposition of European Union Directive (PSD), which is considered as one of the most avant-garde pieces of legislation in this field, is a concrete initiative in this regard. The Bank of Albania, in collaboration with the experts of the World Bank and Bank of Italy, has prepared a draft-law, which will be subject to public discussions very soon.

To support these initiatives, the Bank of Albania is analysing the possibility of innovative developments in the systems we operate, such as: instant
payment, which, based also on international experience, would reform the payment markets from the digitalisation point of view.

Dear participants,

Given its very nature, this new dimension of payment systems development requires certainly broader cooperation by all the stakeholders. In this regard, the inter-institutional cooperation has resulted as very effective through the organisation and functioning of the National Payment Systems Committee. The Committee is a collegial advisory body, chaired by the Bank of Albania, and is making important steps forward toward reformation and modernisation of retail payment systems.

Its vision for the future is “creating a contemporary and all-inclusive retail payments market, supported by safe and efficient infrastructure, and a broad range of instruments and services that satisfy the needs of the users”.

The realisation of this vision requires legal, regulatory and infrastructural developments. It must be noted that the above-cited initiatives, formalised in the relevant national strategy, have been substantially supported by renowned international institutions such as the World Bank, the European Central Bank, and central banks from EU countries. Hence, let me now extend my sincere appreciation to these institutions for their support, and to their distinguished representatives who will share with you today their experience in the development of retail payment systems market.

From the perspective of communication and cooperation, the regional cooperation and sharing of experiences is deemed as very important and fruitful. As a result of market development and cultural characteristics and financial education level in the countries of our region, experience sharing assumes particular importance, as it may contribute significantly to achieving the goals more effectively.

Last but not least, another development is the joint initiative of the Bank of Albania, Ministry of Finance and Economy, and Minister of State for Diaspora for a higher attention related to attracting and effectively using remittances, as a component of retail payments.

At the international level, remittances make a significant contribution to the economy and welfare of the people, and are considered as accelerators to financial inclusion. The Bank of Albania, therefore, in
addition to the aimed developments in the national strategy for reforming the retail payment systems, is engaged in preparing an annual publication on remittances. This publication aims to enhance the knowledge and information about remittances in the Albanian market, and to convey messages in the context of needs for intervention and the potential of remittances for various actors in the economy.

For all the issues addressed above, especially related with the commitment of various stakeholders in the modernisation of payment systems in Albania, I invite you to actively participate and contribute to this conference.

Concluding, I would like to wish you fruitful conference proceedings and thank you for your participation and attention!
GOVERNOR SEJKO: COMMENCEMENT ADDRESS AT THE GRADUATION CEREMONY OF THE STUDENTS OF THE EUROPEAN UNIVERSITY OF TIRANA

Publication date: 16.07.2018

Honourable President of the University,
Distinguished professors,
Dear students,

It is an honour and a pleasure for me to be at the European University of Tirana, a prominent educational institution, with high academic and education values.

Today is one of the most special days in your life. After a long period of studies, you successfully conclude an important stage of your life. For many years, step by step, the educational cycle has come to an end, and now you deserveably feel proud for the many accomplishments that have brought you to this day.

Personally, I think, this is one of the greatest achievements in your life. It is a battle gained, which will essentially determine the shape and the content of success in your future career.

As you hit an important milestone in your life, you are joining now the great army of professionals. I take this opportunity to exhort you - start this long journey with courage, desire and strong will. As you try to build your career, try to settle for nothing less than the best for yourself.

Do not hesitate to show the best values of your young character and age: idealism, profoundness and honesty. Remember to bring among us the energy, the enthusiasm of your generation, your characteristic sincerity and originality. Fight without compromises and with idealism to achieve your goals, stand up for what you believe and follow what inspires you in your everyday life.

Support each other and those who care for you. Become messengers of contemporaneity and innovation, but never absent yourselves from
knowledge. Your relationship with knowledge, literature, and the scientific novelties does not end today. It is a known fact that it shall accompany you in every station of life. Such is the dynamic of our days.

Dear students,

Life beyond the auditoriums is more challenging. In everyday life, you may encounter difficult moments and complex challenges. But, difficulties should not discourage you; on the contrary, you should become stronger and take up the emotional and psychological challenges.

The most important thing is to draw your lessons, on a case by case basis, sharing them with friends and colleagues. Look forward, give others the reasons to believe in you, transmit positivity and join every visionary project that inspires love, prosperity, integrity and human understanding.

This is Albania of different values a legacy to leave to the next generations. Start from today to build it, based on your aspirations and our common European dream.

The Bank of Albania is always open to welcome talented students and devoted persons.

Congratulations and all the best in your future endeavours!
Dear friends, colleagues and media representatives,  
Thank you for your participation!

I have the honour to launch today a presentation on “The Productivity Slowdown and the Secular Stagnation Hypothesis”.

The productivity and its role on economic growth is an argument, which, in the aftermath of the last global crisis, is at the centre stage in the agenda of researchers and decision-makers of the economy.

The recent decades had never seen before such a duration, intensity and complexity of this crisis. The global economy experienced the longest and deepest economic slowdown and recession, since the Great Depression in 1930s. Certainly, it was a real drama for the national economies, as well as enterprises and households. Nevertheless, the crisis served as a catalyst to re-assess the economic ideas and a great laboratory to test them.

The book titled “International Macroeconomics in the Wake of the Global Financial Crisis” has been added to the existing vast body of economic literature that studies the challenges to various economies in detail. This book is a collection of research work by experts of the Banque de France, Banca d’Italia and Banco de España on the major topics in the post-crisis period.

Through the systematic investigation of:

- structural problems in the economy, in more concrete terms, the correlation between advancements in technology, productivity, globalisation and potential growth;
• problems incurred by the global trade and promotion of consumption and investments;
• problems that the monetary policy has faced and continues to face, due to the heightened uncertainties, fall in the natural interest rate and the chronic low inflation; and
• the increasing interdependence of global economies, due to the financial integration and the role of financial flows and interest rates in small and developing economies,

the authors provide a precious contribution to the professional debate present in this field.

We are honoured to have among us today one of the authors of this publication, Mr Patrizio Pagano. He is present today as both the World Bank Group Executive Director for Italy, Albania, Greece, Malta, Portugal, San Marino and Timor-Leste and as an academic with a long-standing history of scientific publications while serving as the Head of Advanced Economies and International Finance Division within the Directorate General for Economics, Statistics and Research of the Bank of Italy. Mr Pagano has cooperated and co-authored several articles with distinguished institutions, such as: Bocconi University and University of California, Berkeley.

As I emphasised earlier, Mr Pagano will discuss on the role of productivity on economic growth, in particular, the recent debate triggered by the hypothesis that advanced economies are doomed to experience a long period, why not decades, of slowdown of economic growth and deceleration of welfare improvement.

I would rather not anticipate the findings in the presentation, but I must say that I feel encouraged by the finding that this hypothesis is likely not to be true.

Productivity and its role on economic growth has always been a central theme at the focus of the attention at the Bank of Albania. Our studies suggest that, beyond the cyclical fall in the aggregate demand, the economic slowdown in Albania, after the crisis, has had a strong structural element. In other words, the reduction by half of the economic growth pace before and after the crisis, shows both the slowdown in the expansion of demand for goods and services, and the slowdown in the capacity of the economy to provide these products. In particular, our studies have found that the degree of expansion of productivity in the
Albanian economy - broadly defined as the capacity of an economy to utilise labour and physical capital to generate output - is reduced in this period from 2% to 1%.

For this reason, the growth of productivity has been and should remain a guideline in the agenda of structural reforms in Albania. In this context, the conclusion in today’s presentation that the currently slow growth in productivity, globally, does not necessarily represent a new “normal” of the economy, is a further encouragement for the success of reforms in Albania.

Let me now explain this argument in greater detail.

First, the Albanian economy has been going through a restructuring process of its growth model. Among others, this process envisages a higher reliance of growth on export oriented sectors – such as industry and tourism - and a further orientation of financial resources towards the expansion of investments. The shift in financial, human and management resources between sectors of the economy needs time and is followed by a temporary slowdown of productivity. Nevertheless, rebalancing the sources of growth - from construction and trade towards industry and export-related services - has already started. This shift is noted even in the symmetric rebalancing of banking credit portfolio.

Second, the level and speed of productivity expansion is directly connected with the level of education and qualification of the labour force. The educational system reform and the emphasis on vocational training are essential dimensions of the economy’s restructuring, whose benefits will increasingly become clearer in the long run. However, Albania still has a lot of work to do in this regard, in particular with regard to containing the migration of its qualified labour force and the renewal of its labour force skills by the private sector.

Third, productivity is closely connected with the improvement of business management skills. The campaign to enhance formal business practices, the gradual increase of competition, and the revision of the law on bankruptcy will provide the necessary stimulus in this regard. In particular,
I am confident that the legal improvements regarding the enforcement of bank credit contract will not only help the banks’ soundness, but will also contribute to increasing the discipline and effectiveness in the use of funds by the Albanian enterprises.

Finally, I would like to highlight that unlike the advanced economies, which are on the technology frontier, and see their progress related to their ability for innovation, Albania has considerable space for development through the adoption of the existing technologies and practices. In this light, our task remains to choose and implement the tested models of development.

Based on the above, I am confident that Albania has all the premises to increase productivity and, in this way, to accelerate the economic growth pace and increase the welfare of the Albanian people. What is needed now is a consensus on the vision for the development of the country and a shared will to implement it.

Dear participants,

I am fully convinced that this presentation will further enrich our debate on these issues.

Without further ado, I give the word to Mr Pagano!

Thank You!
Distinguished professors,
Dear participants,

It gives me a great pleasure to welcome you to the Second Conference of the Museum of the Bank of Albania, via this recorded message. I wish I were present to attend in person the proceedings of the Conference, but, regrettably, due to the rather tight agenda I will not be able to. Nevertheless, I will have the possibility to read all the presentations, discussions, and input in the Conference book that will be compiled subsequent to the Conference.

As I have already emphasised, the Conference of the Museum of the Bank of Albania is one of the most prominent events, providing us with the opportunity to enrich and further the studies on the exposed collections, and serves as a platform for Albanian experts to discuss and share their research findings.

We are pleased to see that the Museum of the Bank of Albania brings for the second time together representatives from renowned research institutions, such as: the Albanian Institute of Archaeology and History, European Universities and central banks to present their studies.

As the title suggests, this Conference will address the role of money in wartime. In periods of wars and conflicts - history shows that, albeit relatively small, Albania has experienced many wars and conflicts - people have turned to the currency and precious metals. Hence, about 100 years ago, at the beginning of the World War I, Europe dived into one of the worst financial crises of the past century and many people and businesses rushed to convert their bank accounts and assets into cash and gold coins.
Meanwhile, in Albania, these events triggered a chaotic monetary circulation. In the absence of a national currency and due to the political-military and economic developments during the War, diverse foreign currencies circulated across the country, mainly those of European and neighbouring countries, as well as American and Turkish ones.

You may see this conglomerate of denominations in the showcases of the Museum dedicated to the period of Independence and the World War I. Also, the showcases on the monetary circulation in Albania during World War II, in addition to the ones of Antiquity and Medieval periods, exhibit denominations that speak of the important and complicated relationships between money and war. I am sure these important moments to the economic and monetary history of Albania, and beyond, will be discussed at length during the Conference.

Dear participants,

The Conference is not the only activity the Museum has organised about numismatics, economic, monetary and financial history. We have also organised for the general public a cycle of lectures called “Museum nights”, with lectures delivered by experts in the field of numismatics, history and economy. Also, in cooperation with the Institute of Archaeology, a one-week seminar was organised on Ancient coins, attended by the students of history, archaeology and cultural heritage.

This year commemorates the pan-national Year of Skanderbeg, our National Hero. The Museum has organised temporary exhibitions, displayed both inside and outside the Museum, on the figure of Skanderbeg, featured in the Albanian currency.

Financial education has been given an important focus in the work of the Museum. Throughout the year, many students and young people have been involved in educational activities and projects, actively participating during the Money Week events, attending the lectures held at the Museum, and using our educational publications and products.

The Museum will continue to work in these two aspects by supporting: i) the scientific, economic, and monetary history of the country; and ii) the financial education of the new generations, with the support and cooperation with the most distinguished actors in these fields.
As an institution that keeps and promotes an important part of the cultural heritage of the country, such as the currency, we are privileged and obliged to collaborate in order for the Museum of the Bank of Albania not to be just an exposition of the rare collections, but a place where the public may find adequate and specialised literature and expertise to learn about the economic and monetary history, and become more financially educated.

Concluding, I would like to thank all the researchers, the speakers, the audience and our collaborators, who responded positively to our call for participation. With these words, I wish you all fruitful deliberations, I wish the conference all success and I wish all the guests an enjoyable stay in Tirana.

Thank you!

“The Museum will continue to work in these two aspects by supporting: i) the scientific, economic, and monetary history of the country; and ii) the financial education of the new generations.”
GOVERNOR SEJKO: WELCOME ADDRESS AT THE ANNUAL CONFERENCE OF THE BANK OF ALBANIA, 1 NOVEMBER 2018

Publication date: 01.11.2018

Your Excellency Prime Minister,
Your Excellency Minister of Finance,
Dear Professor Berglof,
Dear Governors and Deputy Governors, Your Excellencies, Ambassadors,
dear professors and representatives of the banking system,
Dear ladies and gentlemen,

It is always a pleasure for me, as the Governor of the Bank of Albania, to have the opportunity to open the proceedings of our annual conference. This year we are organising it in cooperation with the London School of Economics and Political Science (LSE), one of the foremost academic institutions in the field of research on economic and political sciences. The LSE’s interest and the professional investment testifies that the cycle of our conferences has matured.

I am sure that this year’s conference will uphold and even forge ahead the frontiers of our standards. Engaging in open discussions and sharing our experiences will eventually help us to identify the optimum way for addressing the challenges that lie ahead.

This year’s theme is especially important not only to central banks but also to all the decision-makers for the economy. While focusing on the direct implications for the monetary policy, it touches on issues that address strong and dynamic changes that economic structures, financial markets, doctrines of economic management, and societies and human communities are experiencing at the local and global level.

Recent reports by prestigious international financial institutions point out that the prospects of economic development remain positive. Likewise, Albania is set on a steady positive trajectory of economic growth.
Our prudent economic policies, the constant improvement of balance sheets in the real and financial sectors, and the ongoing restructuring of the economy and of the growth model have created adequate premises for an increasingly fuller utilisation of production capacities and the convergence of inflation toward the target.

Let me explain this in greater detail. According to official statistics, economic growth in Albania accelerated to 4.4% in 2018 H1, showing a broad base in terms of aggregate demand components, and a diverse composition in terms of sectors contributing to growth.

In particular, Albanian exports showed growth, while the level of foreign direct investments remained high, contributing to the narrowing of the current account deficit and the stability of the external position. The dynamism of the exporting sector and the high level of foreign investments are encouraging for a steady economic growth, and testify to the increasing competitiveness and attractiveness of the Albanian economy.

The effects of economic growth have begun to be present in almost all economic and financial indicators. Participation in the labour force and employment has increased, the unemployment rate decreased to 12.4% in 2018 Q2, and wages have started to trend upward.
Table 2 Economic indicators for countries in the region

<table>
<thead>
<tr>
<th>Countries</th>
<th>Annual change of GDP</th>
<th>Annual inflation</th>
<th>Unemployment rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018 Q2</td>
<td>03/2018</td>
<td>November 2018</td>
</tr>
<tr>
<td>Italy</td>
<td>1.2</td>
<td>0.7</td>
<td>1.7</td>
</tr>
<tr>
<td>Greece</td>
<td>1.7</td>
<td>2.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Macedonia</td>
<td>3.0</td>
<td>3.0</td>
<td>1.2</td>
</tr>
<tr>
<td>Serbia</td>
<td>4.9</td>
<td>3.8</td>
<td>2.2*</td>
</tr>
<tr>
<td>Turkey</td>
<td>5.3</td>
<td>1.6</td>
<td>21.6</td>
</tr>
<tr>
<td>Kosovo/1</td>
<td>3.5</td>
<td>4.7</td>
<td>2.1</td>
</tr>
<tr>
<td>Albania/1</td>
<td>4.5</td>
<td>4.3</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Source: Respective statistical institutes.
Note: 1/ Data on economic growth for Kosovo and Albania refer to the first and second quarters of 2018.
*October 2018; **2018 Q2.

Also, the growth in aggregate demand has contributed to the improvement of balance sheets of Albanian enterprises and has enabled a clearly downward trend in non-performing loans (NPL). The NPL ratio dropped to 12.9% in 2018 Q3, almost halved from its peak recorded in the wake of the crisis.

Reflecting its performance and the recovery of economic activity, against the backdrop of low interest rates triggered by our accommodative monetary policy stance, the Albanian banking sector remains liquid, profitable, and well capitalised. This sector appears resilient to potential shocks and has adequate capital and liquidity to cover the needs of the economy for financing.

**Chart 34 Liquidity indicators**

![Liquidity indicators chart](source: Bank of Albania.)
The currently positive momentum of the Albanian economy has created adequate premises for the growth trend to continue in the period ahead. The expansion of aggregate demand, the favourable financial environment, the improvement of balance sheets, and the restoration of confidence in the economy form a virtuous circle, which will support growth in the medium-term horizon.

Furthermore, the long series of structural reforms - whether already undertaken or being currently implemented - should pave the way for faster, sustainable and comprehensive economic growth.

Dear ladies and gentlemen,

The topic of today’s conference is related with the challenges that policy makers face in terms of growth as well as of economic and financial stability. From a general perspective, these challenges pertain to:

- Implications arising from the monetary policy normalisation in major central banks on developing countries, especially those that have adopted the short-term debt as their growth model;
- Populist phenomena, which fuel a protectionist rhetoric, are detrimental to global trade, and refrain the free movement of production factors; and
- Risks that remain present in the global financial system.

From a more specific perspective, today’s economic, monetary and financial reality appears especially challenging for the monetary policy. This reality is labelled as the new “normal” of the monetary policy. Let me identify a few of these challenges.

- The natural interest rates appear downward, potentially as a result of a combination of several factors: slowdown of productivity and of the pace of innovation; unfavourable demographic trends in advanced economies; and the recycling of savings from developing economies toward advanced economies. The rate fall leads to the reduction of space for conventional stimulating monetary policies in the future.
- The correlation between aggregate demand and the inflation rate has weakened in the short and medium term, as a result of developments in the labour market and increasing integration of the global economy. This phenomenon renders the monetary policy action more costly.
• The financial innovation and the increasing awareness of the correlation between economic and monetary stability, on the one hand, and the financial system, on the other, have reduced the space for conventional monetary policy instruments.

Despite the complexity, recommendations for dealing with these challenges have been put forward. They range from the modification of the monetary policy mandate to enriching the array of instruments it employs, and its better combination with the macro-prudential policy.

I am certain that the issues set out above will be addressed at length during the day.

From my perspective, the consensus on the shape of the new ‘normal’ of the monetary policy should maintain three key elements:

• First, avoiding multiple, ambiguous and non-transparent objectives related to the monetary policy. This principle would sustain the credibility of the monetary policy, as a prerequisite for increasing the effectiveness and decreasing the side effects from its intervention.

• Second, acknowledging the limits of the monetary policy, both in the short and medium term, and in the long term.

In the short and medium term, the monetary policy often encounters limited effectiveness, especially in the case of financial crises, or negative side effects in the form of heightened risk in the financial system. This limitation stresses the need for supplementing and coordinating it with other economic management policies.

In parallel, the monetary policy alone does not have adequate instruments for generating a sustainable acceleration of the growth pace in the long term. This limitation underlines the argument that the monetary policy is not and may not be a substitute for structural reforms.

• Third, in designing the range of instruments at the disposal of the monetary policy, care should be taken to avoid the risk in the
central banks’ balance sheet, which would negatively affect their independence.

The experience of the Bank of Albania in withstanding the crisis and fostering growth in the wake of the crisis illustrates some of the key topics I mentioned above.

In response to the aggregate demand slowdown and the subsequent negative implications on employment, soundness of financial balance sheets and inflation, the Bank of Albania undertook a progressive easing of the monetary policy stance, by lowering the policy rate and injecting liquidity vis-a-vis an expanded collateral base.

**Chart 35 Policy rate (left) and daily EUR/ALL exchange rate (right)**

The monetary expansion policy was supported by a clear focus on price stability and was favoured by the operation of a free exchange rate regime. The latter has served and will serve to absorb short-term shocks to the Albanian economy and financial system.

I want to emphasise a very important principle to uphold, that is maintaining a free exchange rate regime and activating market interventions only in situations when the primary objectives are affected. The sustaining reason is that movements in specific moments toward a new and more stable equilibrium enable our monetary policy to focus on its primary objective - price stability - and contribute to a more productive orientation of human and financial resources in the economy.
The monetary stimulus transmitted through conventional instruments proved successful in containing negative effects from the crisis. It contributed to a calm operation of financial markets, eased the cost of debt servicing, and helped start a restructuring process of the economy.

Yet, some features of the development of the Albanian financial markets limited the effectiveness of the monetary policy action. The low level of development of the financial markets, the phenomenon of the increase in non-performing loans and the high level of foreign currency borrowing decelerated the full transmission of the monetary stimulus to the economy. In response, the Bank of Albania adopted an integrated approach to boost the effectiveness of the monetary stimulus, which implied the adoption of new instruments as well as the initiation of a series of structural reforms aimed at improving the monetary policy transmission mechanism.

- With regard to instruments, the Bank of Albania began to employ the forward guidance tool, and applied countercyclical macro-prudential measures to support the growth of lending to the economy.
- With regard to the transmission mechanism, the Bank of Albania undertook in cooperation with the Government of Albania a series of structural reforms in the financial system. These reforms were aimed at further developing the financial market, improving the legal and regulatory environment with regard to contract compliance, collateral execution and lowering the credit risk, as well as reducing the phenomenon of foreign currency borrowing.

This integrated approach has yielded the first results, creating a financial environment that is more responsive to our policies, being an additional guarantee for convergence with our price stability objective and maintaining the sustainability of economic growth.

This investment, however, should be further supplemented by creating and maintaining the necessary fiscal space for withstanding shocks, and should be accompanied by structural reforms across the board to boost the resilience and flexibility of our economy.

Dear ladies and gentlemen,

Looking ahead, I would like to underline that one of the valuable lessons we have learned from the crisis is that safeguarding financial stability and maintaining a functioning monetary policy pass through are among the most important investments that a central bank can make for the future of the country.
Nonetheless, the challenges that lie ahead of the global economies will be increasingly complex, implying the need for informed and courageous decision-making in line with the developments of the time.

What in today’s terminology is known as the “New Normal” is characterised by many unknowns, while all policymakers require finding appropriate and necessary options to facilitate the decision-making of a central bank not only from the perspective of the good management of the monetary policy, but also from the perspective of the financial stability, protection of the consumers and of the economy against economic and financial shocks. Hence, we have brought together with the LSE the best experts from the academia, central banking, international institutions and the financial market to discuss the potential effects of these developments, to generate ideas as to which might be the adequate and optimum policies for addressing these challenges.

The need to coordinate domestic policies, and fostering the cooperation and interaction between the markets and the Authorities is evident. Our experience in this regard is positive. The lessons learned from the crisis, and the scanning of the development level of the financial sector, have enabled us - under a successful cooperation with the Government of Albania - to pave the way for a full restructuring of the architecture for the regulation and monitoring of the financial sector, create functional mechanisms for exchanging information and coordination among regulatory agencies, and pave the way for concrete reforms for the development of the financial system, especially in the field of capital markets and payment systems.

This need for cooperation and coordination crosses the national borders. A comprehensive approach, at global and regional level, would contribute to preventing unwanted consequences, not only for small and developing economies - which are often consumers of financial regulation policies at the global level - but also for the large economies, which originate them. I believe that the conclusions of the conference panels will be very useful for all of us and will thoroughly portray and present the risks and benefits from the issues mentioned above, with particular focus on their treatment from the perspective of decisionmakers.

Thanking you once again for your participation, I wish the conference a complete success and hope all of you will enjoy your stay in Tirana!
Honourable Prof. Kule,
Distinguished members of the faculty,
Dear family and friends,
Most importantly dear students,

It is a privilege for me to be present today in this youthful and meaningful graduation ceremony. Today, you, your families and your professors at the Faculty of Economics have earned the right to proud for this milestone achievement. I take this opportunity to extend my most sincere congratulations to all of you for the successful completion of your university studies.

This moment marks an important transition in your life. You leave the university auditoriums to enter another reality, far different from the one you have experienced till now. From tomorrow, you will face a new dimension of the human reality, a rather dynamic and complex one. As you embark on a new journey, remember that life has many stations. Every time you reach one of them, the next one might be even more challenging. It is part of the journey.

Remember, building a successful career takes time, hard work and perseverance. My advice is to make the first steps with the energy and enthusiasm that characterise your age. Be courageously free of any complexity and non-based hesitation! Pass through your positive energy whenever you are: in family, work, friends and daily relations with your colleagues. Show consistent and cultured behaviour, as well as respect for the law, codes and traditions! Embrace innovation and fight to make a reality any dream that inspires human love, prosperity, integrity and understanding. Be loyal and collaborative, and never ever give up on learning and education, for whatsoever reason.
Nowadays, the society is facing many social, cultural, scientific, technological, demographic and geographical changes. The ability to adapt continuously and anticipate these developments is not simply a challenge of today. It shows the need to be constantly in touch with knowledge, new scientific novelties, innovation, and various theoretical trends and their application. Therefore, I strongly encourage you to never break up with knowledge and education.

Be assured that, wherever you may be, in Albania or abroad, education will always pay you back the energy and time you have spent. Personally, I consider it as an important pillar, which helps over time to shape a reputable, respected and broadly accepted figure by the public opinion.

Dear students,

Today is the day to celebrate for this achievement. Today is the day to feel proud. Your dream to successfully complete your studies has come true. Now, many opportunities and alternatives await you. Be courageous and wise to make your choice. Wherever you are, whether in the public or the private sector, in Albania or abroad, I urge you to show integrity, optimism and determination.

I have only one piece of advice to everyone:

Never give up! Live your life with courage and self-confidence! Time rewards those who dream big and dare to see beyond tomorrow. This is the right way to build a better society, capable to generate prosperity for the future generations. Renounce the ambitions for a fast track to an undeserved career. It is a path that leads to a dead end. Life is a journey of many unknown things and I assure you that in the long run, those that stand out for their professional ability, devotion and respect of human values, shine bright on the life’s journey.

Concluding, I wish you once again every success and all the best in future endeavours.

Congratulations!
Ladies and Gentlemen!

It is a great pleasure for me to welcome all of you today to our 12th research workshop. I would like to express my sincere gratitude to our guests from academia and central banks who for 12 years have made this workshop one of the best and well-recognized economic and financial research events in Albania and in the region. Let me also thank all of our distinguished chairs, speakers and discussants for their engagement here today.

The papers that will be presented and discussed during these 2 days will cover a wide range of economic and financial issues that concern central banks. The topics on monetary policy, financial stability, risk and novel methodologies are all very relevant to the daily activity of central banks and as such are very important to us. The Bank of Albania is involved in decision-making on all these issues and we provide our active support to it through our research. Along with the papers that are going to be presented today in the panels, we have also decided to include and present in the poster presentations, tomorrow, some of our ongoing projects. Following this workshop, the results of these research works will feed into the decision making process and help the Bank of Albania to make more informed decisions and improve its models and the efficiency of policy-making. For this reason, I encourage and invite you all to ask questions, to comment and to assess our work with your opinions and academic proficiency, to challenge our findings and methodologies.

The nature of our research is undoubtedly influenced by our main mission and prevailing concerns. It is for that reason that the majority of our research focuses on monetary policy, price and financial stability, models related to them and the economic events that affect them the most. Some of the trends that we will discuss today are global and...
fundamental in nature. They may not have reached our economies, yet, but they will definitely have a significant impact on our real economy and financial system in the future. For example, new technologies, such as crypto currencies, Artificial Intelligence and machine learning, which represent a major challenge, not only for central banks, will have various implications for monetary and financial stability. Research related to these new technologies will be beneficial for both advanced and developing countries.

Unexpected, sometimes new, global or regional events can shock a domestic economy such that authorities need to intervene with what they already know and have experienced. It is important to understand the short and long-term implications of the adopted policies in these new environments. The crisis, for example, had a different impact on the Albanian economy, from what we had historically experienced. At the time, the Albanian economy did not seem to be vulnerable to the foreign sector. Subsequent analysis, however, showed that domestic imbalances had built and, indeed, made the economy vulnerable to a foreign credibility shock. It is crucial that research in central banks focus on available information and methodologies, which scrutinize existing paradigms, making this information useful to policymaking, before it becomes or leads to vulnerabilities.

In light of the financial and human capital constraints faced by central banks in small, open economies, such as Albania, we believe that it is important for these topics to be discussed, in this workshop, with fellow researchers from academia and other central banks.

I would like to encourage our researchers to publish their papers in relevant, peer-reviewed journals as the most important certification of their work. This will make your research projects more useful and facilitate speedy implementation in mainstream policy making. Despite recent success in publications, one of the things that I hear the most is that there is not much research interest in the scientific study of small, developing or emerging market economies like Albania. From my prospective, I think that there is interest in the scientific study of small, developing or emerging market economies such as Albania, because of the particular and distinguishing characteristics of our economy, which can be different from those represented in mainstream research findings.

“It is crucial that research in central banks focus on available information and methodologies, which scrutinize existing paradigms, making this information useful to policymaking, before it becomes or leads to vulnerabilities.”
Distinguishing features such as shallow and narrow financial markets, limited number of financial instruments, particular behavioural traits of economic agents and distinctive economic and financial memories, can reveal non-traditional behaviour and interesting phenomena that do not appear and, are, therefore, not addressed in research findings from developed markets. The identification of these particular characteristics and their implications for research findings might be good enough to spark the interest of economic journals and economic conferences to bring these characteristics to the attention of the research community and enrich mainstream economic theory.

Just to illustrate a few interesting cases, I would like to remind you that the development of economic and financial markets in response to Bank of Albania policies has been weak and sometimes puzzling, making it difficult to interpret using mainstream economic models. The desire for unhedged borrowers to borrow in foreign currency, the reduced efficiency of transmission mechanisms in the presence of central bank credibility, the potential role of informal and parallel markets and informal economic activity, are some examples of interesting traits of economic behaviour. Several authors have been intrigued by such developments. Hence, they have conducted extensive research on these phenomenon in similar emerging and developing economies, which have later seen the light of publication.

Good examples are found in the research work done by the national bank of Austria (OeNB) on the level of euroization in the region, with interesting results that have helped authorities but have also increased the interest of other institutions and academics in euroization issues. In addition, there are increased concerns about financial and foreign exchange market stability in the event of a sudden reversal of capital inflows to the regional banking system. Recently dramatic changes are occurring in the global economic environment, including continuing monetary policy normalization by the U.S. Federal Reserve. These changes can potentially impact small, open economies and must be understood. Research conducted by the central Bank of Italy (Bdl) is another example of research work, focused on the region, providing an interesting regional perspective for euro area policymakers regarding their policy decisions and actions. This research has formally provided researched-based evidence on the implications of their policy making on the large group of countries in the periphery of the euro area. These are just a few examples of interesting, useful and publishable research.
This year we have a couple of projects that involve cooperation and joint works between Bank of Albania researchers and those from other central banks or academia. This is another way to increase the potential for publication and I would encourage you to increase the amount and scope of cooperation in research with foreign researchers.

To conclude, I would like to reemphasize that we must enhance the overall efficiency of the transmission mechanism, and the resilience of the banking and financial systems so that potential and unexpected shocks do not advance to economic or systemic risk. To this end, we must reinforce our capacities and our understanding of economic and financial developments and their relation to policy tools, in order to properly respond to potential risks. This may be done by improving our current knowledge of past shocks, development, and the implications of potential shocks. Experience has shown that this knowledge is comprehensive only when it is the result of a rigorous and competent research process. Last but not least, we have to continue our policy efforts to strengthen the relationship between researchers and policy makers. I believe that these efforts can increase both from research and from the end users of the research product.

*Ladies and Gentlemen!*

The research papers to be presented in this workshop reflect the serious thoughts and discussions of expert researchers on major issues. These include not only the work of the Bank of Albania, but also the work done in other central banks and academia. The topics cover a wide range of very useful issues. I hope that the research presented at today’s workshop will spark vigorous debate and allow the sharing of diverse opinions that will help each other improve and strengthen your work form a different perspective. I invite you all and the Bank of Albania’s researchers to use this activity to learn something new, and as a platform to strengthen the cooperation for your own and your institutions’ benefit.

I would like to end my speech by wishing you a productive and successful workshop!
GOVERNOR SEJKO: ADDRESS AT THE YEAR-END FUNCTION ORGANISED BY THE ALBANIAN ASSOCIATION OF BANKS
Publication date: 13.12.2018

Honourable AAB Chairman,
Your Excellency, Minister of Finance and Economy,
Dear senior representatives and colleagues from the banking system in Albania,
Ladies and gentlemen,

It is a special pleasure for me to participate and address this year-end function organised by the Albanian Association of Banks. In my brief address, I would like to bring to your attention some highlights of 2018, regarding the contribution of the banking sector and the financial system, as well as some milestones set for 2019. Let me first focus on the overall performance of the Albanian economy.

The overall performance of the Albanian economy in 2018 was positive. Economic recovery is tangible across all of its dimensions. The pace of growth picked up, employment increased, internal and external balances were strengthened, while the main indicators of the banking sector’s soundness have been improving.

It is encouraging to see that the sources of economic growth are both increasing and well diversified. From the aggregate demand perspective, growth in the exports of goods and services and in the domestic consumption and investments continued to underpin economic growth. In the meantime, from a sectorial perspective, economic activity expanded, reflecting a more notable contribution from output in the industry sector and the services sector. Lastly, judging from the performance of macroeconomic factors, economic growth was also sustained by a stimulating financial environment, more favourable performance of our trading partners, improved balance sheets, and a more optimistic view of enterprises and households on the outlook.

All the above reasons fuel the optimism on the perspective of economic growth in the next year and onward. Albania has reached, among others, an important milestone on its path to development and integration: the expected opening of accession negotiations with the European
Union. These negotiations should surely be viewed as an important development anchor and an additional guarantee for both domestic and foreign investors.

The year just ending confirmed the stability of the Albanian banking sector. It may be considered as a special year in view of important structural changes in the system, which are expected to be finalised in the next year. Banking activity continued to expand, and the banking sector continued to be well capitalised, liquid and profitable. The NPL ratio continued to improve, hitting a new record low for the last eight years, standing at 12.89%, in September. Meanwhile, deposit growth was channelled mostly into investments in securities and less into lending. Certainly, the appreciation of the exchange rate and the lost loans write off provided a statistical effect on the indicators of credit performance. Also, credit in the national currency continued to prevail over the foreign currency credit. Nonetheless, the overall level of credit to the economy is still far from its potential and the opportunities for expanding lending abound.

I understand that this phenomenon entails a number of problems arising from sluggish demand as well as from supply, which is conditioned by tight credit standards. Nonetheless, beyond structural factors, I reckon that we should react so as to prevent a stagnant credit situation in the economy. For an economy that needs to develop rapidly, in order to converge with European Union levels, the situation should be changed and the levels of crediting should be higher, though still showing continual prudence concerning credit health.

![Chart 36 NPL](chart.png)

Source: Bank of Albania.
Moreover, it is in your financial interest to address this phenomenon with determination, in order to put it on track for a sustainable solution. The financial resources you have and the considerable space that exists for financing the economy show that financial efficiency in the banking activity could improve significantly.

The financial infrastructure of the banking sector was enhanced further in 2018. The Bank of Albania and the National Payment System Committee have implemented the national strategy for enhancing the small value payment market and increasing the financial inclusion of the population. The first results are promising and they will be followed by other steps by the Bank of Albania and the banking sector, aimed at achieving a quantitative objective, that is, to see the number of bank account holders doubled by 2022.

The financial inclusion of the population is one of the most important current priorities. In 2018, the Bank of Albania and the banking sector paid particular attention to financial inclusion and financial education. It is a proven fact now that improvement in financial inclusion contributes to the improvement of the welfare of the population in a harmonised way. In this regard, we have designed and implemented, among others, a series of educational projects that are adapted to various segments of the population. Financial education, tailored publications with information on bank products and services, as well as developments in the payment infrastructure and payment services are concrete steps for providing more opportunities for access to finance by all segments of the population.

*Dear representatives of the banking sector,*

The outlook for Albania’s development remains positive. This means that Albania offers the banking sector solid premises for business and growth. But, growth and development do not materialise out of nothing. They reflect the commitment, the hard work and the dedication of all actors. Let me now identify three challenges that we need to tackle together.

First, the pace of economic growth needs to be supported by the dynamics of banking credit. We have discussed relevant reasons and factors in many forums and analyses. Today, I would like to emphasise that the economy may not grow sustainably without bank credit recovery. Your role becomes crucial in this regard. The banking sector safe-keeps the savings of Albanian citizens. It is its duty, however, to make such
savings available to the growth and development of Albania. There is no growth without credit, and without growth, savings lose their value.

Therefore, it is imperative that short-term goals do not prevent the adoption of a strategic and longer-term vision. Banks should invest with a view to developing functions related to financial consultancy services for their clients. They need to persistently seek to explore the market, to identify potential clients - especially households and small enterprises - and, most importantly, to help them design bankable proposals and projects. At this phase, the reduction of concentration and the diversification of credit portfolios are key elements. This requires that you design and set up relevant structures, processes and products, and plan for adequate financial resources. In parallel, you should continuously assess the surrounding environment, which certainly affects your activity. Thus, if there are concrete proposals for additional legal amendments or supervisory practices, I invite you to formulate and submit them officially to us and other relevant public authorities, so that we can, together, make a swift decision on them. In this process, the Bank of Albania will always support initiatives that lead to an eventual improvement of financial intermediation levels and safeguard the stability of the banking sector and of the financial system.

Second, our ambition should aim higher than the 3, 4 or 5% annual growth rate. The country needs more optimism, which means higher
growth rates and more structural reforms. The banking sector has both a
direct and an indirect role to play in this regard. The direct role pertains
to the further development of the banking market and products - in line
with the best international experiences. Likewise, insistent work on further
reducing the level of non-performing loans should not be neglected, and
should be considered by all of us as a key factor for further strengthening
financial stability in Albania and providing an impetus to the economy.
On the other hand, the indirect role consists in the cooperation that
you may offer to many structural reforms across all the sectors of the
economy and in all the dimensions of the business setting. Your expertise
is not insignificant. It must assume an authoritative place in the economic
debate.

Third, while acclaiming the cooperation between the Bank of Albania and
the Albanian Association of Banks and commercial banks in educational
activities, I would also like to iterate the importance of financial education
and financial inclusion. As financial services and products develop and
become more complicated, financial education helps users to understand
and use them; it also helps preventing financial
crisis and contributes to the financial stability
and economic growth of a country. We need to
continue to be key promoters in designing and
implementing financial education programmes. Financial education is an investment in the
future and it should be an integral part of our
agendas, engaging more intensively in the
implementation of alternative and innovative
methods for enhancing financial education
among the public.

In conclusion, let me assure you once again that you will find in the Bank
of Albania a loyal, supportive and serious partner, adherent to its legal
mandate. Our decision-making will be transparent and all our initiatives
will be guided by a spirit of cooperation with the banking sector, aiming
at ensuring highest efficiency.

I wish you a successful and prosperous year for you and your families.

*Thank you for your attention!*
GOVERNOR SEJKO: WELCOME ADDRESS TO THE HIGH-LEVEL MEETING ON THE REMITTANCES OF THE ALBANIAN DIASTORA, 14 DECEMBER 2018

Publication date: 14.12.2018

Your Excellency, Minister Majko,
Dear guests and colleagues,

It is a special pleasure to open today’s meeting, which takes place after a year of intensive coordinated effort between our institutions toward the achievement of common objectives in relation to remittances of the diaspora, and other important issues. Today, a year after the Memorandum of Understanding was signed, I have the pleasure of noting that the materialization of these efforts has been reflected in the undertaking of a number of commitments and projects in pursuit of the objectives set out below.

The importance of remittances to the Albanian economy, to family welfare and to development in general is highlighted in many communications of the Bank of Albania. In this context, during 2018, the Bank of Albania engaged its resources in developments aimed at creating the necessary prerequisites for an efficient channelling of such incomes into the Albanian economy.
International initiatives in the field of remittances underline the importance of reducing the costs and increasing the efficiency of remittance services, thus implying the need to intervene in the retail payment market, in both remittance-sending and remittance-receiving countries.

For this reason, the Bank of Albania, as we have pointed out at the beginning of this cooperation, has engaged in a series of projects aimed at analysing the domestic market with a view to identifying and addressing the needs for intervention. These projects are assisted by the World Bank and funded by the SECO. I take this opportunity to once again thank these institutions for their contribution and support.

Moreover, the Bank of Albania and the National Payment Systems Committee has already adopted and is implementing the national strategy for the retail payments market. This strategy aims to create a contemporary and comprehensive market of retail payments, supported by secure and efficient infrastructures, as well as by a wide range of payment instruments and services that meet the needs of financially capable individuals to make payments across the country. Incorporating financial inclusion into the Bank of Albania’s objectives, this strategy has set ambitious quantitative targets aimed at doubling the number of bank account holders (from 38% in 2014 to 70% in 2022) and increasing the number of electronic payments per capita (from 4.3 to 2016, to 10 in 2022).

However, in order to achieve these objectives, a concrete and detailed action plan is needed. This action plan would require the support of all the stakeholders in the payments market, as well as interventions in many aspects, such as:

1. improvement of the applicable legal and regulatory framework;
2. development and improvement of financial services infrastructures;
3. expansion of the number and use of accounts and payment services;
4. expansion of access points for these services;
5. increase of education, awareness and financial inclusion;
6. increase of the volumes of transactions processed by payment systems.

While the strategy was only recently approved, in June, concrete steps have been taken in this regard, for example, the drafting of the bill “On Payment Services in the Republic of Albania”, which transposes the
revised directive of the European Union “On payment services” (PSD2). The adoption and implementation of this bill is considered to have a direct impact for fostering competition and innovation in the field of retail payments, thus promoting efficiency and reduction of the costs for using them. Moreover, the bill is expected to enhance transparency in the services provided by the market and to create a consolidated framework on consumer protection, a very important component for our market. Last but not least, the bill also aims to expand the presence of bank services across the territory of the country (including rural areas).

Beyond legal improvements, important steps have been noted in the framework of financial education. I would like to highlight the initiative undertaken in cooperation with the World Bank, and funded by the SECO, for the implementation of Project Greenback 2.0 in Berat. This project consists in enhancing financial inclusion and financial education for emigrants and their families, who receive these funds, as well as in establishing effective channels in terms of costs for the delivery of these funds.

In addition, to expand the market knowledge regarding remittances, in June, the Bank of Albania published “Remittances: A support for development”. This publication is entirely dedicated to remittances and adopts a comprehensive approach to various aspects in the domestic market. Some of these aspects are the macro-level analysis of remittances and their impact on development in general and on the receiving families; the analysis of the infrastructure of the remittances market in Albania, and the need for intervention, as well as providing adequate statistics on remittances.

An important step in the framework of financial education was also undertaken by the Albanian Association of Banks. In June, a memorandum of cooperation was signed on establishing the Albanian Network for Financial Education and fostering inter-institutional cooperation and coordination in the field of financial education. However, there is still much to be done, despite the developments I mentioned earlier. In this context, I would like to invite you all to continue with the efforts made so far, with the same intensity, in order to modernize the domestic payment market.

In the medium term, the Bank of Albania will focus its efforts on a number of initiatives, notably on further legal developments and infrastructure improvements.
An important step in the medium term is the drafting of the bill “On the payment account”. The bill will transpose the European Union Directive “On the Payments Account” and promote transparency by creating a public register to present all commissions applied by institutions, which can be easily compared.

At the same time, during this period, the Bank of Albania will engage in a number of infrastructure developments that support financial inclusion, reduce the costs of using these instruments and is estimated to have an impact on the remittance market, mainly from the point of view of remittance receivers and their use. Here we can mention the creation of a national platform for processing payments in real time (instant payment and processing of card payments). The platform creates conditions for the development of innovative and low-cost services and also aims at market segments that create ample volumes by targeting state institution payments as well as daily payments that Albanian citizens make.

Last but not least, I would like to thank the Government of Albania for the importance it places on this matter and its continuous support. In particular, I would like to thank the ministries such as the Ministry of Diaspora and the Ministry of Finance and Economy for their support and fruitful cooperation. I am confident that we will continue, with the same intensity, our joint efforts to integrate this very important factor into the Albanian economy at the fastest and broadest extent possible.

Thank you!
GOVERNOR SEJKO: ADDRESS TO THE END-OF-YEAR MEETING WITH THE MEDIA
Publication date: 20.12.2018

Dear ladies and gentlemen,

Welcome to our end-of-year meeting with the media. I would like to thank you for your readiness, objectivity, and seriousness in covering the activities of the Bank of Albania and informing the public about them, throughout 2018. Thanks to you, our analyses and decision-making have been communicated in a thorough manner, mindfully tailored and styled in accordance with the age and profession of the targeted audience.

I must note that, in addition to broad geographic coverage, your comments and analyses on the economic and financial developments in Albania have been very professional. At the Bank of Albania, my colleagues and I maintain that the current media reality is an important part of our activity. Our decision-making could not be considered complete without your contribution. Communication is a vital and delicate process for a central bank. I must emphasize that, without your help and objectivity, realisation of Bank of Albania’s decision-making regarding monetary policy and financial stability would have been an impossible mission.

Figuratively, I would point out that you are the ones that enable the translation of our analyses and conclusions into an adequate and easy-to-understand message for the general public. You have informed the public on our actions and interventions related to monetary policy, as well as on our decisions related to financial stability, market efficiency, banking regulations and other more specific aspects.

This leads us to the conclusion that the level of reporting has improved significantly, which, in turn, urges us to be more demanding of ourselves in all the arguments and analyses underpinning our decision-making. I would like to thank you for your constructive role in reporting news items related to developments in the economy, finances, money, the banking system, inflation, financial stability, as well as to the risks towards which our economy is exposed. I would also like to assure you that the Bank of Albania will continue to be an
open and very loyal institution vis-à-vis the media. The Bank of Albania will be continuously open to communication with regard to the entire spectrum of economic, financial, contemporary, professional and unbiased news.

Dear ladies and gentlemen,

It has become a tradition now for us to organise, during the end-of-year meeting with the media, a modest but very meaningful ceremony: the awards ceremony for the best diploma thesis. We value true scientific research in its highly beneficial capacity, from a long-term perspective, to enable the building of contemporary and sustainable research models.

From this point of view, the Bank of Albania has endeavoured to boost its research capacities, something we consider to be essential, ultimately helping to perfect our entire decision-making process related to monetary policy and financial stability. For this very reason, the award ceremony for the best diploma thesis has become a consolidated activity of the Bank of Albania geared toward supporting promising students in the field of scientific research within the scope of central banking.

This year, students also showed a high interest in presenting their diploma theses. We received 27 studies on a wide range of economic, financial, and legal topics focused mostly on the Albanian economy. It is a delight to see how these studies use contemporary research methodologies and valuable information intelligently to analyse economic phenomena, employing theoretical and empirical arguments. In spite of the challenge of choosing the most interesting studies, we now have our verdict on the “Governor’s Award for the Best Diploma Thesis 2018”. The selection has not been easy. Each year, we receive increasingly more qualitative studies in terms of research methodology, topic originality and methods applied in research.

I take this opportunity to congratulate all the contestants for the high quality of the presented studies. I hope and encourage you to further enrich your theoretical and empirical capacities as you advance in your careers, wherever that may lead, in academia or as experts in specific fields. I hope you will be unremittingly engaged in scientific research, in a relationship of which only the starting date is known.

Thank you and happy holidays!
In line with tradition, and to serve the purposes of transparency and accountability, I would like to present a brief overview of the work of the Bank of Albania in 2018.

Activity of the Supervisory Council

In accordance with legal and regulatory provisions, in 2018, the Supervisory Council of the Bank of Albania held 15 meetings, reviewing and approving a series of issues pertaining to monetary policy, financial stability, banking supervision, and other operational aspects.

In accordance with its duties and powers, and pursuant to the work-plans and development priorities, the Supervisory Council adopted 69 decisions, of which 48 were new legal acts and 21 amendments to existing legal acts.

The main activities of the Supervisory Council in 2018 included: (i) approval of the policy for increasing the use of the national currency in the activity of banks and non-bank financial institutions in Albania; (ii) approval of the policy for the oversight of payment and settlement systems; and (iii) approval of the accounting policy in accordance with the International Financial Reporting Standards (IFRS).

The Supervisory Council has also regularly received information about the Bank’s management policies and methods and procedures regarding the use of financial assets for the operational activity, as well as about findings and recommendations of the Internal Audit.

Financial markets and monetary operations

The year 2018 marked important developments with regard to the expansion and deepening of financial markets. Application of
the primary dealers system was a notable development in this regard. A pilot project was implemented on the issuance of five-year benchmark securities with commercial banks, which now play the role of market setters. The Bank of Albania supported the Ministry of Finance and Economy in this project with the operational side of activities and drafting of the regulatory framework.

Banking supervision and financial stability

The Bank of Albania assesses the financial sector as stable. In particular, the banking sector continues to expand its activity, remaining liquid and well capitalised at the same time. The sector’s exposures to market risks remain contained, while the liquidity risk is assessed as low.

Table 3 Main profitability indicators (in %, cumulative)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>December 2018</th>
<th>December 2017</th>
<th>December 2016</th>
<th>December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>RoAA</td>
<td>1.32</td>
<td>1.56</td>
<td>0.69</td>
<td>1.20</td>
</tr>
<tr>
<td>RoAE</td>
<td>12.96</td>
<td>15.71</td>
<td>7.15</td>
<td>13.16</td>
</tr>
</tbody>
</table>

Source: Bank of Albania.

Credit quality improved in 2018: the non-performing loans (NPL) ratio stood at 12.43% at the end of the third quarter, from 13.23% at the end of 2017. Improvement of credit quality was mainly attributable to repayments. At the same time, recoverability also made a contribution. Relatedly, the Bank of Albania promoted systematic and formalised treatment of NPLs, particularly for large borrowers, by drafting a special regulation for this purpose, in accordance with the best international practices and country-specific characteristics.

Strengthening banking supervision and supporting financial stability remain fundamental objectives of the Bank of Albania. These objectives are realised through our licensing, regulatory and supervisory role. Let me explain this in greater detail.

With regard to licensing, in 2018, ownership of certain banks changed significantly. The Supervisory Council of the Bank of Albania approved, by decision, legal reorganisation through merger by absorption of some banks, as well as the modification or expansion of the scope of activity.
for some other financial institutions. The above structural changes are expected to contribute to improving the efficiency of banking activity and financial intermediation.

With regard to banking supervision, in line with established objectives, the Bank of Albania realised, throughout the year, both full-scope and partial examinations in banks and non-bank financial institutions, as well as in foreign exchange bureaus. Related to this, coordination with the General Directorate for Prevention of Money Laundering continued with joint AML/CFT inspections.

In November 2018, a Memorandum of Cooperation on banking supervision was signed between the Bank of Albania (BoA) and the European Central Bank (ECB). The signing of the Memorandum formalises the cooperation mechanisms and sharing of information between ECB and BoA and is essential for ensuring effective and comprehensive supervision of entities under the jurisdiction of each regulatory authority. At the same time, upon the invitation of the ECB, the Bank of Albania was able to participate in the supervisory colleges for two banks, members of EU-based banking groups. Sharing experiences and information on group-level plans makes a valuable contribution towards orienting the supervisory process for such banks.

With regard to banking regulation, the Bank of Albania has continued to work towards completion of the macro-prudential policy framework of the central bank. During 2018, early warning systems related to systemic risks, were improved, setting out a list of indicators used for identifying them.

In order to approximate the regulatory framework to the European Union directives and regulations on the activity of credit institutions, and with Basel Committee standards on effective supervision, the Bank of Albania has amended some of the existing regulations on regulatory capital and banking transparency, and has successfully completed compilation of the new draft-regulation on the “Liquidity Coverage Ratio”.

“In November 2018, a Memorandum of Cooperation on banking supervision was signed between the Bank of Albania (BoA) and the European Central Bank (ECB). The signing of the Memorandum formalises the cooperation mechanisms and sharing of information between ECB and BoA.”
The Bank continued to pay special attention throughout 2018 to monitoring credit risk both for the entire system and for particular banks, focusing on the quality indicator of the credit portfolio.

Lastly, the Bank of Albania actively participated in completing the Moneyval comments on the fifth round of assessment of Albania on anti-money laundering and combating financing of terrorism (AML/CFT), with regard to both Effectiveness and Technical compliance. At the conclusion of this process, a final document for Albania - which clarifies a set of recommendations - was compiled. The Bank of Albania has a role regarding a part of these recommendations. For their implementation, it has compiled a short-term action plan.

In parallel with the above aspects of its work, the Bank of Albania has paid attention to the strategic aspect of the supervisory and regulatory architecture of the financial system.

In this regard, the Bank of Albania is committed to:

- Promoting the use of the national currency. At the beginning of 2018, a set of regulatory amendments were adopted regarding the assets and liabilities of the banking system and determining requirements for a better awareness on foreign currency lending to unhedged borrowers.

![Chart 39 Performance of unhedged foreign currency loans](source: Bank of Albania.)
In compliance with its legal role as the Resolution Authority in Albania, the Bank of Albania established the “Resolution Fund”, with contributions from commercial banks. This Fund will support the implementation of the Bank of Albania’s resolution instruments. Also, in the framework of financial crisis management, the Bank of Albania signed a cooperation agreement with the Single Resolution Board (SRB) on sharing information, compiling plans, coordinating actions by both authorities in case of these plans’ activation, and organising joint activities to enhance resolution expertise.

In addition to the main aspects of the work of the Bank of Albania described above, I would like to focus also on some other aspects. These activities conform to our legal obligations and, at the same time, serve the development of the financial system and a market-based economy in Albania.

Let me list a few of them:

- In the role of the developer and overseer of the payment systems, the national strategy for the reformation of retail payment systems was approved. The strategy aims to broaden financial inclusion of the population and the use of electronic payment instruments. In this regard, the draft-law “On Payment Services” was drafted, with a view to boosting competition, promoting innovative services, creating a regulated regime on consumer protection, and complying with the EU’s Payment Systems Directive.

- In view of improving the financial and material management of the institution, the Bank of Albania has completed work for the application of a new accounting standard, IFRS-9. With the compilation and auditing of financial statements for 2018, a process that is expected to be completed by March 2019, the implementation of this standard will be finalised.

- With regard to enhancing the quality of the issuance of the Albanian currency, a series of measures have been implemented with a view to minimising the operational risk, improving currency processing processes, and protecting it against counterfeiting. In addition, work continued in 2018 for realising the 10,000 lek banknote, which is to be added to the existing series of the banknotes in
circulation and will feature symbols of the national flag.

- Objectives of the Bank of Albania, in the field of statistics, are oriented towards fulfilling quantitative standards of international methodologies and EU legislation, related to the content and reporting of statistics to European and international institutions. The new statistical block of Financial Accounts, developed in accordance with the latest relevant ESA 2010 standards, was published for the first time, and interest rate statistics were compiled according to the ECB regulation.

- In the field of Information Technology, the Bank of Albania has concluded a set of important projects related to the strategic objectives for the further automation of processes, as well as the improvement and enhancement of security and sustainability of information systems.

- Research activity continues to be an important aspect of the Bank of Albania. Throughout 2018, research was focused on the interpretation of economic and monetary phenomena, in both the domestic and the external environment, paying particular attention to developments in the exchange rate and prices, the monetary policy pass through, the consumer and financial behaviour of households, and the financial stability of the banking system. The result of this research has served the decision-making of the Bank of Albania and other relevant actors.

The Bank of Albania co-organised with the London School of Economics and Political Science (LSE) the Annual Conference: “Monetary Policy, Economic Integration and the “New Normal”. The research work of the Bank of Albania was also presented and discussed in the 12th SEE Economic Research Workshop, where 37 research studies were presented, by researchers from the Bank of Albania and academics and financial institutions from Europe, the USA and the region.

- In the field of communication, in 2018, the Bank of Albania launched a new website, which is one of the main communication tools of the Bank of Albania with the public. The improved image, design, and content provide the Bank of Albania with the possibility of transmitting information more easily and more quickly to the public. Speeches, press releases and interviews, reports, analyses and bulletins, a high variety of statistics and data,
summaries of international conferences and a set of other activities are published on the website. As part of communication with the public, to involve all groups of interest, communication via written and visual media as well as digital communication via social media has continued regularly.

- The Bank of Albania has played a particular role in the financial education and inclusion of the public. Publications, numerous visits to the Museum of the Bank of Albania, temporary exhibitions and other informational events, as well as historic and numismatic activities, have all served this important function. Other activities include the organisation of the Global Money Week 2018, the Second Conference of the Museum of the Bank of Albania, and the “Museum Nights” which consisted in a cycle of lectures. Also, in the framework of the Year of Skanderbeg, two temporary exhibitions were opened in Tirana and Prizren, dedicated to the figure of Gjergj Kastrioti Skanderbeg, featured on Albanian coins and banknotes.

Dear media representatives,

This is the last event with the media for this year, and I take this opportunity to wish you, and through you the Albanian public, a very happy festive season, and I kindly invite you to follow closely the work and activity of the Bank throughout 2019.

I would like to reassure you that the Bank of Albania will continue to be a serious and reliable partner, capable to tackle the challenges ahead.

Thank you for your attention!