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# Governor's public appearance in 2019

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*Gent Sejko, Governor of the Bank of Albania, 2019*

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# CHAPTER I

## PRESENTATIONS TO THE PARLIAMENTARY COMMITTEE ON ECONOMY AND FINANCE

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- *Governor Sejko presents BoA's Annual Report 2018 to the Parliamentary Committee on Economy and Finance, 23 April 2019*
- *Governor Sejko presents BoA's Annual Report 2018 to the Assembly, 8 May 2019*

### ***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 and the Assembly of the Republic of Albania. Every year, the Governor presents the Annual Report of the Bank of Albania to this Committee and Assembly, answering to the questions and responding to the interest of MPs on specific issues related to it. In addition, hearing sessions may also take place on the operational activity of the Bank of Albania and the banking system.*



# **GOVERNOR SEJKO PRESENTS BOA'S ANNUAL REPORT 2018 TO THE PARLIAMENTARY COMMITTEE ON ECONOMY AND FINANCE**

**-23 April 2019-**

*Throughout 2018, the Bank of Albania provided its contribution by:*

- 1. implementing an accommodative monetary policy, which has boosted economic growth and the convergence of inflation toward the target, and has contributed to improving the balance sheets of enterprises, households, public sector and financial institutions in Albania;*
- 2. strengthening and improving the policy, regulatory and operational framework for supervising the banking sector, mindful of the administration of the consolidation process; and*
- 3. creating incentives for the development of the payment system and expansion and deepening of the financial market.*

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

The Annual Report and the financial statements are the key instrument for the accountability of our institution. In this light, the Bank of Albania considers the presentation of this Report as an opportunity to foster and enhance the dialogue with the Assembly.

During 2018, the work of the Bank of Albania focused on three main aspects:

- First, on the objectives and duties set out in the legal and sublegal framework, which regulates the work of the Bank;
- Second, on the objectives set out in our Medium-term Development Strategy; and,
- Third, recommendations left by the Assembly of the Republic of Albania in the Resolution "On the assessment of the activity of the Bank of Albania for 2017".

The results of our work show that the Bank of Albania marked progress in all the three above-mentioned aspects. Let me present a brief overview of developments.

In accordance with the applicable legal framework, the Bank of Albania: strives to maintain price stability, as a precondition for sustainable and long-term growth in the country; licences, supervises and regulates the activity of the banking sector, hence promoting financial stability; administers the issue and circulation of the Albanian currency; contributes to the development of the payment system; and performs a number of other specific duties, which affect the economic life and financial system in Albania.

Based on the available information, the Bank of Albania finds that in 2018 the Albanian economy and finances marked progress. Economic activity and employment continued to expand, wages and domestic inflationary pressures trended upward, main banking sector's soundness indicators improved, and a series of indicators of domestic and external economic balances strengthened. This dynamics of developments reflects, significantly, the effect of policies, measures and instruments we have adopted on continuous basis.

Concretely, in 2018 the Bank of Albania has:

1. implemented an accommodative monetary policy, which has boosted economic growth and the convergence of inflation toward the target, and has contributed to improving the balance sheets of enterprises, households, public sector and financial institutions in Albania;
2. strengthened and improved the policy, regulatory and operational framework for supervising the banking sector, mindful of the administration of the consolidation process; and
3. created incentives for the development of the payment system and expansion and deepening of the financial market.

With regard to fulfilling strategy objectives, the Bank of Albania has worked intensively for adopting best central banking practices and standards. Thus, we have made progress with regard to improving statistics; research; compliance with EU integration criteria, strengthening the governance; and in many other aspects.

Lastly, I would like to underline that the Bank of Albania has fulfilled all the recommendations left by the Assembly.

The Annual Report presents in greater detail the activity of the Bank of Albania in 2018, across all the dimensions of its activity. I will present

first an overview of the activity of the Supervisory Council, the decision-making body, which also monitors the activity of the Bank of Albania. I will then continue to present the activity of the Bank of Albania, in accordance with the main domains of its activity.

## **1. ACTIVITY OF THE SUPERVISORY COUNCIL**

The Supervisory Council exercises its powers in accordance with the provisions of the organic law and the procedures established in the internal regulation on its organisation and functioning.

In 2018, the Supervisory Council met 15 times and approved 76 decisions, of which 55 were acts approved for the first time and 21 were amendments to existing acts. These decisions affect the activity of the Bank of Albania across the board. In addition to the monetary policy decisions and revisions to regulation that govern the activity of the banking sector, other important decisions include: (i) approval of the policy and measures for increasing the use of the national currency in the activity of banks; (ii) approval of the policy for the oversight of payment and settlement systems; (iii) approval of the accounting policy in accordance with the International Financial Reporting Standards; and, (iv) approval of the Medium-term Development Strategy of the Bank of Albania for 2019-2021. The strategy upheld the existing mission, vision, and values and updated the list of duties for fulfilling them.

***“In addition to the monetary policy decisions and revisions to regulations that govern the activity of the banking sector, other important decisions include: (i) approval of the policy and measures for increasing the use of the national currency in the activity of banks; (ii) approval of the policy for the oversight of payment and settlement systems; (iii) approval of the accounting policy in accordance with the International Financial Reporting Standards; and, approval of the Medium-term Development Strategy of the Bank of Albania for 2019-2021.”***

Beyond the realisation of the legal objectives of the Bank, the Supervisory Council has monitored continuously the governance of the institution and has worked towards its improvement.

- As the body responsible for the financial reporting and internal audit system, the Council has been informed regularly, by internal and external audit functions, on the compliance with the legislation and other acts that govern the activity of the institution. The Council has been informed also about the institution’s management policies and the use of financial assets for the realisation of the operational

activity of the Bank of Albania. Information was presented regularly on the financial position and result of the Bank of Albania and the international reserve management.

- The internal audit has been monitored through the Audit Committee, established in 2015. The committee has discussed issues such as: (i) annual work plan and internal audit engagements for the year; (ii) periodic reporting by the Inspector General on the auditing activity; (iii) financial statements; and, (iv) performance of operational risk management at the Bank of Albania. It has met regularly, without the presence of the administrators, with the Inspector General.

Lastly, I would like to emphasise that the Council has regularly complied with Bank of Albania's accountability obligations to the Assembly and its transparency obligations to the public, and the financial system.

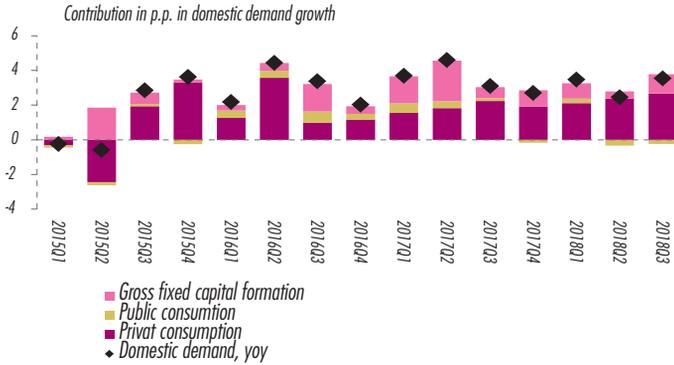
## **2. ALBANIAN ECONOMY AND MONETARY POLICY IN 2018**

The monetary policy maintained, even strengthened, the accommodative stance in 2018. The policy was in line with our inflation target convergence objective, consistent with the cyclical position of the Albanian economy, and aligned with the consolidation trend of the fiscal policy.

The Albanian economy performed positively throughout 2018. Aggregate demand increasingly expanded, enabling thus a further increase in production, employment and wages, and contributing to the improvement of the main economic and financial balances of the country's economy. A few figures to illustrate it.

- According to INSTAT data, the pace of economic growth accelerated to 4.1% in 2018. Economic growth was broad based; it reflected positive contributions from the expansion of the consumption of households and enterprises, and of exports.
- According to INSTAT data, employment in the economy rose by 1.6% in the previous year, whereas the unemployment rate fell to 12.3% from 13.4% a year earlier.
- The current account deficit decreased at 6.7% of the GDP in 2018, from 7.5% in the previous year. Its improvement reflected to a large extent the increase in the tourism-related activity.
- Budget deficit and public debt continued to record a downward trend, reflecting both the consolidation path of the fiscal policy and the economic growth as well as the exchange rate appreciation.
- The main banking sector soundness indicators, in particular liquidity, profitability and capitalisation, remain at satisfactory levels.

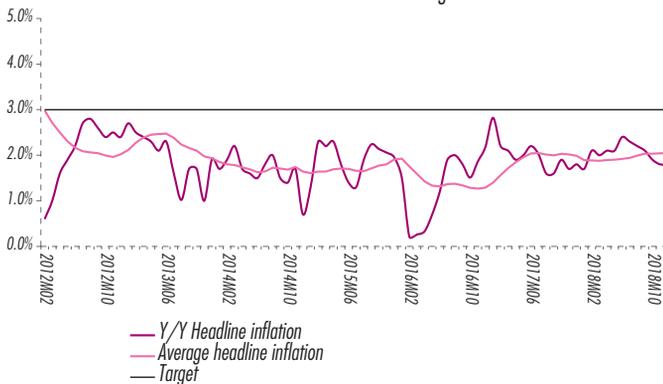
Chart 1 Domestic demand, contribution by components and ESI



Source: INSTAT and Bank of Albania.

Against this backdrop, annual inflation averaged 2.0%, remaining unchanged from 2017 and below our 3% target. Inflation stood stable owing to two effects of opposite directions. The build-up in domestic inflationary pressures, generated by the rise in employment, wages and production costs was offset by the rapid appreciation of the domestic currency over the first half of the year.

Chart 2 Annual inflation and target



Source: INSTAT and Bank of Albania.

The exchange rate appreciation was a decelerating factor for achieving the inflation target. The exchange rate has moved along a slight appreciation path over the last three years, driven by fundamental factors that dictate its behaviour such as: improvement of the balance of trade exchanges with abroad, high levels of foreign direct investments, and reduction of risk premia in domestic financial markets. Yet, beyond these

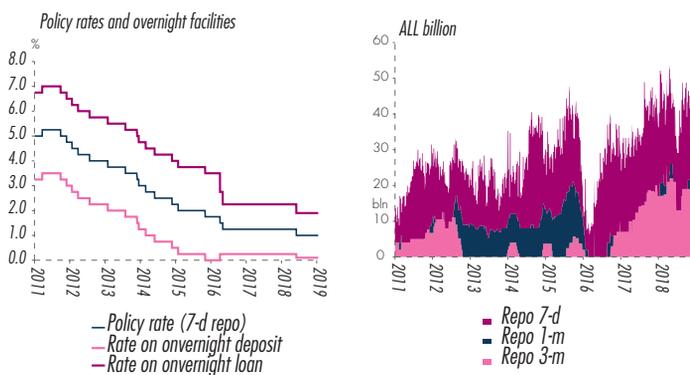
effects, the exchange rate was subject to certain shocks in the first half of 2018. These shocks led to a temporary imbalance of the demand and supply for foreign currency and contributed to creating expectations for further appreciation of the exchange rate, and were accompanied also by a change in the behaviour of certain operators in the economy. They initiated a fast appreciation spiral in the second quarter and were accompanied by a disorder of the functioning of the domestic foreign exchange market.

Under these circumstances, the Supervisory Council judged that the rapid appreciation of the exchange rate jeopardised the achievement of our inflation target in the medium-term horizon. Consequently, in full compliance with the price stability objective and without affecting the free exchange rate regime, in June the Council decided:

- To lower the policy rate from 1.25% to 1.00%. In parallel, overnight loan and overnight deposit rates were also reduced; and,
- To initiate a foreign currency purchasing programme, aimed at decelerating the pace of exchange rate appreciation and creating the premises for a normal trading activity in the domestic foreign currency market.

Lowering the policy rate was aimed at further reducing the costs of financing and mitigating appreciation pressures on the exchange rate. The intervention in the domestic foreign exchange market, as a temporary and extraordinary instrument of the monetary policy, was considered as necessary under the conditions when the space for further lowering the policy rate was limited.

*Chart 3 Key interest rates in lek and liquidity injections*



Source: Bank of Albania.

Interventions in the foreign exchange market were concentrated in the summer months. Further on, Bank of Albania market interventions have been practically inexistent and the exchange rate reflected the supply and demand situation in the market. Insofar results show that Bank of Albania interventions have accomplished the objectives. The appreciation pace of the exchange rate has diminished and the activity in the foreign exchange market has returned to normal parameters.

In line with these developments, the Bank of Albania kept the direction and intensity of the monetary stimulus unchanged over the second half of the year. The policy rate remained unchanged at 1.0% while the financial market was supplied with the necessary liquidity and informed through the forward guidance on the future path of the monetary policy stance.

The accommodative monetary policy implemented by the Bank of Albania has proven successful for boosting economic growth, inducing better utilisation of production capacities and building up inflationary pressures in the economy. The transmission of the monetary stimulus is noted in several aspects:

- First, the monetary stimulus has led to the reduction of financing costs for households and enterprises. Interest rates are close to historical lows, across all the range of financial instruments.
- Second, the accommodative monetary policy has led to the expansion of credit in lek, and to the reduction of existing debt service costs. Lek credit to the private sector increased at 6.7%, on average, in 2018. In parallel, the reduction by 5.6 percentage points of the interest rate on lek credit compared to 2011 - when the monetary policy easing started - helps Albanian firms and households to save around ALL 15 billion per year.
- Third, the accommodative monetary policy has supported Albania's financial stability. Growth of demand for goods and services and reduction of debt costs led to the improvement of the solvency of firms and households, and has encouraged loan restructuring. Also, the orientation of lending toward lek credit has reduced the exposure of the economy and of the financial system against exchange rate volatilities.

***“Bank of Albania’s assessments suggest that the accommodative monetary policy stance has contributed positively, on average by 0.5 percentage point, to economic growth in the last two years.”***

Monetary policy-related measures undertaken by the Bank of Albania have contributed to the expansion of aggregate demand and boosting economic growth. Our assessments suggest that the accommodative monetary policy stance has contributed positively, on average by 0.5 percentage point, to economic growth in the last two years. Also the accommodative monetary policy stance has contributed to the stability of the domestic currency. Both transmission channels have contributed and will continue to contribute to price stability in Albania. The current trends in the development of the economy and our projections suggest that inflation will converge toward the target within a two-year horizon.

### **3. BANKING SUPERVISION AND FINANCIAL STABILITY**

The main aspects of our work for safeguarding financial stability were strengthening the stability of the banking system, enhancing its resilience to shocks, adopting international standards on supervision and regulation, and administration of consolidation processes in the banking sector.

The Bank of Albania judges that the ability of the banking sector to withstand risks is high.

The activity of the banking sector in 2018 was stable with good performance and resilience indicators. The financial result was positive: Return on Assets (RoA) stood at 1.3% and the Return on Equity (RoE) reached 13%. Capitalisation and liquidity levels were above the respective regulatory requirements. Credit risk continues to represent the main risk to the activity of the banking sector, but the credit quality has improved from the previous year. At the end of 2018, the non-performing loans ratio was 11.1% from 13.2% a year earlier, whereas the outstanding non-performing loans reduced by 20%.

Table 1 Main profitability indicators (in %, cumulative)

indicators	December 2018	December 2017	December 2016	December 2015
RoAA	1.32	1.56	0.69	1,20
RoAE	12.96	15.71	7.15	13,16

Source: Bank of Albania.

The Bank of Albania remains committed to fulfilling all its obligations in the framework of the national plan for the reduction of non-performing loans. In view of this goal, it has: (i) prepared a draft-regulation on the out-of-court addressing of borrowers; (ii) expanded the requirements for using official financial statements in the assessment of credit risk for all categories of borrowers; (iii) initiated measures for improving the Credit Registry, and has started work for harmonising credit reporting in accordance with international standards.

With respect to safeguarding financial stability, the Bank of Albania has continued to work for establishing and developing macro-prudential policy instruments and for establishing early warning systems for systemic risks. In this context, I would like to point out to two key developments.

- First one is about measures in the framework of increasing the use of the domestic currency as an instrument for increasing the effectiveness of economic policies and decreasing financial risks. In 2018, the Bank of Albania approved some regulatory amendments in this aspect: (i) decreasing the required reserve for deposits in lek and increasing the required reserve for foreign currency deposits, (ii) raising the required minimum level for the ratio of liquid assets to short-term liabilities in foreign currency, and (iii) setting out requirements to enhance transparency related to risks to the borrower in the case of foreign currency loans.
- Second one is about preparing the regulatory basis for setting up macro-prudential capital buffers, in accordance with best international standards and practices. Capital buffers mitigate cyclical and systemic risks in the banking activity, designed with a view to preventing a fast credit growth and build-up of indebtedness; restricting direct and indirect exposure concentration; and, restricting excessive risk in financial institutions.

With regard to improving the supervisory processes, the Bank of Albania has worked for appraising internal risk assessment procedures, reviewing individual recovery and capital adequacy plans of banks; adapting the regulatory framework with the legal and regulatory acts of the European Union and Basel documents.

Financial system monitoring has been supported by on-site inspections. In 2018, full-scope and partial examinations were carried out in 7 banks, 10 non-bank financial institutions, and 31 foreign exchange bureaus. Particular attention has been paid to the examination of banks with a major share in the activity of the financial market, those subject to acquisition or merger processes, or banks experiencing rapid growth. Overall, the monitored institutions have responded duly to the recommendations, by undertaking the relevant measures.

Increased attention has been paid to the supervision for the implementation of measures for the prevention of money laundering, in cooperation with the Directorate General on the Prevention of Money Laundering (DG PML). Cooperation with the DG PML was more intensive in the framework of the evaluation process for Albania by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). The Bank of Albania participated actively in fulfilling the comments related to the technical and effectiveness questionnaires. In the final MONEYVAL report, the effectiveness level of financial institutions was rated as "substantial/considerable". In particular, banks show better awareness of the AML/CFT risks and of legal obligations, and have generally taken due measures in a way that is commensurate to the assessed level of AML/CFT risk. The evaluation process was accompanied by a plan of measures for addressing the main problems identified in the report; their realisation will continue in 2019 as well.

In the framework of consolidation in the banking sector, in 2018 some changes took place in the ownership structure of the banking system. As a result of these changes, 14 banks operated in the Albanian banking system as at the end of the year. Intesa SanPaolo Bank acquired and merged with Veneto Bank, and the American Bank of Investments acquired and merged with NBG Bank Albania. I would like to underline that these changes were dictated by developments in the banks' home country or their international strategies rather than by domestic issues in the Albanian market. Moreover, at the beginning of 2019, changes in ownership were rendered possible in the case of International Commercial Bank and Societe Generale Albania. Changes in ownership took place also in two other banks, with one of them reflected in a higher share for domestic capital in the market. The Bank of Albania deems that the consolidation of the banking system is a welcomed development, which will revitalise the banking activity, will enhance the efficiency of the banking industry and will bolster development and innovative policies with regard to credit and payments.

In the capacity of the Resolution Authority, in 2018, the regulatory and procedural framework for resolution planning was prepared for harmonisation with international standards. In addition, the initial phase for the preparation of individual resolution plans has started. Also, during 2018 was established the Resolution Fund and the procedures for monitoring its management by deepening the cooperation agreements with the Deposit Insurance Agency.

Lastly, I would like to reiterate that safeguarding financial stability is a responsibility not only of the Bank of Albania but also of other regulatory agencies and the Government of Albania. Policies and measures for safeguarding financial stability and strengthening banking system's resilience require all parties to continue the coordinated, inter-institutional and multi-dimensional efforts.

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

The Bank of Albania has dedicated particular attention to guaranteeing the security and efficiency of the core infrastructure of payments in lek, through its role as operator as well as overseer and catalyst of the payment systems. Both systems operated by the Bank of Albania, the Albanian Interbank Payment AIPS) and Albanian Electronic Clearing House (AECH) have operated with no disruptions, efficiently and safely. In 2018, the Bank of Albania undertook a set of measures to further improve the legal and regulatory framework on the oversight of payment systems and payment instruments. The changes are aimed at adopting the European practices for promoting innovation in the field of payments and establishing premises for private initiatives.

One of the main achievements on the improvement of the legal framework is the finalisation of the draft-law "On Payment Services" (PSD 2) which transposes the relevant EU Directive. Its approval and implementation will promote competition and innovation in retail payments, will enhance transparency of these services and will provide a framework on consumer's protection.

***"One of the main achievements on the improvement of the legal framework is the finalization of the draft-law "On Payment Services" (PSD 2) which transposes the relevant EU Directive. Its approval and implementation will promote competition and innovation in retail payments, will enhance transparency of these services and will provide a framework on consumer's protection."***

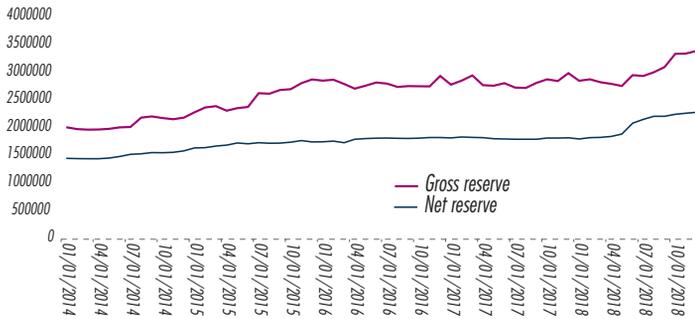
The National Payment System Committee (NPSC), which is chaired by the Bank of Albania and brings together public and private stakeholders in the field of payments, approved the Albanian National Retail Payments Strategy (2018-2023). The purpose of the strategy is to improve the retail payments market, promoting the use of electronic payment instruments and broadening the financial inclusion of the population. The strategy will be implemented through the improvement of the legal and the regulatory frameworks, through improvements in infrastructure and financial education.

## **5. OTHER ACTIVITIES**

In the field of statistics, the Bank of Albania continued its work for the methodological approximation of statistics with international standards and their alignment with the *acquis communautaire*. In cooperation with INSTAT and with expertise from the European Union, the Bank of Albania coordinated the work to develop indicators of macroeconomic imbalances for Albania. During 2018, the EUROSTAT carried out an evaluation mission of the Statistical System in Albania, which assessed that the statistics of the Bank of Albania are in line with the principles of the European statistics Code of Practice.

As at the end of 2018, the international reserve reached EUR 3.4 billion, sufficient to cover 6.7 months of imports of goods and services and 156% of the short-term external debt. In order to increase the flexibility of managing the needs for foreign currency liquidity, an agreement was finalised with the Bank for International Settlements for a foreign currency credit line. The agreement constitutes an important mechanism available to the Bank of Albania in the event of an emergency situation.

Chart 4 FX reserve performance at the Bank of Albania (in EUR million)



\*Note: At end December-2018, the stock of foreign reserve was EUR 3,395.92 million, including the monetary gold, amounting at EUR 56.58 million, 1.7% of the total.

Source: Bank of Albania

Research continued to support the decision-making process for formulating and implementing Bank of Albania’s policies. During 2018, the focus of scientific research was on issues related to monetary policy, safeguarding financial stability, and coordinating these two objectives. The results of the research are shared with national and international experts in scientific panels and are published in discussion papers.

An important part of Bank of Albania’s development strategy is the establishment of transparent and long-standing relations with the public. The Bank of Albania has fostered its communication with the public to provide its opinion on economic and financial developments, as well as on the Bank’s role in keeping macro-financial balances. Also, it complied with the obligations under the law “On the right to information” duly informing the public, as requested.

During the year several national and international conferences and forums were organized, discussing topics that are at the centre of the current debates and of interest for the country’s development. Notably, the annual conference organized in cooperation with the London School of Economics and Political Science this year was dedicated to new approaches in the framework of monetary policy and the challenges to economic integration. This conference brought together distinguished personalities of central banking from advanced economies and regional countries, central bank governors, academics and representatives of international regulatory authorities. Conferences and discussion forums served to foster cooperation with our key partners such as the Albanian

financial system, central banks of European countries and international financial institutions. Fostering co-operation was rendered more concrete with several agreements concluded, notably with the European Central Bank and the Single Resolution Board. These agreements pave the way for the Bank of Albania's full participation in the supervisory colleges of relevant European banks present in the country and for exchanging information on resolution planning for cross-border banking groups.

Financial education is an important tool for enhancing the effectiveness of the transmission of Bank's decisions to the economy. In addition to educational publications, various activities were organized throughout the year, mainly targeting the younger generation. Also, the Museum situated within the Bank of Albania has facilitated the logistics arrangements for undertaking educational campaigns.

Last but not least, the Bank of Albania remains a serious partner in the national commitments for joining the European Union. The Bank of Albania's obligations under the European integration process are included in the medium-term development objectives of the Bank of Albania. It coordinates Chapter 4 "Free movement of capital" and Chapter 17 "Economic and monetary policy", and it contributes to 6 other chapters of the acquis. The Bank of Albania has fulfilled the obligations deriving from the Stabilization and Association Agreement, the National Plan for European Integration and the recommendations of the European Commission. Specifically, it continued to implement measures to (i) reduce the level of non-performing loans, (ii) reduce the level of euroization in the financial system; (iii) harmonise the regulatory supervisory framework with the requirements of Basel III and Basel IV; (iv) approximate directives on payment services; and (v) increase the transparency of monetary policy.

As part of this report, I would like to highlight an important aspect for guaranteeing good governance at the institution: the internal audit systems. The internal audit is independent from the management, guaranteed through the Inspector General, appointed by the Parliament.

## 6. FOSTERING INTERNAL CONTROL AND MONITORING SYSTEMS AND PROCEDURES

In 2018, the operational risk management function - a new function at the Bank of Albania - consolidated and matured.

It is based on the international risk management standards as well as on the best practices of central banks. In the last assessment, the level of Operational Risk Management has shifted from 'ad-hoc' to 'managed', thus overcoming the 'basic' level. This assessment exceeds the Bank of Albania's objective.

***"In 2018, the operational risk management function - a new function at the Bank of Albania - consolidated and matured. It is based on the international risk management standards as well as on the best practices of central banks."***

This year, the project for "Drafting and Implementing the Bank of Albania's Business Continuity Management Program" continued and is currently in the final phase of its completion. The purpose of this project is to ensure the continuity of critical processes and to restore normal business as soon as possible, in the event of a crisis or emergency situation.

Audit engagements in 2018 focused on: (i) giving an opinion on the adequacy of internal audits set by the Management for the audited functions / processes, including supporting applications for the activities; and (ii) other not planned audit and non-audit engagements upon special request by Administrators or other external institutions.

*Honourable Chairman,  
Honourable Members of the Committee,*

At the end of my presentation, I would like to assure you that the Bank of Albania will continue to be committed to complying with our legal objectives, and to implement our institutional duties and commitments.

The perspectives on country's development remain positive, yet challenges lie ahead. Addressing them requires the attention and the commitment of all policy makers and regulatory agencies in the country. The economy, the financial system and the Albanian public, as well as our domestic and international partners will continue to find 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 complying with our legal objectives, and to implement our institutional duties and commitments. The economy, the financial system and the Albanian public, as well as our domestic and international partners will continue to find in the Bank of Albania a reliable, professional and transparent partner.”***

**GOVERNOR SEJKO: ADDRESS TO  
THE ASSEMBLY OF THE REPUBLIC OF  
ALBANIA PRESENTING THE ANNUAL  
REPORT OF THE BANK OF ALBANIA FOR  
2018  
-8 May 2019-**

*The Bank of Albania estimates that, in 2018, the Albanian economy and financial system made progress. Economic activity and employment continued to expand, wages and domestic inflationary pressures trended upward, main banking sector's soundness indicators improved, and a series of indicators of domestic and external economic balances strengthened.*

*Honourable Speaker,  
Honourable Members of Parliament,*

The Bank of Albania pays particular attention to fostering institutional relations with the Assembly of the Republic of Albania, based on the spirit of accountability and transparency, and nourished by a constant and reciprocal dialogue.

In this light, I thank you for the invitation and the opportunity to present in a plenary session to the Assembly, the main conclusions of the Annual Report of the Bank of Albania.

Let me start by emphasising that the Bank of Albania has made progress with regard to all the three underlying aspects of our work:

- Institutional objectives and duties set out in the legal and sublegal framework;
- Internal objectives set out in our Medium-term Development Strategy; and,
- Recommendations left by the Assembly of the Republic of Albania in the Resolution "On the assessment of the activity of the Bank of Albania for 2017".

The Bank of Albania estimates that, in 2018, the Albanian economy and financial system made progress. Economic activity and employment

continued to expand, wages and domestic inflationary pressures trended upward, main banking sector's soundness indicators improved, and a series of indicators of domestic and external economic balances strengthened.

Let me present a few indicators to illustrate this.

- According to INSTAT data, the pace of economic growth accelerated to 4.1% in 2018. Economic growth was broad based; it reflected positive contributions from the expansion of households' consumption, enterprises' investments, and exports.
- According to INSTAT data, employment in the economy rose by 1.6%, whereas the unemployment rate at the end of the year fell to 12.3% from 13.4% a year earlier.
- The external position of the economy improved: the current account deficit declined at 6.7% of the GDP in 2018, and the indicators of external debt stability strengthened.
- Budget deficit and public debt continued on a downward trend, reflecting the consolidation path of the fiscal policy, the economic growth and the exchange rate appreciation.
- The main indicators of banking sector soundness - in particular liquidity, profitability and capitalisation - remained at satisfactory levels.

This dynamics of developments reflects, to a significant extent, the effect of policies, measures and instruments the Bank of Albania has adopted on continuous basis. In the following, I will focus in greater detail on the measures taken by the Bank of Albania on monetary policy, banking regulation and supervision and financial market development.

## **1. MONETARY POLICY IN 2018**

In line with our primary objective - achieving and maintaining price stability - our monetary policy retained, even strengthened, the accommodative stance in 2018. This stance is consistent with the cyclical position of the Albanian economy, and aligned with the consolidation trend of the fiscal policy.

Albeit the positive performance of the economy, for 2018, annual inflation averaged 2.0%, remaining unchanged from the previous year and undershooting our 3% target. Inflation reflected the effects from two

developments in opposite directions: the build-up in domestic inflationary pressures, generated by the rise in employment, wages and production costs, was offset by the rapid appreciation of the domestic currency.

Beyond fundamental factors, the appreciation reflected the effect from specific shocks, which led to a temporary imbalance of demand and supply for foreign currency and contributed to a change in the behaviour of certain operators in the economy. They initiated a rapid appreciation spiral in the second quarter and were accompanied by a disorder in the functioning of the domestic foreign exchange market.

Against this backdrop, the Supervisory Council judged that the rapid appreciation of the exchange rate jeopardised the achievement of our inflation target in the medium-term horizon. Consequently, in full compliance with the price stability objective and without affecting the free exchange rate regime, in June, the Supervisory Council decided to:

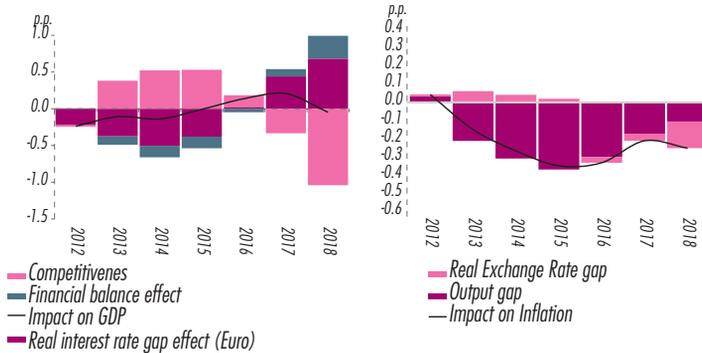
- Lower the policy rate from 1.25% to 1.00%, aiming to further ease monetary conditions in the economy.
- Initiate a foreign currency purchasing programme, aimed at curbing the exchange rate appreciation and creating the premises for a normal trading activity in the domestic foreign exchange market. This programme, concentrated mainly in the summer period, was a temporary and extraordinary monetary policy instrument. Once the objectives were achieved, the Bank of Albania has not intervened in the market and the exchange rate stability has reflected the market equilibriums.

The accommodative monetary policy implemented by the Bank of Albania has proven successful for boosting economic growth, a better utilisation of production capacities and building up inflationary pressures in the economy. The monetary stimulus transmission has been evident in several aspects:

- First, the monetary stimulus has contributed to the expansion of private consumption and investments, by lowering financing costs and boosting lending. Lek credit to the private sector increased at 6.7%, on average, in 2018.
- Second, the accommodative monetary policy has reduced the existing debt service costs, by alleviating the balance sheets of borrowing households and enterprises, and further bolstering the expansion of aggregate demand.

- Third, the accommodative monetary policy has supported Albania's financial stability, by improving the solvency of the private sector, and encouraging loan restructuring.

*Chart 5 Impact of real exchange rate appreciation on economic growth (left) and on inflation (in p.p.)*



Source: Bank of Albania.

Thus, monetary policy-related measures undertaken by the Bank of Albania have contributed to boosting economic growth. Our assessments suggest that the accommodative monetary policy stance has contributed positively, on average by 0.5 percentage point, to economic growth in the last two years. Also, the accommodative monetary policy stance has contributed to the stability of the domestic currency. Both transmission channels have contributed and will continue to contribute to price stability in Albania.

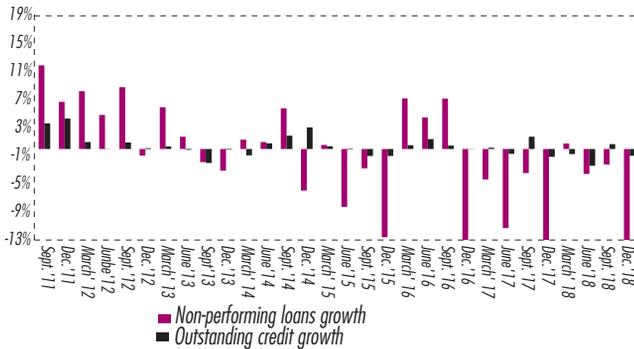
## 2. BANKING SUPERVISION AND FINANCIAL STABILITY

The activity of the banking sector in 2018 was stable showing good performance and resilience indicators. The financial result was positive: the Return on Assets (RoA) stood at 1.3% and the Return on Equity (RoE) reached 13%. In addition, capitalisation and liquidity levels were above the respective regulatory requirements.

The Bank of Albania judges that the capability of the banking sector to withstand risks is high. Credit risk continues to represent the main risk to the activity of the banking sector, but the credit quality has improved from the previous year. At the end of 2018, the non-performing loans ratio

stood at 11.1% from 13.2% a year earlier, whereas the outstanding non-performing loans decreased by 20%.

Chart 6 NPLs and credit portfolio compared to the previous quarter (in %)



Source: Bank of Albania.

In 2018, the ownership structure of the banking system underwent some changes, bringing the number of banks down to 14, as at the end of the year. Taking into account the changes in ownership taking place in 2019, the actual number of banks is 12. The Bank of Albania deems that the consolidation of the banking system is a welcomed development, which will revitalize the banking activity, will enhance the efficiency of the banking industry and will bolster development and innovative policies with regard to credit and payments.

***“In 2018, the ownership structure of the banking system underwent some changes, bringing the number of banks down to 14, as at the end of the year. The Bank of Albania deems that the consolidation of the banking system is a welcomed development, which will revitalize the banking activity, will enhance the efficiency of the banking industry and will bolster development and innovative policies with regard to credit and payments.”***

The main aspects of our work for safeguarding financial stability consisted in strengthening the stability of the banking system, enhancing its resilience to shocks, and adopting international standards in the fields of supervision and regulation. Thus, in concrete terms:

- The Bank of Albania has worked toward fulfilling all its obligations in the framework of the national plan for the reduction of non-performing loans. In view of this goal, the Bank of Albania has:

(i) prepared a draft-regulation on the out-of-court treatment of non-performing borrowers; (ii) extended the requirements for using official financial statements in the assessment of credit risk for all categories of borrowers; (iii) initiated measures for improving the Credit Registry; and, (iv) started work for harmonising credit reporting in accordance with international standards.

- The Bank of Albania has initiated concrete measures to promote the use of the domestic currency in our financial system and has continued working on the development of the macro-prudential policy and on establishing early warning systems for systemic risks.
- Increased attention has been paid to the oversight of the implementation of measures for the prevention of money laundering, in cooperation with the Directorate General on the Prevention of Money Laundering. The final evaluation report of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), rated the effectiveness of financial institutions as “substantial”. In particular, banks show they know well their legal obligations and risks, and have generally taken due measures commensurate to the risk level. The evaluation process was accompanied by a plan of measures for addressing the main problems; their implementation will continue in 2019.
- In the capacity of the Resolution Authority, in 2018, the regulatory and procedural framework for resolution planning was prepared and the compilation of individual resolution plans started. Also, in 2018, the Resolution Fund was established and the procedure for its management was put in place.

Lastly, I would like to reiterate that safeguarding financial stability is a responsibility not only of the Bank of Albania, but also of other regulatory agencies and the Government of Albania. Policies and measures for safeguarding financial stability and strengthening banking system’s resilience require that all parties continue the coordinated, inter-institutional and multi-dimensional efforts.

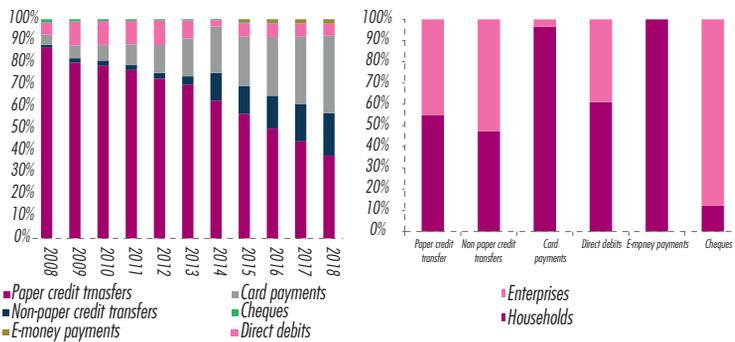
### **3. IMPROVEMENT OF FINANCIAL MARKETS AND PAYMENT SYSTEMS**

In view of its duties and commitments, the Bank of Albania has continued to promote the development of the financial market and to improve further the payment system.

Thus, in cooperation with the Ministry of Finance and Economy, the project for promoting the development of the primary and secondary markets for government securities continued successfully. This project paves the way for deepening the financial market, expanding and diversifying the base of investors in government debt and reducing its cost in the long term.

Moreover, the Bank of Albania has dedicated particular attention to guaranteeing the security and efficiency of the core infrastructure of payments in lek, through its role as operator, overseer and catalyst of the payment systems. The finalisation of the draft-law "On Payment Services", which transposes the relevant EU Directive (PSD 2), is one of the main achievements on the improvement of the legal framework. Its approval and implementation is expected to foster competition and promote innovation in retail payments, cut costs, enhance transparency of these services, and provide a framework on consumer's protection.

*Chart 7 Volume of payment instruments in years (left) and use volume of payment instruments by households and enterprises during 2018 (right)*



Source: Bank of Albania.

In parallel, the National Payment System Committee, chaired by the Bank of Albania and bringing together public and private stakeholders in the field of payments, approved the Albanian National Retail Payments Strategy (2018-2023). The scope of the strategy is to improve the retail payments market, promote the use of electronic payment instruments and broaden the financial inclusion of the population.

#### **4. GOVERNANCE AND OTHER ACTIVITIES**

The accomplishment of our primary development objectives evidences the professional work of Bank of Albania staff and of the constant prudence of the Supervisory Council, as the steering and monitoring body over the activity of the Bank of Albania.

In addition to the monetary policy and financial stability-related issues, other important decisions of the Supervisory Council in 2018, were: (i) approval of the policy for the oversight of payment and settlement systems;(ii) approval of the Accounting Policy in accordance with the International Financial Reporting Standards; and, (iii) approval of the Medium-term Development Strategy of the Bank of Albania for 2019-2021. The strategy upheld the existing mission, vision, and values and updated the list of duties for fulfilling them. In parallel, the Supervisory Council has monitored continuously the governance of the institution and has worked towards its improvement.

In conclusion, I would like to emphasise that the Bank of Albania has realised its duties and accomplished its commitments in other fields of its activity, which have a direct or indirect impact on economic and financial developments in Albania. More specifically, progress has been made on:

- Support for European integration processes, through both specific contributions to the respective chapters and constant dialogue with European partners;
- Administration of the circulation of the national currency and the adaptation of its structure to the needs of the economy;
- Management of the foreign exchange reserve, in line with reserve-holding objectives and in the presence of a challenging external financial environment;
- Improvement of scientific research, to support informed and efficient decision-making;
- The quantitative and qualitative improvement of financial statistics, in accordance with the best relevant standards;
- Continuation of financial education of the public, by increasing the role of the Museum of the Bank of Albania and continuing with targeted educational programmes;
- Enhancing institutional transparency, by expanding the span of the published information with a view to foster trust and confidence in the institution and its reputation.

*Honourable Speaker,  
Honourable Members of Parliament,*

The outlook on Albania's development remains positive; yet, challenges lie ahead. Addressing them requires the attention and the commitment of all policy makers and regulatory agencies in the country.

In particular, in Bank of Albania's opinion, guaranteeing sustainable and long-term growth requires maintaining the focus on monetary and fiscal policies that are oriented toward stability, by using in a wiser and more efficient way the available space for stimulating the economy, without affecting the stability of public finances and of the financial sector.

In parallel, development policies should aim to reduce risks and mitigate structural vulnerabilities in the economy.

In the long term, the further acceleration of the economic growth pace and a fairer allocation of resulting benefits from it to various economic and social categories will require continuing and rewing up the structural reform agenda.

I would like to assure you that the Bank of Albania will continue to be committed to complying with our legal objectives, and to realise our institutional duties and commitments.

***“In Bank of Albania's opinion, guaranteeing sustainable and long-term growth requires maintaining the focus on monetary and fiscal policies that are oriented toward stability, by using in a wiser and more efficient way the available space for stimulating the economy, without affecting the stability of public finances and of the financial sector.”***

*Thank you for your attention!*



# CHAPTER II

## PRESS CONFERENCES ON MONETARY POLICY DECISION

- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 6 February 2019*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 28 March 2019*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 8 May 2019*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 6 June 2019*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 3 July 2019*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 7 August 2019,*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 2 October 2019*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 6 November 2019*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 18 December 2019*

### ***Press conferences on monetary policy decision***

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



## **BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED, AT 1.0%**

**-6 February 2019-**

*Dear ladies and gentlemen,*

- *The Albanian economy continues on a positive development trend.*
- *The accommodative monetary policy of the Bank of Albania continues to support growth and the strengthening of inflationary pressures.*
- *Forecasts for the outlook remain positive.*

Today, on 6 February 2019, the Supervisory Council of the Bank of Albania reviewed and approved the Quarterly Monetary Policy Report.

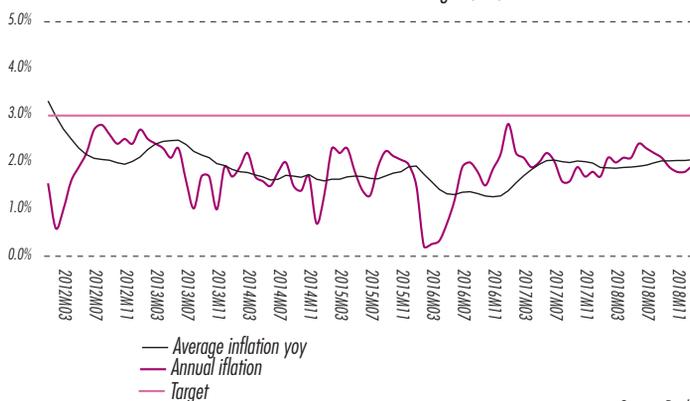
The new economic and monetary information suggests that the Albanian economy continues on a positive development trend. Aggregate demand continued to grow in the second half of the previous year, resulting in an increase in production, employment growth and improvement of main economic and financial balances.

Our monetary policy continues to support growth, by providing a financial environment with low interest rates, and decelerating appreciating pressures on the exchange rate.

The Bank of Albania deems that the new information is broadly in line with our expectations.

Inflation registered a slight decline in the last quarter of 2018. Average inflation declined to 1.8% in the fourth quarter, from 2.2% in the previous quarter. The decline reflected temporary supply-side shocks and a fuller transmission of the decelerating effect arising from the exchange rate appreciation on inflation. This effect will persist over the first half of 2019; it is, however, expected to wear off in the following period.

Chart 8 Headline inflation and target (left)

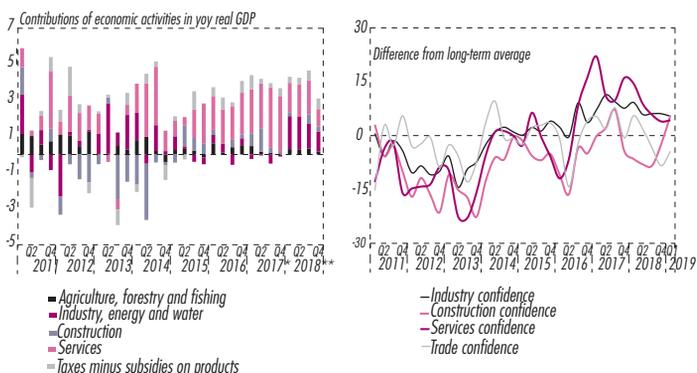


Source: Bank of Albania.

The Bank of Albania deems that the domestic medium-term and long-term inflationary pressures are a gaining strength, as illustrated by the core inflation. Irrespective of the fluctuations, this indicator shows a gradual trend of convergence toward the equilibrium. Such performance is dictated by the further improvement of the cyclical position of the country, as reflected in both the downward trend in the unemployment rate, and the improvement of the capacity utilisation rate.

According to INSTAT data, the Albanian economy grew by 4.45% in the third quarter of the previous year. Growth was fuelled by the further expansion of private consumption, investments and exports, as well as the annual growth of electricity production. It was reflected in the expansion of activity in industry, services and construction. Available data suggest that the economy continued to grow in the fourth quarter as well, although at a slower pace than in the previous quarters. Our analyses suggest that this slowdown reflects a lower contribution from electricity production, while it is expected to be temporary.

Chart 9 Gross domestic product by output and confidence indicators



Source: INSTAT and Bank of Albania. \*Semi-final data. \*\*A preliminary estimate.

Our medium-term projections have not changed significantly. The current trends of economic development and their underlying economic and financial factors hint that the economy will trend upward and inflationary pressures will build up in the period ahead.

While uncertainties and risks persist, the external environment appears overall favourable for economic growth at home. The upward demand from the global economy continues to favour growth for Albanian exports, and financing costs remain relatively low.

In parallel, the domestic policy mix remains stimulating.

As a result of the accommodative monetary policy stance, interest rates on deposits, credits and government securities remain at historical low levels. Similarly, the situation of liquidity in financial markets has been improving and risk premiums have been trending down. The exchange rate appeared stable in January, due to a better balancing of demand and supply for foreign currency, and to the response of the Bank of Albania. Additionally, the banking sector continues to be characterised by good liquidity ratios, capital and profitability levels, while the balance sheets continue to improve. In particular, the ratio of non-performing loans dropped to 11.1% at the end of 2018, illustrating the sustainable progress marked in this regard.

In response, credit to the private sector showed signs of recovery, although the reported downward stock continues to reflect the effects arising from the cleaning of balance sheets from both non-performing

loans and the effect of the exchange rate. Excluding these two effects, credit to the private sector recorded 5.9% annual growth at the end of 2018. Credit growth continues to be faster for credit denominated in lek and that for consumer loans. Meanwhile, loans to enterprises grew rapidly in December, regardless of the conservative policies that banks apply to this segment.

Fiscal policy continued the consolidation trend. Fiscal data suggest that budget deficit decreased to 1.6% of the GDP at the end of 2018, standing 0.4 percentage points lower than planned. In line with it, the direct fiscal stimulus to the economy was lower than previously anticipated. On the other hand, the reduction of total public sector borrowing and the reliance on foreign markets for financing a major part of it, over the past year, have broadened the space for crediting to the private sector.

In accordance with these trends, the Bank of Albania deems that the Albanian economy will continue to grow in the next three years. The expansion in aggregate demand will contribute to further employment growth, creating the premises for rising wages and domestic inflation. In parallel, the slowdown in the exchange rate appreciation will subdue disinflationary pressures arising from it. In accordance with this scenario of developments, inflation is expected to converge to our target in the second half of 2020.

In parallel to the expected positive developments according to the baseline scenario, the Supervisory Council finds that the balance of risks remains tilted to the down side. In particular, the external environment, the exchange rate and the pace of credit growth may tilt inflation to the down side of our expectations.

Judging on these factors, the Supervisory Council of the Bank of Albania finds that the current accommodative path of the monetary policy 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 monetary policy will remain accommodative in the medium-term horizon, although the intensity of the stimulus will be adjusted to the speed and the sustainability of the economic activity improvement. The Supervisory Council would like to renew its appeal for continuing the structural reforms, as the best instrument for boosting sustainable and long-term growth in Albania.

***“The monetary policy will remain accommodative in the medium-term horizon, although the intensity of the stimulus will be adjusted to the speed and the sustainability of the economic activity improvement.”***



## **BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED, AT 1.0%** -28 March 2019-

*Dear media representatives,*

- *The actual monetary policy stance remains adequate to accomplish the Bank of Albania's objectives.*
- *Domestic inflationary pressures appear to be still insufficient for the return of inflation to our target.*
- *The decelerating effect of the exchange rate appreciation, will peak in the first half of 2019, and will gradually diminish during the following quarters.*

Today, 28 March 2019, the Supervisory Council of the Bank of Albania reviewed and approved the Intermediate Monetary Policy Report.

The new data, obtained over the last two months, is overall in line with our forecasts. Also, our expectations for the outlook have not changed significantly, though risks in the both domestic and external environments have increased.

Against this backdrop, the Supervisory Council deems that the actual monetary policy stance remains adequate to accomplish our objectives. The monetary stimulus, passed through the low interest rates and the forward guidance on the monetary policy, remains necessary to foster economic growth and for the return of inflation to target.

The external environment shows a slowdown of the growth pace and reduction of the current and expected inflation rate, both in the European and global context. Major central banks, in response to these developments, have revised the monetary policy stance, towards further easing or postponing its normalisation. On the other hand, international financial markets appear relatively calm.

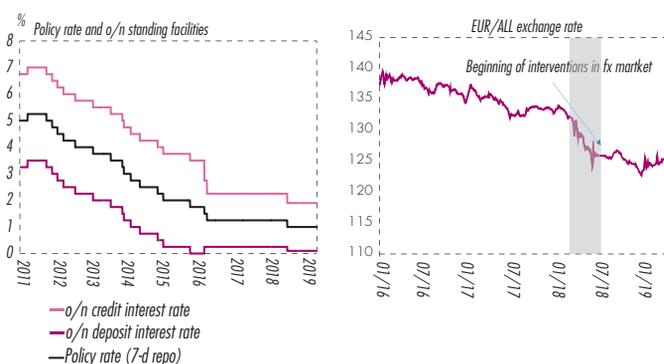
In line with our expectations, inflation in Albania trended down during the first two months of 2019. Average inflation in this period stood at 1.8%, reflecting a fuller transmission of the decelerating effect of the exchange rate appreciation. Our assessments show this effect will peak in the first half of 2019, and will gradually diminish during the following quarters.

In parallel with this effect, domestic inflationary pressures appear to be still insufficient for the return of inflation to our target. Although the continuing expansion of aggregate demand has driven employment and wages upward, production costs and profit margins are yet insufficient to meet our inflation target.

According to the available indirect data, the pace of economic growth may have slowed down somewhat in the two last quarters. To a large extent, this slowdown is due to the performance of electricity production, and as such it is assessed to not affect the medium-term trends of growth.

On the other hand, the medium and long-term determining factors of both aggregate demand and economic growth appear more stable. Also, according to available indirect data, consumption and private investments continued to increase during this period, reflecting the improvement in disposable income and balance sheets, the increase of the capacity utilisation rate and the favourable financing conditions. Albanian exports of goods grew in 2018 Q4, but slowed down in the first two months of 2019. This slowdown reflected the base effect of high exports in electrical energy during the same period in the previous year, and the unfavourable international conjuncture for some categories of Albanian exports. Lastly, fiscal policy has maintained its consolidating trend during the first two months of 2019.

Chart 10 Policy rate (left) and daily EUR/ALL exchange rate (right)



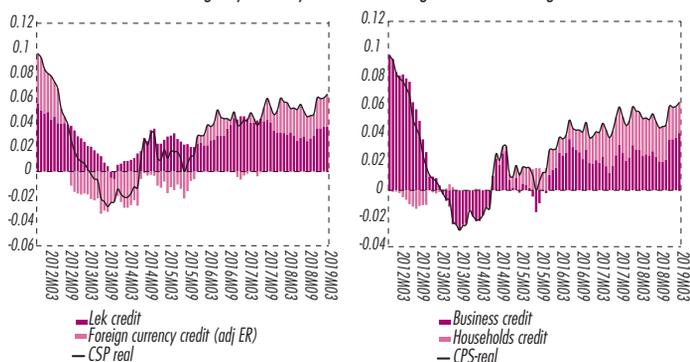
Source: INSTAT, Bank of Albania.

Both monetary stimulus and fiscal consolidation have provided a favourable financial environment to stimulate demand.

As a response, interest rates and financing costs for the public sector appear close to their historical minimum levels. Also, the exchange rate appears relatively stable, reflecting the better balance of the foreign currency demand and supply.

Economic growth is underpinned by - and reflected in - the gradual upward trend of credit to the private sector. Excluding the exchange rate accounting effect and the one arising from the non-performing loans write off from banks' balance sheets, credit to the private sector recorded around 6% annual growth, in the first two months of 2019. Although moderate, this growth is a positive signal for the recovery of demand and the improvement of supply for credit.

Chart 11 Lending\* by currency and economic agent (annual change in %)



Source: Bank of Albania.

\*The data on loans are adjusted for written off loans and the exchange rate.

The on-going consolidation of the banking sector and the continuous improvement of its balance sheets set up the preconditions for a faster improvement of the supply and pace of lending in Albania. The continuous falling trend of non-performing loans ratio shows that credit risk in Albania has been considerably reduced. The Bank of Albania considers that these positive premises should be more strictly reflected in credit policies and standards applied by the banking sector.

Judging on the current development trends, and their determining factors, the Bank of Albania deems that aggregate demand will trend upward during the medium-term horizon. The increase of demand for goods and services will further expand employment, drive wages and profit margins up and gradually strengthen domestic inflationary pressures. In

parallel with the complete fading out of the exchange rate effect, these developments will enable the convergence of inflation to target within 2020.

The Supervisory Council deems that maintaining the accommodative monetary policy stance is a key precondition for the realisation of this projection. 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.

In parallel with the re-confirmation of the baseline scenario of expectations, the Supervisory Council considers that downside risks have strengthened during 2019. The deterioration in the external environment, the political tensions in Albania, and the concurring improvement pace of both supply and demand for credit, are factors which may tilt economic developments to the down side of the baseline scenario expectations.

The monetary policy will remain accommodative in the medium-term horizon, although the intensity of the stimulus will be adjusted to the pace and the stability of economic activity improvement. In particular, the Supervisory Council assesses that the materialisation of risk factors may require postponing the monetary policy normalisation.

***“The monetary policy will remain accommodative in the medium-term horizon, although the intensity of the stimulus will be adjusted to the pace and the stability of economic activity improvement.”***

## BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED, AT 1.0%

-8 May 2019-

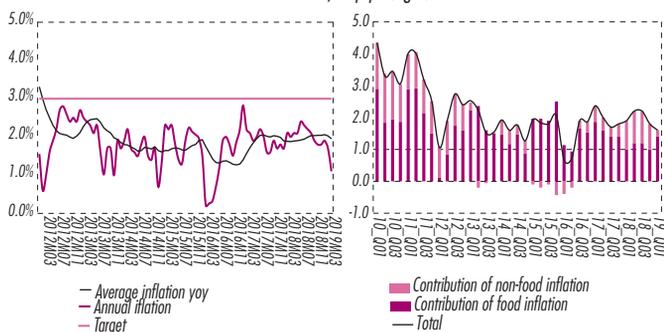
Dear ladies and gentlemen,

- The Albanian economy continues on a positive growth trajectory.
- The new available data confirmed our expectations for a slowdown in economic growth rates and of inflation.
- Forecasts for the outlook remain positive, but the deterioration in the external environment has postponed the return of the economy to equilibrium and of inflation to target.

Today, on 8 May 2019, the Supervisory Council of the Bank of Albania reviewed and approved the Quarterly Monetary Policy Report.

The new information analysed in this Report has resulted, overall, in line with our expectations. This information suggests that the Albanian economy continues on a positive growth trajectory, which has enabled a fuller utilisation of production capacities and has sustained the build-up of domestic inflationary pressures. Also, this information confirmed our expectations for a slowdown in economic growth rates in the fourth quarter of 2018, and of inflation in the early months of 2019.

Chart 12 Headline inflation and target (left); Contributions by food and non-food categories to inflation rate, in p.p. (right)



Source: Bank of Albania.

The slowdown in inflation is attributed mainly to the action of supply-side

factors, but it resulted somewhat stronger than expected.

Our forecasts for the outlook remain positive. These forecasts suggest further growth of economic activity and build-up of domestic inflationary pressures. Nonetheless, the deterioration in the external environment has postponed our estimation for the return of the economy to equilibrium and of inflation to target.

These developments confirm the adequacy of the current monetary policy stance, and emphasise the need for continuing the accommodative monetary policy stance in the medium-term horizon.

Let me now present in greater detail the report and the underlying reasons for this decision.

Annual inflation averaged 1.6% in the first quarter, down from the previous quarter. The increase in rent and water prices recorded a year earlier was faded out at the beginning of this year, decreasing the contribution of these groups to inflation. In addition to this effect, the increase in services prices slowed down and the inflation of agricultural prices registered a strong contraction in March.

From the macroeconomic perspective, the inflation slowdown reflected a fuller transmission of the exchange rate appreciation, the slowdown of inflation in partner countries, and the effect of supply-side shocks on agricultural products. On the other hand, economic growth has led to a build-up in domestic inflationary pressures, whereas pressures from the external environment diminished.

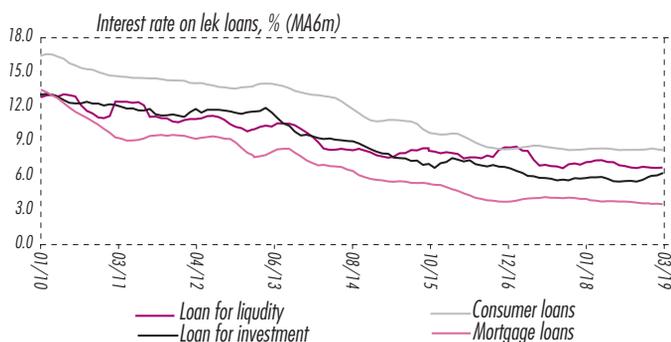
According to INSTAT data, economic activity expanded by 3.1% in the fourth quarter of 2018, slowing down from the previous quarters. Economic growth for 2018 was 4.1%. It was underpinned by private sector demand, which benefited from employment growth, improvement of confidence and favourable financing conditions. On the other hand, the fiscal policy continued to pursue a consolidation path, stated in positive budget balance values, and providing low contribution to economic growth.

The expansion of aggregate demand has led to the reduction of spare capacities in the economy. According to INSTAT, employment has trended upward and the unemployment rate stands at low historical levels. Moreover, data from the business survey suggest production capacities

were used more intensively. In response to these developments, the average wage in the economy has tended upward, albeit the pace of this trend remains low. In parallel, the performance of core inflation shows that the gradual convergence of the economy toward the potential has not been accompanied yet by adequate inflationary pressures for the return of inflation to target.

Our accommodative monetary policy has enabled creating favourable financing conditions. Domestic financial markets operate amid a calm environment, with low interest rates, low risk premiums and a stabilisation trend of the exchange rate.

Chart 13 Interest rate on new loans in lek



Source: Bank of Albania.

In response, the pace of credit growth has improved. Adjusted for the exchange rate and written off loans, the portfolio of credit to the private sector recorded 6% annual growth in the first quarter of this year. The performance continues to be supported by the expansion of credit in lek, which accounts for around 48% of total credit. In parallel, developments in recent months point to a more balanced performance of the credit portfolio, with an upward contribution by both households and enterprises.

In our assessment, the underway consolidation of the banking sector, the continuous reduction of credit risk, and the expected demand growth create the premises for a sustainable growth of credit in the future. Yet, the materialisation of this projection requires that banks adopt a more active approach to lending. Judging on the current development trends and the balance of underlying

factors, the Bank of Albania deems that the medium-term outlook is positive. The expansion of the economic activity will enable further employment growth and will contribute to faster increase in wages and production costs. These developments will enable the return of inflation to target at the beginning of 2021.

With regard to our earlier projections, the estimation for the return of the economy to equilibrium and of the inflation to target has been postponed slightly in time. This revision is determined mostly by more pessimistic projections for the external economy. It also reflects the need for a full absorption of supply-side shocks on inflation and the full cancelling out of decelerating effects from the exchange rate.

Downside risks dominate the forecasting horizon. They are related mostly to uncertainties surrounding the external environment, duration and impact from the exchange rate appreciation on inflation, stability and recovery of bank credit and, lastly, the tense political situation at home.

Based on these considerations, the Supervisory Council deems that the monetary policy stance will remain accommodative in the medium-term horizon. In this meeting it decided to:

- Keep the policy rate unchanged at the current level 1.00%; and,
- Keep the overnight deposit and overnight lending facilities unchanged at 0.1% and 1.9%, respectively.

Also, judging on the baseline scenario and the balance of risks, the Supervisory Council deems that the normalisation of the monetary policy will be very cautious. In any case, the intensity of the stimulus will be adjusted for the speed and steadiness of the economic activity improvement, and the Bank of Albania stands ready to respond to potential shocks.

***“The intensity of the stimulus will be adjusted for the speed and steadiness of the economic activity improvement, and the Bank of Albania stands ready to respond to potential shocks.”***

## **BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED, AT 1.0%**

**-3 July 2019-**

*Dear Ladies and Gentlemen,*

- *Our projections for the outlook have not changed significantly, although downside risks have risen.*
- *Favourable credit conditions have sustained a stable growth of credit to the private sector.*
- *Inflation is expected to converge towards our target by 2021 H1.*

Today, on 3 July 2019, the Supervisory Council of the Bank of Albania reviewed and approved the Intermediate Monetary Policy Report.

The new analysed information has been on the down side of our expectations. The Albanian economy continued to grow over the first two quarters, albeit at a slower pace compared with the previous year. Inflation continues to undershoot the central bank target, mainly as a result of the decelerating effect from the rapid appreciation of the exchange rate in the previous year. Conversely, monetary conditions appear stimulating and credit activity has shown signs of recovery. Our projections for the outlook have not changed significantly, although downside risks have risen.

Against this backdrop, the Supervisory Council judged that the current accommodative monetary policy stance remains adequate for guaranteeing the convergence of inflation towards our target, over the medium term.

Let me now explain our assessment in greater detail.

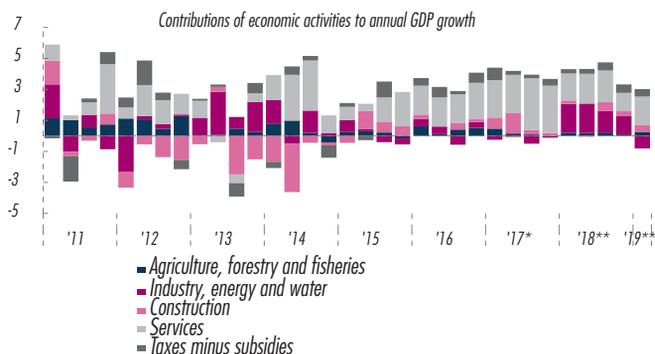
In line with our expectations, inflation pursued an upward trajectory in April and May, standing at 1.4% and 1.5%, respectively. Over the last months, inflation has reflected mainly the volatility in food prices and oil prices.

From the macroeconomic perspective, inflation undershooting continues to reflect a still sluggish growth in wages and production costs in the economy, low inflation rates in our trading partners and the residual

effect from the exchange rate appreciation in 2018. Based on the observed trends, the Supervisory Council deems that both domestic and imported inflationary pressures will converge gradually toward our inflation target over the next two years.

According to Instat data, economic activity in Albania grew 2.2% in the first quarter of 2019. The pace of growth slowed down mainly on account of the contraction in the production and export of electrical energy. Indirect available data suggest the Albanian economy will perform similarly in the second quarter as well. In terms of aggregate demand, economic growth continues to be underpinned by consumption and investments, while the deficit of international trade has widened and fiscal policy continues to maintain a consolidation stance. Overall, economic growth for 2019 is expected to be slower than in the previous year, reflecting supply-side shocks from the contraction in electrical energy production.

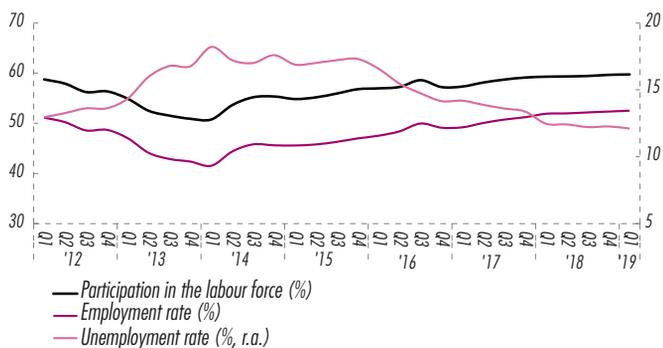
Chart 14 Gross domestic product by output and confidence indicators



Source: INSTAT and Bank of Albania. \*Semi-final data. \*\* A preliminary estimate.

Though the pace of growth slowed down, employment and wages were upward in the first quarter. According to Instat data, the unemployment rate fell to 12.1%, and the average wage recorded 4.9% annual growth. Such a performance creates the premises for faster increase in domestic inflation, hence contributing to the convergence of inflation to target.

Chart 15 Participation in labour force, employment and unemployment rates in the economy



Source: INSTAT.

The accommodative monetary policy was aligned with the fiscal consolidation, creating a financial environment characterised by low interest rates, ample liquidity and downward risk premia. The monetary stimulus has reduced costs of financing the private sector, has supported the growth of credit, consumption and investments, and has created conditions for a calm performance of the exchange rate. The latter has been on a slight appreciation trend over the second quarter, in line with its seasonal behaviour. Yet, foreign trade data and a calm performance of the exchange rate suggest that the duration and intensity of the exchange rate appreciation will remain limited. As a result, its decelerating effect on inflation will be gradually diminishing.

Favourable credit conditions have sustained a stable growth of credit to the private sector. Adjusted for loan write offs and exchange rate, credit to the private sector recorded around 6.7%, annual growth, in April and May. Expansion of the credit portfolio was more balanced in terms of currency structure as well as beneficiaries, registering expansion in both credit to households and credit to enterprises. Albeit moderate, growth of credit to enterprises is a positive signal related to the improvement in credit supply and demand. The return of the NPL ratio to a downward trend, as illustrated by its fall to 11.37% in May, provides encouraging signals on the further improvement of the credit environment and balance sheets of the banking sector.

Judging by the current development trends, and their determining factors, the Bank of Albania deems that the aggregate demand will be upward during the medium-term horizon. The expansion of economic activity will

enable full utilisation of production capacities and is expected to generate employment growth and faster increase in wages and production costs. Inflation is expected to converge towards our target by 2021 H1.

Downside risks remain predominant and have strengthened even further. They pertain to the external environment, exchange rate performance and its effect on inflation, the capability of credit supply to respond to the expected improvement in demand, and, lastly, the political situation in the country. The prolonged political disputes in the country would be reflected in the business climate and may affect economic activity.

Based on these considerations, the Supervisory Council deems that the monetary policy stance will remain accommodative in the medium-term horizon. In this meeting, it 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 monetary policy stance will remain accommodative over the medium term. The intensity of the monetary stimulus will be adjusted for the speed and steadiness of economic activity improvement. The Bank of Albania remains ready to respond to potential shocks in order to ensure achieving the inflation target.

***“The monetary policy stance will remain accommodative over the medium term. The intensity of the monetary stimulus will be adjusted for the speed and steadiness of economic activity improvement.”***

## **BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED, AT 1.0%**

**-7 August 2019-**

*Dear ladies and gentlemen,*

- *The new information shows economic growth slowed down and average inflation declined.*
- *This dynamic reflects, to a large extent, supply-side shocks, whose effect is expected to be short lived.*
- *The Bank of Albania continues to expect the pace of growth to improve in the medium term.*
- *Heightened uncertainties in the domestic and the external economic environments as well as an increase and strengthening of downside risks may require a further easing of the monetary policy stance in the future.*

Today, on 7 August 2019, the Supervisory Council of the Bank of Albania reviewed and approved the Quarterly Monetary Policy Report. The new information we analysed shows economic growth slowed down in the first half of the year and average inflation declined in the second quarter. The Bank of Albania expected these developments to trend in this direction, but the slowdown in the pace of growth resulted higher than our expectations.

Analysis of available information suggests that this dynamic reflects, to a large extent, supply-side shocks, whose effect is expected to be short lived. The Bank of Albania continues to expect the pace of growth to improve in the medium term. This improvement will contribute to the return of the economy to equilibrium and of inflation to target within this time horizon.

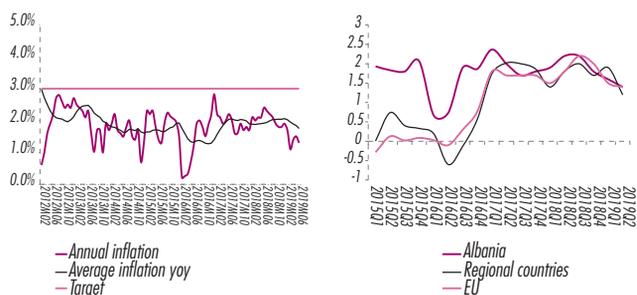
The Supervisory Council deems that the current monetary policy stance is adequate for the achievement of our objective.

However, heightened uncertainties in the domestic and the external economic environments as well as an increase and strengthening of downside risks may require a further easing of the monetary policy stance in the future.

Let me now present the conclusions of the report and the underlying reasons for the decisions in greater detail. Inflation showed slight downward trends in the second quarter. Its

average rate stood at 1.4%, against 1.6% registered in the previous quarter. From the perspective of basket composition, the decline in inflation reflected a decline in food inflation, a phenomenon that is present also in our trading partners' economies. From the perspective of macroeconomic factors, the decline in inflation reflected a decline in imported inflation.

Chart 16 Headline inflation, target (left). Inflation in regional and EU countries (right)



Source: INSTAT, Trdings Economics database and Bank of Albania staff's calculations. [www.tradingeconomics.com](http://www.tradingeconomics.com)

On a longer-term horizon, the low and undershooting inflation reflects a persisting insufficient level of domestic inflationary pressures - dictated by the still-incomplete utilisation of production capacities - and low pressures from imported inflation, dictated, to a large extent, by the still-appreciating exchange rate.

The Bank of Albania judges that the decelerating effect of these factors will be gradually fading over the next two years.

According to INSTAT data, the Albanian economy grew by 2.2% in the first quarter. This development reflects a significant slowdown in the pace of growth, compared to both the previous quarter and the same quarter in the previous year.

Analysis of available data suggests that the slowdown is mainly attributable to a drop in electrical energy production, due to unfavourable weather conditions. This factor had a negative effect of 1.6 percentage points on economic growth in the first quarter. Although not at this intensity, the effect of this factor is expected to remain present during the rest of the year.

On the other hand, the main components of aggregate demand - consumption and private investments - continued to grow, the balance of external trade worsened, a result of the decline in electrical energy production, whereas the fiscal policy was on the consolidating side in the first quarter and on the easing side in the second quarter.

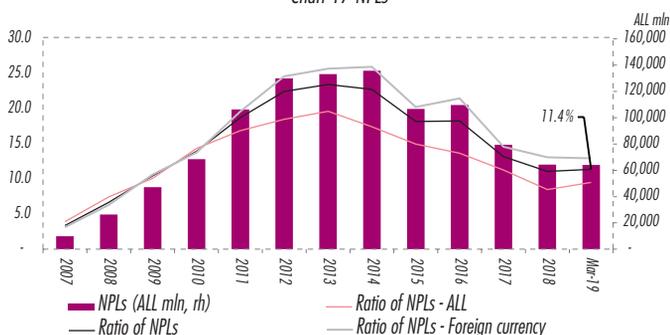
The expansion of aggregate demand continued to enable an increase in employment, a decrease in the unemployment rate, and a continuous rise of wages over past years. This trend was also present in the first quarter of the current year.

While not favoured by the tense political climate, consumption and private investments expanded in response to higher disposable income, the need to expand production capacities and favourable financing conditions.

The accommodative monetary policy has created a financial environment with low interest rates, and reduced risk premia, hence fuelling growth of credit, consumption and investments.

Interest rates on credit remained near historically low levels in the second quarter, enabling a further improvement of lending. The improvement is noted both in the acceleration of credit growth by 6.8%, and expansion of the base of this growth. Constant reduction of non-performing loans, the consolidation process in the banking sector, and the upward trend of demand have created premises for increasing lending in the future.

Chart 17 NPLs



Source: Bank of Albania.

The exchange rate has shown slight appreciation trends over the summer months. In our judgment, this is a result of the seasonal increase in foreign currency inflows. The annual appreciation rate, however, has been on the decline and the decelerating effect that it generates on the economy and inflation is diminishing.

The Bank of Albania deems that economic growth will remain in positive territory in the medium term. The drop in electrical energy production will lead to a temporary slowdown of growth during 2019. Afterwards, favourable financing conditions and improved balance sheets of private agents are expected to lead to an expansion of domestic demand and fuller utilisation of production capacities.

Projecting these trends into the future, the Bank of Albania expects that the Albanian economy will return to equilibrium in the next year, creating premises for faster increase in wages and domestic production costs. Together with an expected stabilisation of the nominal exchange rate, they will help inflation to converge to target in the second half of 2021. Of particular note, the Bank of Albania finds that volatility in energy production has introduced added volatility to the pace of economic growth over the last three years. They, however, has not had an impact on medium or long-term trends or production costs. Therefore, they do not affect our assessment on the cyclical position of Albania and, as such, should not be subject to monetary policy response.

Based on these projections and considerations, 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 the present level of 1.00%; and,
- Keep the overnight deposit and overnight lending rates, unchanged at 0.1% and 1.9%, respectively.

The Supervisory Council deemed that the materialisation of forecasts in the baseline scenario would require maintaining the accommodative stance of the monetary policy in the medium term. This scenario foresees that the normalisation of the monetary policy will be rather gradual and - in any case - it will not start earlier than the second quarter of 2020.

On the other side, the Supervisory Council evidenced that added uncertainties in the economy have pushed back the momentum for the expected return of inflation to target. The Supervisory Council also evidenced that the number of downside risks has risen and their probability has increased.

These risks arise from both the external environment with the euro area economy showing continuous slowdown, and the domestic environment with political tension continuing to induce uncertainties. Unexpected shocks to the exchange rate may shift it farther away from the equilibrium. A worsening of our baseline scenario or materialisation of risk shocks could require a revision to the easing side of our monetary policy stance. Lastly, the Supervisory Council iterates its appeal for continuing with structural reforms, which have been and still are the main instrument for accelerating the pace of growth and of EU integration.

***“The materialisation of forecasts in the baseline scenario would require maintaining the accommodative stance of the monetary policy in the medium term. This scenario foresees that the normalisation of the monetary policy will be rather gradual and - in any case - it will not start earlier than the second quarter of 2020.”***



*SUPERVISORY COUNCIL OF THE BANK OF ALBANIA*

## **BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED, AT 1.0%**

**-2 October 2019-**

*Dear Ladies and Gentlemen,*

- *Inflation was slightly up in July and August, economic growth continued to reflect the effect of short-term shocks, while financial conditions remain stimulating.*
- *Notwithstanding the supply-side shocks, the development trend of the Albanian economy remains positive.*
- *In response to our monetary stimulus, both financial markets and monetary conditions remain accommodative for fuelling aggregate demand and for inflation to converge to target.*

On 2 October 2019, the Supervisory Council of the Bank of Albania reviewed and approved the Intermediate Monetary Policy Report.

The Supervisory Council concluded that the new information analysed in this Report has resulted, overall, in line with our expectations. Inflation was slightly up in July and August, economic growth continued to reflect the effect of short-term shocks, while financial conditions remain stimulating.

The Supervisory Council assessed that notwithstanding the supply-side shocks, the development trend of the Albanian economy remains positive. This performance is reflected by the fuller utilisation of production capacities, rise of both employment and wages and the acceleration of lending.

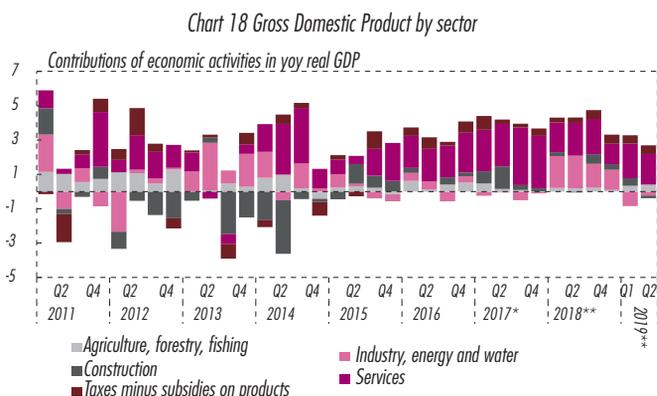
Based on the above, the Supervisory Council re-affirmed the expectations on the positive outlook for the economy, while concluding that downside risks have increased.

Against this backdrop, the Supervisory Council judges that the current monetary policy stance is adequate.

Inflation averaged 1.5%, in July and August, from the 1.4% average recorded in the previous quarter. Fluctuations of inflation during the last months reflected the volatility in food prices, whereas inflation of other basket's items was overall, stable or at a slight upward trend.

From the macroeconomic perspective, inflation performance has reflected the build-up of domestic inflationary pressures, while imported inflation has been downward, driven by the downward trend of both inflation and commodity prices in international markets.

According to INSTAT data, the Gross Domestic Product grew 2.3% in the second quarter. (In parallel INSTAT, revised upward the growth rate for the first quarter, at 2.4%).



*Source: INSTAT and Bank of Albania. \*Semi-nal data. \*\* A preliminary estimate.*

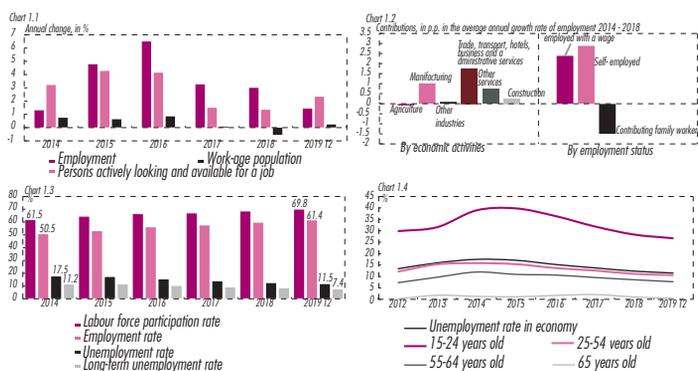
From the production perspective, economic growth was driven by the expansion of activity in services and agriculture in the second quarter. Industry and construction sectors showed downward performance. From the aggregate demand perspective, economic activity growth reflected the expansion of consumption, while investment and the balance of external trade provided a negative effect.

The preliminary available data for the third quarter suggest a similar performance to the previous quarter.

Growth slowdown in 2019 H1 reflects mainly the reduction of electrical energy production and partially the effect of the finalisation of large energy projects. Related to the above, the Bank of Albania expects these supply-side shocks to be transitional. Their effect will be visible on the growth rate of 2019, but it does not affect our assessment on the cyclical situation of economy and our expectations on the medium-term trends of the country's development.

In this context, the increase of employment in the second quarter, in parallel with the 11.5% fall of the unemployment rate and the 4.5% increase of the average wage, suggest that the expansion of aggregate demand is sufficient to ensure the upward utilisation of production capacities.

Chart 19 Average wage indicators in economy



Source: INSTAT and Bank of Albania calculations.

This positive trend of developments reflects also the effect of our accommodative monetary policy.

In response to our monetary stimulus, both financial markets and monetary conditions remain accommodative for fuelling aggregate demand and for inflation to converge to target.

Financial markets continue to be characterised by low interest rates, good liquidity situation, increasing stable exchange rate and an upward lending trend.

In particular, the growth pace of credit to the private sector continued to accelerate at an average rate of 7.4% in the first two months of the third quarter.

Credit growth continues to show a broad base, reflecting both the acceleration of credit to enterprises and households and the expansion of credit in lek and foreign currency.

The positive lending trend benefited from the increase in both credit demand and credit supply. The improved supply shows the falling risk of lending in Albania, as illustrated by the fall of non-performing loans

to 1.1% in August, and the positive effect of banking sector re-structuring through the entry of new actors in the market.

Reflecting the above information, the update of our economic and inflation growth projections did not show considerable changes from the previous round.

In our baseline scenario, the Bank of Albania expects economic growth to continue during the medium-term horizon. The overcoming of supply-side shocks is expected to be accompanied by an acceleration of growth in the next two years. The expansion of economic activity will be fuelled by favourable financial conditions and further expansion of lending, and will be supported by sound financial balance sheets of the private sector and the improvement of confidence.

Based on our projections, the Bank of Albania expects inflation to return to target within the second half of 2021.

Judging on these projections, 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 the present level of 1.00%; and,
- Keep the overnight deposit and overnight lending rates, unchanged at 0.1% and 1.9%, respectively.

The Supervisory Council deemed that the materialisation of forecasts in the baseline scenario would require maintaining the accommodative stance of the monetary policy in the medium-term horizon. This scenario foresees that the normalisation of the monetary policy will be rather gradual and - in any case - it will not start earlier than the second quarter of 2020.

On the other hand, the Supervisory Council continues to conclude that downside risks have further strengthened. These risks originate from both the external environment, as the euro area economy shows a slowdown, and the internal environment, as the political tension continues to induce uncertainty.

In light of the above, the Supervisory Council highlights that the materialisation of these risk shocks would require a revision on the easing side of the monetary policy stance.

The Bank of Albania advocates for the continuation and acceleration of structural reforms as the main instrument to increase productivity, potential output and country's resilience against shocks as well as to strengthen convergence towards the European Union standards.

***“The materialisation of forecasts in the baseline scenario would require maintaining the accommodative stance of the monetary policy in the medium-term horizon. This scenario foresees that the normalisation of the monetary policy will be rather gradual and - in any case - it will not start earlier than the second quarter of 2020.”***



## **BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED, AT 1.0%**

**-6 November 2019-**

- *The new information analysed has resulted, overall, in line with our expectations.*
- *Our forecasts suggest that the economic growth pace will be improving in the next two years, enabling inflation to converge to target within this time horizon.*
- *The Supervisory Council notes that downside risks have strengthened.*

*Dear Ladies and Gentlemen,*

Today, on 6 November 2019, the Supervisory Council of the Bank of Albania reviewed and approved the Quarterly Monetary Policy Report. The new information analysed in this Report has resulted, overall, in line with our expectations. Economic growth continued to slow down in the second quarter, in line with the performance observed in the previous quarter, while inflation remained low, undershooting the target in the third quarter.

In the Supervisory Council's view, this performance was dictated mainly by temporary supply-side shocks. As such, it does not change significantly our expectations on economic performance in the medium term.

Our forecasts, in their in baseline scenario, suggest that the economic growth pace will be improving in the next two years, enabling inflation to converge to target within this time horizon. Against this backdrop, the current monetary policy stance is assessed as adequate.

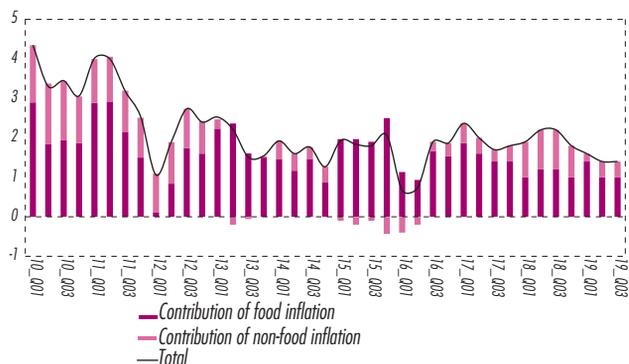
Nevertheless, the Supervisory Council notes that downside risks have strengthened and their materialisation might dictate a further easing of the monetary policy stance.

Let me now present in greater detail the report and the underlying reasons for this decision.

In the third quarter, inflation averaged 1.4%, similar to that recorded in the previous quarter. The downward contribution of inflation of both non-food consumer goods and housing services was offset by the higher

inflation of items in the category of services and durable consumer goods.

Chart 20 Contributions by food and non-food categories to headline annual inflation



Source: INSTAT and Bank of Albania's calculations.

From the macroeconomic perspective, inflation has reflected the build-up of domestic inflationary pressures, and the fall of inflation rates in trading partner countries. Looking ahead, the Bank of Albania deems that the increase in both wages and production costs, coupled with the stabilisation of the exchange rate, will create premises for inflation to gradually converge to target.

According to INSTAT data, the Albanian economy grew by 2.3% in the second quarter of 2019. Growth was driven by the expansion of public and private consumption, while net exports and investments were down. Similar to the first quarter, the slowdown in the growth pace reflects the reduction in production and exports of electrical energy, the transitional effects of the closing down of games of chance and the entry into the final stage of works in a large energy project. These effects will continue to be present in the second half of the year. Thus, the economic growth pace, in this period, is expected to be comparable with that of the first half of year, but to accelerate in the next two years.

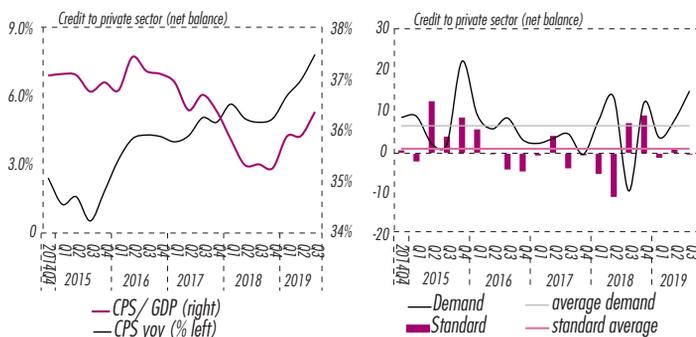
The economic activity expanded, reflecting the low cost for financing consumption and investment, the improved balance sheets of economic agents, and the increased revenues from tourism. The combination of monetary stimulus with fiscal consolidation and the strengthening of banking sector's soundness have provided a favourable environment for growth.

In particular, the domestic financial environment appears stimulating,

in response to the monetary policy stance implemented by the Bank of Albania. The exchange rate appears relatively stabilised: the ALL/EUR exchange rate is closer to the equilibrium, while its fluctuations are dictated by seasonal factors. Risk premiums in financial markets are low, while liquidity situation is good. Interest rates on loans, deposits and government's securities are close to minimum levels, thus bolstering credit growth and stimulating higher consumption and investments.

- Credit to private sector grew 7.5% on average in the third quarter. The acceleration of growth is attributable to both the expansion of demand and the improvement of bank credit supply. The latter reflects the on-going improvement of credit environment and the balance sheet of the banking sector, as shown by the drop of the non-performing loans ratio at 10.6%, as well as the increase of competition in the system, following the finalisation of consolidation in the banking sector. Regarding composition, credit growth picked up pace on the back of a broad base, in terms of: currency structure; beneficiaries; and its destination. This is another encouraging signal suggesting an expansion of credit in the future.

Chart 21 Lending to the private sector



Source: Bank of Albania.

The fiscal policy continues to maintain a consolidation trend, but its intensity has been lower. This development reflects a faster increase of public expenditures vis-a-vis revenues, although budget deficit remains at low levels. The Bank of Albania continues to highlight the importance of strengthening public finances' soundness, through maintaining the focus on budget deficit control and furthering reforms to improve public finance management.

The further expansion of aggregate demand has enabled a continuous

increase of employment and decrease of the unemployment rate. The unemployment rate stood at 11.5% in the second quarter, recording a historical minimum level of this indicator. The increase of labour demand has created the premises for the rise of wages and production costs. According to INSTAT data, the average wage in the economy was up by 4.5% in the second quarter, continuing the positive trend started since 2017.

The Bank of Albania deems that economic growth will remain in positive territory in the medium term ensuring an increasingly fuller utilisation of production capacities.

Projections in our baseline scenario suggest that the Albanian economy will return to equilibrium in the next year, creating premises for faster increase in wages and domestic production costs. Coupled with the expected stabilisation of the nominal exchange rate, they will help inflation converge to target in the second half of 2021.

Judging on these projections, 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 the present level of 1.00%; and,*
- *Keep the overnight deposit and overnight lending rates, unchanged at 0.1% and 1.9%, respectively.*

The Supervisory Council deemed that the materialisation of forecasts in the baseline scenario would require maintaining the accommodative stance of the monetary policy in the medium term. This scenario foresees that the normalisation of the monetary policy will be gradual and - in any case - it will not start earlier than the second quarter of 2020.

On the other hand, the Supervisory Council continues to conclude that risks to the down side remain. These risks arise from both the external environment, with the euro area economy showing slowdown constantly, and the domestic environment, with the political tension continuing to induce uncertainties and potential shocks to the exchange rate may shift it farther away from the equilibrium. The Supervisory Council highlights that the materialisation of these risk shocks would require a revision on the easing side of the monetary policy stance.

Finally, in light of the current developments regarding the European Union

integration process of the country, the Supervisory Council emphasises the need for maintaining the current anchors of the economic policies and continuing to accelerate further the structural reforms.

***“The Supervisory Council highlights that the materialisation of these risk shocks would require a revision on the easing side of the monetary policy stance.”***



## **BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED, AT 1.0%**

**-18 December 2019-**

- *Dealing with the consequences of natural disasters such as this earthquake of 26 November 2019, requires courage, solidarity and joint efforts to strengthen and recover the affected families, communities and businesses.*
- *The Supervisory Council notes that a comprehensive assessment of post-earthquake economic consequences requires some more time.*
- *From the macroeconomic perspective, the behaviour of prices continues to reflect low inflationary pressures from both the external and domestic economy.*

*Dear Ladies and Gentlemen,*

Let me start this communication a little differently, on behalf of myself and of the Supervisory Council of the Bank of Albania, I would like to express the deepest sympathy for the grievous losses caused by the devastating earthquake that hit Albania on November 26th, 2019. Our hearts and prayers are with everyone who has been affected by the dreadful disaster. Dealing with the consequences of natural disasters such as this earthquake requires courage, solidarity and joint efforts to strengthen and recover the affected families, communities and businesses.

*Dear Ladies and Gentlemen,*

In today's meeting, December 18th, 2019, the Supervisory Council of the Bank of Albania reviewed and approved the Intermediate Monetary Policy Report.

The available information does not indicate a need to change the monetary policy stance. The Supervisory Council deems that to achieve price stability and support economic growth, we need to implement an accommodative monetary policy stance.

Furthermore, the Supervisory Council notes that a comprehensive assessment of post-earthquake economic consequences requires some more time. This assessment would pave the way for revising our medium-term forecasts and judgment on the future path of monetary policy. Available data show that in the fourth quarter inflation rates remained

largely unchanged from the previous quarter. Fluctuations in inflation were caused to a larger extent by volatility in food prices, which continue to provide the main contribution to inflation.

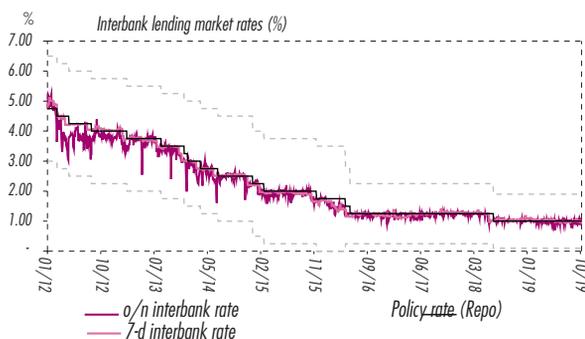
From the macroeconomic perspective, the behaviour of prices continues to reflect low inflationary pressures from both the external and domestic economy. In international markets, prices have been rising slowly, while the transmission to the domestic market has decelerated due to the exchange rate appreciation in 2018. Similarly, the increase in aggregate demand, employment and wages in Albania is yet to be translated into adequate inflationary pressures for the convergence of inflation with our target.

Indirect available data suggest that in the third quarter, economic growth was similar to the previous quarter. Economic activity expanded driven by growth of consumption and private investments and, in particular, expansion of revenues from tourism.

The performance of the economy was reflected in labour market data for the third quarter, which shows that employment gained 3.3% in annual terms, as unemployment fell to 11.4% and average wages increased by 3.5% annually.

The increasing trend of aggregate demand indicators and of the capacity utilisation rate has also reflected the effect of our accommodative monetary policy stance. As a result of this stance, the financial environment is characterised by low interest rates, contained risk premia and low volatility, and stable exchange rate.

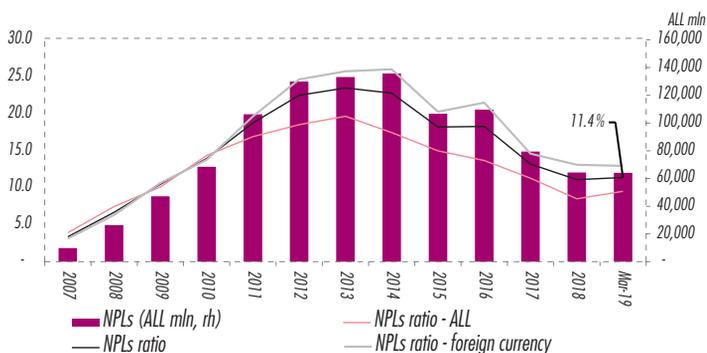
Chart 22 Performance of interest rates in interbank market



Source Bank of Albania.

The favourable financial environment and improved credit demand and supply created for the premises for a further improvement of credit to the economy. In particular, the consolidation of the banking sector and the reduction of credit risk, as illustrated by NPLs drop to 9.5% in November, have dictated a more active approach by banks toward lending.

Chart 23 NPLs



Source: Bank of Albania.

Corrected for the exchange rate effects and NPL write offs, credit to the private sector registered an 8% annual growth in October. Growth was broad based as it was driven by the expansion of credit to both households and enterprises. In this context, we must note that the growth of credit to enterprises for investment purposes shows encouraging signals for increased support by the banking sector to the economy's funding needs. In addition, the progressive expansion of the share of lek credit in total credit - which recorded 48% in October - provides also positive signals for an enhanced effectiveness of our monetary policy.

Our earlier projections have suggested that inflation will be on an upward trajectory in the medium-term horizon, to converge with our target in the second half of 2021. This projection was based on the expected improvement of the pace of economic growth, which would in turn increase wages and production costs, as well as provide increased exchange rate stability, something that would facilitate the transmission of foreign inflationary pressures.

Consistent with these projection, the Supervisory Council has emphasised that the monetary policy stance has been adequate, that the monetary policy will remain accommodative in the medium term, and that the

intensity of the monetary stimulus will be adjusted in line with the speed of the return of inflation to target.

Overall, the Supervisory Council deems that - even taking into account the November 26th earthquake consequences - this framework of projections remains valid for the medium term. Nevertheless, these consequences - for their major part - are adverse and may impose a time lag for the return of the economy to equilibrium and of the inflation to target.

In this regard, the Supervisory Council notes that:

- First, in the absence of complete official assessments on the extent and size of damage, it is almost impossible to make precise assessments on the expected impact on the economy. In particular, it is important to identify the damages caused to production capacities of firms operating in tourism and in other sectors of the economy, to estimate re-construction costs and possible unrealised revenues for the economy.
- Second, the consequences of the earthquake are expected - as a whole - to be negative, albeit concentrated on a limited geographical area and uneven across the sectors of the economy. The main transmission channels will be the possible contraction of consumption and private investments in the affected areas and the possible fall of production in these areas - particularly in tourism. On the other hand, the re-construction programme is expected to give a positive stimulus to this sector. The intensity of shocks and the degree of compensations under the re-construction programme will determine also the entire effect of earthquake on the economy.
- Third, the earthquake effect will also depend on the form and intensity of the response. The Supervisory Council notes that the rapid addressing of damages would alleviate their impact on economy. Also, the financing structure of this re-construction program and the relative share of grants and donations, increase of borrowing and re-allocation of expenditures will also have their impact.
- Fourth, the Bank of Albania is in the process of assessing the consequences of the earthquake in the indicators of the banking system. For this reason, we have requested the necessary information from commercial banks and we are waiting on preliminary assessments from them.

- Lastly, the Supervisory Council emphasises even under extreme scenarios, our projections suggests that:
- The economic growth rate is expected to remain in a positive territory for 2020 and onward; -
- The monetary and financial stability of the country remains unaffected.

Judging on the above, the Supervisory Council decided to:

- Keep the policy rate unchanged at the present level 1.00%; and,
- Keep the overnight deposit and overnight lending rates, unchanged at 0.1% and 1.9%, respectively.

The Supervisory Council deems that the fulfilment of our objective - price stability - would require maintaining the accommodative stance of the monetary policy in the medium term. A clarification on earthquake's consequences would provide a more precise view on the expected developments and the future monetary policy stance. In particular, the materialisation of the strong negative shocks may require further easing of it.

***“The fulfilment of our objective - price stability - would require maintaining the accommodative stance of the monetary policy in the medium term. A clarification on earthquake’s consequences would provide a more precise view on the expected developments and the future monetary policy stance.”***



REPUBLIKA E SHQIPËRIË  
MINISTRIA E FINANCAVE  
DHE EKONOMISË



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# CHAPTER III

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

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- *Governor Sejko: Statement at the joint press conference with the IMF Mission Chief and the Albanian Minister of Finance and Economy, 6 May 2019*

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

*“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 AND THE  
ALBANIAN MINISTER OF FINANCE AND  
ECONOMY  
-6 May 2019-**

**Discussions with the IMF Mission in the framework of the Post-Program Monitoring**

*Dear ladies and gentlemen,*

Let me first thank the IMF Mission for the fruitful discussions we have had over the last two weeks. These discussions take place in the framework of the IMF's Post-Program Monitoring for Albania.

I would like to emphasise also that we share similar views with the Mission regarding the development stage of Albania, the challenges that lie ahead, and the necessary policies and measures for addressing them.

Following, I would like to share with you the opinion of the Bank of Albania on these three topics.

In our assessment, the cyclical position and the overall equilibriums of the Albanian economy have continued to improve. Aggregate demand has expanded - mainly driven by the increase in consumption and private investments - thus contributing to maintaining a positive growth trend and an increasingly fuller utilisation of production capacities. In parallel, the external balances of the economy have been improving, the domestic debt is reduced and the balance sheets of the private sector are stronger. The growth in employment and wages has triggered a build-up in domestic inflationary pressures. Yet, inflation is still undershooting our target, on account of the exchange rate appreciation and of the aggregate demand that is still insufficient to ensure the convergence of inflation to target.

***“These development trends have reflected: (i) improvement in the external environment; (ii) harmonisation of fiscal consolidation with monetary stimulus and policies for the stabilisation and development of the financial sector; and (iii) structural reforms undertaken in this period.”***

Domestic financial markets appear calm and adequate to sustain economic growth. Liquidity in the banking sector is ample, interest rates on loans are low and the exchange rate appears relatively steady. Bank credit has also improved its growth rates and banks have gradually diversified the structure of their credit portfolio. Key banking sector’s soundness indicators - liquidity, capitalisation, profitability - remain at high levels, whereas the non-performing loans ratio is set on a clearly downward trend. Coupled with the on-going

consolidation of the banking sector, they pave the way for this sector to adopt a more active approach to lending.

In 2018, the Bank of Albania continued and even strengthened the monetary stimulus, hence lowering the financing costs further and mitigating foreign exchange market volatility. Moreover, in 2018, the Bank of Albania:

- Worked for implementing the plan of measures for reducing non-performing loans;
- Took concrete actions for the implementation of the national plan for increasing the use of the Albanian lek in economic and financial activities in Albania;
- Worked on improving the regulatory framework and banking supervision practices, as well as on strengthening safety nets of the financial system; and
- Exercise its competences further for developing the financial market and the payment systems.

The outlook for Albania’s development remains positive. In the absence of shocks, the Albanian economy will continue to grow in the medium-term horizon, supporting growth in employment and wages, return of inflation to target and further improvement of the overall macroeconomic equilibriums.

The materialisation of these projections and the achievement of our objectives require maintaining the current trend of our economic policies: monetary stimulus, fiscal consolidation, and safeguarding financial stability. In particular, the normalisation of the monetary policy will be

carried out cautiously and the intensity of the monetary stimulus will be adjusted to the balance of inflationary pressures.

On the other hand, as we have previously stated, the balance of risks appears notably tilted to the downside. In particular, the significant worsening in the external environment and the heightened political tensions at home may pose negative consequences to the economy. The Bank of Albania is monitoring attentively developments in the external environment, with a view to identifying an appropriate and duly response. We also judge that any effort made for a calm political situation would contribute to maintaining the positive trend of economic developments.

In any case, the response of the Bank of Albania, through its main instruments - the monetary policy and banking regulation and supervision - will be coherent with the challenges that lie ahead of us and consistent with the achievement of our objectives.

***“The response of the Bank of Albania, through its main instruments - the monetary policy and banking regulation and supervision - will be coherent with the challenges that lie ahead of us and consistent with the achievement of our objectives.”***

In a long-term perspective, the Bank of Albania continues to evidence that the structural reforms in Albania need to continue. These reforms should aim at boosting productivity and competitiveness, accelerating the pace of growth and the speed of convergence with the European Union, and promoting the stability of the Albanian economy and financial system.

Structural reforms should continue to be far sighted, ambitious and comprehensive. They should be increasingly anchored in the European integration process and aim a broad-based political and social consensus.

Within its domain of expertise, the Bank of Albania has been and will continue to be a committed and serious partner for advancing the development agenda of Albania.

***Thank You!***



Annual Conference co-organized  
by the Bank of Albania  
and the London School of Economics  
and Political Science (LSE)



# A BRAVE NEW WORLD

11 October 2019  
Tirana, Albania



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# CHAPTER IV

## SPEECHES AND PRESENTATIONS AT CONFERENCES

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- *Governor Sejko: Address at the promotion of the book on money, banks, and society - a historic journey, from genesis to modern days”, 22 February 2019*
- *Governor Sejko: Speech at the ceremony of signing the Memorandum of Understanding between the Swiss Government’s SECO and the Bank of Albania, 1 March 2019*
- *Governor Sejko: Welcome address to the IADI’s ERC Regional Committee Meeting in Tirana, 4 April 2019*
- *Governor Sejko: Address to the third AAB Conference on Banks for Sustainable Development, 14 May 2019*
- *Governor Sejko: Address to the discussion meeting with senior banking sector officials, 29 May 2019*
- *Governor Sejko: Address at the Launching of the New Albanian Banknote Series, 12 September 2019*
- *Governor Sejko: Address to the 5th meeting of the National Payment System Committee, 1 October 2019*
- *Governor Sejko: Welcome Address to the Annual Conference of the Bank of Albania 2019, 11 October 2019*
- *Governor Sejko: Address to the graduation ceremony of the students of economics, University of Tirana, 7 November 2019*
- *Governor Sejko: Welcome Remarks at the 13th SEE Economic Research Workshop, 5 December 2019*
- *Governor Sejko: Address at the end-of-year meeting with the media, 13 December 2019*
- *Governor Sejko: Address to the launching ceremony of the Twinning Project “Enhancing Bank of Albania’s alignment with EU Acquis”, 19 December 2019*

### **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 AT  
THE PROMOTION OF THE BOOK ON  
MONEY, BANKS, AND SOCIETY - A  
HISTORIC JOURNEY, FROM GENESIS TO  
MODERN DAYS”  
-22 February 2019-**

*Honourable professors,  
Dear ladies and gentlemen,  
Dear guests,*

I have the honour and pleasure to welcome you to this special event, quite unlike the activities that are often organised this historic hall of the Bank of Albania, as it falls outside our realm of conventional day-to-day activities.

We have the honour of hosting distinguished guests and presenting “Paraja, Bankat dhe Shoqëria, Bashkudhëtimi historik që nga fillimet deri në kohët moderne”, a valuable book by two prominent authors, with a significant academic contribution to the study of and discussion about economics and finances, Prof. Dr. Aristotel Pano and Academic Prof. Dr. Anastas Angjeli.

Delving into the pages of the book, we evidence a thorough analysis and a highly cognitive and historic contribution; it is only fair to say that this is a meticulous scientific research on the money-bank-society trinomial.

This book is also an important tool from another perspective - financial education, which is one of our main institutional objectives. For years, the Bank of Albania has been engaged intensively in financial education and has made it a constant element in its work”.

***“This book is also an important tool from another perspective - financial education, which is one of our main institutional objectives. For years, the Bank of Albania has been engaged intensively in financial education and has made it a constant element in its work.”***

*Dear guests,*

I am very honoured today as the host of this event and as a contributor to the foreword to the book.

***“Money, banks and their implications for the society are topics that have continually stirred the interest of the people and awakened their curiosity. They are substantive factors that affect all the aspects of global developments across all social systems.”***

The co-authors, professors Pano and Angjeli, present in their book a comprehensive analysis of monetary and financial systems, described in the form of a historic journey from antiquity to modern days. Money, banks and their implications for the society are topics that have continually stirred the interest of the people and awakened their curiosity. They are substantive factors that affect all the aspects of global developments across all social systems. With its interesting facts and histories, illustrated by meticulously selected images, the book “Money, Banks,

and Society” is a valuable source of information about the decisive role of various monetary systems in the history of our continent and, by the same token, in the history of Albania.

Money, banks and their implications for the society are topics that have continually stirred the interest of the people and awakened their curiosity. They are substantive factors that affect all the aspects of global developments across all social systems.

In a clear and intelligible style, the authors narrate the history of the birth and evolution of money, its role in building the monetary and financial systems and their functioning. Moreover, they show how these systems have created the preconditions for advancement and have changed the world contributing to the overall knowledge and the development of the society. The book shows that the desire for prosperity and economic stability are key drivers for the development of money, its forms and, therefore, monetary systems. Changes, innovations or adaptations that have been motivated by such aims have persisted in our history and have contributed to the prosperity of the society.

Yet, we must bear in mind that monetary systems may guarantee prosperity and credibility only if societies “abide by” them. Global or regional financial crisis are not unprecedented or unfamiliar phenomena. The underlying causes for such crises have been the same throughout

the history. Short-term benefits, being interpreted as opportunities or products to the benefit of the society and the individual, may give rise to serious concerns surrounding the long-term macroeconomic and financial stability. Therefore, economic agents should be financially educated in order to be able to repel deceptions that seek profits for third parties. The book "Money, Banks, Society" is a testimony, like the society, that such invention (money) is constantly changing to adapt to the new conditions generated by the society. Often this change may result from the geniality of certain individuals; at other times, it owes to changes necessitated by the circumstances in a given period. Nonetheless, following changes and developments over time, money and the financial systems have given a new impetus to trade, exchanges, and innovation and, through them, the development of the society.

The book points out to the reader the great importance of knowing and understanding such developments. It serves first and foremost to economists and financiers, who should pay particular attention to side effects of monetary and financial decisions and reforms on the economy, firms and households, from the perspective of economic and financial prosperity and of the redistribution and inequality aspects.

Co-authored by two of the most renowned professors in the field of the monetary and financial history in Albania, written in a

plain and clear language, presented in an easy-to-grasp style, for all categories of readers, the book is a valuable contribution for learning, understanding and further studying the monetary and banking history in general and in Albania in particular. It is an added value not only for the scholars of the economy, finance, history and numismatics, but also for the general public.

***"This book serves first and foremost to economists and financiers, who should pay particular attention to side effects of monetary and financial decisions and reforms on the economy, firms and households, from the perspective of economic and financial prosperity and of the redistribution and inequality aspects."***

Privileged to have been among the first persons who have actually read this book, I am fully confident that the book will be welcomed not only by the professionals but also by the general public. I take this opportunity to congratulate the honourable professors, Aristotel Pano and Anastas Angjeli, for their masterly work.

Thank you, distinguished professors, for this valuable book and others we wish to see you publish in the future!

*Thank you all for coming today!*

**GOVERNOR SEJKO: SPEECH AT  
THE CEREMONY OF SIGNING THE  
MEMORANDUM OF UNDERSTANDING  
BETWEEN THE SWISS GOVERNMENT'S  
SECO AND THE BANK OF ALBANIA**  
-1 March 2019-

*Dear ladies and gentlemen,*

Today we start the second phase of the cooperation with the State Secretariat for Economic Affairs (SECO), which provides, on behalf of the Swiss Government, technical assistance to support, among others, central banks.

The development and the continuous enrichment of scientific capacities of our talented staff, and the implementation of research and analysis methodologies to support the decision-making and policymaking processes are a priority for the Bank of Albania. The development and the continuous enrichment of scientific capacities of our talented staff, and the implementation of research and analysis methodologies to support the decision-making and policymaking processes are a priority for the Bank of Albania.

In this context, it is a pleasure and honour for me, as the Governor of the Bank of Albania, to sign, together with H.E. Ambassador Maître, this agreement between our two institutions. At the Bank of Albania, we are very enthusiastic about this cooperation. The signing of the agreement today follows the conclusion of a similar and very successful cooperation in the period 2013-2018, which improved significantly our analysis, research and technical capacities. I can proudly and confidently say that the programme has accomplished all the goals. It addressed three key aspects for the central bank: research, monetary policy and financial stability. It contributed not only to enhancing the knowledge, the expertise and the application of contemporary methodologies for economic and financial analyses, but also to materialising a concrete

***“The development and the continuous enrichment of scientific capacities of our talented staff, and the implementation of research and analysis methodologies to support the decision-making and policymaking processes are a priority for the Bank of Albania.”***

product to improve and expand evaluation, forecasting and analysis models. These models play now a significant role in the decision-making process at the Bank of Albania.

Under this cooperation programme, the Bank of Albania benefited technical and financial support. Some statistics from the implementation of the first phase illustrate the extent and impact of this programme. In the period 2013-2018, we realised 30 different activities, involving 360 staff members from the Bank of Albania. Moreover, around 270 employees attended 18 workshops on dedicated topics for the Bank of Albania. In addition, representatives from the Bank of Albania participated in 8 academic conferences in which 87 members from its staff presented their research and received valuable comments for further improving their work. Three employees have been able to visit The Graduate Institute Geneva to attend post-university studies for a period up to six months, and develop their research projects under the supervision of and assistance by renowned professors of the Institute.

The Bank of Albania is responsible for the formulation and implementation of the monetary policy, regulation and supervision of the banking system, regulation and development of the payment system, and promotion of financial stability. In the framework of the cooperation with SECO, it benefits not only in academic but also in concrete terms. The developed forecasting and analysis models enable the monetary policy to play a more proactive role, as testified in the successful management of appreciation pressures on the exchange rate in the previous year. Thanks to SECO-funded cooperation projects, the Bank of Albania has adopted contemporary models and methodologies for evaluating the adequate level of the foreign currency reserve - currently standing at EUR 3.3-3.4 billion, managing liquidity in the banking sector, and withstanding adverse scenarios. Also, the study of various phenomena related to the functioning of the financial system has prepared the ground for the drafting and approval of a series of regulations, which - among others - have accelerated the process for the reduction of non-performing loans and will create a safer and more efficient regulatory environment with regard to managing financial shocks. Lastly, the cooperation with SECO has generated a number of projects, which are being currently implemented in the field of payment systems. One particular example is the national strategy for promoting the use of retail payments, which serves, among others, to lowering their costs, promoting remittances and boosting financial inclusion.

*Dear ladies and gentlemen,*

The new agreement, similarly to the previous one, enables the Bank of Albania to be part of a rich, deep and diverse programme of bilateral assistance and capacity building for central banks. Through qualifications and capacity building, the goal of the cooperation agreement is to perfect the analysis, the decision-making and, consequently, the policy-making processes at the Bank of Albania. I think that we have already established firm foundations that guarantee an even stronger partnership for the second phase.

***“Through qualifications and capacity building, the goal of the cooperation agreement is to perfect the analysis, the decision-making and, consequently, the policy-making processes at the Bank of Albania.”***

Expected outcomes from the implementation of the second phase include: monetary policy decision making sustained by improved forecasting capacities, macro-prudential policy formulated based on a larger body of knowledge about various risks; and research further enriched with the best research methodologies and practices. These goals form the core of our medium-term strategy.

The Bank of Albania aims to increase the impact of research results on decision-making, extend research to other departments, and adopt highest standards on ethics and rigorous research, which renders it one of the priorities of the cooperation.

Many of the current developments and challenges in certain countries or regions may appear as distant and alien to us, but globalisation and economic integration disregards borders and their effect and impact may spill over into our economy. The problems that persist from the financial crisis, the continuation of quantitative easing programmes and the new normal for the monetary policy affect the functioning of the central bank. On the other hand, challenges and opportunities introduced by technological development for central bank policies and decision-making, financial inclusion and financial instruments, are phenomena that affect not only the central bank but also the rest of the society. It is, therefore, necessary to study, analyse and address such phenomena based on facts and best scientific analysis. We value international cooperation in these fields as a very important contributor to coping with such challenges and undertaking visionary policies.

***“The selected format for providing technical assistance enables the output objectives of the cooperation to be tailored to the characteristics of the Albanian economy and dedicated to the Bank of Albania and its decision-making and operational framework.”***

Notably, the selected format for providing technical assistance enables the output objectives of the cooperation to be tailored to the characteristics of the Albanian economy and dedicated to the Bank of Albania and its decision-making and operational framework. The technical assistance consists of a set of activities that include all the phases and methods of learning and, at the same time, contributes to all concrete and flexible policy-making processes at the central bank. Activities under the programme range from lectures to practical implementation of the

knowledge and application in specific projects, in accordance with the priorities of the Bank of Albania.

The selection of a serious partner is another important aspect for the success of this agreement. The Graduate Institute Geneva has become an important partner for the Bank of Albania, contributing with its academic staff as well as collaborators it selects among renowned professors and experts of economics, finance and banking.

This agreement between the Bank of Albania and SECO, the centre of expertise for all core issues relating to economic policy, in Switzerland and not only, helps the Bank of Albania to fulfil the objectives, to carry out its duties and to withstand future challenges.

I would like to thank once again Mr Maître and the State Secretariat for Economic Affairs for the contribution to the Bank of Albania.

I look forward to the fruitful and successful cooperation under the new agreement.

***Thank you for your participation!***

**GOVERNOR SEJKO: WELCOME  
ADDRESS TO THE IADI'S ERC REGIONAL  
COMMITTEE MEETING IN TIRANA  
-4 April 2019-**

*Dear ladies and gentlemen,  
Dear Mr Boccuzzi,  
Dear Guests,*

Good morning and thank you for giving me the opportunity to warmly welcome you all to Tirana and the Bank of Albania and address this international gathering.

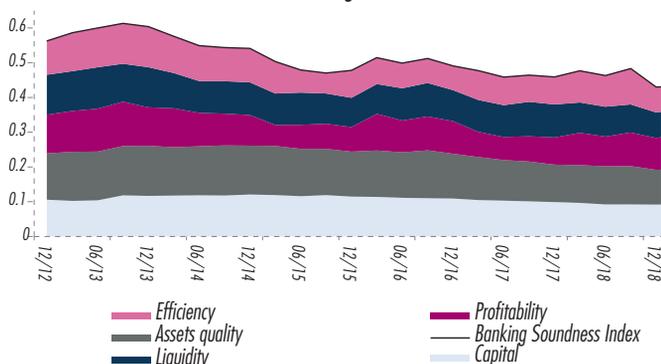
It is a particular pleasure to have you here at the premises of the Bank of Albania today and to host the meeting of the Europe Regional Committee (ERC) of the International Association of Deposit Insurers (IADI). After this opening meeting, the agenda will then continue with the Technical Assistance Workshop for the rest of today and tomorrow. I hope you will enjoy it and, most importantly, hold interesting and constructive discussions. I take this opportunity to thank the International Association of Deposit Insurers (IADI) and the Albanian Deposit Insurance Agency (ADIA), who have made it possible for this event to be held in Tirana.

Throughout the development of ADIA, IADI's contribution and input has been undeniable in setting standards. In this regard, IADI has played an important role as a forum for deposit insurers from around the world to gather and share knowledge and expertise. The IADI has also provided intensive training and educational programs and has produced research and guidance on matters related to deposit insurance. Such examples include: establishing new deposit insurance systems and enhancing existing ones and contributing to safeguarding the stability of financial systems, by promoting international cooperation and encouraging wide international contact among deposit insurers and other interested parties. All these efforts have helped our deposit insurance scheme grow.

Since the inception of the ADIA, the Bank of Albania has been strategically committed to creating and maintaining an efficient and effective deposit insurance scheme in Albania. From the beginning, one of the Bank of Albania's responsibilities has been to develop a stable and safe banking system. Its efforts towards the new architecture of the banking sector - guided by international standards and consumer protection principles,

and in coordination with government - have helped in setting up the Albanian Deposit Insurance Agency. The Parliament approved the ADIA law in 2002 to restore public confidence in the nation's banking system. The Bank of Albania, by law, is the supervisory authority of the ADIA.

Chart 24 Banking Soundness Index\*



\*The increase of the indicator value shows a lower stability. The breadth of each dimension means its contribution to risk.  
Source: Bank of Albania.

The role played by deposit insurers is essential in crisis prevention and management, as already proved by the experience during the global financial crisis. This role has proactively evolved towards mitigating financial system vulnerabilities even in the absence of deposit runs or banks in default. It is now a fact that deposit guarantee schemes mitigated the recent financial crisis, using every possible instrument available to them, such as: increasing the deposits coverage limit; expanding the scope of the guarantee scheme; and providing faster deposit pay-outs or even liquidity support. The outcome of these developments is that a new focus is being placed on deposit insurance in the post crisis period. Deposit insurance is now considered as an essential crisis management tool and an important instrument for orderly liquidation of an unsound financial institution. A well-designed deposit guarantee scheme largely supports financial stability and financial crisis resolution by mitigating risks of and maintaining trust in the financial system.

However, recalling one of the most important lessons we learned from the global financial crisis, despite the mandate given to any institution, no player can alone deal with a systemic crisis and the consequences of strong spillover effects and contagion risks.

It is essential that each element of the safety net develops robust mechanisms that aim to resolve financial institutions and stabilize the financial system as smoothly as possible, minimizing the cost to the economy. Moreover, financial stability can only be preserved by a well-coordinated financial safety net, which is supported by a resilient legal framework, proper tools and instruments and careful contingency planning for each of its elements.

***“One of the most important lessons we learned from the global financial crisis, despite the mandate given to any institution, no player can alone deal with a systemic crisis and the consequences of strong spillover effects and contagion risks.”***

The Bank of Albania has dedicated much of the past 10 years to integrating the lessons learned from the recent financial crises into a new regulatory framework. Our financial safety net is further aligned with international best practices, as we coordinate our roles as supervisory authority, lender of last resort and, recently, resolution authority as well. Our post-crisis regulatory framework points towards a stronger banking sector, based on a more solid capital foundation that ultimately serves to protect deposits and taxpayers' money. In this perspective, the Bank of Albania has reinforced banks' capital position with higher requirements for core capital and is developing new demands for macro-prudential buffers, to build up the loss-absorbing capacity of banks in case of financial crisis.

Moreover, the financial safety net already in place was further strengthened with a new mandate for the Bank of Albania as the resolution authority. A transposition of the BRRD, the new resolution law empowers the Bank of Albania with the necessary tools and instruments to resolve failing banks, with no eventual impact on financial stability.

Nevertheless, going back to the important lessons of the crisis, these efforts would be insufficient unless undertaken in coordination with all the relevant institutions and players of the crisis management platform. Clearly, effective crisis management requires ongoing communication and coordination among: supervisors and resolution authorities, financial market authorities, deposit insurers and the government. The Financial Stability Advisory Group (FSAG) is assigned with the important role of assisting in safeguarding financial market stability in the Republic of Albania. The FSAG was established in 2006 and comprises the Ministry of Finance and Economy, the Bank of Albania, the Albanian Financial

Supervisory Authority and the Albanian Deposit Insurance Agency. A Memorandum of Understanding between the FSAG participants has been in place since 2014, to support its work on monitoring developments and

***“The banking sector operates in a sound and stable macroeconomic environment, sustained by a well-functioning and robust financial system.”***

risks to the banking and financial system and engaging in contingency planning and crisis preparation to prevent and address systemic risks. Thanks to prudent measures undertaken in coordination with all the relevant institutions, the Albanian economy enjoys a sound financial system, with healthy banks, ample liquidity and prudent behaviour in terms of risk-taking. The banking sector operates in a sound and stable macroeconomic environment, sustained by a well-functioning and robust financial system.

We are happy to observe that credit quality has improved significantly and the banking sector is consolidating, though more is expected in terms of financial deepening and credit growth. Standing from this point of view, our future efforts will certainly aim towards maintaining sound prudential practices and policies and further developing market discipline to secure a resilient financial system.

Staying in this line, the Bank of Albania and the Albanian Deposit Insurance Agency’s relationship has constantly evolved over the years to become a strong partnership and cooperation, allowing our institutions to fulfil their respective, but complementary, missions.

The topic of the Technical Assistance Workshop is also of great interest to the Bank of Albania and certainly to other institutions responsible for financial stability. The Bank of Albania looks forward to hearing and learning about the different perspectives and approaches that will be shared in this workshop or on the topic. Of course, the topic becomes more sensitive considering the current global financial complexity and its fast-changing landscape, and in view of the newly-acquired functions of the Bank of Albania and ADIA under the new law “On the recovery and resolution of banks in the Republic of Albania”. According to this law, the Bank of Albania has been assigned as the Resolution Authority, whereas the Albanian Deposit Insurance Agency is responsible for the administration of the resolution fund, which encompasses investing it in accordance with the policy approved by the Resolution Authority. Moreover, the law gives a new role to ADIA as an important partner in drafting resolution plans, as well as a new source of financing banks’

resolution, therefore increasing the pool of resources available to the Bank of Albania for resolving failing banks.

So, to conclude, once again, thank you very much for the opportunity to speak to you today. It is a pleasure to have you here and I hope you enjoy the rest of your stay in Tirana.

*I wish you all a successful event!*

*Thank you!*



## **GOVERNOR SEJKO: ADDRESS TO THE THIRD AAB CONFERENCE ON BANKS FOR SUSTAINABLE DEVELOPMENT**

**-14 May 2019-**

*Primary challenges for the banking sector:*

- *The banking sector should accomplish better its intermediation role in the economy.*
- *The banking sector should pay more attention to the efficient allocation of funds.*
- *In parallel to the improvement in the allocation of funds, more efforts are needed for the financial inclusion of the population.*
- *Modernisation and innovation should be an important and long-term priority of the banking sector.*

*Your Excellency Madame Minister,  
Dear Chairman of the Albanian Association of Banks,  
Dear representatives of the banking sector, dear guests,*

Let me first congratulate the Albanian Association of Banks on its 20th anniversary. The Association, which came into being as token of emancipation in the banking sector, has become now a genuine platform of communication and coordination within the banking industry, and a key player in the economic and financial life of the country.

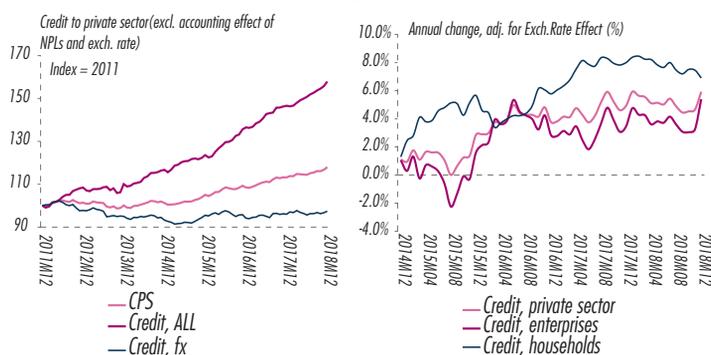
I would also like to congratulate the organisers for this event, which helps the banking sector, regulators and policymakers alike, to identify the challenges lying ahead and explore the best alternatives for addressing them.

*Dear ladies and gentlemen,*

The banking system in Albania has made considerable progress over the last two decades. To illustrate my point, I would like to bring to your attention some facts and figures. Over the span of two decades, the portfolio of bank credit has expanded significantly, leaping from 5% to 35% of the country's GDP. Similarly, the volume of deposits - in other words, the volume of savings of the Albanian public administered by the banking sector - has grown from 45% to 70% of the GDP. At the

same time, the number of households, whose deposits are guaranteed by the deposit insurance scheme, has increased six fold, to 2.4 million. In parallel with quantitative indicators, the Albanian banking sector has developed, has become more cutting-edge, and has marked significant progress in the range of bank products and payment instruments that it provides. Lastly, and equally important to the development indicators, this sector has proven resilient to shocks and - unlike many other experiences in regional countries - it did not need to use public funds.

*Chart 25 Loan performance over the years (by currency, index) and by customers (annual change, %)*



Source: Bank of Albania.

While highlighting, on the one hand, the progress made insofar, I would like to point out that the banking sector development - and of the financial system in general - has not been a linear one: it has constantly faced challenges of different forms and types. These challenges have required prudence as well as active, intelligent and courageous decision-making. I am confident that our combined experience may and will help us in future decisions.

Therefore, I consider this conference as an excellent opportunity to reflect on certain challenges that we may face in the period ahead.

First, let me present a brief overview of the economic and financial situation and development perspective for Albania.

As we have repeatedly said, the Bank of Albania deems that the Albanian economy is set on a steady path of improvement of its cyclical position. Aggregate demand has expanded leading, in turn, to acceleration of economic growth, increase in employment and wages, better utilisation

of production capacities and improvement of the financial situation of enterprises and households.

In parallel, the balance sheets of the banking sector are sound and improving. The key parameters of liquidity and capitalisation are above our regulatory requirements, the non-performing loans ratio is on a clearly downward trend, and the banking sector appears profitable. In addition, as a result of the consolidation process underway in the banking sector, new actors have been introduced to the market - I take this opportunity to welcome them - and premises for fostering competition and efficiency in the banking system are created. Lastly, our stress tests show that this sector is capable - overall - to withstand shocks.

This process has been anchored to prudent economic policies: monetary stimulus, fiscal consolidation and prudential supervision and regulatory policies. In particular, let me point out that the Bank of Albania has earnestly worked on the following:

- Approximation of our regulations to European Union standards and Basel Committee requirements;
- Improving the supervision architecture of the financial system and strengthening safety nets;
- Improving the credit environment by facilitating the solution of issues related to non-performing loans; and,
- Developing and expanding further the financial and payment systems market.

*Dear ladies and gentlemen,*

The banking sector plays a key role with regard to the administration of the savings of the Albanian households, intermediation and allocation of funds, and expansion of financing instruments, risk management and payments. The level of accomplishment for these functions will be mutually related to the pace of Albania's development in the long-term horizon.

From this perspective, let me identify four primary challenges for the sector:

First, the banking sector should accomplish better its intermediation role in the economy. The improvement of soundness indicators, the reduction of credit risk and the consolidation of the banking sector should pave

the way for a more active approach of banks to lending. The financial capacity of the country should be reflected better in lending to Albanian enterprises and households.

Second, the banking sector should pay more attention to the efficient allocation of funds, toward more productive and high-potential sectors in the long term. The banking system, in general, is matured enough to discern between good and bad borrowers, thus minimising problems arising from moral hazard and information asymmetry. Yet, the constant financing and the reallocation of capital provide the basis for the development and restructuring of the economy. In this regard, banks would need to identify profitable sectors, which may guarantee added value for the economy and employment, and support them with funds. Third, in parallel to the improvement in the allocation of funds, more efforts are needed for the financial inclusion of the population. The improvement in access to finance, coupled with concrete initiatives to deep financial education of the population, with which it is in a complete symbiotic relationship, helps enterprises and households to capitalise their growth potential, by generating profit for themselves and gains for the economy.

Lastly, modernisation and innovation should be an important and long-term priority of the banking sector. A constant evolution would provide the premises for a sector that is competitive and efficient and avant-garde with regard to technological development in Albania. Taking into account the insofar substantial impact of the banking sector on the advancement and diffusion of innovation to other sectors, this investment would be necessary and profitable to both the financial industry and the overall Albanian society.

Forward looking, I remain confident that the banking sector will know to rise to these challenges and that the conclusions of today's conference will serve as another stepping stone in this regard.

*Thank You!*

**GOVERNOR SEJKO: ADDRESS TO THE  
DISCUSSION MEETING WITH SENIOR  
BANKING SECTOR OFFICIALS**  
-29 May 2019-

**Role of the banking industry in the future development of  
Albania Challenges and Opportunities**

*Dear banking system executives,  
Dear guests, dear colleagues,*

I have the pleasure of welcoming you to this event, which brings us together to address some issues of particular importance to the banking sector and the Albanian economy as a whole.

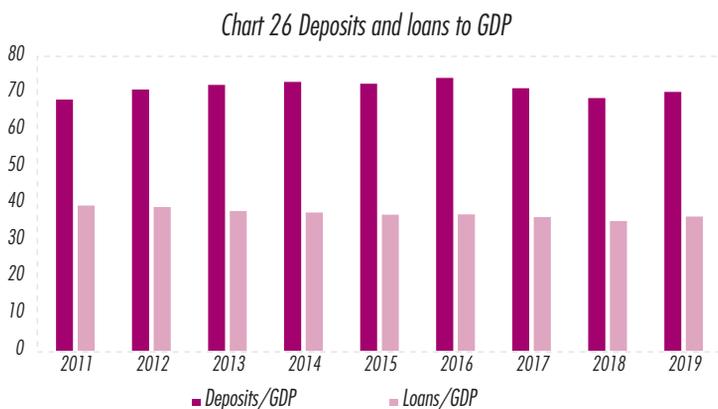
Today, we will be discussing the role of the banking sector in the development of Albania's economy, from short, medium, and long-term perspectives. This is, in our opinion, a matter of both private and public interest.

I am confident that the discussions around this table will yield a tangible product. Our aim is to adopt a common development philosophy that will guide the banking industry into the future, as well as to agree on a concrete and detailed plan of measures for improving the quantity and quality of lending and enriching the array of financial products.

This meeting takes place only two weeks after the Third Conference of the Albanian Association of Banks, which was dedicated to the sustainable development of the banking sector in the future. At this Conference, where I had the honour and pleasure to address, I underlined the valuable contribution of the banking industry to Albania's development over the past two decades and identified some challenges and opportunities that may lie ahead for all of us, together, in the future. In our vision, these challenges and opportunities are related to the degree and quality of intermediation of funds in the economy - in other words, the volume and structure of credit, and the expansion of the range of financial products - to boost financial inclusion of the population and innovative technological development in the economy.

The premises of this meeting remain consistent with what I said earlier.

The Albanian banking sector has developed rapidly over the past two decades. Now, this sector administers around 2.4 million bank accounts of individuals, and provides credit to around 327,000 economic units, of which around 307,000 are households and around 19,000 are small or large enterprises; the rest are other public or private entities. In macroeconomic terms, the volume of financial savings administered by the banking sector accounts for around 70% of the GDP, whereas the volume of credit accounts for around 35% of the GDP. Moreover, in the past two decades, the banking sector has expanded its operational network across the territory of the country and has introduced bank products and payment instruments in line with global developments in this sector.

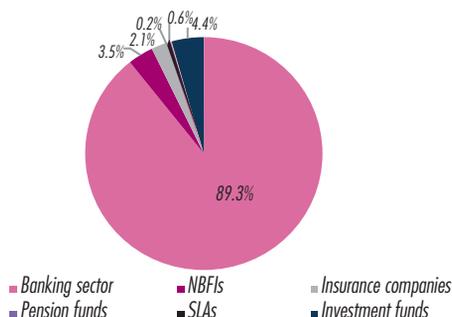


*Source: Bank of Albania.*

In brief, the banking industry has contributed to the development of the Albanian economy by encouraging savings and generating credit. It has also contributed to the development of financial markets and the expansion of payment instruments, by offering advice and expertise to enterprises and providing for risk diversification in the economy.

In return to these contributions, the banking sector - now entirely privately owned - has constantly generated positive returns and has experienced relatively low volatility in its profitability indicators. It has offered and continues to offer a positive business prospect for all investors that have a long-term vision and are dedicated to accompanying Albania on its journey toward progress and European integration.

Chart 27 Share of financial system segments to total assets of the financial system, June 2019



Source: Bank of Albania, Albanian Financial Supervisory Authority.

The banking sector has been and remains the backbone of the financial system and the most professionally avant-garde segment of the Albanian economy. I am confident that - irrespective of the trend for expansion and diversification of other segments of the financial market - the banking sector will continue to play a unique role in the near and distant future. In this context, I would like to share with you the vision of the Bank of Albania on development challenges.

## 1. CREDIT AS AN INSTRUMENT THAT BRINGS TOGETHER THE INTERESTS OF BOTH THE ECONOMY AND THE BANKING SECTOR

Sustainable development of the banking sector requires increased attention to its primary role: transforming savings into financing instruments to the economy. In practical terms, the banking industry should ensure that the credit supply concords in terms of time and diversity to the needs of the economy, while factoring risk in directly and responsibly.

Before I elaborate on this topic, let me emphasise two key moments.

The first moment pertains to a misunderstanding we often encounter in the public opinion, even within the professional discourse, that is the Albanian banking sector is not lending. This is not true. Our data show that, excluding the accounting effect of the exchange rate and the write offs, the portfolio of bank loans has

***“Low return on assets is one of the problems facing the banking sector in Albania, in the region, and beyond. Such low rates of return - which in Albania are induced also by ample foreign currency liquidity and will continue to be favoured by the reduction trend of the public debt and domestic borrowing by the Government - increase the vulnerability of the sector to shocks.”***

recorded 6% annual growth in the last year. Moreover, the pace of growth has shown an improving trend, in line with the overall context of the performance of the economy. In parallel, the expansion of the bank loan portfolio has shown a more balanced composition in terms of both the currency structure and the destination of funds. I would also like to underline that the term to maturity of the bank loans portfolio is short, which means that it is renovated frequently. Thus, regardless of the pace of change in the size of the portfolio, the Albanian banking sector continues to lend. To illustrate my point, only in 2018, the banking sector has granted new loans amounting to around EUR 1.1 billion (equivalent) to fund business investments, house purchase and consumption.

The second moment pertains to the responsibility and the diligence of the banking sector vis-à-vis lending. As the administrator of public savings, responsibility and due diligence in lending are non-negotiable conditions. Measures undertaken to bolster the short and medium-term development of Albania should not run against its financial stability in the long term. Yet, in coherence with my observations above, I judge that the banking sector should pay more attention to lending. This judgement is based on two theoretical premises and is enabled by an important precondition.

First, a more proactive approach to lending is beneficial for the sustainable and long-term development of the banking industry. Low return on assets is one of the problems facing the banking sector in Albania, in the region, and beyond. Such low rates of return - which in Albania are induced also by ample foreign currency liquidity and will continue to be favoured by the reduction trend of the public debt and domestic borrowing by the Government - increase the vulnerability of the sector to shocks. Against this backdrop, the banking sector should increase its orientation toward lending as an instrument to enhance asset profitability and boost its long-term stability. In the same vein, leaving potential sectors or clients outside the focus will push them to turn to other segments of the financial market. This implies less income for the banking sector not only in the form of less income from lending, but also in the form of less income from other products in the package of services that banks offer to clients.

Second, a more proactive approach to lending is beneficial for the sustainable and long-term development of the Albanian economy. Our analyses, based on the available information and the bank lending survey for Albania suggest a divergence in the pace of improvement in loan demand and supply. While this divergence does not seem to have, as of yet, a substantial impact on lending, if it deepens further it will jeopardise the performance of credit and the pace of economic growth.

In this light, I would like to underline that a series of studies, both at home and abroad, emphasise the fact that the Albanian economy would benefit from credit growth, for as long as and provided that such growth is based on firm structural and institutional premises. It is our common duty not to let this opportunity pass.

This conclusion leads me naturally to the precondition I mentioned earlier. The Albanian economy offers positive business prospects, coupled with a high crediting potential and reduced credit risk. This reality dictates the need and the possibility for a bolder approach toward crediting. I have had the opportunity to elaborate - on a continuous basis - our standpoint on the economic development perspective. I would like, however, to bring today to your attention again that, in cooperation with the Albanian Association of Banks and the Government of Albania, we are implementing an ambitious plan of measures for reducing non-performing loans. From a strategic point of view, the objective of this plan was not only to simply clean banks' balance sheets, but also to provide for a qualitative improvement of the crediting environment in Albania. In this context, the banking industry now has a more adequate legal and regulatory framework on protecting the interests of the creditor, repossessing collateral and executing it, and a more transparent environment for assessing the risk of individual borrowers.

On this basis, the Bank of Albania deems that the banking sector, should:

- Pay additional attention to crediting as a commitment that generates mutual benefits both for it and the Albanian economy;
- Empower internal structures and its analytical and managerial capacities in terms of crediting;
- Ensure prioritized implementation of outstanding commitments under the plan of measures for reducing non-performing loans; and,
- Be more vocal and more transparent in identifying obstacles or deficiencies it finds in the crediting environment, both in legal and in regulatory aspects.

These recommendations should not be addressed separately from the second challenge.

## **2. EFFICIENT ALLOCATION OF BANK LOANS AS A PRECONDITION FOR SUSTAINABLE AND LONG-TERM DEVELOPMENT**

Increased attention to crediting does not imply merely increased attention to the volume of credit, but also additional attention to its

quality. These two aspects are complementary and do not contradict each other in the long run.

The history of credit in transition economies, including Albania, features some problematic elements which we need to avoid in the future.

First, credit has been notably concentrated in non-tradable goods and services, such as residential buildings and services, which are oriented solely - or primarily - toward the domestic market. Clearly, this trend reflects, at the same time, the lack of managerial knowledge and capacities in the Albanian economy, and the banks' behaviour in terms of crediting. This has produced two negative consequences: it has failed to promote the growth of productivity and the improvement of the long-term growth pace of the domestic economy; and, it has restrained the diversification of the production base in the economy, limiting its resilience to various shocks.

Second, a part of the credit portfolio, not quite insignificant, has been granted to borrowers who have been exposed to and unhedged against exchange rate volatility. These borrowers have often had limited and deficient knowledge on the exchange rate risk and have suffered the consequences.

Beyond macroeconomic aspects, the structural deficiencies of crediting are, in part, responsible for the rapid growth of non-performing loans in the post-financial crisis period.

In this context, the Bank of Albania deems that the banking sector should:

- Expand the range of credit products, especially with regard to funding projects, so as to ensure a better coverage of the sectors of the Albanian economy and of the needs of borrowing households;
- Increase its attention to sectors that offer a high potential for returns, given the low usage of financial leverage, such as agriculture and innovative business start-ups in information technology;
- Supplement the range of financial products with derivative instruments for hedging against the exchange rate, especially for borrowers exposed to it.

### **3. ENRICHING THE ARRAY OF FINANCIAL PRODUCTS AND PAYMENT INSTRUMENTS**

In addition to its primary function, intermediation of funds, the banking sector has an essential role to play in providing payment services to the economy.

The scale and efficiency of accomplishing this role is in proportionate correlation to the scale of financial inclusion of the population, the overall efficiency of the economy, and - why not - the level of its formalisation.

In the framework of its role as overseer of payment systems, the Bank of Albania has undertaken a series of measures to further improve legal and regulatory frameworks. These improvements aim to accommodate innovative technological developments in the field of payments, enhance effectiveness by promoting competition and ensure transparency and consumer protection.

Acknowledging the role of other institutions, the Bank of Albania, together with the National Payment Systems Committee, have drafted for the first time the National Retail Payments Strategy, which identified market needs and relevant measures for intervention. The goal of the Strategy is to improve the retail payment market by providing Albanian citizens with more choices for their daily transactions, in an easy-to-use cost-effective way, as well as to increase financial inclusion. The Strategy has a detailed action plan; the Bank of Albania is fully committed to its implementation.

In this framework, I would like to emphasise a notable achievement, the finalisation of the draft law on "Payment services", which transposes the Revised EU Directive on Payment Services (PSD2). The draft is currently subject to public consultations. The approval of this draft-law would provide the preconditions for promoting innovative technological solutions, and introduction of more efficient and less-costly instruments. At the same time, it contributes to enhancing the security of payment services by addressing risks related to the implementation of innovative technological developments in these services.

In the period ahead, we will continue to improve payment services; an important initiative in this regard is the preparation of a draft-law "On payments account" which transposes another EU Directive. It seeks to underpin the objectives for increasing financial inclusion of the population, which is currently at relatively low levels.

I am confident that the expansion of financial inclusion, notwithstanding its short-term costs, will contribute significantly to bolstering your intermediation activity in the long run.

In addition to regulatory improvements, we are engaged in a series of projects on infrastructure improvements. Such as:

- Creating a national platform for real-time processing of payments. Such platforms have proven to be very effective, as they realise

a payment within seconds and may replace or supplement areas where the activity of card payments have not been effective.

- Creating a national SWITCH, which implies processing a card payment through a domestic platform, avoiding prolonged cycles via international card processors.
- Creating a system for the settlement of euro payments domestically in order to lower the existing very high commissions resulting from the use of correspondent banks, which are very costly.

All these legal improvements and technological modules, which are being made available to you, should be followed by concrete actions on your side, to expand the range of instruments and lower their costs.

*Dear ladies and gentlemen,*

The banking sector has had and will continue to have a positive development prospect in Albania. That does not mean, however, that there are no challenges lying ahead of us. On the contrary, there are numerous, complex and dynamic ones, often combined with unpredictable development, domestically and internationally.

***“It is our duty, as actors and regulators of this industry, to respond in a timely and decisive fashion, to turn the already identified challenges into development opportunities, as well as to enhance the stability and resilience of the sector against unforeseeable shocks.”***

It is our duty, as actors and regulators of this industry, to respond in a timely and decisive fashion, to turn the already identified challenges into development opportunities, as well as to enhance the stability and resilience of the sector against unforeseeable shocks.

As we proceed, I would like to invite you all to openly share your thoughts on these issues. I am certain that a constructive dialogue will enable us to prepare a concrete, realistic, and - why not - ambitious plan.

Once again, let me reiterate that the banking sector is a national treasure and a strategic sector. This status allows it to have an important voice in the formulation of development policies, along with an obligation to serve with utmost commitment to the economy and the society.

*Thank You!*

## **GOVERNOR SEJKO: ADDRESS AT THE LAUNCHING OF THE NEW ALBANIAN BANKNOTE SERIES**

**-12 September 2019-**

*Honourable Minister Denaj and Minister Shalësi,  
Your Excellences,  
Distinguished guests,  
Ladies and gentlemen,*

It is a great pleasure to have you with us in this very important day for the Bank of Albania and our national currency.

In the history of the modern Albanian state, the establishment and modernisation of its monetary and financial systems has a substantial place. The Albanian currency is a symbol that has been present throughout the development of the country, bearing distinctive features of each era in the history of Albania.

It is not a coincidence that one of the key objectives in the creation of a national bank was, among others, the issue of the Albanian currency, immediately after the sublime act of the Declaration of Independence that laid the foundations on which the Albanian state was created. In 1926, one year on from its founding, in 1925, the National Bank of Albania presented and put in circulation, for the first time, a complete series of Albanian banknotes and coins.

Subsequent developments in the centralisation and later modernisation of the Albanian state dictated the need for continuous improvements of banknotes in terms of both content and design. It has always represented, however, the economic, social and political development phases of Albania. Through the themes and art embodied in its design, the national currency remains a faithful herald of the development, culture and history of a country. Thanks to these attributes, the currency is in itself a significant element of the national identity.

***“Through the themes and art embodied in its design, the national currency remains a faithful herald of the development, culture and history of the national identity.”***

The theme of the current series of Albanian banknotes, created more than 20 years ago, features important historical periods of the Albanian nation, and prominent personalities of Albania.

These themes, embodied in each banknote through the portraits of some of the most illustrious national figures, evoke notable episodes in the history of Albania in its endeavours for freedom and prosperity. The themes lead us on a journey through historical eras, starting from Antiquity, moving through the Middle Ages, the National Awakening, the Independence of Albania, and concluding with the symbols of the national flag and anthem on the latest and largest denomination, the 10.000 Lekë banknotes. These symbols have been chosen as representative and unifying elements for every Albanian.

While the new series that we are presenting today retains the same themes of the already existing series, its design is reconfigured and restyled, through the application of modern technologies in banknote production. Thanks to cutting-edge technology, the Albanian banknote is now more secure. Its security features – a key priority of the Bank of Albania – are enhanced. In addition, innovative printing techniques and materials have been used to increase durability and the banknotes' dimensions have been optimised. The design now boasts a fresher look.

The new series of Albanian banknotes combines maximum security, modern design, artistic communication of the historical message, and a longer lifespan. It consists of six denominations: 200, 500, 1000, 2000, 5000 and 10.000 Lekë. While the first two denominations - 200 and 5000 Lekë, issued in 2017 - are ready to be put in circulation in September 2019, the other banknotes of the series will be put in circulation gradually over the coming years and will be legal tender alongside the existing denominations.

***“The new series of Albanian banknotes combines maximum security, modern design, artistic communication of the historical message, and a longer lifespan”.***

The presentation of the new series demonstrates the continued commitment of the Bank of Albania to further enhance the quality and security of banknotes in circulation. Both these attributes guarantee the absolute integrity of our banknotes and represent with dignity the Bank of Albania and the Albanian state itself.

In this context, today's ceremony marks the culmination of a voluminous work started four years ago. In addition to Bank staff, many renowned academics, historians, Albanologists, numismatists and experts from the most experienced companies in the field of banknote production have actively and intensively provided their invaluable contribution. The combination and cooperation of specialists from various fields of expertise, coupled with the latest technological innovations in banknote printing, enabled the refinement and presentation of a new series of banknotes which are simple to use, boast a contemporary design and strike a balance between innovation and current tradition.

*Dear ladies and gentlemen,*

Safe and efficient fulfilment of the economy's need for money, in terms of value and structure, and guaranteeing the confidence of the public in our currency, which is one of our main responsibilities, have been at the core of our efforts in preparing this new series.

Therefore, I am very honoured to unveil today, for the first time, for the eyes of the public, this new series of banknotes. As the Governor of the Bank of Albania, through this symbolic signing, I open the doors for the first two banknotes of the new series to start their journey and circulate in the Albanian economy.

In the hope that the new banknotes will be welcomed by the public, let me now present to you their design. I would also like to call on the public to handle banknotes with due care, in order to preserve their durability, quality and integrity. From 30 September 2019, the banknotes of the new series 200 Lekë and 5000 Lekë will be legal tender in the Republic of Albania and will be used as means of payment, alongside the existing banknotes.

*Thank You!*



## **ADDRESS TO THE 5TH MEETING OF THE NATIONAL PAYMENT SYSTEM COMMITTEE -1 October 2019-**

*Dear Minister Denaj,  
Dear members of the National Payment System Committee,  
Dear ladies and gentlemen,*

Please allow me, at the outset, to express on behalf of the Bank of Albania our sincere appreciation for your continuous commitment and collaboration to achieving common objectives in the field of payments and beyond. The collaboration and discussion of development alternatives among the main market actors is considered as one of the main pillars for the success of the undertaken reforms.

In this light, since 2015, the Bank of Albania has organised the National Payment System Committee (NPSC) to support and contribute to increasing the security, stability and efficiency of the national payment system in Albania. These objectives are rather important for the implementation of our monetary policy and for the financial and economic stability of Albania, by building up firm foundations for development and welfare. I would like to highlight that the NPSC is set up based on best international and European Union practices. It is a strategic, consulting and communicating entity, whose decisions support the activities of the participating institutions in the area of payments. In this framework, it is worthy to note that during the five years of its existence, crucial results have been achieved, most noteworthy the approval of the National Retail Payments Strategy (2018-2023).

The insofar findings clearly evidence the low financial inclusion of the Albanian population, not only compared with the European Union, but also with regional countries. All these are reflected in a high use of cash in the Albanian economy. Empirical studies by the Bank of Albania in collaboration with the World Bank Group show that the use of cash in economy, beyond the diminishing effects on the mechanisms of the Bank of Albania used for maintaining price stability and safeguarding

***“Empirical studies by the Bank of Albania in collaboration with the World Bank Group show that the use of cash in economy, has a real cost from its use as a means of payment, amounting to more than 1% of GDP.”***

financial stability, and supporting economic development, has a real cost from its use as a means of payment, amounting to more than 1% of GDP. Furthermore, the use of cash may be seen as a promoter of informality in economy.

Hence, this strategy aims to establish a contemporary and comprehensive retail payments market, supported by safe and efficient infrastructures, as well as by a wide range of payments instruments and services that fulfil the needs of financially capable users across the country.

This strategy, compiled with the valuable support of the World Bank Group, is the outcome of a long and analytical study and aims to best address the needs of the domestic market.

The realisation of this vision is assessed to be materialised through a set of legal, regulatory and infrastructural developments, which promote technological developments and innovation in the payments market.

In this regard, I would like to point out that the inclusion of information technology developments in financial services is increasingly drawing the attention of central banks, regulatory and supervisory authorities worldwide. Both international and domestic practices show that a comprehensive approach through collaboration considerably supports the achievement of effective and optimal results.

***“The draft-law “On payment services” is considered as the first and crucial step in the framework of reforming and digitalising the small-value payments.”***

A concrete example of aligned efforts in this regard is exactly the one in the field of payments. In this field, the measures undertaken by the Government of Albania for the digitalisation of government services and recently for the draft-law “on billing and monitoring system of circulation”, which aims at increasing and strengthening the fiscalisation of the Albanian economy, appear to fully harmonise with the initiatives undertaken by the Bank of Albania, through the National

Payment System Committee, for modernising the payment market and increasing financial inclusion.

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circulation”, which aims at increasing and strengthening the fiscalisation of the Albanian economy, appear to fully harmonise with the initiatives undertaken by the Bank of Albania, through the National Payment System Committee, for modernising the payment market and increasing financial inclusion.

The Bank of Albania has worked on drafting a new legal and regulatory framework, which aims at promoting digitalisation in the area of payment services. The compilation of the draft-law “On payment services” is considered as the first and crucial step in the framework of reforming and digitalising the small-value payments.

In concrete terms, this draft-law is seen to considerably encourage the competition in the market, by providing a crucial contribution to the establishment of low cost services and easily accessible by the large public.

*Dear ladies and gentlemen,*

The promotion of the above objectives is not only important for the functions of the Bank of Albania as the monetary authority, but it also provides an essential contribution to the economic development and welfare of the general public.

All these developments would provide the expected effects only if they are based on measures in the framework of financial education of the public. Being aware that financial literacy constitutes a significant instrument for promoting the development of the market, for more than a decade, the central bank has been engaged in designing and developing educational programmes to address the needs of groups of interest.

It is not a coincidence that the focus of central bank, in both, advanced and developing countries, is on enhancing financial literacy. Numerous studies have shown that financial education has multiple benefits. Being familiar with the basic financial and economic concepts, appropriately knowing and using banking products and financial instruments as well as the ability to manage personal and household finances, are crucial to achieve individual, and societal welfare.

On the other hand, a well-informed financial decision of households helps central banks to accomplish their mandate in achieving price

stability and safeguarding financial stability. A better understanding of monetary policy accelerates its effective transmission to the real economy. Meanwhile, the quality of decisions for financing or investment has a direct impact on the stability of the whole financial system.

***“The Bank of Albania has been intensively involved in financial education over the years and this long-standing experience has clearly identified the need for a coordinated initiative at national level up to the upgrading this objective to a reform level of crucial importance for the country.”***

The Bank of Albania has been intensively involved in financial education over the years and this long-standing experience has clearly identified the need for a coordinated initiative at national level up to the upgrading this objective to a reform level of crucial importance for the country.

For this purpose, the Bank of Albania, driven by the requirements of other authorities, and of marketstakeholders, considered as indispensable the drafting of a National Strategy for Financial Education that you are also going to address in this meeting and the real outcomes in this regard are expected to become materialised very soon.

We are confident that such a strategic document - tailored for the local financial education context - would help through joint and coordinated actions and resources of various stakeholders in increasing effectiveness of objectives for cultivating a financial literacy in the Albanian society. I invite, therefore, all the participating institutions to engage and contribute actively to this initiative.

Concluding, I sincerely hope that this NPSC meeting will actively discuss and deliberate on various issues that need to be addressed about relevant topics.

***Thank you for your attention!***

**GOVERNOR SEJKO: WELCOME ADDRESS  
TO THE ANNUAL CONFERENCE OF THE  
BANK OF ALBANIA 2019  
-11 October 2019-**

**A BRAVE NEW WORLD?  
THE FUTURE OF BANKING IN EMERGING EUROPE**

*Your Excellency Mr President,  
Honourable Madam Minister and Chairman of the Parliamentary  
Committee,  
Dear representatives of the banking system, ladies and gentlemen,  
dear guests,*

It gives me great pleasure to welcome you on behalf of the Bank of Albania to our Annual Conference. This year the conference is co-organised again with the London School of Economics and Political Science (LSE), namely Institute of Global Affairs - internationally renowned for its leading expertise across the social sciences.

The Conference this year will seek to address the latest trends in the banking industry in Albania, in the region and the rest of the world, focusing on challenges and opportunities that lie ahead of us.

Naturally, these issues are of great interest not only to actors in the banking market but also to central banks and other regulators of the financial market. As we share experiences and engage in open discussions, we will be able to identify far-reaching approaches that are best fitted to meet the challenges ahead. We have invited distinguished speakers and experts from renowned international institutions as well as other actors and regulators from Albania and the region.

I am confident the conference will live up to its reputation.

*Dear Ladies and Gentlemen,*

The financial system and the banking sector at the heart of it play a unique role for economic development and welfare in Albania.

This system provides payment instruments, contributing to the free circulation of products and services. It also offers savings and credit instruments

for households and enterprises, promoting therefore development and enhancing welfare. The financial system helps households, enterprises and the economy to withstand shocks, by undertaking risks on its balance sheets and offering products to insure life, business activities and against natural disasters.

Therefore, the efficiency, stability and sophistication of the financial system are essential preconditions for rapid, stable and comprehensive growth. The development level of an economy is inter-related and inter-dependent on the development level of its financial system. This has been extensively illustrated by the Albanian experience over the last three decades.

The progress marked in the first decade of transition was conditioned by, among other things, embryonic developments in the banking and financial sectors. In the second decade, the activity of the banking sector expanded and competitiveness in this sector increased, setting the stage for crediting and economic growth to gather speed. This performance was disrupted by the global financial crisis effects spilled over to Albanian economy. However, unlike in many countries of the region, the crisis did not trigger recession or a proper financial crisis in Albania. Yet, indirect effects were present both in the economy and in the financial system.

As a monetary, supervisory and regulatory authority of the banking sector, in recent years, the Bank of Albania has focused on addressing challenges introduced by the crisis.

Let me present a brief overview.

First, due to aggregate demand slowdown and exchange rate depreciation, the financial situation of households and enterprises worsened; hence non-performing loans rose rapidly and credit supply contracted. Among other things, the rise in non-performing loans pointed to the need for comprehensive improvement of the legal and regulatory environment, especially with regard to the execution of collateral. Against this backdrop, in cooperation with other public agencies, the Bank of Albania compiled and implemented a detailed programme of measures, which addressed thoroughly the identified inadequacies. As a result, the level of non-performing loans dropped rapidly and credit supply improved. This action also created adequate conditions for its growth to gradually pick up the pace.

Second, following the introduction of stricter regulatory requirements on banking activity in the European Union, foreign banks reduced their exposure to both regional economies and Albania. Known also as deleveraging, this effect showed that higher integration of the banking sector exposes us to monetary policies and regulatory requirements applied in home countries. In response, the Bank of Albania has worked towards aligning our domestic supervisory and regulatory framework with European Union standards. We have implemented, in this regard, a new macro-prudential strategy, after the model of the European System of Central Banks. We have also carried out a comprehensive review of the supervisory and regulatory frameworks, to better address the risks to the banking sector: operational risk, market risk, credit risk and liquidity risk. Finally, we have actively participated in an international forum for addressing this phenomenon, known as the Vienna Initiative, and have enhanced our communication with international partners and home-country regulatory agencies.

Third, we have spent a lot of time and energy administering a consolidation process in the banking sector. As a result of this process, which may now be considered as finalised, the number of banks has now been reduced to 12. This has created the premises for the banking sector to be more motivated to lend, innovative in terms of products, and more competitive in terms of cost.

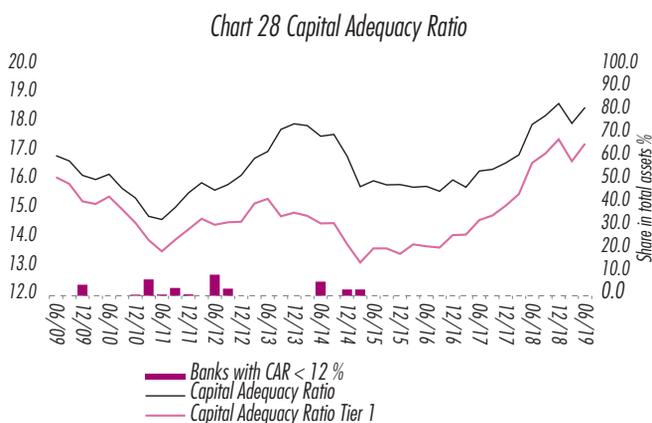
From a broader perspective, the Bank of Albania has worked on improving the regulatory architecture of the financial system in Albania and strengthening financial safety nets. Together with other public agencies, we have, established the Financial Stability Advisory Group; improved the legal framework for the functioning of the Deposit Insurance Agency; approved the Resolution Law; drafted a sub-legal and regulatory framework; and, established the necessary structures for them to function.

***“The Bank of Albania has worked on improving the regulatory architecture of the financial system in Albania and strengthening financial safety nets.”***

In parallel, we have adopted a modern framework for formulating and implementing the monetary policy, and steadily maintained an accommodative stance. Monetary stimulus has enabled the financial environment in Albania to be transparent, and have low interest rates, ample liquidity and moderate exchange rate fluctuations. This has

boosted consumption and private investments, reduced credit price, and eased debt servicing costs for all segments of the economy.

Reflecting these actions, the Albanian economy has made notable progress towards steady and long-term growth. The progress has been characterised by gradual acceleration of the pace of growth, expansion of employment and decline in unemployment, as well as improvement of private sector balance sheets. In particular, the banking sector appears liquid, well capitalised, with good profitability indicators. Regulatory capital hovers around 18%, notably above the minimum requirement, whereas the ratio of non-performing loans has dropped to 11% against the 25% maximum level recorded in 2014.



Source: Bank of Albania.

*Dear ladies and gentlemen,*

The ultimate objective of our work has been and remains promoting sustainable development for the country. The philosophy of our work is built on four main pillars: professionalism, responsibility, accountability, and transparency.

This philosophy has been tested and enriched with some valuable lessons learned during the last decade:

First, monetary, supervisory and regulatory authorities should adopt a proactive approach to the country's monetary and financial stability. This requires adequate institutional capacities and adopting a counter-cyclical approach, both toward monetary policy and macro-prudential policy. It

also requires constantly identifying current and potential challenges in order to address them in due time.

- Second, long-term economic growth should be anchored in continuous structural reforms. Public authorities may find it virtually impossible to predict or avoid shocks completely; however, both public authorities and the private sector may minimise the effects of these shocks through structural reforms aimed at creating productive and flexible structures, and preserving balance sheet stability. Public authorities and the private sector should be aware of the fact that long-term benefits from reforms exceed their short-term costs.
- Third, financial integration provides an additional channel of exposures to foreign shocks, whether in the form of global financial crisis or volatility in the regulatory framework. Overall, financial integration has been and remains a positive factor for development. In the case of Albania, it brings in financial capital and managerial know-how, with a series of positive effects on the Albanian economy, spearheading the economic and political integration of the country. Yet, integration requires fostering cooperation and exchanging information with our international partners and counterpart institutions.
- Lastly, the monetary and financial stability of the country should not be seen as an exclusive responsibility of the central bank, notwithstanding its primary role in it. It requires the contribution and cooperation of all state authorities.

*Dear ladies and gentlemen,*

The Albanian economy has solid premises for continuing and even accelerating the pace of growth. Strengthened financial stability, coupled with prudent monetary policies, offers additional guarantees for its sustainability. However, let me point out that many challenges lie ahead of us.

From a broader perspective, the financial industry, both in our region and globally, is under pressure from four powerful currents:

- Rapid development of information technology, which has created opportunities for financial innovation and has challenged classical banking models. New payment and credit instruments, new

financial market actors, and new business models, such as digital and electronic banking and payments, boost the penetration of financial services. Conversely, they challenge not only classical actors of the financial sector but also its regulators.

- Globalisation, which has expanded the scope of market actors and regulators. This phenomenon significantly exposes emerging economies to volatility in the regulatory framework or in the risk appetite in advanced economies.
- Re-regulation, currently underway in the financial system in Europe and globally. This process is aimed at enhancing security in the banking sector, lowering the probability of systemic crisis, and enhancing the capacities of authorities for managing them. However, it imposes additional costs on the banking sector and places it under less favourable conditions vis-à-vis other market participants.
- Very low interest rates that characterise many segments of the global financial market. These rates reflect the accommodative monetary policy stance adopted by major central banks, the decline in global productivity and unfavourable demographic developments in advanced economies. These have a toll on the balance sheets of broader segments of the financial market such as banking sector, pension funds and insurance companies.

From a nearer-term perspective, Albania needs to improve financial literacy, across the board. Among other things, financial education would help both individuals and firms establish sounder financial situations and reduce financial risks such as unnecessary exposure to exchange rate volatility. The Bank of Albania has been on the vanguard of financial education in Albania and will continue to spearhead such efforts.

Albania needs also to develop further payment systems and improve access to finance for various segments of the society, such as small and medium-sized enterprises or the rural sector. The Bank of Albania has responsibly exercised its duties in the area of payment system development. In this regard, we:

- Established, in 2015, the National Payments System Committee, to coordinate the work of all relevant public and private sector agencies;
- Compiled the draft law "On payments services", which approximates the respective EU directive and paves the way for developing new payment products; and,

- Improved the technological infrastructure for payments, reducing therefore their costs.

However, our work may not be considered as completely finished.

Lastly, Albania should pay attention to the development of new financial market segments, such as capital markets and pension and investment funds. In this context, alignment of the legal and regulatory framework is of primary importance with a view to preventing the potential emergence of systemic risks or the possibility of regulatory arbitrage.

*Dear ladies and gentlemen,*

Our agenda for the work that lies ahead of us is as complex as ambitious. Its successful realisation will enable our economy to grow at a fast and steady pace, and will mark a step forward in our journey towards EU integration.

On behalf of the Bank of Albania, let me affirm our readiness to rise to the challenge. I am also confident that today's conference will provide a significant contribution to finding optimal solutions.

*Thank you for your attention and I wish the conference a great success!*



**GOVERNOR SEJKO: ADDRESS TO THE  
GRADUATION CEREMONY OF THE  
STUDENTS OF ECONOMICS, UNIVERSITY  
OF TIRANA  
-7 November 2019-**

*Dear students,  
Distinguished members of the Faculty,  
Dear parents, relatives and friends,*

Thank you for inviting me here and for the wonderful welcome. It is a great pleasure for me to have the opportunity to address this audience on this special day for you, your families and the academic staff of the Faculty. Today, you have the absolute right to be proud, enjoying the reward of your laborious efforts and sacrifices throughout the years of your studies, from the first grade to the completion of university studies.

I take this opportunity to wish you all successes in the long and challenging journey of post-university life. Starting tomorrow, you will not return to university auditoriums, you will start making your own journey, as new perspectives and opportunities open up. Starting tomorrow, you will enter into a new stage of your life, characterised by complex and rather challenging relationships. This is the big truth of human life, and I hope that you have already grasped it. Looking at your achievements, the appraisal of your professors and the results from your internships at the Bank of Albania, I can only be optimistic about your ability and sagacity to find the right path in life.

***“My advice is: never absent yourselves from knowledge and books. Education is a never-ending experience and process, and will accompany you throughout your carrier, notwithstanding your specific engagement.”***

My appeal today for you is to embrace a different philosophy of thinking and acting, more modern and forward-looking, obviously always capitalising on our best national values and traditions. My advice is: never absent yourselves from knowledge and books. Education is a never-ending experience and process, and will accompany you throughout your carrier, notwithstanding your specific engagement, a bright member of the academia, a successful entrepreneur in the private

sector or an expert of important public or international institutions. To be on the top list, you should always update your knowledge on the most recent theories, trends and findings, which explain the most basic laws and functioning of markets and economy.

As the administrator of an important institution in the field of the economic and financial policies decision making, I have always believed and supported the involvement of the new generation in the daily activity of the institution. Beyond the fact that the new generation dominates the human resources in the Bank of Albania, we try to maintain the interest and the inclusion of students in our everyday activity, through a range of various educational and informative programs. The Bank of Albania is open for all students studying in finance and economics or other related fields for internships, continuously supporting the scientific and research work of the students. I take this opportunity to assure you that, in the future, the Bank of Albania will continue to fully support the new and talented generation of Albania, as we keep our doors open, in all possible ways and forms.

***“Beyond the fact that the new generation dominates the human resources in the Bank of Albania, we try to maintain the interest and the inclusion of students in our everyday activity, through a range of various educational and informative programs.*”**

*Dear students,*

Today you have reached an important milestone in your life. It is up to you, only to you, to take the destiny in your hands, and determine with courage, determination and the characteristic vivacity of your age the future path in your lives. Wherever you are, in Albania or abroad, never give up on your ambitions and dreams. To make them come true, you have to work tirelessly, with

confidence, integrity and professionalism.

*I wish and hope everyone would find the right path!*

## **GOVERNOR SEJKO: WELCOME REMARKS AT THE 13TH SEE ECONOMIC RESEARCH WORKSHOP -5 December 2019-**

*Dear Ambassador Maître,  
Dear guests and speakers from academia, central banks and research  
institutions,  
Dear participants,*

It is a great pleasure for me to open the proceedings of the 13th SEES Economic Research Workshop, in which we present and open for discussion research projects undertaken by the Bank of Albania in the current year, and have the opportunity to get feedback from colleagues from academia, central banks and research institutions worldwide.

This is a very important event for the Bank of Albania, since all the projects that will be discussed during the two days of the workshop are designed to help the analysis, decision making and implementation in the areas of monetary policy and financial stability as well as other central bank aspects.

Based on this careful formal analysis, our policies have been successful in preserving monetary, macroeconomic and financial stability. Despite hardships, our economy has registered positive growth rates, and our banking system's performance has been stable. The banking sector is well capitalized and profitable, non-performing loans have decreased and banks continue to support economic activity with credit, while managing potential shocks originated from the external sector of the economy.

The agenda is rich and covers the most important areas of research related to traditional central bank activity. In these two days, discussions will focus on monetary policy, financial stability, economic modelling and forecasting, risk assessment and management, which are all traditional instruments in the central bank toolkit and need to be improved constantly. It is very important to note that, in addition to these

***“Technological developments disrupting traditional labour, financial products and markets, and demographic developments may impose some of the most important challenges to our societies and institutions.”***

traditional topics the workshop will discuss research in new and important areas such as: digitalization of financial services, structural reforms, healthcare and its implication for central bank objectives and national welfare. Technological developments disrupting traditional labour, financial products and markets, and demographic developments may impose some of the most important challenges to our societies and institutions. Therefore, it is important to study and adequately understand these phenomena.

In addition, we are glad and eager to discuss research findings from a number of authors who come from academia, central banks and other research institutions. The ideas and methodologies that are embedded in their research will introduce our researchers and economists to new ideas, will help them extend their research agenda, and will reveal potential opportunities of cooperation in the future.

I believe that research in these and other innovative areas, like green finance, will develop further and become traditional topics in central banks' research agenda. For this reason, I challenge our researchers to consider these trends in their future research agenda. Continuous enhancement of research topics and methodologies is a must for a central bank.

***“The cooperation with the Swiss State Secretariat for Economic Affairs (SECO) and the Bilateral Assistance and Capacity Building for Central Banks (BCC) program has been a significant instrument for improving our research work and exposing it to academic and international research community.”***

In this respect, I would like to thank Ambassador Maître, the Swiss Government, the State Secretariat for Economic Affairs (SECO) and its Bilateral Assistance and Capacity Building for Central Banks (BCC) program for supporting research activity at the Bank of Albania. This cooperation has been a significant instrument for improving our research work and exposing it to academic and international research community. Our cooperation will continue in the future to improve research methodologies and products. We are currently working

with SECO toward the optimization and institutionalization of research agenda and research implementation in central banks. These important issues will be discussed in a jointly-organized workshop with all BCC partners on capacity building for central banks, in Tirana in spring 2020.

*Dear ladies and gentlemen,*

Our SEE Research Workshop has become a cherished tradition for Bank of Albania and central banks of the SEE region. It is a great pleasure, and we are very happy to see that the workshop continues to generate interest beyond the SEE region and central banking community. The list of participants has expanded to include speakers from academic institutions in the EU, the US and South-Eastern Asia, as well as from international financial institutions.

Your participation is contributing to broadening and enriching our network and we hope that discussions will help our researchers to improve their work and strengthen their research recommendations.

These days, your participation in the workshop takes another and even more significant meaning in the wake of the tragic consequences caused by the strong earthquake. It helps to show that, despite many losses, we are resilient and will continue to work to overcome the emotional and economic hardships of this tragic event, shed the desperation, fear and despair, and return to normal activity.

I wish the workshop a great success, and all guests and participants a pleasant stay in Tirana!



## **GOVERNOR SEJKO: ADDRESS AT THE END-OF-YEAR MEETING WITH THE MEDIA**

**-13 December 2019-**

*Dear ladies and gentlemen,*

Welcome to the Bank of Albania, to spend some time together as the year end approaches. Sadly, the atmosphere at the end of this year is different from previous ones, following the devastating earthquake, which hit Albania in late November. In the aftermath, we are all heartbroken by the tragic loss of 51 lives, with hundreds of others injured and many buildings, which have collapsed or have been heavily affected by the strongest quake in decades. Yet, beyond the material consequences and psychological shock, this tragic event foregrounded another - somewhat dormant - dimension of our society: solidarity and unconditional support for each other. We all witnessed an impressive demonstration of voluntary support from fellow citizens to those affected by the devastating earthquake. In this extraordinary situation, the media played a key role in promoting solidarity and alleviating the human pain caused by this natural disaster.

In light of this event, and in retrospection of 2019, let me express my sincere thanks and heartfelt gratitude to the media, to those who are present here tonight, and those that were unable to attend, for their invaluable work, reporting news truthfully and in real time.

Staying on the media, but shifting to another, concrete contribution of it, professionalism and integrity in covering news related to economic and financial developments in Albania increased notably this year. Let me emphasise it. We are glad to say that we find your work has advanced in all its dimensions. The language you use as well as the breadth and depth of your analysis in presenting our reports to the public reflect a serious approach and professionalism.

***"I appraise that the concrete contribution, professionalism and integrity of media in covering news related to economic and financial developments in Albania increased notably this year."***

Thanks to you, our decisions have been passed on in a timely fashion. Further, they have been translated and adapted using simple and easy-

to-assimilate language, not only for market actors, but also for the general public. The media is a unique ally in our efforts to enhance the effectiveness of our decision-making. Please allow me to thank you once again for your work, filled with passion and dedication during the course of this year. I am confident that in the coming year your dedication, truthfulness and objectivity in reporting economic and financial news will continue to characterise your work.

***“I would like to assure you that the Bank of Albania will continue be a transparent institution, ready to provide opinions and assessments as necessary in all public debates related to the performance of our economy and financial markets in the next years.”***

I would like to assure you that the Bank of Albania will continue be a transparent institution, ready to provide opinions and assessments as necessary in all public debates related to the performance of our economy and financial markets. For the Bank of Albania, macroeconomic stability and financial solidity in Albania are essential and long-term objectives. We work incessantly to enable such stability, which is vital for all the citizens of Albania. I want to underline today that you are an important partner in our efforts

and when we join forces guaranteeing the welfare of future generations becomes an easier task.

*Dear guests,*

We have constantly emphasised that financial education and research are an integral and significant part of the activity of the Bank of Albania. They are a precondition and source for the social-economic development and welfare of the citizens of Albania. In this regard, I would like now to turn your attention to what has now become a tradition, the ceremony for the Governor’s Award for the Best Diploma.

This is the 13th year that the Bank of Albania has selected and awarded three diploma theses. Over the years, we have found that the quality of research work has been improving, to the point that it has become actually difficult to distinguish the work presented by a recently graduated student from that of a researcher at the Bank of Albania. The selected topics present great interest, as they focus on critical issues related to the economic and financial reality in Albania and beyond.

As in previous years, Albanian students from domestic or foreign universities have applied and presented their best research work. We are happy to note that participation and interest from students and universities has been significantly on the rise, revealing the recognition, reliability and reputation this Award has achieved. This year, we received 39 studies, ranging from monetary policy and economic and financial development of the country to topics related to aspects of management of production and financial activities, European integration, and technology innovations applied in the fields of virtual money and finance. These works are characterised by the use of contemporary research methodologies and make use of ample statistical information, to research, through theoretical arguments and cause-effect practical relations, various economic phenomena and the rules governing them.

Despite the objective difficulties in selecting the most interesting studies, we have eventually come to a decision on the "Governor's Award for the Best Diploma Theses" for 2019.

Having said that, while limited to selecting only three winners, I take this opportunity to congratulate all the participants for their serious commitment and the ideas, methods and conclusions in their laudable research. I would encourage you to continue in your career, after this first step in scientific research, with many more ambitious ones.

Let us now present the winning candidates.

*Thank you and happy holidays!*



**GOVERNOR SEJKO: ADDRESS TO  
THE LAUNCHING CEREMONY OF THE  
TWINNING PROJECT “ENHANCING  
BANK OF ALBANIA’S ALIGNMENT WITH  
EU ACQUIS”  
-19 December 2019-**

*Your Excellences Ambassadors,  
Representatives of Banca d’Italia and Deutsche Bundesbank,  
Ladies and gentlemen, Dear guests,*

I have the pleasure, as the Governor of the Bank of Albania, to welcome you to the launching ceremony of the Twinning Project on “Enhancing Bank of Albania’s alignment with EU Acquis”.

The project is financed with IPA 2015 EU funds, following a previous project on needs analysis for the Bank of Albania - designed and led by the ECB in partnership with 11 central banks of the European System of Central Banks. From this perspective, the new twinning project we are launching today may be considered a continuation of the previous one, given that it will address a significant number of recommendations from 2014.

***“Bank of Albania remains committed to fulfilling priorities arising from the European integration process. Major objectives for strengthening the long-term capacities of the institution coincide with the approximation of its legal, regulatory and operational frameworks to that of the European System of Central Banks.”***

Hoping that in the spring of 2020 we will see a green light for the opening of accession negotiations for Albania, I would like to reassure you of Bank of Albania’s commitment to fulfilling priorities arising from the European integration process. Major objectives for strengthening the long-term capacities of the institution coincide with the approximation of its legal, regulatory and operational frameworks to that of the European System of Central Banks. I would like to emphasise that undertaking such projects emphasises the mutual engagement of the EU and Albania with regard to deepening integration processes of our country, and reiterates Albania’s European perspective

*Dear ladies and gentlemen,*

In the last decade, Bank of Albania has implemented a number of EU-funded projects. The first twinning project was implemented during 2012 - 2013. At that time, like now, Banca d'Italia - in partnership with Banque de France - contributed successfully to achieving concrete results in six areas of Bank of Albania's activity.

The second project - needs analysis for Bank of Albania's approximation, funded by the EU - was led by the European Central Bank and was implemented during 2014. The aim of the six-month project was to assess the legal, regulatory and operational frameworks of the Bank of Albania vis-à-vis standards and best practices applied in European central banks. From this perspective, it should be underlined that the recommendations left upon the completion of this project are incorporated in the list of main priorities for Bank of Albania's institutional approximation to the model applied in the European System of Central Banks.

In addition, in light of addressing these priorities, the European Commission decided to allocate EUR 800 000 as under IPA 2015. After a long process of consultations and sharing information, for the first time, Bank of Albania's experts put together a Twinning Project, which was submitted to the European Union Delegation to Albania. At the end of the process, Banca d'Italia and Deutsche Bundesbank were selected to implement Bank of Albania's project. Banque de France and National Bank of Romania are also part of the team for certain components of the project.

We feel privileged, certainly, by this close partnership with these two major central banks. Relations with these two institutions date back to quite early in the history of the Bank of Albania. Whether multilaterally or bilaterally, they have assisted for many years the Bank of Albania achieves its objectives and operates like a modern and reliable institution. I am therefore optimistic about the success of this next project, irrespective of the relatively tight agenda and deadlines.

Now, let me briefly introduce you to the main components of this project. It will involve eight departments at the Bank of Albania and will address important issues, grouped as follows:

1. Banking Supervision and Financial Stability;
2. Monetary Policy and Statistics;
3. Internal Audit;
4. Payment Systems;
5. Other central banking functions such as human resources and European integration.

For each component, measurable results have been envisaged, which will be translated into regulatory documents, guidelines and specific recommendations related to policies. All outcomes will aim to approximate the final product at a higher level to standards and models of the European System of Central Banks.

*Dear ladies and gentlemen,*

I hope that this project will deliver long-term results, and will strengthen the regulatory and operational frameworks at the Bank of Albania, an institution that makes substantial contribution to the sustainable economic development of Albania.

On behalf of the Bank of Albania, let me iterate our readiness and commitment for the successful implementation of the Twinning Project, as we strive with professionalism and responsibility to achieve its objectives.

Concluding, I would like to thank the European Commission, for its support in securing funding for this project. I am certain that the Commission will continue to support future initiatives of the Bank of Albania, as we deal with approximation challenges and endeavour to progress toward the European family.

I would also like to thank the EU Delegation to Albania for their support and valuable suggestions during the design and consultation phases of the project, as well as the General Directorate for Financing and

***“This project will deliver long-term results, and will strengthen the regulatory and operational frameworks at the Bank of Albania, an institution that makes substantial contribution to the sustainable economic development of Albania.”***

Contracting, for their insistence throughout the design and selection process for compliance with all EU procedures related to fund management.

Special thanks go to Banca d'Italia, an institution that has constantly supported us with their invaluable experience. I believe that the experience and dedication of Mr Gola is an added guarantee in this regard.

We are grateful to Bundesbank for their active participation in this project – as well as in their specific role in the regional project on “Strengthening the Central Bank Capacities in the Western Balkans with a view to the Integration to the European System of Central Banks”.

We would also like to thank National Bank of Romania and Banque de France for their involvement in this project.

Last but not the least, I would like to thank staff members of the Bank of Albania intensively engaged in the design and implementation of the project. I do believe that, as with previous experiences, this project will be implemented and finalised successfully, contributing to the advancement of capacities in our institution.

*Thank You!*





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# CHAPTER V

## INTERVIEWS

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- *Interview with Gent Sejko, Governor of the Bank of Albania. "Monitor" magazine, 20 May 2019*
- *Interview with Gent Sejko, Governor of the Bank of Albania. "Klan" Tv, 18 September 2019*
- *Interview with Gent Sejko, Governor of the Bank of Albania. "News 24" TV, 16 October 2019*



## INTERVIEW WITH GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA. "MONITOR" MAGAZINE -20 May 2019-

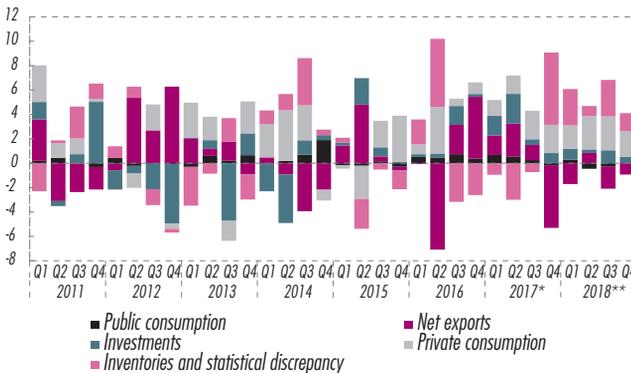
*Monitor: Albania's economic growth last year was close to the 4% potential. Do you consider the growth components as stable and what's your assessment on the medium and long-term perspective?*

**Governor Sejko:** As we have continuously emphasized, in our assessment, the prospect of growth in Albania remains positive. Our forecasts, based on available information as well as on analyses and forecast models, suggest the Albanian economy will continue to grow in the medium and long-term horizons.

This conclusion, naturally, reflects our assessment that the bases of development in Albania are relatively solid. Taking advantage of this interview, let me explain in greater detail the underlying indicators and factors of this assessment.

First, our assessment on the economic outlook of Albania is based on the development trends observed in recent years. INSTAT data show that in 2018, for the fourth consecutive year, economic growth has been in positive terms, and has even shown a gradual acceleration trend. Also, available data suggest that growth is broadly based, from the standpoint of both contributions by sector and aggregate demand components.

*Chart 29 Contributions in economic growth (in percentage point)*

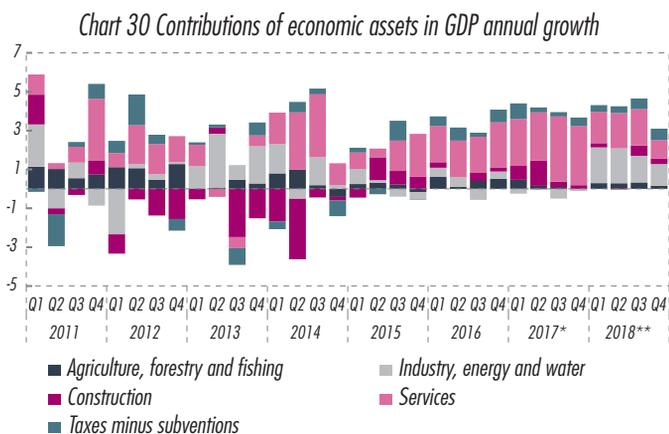


Source: Bank of Albania.

Second, our assessment of positive prospects for development is based on analysis of the factors supporting them. On this, allow me to highlight three important elements.

- Economic growth is anchored in a stimulating monetary and financial environment, characterized by low interest rates, ample liquidity, and which shows rising lending trends. This environment has reflected the combined impact of monetary stimulus, fiscal consolidation, careful supervision of the banking sector regulation, as well as our efforts to improve the lending environment. It has favoured the expansion of consumption and private investments, as well as the growth of aggregate demand, employment and wages.
- The financial balances of the main sectors of the economy, households, enterprises, the banking sector and the public sector, have improved or are under control. This dynamic suggests that the ability of the Albanian economy to nurture growth and face potential shocks has increased.
- The foreign environment appears relatively favourable, particularly compared to a few years ago, when our two main foreign partners: Italy and Greece were in the grip of the crisis and when the European financial system was very weak. This does not mean that we lack foreign challenges, but - within the parameters of reasonable expectations - they will not have the dimensions and intensity of the past.

In our assessment, the factors set out above are sufficient to warrant optimism about the prospects for economic growth in medium and long-term horizons. However, this does not mean that this development scenario should be taken for granted. Rather, it requires careful attention to economic policies, as well as a willingness to address the potential risks we face.



Source: Bank of Albania.

In this context, I want to underline that fulfilling this forecast will be conditional on the following factors:

- Maintaining the stimulating stance of the monetary policy, and monitoring the intensity of this incentive, so that the interest rate and liquidity in the banking market are suitable for meeting our price stability objective;
- Maintaining the consolidating stance of the fiscal policy, as well as continuing efforts to increase the stability and efficiency of public finances;
- The existence of a favourable foreign environment and, in case of unforeseen shocks, taking timely measures to minimize their impact; as well as,
- Continuing efforts to improve the business environment, and this means further improvements to the legal and regulatory framework, investments in infrastructure and quality of public services, but also the calming of political tension.

In conclusion, I would like to summarize my opinion as follows: the forecasted development trend remains positive, but ensuring it requires maintaining the current stance of monetary, financial and fiscal policies, as well as further accelerating structural reforms.

*Monitor: The Bank of Albania has pursued, since 2011, an aggressive accommodative monetary policy, bringing the key rate to 1%. Meanwhile, lending growth rates are still low, with a real growth of*

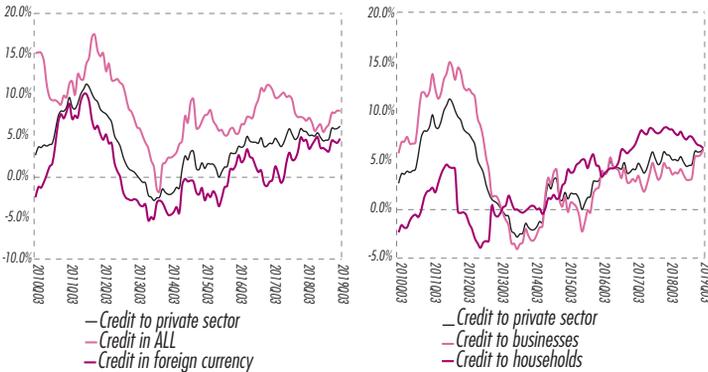
*5-6% per year. How do you explain this performance? How will the BoA's monetary policy trend continue?*

**Governor Sejko:** The Bank of Albania has, indeed, undertaken a very stimulating course of monetary policy, which has brought the key interest rate to 1%. The purpose of this action was to promote consumption and private investments by reducing their funding costs, easing the balances of borrowing enterprises and households and creating the preconditions for a stable exchange rate. Ultimately, all three of these channels serve economic growth and maintaining price stability, in accordance with our inflation target.

Economic and financial developments in recent years show that the impacts of the monetary policy, with all the issues of its transmission mechanism, are becoming more tangible every day. You have, and rightly so, highlighted lending performance in the economy as one of the main channel of monetary policy transmission.

Regarding lending performance, I think it is appropriate to highlight that this indicator has shown some positive signals in recent quarters.

*Chart 31 Credit growth; its foreign currency and sectoral composition*



Source: Bank of Albania.

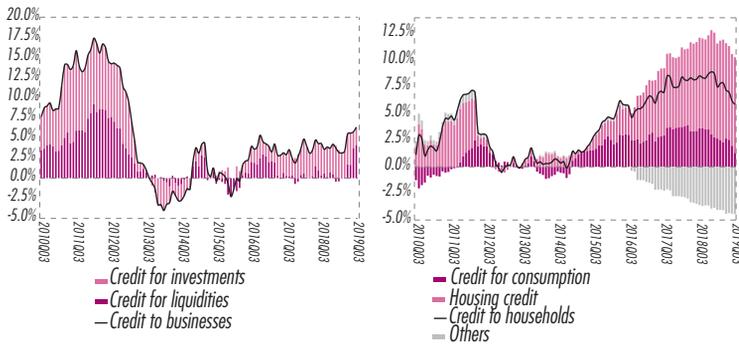
First, the annual growth rate of lending to the private sector, cleared from the accounting impact of exchange rate appreciation and the write-off of loans from the balance sheet, has registered an upward trend, remaining close to 6% in the first quarter. Likewise, as we have already pointed out, the basis of lending growth is broader, both from the point of view of the foreign currency composition and that of sectoral composition.

Second, lending efficiency is increasing, since this is showing a greater orientation towards supporting business investments and housing funding for households.

Regarding the current and future performance of lending, I would like to share with you three short comments.

As any economic indicator, lending performance depends on supply and demand. In our assessment, the current levels of lending are - for the most part - dictated by a still low and often non-qualitative demand for loans. This development is understandable for the cyclical development stage of Albania, where enterprises and households are hesitant in their exposure to banking lending. However, despite this low demand, the supply of banking lending appears relatively conservative. This means that banks have space for a more positive approach to the Albanian business and consumer economy.

Chart 32 Structure of credit to businesses and households



Source: Bank of Albania.

As far as prospects are concerned, the Bank of Albania assesses that - in the medium-term - we will have a more dynamic lending performance. This forecast is based on an expected growth of credit demand, continued improvement of the lending environment, but also on the consolidation of the banking sector, which has brought in more motivated actors and is expected to increase market competition

Finally, I would like to emphasize that the Bank of Albania remains very attentive to lending performance. Our concern has always been and remains the fact that lending should answer the needs of the economy,

while at the same time being cautious and in accordance with the risk criteria of banks. I would like to remind everyone that banks are the guardians of most of the savings of the Albanian public and, for this reason, the use of these funds must always be cautious.

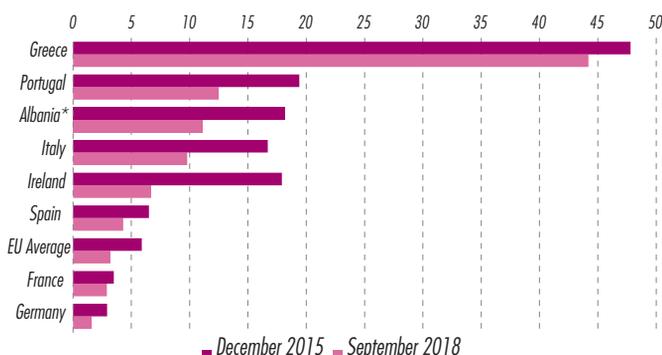
Aiming at an open and transparent exchange of point of views with the banking sector on this phenomenon, I would like to point out that in the very near future, the Bank of Albania will organize a meeting with commercial banks that operate in Albania to discuss these issues.

As far monetary policy is concerned, I will repeat again, the latest message from the Supervisory Council is that this policy will continue to be stimulating and accommodative in the medium-term, in the interest of supporting aggregate demand and respecting our price stability objective.

*Monitor: Despite the significant decrease of NPLs in recent years, Albania continues to have the highest level of NPLs in the region. How big was the impact of NPL write-offs from banks' balance sheets and how big of a factor did this play in their restructuring? Will you undertake other regulatory reforms to further decrease this ratio?*

**Governor Sejko:** First, I would like to point out that comparing the non-performing loans ratios of different countries must be done carefully, because the methodology for measuring this indicator is not standardized. When compared, the values of the non-performing loans indicator in different countries may register differences that derive from the methods of calculation and not from the reality of the phenomenon. Let me inform the general public that Albania has used the most rigid definition of non-performing loans, without adjusting their level with the value of collateral or provisions (reserve funds created for losses from loans). At this point, it seems appropriate to highlight that the non-performing loans indicator for the first quarter of 2019, adjusted with provisioned funds, is 4.2%. I emphasize this to point out the fact the level of non-performing loans is not a threat to the soundness of the Albanian banking sector, although it remains important, since it requires time, attention and managerial energy to administer it.

Chart 33 Non-performing loans (NPLs) to total loans (%)



Albania, NPLs ratio, as at December 2018

Source: Bloomberg, EBA, Bank of Albania.

The dynamic of non-performing loans in Albania, the region and beyond, remains the same. This indicator has a clear downward trend, and in Albania this trend is even stronger and more significant than in some countries of the region.

The Bank of Albania has undertaken continuous and concrete actions to reduce non-performing loans. On the one hand, our accommodative monetary policy has helped to improve the balance sheets of borrowing enterprises and households and has increased their solvency. On the other, the Bank of Albania has initiated an inter-institutional strategy, known as the National Plan for Reducing Non-Performing Loans, to address all the factors that contributed to their relatively high level, as well as taking concrete measures to implement its commitments. This strategy aims at addressing the substance of the banking sector's concerns regarding possession and execution of collateral, facilitating the loans' restructuring process, as well as improving regulations and technological infrastructure that reduces lending risk. Finally, through our regulatory acts, we have sought to write off from banks' balance sheets lost loans, which are only part of non-performing loans, aligning our regulation with international standards.

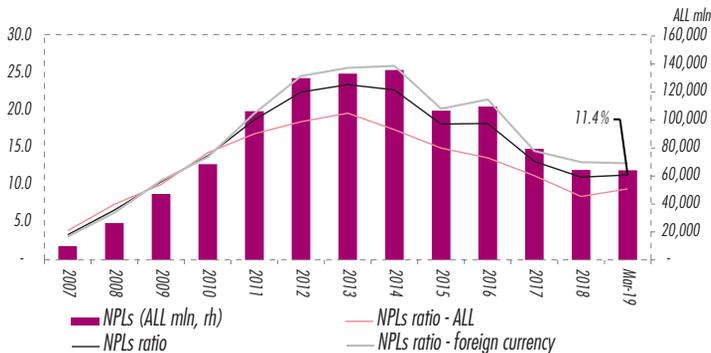
Our analyses show that the downward trend of non-performing loans has been the result of not only the write-off and restructuring of loans, which in our assessment have had equal impact, but also all the other actions listed above.

In concrete numbers, the NPLs portfolio has decreased by around ALL 71.3 billion (approximately EUR 528 million) in recent years, while the loan portfolio quality indicator registered 11.38% at the end of March 2019 compared to a peak of 24% registered in September 2014.

The lending environment has already improved and lending risk has been reduced: the improvement of economic activity has increased borrowers' solvency; legal and regulatory improvements have reduced the probability of non-performing loans occurring; and, if they do occur in the future, the amended legal and regulatory framework has facilitated the possession and execution of collateral by the banks.

However, in our assessment, the double digit level of the non-performing loans indicator is still high. For this reason, we are working, in constant consultation with the banking industry, on other regulatory and supervision measures to further decrease this indicator. In the near future, based on the best international examples and practices, we aim to complete our regulatory framework with principles and guidelines for out-of-court restructuring of problematic clients (where possible), promoting and highlighting the treatment of borrowers in financial difficulties through structured and efficient cooperation among banks. Certainly, continuing to decrease this indicator requires continuous communication with the banking industry, which the Bank of Albania has done and will continue to do on a regular basis, as it serves to increase banks' efficiency in better management of loan portfolio.

Chart 34 NPLs



Source: Bank of Albania.

On the other hand, our attention is focused on long-term preservation of lending quality. This requires due attention from banks in granting new loans, strengthening the non-performing loans recoverability structure, as well as increasing the quality of their internal system for managing credit risk.

*Monitor: Last year, in March, the Bank of Albania launched a policy dedicated to de-euroization. What were the concrete effects of your de-euroization policy? Bankers have also stated in their interviews that the Bank of Albania has used all its measures, so more stringent interventions are needed, in cooperation with other institutions, suggesting that large transactions ought to be carried out only in domestic currency. What is your evaluation of these proposals and what additional measures do you expect to be taken in cooperation with other institutions?*

**Governor Sejko:** The observable effects of our measures, in the framework of a de-euroization strategy, are in line with our expectations but it is too soon to assess its long-term effectiveness. I would like to draw the public's attention to the fact that, since the moment of its launch, the Bank of Albania has emphasized the following:

1. This is not a war against any form or level of use of the euro in the financial system. It does not aim at "elimination" of the euro in the economy or in the financial system, but it aims at the reducing its unnecessary or adverse use.
2. This project is expected to yield its fruits in the medium and long term; and
3. Its effects will become more concrete if accompanied by other measures that are not in the field of the activity of the Bank of Albania. Given the short period during which this project has been implemented, I think it is too early to discuss its effect or its success.

However, since it is in the public's interest, let me explain once again our position toward the phenomenon of high use of foreign currencies. High use of foreign currency (euroization) reduces the effectiveness of the stabilizing function of monetary and fiscal policy, and it tends to become a premise for financial stability, in case of large and strong exchange rate fluctuations. This is not a theoretical conclusion; it is an observed reality in many countries in similar development stages, such as Hungary or Poland, and is something for which we and other policy-making institutions are responsible.

More specifically, a high level of euroization reduces the action scope of monetary policy, as long as the latter is unable to control the prices of financial goods denominated in foreign currency. As well, it causes large fluctuations of the public debt indices, becoming a premise for undesirable changes in the fiscal policy rate. On the other hand, in case of large fluctuations of the exchange rate, unaddressed and unhedged exposure to borrowing in foreign currency hinders the balances of businesses and households, shows unforeseeable transfer of purchasing power between various sectors of the economy, and may damage the balances of the financial sector. All these channels increase the country's financial vulnerabilities.

Precisely for these reasons, both the European Commission, in the framework of the dialogue process we have for European integration, as well as the IMF, within the framework of ongoing discussions on Article IV, have consistently recommended we adopt concrete measures for the implementation of this phenomenon.

In order to address the above risks, in April 2017, a Memorandum of Understanding was signed between the Albanian Government, the Bank of Albania, the Financial Supervisory Authority and the Deposit Insurance Agency, to increase the use of the national currency in the financial system and in the Albanian economy. This document is known as the Inter-Institutional De-Euroization Strategy. Via this document, its signatory institutions recognize the negative phenomenon that is created by the high use of foreign currency, and take concrete measures, in accordance with their areas of competence, to stimulate the use of the lek.

On the basis of this Strategy, the Bank of Albania approved some measures as part of the February 2018 package. These measures included both sides of the bank's balance sheet. On the liabilities side, differentiation was made between the reserve requirement rates for foreign currency (increased) and for the Albanian lek (decreased). On the side of the banks' assets, higher requirements were made in relation to liquid assets in foreign currency and in relation to raising the awareness of borrowers, for unhedged loans in foreign currency, against the risk of this exposure. These measures entered into force in a phased manner, with the last measure, the change of the reserve requirement rate, coming into force in June 2018.

The Bank of Albania has identified some basic indicators to monitor the impact of measures. These include the performance of deposits' share in foreign currency, the performance of foreign currency liquid assets, the share's performance of foreign currency loans, and others. So far, for this purpose, two period reports have been published, the conclusions of which can be found on our website.

***"We all have to be aware that the effort to increase the use of the national currency in the financial system and the Albanian economy, represents a long-term process that needs to be worked on in a coordinated and ongoing manner."***

What I would rather point out is that, overall, the values of the Euro currency usage indicators diverge from the average values of the indicators for countries with similar economies to Albania. Therefore, we all have to be aware that the effort to increase the use of the national currency in the financial system and the Albanian economy represents a long-term process that needs to be worked on in a coordinated and ongoing manner.

Regarding the actions that should be taken by other institutions, I think the institutions need to decide for themselves what possible action to undertake. The Bank of Albania estimates that there should be a gradual approach and the object of these measures should be the cases/ transactions/ sectors where the use of foreign currency is excessive and unjustified by the economic activity of entities. All the signatory institutions of the Strategy are aware of the need for a joint and coordinated action to be taken. This has become apparent in the ad hoc discussions that took place at the Financial Stability Advisory Council meetings. The most recent one took place in April 2019. At this meeting, the Ministry of Finance and Economy (MoFE) underlined the importance of giving the necessary priority to this process. As far as we are concerned, within our realm of competence, our institution is willing to be as cooperative as needed.

***Monitor: The data of the payment balance show that the current account deficit did not improve much during 2016-2018. What is your explanation regarding the significant appreciation of the domestic currency during this period? What are expectations for the exchange rate performance in the coming period?***

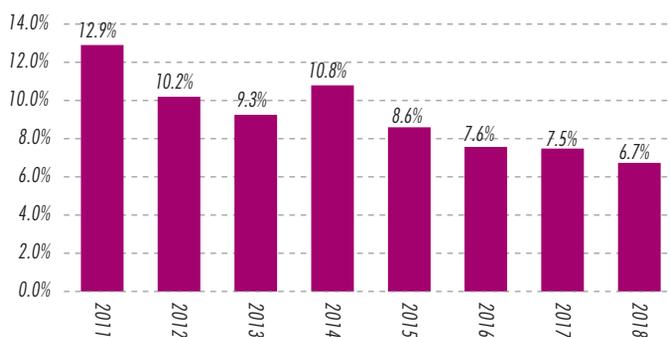
**Governor Sejko:** The Bank of Albania has presented the conclusions of its analysis of the factors that have influenced the appreciation of the exchange rate. I contend that these conclusions have proved themselves over time and our estimates have correctly informed the monetary policy stance toward the exchange rate.

However, for the interest and respect of the reader, I am summarizing them here.

The strengthening trend of the exchange rate, initiated since 2015, is due to the combined action of two factors: improvement of the balance of economic and financial exchanges with abroad, or payment balance, and reduction of risk premiums in the domestic financial market. Thus:

- The balance of payment has continuously improved over the last three years. This improvement reflects not only the reduction of the current account deficit (see Chart 7), where your interest is concerned, but also the high inflow levels of foreign direct investments. In a general perspective, what is important for the exchange rate is the demand and supply ratio of foreign currency, which is dictated not only by trade activities abroad, proxied by the current account deficit- but also by financial activities, proxied by the capital and financial account of balance of payments. For Albania, trading exchange abroad has resulted in a surplus of foreign exchange inflows in recent years - income from foreign direct investments or other sources were greater than the current account deficit (see Chart 7), which exerted pressure on the appreciation of the exchange rate.
- In parallel, improvement of the soundness indicators of the banking sector and establishment of control over public finances increased confidence in the stability of the national currency and reduced the risk premia to invest in it.

*Chart 35 Current account deficit ratio to GDP (in %)*



*Source: Bank of Albania.*

These developments favoured the strengthening of the exchange rate over the last few years, but as we have previously noted, they were not enough to explain its strengthening during 2018. Our analyses have shown that this rapid strengthening is due to specific disturbances in the foreign exchange market - which culminated in creating unilateral expectations for the strengthening of the exchange rate and changes in the behaviour of this market's operators. This also contributed to the rapid strengthening of the exchange rate, with an intensity that peaked in the second quarter of last year. The Bank of Albania provided detailed explanations on these factors and I would rather not dwell on them further.

However, what I find appropriate to say is that the interpretation of the developments was accurate from our part, and this is evidenced by the success that the intervention had in the foreign exchange market. This intervention was driven precisely by the finding that the strengthening of the exchange rate was no longer in line with the fundamentals and that this strengthening could undermine the fulfilment of our objective for price stability. Our intervention, though limited in time and size, was in line with the monetary policy and the exchange rate regime, and managed to calm the market.

Regarding the future of the exchange rate, I must emphasize that - in accordance with the free exchange rate regime in Albania - we are reserved when giving projections. In any case, the medium and long-term performance of the exchange rate is and will remain a function of the demand and supply ratio in the foreign exchange market and not the objective of the Bank of Albania's monetary policy. However, for the readers, I can emphasize that - based on current information - the Bank of Albania sees no inherent reason for strong and fast exchange rate fluctuations.

***Monitor: There is always dissatisfaction among customers regarding the quality and cost of banking services. We have been informed that the Bank of Albania is working on a new regulatory framework in this regard. What benefits will the citizens receive from this?***

**Governor Sejko:** First of all, I would like to emphasize that the determining factors of quality, and especially of the costs of banking services, are supply and demand in the market. Being the regulators and supervisors of the banking system, we continuously monitor the correctness and transparency of banks' relationships with customers, and of course we intervene whenever necessary. However, I would like to emphasize that the Bank of Albania is responsible for reviewing compliance to contracts

signed between banks and clients, but is not responsible for the value (the price) of a particular product or service. Price determination is an attribute of the market and negotiations between the clients and banking entities.

However, we have recently undertaken some important steps, within the efficiency of the services offered by the market, which aim at further enhancing transparency in the services provided and creating a consolidated framework for consumer protection. Here, I would like to emphasize that we will not replace the role that relevant responsible authorities have in this field, but based also on the recent amendments to consumer protection legislation, the Bank of Albania will have an active and direct role in this regard as well.

In terms of the transparency that banks need to have with their costumers regarding the quality and cost of banking and financial services, the Bank of Albania has drafted several regulations. Regulation no. 59, dated 29.08.2008 "On the transparency for banking and financial products and services", amended, specifies the minimum elements to be included in bank product contracts, such as the information to be provided to the client regarding loan agreements, the minimum elements that should be included in promotions carried out by banks, informing clients on changes to working conditions and interest rates, publishing them in the bank premises and on their official website, drafting and adopting a methodology / policy for calculating interest rates and commissions applied for products and banking and financial services. Also, in Regulation No. 48, dated 01.07.2015 "On Consumer Credit and Mortgage Credit", amended, the Bank of Albania determines aspects such as the obligation of banks to present pre-contractual information to the consumer prior to the signing of a loan contract, and the rights and obligations of the client in credit agreements.

During the on-site and off-site supervision process, the Bank of Albania assesses the implementation by financial institutions of the aforementioned regulatory framework, assessing all the above elements. The inspections carried out by the Bank of Albania generally indicate a satisfactory level of compliance by financial institutions with regulatory requirements and obligations

On the other hand, during 2018, in the field of payments, the Bank of Albania together with the National Payments System Committee took steps for the reformation and modernization of the retail market. Helping the general public, to understand more easily, small value payments

mean payments made by consumers and businesses in their daily life. In this regard, we are committed to implementing a mid-term strategy (2018-2023), which aims at creating a contemporary and comprehensive retail market, supported by safe and efficient infrastructures, and a wide range of payment instruments and services that meet the needs of financially capable users to conduct payments transactions across the country. Specifically, as a measurable objective, the strategy aims at expanding the population that owns a bank account and at increasing the number of electronic payments per capita.

***“We are committed to implementing a mid-term strategy (2018-2023), which aims at creating a contemporary and comprehensive retail market, supported by safe and efficient infrastructures, and a wide range of payment instruments and services that meet the needs of financially capable users to conduct payments transactions across the country.”***

Achievement of the above objectives is foreseen to be materialized through a series of measures related to the completion and improvement of the legal and regulatory framework.

Finalization of the draft-law “On payment services”, which transposes the revised European Union directive on payment services (PSD2)”, is considered to be a very important step in this regard. As we have pointed out in other communications, we deem that the adoption and implementation of this draft law will directly affect the promotion of competition and innovation in the area of low value payments, thus promoting their efficiency and reducing their usage cost. In this regard, I think that the main development is the creation of a competitive environment for the provision of payment services between banks and non-bank financial institutions, allowing the latter to open payment accounts and to issue electronic payment instruments.

However, the work undertaken so far can only be considered a beginning. In the coming period, we will further intensify our efforts, through the draft-law “On the payment account” in the medium term. The draft-law will transpose the European Union’s Directive “On the Payment Account” and is estimated to contribute to the introduction of the “basic account”, which has no cost at all or has a minimum cost for customers who do not own an account. In addition, the directive promotes transparency by creating a public register for all committees applied by the institutions and in an easily comparable manner. This development is estimated to further contribute to the current initiative undertaken by the Bank of Albania in this regard.

Without a doubt, legal and regulatory improvements will be accompanied by infrastructure developments, such as instant payment, the National Payment Switch, and the Euro Settlement System for domestic transactions, aiming to deliver impact on the market in the most efficient way possible.

*Monitor: Turning to the increase of operational risk, in the aftermath of the events at Rinas airport. Does this affect the financial stability at home, as it has a domino effect on banks' activity, particularly in terms of foreign exchange liquidity investment and the increase of costs in this regard? How is this expected to solve issues related to the transport of money abroad?*

**Governor Sejko:** The theft of cash within the territory of the "Mother Theresa" airport last month was, absolutely, a serious incident. From a short-term perspective, it shocked public opinion and affected somehow the natural transportation of foreign currency within Albania and abroad. This process is necessary and normal to the banking system. Thus, in the first few days after the incident, many clients may have noted that some banks might have hesitated to accept foreign currency. From a longer-term perspective, the recurrence of such a phenomenon may trigger additional costs to the banking sector, and, even further, to the Albanian economy, as an increase of intermediation costs in the banking sector. Immediately after the incident, the Bank of Albania undertook regular and particular communication with the Albanian Association of Banks and with individual banks. Also, important measures have been taken to enhance the security and management of high-level risk in every component of the operational chain of transporting funds to the final destination.

Currently, the process is completely normalised, given the activity of air transportation of monetary valuables has started.

The requirements for management of costs that this process poses to the banking sector will be addressed by an increased focus on efforts to reduce both cash and cash transactions in the economy in general. The Bank of Albania, absolutely, will have a role in this process, as the chair of the Payment Committee in Albania.

However, it is important to note, that, also as expected, the incident did not affect the stability of the financial system. Operational risks in banking activity are known, and for this reason they are assessed and

managed, in time, through various safeguarding schemes. In simple words, cash in banks' windows or vaults, also during transportation is totally insured by the insurance companies with which banks operate in Albania, hence clients do not lose any of their funds.

This process shows that the stability of the system continues to not be jeopardised. However the identification and judgement of the authors of such events, and the taking of all measures in order that such cases are not repeated, are rather important for the future of public confidence, the continuation of the banking sector in the Albania market, and for the messages we want to transmit for the purpose of attaining investments. We should keep in mind that banks are among the main investors in Albania, and like any investor either foreign or local, normal operation in a safe environment is an indispensable precondition to conduct their activity.

*Monitor: How is the banking consolidation expected to affect the performance of the system and the quality of services and products for consumers? How do you see the departure of banks with western capital? In concrete terms, how much interest does the banking system present to investors?*

**Governor Sejko:** This is also an issue that requires correctness. First, I would like to remind us all that banking system consolidation is a phenomenon that I have been announcing would occur, since my first days as Governor. This is not a surprise to either the Bank of Albania or to me. In contrast, consolidation is a rather normal process, which has occurred in many regional countries and in Western Europe. I think it is necessary. This process was simply finalised in the last two years, but banks' efforts towards sale or merger with existing banks have started some years ago.

Second, the main reasons for these developments do not relate to Albania itself or to specific issues/problems of the Albanian economy or Albanian banking system, but are more related to changes in the strategy and business models of European parent groups. Credit Agricole Bank and Societe General Bank decided to retire from the whole region. Banks with capital origins from Greece implemented the restructuring plans of parent banks and the strategy decided by ECB. Some existing banks withdrew from the Albanian market, while others entered and are considering the possibility of increasing their share in the market.

***“Mergers and absorptions occurred between existing banks. While medium-sized banks are notably dominant, we think that they do bring the promise of an increased competitiveness in the market, improvement of banking activity and consequently an increase of quality in banking services and products.”***

Hence, in 2018 H2 and at the beginning of 2019, some selling and merging transactions took place. Veneto Bank was absorbed by Intesa Sanpaolo Bank in Albania; the National Bank of Greece by the American Bank of Investments; Balfin Association sh.p.k and Comercijalna Banka in Macedonia took ownership of Tirana Bank; the Hungarian Bank OTP took 100% ownership of the shares of Societe General Bank in Albania; and Union Bank purchased 100% of the shares of the International Commercial Bank. As a result of these processes, the number of banks was reduced to 14 and is expected to further reduce down to 12 by the end of the year, only after the materialisation of the targeted strategy of Union Bank to absorb the International Commercial Bank (known as the Malaysian bank) and the completion of the voluntary liquidation of Credit Bank of Albania.

Nevertheless, the Bank of Albania is aware that these important developments imply challenges, have implications in the structure of the banking system, its competitive aspects and the ownership profile of new banks. These mergers and absorptions occurred between existing banks. While medium-sized banks are notably dominant, we think that they do bring the promise of an increased competitiveness in the market, improvement of banking activity and consequently an increase of quality in banking services and products. Also, these transactions of merger and re-organisation between existing banks do not essentially change the ownership profile of banks. While in other cases, the purchasing of existing banks from new shareholders, the Bank of Albania has acted in full compliance with the requirements of the applicable legal and regulatory framework.

Based on its role and mission, the Bank of Albania has been rather attentive to these developments and has monitored them step by step. Further, we will be vigilant to closely follow the management of “new” banks and in this regard we have established the necessary capacities, and we have planned their continuous improvement, for the purposes of fulfilling our mission. The Bank of Albania will continue to improve the regulatory and supervisory framework, aiming at approximation to the European directives, the best international standards, Basel Committee standards and those of the EU, focusing its work on recent standards related to such aspects as capital adequacy, liquidity risk management,

large exposures, the regulation of systemic banks, and the recovery and resolution of banks.

We deem that the consolidation we are going through is a positive step in the history of Albanian banking, and have shown at the same time, that there is interest from various actors in the domestic market. For example, Societe General Bank, purchased by OTP, a Hungarian Bank, has a good reputation and a dominant position in the region.

***Monitor: As an advisor to the Government, what is the suggestion of the Bank regarding reforms to be implemented to ensure stable and comprehensive growth?***

Allow me to emphasise, that in compliance with the applicable legal framework, the Bank of Albania is advisor to the Government on issues related to the activity of the Bank of Albania, meaning they are pertinent to the monetary policy or financial markets.

Nevertheless, it does not mean that we do not have our vision on medium and long-term priorities of the country's development. This vision is made public in many cases.

***“The Bank of Albania has continuously emphasised that this reformation process of the economy should be anchored in a sustainable and long-term objective, which has a broad political and social consensus, such as the integration of the country into the European Union.”***

Overall, the stable and long-term development of the country needs further actions in two main directions, which remain complementary in the long term.

The first aspect is acceleration of the potential pace of economic growth. This “increase of speed” is necessary to make the results of economic growth more tangible for Albanian society and for more rapid convergence to European Union standards. It requires further structural reforms in three dimensions which affect economic growth:

- improvement of productivity, through the promotion of competitiveness, fight against informality; investments in education and new technologies, and any instrument which encourages the adoption of advanced technologies and processes of production.
- encouraging investments, that requires, among others things, improvement of the business climate and withdrawal of foreign direct investments; improvement of finance accessing; development

of infrastructure and its integration with the regional infrastructure; expansion of markets through the opening of borders and the reduction of barriers in trade.

- improvement of participation and qualification of labour force, through pro-active policies in the labour market.

The second aspect relates to the enhancing of economic growth stability, which implies further improvement of legal and sub-legal frameworks, the strengthening of public institutions which monitor the financial system and public finances, and further improvement of their coordination.

Structural reforms of this nature need time to show their results, while these results frequently are preceded by short-term costs. For this reason, the Bank of Albania has continuously emphasised that this reformation process of the economy should be anchored in a sustainable and long-term objective, which has a broad political and social consensus, such as the integration of the country into the European Union.

*Monitor: A few years ago, the Bank of Albania opened a debate on the review of the economic model in Albania, from consumption and construction to production and export. Do you think that Albania is pursuing the right model of economic growth and do you think there is room to change the model?*

**Governor Sejko:** The debate initiated by the Bank of Albania was motivated by the structural weaknesses being identified from the shock the Albania economy had after the global financial crisis in 2008-2009. In more concrete terms, it related to the fact, that, from a sectorial point of view, growth sources were relatively narrowed. Furthermore, the structure of the Albanian economy was oriented toward domestic market service and relatively less open to export.

I think the debate provided a positive effect in establishing the stimulus for a more general reflection by economic, public and private stakeholders. We note that a lot of negative phenomena observed prior to 2008 are so far, not present. The banking sector is more prudent in allocating funds, even more than needed. Also, managerial attention is more oriented to producing sectors than in the previous decade, while, infrastructure, business climate and the quality of public services have been progressing.

The undertaken structural improvements are a welcomed development, though there is room for further improvements.

Nevertheless, I would like to highlight that our intervention in the growth model did not and does not aim to change the philosophy of the process. In a free market economy it is the private sector that should take the initiative and take care of the more profitable destination of time, effort and its funds. The role and duty of institutions are to decide and implement the rules of play, promote right competitiveness within certain sectors, establish equal success premises to all sectors of the economy and social levels at large, and to safeguard the economic and financial stability of the country. Global experience shows this is the sole philosophy which provides guarantees for success in the long term.

***“The role and duty of institutions are to decide and implement the rules of play, promote right competitiveness within certain sectors, establish equal success premises to all sectors of the economy and social levels at large, and to safeguard the economic and financial stability of the country.”***



## **INTERVIEW WITH GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA, TV KLAN -18 September 2019-**

*TV Klan: Recently, the Bank of Albania has announced its plan to put into circulation a new series of Albanian banknotes. Why a new series of banknotes and what's new?*

**Governor Sejko:** The Bank of Albania has been working for almost four years on this project. We have just completed the new series of banknotes, which has some substantial changes from the previous series, but retains the same theme. It has the same historical figures as the old series, which is widely accepted and recognized by the Albanian public. It was the right time to make some changes on banknotes by adding some elements to its quality. In general, every 20 years, central banks put into circulation a new series of banknotes. It had been 23 years since our banknotes lastly changed. Therefore, with the aim to improve the qualitative elements as well as to enhance the security features of the banknotes, we decided to introduce these changes to the new series.

The series has changed continuously over various periods of time, so what we are doing now, is not out the ordinary practice. For example, the longest period a series has been in circulation for the longest in time more than 25 years - was during the period of socialism, i.e. before the 1990s. The existing banknotes in circulation date back in 1996. For this reason, and because we wanted to strengthen and introduce new security features and the improve quality of the banknotes, we launched the new series of banknotes. If you look at the new series, you will notice a number of new security features. Another novelty is the smaller size of the new banknotes. We will also launch a new denomination, which will have the highest nominal value. In this light, we have somewhat reduced the size of all the other denominations of the new series. All the reasons mentioned above explain why we are introducing this new series of banknotes.

***"We have just completed the new series of banknotes, which has some substantial changes from the previous series, but retains the same theme. It has the same historical figures as the old series, which is widely accepted and recognized by the Albanian public."***

*TV Klan: As a matter of fact, we have noticed that the new banknote 200 LEKË is printed in polymer. Why was polymer chosen only for this denomination and not for the other denominations as well?*

**Governor Sejko:** Polymer is a plastic element and is a novelty in the field of banknote printing. Nowadays, many central banks worldwide have started to issue banknotes in polymer. The central banks of England, New Zealand and Canada have decided to have their entire series of banknotes printed in polymer.

Polymer is a more durable material compared to the other material used to make a banknote, i.e. cotton fibre, including some other specific elements. The 200 Lekë banknotes were decided to be printed in polymer because, as the banknote with the lowest nominal value, and it is the most used banknote. This banknote has the shortest lifespan. We have also been thinking, but there is yet some time to come to a final decision, that maybe the denomination of 500 Lekë will be in polymer as well. The new 500 Lekë banknote will be the last of banknotes to be issued in the series. Polymer banknotes certainly have a higher production cost, but have twice the life span of banknotes printed in cotton. However, other banknotes have very good qualitative elements too, and we will be able to look at them when they will be put into circulation. The public may learn more on security features and other elements of the new series at the Museum of the Bank of Albania.

*TV Klan: When will the entire series of banknotes are put into circulation and what will happen with the existing banknotes?*

**Governor Sejko:** It is very important to explain what will happen to the existing banknotes. The existing banknotes will continue to be legal tender and circulate alongside with the newly introduced banknotes.

***“On 30 September we will put into circulation two banknotes, the denomination 200 Lekë printed in polymer and the denomination 5000 Lekë.”***

On 30 September we will put into circulation two banknotes, the denomination 200 Lekë printed in polymer and the denomination 5000 Lekë. Of the entire series of banknotes, these two denominations will be put into circulation on 30 September 2019. Meanwhile, the new denomination, 10 000 Lekë, and the 1000 Lekë banknotes will be put into circulation next year.

The denomination 2000 Lekë will be put into circulation in 2021 and the latest in the series of banknotes, the denomination 500 Lekë will be put into circulation in 2022.

The existing banknotes will continue to circulate together with the new banknotes, as it is impossible to put the existing banknotes out of circulation at once. There is a number of banknotes in circulation, which will continue to be used by the public, and gradually, the Bank of Albania will withdraw the old ones, the most used ones at the time it will start to put into circulation the new banknotes. So new banknotes will be put into circulation and old ones will be withdrawn from circulation gradually. During this time span, both series of banknotes will be in circulation, so we will have the new and the existing banknotes in circulation at the same time. Although there are differences between the two series of banknotes, there are still some similarities; they feature the same historical figures and the same theme. We have constantly informed the public and we will continue to update them on the security features and the characteristics of the new banknotes and we believe there won't be any uncertainty when using them.

I would also like to point out that issuing and putting into circulation the new series of banknotes will also have an impact on the improvement of the financial literacy of the public, who still continues to use the term "New lek" and "Old lek". Since I mentioned it, we would like to bring to the attention of the public the appropriate reference to the denominations our banknote, because the use of "new lek" and "old lek" is just outdated and confusing.

*TV Klan: For the very first time, Albania will have a 10 000 Lekë banknote, which is a new denomination. Can you tell us some more details regarding this banknote?*

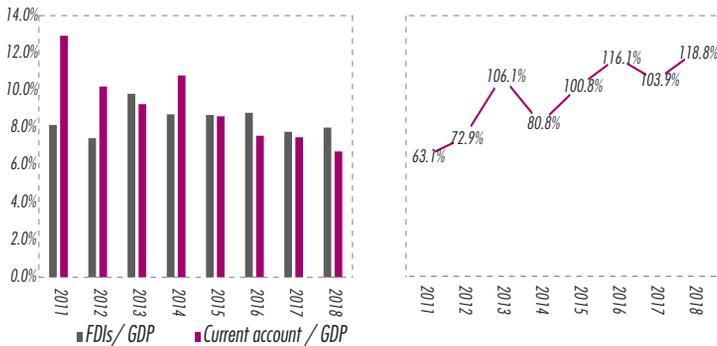
**Governor Sejko:** This is a completely new denomination. If other banknotes have been here before featuring only a few changes to them, the 10 000 Lekë banknote is a new denomination, which will be put into circulation next year. This banknote's theme will be the flag anthem and it will have the portrait of the author of the anthem, the poet Asdreni. We are still in the process of designing this banknote that's why it is not public yet, but very soon it will be. This is a denomination with a higher nominal value, so its size will also be slightly larger compared to the size of other banknotes. The size of the 10.000 Lekë will be roughly the size of the 5 000 Lekë we already have. The 10 000

Lekë will be the highest denomination and all the other banknotes will gradually decrease in size. This banknote boasts a beautiful design and we are confident that the public will welcome it. Practically speaking, this denomination is convenient for the public as it will take less space in their wallets. Economic developments demand this banknote, hence it is the right time for this denomination to be put in circulation, and for this reason, we decided that next year the highest denomination 10 000 Lekë will be put into circulation.

TV Klan: In fact, if we could give a metaphor of the strong lek, the Bank of Albania also decided for the denomination of 10 000 Lekë. Even during this touristic season and the beginning of autumn, lek has shown again to be a strong currency against other currencies, the US dollar and the euro. Can you tell us a bit more about what is happening with the exchange rate at the moment?

Governor Sejko: In our press conferences and our communications with the media, we have repeatedly underlined the underlying factors in the exchange rate, leading to the appreciation of lek mainly against the euro, but also against other currencies that follow it. Practically, this year, euro came from several directions into our economy. The euro supply has been and continues to be strong. If we look at the latest figures from the balance of payments data, we can notice that foreign direct investments continued to increase in our economy. We had a successful touristic season, with high inflows, which increased the euro in the country. Remittances have also continued to grow. These are some of the main channels that bring the euro in the Albanian economy.

Chart 36 Ratio of FDIs and current account to GDP (left) and their ratios (right)



Source: Bank of Albania.

Our country is a small open economy, and our main trading partners are in the euro area. Trade exchanges and all types of other exchanges take place in the euro area. Hence, we have an increased supply in euro, which builds up pressures on the exchange rate. Under these circumstances, the Bank of Albania carefully monitors the market in order to see the effect of the exchange rate on inflation.

First and foremost, what concerns us, since this is also our legal obligation, is the effect that the exchange rate would have on our inflation target, as the exchange rate appreciation certainly has a negative impact on our inflation target. For this very reason, last year we decided to intervene with a special intervention program to withdraw the foreign currency from the market. Based on the parameters, this plan would be applied again if we were to see that the exchange rate would negatively affect inflation. But, we must keep in mind that we have a free exchange rate regime and of course this free regime forces us to follow the market under this regime. Therefore, we cannot intervene at each time there is an appreciation, as we often look at not only the impact on inflation but also monitor the exchange rate behaviour in the market for any eventual disorderly behaviour. What we consider as disorderly behaviour are speculations, increase of spreads more than they should, strange behaviour in the sense of speculative behaviour in the exchange rate. During this period, we had an appreciated currency, but the behaviour of the exchange rate in the financial system and in the real economy did not show any disorder. So, the spreads and the banks' behaviour were normal. Hence we did not intervene, but of course we did monitor it.

Foreign exchange supply remains strong in the Albanian economy. Regarding the exchange rate, if such supply continues, it will certainly be under pressure. There is a new equilibrium in the exchange rate and we notice it. For a long time now, the exchange rate has been at a certain level and, in the absence of fluctuations; we will have a normal behaviour. Of course, we will continue to follow the free exchange rate regime, in case we will be faced with disorderly behaviours, as it happened last year, when there were specific factors that were linked to, for example, the conversion of some banks' capital or to a large loan in euro from the EBRD, which repaid another loan in the financial system. These factors, at a certain point, in parallel with the touristic season, led to a higher appreciation of the exchange rate and, coupled with speculative factors, forced us to implement this program. If such factors did occur, we would definitely review our behaviour, but for the moment, this is the situation we are in. We cannot predict the exchange rate.

*TV Klan: The current exchange rate level does not pose a problem for the inflation level, although we have had deflationary pressures during last month, as the inflation rate undershoot the 3% target of the central bank.*

**Governor Sejko:** As a matter of fact, the inflation level actually reflects the exchange rate behaviour during the previous quarter. The forecast of the Monetary Policy Department is lower than the level that calls for an intervention; therefore, we haven't intervened. But we will monitor the situation and see how the exchange rate will behave and we will look at its effects not only on inflation but also on the overall macroeconomic parameters.

**INTERVIEW WITH GENT SEJKO,  
GOVERNOR OF THE BANK OF ALBANIA,  
NEWS24  
-16 October 2019-**

*News24: A few days ago, the Bank of Albania launched the new banknotes that are expected to be issued into circulation. We are going to talking about this topic and other topics perhaps with the Governor of the Bank of Albania, Mr Gent Sejko.*

*Mr Sejko, given your busy agenda, thank you for this interview with News 24, to discuss and inform the public on a very important topic, the issuing of the new banknotes into circulation.*

**Governor:** Thank you and welcome!

*News24: Mr Governor, a few days ago, the Bank of Albania launched the new banknotes that are expected to enter into circulation. Can you tell us what the denominations are and what innovation these banknotes will offer citizens?*

**Governor:** The Bank of Albania presented the new series of banknotes a few days ago. The new Albanian banknote series consists of six denominations, which include bills for 200 Lekë, 500 Lekë, 1000 Lekë, 2000 Lekë, and 5000 Lekë. The novelty regarding this series is that, next year, we will also launch the 10000 Lekë banknote denominations, which, as we presented, will feature the theme of the national hymn.

The banknotes of the new series include additional security elements. One of the main reasons is that existing banknotes have exceeded their intended lifespan, so it was time for a change. For this new series we have improved the quality of each denomination and added new security features. It is very important that we have modern, secure banknotes, which are difficult to counterfeit. It is important to mention that with the existing series we did not have a high level of counterfeiting, but it was time to add more security, since if we look at the banknotes of other countries, they have modern security elements and our banknotes should be of the same calibre. We have made great efforts and, we may say, that we have managed to realise a series that is high quality, modern and contains additional security elements. We have also changed the dimensions of the banknote denominations.

The new denomination that will be put into circulation next year, the 10000 Lekë denominations, since it is the denomination with the highest nominal value, will have the largest size. This denomination will have almost the same dimensions of the highest denomination that we have today, which is the 5000 Lekë, whereas the dimensions of the other denominations will be smaller.

***“We are convinced that the new denominations serve as secure means of payment for citizens, as they employ modern security features. If you look, both the security thread and the hologram are the most contemporary elements in terms of banknote security. The 200 Lekë banknotes are made of a particular plastic material, called polymer.”***

It is important to mention that at the premises of our Bank, there is also the Museum of the Bank of Albania, where you can see in more detail the security elements, as well as the innovations of the new banknote series.

*News24: Regarding the two new banknotes the 200 and 5000 Lekë denominations. When are these denominations expected to be put into circulation?*

*You talked a little about the fact that there are no current problems with counterfeiting, but how secure are these denominations for the citizens?*

**Governor:** The Bank of Albania has increased the number of security elements adequately to make counterfeiting difficult. We are convinced that the new denominations serve as secure means of payment for citizens, as they employ modern security features. If you look, both the security thread and the hologram are the most contemporary elements in terms of banknote security. The 200 Lekë banknotes are made of a particular plastic material, called polymer. This material gives the banknote more longevity, resistance and durability, compared with the cotton paper banknote. The paper banknote is made with a specific material as well, which is cotton fibre. This banknote is the smallest denomination and circulates more. As you can see, it is the most used, deteriorated and outdated. With the entering into circulation of the new 200 Lekë polymer banknote, we have secured a longer lifespan.

The 5000 Lekë banknote entered circulation at the same time as the 200 Lekë note, on 30 September 2019. This denomination as well has additional security features, and a more modern and contemporary view.

Then, next year, we will put into circulation the 1000 Lekë and 10000 Lekë denominations. In 2021, we plan to put into circulation the 2000

Lekë denomination. The last denomination of this series, the 500 Lekë denominations, will be launched in 2022. This is our calendar for launching each banknote into circulation. This cycle of putting into circulation has been chosen because the Bank of Albania currently has a stock of banknotes, and this stock will surely continue to circulate. Our calendar for putting the denominations into circulation is based on an analysis carried out by the Issue Department of the Bank of Albania.

*News24: In fact, one question that we all have is what will happen with the current banknotes? Will they circulate in parallel with the new 200 Lekë and 5000 Lekë denominations?*

**Governor:** Both the 200 Lekë and the 5000 Lekë banknotes, the two new denominations, will continue to circulate alongside the existing banknotes. Hence, these banknotes will not be taken out of circulation, but will continue to be in use. The Bank of Albania will withdraw these banknotes from circulation gradually, putting into circulation the new banknotes. This will happen over a period of years. Nevertheless, the existing banknotes that will be gradually withdrawn from circulation, even after ceasing to be legal tender, will retain their value and may be exchanged at face value with new ones.

*News24: Mr Governor, you mentioned earlier the banknote that is expected to be issued into circulation in 2020, the 10000 Lekë banknotes. Why did you choose the next year and why did you choose a completely new banknote to launch into the market?*

**Governor:** The 10000 Lekë banknotes is the banknote with the highest nominal value. Economic conditions have matured, prompting for a denomination with a higher nominal value, which will be the 10000 Lekë banknotes. This will also create practical opportunities for users, since it is the highest denomination. Of course, we want to decrease the use of cash in the economy and we have many plans for the digitalisation of the banking system, the modernisation of the payment system. But cash is inevitable in an economy like ours and will continue to be in circulation. In this regard, in order to create convenience for users, we will put into circulation the 10000 Lekë banknotes.

The choice to launch the 10000 Lekë denominations next year has no particular reason other than the time required for the production, design and all the other elements tracked by the Issue Department.

**News24: Mr Governor, actually, why do we still use the Albanian lek and not the euro, since we aim to progress toward integration with the European Union?**

***“We will continue to use the lek as a national currency, since integration into the European Union is first and foremost an economic integration process. The currency of a country, among other things, reflects the economic strength as well as the products expressed by the value of a country.”***

**Governor:** We will continue to use the lek as a national currency, since integration into the European Union is first and foremost an economic integration process. The currency of a country, among other things, reflects the economic strength as well as the products expressed by the value of a country. Like other countries, we do not have the possibility of using the euro. I often hear discussions on potential risks arising from the exchange rate. To avoid exchange rate risk there is a preference among certain groups to have the currency of the European Union. If this was possible, that would be preferable for us as well. This because we would avoid many headaches, like the production of banknotes, exchange rate risk, the impacts that exchange rate risk has on financial stability, inflation and all the elements that we monitor and try to prevent.

The use of the euro would be ideal. It would be a beautiful dream. Pragmatically, like every country, we need to develop our economy toward integration through structural reforms, through hard work, in many economic, social and political aspects, in order to accelerate and facilitate Albania's integration into the European Union. Opening negotiations is a very important step, but this does not mean that Albania is integrated, since until the time of accession, we have still much work to do.

Even in the case of integration, if we look at many countries that are members of the European Union, like Poland, the Czech Republic, Romania and Bulgaria, they continue to use their national currency. Despite the fact that the level of economic development of these countries is much higher than that of our country, they still continue to use their currency, because it is impossible or difficult for them to use the euro at this time. Of course, these countries are working toward integration,

toward convergence, and one day they too will be part of the euro area. But for the moment they are working with their currency.

There are several elements not only theoretical, but also practical, where the use of the national currency has several advantages, such as the transmission of monetary policy. By using the national currency, central banks have a better transmission of monetary policy, ensuring that several risks are avoided. Central banks supply the banking financial system with liquidity and by producing the national currency it is easier for them, in every aspect, to supply the system. Let us look at some countries that are also members of the euro area like Greece and Italy. I will focus mainly on Greece, which is the best example to show the approach to a crisis. Many analyses were carried out in Greece and were many ideas were presented to go back to their national currency, since it would have created a certain flexibility to ensure the stability of the economy, like a better amortization of external and internal shocks. These are some of the elements that practically and theoretically make the use of the national currency necessary.

We must be clear that, it is not the use of foreign currency, the euro in this case, which will make Albania integrated. What would make Albania integrated would be the development and implementation of structural reforms, a certain economic development level so that we have an economic and social convergence as fast as possible so that we are closer to the other countries and not only become members of the European Union. One day we also use the euro.

**News24:** *Regarding the new banknotes, in fact, you have here at the Bank of Albania a museum, where almost all the new banknotes are displayed. Have you prepared a calendar for the citizens that want to be informed on this issue and how to proceed?*

**Governor:** A few days ago, we presented the new banknote series. The Museum of our Central Bank, among other things, on its second floor, is presenting the new banknote series, together with the security features and other printing elements. The Bank of Albania collaborates with commercial banks, since the supply of the market with banknotes is carried out through commercial banks. We have also published, on our official internet site, the relevant calendar for putting the new banknotes into circulation, which we have also mentioned on many television shows in these days.

Concretely, on 30 September 2019, we put into circulation the banknotes with 200 Lekë and 5000 Lekë denominations, and for the moment it is important that information is focused on these two denominations. Very soon, the public, users, will be presented with the new denominations. The first moment of contact, I believe, will be interesting, particularly from the point of view of the curiosity to touch these banknotes personally. Then the public will get familiarized with their use and we will continue consequently with putting the rest of the series into circulation, as well as informing the public in cooperation with commercial banks.

*News24: Mr Governor, I would also like to discuss a little about the latest economic developments. I would like to refer to an International Monetary Fund report, which has called attention to the introduction of new stakeholders into the banking system. Do you have a comment regarding this issue, as the Governor of the Bank of Albania?*

**Governor:** I will try to summarise since this is an issue that requires time to discuss. The important thing is that during this period we had structural changes in the banking system, where the financial stability of the country has been maintained well. We have not compromised the security parameters of commercial banks. We have managed structural changes, maintaining a stable and sound banking system, as well as continuing activity and lending in the economy, in parallel with structural changes. This is very important since we have seen several countries that had certain shocks or risks in financial stability, due to structural changes or difficulties that commercial banks have encountered.

It is precisely because of these difficulties which banks in the euro area have encountered that many large groups after 2008 changed their strategies for operating with subsidiaries and branches in countries outside the European Union. Unfortunately these banks have stepped back, including some large groups, as we have seen in Albania as well. They have not stepped back only from Albania, but from the entire region due to their difficulties and the impositions made by the European Central Bank and the European Banking Authority. Against this backdrop, the central banks of all the countries of the region, with whom we have cooperated, have also faced structural changes. This has been the main cause and the process has come to an end in the last four years. This history started 10 years ago after the crisis of 2008-2009.

In parallel with this situation, we have tried to maintain financial stability in Albania and pursue the consolidation of our banking system, which is one of our objectives. There were 16 banks operating in the Republic of Albania. After the structural changes, we have decreased the number of banks to 12. Consolidation of the banking system, which, in line with the analyses of the Bank of Albania was a targeted objective, has been achieved.

So, with structural changes consolidation has taken place. After these changes we observe that there are an equal number of large, medium-sized and small banks. From the point of view of competition, these banks will be more motivated to operate not only in lending, but in other products that the public needs. Also, key parameters like capital adequacy were maintained during and after the changes. All banks have a very good level of capital adequacy, which makes them more stable and of higher quality. Banks are in a very good liquidity position. Indeed, one of our challenges has been to turn this liquidity, which represents a cost for the banks, into sound lending to the economy. If we look, during the latest period, in three consecutive quarters, we had a good increase of lending, particularly lending in lek, due to our accommodative monetary policy. But on the other hand, we also had a decrease in non-performing loans. So, at the same time, we achieved providing credit to the economy through the banking system and were able to maintain credit quality.

***“With the structural changes that happened, we have achieved consolidation of the banking system, have maintained the quality of banks, and have made it possible for banks to continue to operate and provide financial products to the market.”***

Within the lending portfolio, non-qualitative loans refer mainly to past loans, whereas we observe that, in relative terms, we have qualitative loans, which means that banks have learned from the past, so they are more careful in their analysis of credit risk.

I am not going any further into the lending segments, but the important thing, to answer your question, is that with the structural changes that happened, we have achieved consolidation of the banking system, have maintained the quality of banks, and have made it possible for banks to continue to operate and provide financial products to the market. Of course we will continue to monitor and supervise the market after the structural changes. This is one of the recommendations of the Monetary Fund. But, even in absence of this recommendation, we would do it

anyway. We will more intensively supervise the changed banks with new shareholders and the new shareholding structures in order to ensure that they continue to operate in a stable manner, in accordance with all the regulatory legal requirements of the Bank of Albania.

*News24: Thank you Mr Governor!*

*Governor: Thank you!*







