
Governor's public appearance in 2020

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Gent Sejko, Governor of the Bank of Albania, 2020

CHAPTER I

PRESENTATIONS TO THE PARLIAMENTARY COMMITTEE ON ECONOMY AND FINANCE

- *Governor Sejko presents the Annual Report - 2019 the Bank of Albania to the Parliamentary Committee on Economy and Finance, 1 June 2020*
- *Governor Sejko presents the Annual Report of the Bank of Albania to the Assembly of the Republic of Albania, 2 July 2020.*

Presentations to the Assembly

The Bank of Albania is an independent, transparent and accountable institution. The accountability is realized through a number of instruments, most importantly the hearing sessions of the Parliamentary Committee on Economy and Finance with the Governor. Every year, the Governor presents the Annual Report of the Bank of Albania, answering to the questions and responding to the interest of MPs on specific issues related to it. In addition, hearing sessions may also take place on the operational activity of the Bank of Albania and the banking system.



**GOVERNOR SEJKO: ADDRESS TO THE
PARLIAMENTARY COMMITTEE ON
ECONOMY AND FINANCE PRESENTING
THE ANNUAL REPORT OF THE BANK OF
ALBANIA FOR 2019**
-1 June 2020-

In 2019, the accommodative monetary policy of the Bank of Albania:

- *has driven to the reduction of credit price and fostered the increase of lending;*
- *has led to the reduction of debt servicing cost to households and firms;*
- *has created the premises for a more stable exchange rate during 2019;*
- *by informing the market through the forward guidance on the future path of the monetary policy stance has helped the market's actors to be clear on the expected trajectory of inflation and interest rates.*

*Honourable Madam Chair of the Committee,
Honourable Members of the Committee,*

Allow me, to thank you, notwithstanding the unexceptional circumstancing, for the invitation and the opportunity to present the main messages of the Annual Report for 2019 of the Bank of Albania.

The Annual Report describes the work performed by the Bank of Albania for fulfilling its legal mandate, the strategic development objectives, and the recommendations left by the Assembly of the Republic of Albania in the Resolution "On the assessment of the activity of the Bank of Albania". I am pleased to affirm that our work has provided a positive contribution in strengthening the financial and monetary stability of Albania. As always, I would like to emphasise that the Bank of Albania considers the financial and monetary stability as an indispensable precondition for the sustainable and long-term growth, and for successfully overcoming the challenges lying ahead.

Honourable Members of the Committee,

While preparing the Annual Report, our assessments on the current situation and the economic and financial outlook of the country have changed substantially. The Covid-19 pandemic outbreak was a

severe shock on the Albanian economy and finances. For this reason, in my address today, I found it appropriate to speak, not only about the directions and main outcomes of the work of the Bank of Albania throughout the previous year, but also in the light of the current situation and our expectations for the future.

Our main message is that the Albanian economy has the premises to successfully withstand this challenge, by only temporary deviating from the sustainable and long-term growth path. Nevertheless, the minimisation of coronavirus pandemic costs requires for a strong and coordinated response by public authorities, as well as flexibility and courage by the private sector.

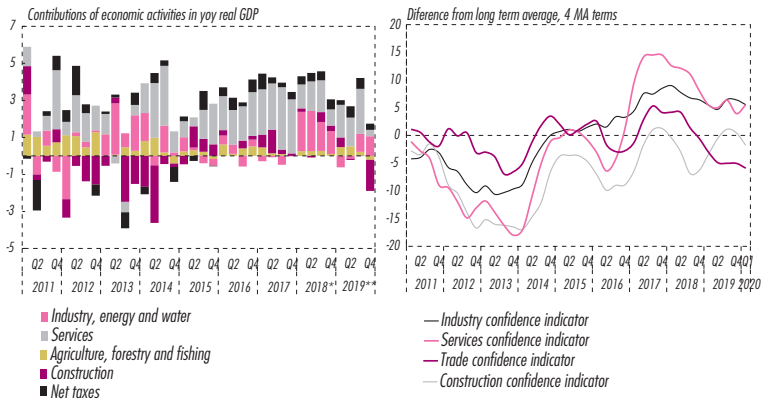
Allow me, to start this presentation with the main achievements of the Bank of Albania over 2019.

1. ALBANIAN ECONOMY AND MONETARY POLICY IN 2019

According to the Law "On the Bank of Albania", the main objective of the Bank of Albania is to achieve and maintain price stability. To fulfil this objective, the Bank of Albania has continued to implement an accommodative monetary policy throughout 2019. This stance was dictated by the still undershooting inflation values.

Year 2019 was a challenging one to the Albanian economy. The external economic environment was unfavourable, characterised by the slowdown of the economic growth pace, low inflation and heightened uncertainties due to the strengthening of protectionist measures across global markets. On the other hand, the Albania economy continued to benefit from the increase of private consumption, and the expansion in the export of services, mainly driven by the continuation of tourism positive trend. Nevertheless, the economic activity in Albania was negatively affected by: the sharp fall in production of electrical energy; the gradual finalisation of investments in large energy projects; and the earthquake of November 2019, which caused considerable economic damages and losses. Hence, the economic growth in 2019, stood at 2.2%, downward from 4.1% in the previous year.

Chart 1 Gross domestic product by output and confidence indicators

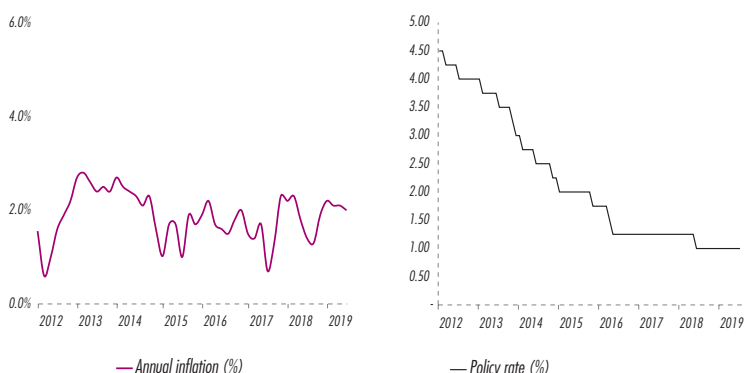


Source: INSTAT and Bank of Albania. *Semi-final data. ** A preliminary estimate.

We deem that the shocks we suffered drove to the slowdown of the economic growth pace, but did not deviated the Albanian economy from the positive development trend. This performance was reflected in the fall of unemployment rate, which hit its historical minimum, standing at 11.2% at the end of year, the growth of employment and wages, and in the reduction of both external and public debt of Albania. In parallel, the main indicators of the banking sector’s soundness remain at adequate levels.

In 2019, inflation averaged 1.4%, downwards from the previous year. The reduction of inflation reflected the fuller transmission of the exchange rate appreciation and the fall of inflation of goods in international markets, while domestic inflationary pressures trended upwards.

Chart 2 Inflation and policy rate (in %)



Source: INSTAT, Bank of Albania.

The still undershooting inflation rates dictated the maintaining of the accommodative monetary policy stance over 2019. Hence, the Bank of Albania: kept the policy rate unchanged at 1.0%; oriented the markets towards maintaining the accommodative monetary policy stance in the medium-term horizon; and supplied banks with the necessary liquidity. In response to our monetary policy, the financing conditions simulated the growth of aggregate demand and were adequate for the convergence of inflation to target. Allow me to highlight the main channels through which our accommodative monetary policy helped the economy.

First, the monetary stimulus drove to the reduction of credit price and fostered the increase of lending. The financial markets were characterised by low interest rates, a good liquidity position and an increasing stability of the exchange rate.

In these circumstances, lending to private sector experienced a relatively rapid growth and showed a better allocation. Excluding the effect of written off loans and that of the exchange rate, this credit recorded an average growth rate of 8% during 2019, considerably accelerating compared with the previous years. Also, lending to private sector showed an upward trend toward the financing of firms' needs for investments, while the foreign exchange structure of credit continued to improve. The ratio of loans in lek to total loans increased at 48.7%, from 44.7% in 2017.

The positive lending trend benefited from the increase in both credit demand and supply. In particular, while the low interest rates boosted the credit demand, the improvement of the supply reflected the downward risk of lending in Albania - as shown by the fall in non-performing loans - and the positive effects and increase of competition in the banking sector, due to its restructuring.

Second, the monetary stimulus has led to the reduction of debt servicing cost to households and firms. Our assessments suggest that this effect in 2019 stood at the interval ALL 14-15 billion. These funds help to improve their financial situation and are an additional source for financing the consumption and investments.

Third, the monetary stimulus has created the premises for a more stable exchange rate during 2019. Although the Bank of Albania was not present in the domestic foreign exchange market to affect the exchange rate, the establishment of a calm monetary environment supported its stabilisation.

Fourth, the informing of market through the forward guidance on the future path of the monetary policy stance helped the market's actors to be clear on the expected trajectory of inflation and interest rates.

Through these channels, our accommodative monetary policy contributed for bolstering the economic growth and building-up the domestic inflationary pressures. Our empirical assessments show that thanks to the monetary stimulus, the economic growth and inflation stand averagely around 0.6 and 0.7 percentage point higher, respectively, during the last three years, than in case of monetary stimulus lack.

As I mentioned it previously, the spread of coronavirus pandemic has changed the economic reality and the outlook for the future. With the crisis outbreak, the Bank of Albania has undertaken a full package of measures to address the immediate situation and establish a solid ground for the robust recovery of the economy. I will detail them at the end of my speech. Meanwhile, I will proceed with another direction of our work: The promotion of financial stability, through the

“...the spread of coronavirus pandemic has changed the economic reality and the outlook for the future. With the crisis outbreak, the Bank of Albania has undertaken a full package of measures to address the immediate situation and establish a solid ground for the robust recovery of the economy.”

strengthening of banking system resilience and the effective and smooth functioning of the payment systems.

2. BANKING SUPERVISION AND FINANCIAL STABILITY

In terms of main directions for the strengthening banking supervision and supporting the financial stability, the Bank of Albania:

- *has concluded the work on the management of the banking sector consolidation process during 2019;*
- *has worked toward fulfilling all its obligations in the framework of the national plan for the reduction of non-performing loans;*
- *has been working vigorously to fulfil the recommendations provided by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL);*
- *has continued to participate in the supervisory colleges organised by the European Central Bank during 2019.*

The financial situation of banking sector is sound and stable. This performance is shown by the expansion of the banking sector activity, the increase of RoA and RoE indicators at 1.4% and 13.5%, respectively, and the maintaining at a high level of 18.3% of capital adequacy ratio. Also, our stress test results show that banking sector's exposure to systemic risks is contained, and its ability to withstand risks is robust.

Table 1 Main profitability indicators (in %; cumulative)

Indicators	December 2019	December 2018	December 2017	December 2016
RoAA	1,39	1,32	1,56	0,69
RoAE	13,45	12,96	15,71	7,15

Source: Bank of Albania.

Following, there are briefly summarised some of the main directions of our work for strengthening banking supervision and supporting the financial stability.

First, the Bank of Albania concluded the work on the management of the banking sector consolidation process during 2019. The Bank of Albania has coordinated and monitored carefully the process, during this period, in order to avoid any negative effect and to ensure the well-functioning of banks' activity. Currently, 12 banks operate in the Albanian banking system, from 16 banks in 2018. During 2019, it was concluded the process of ownership transfer for two banks, the

acquisition of one bank and the self-liquidation of another bank. This process re-configured the domestic banking market, which currently experiences a higher presence of the domestic capital and increase of competition.

Second, 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. The non-performing loans ratio dropped from a maximum of almost 25% in 2014, to 8.4% at the end of 2019, attributable to the measures undertaken in years. The stock of non-performing loans reduced around 25%, by reflecting the decrease of non-performing loans to firms. In 2019, it was finalised the regulatory framework for the implementation of Tirana Approach project. The purpose of this Project is the establishment of a common inter-bank platform for finding an adequate solution for large past-due borrowers. The implementation of this platform will affect the further decrease of non-performing loans ratio in both short- and medium-term future.

Third, the Bank of Albania has been working vigorously to fulfil the recommendations provided by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL).

In the fifth round on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism, the Bank of Albania has played a crucial supportive role as the supervisory authority for the major part of the financial system. In the final MONEYVAL report, the effectiveness level of financial institutions was rated as “substantial/considerable”. In particular, banks show a good 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 recommendations and a plan of measures for addressing them. These recommendations have been implemented over 2019, through the amendments in the regulatory framework and the strengthening of on-site supervisory effectiveness.

Fourth, the Bank of Albania continued to participate in the supervisory colleges organised by the European Central Bank during 2019, for exchanging information for some banks with origin in the EU members and which operate in the Albanian market.

The work for boosting sound lending to the economy is continuously accompanied with a prudential on-site monitoring of the financial system. In 2019, 17 full-scope and partial examinations were carried out covering almost all banks, three non-bank financial institutions, one SLA and 97 foreign exchange bureaus. The examinations programme has considered also the accomplishment of the recommendations provided by Moneyval experts and some examinations were conducted in cooperation with the Directorate General on the Prevention of Money Laundering (DG PML).

Table 2 Number of examinations by entities and theme

Examinations carried out on entities	Strategic risk	Organisational risk	Credit risk	Liquidity risk	Interest rate risk	Market risk	Information and Communication Technology	Operational risk	Reputational risk	Profitability	Capital
2017	9	12	13	10	10	9	11	8	11	10	11
2018	8	10	9	8	8	8	9	8	48	9	8
2019	13	13	16	13	13	14	13	13	113	13	15

Source: Bank of Albania.

The Bank of Albania has continued to adopt new regulatory acts on banking activity, or to amend those which are in force, aiming at the further approximation with the directives and regulations of the European Union (EU) and Basel Committee documents.

In the capacity of the Resolution Authority, the Bank of Albania has worked to strengthen the ability for resolution, through the drafting of individual resolution plans for each systemic bank, and for the continuous improvement of banks' reporting.

With respect to safeguarding financial stability, the Bank of Albania has played a primary role for the compilation and implementation of the macroprudential policy. This policy prevents the accumulation of risks and strengthens the financial system's resilience. In this regard, the Bank of Albania focused in the introduction of the regulatory capital buffers, as a macroprudential instrument, and in developing a package of analytical indicators of early warning systemic risks, in accordance with the requirements and practices of the European Supervisory authorities. In the framework of the implementation of *the inter-institutional strategy*

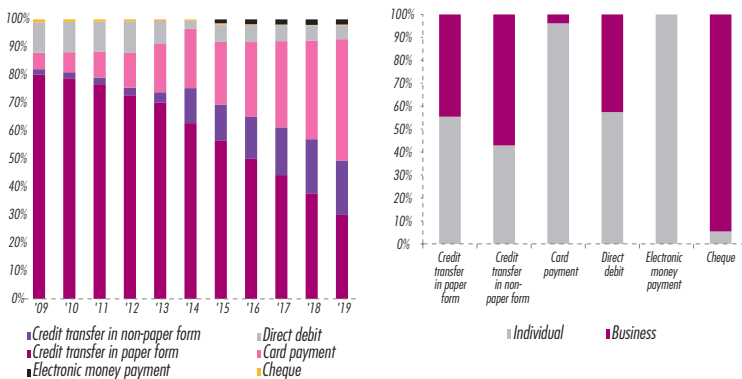
for strengthening the use of the national currency, the Bank of Albania has regularly assessed the effectiveness of the undertaken measures. These effects were positive, although small ones. Nevertheless, their complete materialisation demands for more time and the full and continuous commitment of all responsible institutions.

The realisation of institutional duties implies also a constant attention on other fields of the Bank of Albania’s activity. Due to the lack of time, I am going to highlight the main ones.

3. OTHER ACTIVITIES

The functioning of the economy and banking system is underpinned by a safe and efficient payment system. Both systems operated by the Bank of Albania, the Albanian Interbank Payment AIPS) and Albanian Electronic Clearing House (AECH) have functioned efficiently and safely. In 2019, the use of electronic payment instruments by the public increased. The number of payments carried out through these instruments was 24% higher from the previous year.

Chart 3 Volume of payment instruments in years (left) and the use volume of payment instruments by household and enterprises (right), during 2019



Source: Bank of Albania.

During 2019, the Bank of Albania started the work for improving the regulatory framework related to the operation of these systems, to enable the non-bank financial institutions access AECH system and establish the conditions for promoting the electronic payments. Also, the Bank of Albania paid attention to regulate the activity of securities

settlement by the private operators and the licensing of the operator that will carry out the settlement and registration of securities issued by the private companies. The presence of this operator completes the infrastructure for the functioning of capital markets in Albania.

In the framework of promoting the reforms in payments market, the Bank of Albania has played an active role for the implementation of the National Retail Payments Strategy 2018-2023. The Bank of Albania has collaborated for fostering the projects related with the formalisation of the economy, (the "Draft-law on fiscalization"); the development of the respective infrastructure for the realisation of instant payments and for the settlement of payments in Euro within Albania; as well as for increasing financial education. In the view of legal improvements, it was drafted and presented for approval to the Assembly of the Republic of Albania the Draft-law "On payment services" which transposes the respective Directive of the European Union. The Assembly approved this Draft-law on 30 April 2020. The implementation of this Law will serve to promote and increase the financial inclusion of the population, reduce the payment services costs and boost the use of electronic payment instruments.

The Bank of Albania is the sole authority for issuing banknotes and coins of legal tender in the Republic of Albania.

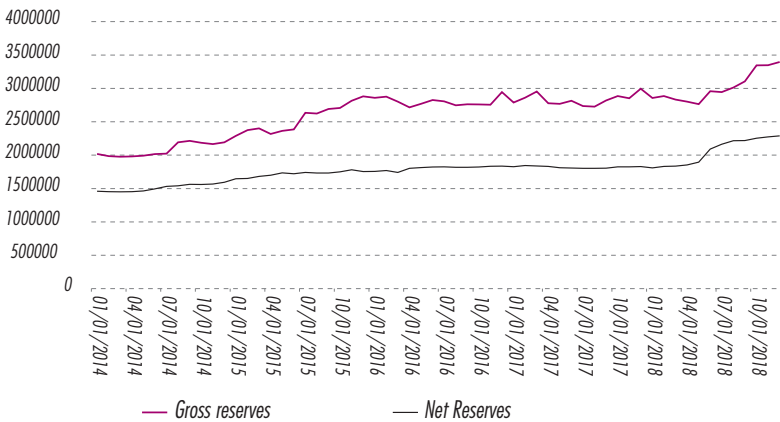
During 2019, the Bank of Albania finalised the many-years' work for the production of the new series of "Lek" banknotes with respect to enhance their quality. Also, the new denomination of 10 000 Lekë was added to the five existing denominations.

On 30 September 2019, the Bank of Albania put into circulation the first denominations of the new series, 200 Lekë and 5000 Lekë. The new series of denominations 1000 Lekë and 10 000 Lekë banknotes will be put into circulation within 2020. The launching of the new series was accompanied by an informative and educational campaign, taking place throughout the Republic of Albania. With respect to implementing the Parliament resolution, the objective of the educational campaign, was also making public aware to not use the terminology "new lek- old lek, but simply lek".

The Bank of Albania is the national authority responsible for holding and managing the official international reserves of the Republic of Albania. In this process, the Bank of Albania is guided by a hierarchy

list of objectives, which imply the maintaining of international reserve liquidity, its security and earnings. At the end of 2019, the international reserve is invested into liquid assets with maturities of 0-3 years, and around 84% of portfolio is invested in securities issued by high quality rating institutions. The return on the investment of reserve is positive, but at low levels due to an environment with low interest rates.

Chart 4 FX reserve performance



Source: Bank of Albania.

The Bank of Albania is also one of the public statistical agencies. In this framework, this year it was completed the compilation of statistics on the external sector in compliance with Eurostat requirements and it is being worked to build the “micro data”.

As one of the institutions involved in the National Plan for European Integration, the Bank of Albania has accomplished all its obligations for reporting, and it has integrated the recommendations of the European Commission in fulfilling its daily duties. The Bank of Albania has continuously been transparent and present to the public through the visual and online means of communication. This communication has aimed to be clear and understandable.

Lastly, special attention has been given to the improvement of the internal governance of the institution. Following the establishment of the operational risk management function, the implementation of the platform on business continuity management was finalised in 2019. This platform orients the units of the Bank of Albania to react effectively for

ensuring the continuity of critical processes during a crisis, and to recover the normal activity as fast as possible. The platform on business continuity management overcame successfully its test, where the measures foreseen in this platform enabled the Bank of Albania to normally continue its activity during the pandemic period.

*Honourable Madam Chair of the Committee,
Honourable Members of the Committee,*

I would like to use the remaining time to share the opinion of the Bank of Albania on the current and expected economic situation, as well as the measures we have undertaken during the last months to offset the effects of the pandemic on the economy.

This pandemic, absolutely, had a sharp negative shock on the economy and finances of the country, and heightened the uncertainty for the future. The containment measures of social distancing and the temporary closure of some economic activities, both in Albania and internationally, provided a negative impact on consumption, investments and on the export of goods and services. The Albanian economy is expected to fall during 2020, being accompanied by: a reduction of employment; increase of unemployment; drop of households' income; worsening of the financial situation of firms; and increase of non-performing loans in the banking sector. This shock struck in a delicate moment for the Albanian economy, which suffered economic damages and losses accounting for 7.5% of GDP from the earthquake of 26 November 2019.

“... The measures taken by the Bank of Albania in the framework of the pandemic provide the needed liquidity to the banking system and to the whole economy, cushion the uninterrupted flow of lending to households.”

The coordinated fiscal, monetary and financial stimuli have aimed at helping the affected households and firms, safeguarding the monetary and financial stability, and establishing the premises that the effects of this crisis remain transitional.

The Bank of Albania, in the view of this rather difficult economic environment, since the beginning of the COVID-19 pandemic outbreak has undertaken a complete package of measures

to support the households and sectors mostly affected by the crisis. These measures provide the needed liquidity to the banking system and to the whole economy, cushion the uninterrupted flow of lending to households and firms, and maintain favourable financing conditions to them.

The package of the measures undertaken by the Bank of Albania consists in:

- reducing the policy rate, at 0.5%, and the unlimited supply with liquidity to the banking system, aiming to boost the smooth functioning of financial markets and reduce credit cost to private sector;
- the temporary easing of bank regulations, to provide the temporary extension, with two quarters, of the payments of credit, with the aim to keep the liquid position of firms and households in temporary difficulty, and increase their chances to survive;
- eliminating the operational costs of electronic payment system, in response to the upward demand for this type of activity; and
- enhancing the operational capacities to guarantee the supply of economy with cash, by providing a sufficient stock to meet the increasing demand of market for cash.

I deem that the Bank of Albania has taken adequate and timely measures. In their response, the financial markets continue to function normally, although the increased demand of the public sector for financing and the heightened uncertainty about the duration and severity of the negative impact of COVID-19 pandemic on the economy.

These measures enable the implementation and complete the fiscal package of the Albanian Government. Without a common and coordinated reaction of macroeconomic policies, the economic outlook of the country would have been more challenging and the economic recovery more difficult.

Honourable Members of the Committee,

We are experiencing unprecedented and hard times. Nevertheless, our guidance should remain forward-looking, towards the drafting and implementation of the necessary public policies for the recovery of the country. All the actors should play their role.

First, the fiscal policy should continue to have a primary role in facing the situation. The ensuring of the necessary funds to health system, the financial aid for the affected employees, and the measures to improve liquidity to firms, imply the increase of public debt, but they are and remain exceptional."

"... the fiscal policy should continue to have a primary role in facing the situation. The ensuring of the necessary funds to health system, the financial aid for the affected employees, and the measures to improve liquidity to firms, imply the increase of public debt, but they are and remain exceptional."

liquidity to firms, imply the increase of public debt, but they are and remain exceptional. In the current circumstances, the increase of debt is an affordable cost to guarantee the maintaining of the economic and financial equilibriums.

Second, the Bank of Albania will continue to implement an accommodative monetary policy stance, coupled with the supervision and prudential regulation of the banking sector. In one hand, the monetary stimulus - implemented timely and based on the instruments provided by the legal framework of the Bank of Albania and the needs of the Albanian market - will establish the premises to boost the demand and reduce the costs of financing. On the other hand, the supervision and prudential regulation of the banking system will be oriented toward the maintaining of its soundness indicators and of the Albanian households' savings.

Third, the private sector should be willingness to review the business model, to adopt innovative and efficient production forms. Also, it should take care to optimally manage liquidity and effectively allocate the cost of shock on the production chain, to enable their rapid activation once the COVID-19 pandemic is over.

Honourable Members of the Committee,

The forecast about the forthcoming developments is relatively difficult, although the logic of the events is largely dictated by the considerations of health nature. In our base-line scenario, we expect the second quarter to mark the peak of shock on the economy, then the situation returns to improve: at the beginning gradually in the next two quarters. Further, this improvement will turn more obvious and notable during 2021.

In any case, we are confident that dealing with this shock is within our possibilities, if everyone will do the best and if we will continue to guarantee with priority the monetary and financial stability of Albania. Thank you!

“The Bank of Albania will continue to implement an accommodative monetary policy, combined with a prudential supervision and regulation of the banking sector.”

GOVERNOR SEJKO: ADDRESS TO THE ASSEMBLY OF THE REPUBLIC OF ALBANIA PRESENTING THE ANNUAL REPORT OF THE BANK OF ALBANIA FOR 2019 -2 July 2020-

*Honourable Speaker,
Honourable Members of Parliament,*

Thank you for the invitation and the opportunity to present to the Assembly, the Annual Report of the Bank of Albania for 2019.

Overall, I affirm that the work of the Bank of Albania has provided a positive contribution in strengthening the financial and monetary stability of Albania. This stability is a crucial precondition for the sustainable and long-term growth of the country. Also, the Bank of Albania has fulfilled its legal duties; has progressed with the implementation of the Medium-term Development Strategy; and has implemented the recommendations provided by the Assembly of Albania.

“... the work of the Bank of Albania has provided a positive contribution in strengthening the financial and monetary stability of Albania. This stability is a crucial precondition for the sustainable and long-term growth of the country.”

Pursuant to the applicable legal framework, the main objective of the Bank of Albania is achieving and maintaining price stability.

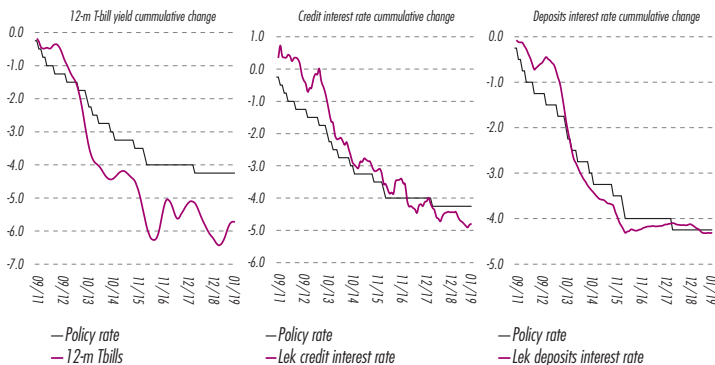
1. ALBANIAN ECONOMY AND MONETARY POLICY IN 2019

Year 2019 was a challenging one to the Albanian economy. It continued to benefit from the increase of private consumption, and the rapid expansion in tourism sector. Nevertheless, the external economic environment was unfavourable, while the fall in production of electrical energy, the gradual finalisation of investments in large energy projects, and the earthquake of November 2019, provided strong negative effects. Hence, economic growth in 2019, stood at 2.2%, downward from 4.1% in the previous year.

The shocks we suffered drove to the slowdown of the economic growth pace, but did not deviated the Albanian economy from the positive development trend. This performance was reflected in the reduction of unemployment rate, the increase of employment and wages, and the decrease of both external and public debt of Albania. In parallel, the main indicators of the banking sector’s soundness remain at adequate levels.

In 2019, inflation averaged 1.4%, downwards from the previous year. The still undershooting inflation rates dictated the maintaining of the accommodative monetary policy stance throughout 2019. The Bank of Albania kept the policy rate unchanged at 1.0% oriented the market towards maintaining the accommodative monetary policy stance in the medium-term horizon, and supplied banks with the necessary liquidity. In response to our monetary policy, the financing conditions simulated the growth of aggregate demand and were adequate for the convergence of inflation to target. The monetary stimulus drove to the decrease of credit price and bolstered the increase of lending. In these circumstances, lending to private sector experienced a relatively rapid growth and showed a better allocation. Also, the monetary stimulus reduced the debt servicing costs to enterprises and households, and provided the premises for a more stable foreign exchange rate in 2019.

*Chart 5 Transmission of monetary stimulus to credit, deposits and T-bills interest rates**



Source: Bank of Albania. *Cumulative changes since the beginning of the easing monetary policy cycle (in percentage point).

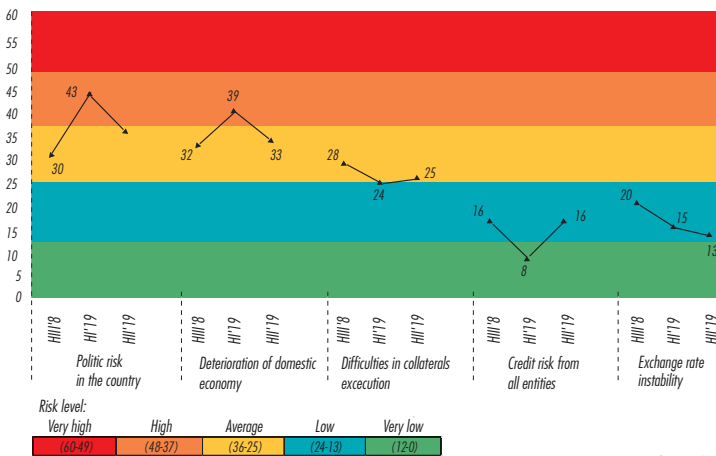
In addition to supporting the price stability, the Bank of Albania has paid attention also to the maintaining of financial stability, through

the prudential supervision and regulation of the banking system and by coordinating the work with other authorities of financial sector supervision.

2. BANKING SUPERVISION AND FINANCIAL STABILITY

The Albanian banking sector continues to remain financially sound and has shown an upward dynamism. This sector has been profitable throughout 2019, while its indicators of liquidity and capitalisation stand above our regulatory requirements. Also, our stress test results show that banking sector’s exposure to systemic risks is contained, and its ability to withstand risks is robust.

Chart 6 Bank’s assessment on the main systemic risks in Albania



Source: Bank of Albania.

Following, there are briefly summarised some of the main directions of our work for strengthening banking supervision and supporting the financial stability.

- First, the Bank of Albania successfully managed the consolidation process of the banking sector. This process re-configured the domestic banking market, bringing about new and motivated actors as well as the increase of the domestic capital.
- Second, the Bank of Albania fulfilled all its obligations in the framework of the national plan for the reduction of non-performing loans. The non-performing loans ratio dropped from a maximum of

almost 25% in 2014, to 8.4% at the end of 2019, attributable to the measures undertaken in years.

- Third, the Bank of Albania worked to fulfil the recommendations provided by the Committee of Experts of the Council of Europe on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism – MONEYVAL. In the MONEYVAL report, the effectiveness level of financial institutions was rated as “substantial/considerable.
- Fourth, the Bank of Albania has continued to adopt new regulatory acts of the banking activity or review those that are in force, aiming at further approximation with the European Union’s Acquis and with the Basel Committee standards.
- Last, the work for boosting sound lending to the economy is continuously accompanied with a prudential on-site monitoring of the financial system.

The realisation of institutional duties implies also a constant attention on other fields of the Bank of Albania’s activity. I find it necessary to highlight the further development of resolution function; the promotion of the payment system development; the strengthening of banknotes’ quality; foreign reserve management; the improvement of statistics; the support to the European integration process; the work for the education of public and improvement of communication with it.

Honourable Members of Parliament,

This moment that I am addressing to the Assembly is unprecedented. Covid-19 pandemic outbreak and the necessary measures taken to contain it, have hit hard the Albanian households and firms during the last three months. The Albanian economy is expected to fall during 2020, being accompanied by: an increase of unemployment; drop of households’ income; worsening of the financial situation of firms; and increase of non-performing loans in the banking sector.

“The Bank of Albania undertook a complete package of measures to provide the needed liquidity to the banking system, boost lending and control debt servicing costs.”

Public authorities stepped up a rapid and comprehensive response to this shock, concerning both the health care and the socio-economic consequences.

In addition to easing fiscal measures, the Bank of Albania, undertook a complete package of measures to provide the needed liquidity to the

banking system, boost lending and control debt servicing costs. This package consists in:

- reducing the policy rate, at 0.5%, and the unlimited supply with liquidity to the banking system;
- the temporary easing of bank regulations, to provide the temporary extension, with two quarters, of the payments of credit, for clients facing difficulties, and the consensual restructuring of loans to clients with solid business perspectives, aiming at improving business' finances and increasing their chances to survive;
- eliminating the operational costs of electronic payment system, in response to the upward demand for this type of activity; and
- enhancing the operational capacities to guarantee the supply of economy with cash, by providing a sufficient stock to meet the increasing demand of market for cash.

In response to these measures, the financial markets continue to function smoothly, notwithstanding the increased demand of the public sector for financing and the heightened uncertainty in the economy. In addition, these measures enable and complete the fiscal package of the Albanian government.

In economic terms, the coordinated fiscal, monetary and macro prudential measures have partially mitigated the negative effects of pandemic. However, the challenges lying ahead are serious. We deem that the Albanian economy has the prerequisites to successfully face this shock. Hence, it requires all public actors and private sector operators take discretionary, timely and coordinated decisions.

Dealing with this shock is within our possibilities, if everyone will do the best and if we will continue to guarantee with priority the monetary and financial stability of Albania.

Thank you!



KONFERENCË PËR SHTYP

RAPORTI I NDËRMJETËM I POLITIKËS
MONETARE

1 KORRIK 2020



CHAPTER II

PRESS CONFERENCES ON MONETARY POLICY DECISIONS

- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 5 February 2020*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 25 March 2020*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 6 May 2020*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 1 July 2020*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 5 August 2020*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 7 October 2020*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 16 December 2020*

Press conferences on monetary policy decisions

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

THE BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED, AT 1.0% -5 February 2020-

The economic activity in Albania was hit by the earthquake of November 26th, 2019. The consequences of the earthquake are expected to have a slowdown resultant effect on both the economic growth and inflation during 2020. The growth pace will accelerate in the medium term. This acceleration is expected to bring the economy to equilibrium and inflation to target by 2021.

Dear Ladies and Gentlemen,

Today, on 5 February 2020, the Supervisory Council of the Bank of Albania reviewed and approved the Quarterly Monetary Policy Report. The new information analysed in this Report suggests that the economic activity in Albania was hit by the earthquake of November 26th, 2019, but this shock has not compromised the medium-and long-term trend of development. The consequences of the earthquake are expected to have a slowdown resultant effect on both the economic growth and inflation. However, this slowdown is expected to be temporary and concentrated during 2020.

The updating of our baseline scenario suggests that the growth pace will accelerate in the medium term. This acceleration is expected to bring the economy to equilibrium and inflation to target by 2021. Based on these considerations, the Supervisory Council deemed that the current monetary stimulus remains adequate.

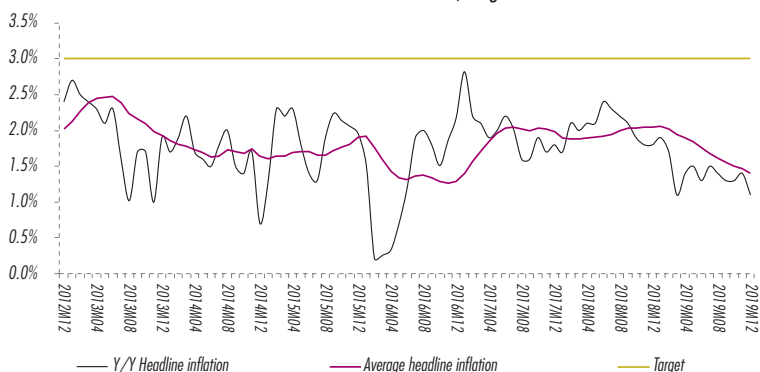
In parallel with the baseline scenario, the Supervisory Council concludes that downside risks have increased. Their materialisation might dictate a further easing of the monetary policy stance.

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

In the fourth quarter, inflation averaged 1.3%, down from the previous quarter, and remaining below our target of 3%. The decline in the inflation

rate reflected the slower increase of food prices. This phenomenon is particularly present in December. While, prices of other basket items recorded less fluctuations.

Chart 7 Headline inflation, target



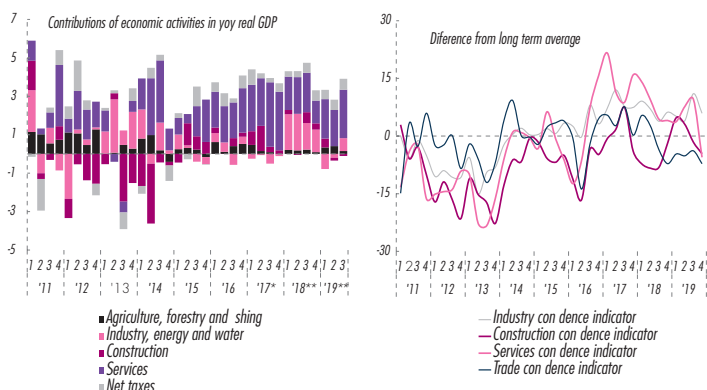
Source: INSTAT, Trading Economics database and calculations of the Bank of Albania.

From the macro-economic perspective, low inflation rates and the undershooting of the target reflect a still insufficient 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.

The decelerating effect of these factors will be gradually reduced in the medium term.

According to INSTAT data, the Albanian economy recorded an annual growth of 3.8% in the third quarter, accelerating from the first half of year, and in the upper side of our expectations. In sectoral terms, this acceleration was driven by the positive tourist season and the reduction of the negative effect originating from the fall in production of electrical energy. In terms of aggregate demand, it reflected the faster growth of consumption and exports, while private investments were down.

Chart 8 Gross domestic product by output and con dence indicators



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

The expansion of aggregate demand is combined with the gradual improvement of the country’s cyclical position in the last four years. In response to these trends, the unemployment rate stood at 11.4% in the third quarter, the historical lowest rate recorded in Albania, while the average wage recorded an annual growth of 3.7%.

Nevertheless, the rise of wages and production costs remains insufficient for inflation to converge to target, by showing that the Albanian economy is still far of the fuller utilisation of its production capacities.

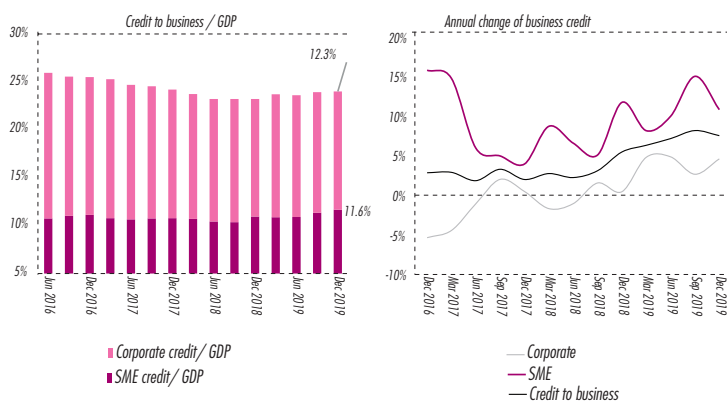
The information available on the economic developments in the fourth quarter is incomplete. Analysis of preliminary data suggests that the earthquake of November 26th, 2019, had a negative impact on the economic growth pace. This effect is expected to continue in 2020 as well. The damages to firms’ sites, the increase of uncertainty and the re-orientation of expenditures to repair the damages, are expected materialise in the slowdown of the production in the affected sectors, mainly in tourism. On the other side, the re-construction process is expected to provide a positive effect on the growth, but not simultaneously with the negative shocks, and not sufficiently strong to compensate their effects.

Judging on the available information and global experience, the Bank of Albania deems that the earthquake has not damaged the medium-term and long-term basis of the country growth and development.

The reconstruction process and the normalisation of the situation will help to regenerate the production capacities and a faster expansion of the aggregate demand in 2021 and further. The rise in employment and wages will support the expansion of family consumption; the rise of utilisation of production capacities will increase the demand for investments; while Albanian exports will continue to benefit from the development of tourism sector.

In parallel, the overall financial environment appears favourable. The financial markets are relatively calm, financing costs are low, while the exchange rate appears more stable. Our accommodative monetary policy stance, the restructuring of banking sector and the improvement of its balance sheet have boosted a more rapid lending growth. The credit portfolio grew by 7.8% on average in the fourth quarter, driven by the expansion of credit to enterprises and of credit in lek. The structure of credit growth provides encouraging signals, both on its impact on economic growth and on credit portfolio quality in the long term. At the same time, non-performing loans ratio dropped at 8.4% in December, by reflecting the concrete measures implemented by the Bank of Albania for their reduction and the improvement of both economic environment and financial situation of borrowers.

Chart 9 Structure of loans to enterprises by size



Source: Bank of Albania.

Looking ahead, the Bank of Albania deems that the earthquake effect on the economy is expected to extend during 2020. Both the economic growth and average inflation in 2020 are expected to be comparable

with the rates recorded during 2019. On the other side, overcoming the consequences of the earthquake is expected to pave the way for a more rapid growth of economy and inflation in the period ahead.

Our baseline projection, compared with the previous round, shows a notable shift to the down side for 2020, but it maintains the same trajectories for 2021 and on. These forecasts are surrounded by a heightened level of uncertainty, linked primarily to the inability of precisely forecasting the impact of the earthquake on the economic growth. Also, the balance of risks around the central forecast is tilted to the down side.

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 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.

On the other hand, the Supervisory Council concludes that risks to the down side remain present. These risks arise from both the external environment, with the euro area economy improvement still remaining fragile, and the domestic environment. In particular, the Supervisory Council deems that potential risks with possible adverse impact are:

- A stronger intensity of the earthquake negative effects on the economy performance over 2020 and on. In particular, this scenario might be materialised if the psychological aspects of the earthquake exceed its material impact on the economy.
- The delay in the reconstruction programme or a higher support from domestic financing sources.

Addressing the factors that can lead to these risks materialise is in the remit of the central and local governments. However, if they do materialise, the monetary policy stance would need to be revised on the easing side.

Finally, the Supervisory Council emphasises the need for further accelerating the structural reforms, as the best instrument for improving sustainable and long-term growth in Albania, and maintaining the focus of the economic policies on the long-term stability of the country.

“The Supervisory Council assessed that meeting our objective of price stability would require the maintenance of the accommodative monetary policy over the medium-term horizon.”

THE BANK OF ALBANIA CUTS THE POLICY RATE, AT 0.5% -25 March 2020-

The cut of policy rate follows the previous measures undertaken by the Bank of Albania to mitigate the impact of Covid-19 pandemic on the economic and financial health of the country.

The Bank of Albania has increased the operational capacities to guarantee the supply of the economy with currency and banknotes as well as to ensure the smooth functioning of the electronic payment system.

Our monetary, regulatory and institutional measures will be into force as long as it will be necessary.

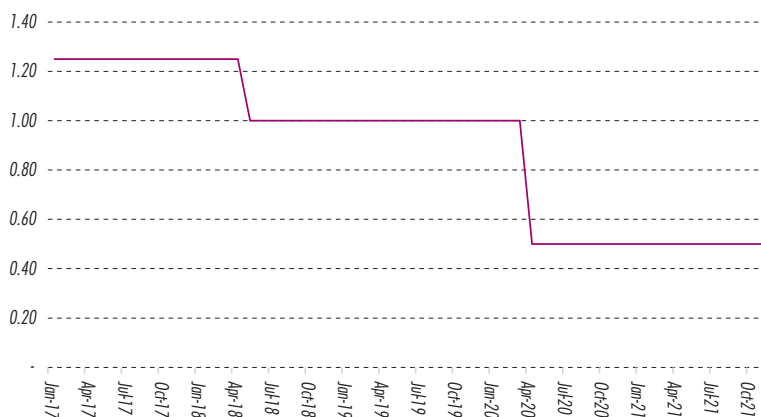
Dear citizens,

I am here today, in this exceptional communication format, to announce the last decision on monetary policy of the Bank of Albania. This decision follows the previous measures undertaken by the Bank of Albania to mitigate the impact of COVID-19 pandemic on both economic and financial health of Albania.

Today, on the meeting of 25 March 2020, the Supervisory Council of the Bank of Albania decided to further ease the monetary policy stance and the monetary and financial conditions in Albania. In more concrete terms, the Supervisory Council decided:

- to reduce the policy rate from 1.0% to 0.5%;
- to reduce the interest rate for the overnight lending facility from 1.9% to 0.9%;
- to maintain the interest rate for the overnight deposit facility unchanged, at 0.1%.

Chart 10 Key interest rate



Source: Bank of Albania.

The spread of COVID-19 pandemic in Albania poses a challenge to the economy and financial system. The necessary precautionary measures taken by public and private authorities to limit the spread of Covid-19 in the population will have a two-fold impact on the economic activity. On one side, the temporary reduction in production and employment drives to a decrease in the supply of goods and services in the market and a reduction in household income. On the other hand, social distancing drives to the fall of the demand and the narrowing of sales, revenue, and business liquidity.

The Supervisory Council deems that the lowering of the policy rate is a necessary measure to: reduce the cost of new borrowing; reduce the cost of servicing the existing debt; and facilitate the circulation of liquidity in the Albanian enterprises and households. It helps the smooth functioning of the monetary policy transmission mechanism and relieves the pressure on the financial balance sheets of the economic operators, providing them with more time, space and breathing to encounter the shock.

The today decision is a complementary to the measures we have undertaken to minimise the effects of the pandemic. During the last days:

- The Bank of Albania has increased the operational capacities to guarantee the supply of the economy with currency and banknotes as well as to ensure the smooth functioning of the electronic

payment system. Within restrictions of time on movement decided by the public authorities, all economic operations should know that the payment system will function smoothly.

- The Bank of Albania has adopted the operational strategy of unlimited liquidity into the banking system. This sector, businesses, households and public sector, through this strategy, will have the possibility to withdraw at the Bank of Albania all the necessary liquidity and required by them.
- The Supervisory Council decided to ease the postponement procedures by a quarter of loan instalments to businesses and households affected by the crisis, by providing to the banking sector the necessary regulatory space to perform it.

These measures that we have undertaken, within our scope of competency, provide and complement the fiscal package announced by the Albanian Government, which aims at shifting a part of the financial bill for facing the crisis from private sector to public sector.

The Supervisory Council remains committed to continuously monitor the situation. In line with the measures undertaken by the other central banks and depending on the situation's evolution, Bank of Albania remains willing to use all the operational instruments and the regulatory space available to minimise the pandemic consequences in the Albanian economy and financial system.

“... the objective of our action will be to maintain the monetary and financial stability of the country, the easing of crisis costs to Albanian enterprises and households, and the establishment of premises for a rather rapid recovery of the economy in the following period.”

In any event, the objective of our action will be to maintain the monetary and financial stability of the country, the easing of crisis costs to Albanian enterprises and households, and the establishment of premises for a rather rapid recovery of the economy in the following period. The fulfilment of these preconditions opens the path to follow our objective, to maintain price stability both in medium and long term.

Our monetary, regulatory and institutional measures will be into force as long as it will be necessary

In a longer-term perspective, the Supervisory Council recalls the attention to emphasise that the messages we have provided continuously on the health of the Albanian economy and banking system remain valid. Allow me to re-emphasise:

- Albania has a good economic and financial health;
- the functioning parameters of economy and banking system are sound;
- the liquidity and capital reserves of the Albanian banking system are high.

In this context, the Supervisory Council notes that the minimisation of the long-term consequences requires serious, coordinated and harmonised efforts by all public and private authorities in Albania.

“... the Bank of Albania remains ready to employ all operational instruments and regulatory framework available to minimise the consequences of the pandemic on the Albanian economy and financial system.”

THE BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED, AT 0.5% -6 May 2020-

The current monetary policy stance remains adequate to counter the emergency.

Social distancing measures together with the heightened uncertainty have driven to an overall slowdown in almost all components of the aggregate demand.

The further escalation of the shock, or the creation of difficulties in the monetary policy transmission mechanism, would require the increase of monetary stimulus.

Dear Ladies and Gentlemen,

Today, on 6 May 2020, the Supervisory Council of the Bank of Albania reviewed and approved the Quarterly Monetary Policy Report 2020/II. The analysis of the economic and financial situation of Albania, the discussions of the possible development scenarios in the future, and the identification of the reaction strategy of the monetary policy were dominated by the current and expected impact of the Covid-19 pandemic on Albania.

At the conclusion of the discussions, the Supervisory Council of the Bank of Albania deemed that the current monetary policy stance remains adequate to counter the emergency, but the further escalation of the shock, or the creation of difficulties in the monetary policy transmission mechanism, would require the increase of monetary stimulus, and potentially, the adoption of its non-conventional instruments.

The health emergency caused by the spread of Covid-19 pandemic and the measures taken by the public authorities to control it, in Albania and globally, posed challenges to: the economic and financial stability of the country; the soundness of enterprises and households' finances; and the sustainability of the economic growth of Albania, both in the medium and long term.

The available information shows that Covid-19 pandemic will have a strong impact on all the economic and financial indicators of Albania.

Social distancing measures together with the heightened uncertainty have driven to an overall slowdown in almost all components of the aggregate demand: the export of goods and services; family consumption; and investments. In parallel, the temporary closure of some production and service activities triggered a further fall of output. This twofold shock, demand and supply, will be reflected in the downturn of the economic activity during 2020. Further, the drop in production is expected to trigger a fall of employment, increase of unemployment, decrease of household income and financial difficulties to firms.

The medium and long-term dynamics of economic development, in Albania, and globally, will depend on the duration of the pandemic.

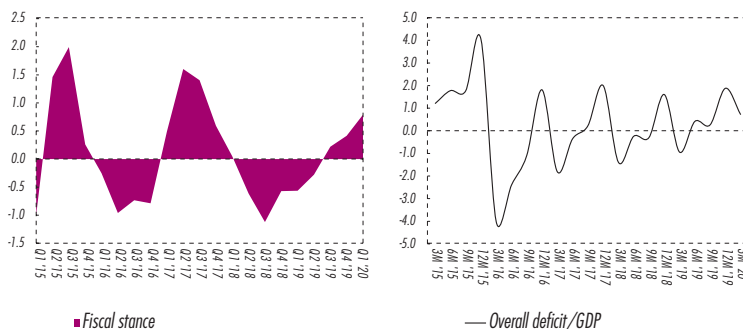
In the positive scenario, a gradual reduction of social distancing measures during the second quarter, the economic activity - in Albania-, is expected to peak the slowdown in the second quarter, to continue to remain in negative territory in the next two quarters, and return to positive growth in 2021. This scenario forecasts a relatively stable inflation rate during 2020, and gradually converges to the target in the next two years. In this scenario, pandemic will have makeable traces, but transitional ones, on the economy and finances of the country. Above all, it will not affect the economic and financial equilibriums and the medium and long-term trends of the growth.

On the other hand, a potential extension of pandemic, beyond the third quarter, implies also a proportionally higher negative impact on the economic and financial indicators of the country.

The Supervisory Council deems that the primary objective of public policies and of the public sector reaction should be to take measures for dealing with the emergency, and the establishment of premises for a rather rapid recovery of economic growth in the future. This will require, first, the safeguarding of monetary and financial stability of Albania; and second, the containment of damages on the production capacities of the country.

In this context, the Supervisory Council assesses that fiscal policy has a primary role in tackling the situation. The allocation of necessary funds to deal with the health emergency, the social aid for families in need, and the fiscal measures to improve the liquidity situation of firms, are necessary measures to address the situation. The increase of public debt is an acceptable cost for maintaining the economic and financial equilibriums of the country.

Chart 11 Orientation of fiscal policy*



*The orientation of fiscal policy is proxied by changes in the ratio of primary cumulative deficit for a 12-month period to the GDP, compared to a year earlier. Negative changes, i.e. the values of these indicators under zero show that the fiscal position has improved, which indirectly indicates negative values of fiscal impulse in the economy.

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

Also, the Supervisory Council notes that the private business should be: flexible in adopting the new business models; prudent in managing the liquidity situation; and far-sighted in distributing fairly the costs, for keeping both the production and service chain functional.

On its side, the Bank of Albania has taken a complete package of measures to address the situation.

- The easing of monetary policy stance implemented by the Bank of Albania, through the cut of the policy rate to 0.5%, and the unlimited supply with liquidity to the banking system; by promoting the smooth operation of the financial markets; and by enabling the increase of the volume and decrease of credit cost to private sector.
- The presentation of easing measures in the field of banking regulation has encouraged the temporary postponing of the credit payment, with one quarter, hence improving the liquidity situation of enterprises and households and their chances to endure this situation.
- In parallel, we have facilitated the operational cost of electronic payment system, by responding to the increasing needs for this type of activity, and we have taken care for the normal supply of economy with cash.

The Supervisory Council assesses that the Bank of Albania has taken the needed timely measures. In their response, the financial markets continue to conduct their activity within the limits of normality, notwithstanding the upward demand of public sector for funds and the heightened uncertainty about the economic and financial future of the country.

At the conclusion of the discussions, judging on the projections of the scenario for a rapid end of the pandemic, the Supervisory Council of the Bank of Albania deemed that the current monetary policy stance remain adequate. Taking into account these circumstances, the Supervisory Council decided to:

- Keep the policy rate unchanged, at 0.5%;
- Keep the overnight deposit and overnight lending rates, unchanged at 0.1% and 0.9%, respectively.

Also, the confirmation of the positive scenario implies that the monetary policy will continue to remain accommodative throughout the forecast horizon.

On the other side, the Supervisory Council notes a considerably high uncertainty surrounding the forecasts for this time. Also, this uncertainty shows a relatively high probability that the future developments result on the downside of our expectations. In particular, the downside risks arise from:

- The possible extension of pandemic beyond the second quarter.
- Creation of problems in monetary policy transmission mechanism, in the form of: increased interest rates and financing costs to private sector; worsened credit supply; strong fluctuations of the other financial indicators.

The Supervisory Council assesses that the materialisation of these risks might dictate a further easing of the monetary policy stance. In line with our contingency plans, this easing may take the form of non-conventional instruments, always in compliance with the reality and needs of the Albanian financial market and the legal framework that regulates the activity of the Bank of Albania.

“... The Bank of Albania remains ready to employ all operational instruments and regulatory framework available to minimise the consequences of the pandemic on the Albanian economy and financial system.”

THE BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED, AT 0.5% -1 July 2020-

The Albanian economy has been hardly affected by the coronavirus (Covid-19) pandemic over the second quarter.

The progressive opening of economy, the easing of social distancing measures and the stable monetary and financial environment of Albania, establish the premises for a gradual recovery of economic activity in the next quarters.

The current mix of fiscal, monetary and financial policies provides the necessary stimulus for supporting the economic growth and the convergence of inflation to the target.

Dear Ladies and Gentlemen,

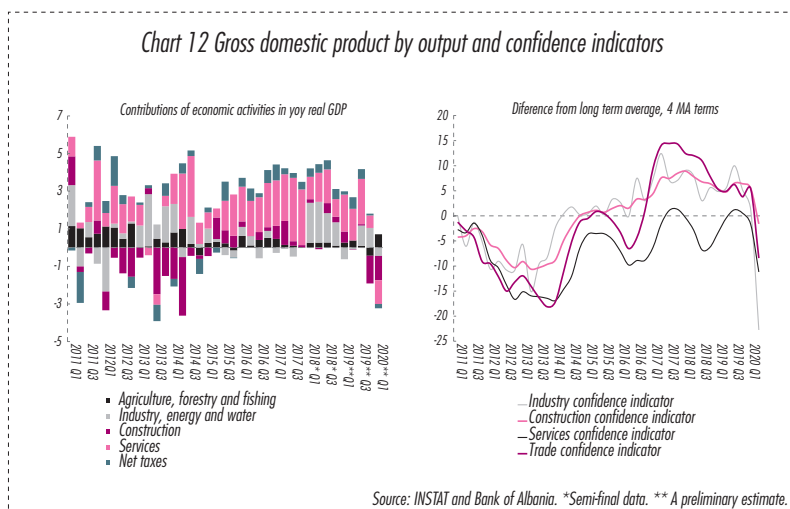
Today, on 1 July 2020, the Supervisory Council of the Bank of Albania reviewed and approved the Intermediate Monetary Policy Report.

The analysis of the available information shows that the Albanian economy has been hardly affected by coronavirus (Covid-19) pandemic over the second quarter. These consequences are still present. The reduction of both domestic and foreign demand and the disruption of manufacturing and services activities in Albania have driven to the drop of production, increase of unemployment and financial difficulties to Albanian enterprises and households. Nevertheless, the banking sector in Albania remains sound and financial markets appear relatively calm. The Supervisory Council deems that the progressive opening of economy, the easing of social distancing measures and the stable monetary and financial environment of Albania, establish the premises for a gradual recovery of economic activity in the next quarters. However, the balance of risks remains on the down side.

Against this backdrop, the Supervisory Council judged that the current mix of fiscal, monetary and financial policies provide the necessary stimulus for supporting the economic growth and the convergence of inflation to the target.

The coronavirus (Covid-19) pandemic caused a comprehensive shock on the Albanian economy. Its consequences have started to be already reflected on the available statistical information.

According to Instat data, the economic activity in Albania contracted by 2.5% in the first quarter of this year, by reflecting the drop in exports and investments. Also, data of labour market show that the Albanian economy suffered around 17000 job losses in this period, while the unemployment rate increased to 11.4%.



Indirect data for the second quarter show that the shock is strengthened further. Exports of goods contracted by 33% during the first two months of this quarter, in response to the fall of foreign demand. Also, imports reduced by around 30%, by signalling the rapid slowdown of consumption and investments in Albania, while budget revenues contracted by around 30% in the first two months of this quarter, in reflection of the overall drop of the economic activity.

Against this background, inflation increased slightly in April and May. Its average rate jumped to 2%, mainly due to the temporary supply-side shocks in this period.

The Bank of Albania assesses that the future performance of economy will depend on the duration of pandemic consequences and on the reaction of both domestic and foreign economic agents against them.

Our baseline scenario of the expected developments rests upon the assumption for avoidance of a second wave of pandemic and its gradual

reduction up to the complete disappearance of its consequences. In this scenario, the Albanian economy is expected to record a sharply drop in 2020 and further relatively fast and stable growth rates. The slowdown of economic activity in Albania is expected to peak in the second quarter, to continue to remain in negative territory in the next two quarter, and return to grow in 2021.

In accordance with this scenario, inflation is expected to stay close to the current rates in the second half of 2020. Further, this indicator is expected to gradually increase during the next year and converge towards the target at the end of year.

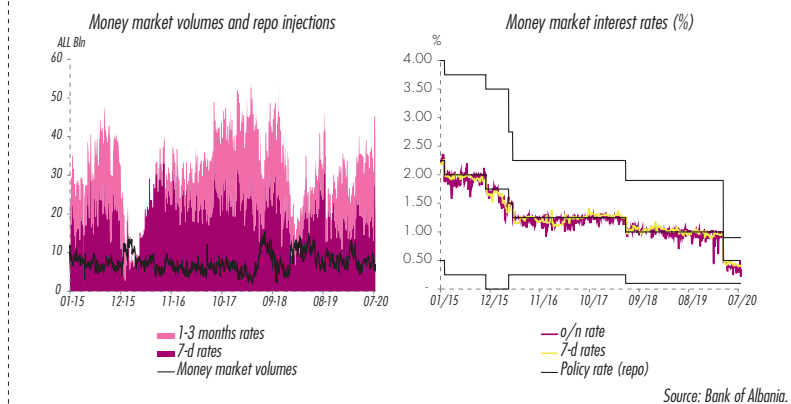
This economic performance will be sustained by an accommodative mix of economic policies.

The fiscal packages being undertaken so far have helped in alleviating the crisis consequences. The Bank of Albania expects a revision of budget for the second part of year. This revision is expected to result in a higher fiscal deficit. We have already emphasised that fiscal policy should play a key role in addressing the challenge we are facing. The prudential and temporary increase of public debt is an acceptable compromise to mitigate the effect of this shock on the economy and to support the monetary and financial stability of Albania.

In parallel, the Bank of Albania has adopted easing monetary and financial policies.

- The cut of policy rate at the historical minimum and the increase of liquidity injections, have provided for the control of risk premia and have kept the interest rates at low levels.
- In parallel with them, the regulatory measures that we have undertaken have encouraged the temporary extension of credit payments for clients in difficulties and the restructuring of credits to clients who appear with solid business perspectives, but facing short and medium-term financial difficulties. Also, these measures have aimed at increasing the use of electronic payments and have provided the normal supply of economy with cash.

Chart 13 Bank of Albania open market operations and interbank rates performance



In response to these measures, the financial markets appear calm. The financing cost of the private sector is close to its historical minimum, the exchange rate is stable, while banking sector continues to show good indicators of liquidity and capitalisation. In particular, the non-performing loans ratio dropped to 1.8% in May, a further fall compared with the previous quarter.

The Supervisory Council assesses that the banking sector is exercising its cushion function against shocks to the economy. This sector has continued to credit the private sector of the economy, and particularly that of enterprises. Lending to private sector continued to grow in April and May. This growth was present mainly to enterprises, by sustaining them with the necessary liquidity to deal with the crisis. Also, the banking sector has undertaken a part of the financial cost of the shock, by further easing the burden to both public and private sectors.

The Supervisory Council, by encouraging the continuation of this role, notes that the banking sector cannot and should not face alone the financial burden of this shock. In this context, the public sector has and should play a primary role, through the strengthening of fiscal stimulus, as well as the private sector through the heightening of both financial care and operational effectiveness.

At the conclusion of discussions, based on these considerations about

the projections of baseline scenario and the balance of risks surrounding it, the Supervisory Council deems that the current monetary policy stance is adequate. In this view, the Supervisory Council decided to:

- Keep the policy rate unchanged, at 0.5%;
- Keep the overnight deposit and overnight lending rates, unchanged at 0.1% and 0.9%, respectively.

The monetary policy stance will continue to remain accommodative throughout the forecast horizon.

However, the Supervisory Council judges that the balance of risks remains on the down side. In particular, the downside risks arise from:

- The return of pandemic in the form of a second wave;
- Creation of problems in monetary policy transmission mechanism, in the form of: increased interest rates and financing costs to private sector; worsened credit supply; strong fluctuations of the other indicators of the financial market.

The Supervisory Council assesses that the possibility on the materialisation of these risks is mitigated, driving to a reduction of the need to increase the monetary stimulus and use of the monetary policy non-conventional instruments. Nevertheless, the materialisation of these risks might dictate a further easing of the monetary policy stance, and potentially the use of non-conventional instruments, always in compliance with the legal framework that regulates the activity of the Bank of Albania.

“The monetary policy stance will remain accommodative throughout the forecast horizon.”

THE BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED, AT 0.5% -5 August 2020-

The slowdown of economic activity in Albania is expected to peak in the second quarter, to continue to remain in negative territory in the next two quarters.

Economic activity is expected to return to grow in 2021 and inflation return to target within 2022.

The baseline scenario is conditioned by the development of a range of factors, amid the most important the pandemic evolution in Albania and in the world.

Dear Ladies and Gentlemen,

Today, on 5 August 2020, the Supervisory Council of the Bank of Albania reviewed and approved the Quarterly Monetary Policy Report. The information analysed in this report suggests that the economic activity has severely slowed down in the first half of the year, as a result of measures taken to contain the spread of the pandemic. Easing of social distancing measures at the end of the second quarter, as well as the monetary and financial stability of the country, established the ground for a gradual rebound of economic activity in the upcoming period.

At the end of the discussions, the Supervisory Council assessed that the current monetary policy stance remains adequate. The current monetary conditions provide the necessary stimulus to encourage economic growth and for the return of inflation to target within 2022. However, further escalation of the shock or the creation of difficulties in the monetary policy transmission mechanism would require an increase in the monetary stimulus.

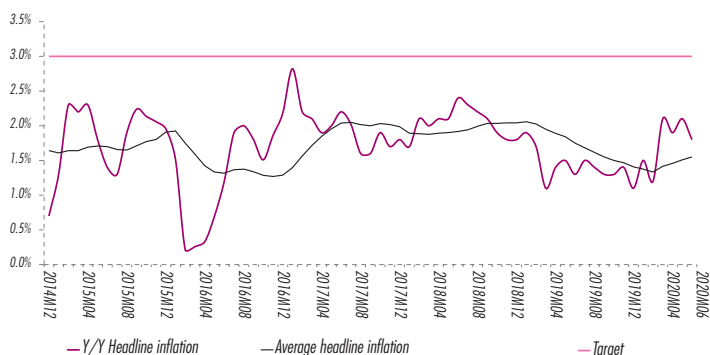
The pandemic has hit hard the Albanian economy, both at the macro level and at the level of households and businesses.

According to INSTAT data, the Albanian economy shrank by 2.5% in 2020 Q1. This contraction reflected the fall in investments, the reduction in the exports of goods and services, as well as the slowdown of private consumption. All available indirect data suggest that economic activity will suffer a significantly sharper drop in the second quarter.

In macro terms, the decline in demand for goods and services and the temporary closure or increase of costs for certain categories of activities, is reflected in a number of economic indicators.

- Inflation slightly increased in the second quarter, recording an average level of 1.9%. This performance was dictated by the increase in production and transport costs, the effects of which dominated the downward impact on inflation that the contraction of aggregate demand causes.
- Also, the downturn of the economic activity is expected to be accompanied by a decrease of employment and increase of unemployment, widening of the current account deficit and, rise in public debt during 2020.

Chart 14 Headline inflation, target



Source: INSTAT, Trading Economics database and calculations of the Bank of Albania.

In microeconomic terms, the decline in demand and sales has caused financial difficulties to many Albanian businesses and households, as a result of income decrease and job losses. These difficulties, as well as the uncertainty perceived by economic operators, tend to prolong the effects of the shock over time, through slowing down consumption and private investments.

The Supervisory Council judges that the effect of the pandemic on the economy will progressively decrease during the upcoming quarters, although the recovery is expected to be slow and the balance of risks remains on the down side. In the baseline scenario, the slowdown of economic activity in Albania is expected to peak in the second quarter,

to continue to remain in negative territory in the next two quarters, and start growing once again in 2021. The increase in aggregate demand is expected to be accompanied by an increase in: employment; wages; and production costs, creating premises for the return of inflation to target within 2022.

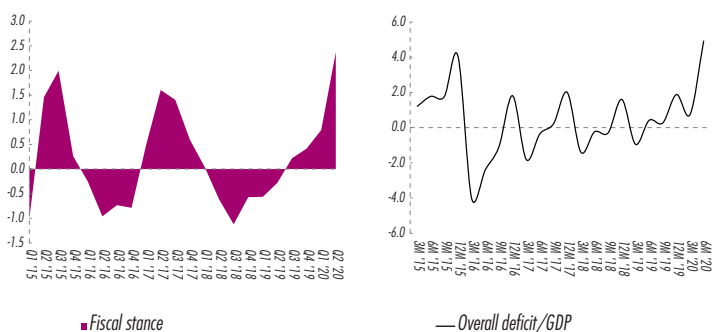
This scenario is conditioned by the pandemic development in Albania and in the world, by the speed of improvement of economic activity in our trading partners, by the impact of the pandemic on the business and consumer behaviour, as well as by the timely effectiveness of fiscal, monetary and financial measures, undertaken so far.

The Supervisory Council deems that the coordinated fiscal, monetary and financial stimulus has been a crucial element in mitigating the negative consequences of the crisis.

Fiscal policy has adopted an accommodative stance, through:

- increasing current expenditures, in the interest of allocating funds to deal with the pandemic and to protect the social categories in need;
- creating sovereign guarantee schemes, with the purpose to strengthen business' access to credit; and,
- increasing public investment, for the recovering from the consequences of the earthquake and increasing aggregate demand.

Chart 15 Orientation of fiscal policy*



*The orientation of fiscal policy is proxied by changes in the ratio of primary cumulative deficit for a 12-month period to the GDP, compared to a year earlier. Negative changes, i.e. the values of these indicators under zero show that the fiscal position has improved, which indirectly indicates negative values of fiscal impulse in the economy.

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

In parallel, the Bank of Albania has heightened the monetary stimulus, by reducing the key interest rate and increasing liquidity injections, aiming to reduce financing costs and increase the amount of money in the economy. Also in cooperation with the banking industry, the Bank of Albania has undertaken changes in the regulatory framework, which have eased the temporary extension of the payments of credit and the restructuring of loans for clients facing difficulties.

In response to these measures, the financial markets appear calm. The financing cost of the private sector remain low, the exchange rate is stable, while banking sector continues to show good indicators of liquidity and capitalisation.

The Supervisory Council assess that the banking sector has provided a significant contribution to mitigate the shocks. Credit to the private sector continued to grow in the second quarter, peaking at 7% in June and supporting Albanian businesses and households with the liquidity needed to cope with the crisis. Also, this sector has undertaken a part of the financial cost of the shock, by further easing the burden to the private sector.

The Supervisory Council notes that the continuation of this positive approach by the banking sector toward credit, which is also favoured by sovereign guarantee instruments, will be a necessary precondition for the recovery of the economy in the future.

At the conclusion of discussions, based on these considerations about the projections of baseline scenario and the balance of risks surrounding it, the Supervisory Council deems that the current monetary policy stance is adequate.

In this view, the Supervisory Council decided to:

- Keep the policy rate unchanged, at 0.5%;
- Keep the overnight deposit and overnight lending rates, unchanged at 0.1% and 0.9%, respectively.

The monetary policy stance will continue to remain accommodative throughout the forecast horizon.

However, the Supervisory Council judges that the balance of risks remains on the down side. In particular, the downside risks arise from:

- Significant prolongation of the pandemic and re-introduction of social distancing measures to control it;
- Problems arising in the monetary policy transmission mechanism, in the form of: increased interest rates and financing costs to private sector; worsened credit supply; strong fluctuations of the other indicators of the financial market.

The Supervisory Council assesses that the materialization of these risks would require further easing of monetary policy stance.

“The monetary policy stance will remain accommodative throughout the forecast horizon.”

THE BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED, AT 0.5% -7 October 2020-

The pandemic had a comprehensive and severe impact on economy in the second quarter, but it has been reducing in the following months.

The current monetary policy stance remains adequate.

The maintaining of a simulating stance of macroeconomic policies guarantees the economic growth.

Dear Ladies and Gentlemen,

Today, on 7 October 2020, the Supervisory Council of the Bank of Albania reviewed and approved the Interim Monetary Policy Report.

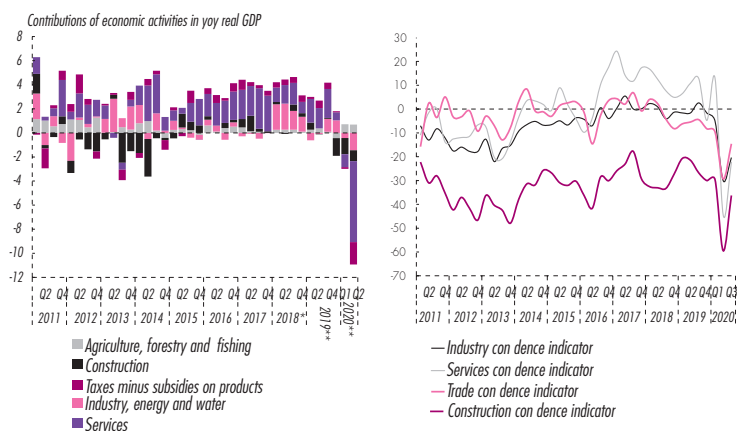
In line with our expectations, the available information suggests pandemic had a comprehensive and severe impact on economy in the second quarter, but it has been reducing in the following months. The simultaneous fiscal, monetary and financial stimulus has been effective in avoiding the most negative consequences of the shock. The easing of social distancing measures, the stability of financial markets and the soundness of banking sector's balance sheet, build up the premises for a gradual rebound of economic activity in the future.

At the end of the discussions, the Supervisory Council assessed that the current monetary policy stance remains adequate. The current monetary conditions provide the necessary stimulus to encourage economic growth and for the return of inflation to target within 2022. However, further escalation of the shock or the creation of difficulties in the monetary policy transmission mechanism would require an increase in the monetary stimulus.

Global economy is going through the most severe test in the last decades, Covid-19 pandemic. The drop in economic activity, across many countries is in double digits, unemployment grew, while the financial situation of private sector worsened. The exceptional fiscal and monetary measures have alleviated the impact of pandemic, but the recovery outlook still remains surrounded by uncertainty.

Inflation, in Albania, averaged 1.3%, in July and August, down from the second quarter. This fall has reflected the lower inflation rates in food items and in some services categories. From the macroeconomic perspective, the inflation slowdown reflected the gradual fading out of the effect of supply-side shocks, and showed a more completed declining effect of aggregate demand in Albania and abroad.

Chart 16 Gross domestic product by output and confidence indicators



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

According to INSTAT data, the economic activity in Albania recorded an annual fall of 10.2% in the second quarter. This fall reflected the negative contribution of almost all sectors of economy and of the aggregate demand components. In parallel, employment recorded an annual fall of 3.6%, while unemployment rate was up at 11.9%. Data of the third quarter are still preliminary. Nevertheless, the better performance of both tax revenues and exports, in addition to the improved business and consumer's confidence, suggest that the economic fall has continued, although at a slower pace than in the second quarter.

The Supervisory Council deems that pandemic effect on the economy will be reducing during the next quarters. In the baseline scenario, the economic activity in Albania is expected to improve, but still remaining in negative territory, during the second half of current year, and return to grow in the next year. The growth in aggregate demand is expected to be accompanied by an increase in employment, wages and production costs, by supporting the convergence of inflation to target within 2022.

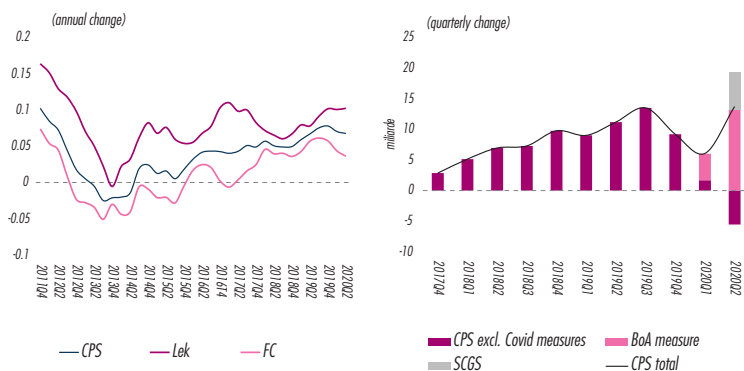
The occurrence of baseline scenario is conditioned by the further evolution of pandemic, its impact on the future behaviour of both businesses and consumers, the speed of economic activity recovery in our trade partners, and the timely reaction of public authorities and private sector.

The so far easing monetary, fiscal and financial policies have played a crucial role in facing the shock. In more concrete terms:

- The fiscal stimulus has mitigated the shock impact on business and households' finances;
- The monetary stimulus has reduced the financing costs in economy; has guaranteed the needed liquidity supply to the banking sector; and has created the necessary premises to boost lending; while
- The temporary easing of the regulatory framework on banking sector, has supported the timely extension of credit payments and has encouraged credit restructuring, in line with the common will and interest of banks and borrowers.

The Albanian financial market has operated smoothly, in reflection of these measures. The interest rates continue to be close to historical minimum levels, while the exchange rate appears stable. In particular, banking sector has continued to supply with liquidity the businesses and households in need. The annual growth of credit to private sector averaged 6.4% in July and August, by reflecting a better transmission of economic policies stimulus, the soundness of balance sheets and the willingness of the banking sector to contribute in encountering the shock.

Chart 17 Credit to the private sector



Source: Bank of Albania.

Looking ahead, the Supervisory Council notes that the guaranteeing of economic growth requires maintaining the accommodative stance of the macroeconomic policies. Also, the Supervisory Council deemed that both monetary and financial stability in Albania, are a positive premise for the recovery of economy and an essential precondition for its stability in time.

In this view, while the expected gradual reduction of fiscal stimulus in the future and the macro-prudential normalisation will help to safeguard the financial stability of the country, the monetary policy should continue to maintain its accommodative stance.

At the conclusion of discussions, judging on the baseline scenario projections, the balance of risks surrounding them, 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 0.5%;
- Keep the overnight deposit and overnight lending rates, unchanged at 0.1% and 0.9%, respectively.

The monetary policy will remain accommodative throughout the forecast horizon. The Bank of Albania will continue to maintain the current form of liquidity injection operations. This form guarantees the unlimited injection of liquidity quantity, till the end of the first quarter in the next year.

However, the Supervisory Council judges that the balance of risks remains on the down side. In particular, the downside risks arise from:

- Significant prolongation of the pandemic and possible re-introduction of social distancing measures to curtail it;
- Problems arising in the monetary policy transmission mechanism, in the form of: increased interest rates and financing costs to private sector; worsened credit supply; unexpected fluctuations in the other indicators of the financial market.

The Supervisory Council assesses that the materialization of these risks would require further easing of monetary policy stance.

THE BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED, AT 0.5%

-16 December 2020-

The monetary and financial stability of Albania has not been affected, while banking sector has contained provide lending to both enterprises and households.

The current monetary policy stance is adequate both for underpinning economic growth and for enabling inflation to converge to target.

The easing measures undertaken by the Bank of Albania have established clam financial markets and simulating monetary conditions to bolster the economic activity.

Dear Ladies and Gentlemen,

Welcome to the last press conference for 2020.

The year 2020 was a rough one in all respects, in relation to health, economics and social concerns. The coronavirus (COVID-19) pandemic has dominated economic developments in Albania and the world. It has caused a sharp contraction in economic activity, an increase in unemployment, financial difficulties for enterprises and households, and produced weak inflationary pressures. In light of these developments, the main objective of economic policies has been, and should continue to remain, alleviating the fiscal burdens of enterprises and households, preserving monetary and financial stability, and establishing necessary premises for economic recovery.

The Bank of Albania undertook a complete package of measures to address the situation.

- We eased our monetary policy and increased liquidity injections aiming at: smooth functioning of the financial market; easing of debt cost; increase lending; and bolstering consumption and investments.
- In addition, we temporarily eased regulations on the functioning of the banking sector, by encouraging a short-term moratorium on credit repayments and loan restructuring. This measure drove to a moratorium on the 40% of credit portfolio in the banking system, by alleviating the financial burden on enterprises and households

facing temporary difficulties. In addition, more than 25.000 clients have benefited from the credit restructuring, by enhancing the resilience of their long-term business-plans.

- In parallel, we suspended the distribution of dividend of the banking sector during 2020, to increasing the capital and the sustainability of this sector.
- Finally, we forfeited fees on the use of electronic payment systems' infrastructure, aiming at expanding the use of these instruments.

The Supervisory Council considers these measures to have been successful. Both monetary and financial stability have been preserved, while the banking sector has continued to lend enterprises and households, thus avoiding massive bankruptcy and mitigating an increase in unemployment.

Let me now present the main messages of the Intermediate Monetary Policy Report and the decision taken by the Supervisory Council in today's meeting.

The new information analysed in this Report has shown results which are close to our expectations. Recent news about progress on vaccines offers hope for an end to the pandemic and the return to normality in 2021. These developments enhance the outlook for a gradual but continued economic recovery over the medium-term horizon, but the epidemiology situation still poses serious challenges to the economy performance in the short run.

Against this backdrop, the Supervisory Council has assessed that the current monetary policy stance is adequate both for underpinning economic growth and for enabling inflation to converge to target.

Let me now present in greater detail the conclusions of this analysis, monetary policy decisions and the underlying reasons for these decisions.

Inflation of consumption prices averaged 1.8% in October and November, upwards from an average of 1.4% in the third quarter. In recent months, inflation was mostly affected by supply-side factors, which also caused volatility in food prices. On the other side, inflationary pressures, arising from both aggregate demand and the external environment, continue to remain low.

Chart 18 Headline inflation and target (left) Inflation in regional and EU countries (right)



Source: INSTAT, Trading Economics database and calculations of the Bank of Albania.

The Albanian economy has recorded a return towards recovery, in the third quarter. However, economic activity in Albania remains below potential levels, while recovery is expected to take place gradually and is surrounded by risks.

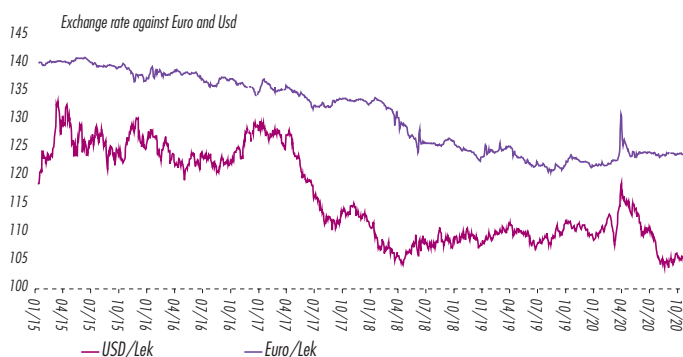
The available indicators improved during the summer months, reflecting containment of epidemic spread, relaxing of social distancing measures, and the positive effect of easing monetary, fiscal and financial measures. In response to these measures, the performance of budget revenues and that of foreign trade have been improving. Also, the labour market also improved, as shown by the quarterly increase of employment and the reduction to 11.6% of the unemployment rate.

Available data for the fourth quarter are still preliminary. Nevertheless, resurgence of the pandemic and partial implementation of restrictions in the fourth quarter suggests a slower recovery of economic activity in this period. This assessment is based on a fall in business confidence and reflects the fragility of economic developments in the short run.

The easing measures undertaken by the Bank of Albania have established clam financial markets and simulating monetary conditions to bolster the economic activity. In particular, interest rates applied to enterprises and households have stood at low levels, the exchange rate has been stable, while the banking sector has kept lending to the economy. The annual growth of credit to the private sector averaged 6.7% at the end of October, mainly supported by the expansion of credit

to enterprises and the increase of credit in lek. In parallel with the growth in credit portfolio, its structure performed positively as well. The 50.2% increase of the share of loans in lek to total loans provides encouraging signals for the enhancement of monetary policy effectiveness and the stable financial growth of Albania.

Chart 19 Exchange rate in the domestic market



Source: Bank of Albania.

The banking sector provided a positive contribution in dealing with the crisis. An increase in lending provided liquidity to enterprises and households facing temporary difficulties, and supported the continuation of investments. In addition, the short-term moratorium on credit instalment to certain categories of borrowers and credit restructuring to other categories have shifted part of the crisis' financial burden to the balance sheets of this sector.

In the baseline scenario, the Bank of Albania expects inflation to gradually increase towards the target in the medium-term horizon. This forecast factors in expectations for progressive growth in economic activity, in Albania and globally. Growth of aggregate demand will be accompanied by an increase in employment, wages and production costs. In parallel with an increase in imported inflationary pressures, inflation is expected to trend upwards and to converge to target within 2022.

Realisation of this scenario of developments is conditioned by the rapid end of the pandemic, the recovery speed in consumption and investments in Albania, and globally, as well as by the maintenance of a calm and appropriate financial environment. Realisation of this scenario also needs to be supported by stimulating macroeconomic policies.

The Bank of Albania notes that the current mix of economic policies remains appropriate. Maintenance of an accommodative monetary policy stance is crucial for boosting lending to the economy at low cost. At the same time, gradual reduction of fiscal stimulus - projected in the 2021 Budget and in the medium-term draft budgets - balances the need to prompt aggregate demand with the need to strengthen the stability of public debt in both medium and long terms.

Based on these projections and considerations, the Supervisory Council of the Bank of Albania continues to consider the current monetary policy stance to be adequate. In this view, the Supervisory Council decided to

- Keep the policy rate unchanged, at 0.5%;
- Keep the overnight deposit and overnight lending rates, unchanged at 0.1% and 0.9%, respectively.

The monetary policy stance will continue to remain accommodative throughout the forecast horizon, in order to provide favourable financing conditions for growth of the economy and for the return of inflation to target.

In addition, the Bank of Albania will continue to maintain the current form of liquidity injection operations. This form guarantees the unlimited injection of liquidity quantity, until the end of the first quarter of the next year.

Last, the Supervisory Council finds that the expected macroeconomic developments are surrounded by uncertainties and exposed to downside risks: In particular, downside risks arise from:

- The worsening epidemiological situation and its deeper impact on the economy;
- The damage size of production capacities and the possibility for a slower recovery of both domestic and foreign demand;
- Problems arising in the monetary policy transmission mechanism, in the form of: increased interest rates and financing costs to the private sector; slower credit supply growth; strong fluctuations of other indicators in the financial market.

The Supervisory Council assesses that the materialization of these risks would require further easing of monetary policy stance.

“The monetary policy stance will continue to remain accommodative throughout the forecast horizon, in order to provide favourable financing conditions for growth of the economy and for the return of inflation to target.”



CHAPTER III

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

- *Governor Sejko: Statement at the joint press conference, virtually, with the IMF Mission Chief for Albania and the Albanian Minister of Finance and Economy, 28 September 2020*

***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 to discuss about the macroeconomic performance and the latest developments in Albania. 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."

ALBANIA: STAFF CONCLUDING STATEMENT OF THE FIRST POST- PROGRAM MONITORING MISSION

-28 September 2020-

The Bank of Albania has discussed comprehensively, via the electronic means of communication, with the IMF Mission, in the framework of the First Post-Program Monitoring in Albania, throughout the last two weeks. The discussions have been fruitful. The Bank of Albania shares 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.

The opinion of the Bank of Albania, on these three topics, is presented following.

The impact of Covid-19 pandemic in Albania has been the main topic of discussions in both economic and financial areas.

The fall in the demand, difficulties in the internal and cross-border movement of goods and persons, and the increase of uncertainty, have driven to the drop of the economic activity and have tackled financial difficulties to Albanian businesses and households.

In macroeconomic view, the fall of economic activity is reflected in weak inflationary pressures, increase of unemployment and expansion of both external and public debts of Albania.

In microeconomic view, the drop in the economic activity has posed financial difficulties to Albanian businesses and households.

Encountering this shock required a comprehensive reaction from public authorities, to increase the fiscal, monetary and financial stimuli. The Bank of Albania, as one of the main actors in the field of economic policies, has implemented the following actions:

- In the monetary policy field, we have cut the key interest rate and supplied unlimited liquidity to the banking sector, aiming at the smooth functioning of money markets and the reduction of funding cost to all economic agents;

- In the supervision field, the Bank of Albania has:
 - introduced regulatory stimuli, to encourage the extension of the repayment of loans to clients facing temporary difficulties, and the restructuring of loans to clients facing longer-term difficulties;
 - suspended the allocation of dividend to banking industry during 2020, aiming at improving the stability of the banking sector's balance sheet.
 - In the field of payment systems, the Bank of Albania has taken measures to reduce the cost of electronic payments.
 - Recently, the Bank of Albania has increased its operational capacities to guarantee the supply with cash to the economy.
- In addition to the fiscal stimulus, the objective of these measures is twofold:
- First, to alleviate the funding cost of shock to Albanian businesses and households, by avoiding large bankruptcies and the sharp increase of unemployment; and
 - Second, to safeguard the monetary and financial stability of Albania.

“The objective of both monetary and fiscal stimuli is twofold:

- ***to alleviate the funding cost of shock to Albanian businesses and households, by avoiding large bankruptcies and the sharp increase of unemployment; and***
- ***to safeguard the monetary and financial stability of Albania.”***

Both objectives are necessary preconditions for the stable and long-term economic growth.

We believe that the undertaken measures have been effective. Judging on the performance of deposits in the banking system, the balance sheets of businesses and households have remained liquid. Also, the domestic financial markets appear calm, being characterised by low interest rates and stable exchange rate. Banking sector continued to credit

Albanian businesses and households. Although, this sector has faced a considerable part of the cost from the shock, it continues to maintain sound indicators of liquidity and capitalisation, and fulfil its function of financial intermediation. Last, public sector and Albanian economy have maintained the confidence and access to national and international financial markets.

These are encouraging premises for the recovery of the economic activity in the future.

In the baseline scenario, the Albanian economy is expected to record a sharp drop during 2020. In reflection of the intensity of social distancing measures, the economic fall is expected to peak in the second quarter, and to gradually recover in the next two quarters. Further, under the assumption of a favourable epidemic performance, the Albanian economy is expected to grow and recover the lost volume of the economic activity in the next two years. This performance will provide for the gradual return of inflation to target.


The materialisation of this scenario implies the continuation of the accommodative monetary policy during the continuing year, the gradual withdrawal of the fiscal stimulus, and the return of the regulatory focus in guaranteeing the long-term soundness of the banking sector.

On the other hand, the Bank of Albania continues to highlight that the balance of risks remain tilted to the downside. These risks arise from a possible worsening of the epidemic situation, the further weakening of the economic situation in our trading partners, the heightening of uncertainty in both domestic and external environments.

The Bank of Albania deems that the materialisation of these scenarios will require the increase of macroeconomic stimulus. The shaping of monetary stimulus should aim at using more effective instrument being oriented by a complete analysis of costs and possible profits, fully in compliance with the developments of financial markets and the applicable legal framework.

The Bank of Albania is committed to continue the dialogue with the financial market and with all national and international partners, to fulfil its mission and objectives.

“The Bank of Albania is committed to continue the dialogue with the financial market and with all national and international partners, to fulfil its mission and objectives.”


BANKA E SHQIPËRISË
Banka e Shqipërisë, Nr. 1, Tiranë
17 maj 2007, ora 10:00

Takim diskutimi me sistemin bankar dhe biznesin:
"Marrëdhëniet Biznes-Bankë: Sfidat e përbashkëta ekonomike në kushtet e pandemisë globale COVID-19"



CHAPTER IV

SPEECHES AND PRESENTATIONS AT CONFERENCES

- *Governor Sejko: Address at the meeting organised by the Albanian Association of Banks, 12 February 2020*
- *Governor Sejko: Address to the Discussion Forum on “Bank - Business relationships: Common economic challenges in face of global Covid-19” pandemic”, 13 May 2020*
- *Governor Sejko: Speech at the 43rd Meeting of the Central Banks Governors’ Club of the Central Asia, Black Sea Region and Balkan countries, 2 June 2020*
- *Governor Sejko: Speech at the CESEE meeting of Finance Ministers and Central Bank Governors with the IMF Managing Director, Ms. Kristalina Georgieva, 23 October 2020*
- *Governor Sejko: Welcome Remarks at the 14th SEE Economic Research Workshop, organised by the Bank of Albania, 10 December 2020*

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 MEETING ORGANISED BY THE ALBANIAN ASSOCIATION OF BANKS -12 February 2020-

Dear ladies and gentlemen,

It is always a pleasure for me to attend meetings and round tables with representatives of banks operating in Albania. They are also an excellent opportunity to discuss and harmonise our efforts for a stable deepening and expansion of the financial market, as one of the core pillars of the economy and the main driver for sustaining development and enhancing the public's welfare.

I would like, in my brief address, to bring to your attention some highlights of 2019, regarding the contribution of the banking and financial systems, as well as some milestones for 2020.

Let me first focus on the overall economic situation of Albania.

The devastating earthquake that hit Albania on 26 November 2019 was a major event with a strong impact for 2019, on all the sectors of economy and the whole society. It was an unexpected shock giving rise to economic and psychological consequences in the affected areas and beyond. On the other hand, it was a difficult test, and I may say that all banks passed it successfully, in terms of continuity of financial market's critical functions.

In such a disastrous situation, it was very important that people could perceive the security, at least in the financial aspect, regarding their deposits with banks and continuous access to their funds to meet their basic needs.

Under these circumstances, not only did all banks generously contribute to recovering from earthquake consequences, but they also supported their clients in alleviating their pain and offering adequate solution, while ensuring continued operations and activities.

“The devastating earthquake that hit Albania on 26 November 2019 was a major event with a strong impact for 2019, on all the sectors of economy and the whole society. It was an unexpected shock giving rise to economic and psychological consequences in the affected areas and beyond.”

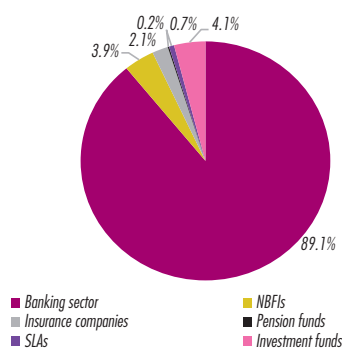
Beyond this event, overall, the Albanian economy in 2019 performed in positive terms. Its growth pace continued to trend upward, employment increased, internal and external balances strengthened, and main indicators of the banking sector's soundness have been improving.

All the above reasons boost the optimism on the outlook of economic growth in the medium-term horizon. Among others, Albania has reached an important milestone on its path to development and integration: the expected opening of accession negotiations with the European Union. These negotiations should be definitely considered as an important development anchor and an additional guarantee for both domestic and foreign investors.

Year 2019, as I stated above, affirmed the stability of the Albanian banking system.

All structural changes that started in 2018 were successfully completed in 2019, driving to the targeted consolidation of the banking system. The activity of the banking sector grew in terms of the volume of assets and deposits. Meanwhile, the quality of the credit portfolio improved by around 3 percentage points during 2019 (the NPL fell from 11.1% to historical low 8.36%). This improvement is attributable to the zestful actions undertaken by most banks to address the non-performing loans portfolio, by offering solutions both within the e.g. repayment, repossession, restructuring, debt forgiveness), and also outside it the e.g. sale of loan portfolios).

Chart 20 Share of financial system segments to total assets of the financial system, December 2019



Source: Bank of Albania and Albanian Financial Supervisory Authority.

The financial infrastructure of the banking sector was strengthened further in 2019. The Bank of Albania and the National Payment System Committee have implemented the national strategy for enhancing the small value payment market and increasing the financial inclusion of the population. The first results are promising and further steps by the Bank of Albania and the banking sector will be taken aimed at achieving a quantitative objective, which is to see the number of bank account holders doubled by 2022.

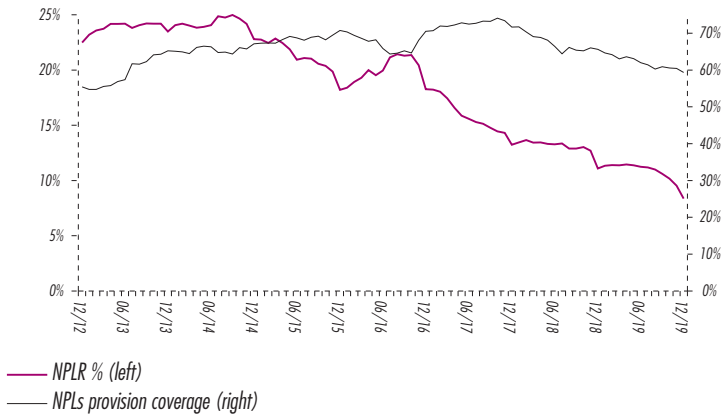
The financial inclusion of the population is one of the most important current priorities. In 2019, the Bank of Albania and the banking sector paid particular attention to financial inclusion and financial education. It is a proven fact now that the improvement in financial inclusion contributes to the improvement of the welfare of the population, in a harmonised way. In this regard, we have designed and implemented, among others, a series of educational projects tailored to various segments of the population. Financial education, targeted publications with information on bank products and services, as well as developments in the payment infrastructure and payment services are concrete steps for providing more opportunities for access to finance by all segments of the population.

Dear representatives of the banking sector,

We should not limit ourselves to seeing only the consequences from a natural disaster; we should see an opportunity for recovery and development. The Government has announced the areas designated for reconstruction after the earthquake and in addition to the allocated funds for this purpose funds are expected to be collected from the Conference of Donors. In this situation with financing opportunities from the Government, donors, and a high interest from households to invest in re-building their properties and making them safer, banks should be active, to intensify their intermediary role and enhance their lending to another dimension.

Let me now address some key issues, which should be addressed attentively to ensure sustainable pillars for banking activity to continue to build on as a whole, particularly with regard to sound and competitive lending, which ensures sustainable income.

Chart 21 Non-performing loans ratio and provisioning



Source: Bank of Albania.

First, the reduction of the non-performing loans portfolio does not guarantee they do not arise again if we do not look behind and address the problems and errors made when they were originally provided. Addressing them starts with improving governance, building-up and strengthening audit lines, attracting and training sufficient and qualified staff, above all, establishing an effective supervision by senior management bodies to maintain the adequate balance between risk appetite and the objectives of the business. These are only a few of the steps to be implemented in this regard. The Bank of Albania, in the framework of legislation approximation with the EU acquis, has increased the regulatory requirements to ensure more qualitative governance. But, beyond the formal fulfilment of the regulatory requirements, these principles

“The principle not to accept informal data from firms when assessing their repayment capacities has provided absolute positive results in preventing the creation of new non-performing loans. Yet, the issue of informality is still present in our economy.”

are indispensable to be incorporated into and become part of the culture of the entire organisation. This is a long-term investment, which generates positive and stable outcomes.

Second, while adopting better governance, the same expectation should be transmitted also to your clients. The principle not to accept informal data from firms when assessing their repayment capacities has provided absolute

positive results in preventing the creation of new non-performing loans. Yet, the issue of informality is still present in our economy. Banks may do more in this regard by offering to your clients and encouraging them to use existing or personalised products, which ensure a higher circulation of funds within the system, enhance the interconnection between firms and clients, and facilitate the establishment of a more complete financial profile and a more precise assessment of the repayment capacity.

Third, there is still a relatively high quantity of “intangible assets” in the balance sheet of banks, despite the insofar success. In total, the properties regained from legal processes are a high potential waiting to be transformed into funds. But, it may lose its value very quickly, becoming an unnecessary cost, which harms the reputation and competitiveness of banks. For a relatively small market, such as Albania, it is proved that the costs of non-performing clients are borne by the whole system, and individual strategies have no effective results. To provide an effective restructuring for clients in distress, it is indispensable to have an honest collaboration between banks, which ensures not only a more fair assessment of the client’s repayment capacity, but also optimises the time and cost of assessment for both the bank and the client. The Bank of Albania remains committed in supporting energetically such collaborative projects, by guaranteeing impartiality; meanwhile banks should show a good will in this regard.

Last, in these days of daily technology advancement, banking business would not be able to survive without investing in technology, in the right time. All banks are fully aware of this, but the pace of development in each of them has been different. Thanks to the strong relations and exchanges with our European neighbours, and the firm aspiration to be part of the EU, a postponing of the necessary investments in this regard would be at the cost of competitiveness. But, investments in technology only, without the support of internal human resources, may expose banks to high operational risks and irreparable consequences. While educated young people are moving abroad, I invite you to consider investments in technology, not only for the automation of processes, but also as an opportunity to prevent the impoverishment of the labour market, thus contributing to setting up conditions for keeping the qualified labour force in this market, which is also part of the elite clientele of the banking market.

In conclusion, let me assure you that the Bank of Albania provides the maximum support and attention to all your proposals, not only in capacity of the regulatory authority, but also, as a loyal, supportive and serious partner, aiming at achieving the common objective, that is a developed market which offers attractive possibilities for investors, for financial stability and a fair competition which respect the consumer's rights.

Our decision-making will be transparent and all our initiatives will be guided by a spirit of cooperation with the banking sector, aiming at ensuring highest efficiency.

Thank you for your attention!

**GOVERNOR SEJKO: ADDRESS TO THE
DISCUSSION FORUM ON “BANK -
BUSINESS RELATIONSHIPS: COMMON
ECONOMIC CHALLENGES IN FACE OF
GLOBAL COVID-19” PANDEMIC
-13 May 2020-**

*Dear representatives of business community in Albania,
Dear representatives of the banking sector,*

First, I would like to thank you for your participation in this round table, held to discuss on the way and optimum instruments to face the common challenges ahead.

This meeting is being organised under extraordinary circumstances. The outbreak of Covid-19 pandemic and the prudential measures adopted to confine it, drove to a rapid drop of the demand for goods and services, in the domestic and foreign markets, and to a considerable contraction of output.

The challenges we are facing are serious, in terms of both size and complexity.

The Albanian economy is expected to undergo a strong drop of the economic activity during 2020, in those levels never being experienced during the last two decades. It will be accompanied by an increase of unemployment, fall of revenue, and financial difficulties to firms and households. In the microeconomic view, the fall of revenue, reduction of liquidity and worsening of solvency will test the financial stability of firms. In the macroeconomic view, the increase of private and public debt will test the stability of economic equilibriums of Albania. Last, the shock experienced by the real sector will not overcome without leaving traces in the financial market and in the indicators of the banking sector's business, as well.

The dimensions and complexity of the crisis demand for a coherent and comprehensive response.

Absolutely, public authorities have the primary role to play in this regard. The fiscal, monetary and financial stimulus, are essential instruments to

boost the aggregate demand, mitigate the liquidity problems and avoid the long-term consequences of the crisis.

Nevertheless, firms and banking sector should not consider themselves as passive consumers of the economic policies, but as exceptional actors in our efforts to resolve the crisis. The stimulus of public authorities could be neither effective nor potentially sufficient, without the adequate reaction of both firms and banking industry.

Dear guests,

Allow me to introduce briefly the reaction of public authorities, and further to share with you our vision on the challenges and role that the Albanian firms and banking sector should play.

1. PUBLIC AUTHORITIES' RESPONSE

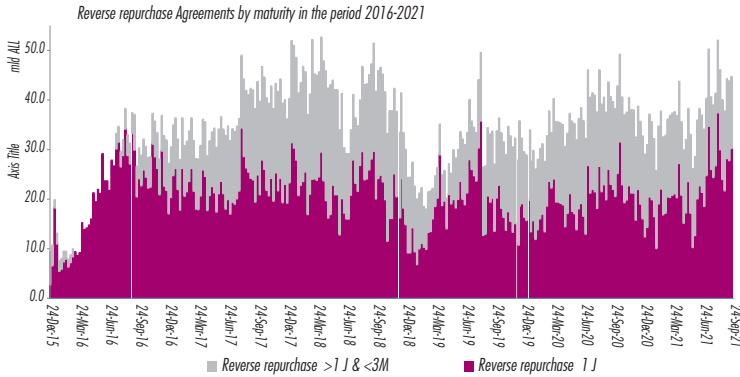
In the face of the unprecedented health emergency, the focus of public policies - in Albania and globally- was the undertaking of severe social distancing measures. Naturally, these measures have hit the economic activity and have demanded for a comprehensive easing of fiscal, monetary and financial policies.

Fiscal policy - rightfully- has been given a primary role in facing the situation. This policy may provide a direct support to aggregate demand, through fiscal transfers, and an immediate and targeted improvement of liquidity to enterprises, through the postponing of the payment of taxes and through the sovereign guarantees programs. The two introduced fiscal packages, so far, provide for a maximum potential stimulus at around 3% of GDP. Even without considering the negative effect on public income, this stimulus transfers to the balance sheet of public sector a considerable part of the financial costs of the crisis.

On its side, the Bank of Albania has increased the dosage of the monetary stimulus. This stimulus has been taken the form of the reduction of policy rate, already in its historical minimum of 0.5%, aiming to boost lending and reduce the servicing cost of existing loans. Also, it has been in the form of removing the quantitative limits of liquidity injection into the system, aiming to a better supply of the banking market and the Albanian economy. The volume of liquidity that we inject every week in the system fluctuates around the level 2%. In addition, the Bank of

Albania has undertaken operational measures for guaranteeing the supply of economy with cash, in response to its increased demands.

Chart 22 Interventions of the Bank of Albania in the money market in 2016-2020 (nominal value)



Source: Bank of Albania.

Statement: Money Market Interventions 2020 Q2 (data till 7 May 2020)
 In parallel, the Bank of Albania - in an agreement and good understanding with banking industry - has carried out regulatory amendments which ease the postponing with one quarter of the credit payment for firms and households which face temporary financial difficulties. The reports, so far, show that more than 20.000 firms have benefited from this easing, who have a credit at banks which account for higher than EUR 2 billion. Also, we have temporarily suspended the allocation of dividend by the banking sector, for the purpose of strengthening the capitalisation indicators of this sector.

Dear guests,

The reaction philosophy of the Bank of Albania is the mitigation of crisis consequences and the establishment of preconditions for a rapid recovery of the economy once the pandemic is overcome. In detailing this philosophy, we deem that: the safeguarding of the monetary and financial stability, and the minimisation of the negative effects of pandemic on our production capacities, are two crucial preconditions for the recovery.

For this reason, the objective of our policies is the application of the right stimuli in timely manner, without prejudice in any moment to the monetary and financial stability of Albania.

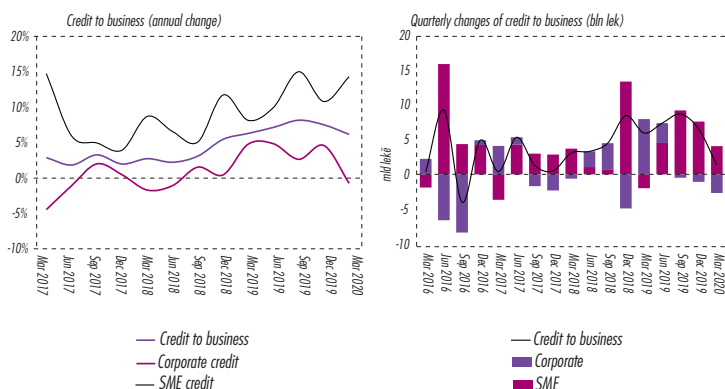
I am confident that both business community and the banking sector share this philosophy.

2. BUSINESS AND BANKING SECTOR IN THE FACE OF COVID-19

As I already emphasised, the Albanian business is facing a serious challenge to its future. This challenge has almost existential dimensions in certain segments. At the same time, the long-term soundness of banking sector is closely related with the soundness of business.

Banking credit to firms is almost 4 times higher during the last two decades. It accounts for around 25% of banks' balance sheets and has a comparable share to GDP, while the bank - business relationships' flow is present also in the field of other financial products and in the payment services.

Chart 23 Loans to enterprises by size



Source: Bank of Albania and staff estimates.

For this reason, your reaction against the shock should be decisive, courageous and visionary, as well as based on the spirit of collaboration and common long-term interests.

Allow me to be more concrete in detailing the vision of the Bank of Albania on the challenges ahead.

The first challenge is the management of health emergency. The business and banking sector should be clear that human capital is the most precious asset for every company. For this reason, any necessary measure to guarantee the health of the employees should not be considered as an expense, but as a strategic investment for the future of the firm.

The second challenge is the revision of the business model and the increase of operational flexibility. One of the lessons of this crisis is that each of us can make more to adopt the information technology, to shift part of the business on line, and to increase the operational flexibility and efficiency. Putting into practice these lessons is particularly useful in case of the prolongation of the pandemic.

The third challenge is maintaining liquidity and solvency of firms. The shock we are suffering found the Albanian business with a high historical level of liquidity; its deposits with banks accounted for around 12% of GDP in the first quarter. In parallel, business access to banking liquid funds, in the form of overdrafts or lines of credit, is at a comparable size with the deposits of the business itself. This liquidity is a reasonable security restraint to risk. Nevertheless, the historical experience shows that liquidity crises frequently are the starting point for complete financial crises. For this reason, I would like to point out that:

***“Challenges ahead:
• the management of health emergency;
• the revision of the business model and the increase of operational flexibility;
• maintaining the liquidity and solvency of firms;
• the maintaining of production capacities of economy.”***

- Business should be prudent in the operational management of liquidity, being based on real plans and by taking measures to handle the contingent or unforeseen needs.
- Also, banking sector should continue to support the economy with liquid funds, by performing an objective and real assessment of the situation, but without compromising the lending risk criteria.

In this regard, the Bank of Albania has undertaken and will undertake all the necessary measures in order the banking sector will have all the sufficient liquidity to support the Albanian economy.

The fourth challenge is the maintaining of production capacities of economy. This challenge implies the safeguarding of individual firms' soundness and the functioning of the entire production and trade chain. For this purpose, the Bank of Albania suggests:

- The business should be careful in fairly sharing the cost of crisis, by offering - wherever possible and on mutual interest - the necessary financial facilities to suppliers or long-term clients.

- The banking sector should carry out a reassessment of the stability of the borrowers' business model, under the post-Covid reality. Clients facing temporary financial difficulties but with stable business models, should be supported with liquidity and temporary operational easing. Clients facing serious difficulties may be supported through the restructuring of credit, always so far and at the level that the long-term perspective of the business remains solid.

On its side, the Bank of Albania will encourage a pro-active approach of the banking sector towards this process, without prejudice to the stability of the sector and transparency of its balance sheets.

Last, the fifth challenge is the safeguarding of the monetary and financial stability of Albania. In this regard, I would like to underscore that:

- The Albanian business should show transparent and loyal to the banking sector. This sector should provide its help to face the crisis, but it may not counter alone its financial costs.
- Also, banking sector should find a fair equilibrium between the support to borrowers in need - in a bilateral long-term interest and benefit - and the safeguarding of its balance sheet soundness.

“The banking sector should find a fair equilibrium between the support to borrowers in need - in a bilateral long-term interest and benefit - and the safeguarding of its balance sheet soundness.”

As I already mentioned, the monetary and financial stability is not negotiable to the Bank of Albania. In compliance with our legal mandate it has been and will continue to be the milestone of our policies.

Dear guests,

At the end of my speech I would like to emphasise that, although the challenges ahead are serious, their successfully countering is within our possibilities, if we all will know to rise to these challenges.

I invite you to have an open and fruitful discussion, aiming at identifying a common work agenda for the continuing period.

Thank You!

**GOVERNOR SEJKO: SPEECH AT THE
43RD MEETING OF THE CENTRAL BANKS
GOVERNORS' CLUB OF THE CENTRAL
ASIA, BLACK SEA REGION AND BALKAN
COUNTRIES
-2 June 2020-**

My fellow Governors,

We are living in times deeply marked by the Covid-19 pandemic.

Apart from being one of the most severe health crises, it has also turned into the most serious economic challenge in recent history. The spread of the pandemic, coupled with the preventive measures taken against further contagion, have severely disrupted the move of people, goods and services. The simultaneous fall in demand and supply has caused a rapid drop in output, a spike in unemployment, severe difficulties amongst businesses and households, and has laid out complex policy challenges.

“The thorough package of the stimulating economic policies undertaken to mitigate the negative impacts of pandemic has been both comprehensive and timely.”

Albania is no exception to this picture. We are facing an economic downturn, the sharpest one in the past couple of decades.

The thorough package of the stimulating economic policies undertaken to mitigate the negative impacts of pandemic has been both comprehensive and timely. Its objective has been threefold: (i) to allocate appropriate funding to deal with the medical emergency; (ii) to shield vulnerable households and business from the crisis, so as to avoid undue loss of production capacity; and, (iii) to preserve monetary and financial stability,

Given the speed and depth of the emergency, fiscal policy has the primary role in tackling the situation, by partly compensating the loss of income for households and offering liquidity support for affected businesses. The size of the fiscal stimulus package in Albania amounts to about 3% of GDP, in the form of fiscal transfers to households, delayed tax payment, and sovereign guarantees to facilitate bank credit. In our

view, the rise of public debt is an acceptable cost in order to ease the social impact of the crisis, avoid widespread bankruptcies and attend the deep negative impact that these bankruptcies would have on the financial stability of the country.

The Bank of Albania intervened swiftly. Our actions were aimed at achieving three goals: (i) ensure the smooth delivery of financial services during the lockdown; (ii) reduce debt-servicing costs of the economic operators; and (iii) safeguard monetary and financial stability as an indispensable precondition to a speedy recovery of economy.

To that extent:

- The Bank of Albania has delivered monetary stimulus in the form of a policy rate cut, now at a new historical low of 0.5%, as well as in the form of increased liquidity injections in the market.
- Furthermore, we instructed banks to offer liquidity relief to viable businesses facing temporary difficulties, in the form of a short-term moratorium on credit instalments as well as in the form targeted credit restructuring. We facilitated this process with targeted and temporary amendments in the regulatory framework that defines these action
- We temporary forfeited any charges on using our electronic payment platforms as well as issued detailed instructions to banks in order to facilitate the continuity of their operations.

“... our baseline – and also best case – scenario assumes a V-shaped recovery starting from Q3-2020.”

Looking ahead, uncertainties about the economic damage from the pandemic are unusually high. While any quantitative projection on economic growth still remains subject of assessment, our baseline – and also best case – scenario assumes a V-shaped recovery starting from Q3-2020.

So far, the Albanian banking system remains solid, solvent and liquid. Furthermore, our domestic financial markets appear to be reasonably calm and financing conditions remain supportive to credit growth.

Also, the Bank of Albania has announced its plans to activate unconventional monetary policy tools, in case the crisis deepens and their deployment would be warranted and inevitable. Implementation of these instruments will always be in compliance with our legal framework, and depending on the realities of our domestic economic and financial market. Furthermore, any financial and monetary stimulus supplied by

the Bank of Albania will be undertaken with damage neither on the financial stability nor on the banking sector's soundness in Albania.

We believe in a fair sharing of costs amongst the private, the public and the financial sector. However, any attempt to place a disproportionate amount of costs on the balance sheets of the banking sector will be ultimately counterproductive and to the detriment of the recovery in a second phase.

Finally, let me say that a full recovery from the pandemic will necessarily require a degree of international cooperation. The SEE region includes small open economies that rely on international trade and finance to develop and converge to European Union standards. Any reversal to regional and European integration will be damaging to us.

“... a full recovery from the pandemic will necessarily require a degree of international cooperation.”

These are our next challenges, as we move ahead. It is obviously not a paved road, but I am pretty sure that we will succeed.

Thank you for your attention!

**GOVERNOR SEJKO: SPEECH AT THE
CESEE MEETING OF FINANCE MINISTERS
AND CENTRAL BANK GOVERNORS
WITH THE IMF MANAGING DIRECTOR,
MS. KRISTALINA GEORGIEVA
-23 October 2020-**

*Dear Madame Georgieva,
Mr. Chairman,
Honourable Ministers,
Fellow Governors,*

After the severe economic and social stress caused by the Covid-19 pandemic, the global outlook appears to be improving. Determined action from policymakers, coupled to initially successful efforts to contain the contagion, has sheltered economies and societies from the worst of the crisis and paved the way towards a nascent recovery in the future. Nevertheless, policy challenges ahead are both multiple and complex. First, the recovery is surrounded by downside risks while policy space is getting increasingly scarce. Second, the severe shock might lower potential growth across the globe. Third, a potential reversal of trade and global supply chain integration might lead to policy fragmentation and pose additional headwinds for emerging economies.

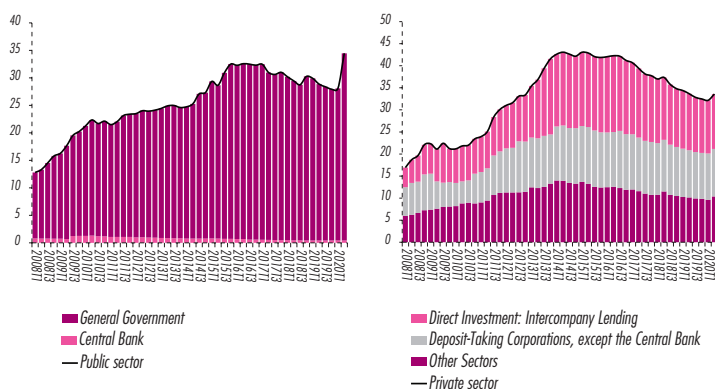
At the Bank of Albania, we believe a successful policy solution requires courage and flexibility at a national level, as well as coordination and cooperation at a regional and international one. I will try to briefly expand upon these points, while offering a regional and an Albanian perspective.

The spread of the pandemic threw the Western Balkans into a deep recession. Production and incomes dropped sharply, unemployment rose, the balance sheets of the private and public sectors deteriorated, and societies at large were put under stress. Estimates of the drop in GDP for 2020 range from -3.1% (the World Bank) to -5.2% (the IMF). Across the region:

***“At the Bank of Albania,
we believe a successful
policy solution requires
courage and flexibility
at a national level, as
well as coordination and
cooperation at a regional
and international one.”***

- Central banks deployed both conventional monetary policy instruments (policy rate cuts) and unconventional ones (ranging from QE type of operations to long term liquidity injections and credit support schemes). In addition, they provided temporary macroprudential relief to encourage loan payment deferrals and loan restructuring.
- At the same time, fiscal policy turned expansionary. Most governments applied large stimulus packages, comprising increased outlays for the health sector, tax relief, direct transfers and credit guarantee schemes. As a result, debt to GDP ratios are expected to increase by 10p.p. on average.

Chart 24 Disaggregated public and private sectors' debt (% of nominal GDP)



Source: Bank of Albania.

Albania shares a similar experience. In the wake of a double shock in the form of 2019's earthquake and the pandemic, GDP is expected to drop by around 7% of GDP.

The policy measures of the Bank of Albania were aimed at ensuring an uninterrupted flow of credit and financial services, as well as at preserving monetary and financial stability. More specifically, we:

- Increased the monetary stimulus by lowering the policy rate to 0.5% in March and by switching to fixed-price full-allotment liquidity injection operations.
- Instructed banks to offer liquidity relief to viable businesses facing temporary difficulties, in the form of a short-term moratorium on credit installments as well as in the form of a targeted credit

restructuring, and we facilitated this process with targeted and temporary regulatory actions.

- Abolished dividend payments across the banking sector, in order to strengthen its capital.
- Finally, we forfeited fees on the interbank transactions costs for the payment systems operated by the BoA.

Our monetary and financial accommodation was coordinated and greatly facilitated by the fiscal stimulus. By leveraging the balance sheets of the public sector, fiscal policy compensated the loss of income for households, offered liquidity support for affected businesses in the form of delayed tax payment and improved access to finance through sovereign credit guarantees

In this regard, I would like to emphasize the role of the RFI (Rapid Financing Instrument). It was one of the first reach outs to Albania. It had a large impact in facilitating our fiscal stimulus, alleviating its impact in the domestic financial markets, and signalling the ability of our country to access various sources of funding.

Initial results of our policies have been encouraging. The Albanian banking sector remains solid, solvent and liquid. Our domestic financial markets are calm, while both interest and exchange rates are stable. In addition, the positive flow of credit to the economy has been instrumental in mitigating business failures and related costs. Finally, both our public and the private sector have preserved access to international financial markets.

“ The Rapid Financing Instrument (RFI), accorded to Albanian from the IMF was one of the first reach outs to Albania , facilitated our fiscal stimulus, alleviated its impact in the domestic financial markets, and signalled the ability of our country to access various sources of funding.”

Following I will briefly provide some of the lessons we have learned from this experience.

- First, unprecedented shocks require timely and unprecedented measures, measures which should critically question conventional thinking of economic policy.
- Second, the complexity of the crisis requires careful policy coordination, in order to deliver targeted relief to key economic sectors.

- Third, international cooperation – in the form of financial assistance and policy guidance – is crucial for alleviating costs to emerging economies and avoiding negative spillovers on a regional and global scale.
- Fourth, sound monetary and financial fundamentals are the best insurance policy and investment we can make to sustainable long term growth. These fundamentals can most efficiently be constructed through careful policies and structural reforms during “good times”. Hence, a degree of perspective should be retained when designing solutions to any short term challenge we face.

Dear colleagues,

The scale of future challenges is potentially greater compared to what we have faced so far. Beyond ensuring the cyclical recovery of our economies, we have yet to properly account for the structural changes this crisis is bound to leave with us.

I believe we can only rise up to this task if we heed the lessons learned so far and proceed in the spirit of mutual coordination and solidarity.

Thank You!

GOVERNOR SEJKO: WELCOME REMARKS AT THE 14TH SEE ECONOMIC RESEARCH WORKSHOP ORGANISED BY THE BANK OF ALBANIA -10 December 2020-

*Dear professors and researchers from academia,
Dear fellow central bank colleagues/researchers,
Dear participants,*

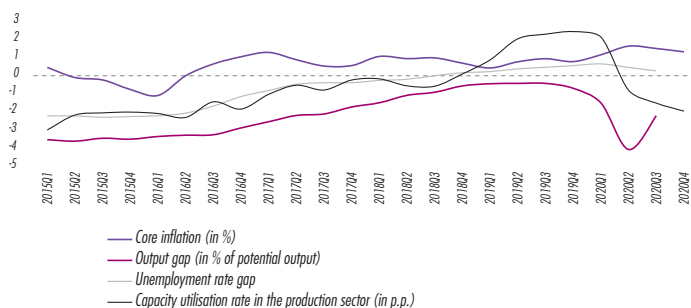
It is a great pleasure to open the proceedings of the 14th SEE research Workshop. Due to the difficulties and restrictions imposed on all of us by the COVID 19 pandemic this year's workshop is organized virtually. I am glad to see that you are all well, and wish that you and your families stay safe and healthy during these difficult times. In a way it is sad that we cannot welcome you all in Tirana during these December days. However, at the same time I am very glad that despite the forced change in the format and in the presence of the many inconveniences caused upon all of us by the pandemic and related restrictions, we are having a full house with participants from the academia in Europe and central banks. We thank you for your interest and take this as a certification of the quality and reputation of this activity. Our research staff is eager to get to know your work and discuss with you the research that has been produced by bank of Albania during 2020.

I am glad to see that almost all selected papers, including the ones by academia focus on the practical issues that are important for the policy formulation and decision making in the central bank. These works serve as the foundation for our understanding of economic and financial phenomena and the interaction of our monetary, macro and micro prudential policies with the economy. It is due to this understanding and knowledge that Bank of Albania crafts its policy response and chose its policy instruments to respond to significant negative shocks that have hit our economy.

“ ... despite the forced change in the format and in the presence of the many inconveniences caused upon all of us by the pandemic and related restrictions, we are having a full house with participants from the academia in Europe and central banks.”

Recent data suggest that the pandemic has had severe impact on the Albanian economy, which experienced the strongest contraction of gross domestic product in the last two decades, at -10.2% during the second quarter of 2020. Macro data on labour markets show that compared to the end of 2019, the Albanian economy lost about 50 thousand jobs, equal to an annual decline in employment of 3.6%. As a result of this the unemployment rate increased to 11.9%. Responding to such developments, inflation in the third quarter decreased to 1.4%, from 1.9% in the previous quarter. Despite these negative shocks, the measures taken by the Bank of Albania have provided the necessary monetary stimulus to support the normal functioning of the financial markets and to ensure the flow of credit in the economy. Interest rates for households and businesses are low and liquidity pressures are under control, while the exchange rate appears stable.

Chart 25 The cyclical position of the economy improved in 2020 Q3, but remains in negative territory



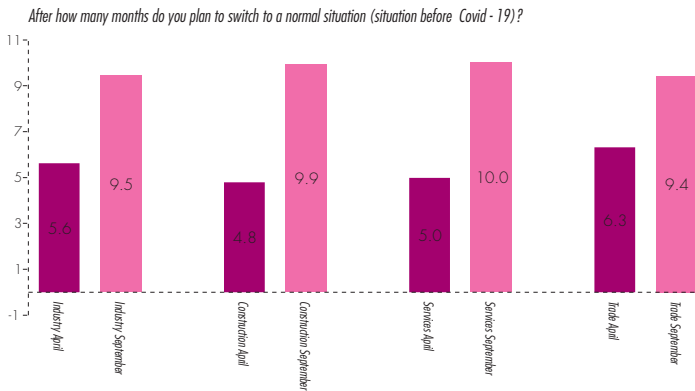
Note: The output gap is the average of several measurements on which the method of moving average is applied. The capacity utilisation rate gap is assessed as a deviation of the current value from the relevant historical average, and then the method of the four terms moving average is applied. The unemployment rate gap is assessed as an average of unemployment gaps according to three methods, which assess the equilibrium or structural level of unemployment. It is expressed as the difference of equilibrium unemployment rate to actual unemployment rate and then the method of the moving average is applied.

Source: INSTAT and estimations of the Bank of Albania.

The Albanian banking sector remains sound, despite the challenges posed by the pandemic. The immediate operational measures taken by banks, as well as the macro and micro prudential measures taken by the Bank of Albania, ensured not only a continuation of the operation of the critical functions of the banks, but also satisfactory financial intermediation despite the great shock suffered by the economy. Credit to economy is growing (it grew by 6.3% in the third quarter 2020), capital is adequate and the banks' balance sheets remain healthy, signalling their ability to withstand first-round shocks. We are optimistic that the economic activity is expected to revitalize over the next two years. However, the economic

outlook for the future is accompanied by a high level of uncertainty and downside risks. In the short term, the risks are mostly related to the uncertainty of the pandemic itself, its severity, duration, and potential return of restricting measures. In the long run, the risks relate to the long-term damage sustained by the productive capacities and domestic demand, as well as potential structural change sustained in the economy as a result of the altered behaviour of economic agents. We are sure that research based evidence, analysis and forecasts will provide accurate and timely information for policy orientation and coordination.

Chart 26 Expectations to return to normal



Source: Business Confidence Survey, Bank of Albania.

Research in the area of monetary policy, financial stability and banking supervision has always dominated the topics of our workshop. This year COVID-19 has entered the agenda by brute force. This shock and the negative effects that it brought upon the economy and the central bank policies have been beyond comprehension. The authorities are feeling the difficulty of performing their task in the zero lower bound or very close to it. In this respect central banks have lost the traditional instruments of monetary policy

“...research based on surveys and micro data has provided important information for the financial situation of families and business, their sources of financing, payment instruments, savings and economic and financial behaviour.”

and are reverting to money as the instrument of monetary policy. The shift has been significant not only in size but also in concept. The leading central banks in developed economies, the ones which set the trends,

are under process of reviewing their objectives and monetary policy. Using support of research analysis and conclusions they are eventually rewriting monetary economics by giving central banks new instrument in the form of permanent use of the central bank balance sheet as a tool of monetary expansion. However, while implementation of balance-sheet strategies is easy to implement and deal with for developed countries central banks, same policies might not be easily adaptable and applicable by developing economies. Narrow and shallow capital markets, problems of financial inclusion and financial education, stressed private, public and fiscal balance-sheets and history, remind us of several potential risks that such policies can have for the highly dollarized/euroized economies of South-East Europe. Yet in the presence of current constrains faced by monetary policy we have to react and to find new ways to support the economy. It is the role of research to guide policy reviews and policy models for sustainable economic policies that can promote growth in the presence of stable prices and financial system.

The news about successful trails of the Covid-19 vaccine candidates, hoping that many more would result successful in the near future, brings much needed relief. However, as I mentioned before, uncertainty remains not only regarding production, distribution and the success of vaccine campaign in the real world, but also regarding the shape and speed of economic and financial recovery once COVID-19 is defeated. Yet, other risks like climate change, along with natural disasters, loss of habitats and arable land, demographic and pandemic risks represent significant long term challenges for global economy. They pose significant risks for our economies of the South east countries as well. We would need to dedicate more research resources to the study of these phenomena and their implications for the economy, price and financial stability in our countries. I am sure they will become important topics of this workshop in the future.

“My most important recommendation is that research produced at the central bank, remains close to central bank interest and has practical value for policy and decision making to achieve their objective.”

During the recent years we have seen that research based on surveys and micro data has provided important information for the financial situation of families and business, their sources of financing, payment instruments, savings and economic and financial behaviour. I would like to call your attention that this same information is useful for understanding financial inclusion and financial literacy in the country. They are two different aspects for wellbeing of families

and business and the stability of our economy. We can make good use of this information as a starting point for the design and implementation of a national strategy of financial education and financial inclusion. They are both important objectives for the central bank. These two topics are set to gain central stage following the emergence and growing trend toward digitalization, emergence of digital financial instruments and potential introduction of Central Bank Digital Currencies. My most important recommendation is that research produced at the central bank, remains close to central bank interest and has practical value for policy and decision making to achieve their objective. It must flow naturally into policy making and provide solid foundations for monetary and financial stability policy.

Finally, I am proud to see how our researchers have progressed in the adoption of the most sophisticated techniques of research. Simultaneously, I am glad to see that the adoption of research methods has crossed the boundary of research department and is spreading well into other departments. Our economists are doing independent research work in support of their day to day activity. This is the result of our continuous efforts to increase the impact of research in policymaking. However it is without doubt also a result of activities like this, which introduce or staff to the relevant work that is done in academia and other central banks.

Whether you are from Academia or central banks, we are grateful for your continued interest and thankful for your participation. We hope that you and your colleagues will continue to join our workshop in the future, hopefully, in a COVID free world. Hence, we can go back to our traditional ways of the past, and give you the opportunity to present your works at Bank of Albania, engage with our research and introduce yourself to our beautiful Tirana, Albanian culture and the delicious taste of Albanian cuisine.

Wish you the best and the most productive event!

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sjellja konsumatore
Ndryshimi pas Covid-19

Faqe 22

qendrat tregtare
Mbijetesa do varet nga markat

Faqe 31

ëndrra e diktatorëve
Pandemia, si mjet për rrëmbimin e pushterit

Faqe 45

TESTI I COVID-19

INTERVISTË E POSAÇME E GOVERNATORIT TË BANKËS SË SHQIPËRISË, GENT SEJKO

CHAPTER V

INTERVIEWS

- *Interview with Gent Sejko, Governor of the Bank of Albania. ABC News, 12 March 2020*
- *Interview with Gent Sejko, Governor of the Bank of Albania. Top-Channel, 12 March 2020*
- *Interview with Gent Sejko, Governor of the Bank of Albania. News24, 12 March 2020*
- *Interview with Gent Sejko, Governor of the Bank of Albania. Euronews TV, 12 March 2020*
- *Interview with Gent Sejko, Governor of the Bank of Albania. "Opinion", Klan TV, 12 March 2020*
- *Interview with Gent Sejko, Governor of the Bank of Albania. "Real Story", News 24 TV, 19 March 2020*
- *Interview with Gent Sejko, Governor of the Bank of Albania. TV Klan, 26 March 2020*
- *Interview with Gent Sejko, Governor of the Bank of Albania. Vizion Plus, 31 March 2020*
- *Interview with Gent Sejko, Governor of the Bank of Albania. A2CNN, 1 April 2020*
- *Interview with Gent Sejko, Governor of the Bank of Albania. "Open", Top-Channel, 2 April 2020*
- *Interview with Gent Sejko, Governor of the Bank of Albania. "Ekopolitikë", Ora News, 11 April 2020*
- *Interview with Gent Sejko, Governor of the Bank of Albania. "Opinion", TV Klan, 7 May 2020*
- *Interview with Gent Sejko, Governor of the Bank of Albania. Monitor magazine, 11 May 2020*
- *Interview with Gent Sejko, Governor of the Bank of Albania. Ora News, 11 May 2020*
- *Interview with Gent Sejko, Governor of the Bank of Albania. ABC News, 20 May 2020*
- *Interview with Gent Sejko, Governor of the Bank of Albania. News24, 29 May 2020*
- *Interview with Gent Sejko, Governor of the Bank of Albania. "Përballë", RTSH, 7 July 2020*

INTERVIEW WITH GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA. ABC NEWS -12 March 2020-

ABC News: The decision taken today is rather important to both enterprises and households in view of the situation created from the Covid-19 pandemic. It was decided to suspend the payment of loans for three months. Why it was taken this decision and what is the purpose?

Governor Sejko: Since the last week, the Bank of Albania has taken a set of measures, conform to the unprecedented situation caused by the COVID-19, as declared by the World Health Organisation. These measures have oriented banks to operate with their clients at rather optimum conditions, aiming at, in one hand to not hamper banking and financial transactions and on the other hand, save the health of both banks' clients and staff.

"... the measures taken by the Bank of Albania have oriented banks to operate with their clients at rather optimum conditions, aiming at, in one hand to not hamper banking and financial transactions and on the other hand, save the health of both banks' clients and staff."

Before explaining this Decision, I take this opportunity to give a message to all clients of banks, both households and enterprises: to perceive the measures we have undertaken and the guidelines provided neither as financial difficulties nor as liquidity lack from banks. Banks have ample liquidity; their financial situation is very good; able to manage all the normal activity. The measures taken relate to the saving of both banks' clients and employees. For this reasons, banks must keep distances, carry out disinfections and implement all the necessary measures to protect from SARS-CoV-2 virus. These measures have been disseminated in the form of a guideline to commercial banks. However, it may happen that due to the measures taken, there may be queues which unintentionally may lead to panic amid clients.

Today, the Supervisory Council has taken a decision affecting all borrowing households and businesses on the payment of loans. Through a moratorium it is decided on the deferral of loans payments. This implies that the payments of loans are postponed for a three-month period. Clients facing difficulties in their activity are affected by the virus or have

other problems due to the pandemic situation, are not obliged to pay the loan instalments during this period. In addition, I would like to emphasize that those clients who wish to normally pay their loans, are free to do so.

We are continuously monitoring the situation with the commercial banks. The Bank of Albania, itself has undertaken the relevant measures, working with reduced staff, in compliance with the directives laid down in the decision of the Council of Ministers. Also, commercial banks are working with reduced staff, with the indispensable capacities to ensuring the normal daily financial transactions to clients. We have taken the measures for on-line and cash payments be functional and not turn into a hamper for the smooth functioning and well-being of citizens.

ABC News: Will the commercial banks' windows continue to function? You mentioned that there is a reduction of staff. Will these windows continue to be opened, or this will depends on the situation?

Governor Sejko: Certainly, this will be decided by monitoring carefully the situation on ongoing basis, but banks will continue to be open. The activity is decided to be closed for three days, and pursuant to the decision of the Council of Ministers on emergence measures, the banking system shall observe these measures as well. This means that banks and the Bank of Albania will be closed, alike the other public institutions. Nevertheless, there are taken all measures for the payment system functions normally, both online and in cash. Bank will provide all the necessary cash to citizens, to make various payments. In addition, payments may take place by banking cards, debit or credit cards. Debt cards are not subject of any commission, and most of Albanian citizens are in possession of such a card. We do not foresee to face any abnormality related to the financial activity of payments. It is important to minimise at maximum the physical contacts, as we are yet at the onset of an unprecedented situation in terms of public health, whose end is still unknown. Public health institutions are working intensively to identify the infected cases. Although, we are going through a beyond a common situation, it is important to not go to panic. We should be both organised and practical; continue life normally; and follow scrupulously the protective measures.

ABC News: How much this situation will affect the economic performance? Will the economic growth be revised down for this year?

Governor Sejko: Absolutely, the situation we are experiencing will have a negative impact on economic growth of Albania, but not only. Nowadays, large economies have experienced losses in million and milliard euro, US dollar and pounds; stock exchanges and international markets have been deeply affected. Figures are alarming. Albanian economy is a small, but open one. Our economy will suffer the effects - both domestic and external shocks - but yet we cannot tell the degree of this impact on the economic growth. The bank of Albania is carrying out analysis and scenarios, which will be introduced in the next meeting of the Supervisory Council, which will take place in a few days, and the necessary monetary policy decision will be taken accordingly. I would like to emphasise that we our monetary policy will continue to be accommodative and stimulating to consumption, lending and investments. We take macro prudential measures to preserve both price and financial stability, for meeting our legal obligations.

It should be highlighted the advantage that banks have excess liquidity, they are in a good financial position, with outstanding capital above the required adequacy ratio. That is, we do not foresee any problems and furthermore a crisis in the financial system, but a fall in the economic growth pace. What will be size of this fall, it will depend on the analysis. These forecasts will be for the first six months of the year. We foresee that the effects from this pandemic will be addressed in this half of year. In the next meeting of the Supervisory Council we will have more correct figures and will take the right decisions, which will be made public as usually in the public statement on the monetary policy. We do not foresee our economy to fall in recession, but there might be a fall in the economic growth pace.

“It should be highlighted the advantage that banks have excess liquidity, they are in a good financial position, with outstanding capital above the required adequacy ratio. That is, we do not foresee any problems and furthermore a crisis in the financial system, but a fall in the economic growth pace.”

ABC News: Will there be another revision of the interest rate?

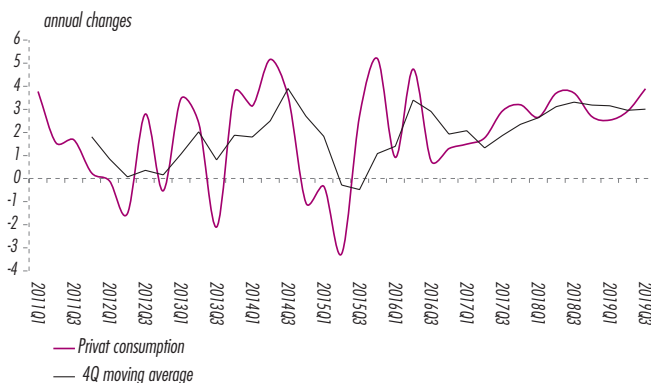
Governor Sejko: This is also another possibility. The accommodative stance of our monetary policy has continued. Currently the policy rate stands at its lowest historical level, at 1%. Our monetary policy pass through is conditioned by other elements as well, like the high level of euroisation in economy. Nevertheless, our monetary policy has been properly transmitted to all segments of financial market. There is still

room, although a limited one, to continue with the easing of monetary policy. I cannot say what will be our position, as this Decision will be taken by the Supervisory Council. We are still analysing the scenarios, which are evolving swiftly, and we have new results on macroeconomic indicators, on a daily basis. We will have to further ease the monetary policy; absolutely we will undertake this step. Nevertheless, yet it is early to draw conclusions. The important thing is to preserve price stability, as it is the main legal objective of the Bank of Albania. We should maintain the main macroeconomic parameters; preserve financial stability in Albania. As I pointed out above, the financial situation of Albania is stable and liquid. The Bank of Albania shall take all measures, through the monetary policy, but not only, to preserve the financial stability of Albania, for this period has the minimum effects on the Albanian citizens.

ABC News: What might be the impact of this situation on consumption?

Governor Sejko: We are aware that measures for the protection of public health, obviously will impact on consumption. Consumption is the first to be affected. If shops, trade activities, businesses will close - an inevitable closure as life of citizens are on the first place - absolutely consumption will be affected as well. Consumption will affect production, as this are chained elements. This crisis will have a strong shock on tourism, which also is related to consumption. We still do not know how long this situation will take, and the tourism season is ahead. All these are forecasts, but I repeat again that we will have drop in the economic growth pace and the Bank of Albania will react based on the results of our analyses.

Chart 27 Private consumption

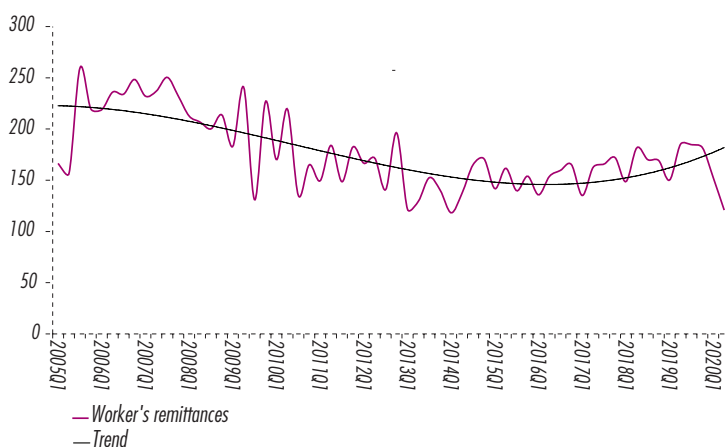


Source: INSTAT and Bank of Albania.

ABC News: Will Albania suffer only the effect originating from the crisis in Albania, or taking into account that this might be a global crisis, will the global market crises and our real costs are superposed?

Governor Sejko: In our analyses, we always consider risk scenarios, which include both domestic and external facts. Domestic factors may be the fall in consumption, tourism coupled with other factors affected from this situation. External factors may be the difficult situation in euro area, particularly in Italy, which is one of our main trading partners. In addition, remittances are also very important, and we will attentively see how they will be affected from the pandemic. Also, remittances may fall, as the situation may turn difficult to Albanian citizens as well; I would say that Albanian economy will have risk scenarios, taking into consideration the situation in partner countries, particularly in euro area. All these, will be considered in the analysis that the Bank of Albania is conducting, and will affect the decision making of monetary policy, for a further reduction of policy rate - maybe to increase liquidity in market - or other both conventional and non-conventional measures that central banks employ in these cases.

Chart 28 Remittances (net flows, in EUR million)



Source: Bank of Albania.

The important thing is to avoid panic. We should be well-organised and observe the protective measures for public health.

ABC News: Today the Albanian business - more precisely the President of Chamber of Commerce - required to Government facilities to businesses. What do you think in this regard?

Governor Sejko: The main request from businesses that I have seen from businesses is the one for which we have immediately reacted, that is a postponement of loans payments for a three month period. As far as I know, there have been no requests regarding monetary market, particularly for the Bank of Albania. In terms of other requests, they fall in the jurisdiction of the Ministry of Finance and Economy, and i think this institution has already reacted and addressed them. During this period, we have been focused on our legal obligations and the measures are within the scope of our activity, in coordination with the Albanian Government. Today I had a communication with the Minister of Finance, and she informed that they are working to best meet the requirements of businesses.

**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA.
TOP CHANNEL TV
-12 March 2020-**

Top Channel TV: For all citizens that in these days should go and pay loans instalments, while the entire economic and social life is paralysed, what should they do?

Governor Sejko: The Bank of Albania has taken all the necessary measures to have a smooth continuation of both on line and cash payments, as well as there be no problems for citizens to withdraw cash from ATMs. Also, we have instructed banks how to act regarding their daily transactions to not create any difficulty to clients; to orient them to highly use bank card, as this does not only facilitate payments, also it is a protective measure against infections.

Today, the Supervisory Council has taken a decision concerning all borrowing clients, both businesses and households. Through a moratorium it was decided to suspend the payments of loans for a term of three months. It means that clients, during this term, may choose to pay or not the credit instalments. Those who will not be in a position due to health reasons or business difficulties may not go to the bank, and their payment will be postponed for three months, without being charged with interests on any delay. Meanwhile, I would like to make it clear, clients who would like normally paying their loans, are free to do so. This decision shall enter into force starting from tomorrow.

“Today, the Supervisory Council has taken a decision concerning all borrowing clients, both businesses and households. Through a moratorium it was decided to suspend the payments of loans for a term of three months.”

The bank of Albania is closely monitoring both the banking and financial system in Albania. From yesterday, we have instructed banks in details how they should act in this situation, in order take the necessary measures to preserve the health of both staff and clients, and on the other hand to continue their operational work without creating any turmoil.

I take this opportunity to emphasise that the banking system continues to have a very good liquidity situation; it is well capitalised; and fully able to meet to the needs of clients. These are situations that should be addressed patiently, with no panic, with a good organisation, practicality and dedication. We are continuously coordinating with commercial

banks, and so far we have concluded no possible problems.

In addition, I would like to point out that banks clients should not fall in panic. We have to bear in mind, that if banks serve clients in one of their premises, it does not happen because of financial difficulties, but for preserving the health of clients. That is, if keeping the distance and implementing the protective measures drive to queues in windows, it does not mean that banks have difficulties in carried out payments, but they are implementing measures to protect the health of their staff and clients.

Top Channel TV: Mr Governor, coronavirus is assumed to have very hard effects on the global economy. Is there any forecast what would happen in Albania?

Governor Sejko: This is a good question. We are analysing all the possible scenarios of the impact of pandemic on the economy. The results of our analyses will be presented to the Supervisory Council, in the next meeting that will take place in a few days. The Supervisory Council will take the decisions

“... We are prepared with the necessary instruments, as provided by the Law on the Bank of Albania, to preserve price stability and financial stability in Albania.”

accordingly to these results. We are prepared with the necessary instruments, as provided by the Law on the Bank of Albania, to preserve the price stability and financial stability in Albania. We will continue to implement an accommodative monetary policy stance to bolstering consumption and investments. In addition, we will address the situation in the banking system through the implementation of the micro and macro prudential measures. Of course, some indicators may worsen, like non-performing loans or trends in lending. These are extraordinary situations, which absolutely would have a negative impact on the economy. We see global economies are suffering losses in billion and trillion of euro and this will absolutely impact the Albanian economy as well. Nevertheless, we should not create panic; we should remain calm, organised and react with all the required instruments.

In this moment, we do not have the exact figures of the impact of the crisis caused by the pandemic on the Albanian economy. We still are making analyses. But, I can say that the effect will be a negative one, like on all other economies. We do not foresee our economy to fall in recession, but there might be a reduction of the economic growth pace. This forecast stands for the first half of year, as it is assumed that the pandemic will have its impact only during this period. Nowadays, analyses and scenarios are not final yet and we cannot precisely say where we are, but the decisions that will be taken in the next meeting of the Supervisory Council will be made public.

INTERVIEW WITH GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA. NEWS 24 TV -12 March 2020-

News 24 TV: Why were you obliged to take such a decision and which are its accompanying details?

Governor Sejko: We all are aware about the unprecedented situation we are experiencing. The Bank of Albania, since the edge of the pandemic has continuously analysed the situation. From the beginning of this week, we have delivered guidelines to banks, to provide orientation on getting the measures, in order the operational activity continues without creating problems, that is, uninterruptedly, always by protecting the health of both staff and clients in commercial banks.

In this context, I would like to emphasise that these measures consist in keeping the distance, hygienization to avoid the virus risk, may drive to queues of clients at banks premises, and this may lead to wrong ideas or uncertainty among clients regarding the financial situation of banks. I would like to assure that banks are all in a well liquidity situation.

The crisis we are facing nowadays is a health crisis not a financial one, but absolutely the effects on the economy will be seen following. For the moment, we have taken the measures that banking system continues its activity, with the necessary restrictions, by rigorously observing the measures for the health protection, by reaming operational. There are taken the measures to prove both cash and online payments, in order the market functions smoothly, and what is more important, today, the Supervisory Council of the Bank of Albania has decided on the postponement are rescheduling of loans for three months, hoping that the pandemic situation - as declared yesterday by WHO - would have passed in three months.

News 24 TV: Will this three-month period originate any problem to banks? Have you studied the situation?

Governor Sejko: No, there will be no problems to banks and the Supervisory Council took this decision rightly to not impose

“This three-month period shall create no problems to banks and the Supervisory Council took this decision rightly to not impose provisions or restrictions pursuant to the regulation.”

provisions or restrictions pursuant to the regulation. That is, we have liberated banks from our regulatory restrictions, in turn they create this flexibility to clients as well - households or businesses - for the payment of loans. It does not create any problems to banks. This measure is taken to help clients, to not exacerbate their financial situation, in this difficult moment to the public health. We aim at providing them with facilities, in case it becomes impossible for them to pay loans in these three months.

However, those clients who are in a good financial situation and are able to pay may continue to pay the loans instalments accordingly to their schedule.

I would like to emphasise that this decision does not grant the instalments, but it enables to reschedule loans; it is a postponement and a granting of delay interest, but not a granting of loans.

News 24 TV: Usually, it happens to someone when the monthly wage is transferred to the bank, they are automatically taken for the payment of loan. Will it continue to take place normally, notwithstanding the last decision taken by the Supervisory Council?

“Banks will be ready to postpone the payments to those clients, either enterprises or households, who have financial difficulties in these three months.”

Governor Sejko: Absolutely! Clients themselves are interested to observe the payments schedule, this is, it will continue normally. This measure is taken for those clients who face difficulties and are not able to go at banks' windows, for either healthy or financial reasons. Also, this measure is part of the set of protective measures taken to contain the spread of virus, to minimise at a

considerable extent the contacts amidst people. On one hand, this measure create a facility to both households and businesses, on the other hand, it will reduce somehow the number of clients at commercial banks' windows.

We are trying to take measures for the banking activity to continue, and on the other hand to have as fewer contacts amid people. Let's hope that the pandemic will not evolve to the extent to make us take even more restrictive measures.

News 24 TV: If situation aggravates, will there be any closure of banks?

Governor Sejko: This will depend on the decisions that the Emergency Committee of the Albanian Government shall take. I don't think we will

go towards the closure of banks, but it may be not said for sure. We all have to try to avoid panic and take preventive measures to isolate the virus as much as possible, to protect as many people as possible, without completely disrupting the daily activity.

News 24 TV: Previously you said that banks' employees also are taking care to not spread the virus. They are taking care for themselves and the others, by observing the measures announced by the Ministry of Health and other authorities. Do you have any information if there are banks employees infected with the virus COVID-19 or who are in self quarantine?

Governor Sejko: So far, we do not have any employee infected with the virus COVID-19 at the Bank of Albania. Meanwhile, there is no information in this regard for commercial banks. If there would have been any infection, then you would have such information, as all cases are identified. Nevertheless, we do not know how it will evolve in the following days. It is worthy to emphasise the importance of rigorously observing the preventive measures for containing the virus spread, which are always announced on TVs. I take this opportunity to thank and commend the media for this service to the public.

News 24 TV: Together, as the Primary Minister says, we are fighting against the invisible enemy, to protecting the health of citizens. So far 23 persons are infected from the COVID-19, and there may be other infections at a higher figure.

I understand that this is not the right moment to make such an analysis, but we have already made it prior the virus reached Albania, as we have looked at the history in our neighbours, where it is concluded that this problem which affect the population health, sooner or later will be reflected on the country' by hitting it sharply.

You said that it is not the moment. Anyway you will carry out such an analysis. I am confident you have already conducted your analyses in a way. Can you tell us to what extent will the economy be hit by Covid-19 pandemic?

Governor: It is true that we have already started to carry out the analyses. Our task is to analyse the impact of this situation on the Albanian economy. Obviously, this impact will be a negative one.

We are seeing the other economies, stock exchanges and international markets to have experienced losses in billion and trillion euro. Thus, it is clear this situation will affect our economy will be affected. This is an unprecedented situation that will affect consumption, and if this happens also output will have its effects.

We see that re-exporting companies are facing serious difficulties, due to order books. In addition, we expect a negative impact on the tourism season, and so on. Of course the effects are cyclical. Economy will suffer the consequences, but we do not forecast to fall in recession, but the growth pace will drop. At the moment, we do not have the correct figures, as we are analysing the scenarios.

In a few days, we have the next meeting of the Supervisory Council. In this meeting the reacting decisions of the Bank of Albania, in compliance with our legal mandate, will be in place.

“Through our accommodative monetary policy, we will continue to simulate consumption, investments and lending. We will analyse if there will be necessary to continue to ease the monetary policy, depending on the analyses and results.”

Our main task is the stability of prices. Through our accommodative monetary policy, we continue to simulate consumption, investments and lending. We will analyse if there will be necessary to continue to ease the monetary policy, depending on the analyses and results.

On the other hand, the good and positive news is that both banking system and financial system are in excess liquidity, rather sound and with adequate capital. That is, we do have neither liquidity nor capacity problems.

In this situation, we will see the impact on the economic growth pace, consumption and tourism. Absolutely, we will take the necessary measures - countercyclical measures - to considerably neutralise at possible this impact.

We should be prepared for a fall of economic growth momentum. At this moment we cannot tell the level of this fall, though we don't foresee a recession.

Some countries, for example, Italy - where we are all seeing the consequences of the pandemic - will experience a recession.

In this early stage, the prevention and containment of virus spread is crucial. After the analyses, we will take the right reactions, but the more we meticulously follow the preventive measures, the smallest the effects on the economy will be in the future. That's all we have to say for now.

News 24 TV: You said the economy will not fall in recession. Nevertheless, if we consider the severe scenario, as we do not know how long the COVID-19 situation pandemic will last, do we have the mechanisms in place to recovering?

Governor Sejko: Absolutely we do have them, but still we do not have the correct figures. This is related to the concrete forecasts of public health institutions on the spread of virus. Nevertheless, we do not foresee to reach those levels where other mechanisms would be necessary. We have in place sufficient mechanisms to impact the countercyclical measures for bolstering economic growth and preserving the financial stability in Albania.

“We have in place sufficient mechanisms to impact the countercyclical measures for bolstering economic growth and preserving the financial stability in Albania.”

I emphasise once more that we do have these mechanisms, which is there is no place for panic. It is crucial to have a calm situation, to not create panic and to be attentive in order to act in an organisational away.

For the moment, we are considering and analysing some positive and negative scenarios. According to our analyses and the negative scenarios, we have all the appropriate instruments to react in case the economy deteriorates, although there is less possibility the negative scenarios turn onto reality.

News 24 TV: Employees in commercial banks are telling their clients that banks will be closed very soon; furthermore, others are telling that they will close tomorrow.

Governor Sejko: According to the Decision of the Council Of Ministers to all public institutions, banks as well, will close tomorrow. As we all know, we are at the moment of the pandemic outbreak, and the Bank of Albania has taken all measures for both cash and on-line payments be functional. Hence, the closure of banks will cause no problems. They will close to avoid the contacts amongst people and payments through cards

and cash withdrawn at ATMs will continue with no problem. The activity will continue on Tuesday and banks will be functional.

The situation must not be misunderstood. The measures are taken to preserve the public health.

News 24 TV: You met the President of the Republic. Can you tell us what did you discuss?

“The situation is under control. The Bank of Albania has all the necessary instruments, while the banking system is liquid and well-capitalised. In this view, there are being taken all measures to prevent any kind of problem that may arise.”

Governor Sejko: Yes. Today, in the morning I met the president of the Republic upon his request. I informed the President on the analyses that the Bank of Albania is carrying out on the impacts that the pandemic situation will have on the economy and financial system.

Allow me to repeat once more what I have also pointed out in other interviews as well. The situation is under control. The Bank of Albania has all the necessary instruments, while the banking system is liquid and well-capitalised.

The President commented the work of the Bank of Albania. It as an informing and reporting conversation and the Presidency has released a Press statement by making public the conclusions of this meeting.

INTERVIEW WITH GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA. EURONEWS ALBANIA TV -12 March 2020-

Euronews Albania TV: The supervisory Council of the Bank of Albania has decided on the suspension of loan payment to all borrowers. This decision is in the framework of measures taken by the Government to prevent the spread of COVID-19. The Bank of Albania also informs on the cancellation of the educational activities planned in the framework of Global money week, on 23 - 29 March 2020. What does this decision on the suspension of loan payments means to households and enterprises that have a loan to repay? Why did you take such a decision and which are the categories that will be affected by this decision?

Governor Sejko: This decision was taken in the today meeting by the Supervisory Council, in the framework of measures taken to tackle the pandemic. Yesterday we have provided clear guidelines to all commercial banks, regarding the way of functioning given this unprecedented situation. Our guidelines instruct banks to operate at a limited number of staff, by taking the appropriate and preventive measures for the protection of both employees and clients, but without interrupting the banking transactions.

“Our guidelines instruct banks to operate at a limited number of staff, by taking the appropriate and preventive measures for the protection of both employees and clients, but without interrupting the banking transactions.”

Regarding your concrete question, today the Supervisory Council took a decision on the rescheduling of loan instalments, which is a postponement of these instalments to all clients' categories, households and enterprises, for a three months term. We are conscious that due to this situation, many businesses are closed - particularly small enterprises, coffee & bars, restaurants, without excluding large enterprises - and given this difficult situation imposed by the restrictive measures, we aim at easing "the breathing" to enterprises. This aims at the same time to reduce the number of contacts in the windows of commercial banks. In this view, I would like to emphasise that there is no a grace of loan payments, but simply an extension or a rescheduling with three months. At the same time, I would like to make clear to clients that want to carry

out the loan payments as usually, that they may continue to pay their loan instalments. Banks are opened and available to continue the normal relationships. The Bank of Albania, on its part, has eased our regulatory criteria on the delays. We have in place a moratorium - aimed at not weight the borrowers with the interest on the loan payment delays.

Euronews Albania TV: What will happen after these three months? The payment of the remaining three months will start or of the three months together? What will happen when this period ends?

Governor Sejko: After this three-month period, the payment of loan will start pursuant to the normal schedule. That is, the maturity term and the payment schedule are extended for three months. There will be the same instalments and the same amount of loan to be repaid. It means that, simply the payment schedule is postponed with three months.

Euronews Albania TV: Meanwhile, should there be any facility?

Governor Sejko: Banks are not burdened with provisions. The facility stands on not weighting with interest on delays.

Euronews Albania TV: Will there be any facility on other obligations that they have? Rents, taxes on water, energy during these three months or even further?

Governor Sejko: I deem it there should be, but this is part of the work of the Albanian Government and neither of the Bank of Albania nor of commercial banks. I am confident that the Government is considering the measures to create facilities to households and enterprises, but I cannot provide you with a concrete response in this regard. I responded in concrete terms to your questions about the today decision related to commercial banks and the borrowing clients.

Euronews Albania TV: Mr Governor, the Chair of Democratic Party, Mr Basha, has appealed to banks to give loans at low interest. Is it worthy to address this idea?

Governor Sejko: I was not informed on this declaration, but I can tell that banks have their own business plans. They are private entities and like all the other institutions, they will consider any possibility, absolutely without affecting their profits or income. I do not know exactly what is said or requested, but I know that the Chair of Democratic Party has raised

this concern, like the business associations. Together with the Albanian Association of Banks we have previously discussed on an extension of three months, but regarding the decrease of interest rates or other facilities have not been discussed yet. What I can say is that our accommodative monetary policy has lowered the interest rates at the optimal maximum. The monetary policy has been passed through to all segments of financial market, to interest rates on loans, deposits and treasury bills. In this context, taking into account the situation created by the pandemic and the consequences that it may cause on the economy - we are carrying out our analyses in this regard by assuming various scenarios- the Bank of Albania absolutely will continue with its accommodative monetary policy stance. If we see that the analyses' results show that there is a need to further ease the monetary policy, then we will take such a decision, meaning that there will be another lowering of the policy rate. Anyway, this decision shall be taken by the Supervisory Council.

The accommodative monetary policy aims at: easing the interest rates; easing the lending terms and conditions, to stimulate lending, consumption and investments. Banks, themselves, have reduced the interest rates, in reflection of the accommodative monetary policy of the Bank of Albania. Meanwhile, the European central Bank has implemented an accommodative monetary policy that has driven to a reduction of interest rates on loans in euro. Thus, in the last years, interest rates have been gradually reduced, both in lek and in the euro.

Euronews Albania TV: Mr Governor, will there be a fall in consumption and economic drop in this period? According to your forecast, do you expect a reduction of consumption and an economic downturn? What is your closest forecast regarding the loss that the economy will suffer?

Governor Sejko: We do not have figures. I cannot tell exactly how much is the forecast as the situation changes on a daily basis. One thing is sure; we will have a fall in both consumption and economic growth pace. We think that the forecast about the economic growth will be lower than the 3% earlier forecast. We are still analysing it these days. After the Supervisory Council meeting, will make it public in the monetary policy statement.

In addition we will make public the position of the Bank of Albania along with the instruments as provided by the law.

“There may be a further ease of monetary policy, meaning that there will be another cut of the policy rate, if we see that the analyses results drive us to take such a decision.”

For the moment, I cannot tell how much will be this fall, but I can say that we are not going to fall in recession, as it has happened in many countries. Consequences on global economy are pretty heavy and, absolutely we will be as we have a small open economy, many interacting with the European Union countries. As you already know, Italy is one of our main trading partners, both for trade exchanges and foreign direct investments. We see them as external risk factors that have their impact on the Albanian economy. We are carefully analysing the situation. I do not believe that we will fall in recession - our analyses do not forecast it - but the economic growth pace may slow down. Tomorrow, we will have a conference call with the IMF mission on this issue.

Euronews Albania TV: Do banks have liquidity and may we expect either euro depreciation or appreciation?

Governor Sejko: These are right questions. Banks do have excess liquidity. In addition, the concern stands on how we can translate this liquidity in credit to economy. In the last year, credit grew positively, at good figures, up to 8%. Unfortunately, we suffered the earthquake shock and now the shocks originated by the pandemic, which will impact on lending pace and increase of non-performing loans. Nevertheless, banks' liquidity situation is sound and we do not foresee to have any liquidity crisis.

Here, I would like to emphasise that we have instructed banks to take restrictive measures for preventing COVID-19 spread; they should keep distances and take hygienisation measures. These measures may cause to queues at banks and drive to the wrong idea that banks have financial difficulties. This is not true, as everything is being considered to protect public health. These days we have also taken other measures to facilitate online payments or in terms of cash management, to enable clients to withdraw cash at ATMs.

“These days we have also taken other measures to facilitate online payments or in terms of cash management, to enable clients to withdraw cash at ATMs.”

Second, related to your question about the exchange rate, we will see how it will be affected. Due to the factors that we have already mentioned, lek has been appreciating. In 2018, we intervened in the market to withdraw the surplus and to stabilise the exchange rate. Both the depreciated euro and appreciated lek have negatively impacted on target inflation

rate, but they have also impacted on the Albanian economy, mainly the exports. Now we may have behaviour on the opposite direction, but this will be seen. Economy is considerably complex and the consequences and implications that the pandemic will have on both eurozone and our economy will be seen following. For now the exchange rate is stabilised and we foreseeing that this stabilisation will continue in the future.

Euronews Albania TV: Should Albanian citizens be so much calm like you today, regarding the economic aspects, although they are in quarantine?

Governor Sejko: Albanian citizens should be calm. It is of utmost importance to avoid panic, as this would create larger problems across all life aspects, not only to economy. Institutions should act in a well-coordinated manner, as we are in a pandemic situation, and we should scrupulously observe the preventive measures. The Albanian citizens should stay isolated, reduce contacts as much as possible and respect the measures in place taken by public health institutions. I would like to ensure the public that the Bank of Albania shall carry out all the analyses and take all the necessary measures accordingly. Although operating in a situation with high uncertainty, we do not foresee to fall in recession. Of course the economic growth momentum will slow and there will be negative effects on the economy. I continue to underscore that for this moment, the public health is the priority, while economic performance will be seen in following.

INTERVIEW WITH GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA. “OPINION”, KLAN TV - 12 March 2020 -

Klan TV: Mr Sejko, you have taken a measure on the extension of loan payments for three months. What does this mean? Can you explain this measure in concrete terms?

Governor Sejko: In fact, we have taken a set of measures, and what you referred to your question is one of them. Starting from this week, we have submitted to commercial banks some guidelines to ensure the conduction of their operational activity at the most optimum manner, in parallel with the observation of measures for the protection of both banks staff and their clients' health.

Klan TV: Will bank work?

Governor Sejko: In compliance with the Council of Ministers' decision on the closure of public institutions, we also have taken the decision that banks be closed tomorrow, but to ensure all the online payments and those in cash. This measure is taken to considerably limit contacts, in order to curtail virus spread. As I mentioned above, there are taken all measures to carry out both online and cash payments by withdrawing at ATMs, while there will be two - three days off. We foresee activity continues normally in the next week.

Klan TV: What are the security measures to be implemented by commercial banks' exchange bureaus' employees?

Governor Sejko: Related to protective and preventive measures, we have delivered a clear and complete guideline to all commercial banks. In addition, we have instructed all the banks' staffs to take the necessary measures regarding hygienisation, keeping the distance and the implementation of measures announced by the public health authorities. That is, distance should be kept in banks; there should be a reduced number of employees, etc. In this context, I would

“... I would like to emphasise that all citizens in relationships with commercial banks should understand that, in case queues are created, this does not come from the financial situation of banks, but is due to the implementation of these social distancing measures.”

like to emphasise that all citizens in relationships with commercial banks should understand that, in case queues are created, this does not come from the financial situation of banks, but is due to the implementation of these social distancing measures. Guidelines are clear and in compliance with those of health institutions on the protection of both banks' employees and clients. We have submitted our guideline and all banks have implemented it.

Klan TV: It is said that cash is one of the main ways for spreading virus. Chine disinfected the entire cash amount. What will happen in our country?

“Cash neither transmit coronavirus nor is more strongly contaminated than any other surfaces, like tables, door handles, etc. That means cash is not an element requiring special attention.”

Governor Sejko: Yesterday we received a confirmation from the International Currency Association, which has informed the World Health Organisation, that cash is addressed like all the other surfaces. That is, cash neither transmit coronavirus nor is more strongly contaminated than any other surfaces, like tables, door handles, etc. Cash is not an element requiring a special attention; there is

no need to disinfect cash. We have taken measures that employees across offices of our institution and in the centre of cash processing be disinfected.

Klan TV: You said to have extended the payment of loans at commercial banks with three months, but there are some smaller financial institutions, which may be called third-tier entities. Will there be any extension on the payments of these smaller loans?

Governor Sejko: Related to loans I have already announced the extension of payments. First, I would like to emphasise this is a rescheduling of loans, an three-month extension to those customers who do not have the possibility to pay, due to the created circumstances. The schedule of loan payments will be extended with three month, with no interest payment, if they are not paid in these three months. This is also valid to non-bank financial institutions.

Klan TV: The last question is about cash in ATMs. Some citizens claim that today the amount allowed to be withdrawn in ATMs is up o to ALL 20.000. Is there an order regarding this claim or a limit set forth by the bank itself?

Governor Sejko: No. there is no order on any limit for cash withdrawal, but banks have their limits for withdrawals at ATMS. We are flexible and may change all regulations related to cash withdrawal at ATMS, but there is not foreseen any situation where this will become necessary. The limit amount is subject to the banks policies, and overall it is sufficient to serve to the citizen.

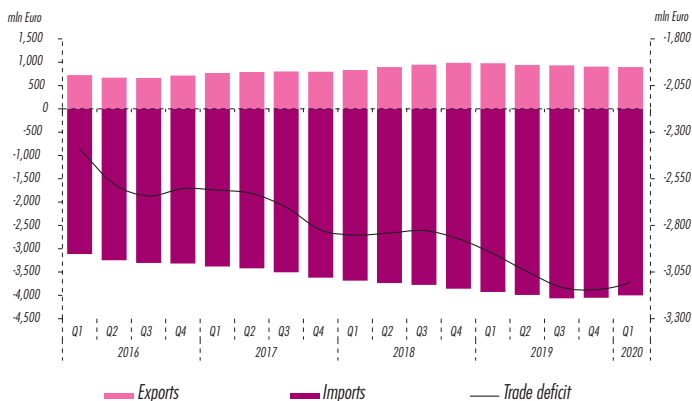
It is important to not here, that the Bank of Albania has taken measures that even in these days that everything is closed, the Issue Department will function, to regularly supply cash to commercial banks. We have requested to banks to supply cash into ATMS and serve citizens regularly, to withdraw the necessary amounts of cash for conducting the normal daily payments. If an ATM is out of function, the citizens should not be worried. They may go to another ATM to withdraw cash.

INTERVIEW WITH GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA. "REAL STORY", NEWS 24 TV

-19 March 2020-

News 24 TV: Prior to start our conversation; let's have a look at the tables that show the number of infected persons with Covid-19 in Albania. Already there are 59 infected persons, out of 42 cases are in Tirana; 5 in Durrësi; 2 in Lushnja; 2 in Elbasani; 6 in Fieri; and 2 in Rrogozhina. Today we have good news and a bad one. The bad news is of course, the death of a 66-year citizen from Lushnja, who was hospitalised in Senatorium, was infected with the virus, which accelerated his death. The good news is that one of the infected persons, patient 1 and patient 0 have resulted negative in the second test. That means his is very close to be officially considered as recovered. As we know the recovering figure is till 0, and by the moment citizens recover, by the moment the number of recovered persons will be higher than the number of infected persons, we call tell about the curve shifting towards stability. Meanwhile, the other chart, the blue curve, which is we all aim at the blue one. That is, the numbers of persons become sick from coronavirus to increase gradually instead of rapidly. Meanwhile, the next chart shows the increase of infected cases on a daily basis, since the first day when the two first cases was recoded. They are all tested and confirmed cases. Yellow line shows Italy, the scenario we are afraid mostly. Let's see Albania from 9 to 18 March. Albania has an increasing curve, but it is a stable one not a risked curve. Of course, we have to wait for the end of this week, and likely of the next week as well, if this curve will deepen. In addition, another curve that has started to pose concerns is that of the country' economic development. An economic development which was severely hit in 2019, due to the political crisis and the earthquake. Of course the effect of Covid-19 has been started to feel. Let' see the figures of trade exchanges compared with March 2019. The amount if trade exchanges in 1-14 March 2019 was ALL 34.708.150, meanwhile in 1-14 March 2020, this figure was down to ALL 33.087,154. It is a low fall, but do you think, this is only the beginning, Mr Sejko?

Chart 29 Trade in goods



Source: Bank of Albania.

Governor Sejko: It seems like, it is the beginning. But, how long this situation will be, it is unknown, as it is now only one week after the declaration of the Covid-19 pandemic situation.

News 24 TV: Today we are fighting against it.....

Governor Sejko: Yes, today, day we are fighting against it. We are very close to Italy, which is the centre of the fight against the virus. Of course it has reached Albania. The number of people entering and leaving Albania from Italy, and vice versa, is considerably high. That is the reason the flights to Italy and more broadly were cancelled while isolation is in place. This is the situation now. Let's hope that the number of cases would not grow rapidly, or the increase will be contained while the current infected cases will heal swiftly.

News 24 TV: This case officially is not considered as fully healed after the second test. But, absolutely it is good news, as after the first ten days from the case 0, we have case that is healed. The fact that the map is missing still remain isolated that shows that tracing. This is the map which has not change from the previous week. That is, the interactive map of Covid-19 cases is the same. That means there are no infected cases in other districts. Many of cases are related to each other, so they are identified, particularly in Tirana. Most of them related to each, also the cases in Durresi or Fieri. The number of infected persons

is yet higher in Tirana, as the population is greater. Meanwhile a considerable number of doctors and nurses are infected and already they are isolated. Mr Governor, as a citizen and familiar, do you feel the risk of this virus?

Governor Sejko: Absolutely. Considering the information that doctors have already shared, we are very concerned for our parents, as the third age is more at risk from the virus, and of course for our children and ourselves.

News 24 TV: Is the work, at the Bank of Albania, carried out at a reduced staff, likewise in other institutions?

Governor: Of course yes, but always by ensuring a smooth operational functioning.

News 24 TV: Mr Sejko, let's talk about the measures. Together, the Bank of Albania and the Government, in a coordinated manner, have already taken the first measures, since yesterday, if I am not wrong. Can you tell us something more?

Governor Sejko: I would like to speak something more about the measures taken by the Bank of Albania. Meanwhile, the Prime Minister, since tomorrow will announce the plan of measures taken by the Albanian Government. The definition of measures, of course, needs time, as they should be based on deepened analyses. First, the Bank of Albania has taken certain guidelines and preventive measures in terms of safeguarding the health of employees in the commercial banks and the Bank of Albania, as well as the health of clients. Then, we are focused on taking measures for the operational functioning of the entire system, which is indispensable to life across the country. The Bank of Albania, in capacity of the central bank, is responsible for the payment system and cash management in the Republic of Albania. That is, all cash in the national currency circulates through the treasury of the central bank. This is valid to all payments in the national currency, not in foreign currency, which pass through a server in the central bank. Taking into account the difficult situation, we have organised a business continuity plan, to avoid disruption, even of the momentum, in the functioning of the payments and cash supply in Albania. So far, everything has continued smoothly. As the Austrian Airlines announced the interruption of flights, today we took a measure related to cash about cash surplus or lack that commercial banks will have in the next days. Cash management will take place

at the premises of the Bank of Albania, and for this purpose we have coordinated with the Policy of State.

News 24 TV: *You refer to the fact that through airlines, amid them, Austria Airlines, commercial banks transferred foreign currency abroad?*

Governor Sejko: Not only cash deliveries, also cash inflows.

News 24 TV: *You have taken this measure due to a concern that maybe there not a sufficient amount of foreign currency in the market?*

Governor Sejko: There is foreign currency. It is not this concern. These measures are taken for foreign currency surplus. That is, in addition to cash management in lek, the Bank of Albania will manage foreign-currency denominated cash as well.

News 24 TV: *Now, both cash and foreign currency will be transferred at the premises of the Bank of Albania?*

Governor Sejko: Yes.

News 24 TV: *Let's turn to the core function of a bank, safeguard the currency.*

Governor Sejko: Absolutely.

News 24 TV: *Mr Sejko, yesterday, the considerable present of citizen at banks, was considered as a concern. In fact, there are many factors: an extended weekend: Friday is holiday; the next Monday was the official Summer Day, which is a holiday; almost four days off. Banks work with reduced staff; observe the new regulation about the hygiene and social distancing. Is there any place for panic?*

Governor Sejko: No. There is no place for panic. All the reasons that you said, Mr Balla, are right. But this has happened because yesterday was the scheduled day for natural persons and businesses to pay taxes. That reason and work at reduced staff have driven to queues at banks. On last Thursday, I had a public communication, purposely to avoid any misunderstanding about the liquidity situation in banks. All this happen, because, nowadays banks do not allow call customers to enter their premises together, but in an order, to maintain the physical distance.

Unfortunately, customers who should maintain distance within the bank did not maintain this distance outside banks, thus risking to be affected by the virus.

News 24 TV: *I was in a commercial bank, for personal reasons. I heard the managers talking about a further reduction of staff, as there were not a high number of clients.*

Governor Sejko: Naturally, the measures on the restriction of citizens' movement will also affect the number of customers of banks. It is an unprecedented situation, and things change on a daily basis. Despite that, I would like to ensure the public that the banking system is functioning smoothly and operationally. Banks are amid a few institutions which are working, serving to customers through their windows and ATMs supplied with cash. Thus, banking sector is not a concern to citizens, despite the created queues at their premises, which drive to a normal stress. Yesterday I talked with many commercial banks' executives to increase the number of branches. Today, more branches have been opened to serve citizens. Nevertheless, tomorrow we will enter into a new stage.

"Banks are amid a few institutions which are working, serving to customers through their windows and ATMs supplied with cash."

News 24 TV: *Tomorrow there will be only six hours for to move. In fact, the Prime Minister said facetiously that banks are concerned because; from tomorrow there will be no clients at their windows. Bankers should understand that we are in a war situation, and open the windows from 6:00 to 10:00 a.m., and from 16:00 to 18:00 p.m. May the bank of Albania, intervene to determine such a time schedule to banks?*

Governor Sejko: These are emergency measures, "war measures" in a certain way, and, absolutely this schedule will be observed. There should be understood we are in an emergency situation. Absolutely, given these circumstances, the life and health of citizens are a priority. As long as, there is an uncertainty how many will be the number of infected cases, we are obliged to undertake restrictive measures, as the Albanian Government is doing. We see that measures are similar to those taken across all countries, not only in our neighbours, even globally.

News 24 TV: *Some countries facing more problem than Albania have taken the measures or take the measures, after that we have already implemented them. This is a fact...*

Governor Sejko: Yes. Measures are similar, but the placement of restrictions drives to confusion and affects the daily life. Someone has to pay the electricity bill, the loan instalment, and so on, while restrictions create confusion and fear.

News 24 TV: *Related to the Decision that you have taken yesterday, Mr Sejko, from the audience it is a question, for teachers and doctors that take their wages in a commercial bank, and will there be an extension of three months for the loan payment? This will be very helpful to them. This is one of the uncertainties that have driven to a debate regarding the order that you have agreed together with the Prime Minister.*

Governor Sejko: Teachers and doctors withdraw wages from their accounts automatically. They may withdraw cash from ATMs through their debit card. In operational view, wage withdrawal is not a problem. The problem is about loans. Many employees in public administration have a loan to pay. Most have consumer loans. But a few have mortgage loans.

News 24 TV: *Also, there are citizens working in private sector have a loan to pay...*

Governor Sejko: Also, citizens hired in private companies, like teachers, doctors, and public administration have quite similar treatment, depending on their salary and income. Commercial banks offers certain loans, like consumer loans, which are of low amount, also mortgage loans for real estate.

Most employees, hired both in public and private sectors, may tackle certain financial problems, but they do not face with crucial problems caused by the illness. It would be a good thing to have an extension for them as well. They are neither exposed nor directly exposed; so far their wages continue to be being credited in their accounts.

News 24 TV: *This is not valid for the case we mentioned previously.*

Governor Sejko: No. It's not valid to those cases.

News 24 TV: *They will face no financial change in these terms, as they will continue to take their wage, although staying home. For that reason loans will continue to be paid as previously...*

Governor Sejko: Yes. They will continue to pay the loan instalments. Most of them do not prefer to have an extension of loan payment. Thus, there are different cases, regarding both households and businesses.

News 24 TV: *There are also families where one member is employed in private sector, while the other in public one. Those who work in private sector should stay home and take no salary. Although, the other partner working in public sector will continue to be paid regularly, the family economy has already been hit. Maybe, would be a good thing that even for them to find a good solution.*

Governor Sejko: These are complex cases, and they do change from each other. Overall, I would like to emphasise that the decision taken by the Supervisory Council, and then coordinated with the Prime Minister, is only related to that category of customers who will be affected by the financial crisis that is generated by the pandemic. These clients should contact their banks to discuss their problems.

“The Decision taken by the Supervisory Council, and then coordinated with the Prime Minister, is only related to that category of customers who will be affected by the financial crisis that is generated by the pandemic.”

News 24 TV: *That means, it is not an automatic one.*

Governor Sejko: No, it is not automatic.

News 24 TV: *Who is interested in it, may do it.*

Governor Sejko: I have emphasised it since the first day. It seemed that customers were unclear yet. So, the Bank of Albania made a second announcement. That is, to accelerate the process for identifying customers to whom the payment will be postponed, we determined a 3-day deadline since the moment the customer contacts the bank. Thus, the bank should provide an answer to the customer in three days, if the latter is qualified to benefit from this extension.

News 24 TV: *This related to the extension the payment of loan instalment for three months, or for the cancellation of interests?*

Governor Sejko: It concerns the extension for three months of payments and the related interests, without applying any charge on interests. This is valid to clients with financial difficulties.

News 24 TV: It is a frozen phase of three months.

Governor: Yes. It is a frozen phase of three months. These payments will not be granted.

News 24 TV: If one applies?

Governor Sejko: Only, if the client applies, by contacting the bank.

News 24 TV: The final approval is taken by the bank?

Governor Sejko: Yes. It is not an automatic order, meaning the payments will be extended to all clients. The Bank of Albania has its legal framework, and we have undertaken regulatory amendments to not weight on banks with provisos and provide them the possibility to carry out this extension. We have advised them to act as soon as possible, but the situation evolves on a daily basis and there are always uncertainties and discrepancies. If the Government would have decided on a total freezing of the loan payments, this would create a problem to financial stability, a problem to banks. Overall, there is more that EUR 300 million to account only for instalments and interests on these loans.

News 24 TV: If I am not wrong, EUR 340 million. This figure is displayed in media.

Governor Sejko: Around EUR 300 million. According to the Law, the central bank is first responsible for price stability, inflation control and for financial stability. This measure was taken urgently, to help clients and commercial banks as well. If customers would not be in a situation to pay the loans, then banks would face financial difficulties. This does not mean we would have taken a decision which would have weighted more on banks, as we do not know how long this crisis will take. It is an unprecedented situation, regarding the financial sector and too hard. But we are making all efforts to organise and take all the preventive measures. Here I am talking about the Bank of Albania, as the central bank related to the financial sector, as Government and other institutions are taking their measures. Financial stability is very important, that is financial stability of banks along with their customers, both borrowers and depositors. We should understand that most of loans that banks give come from citizens' deposits and a really small part from shareholders' capital. Banks are financial intermediators. Here I am not defending banks, but I am being prudent and correct, by carefully addressing the

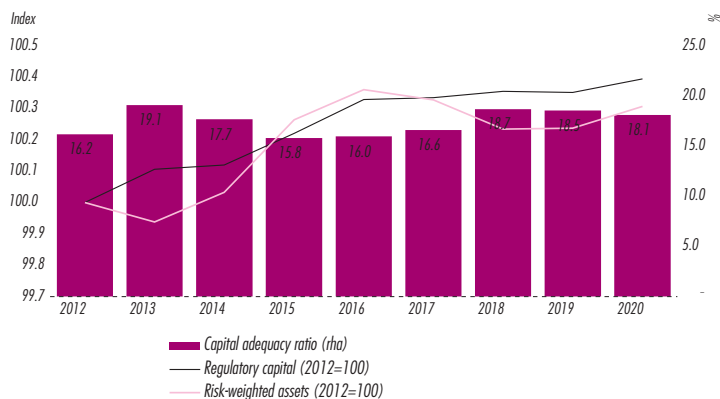
situation of financial stability, which is directly related to the deposits of citizens.

News 24 TV: Mr Governor, from the audience there is another question about if deposits and bonds of citizens are ensured in commercial banks, as the latter issue them in stock exchanges, while stock exchanges are falling?

Governor Sejko: Banks have not invested deposits in stock exchanges. This question needs a technical response, and I would rather safe the audience from technicalities. In simple words, our analyses show that banks have an optimum security for their investments. Both the Bank of Albania and central banks across countries where commercial banks have their parent banks have in lace determined criteria on the categories of investments. Stocks exchanges have a high profit rate and coupled with a high risk rate, but there are definite restrictions on certain investments. Banks give the main part of deposits as loans in the Albanian market, while the rest is placed in other banks, as the liquidity needs to be placed somewhere. There are no investments of this risk. But in case there is such a risk in the complexity of banks' portfolios, through our supervision we conclude and certify that there is sufficient security for deposits. Thus, currently banks are in a good and sound financial situation. Capital adequacy is higher that the required minimum set forth in our requirements. Capital adequacy average, that is the main indicator of banks' soundness, is above 18%, while the requirement is 12% and for some banks it is 14-15%. Thus, liquidity situation of banks is good, but this does not mean that in view of a crisis and uncertainty situation about the future development, to weight on banks by transmitting on them such a strong shock since the beginning. We should be prudent, when the next shocks arise, banks may face difficulties which are still unknown. This crisis needs to be addressed carefully, case by case; in this situation we are facing, we are obliged to act in this manner.

"We as central bank are first responsible by the Law for price stability, inflation control, and the financial stability as well."

Chart 30 Capital Adequacy Ratio



Source: Bank of Albania.

News 24 TV: Mr Sejko, here there are two parallel curves. The concern or fear curve due to the virus and an increasing curve of the upward concern on the economy. While the Government have implemented drastic measures to respond to the first curve, both the Bank of Albania and the Government are facing criticism from business and opposite party. In fact, first, the President of the Republic in his statement said that, you both are shall rather careful to take such measures. You are acting in this way, because you don't want to fear the market, or because you do not have a real assessment of the situation and expect for the developments in the next days.

Governor Sejko: The Bank of Albania can take measures only within its legal framework. There should be emphasised that the measures we have undertaken and will take in the next days are related to price stability, financial stability. As you said, yet we have not completed our analyses on the continuation of the economic situation. We, as central bank, depending on this analysis, adopt the monetary policy accordingly. We are forecasting various scenarios on the impact of the crisis caused by the pandemic on the economy. In the light of these results and analyses, a few days later, in the next meeting, the Supervisory Council will decide on the monetary policy decision. So, we are simply drawing conclusions.

News 24 TV: On the interest rate issue?

Governor Sejko: Yes. On the interest rate and other facilities, if deemed necessary.

News 24 TV: *You said that yet there is no a final decision. Meanwhile, for example, Fed lowered almost to 0 the key rate - from 2% down to 0%. That is a strong cut, a drastic one.*

Governor: Yes. It is a drastic cut, which drove to a turmoil into markets.

News 24 TV: *Perhaps, are you showing prudential, to not create any panic to the market, even with no reason?*

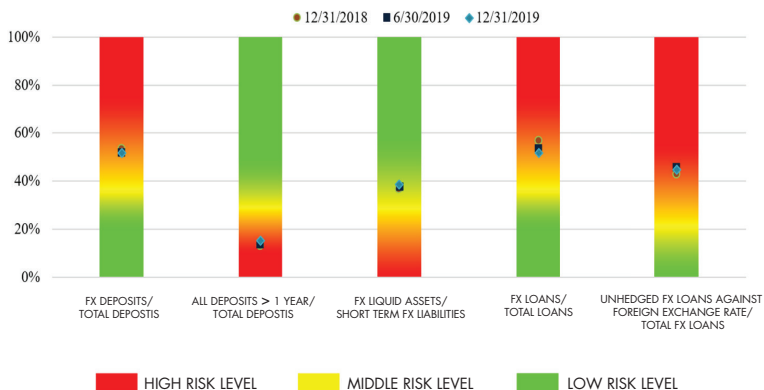
Governor Sejko: Absolutely! There is a huge difference between the US market and the Albanian market, in terms of both measures and sophistication degree. The change in interest rate from the Fed has an immediate effect on the indices of markets and stock exchanges. Meanwhile, in Albania capital markets are under developed and monetary policy pass through has its own limit. It does not have an immediate effect on the stock exchange, but it has a gradual and rapid effect on interest rates.

“In Albania, monetary policy transmission has its own restrictions and does not provide an immediate impact on stock exchange, but it has a gradual and immediate effect on interest rates, but a more gradual one.”

News 24 TV: *We depend considerably on Euribor, or not?*

Governor Sejko: We depend on Euribor only for the part in Euro, which is set out by the European Central Bank, that is 50% - I am talking in approximated figures - of payment system balance sheets in assets, deposits and loans, are denominated in euro. It means that the monetary policy implemented by the Bank of Albania is applied above 50% of loans and deposits, while the rest is affected by the European Central Bank. That is why, we insist on a de-euroisation policy, for strengthening the monetary policy effect in the Albanian market and on the Albanian financial system.

Chart 31 Main indicators for monitoring the level of foreign currency use in the Albanian banking sector



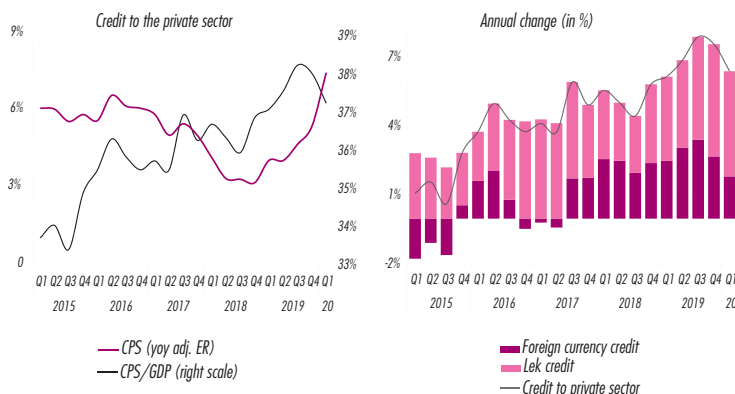
Source: Bank of Albania.

What does this mean? What does this mean? It means that the monetary policy transmission to the Albanian economy should turn more complete.

News 24 TV: In Albania, as you said previously, the cut of interest rate needs to be explained further, as it has a different nature from the USA.

Governor Sejko: Absolutely. However, we used to have a good monetary policy pass through, considering the impediments due to high euroisation level. Credit in lek has grown, coupled with the increased consumption and investments. Thus, the monetary policy bolsters lending, consumption and investments in the economy. The monetary policy pass through of the Bank of Albania has yielded a good impact. The analyses in recent years and our measurement, as reported the Parliament of Albania, it results that 0.5% out of 3% growth is due to the impact of monetary policy of the Bank of Albania. It is a fact that we have implemented an accommodative monetary policy and the policy rate is at its historical minimum. Yet, we have room for a further easing, although a limited one. Although, the Supervisory Council decides accordingly.

Chart 32 Loans to private sector to GDP and by currency



Source: Bank of Albania.

News 24 TV: And it will be decided on this very soon, or not?

Governor Sejko: Yes, the Supervisory Council will decide in a couple of days.

Question - Mr. Sejko, in conclusion of the first part of this interview, I would like to address a direct question. Steven Mnuchin, the United States Secretary of the Treasury, in a memo delivered to the US press, warned that in the worst scenario unemployment in the USA could rise to 20%. Meanwhile, other countries are also worried about the economy. Certain countries, notwithstanding with a low number of infections, have injected large amounts of money into the economy, for example: the United Arab Emirates, around 28- 28 billion; Saudi Arabia - 13 billion; Italy- whose health system is in a complete crisis -25 billion, Germany 500 billion. Will Albania fall in an economic crisis due to COVID-19?

Governor Sejko: Of course, Albania will suffer negative effects on the economy due to the pandemic, like any affected country. It is understandable.

News 24 TV: We risk a negative growth, that is do we risk falling in recession?

Governor Sejko: We cannot tell if we risk falling in recession. It depends on recession definition, which is a negative growth. There may be a quarter of recession.

News 24 TV: *It means that the nowadays 2.9% growth, may fall to 0% or below 0%?*

Governor Sejko: We have projected it in our scenarios as well.

News 24 TV: *It will affect loans, their amounts, and the value of houses, everything.....*

Governor Sejko: Absolutely, as everything is chained.

News 24 TV: *Then, we do risk falling in the recession scenario?*

Governor: In view of the scenarios we have so far, we may risk to fall in recession for one quarter, but not for the whole year. For the moment, I cannot give a message to you and the audience, if we risk more to fall in recession or not. The next monetary policy statement will contain more specific details, once the calculations are completed. In more simple words, I can say that in the positive scenario we foresee a fall in economic growth by 0.5%, while in adverse scenario by 2 to 2.5%. Nevertheless, this is not sure, as the analyses are not finished yet. The analyses will be submitted to the Supervisory Council and communicated to the public along with the monetary policy statement of the Bank of Albania' Supervisory Council in a few days.

News 24 TV: *Mr Sejko, businesses pay the tax obligations in March, which explains the yesterday queues at commercial banks. Nevertheless, the opposition, that has announced its concrete offer about the economy, raises the question where is the business going to find the money to pay VAT?*

Governor Sejko: Mr Balla, I think that the Ministry of Finance and Economy may provide an explanation to your question.

News 24 TV: *And the Government, as well...*

Governor Sejko: Yes. The Bank of Albania collaborates continuously with the Ministry of Finance and Economy.

News 24 TV: *And do you provide suggestions? Would oblige them? As this may come out as a question.*

Governor Sejko: No. The Bank of Albania may not oblige them. The law determines the inter-institutional collaboration. We have joint committees on the management of government accounts and for other elements. Nevertheless, in this case, decision about the fiscal policy is attributable to the Government.

News 24 TV: *For example, do you think there should be a suspension of both social and health insurance contribution, for a three-month period? Despite people will be home, businesses should pay health and social insurances.*

Governor Sejko: I underscored that the best thing in a crisis situation would have been the suspension of all payments. But, how much possible is that to happen?

News 24 TV: *Electricity payments and consumer services?*

Governor Sejko: I think it is impossible. It is easy to criticise and make requests. But the analysis is carried out through figures and with real possibilities of budgets. The Bank of Albania carries out its analysis on the possibilities we have pursuant to our legal mandate. Meanwhile, the Government and the Ministry of Finance and Economy carry out their analyses.

News 24 TV: *That is why I am asking you as the Governor of the central bank of Albania. In cases, when businesses shows financial inability, the wages of employees be paid from the state budget, for a two-month period, pursuant to well-defined criteria, to avoid any abuse. Exclusion from profit tax for the first six months of the year.*

Governor Sejko: These may be part of the plan off measures.

News 24 TV: *What profit will be charges since the moment that businesses have not worked at all. Only pharmacies, companies engaged in the export-import of pharmaceuticals and supermarkets are currently working.*

Governor: I am confident that in the plan of measures that the Prime Minister will announce, facilities to these categories will be in place. Related to wages, priority is set forth pursuant to the certain classes of the population.

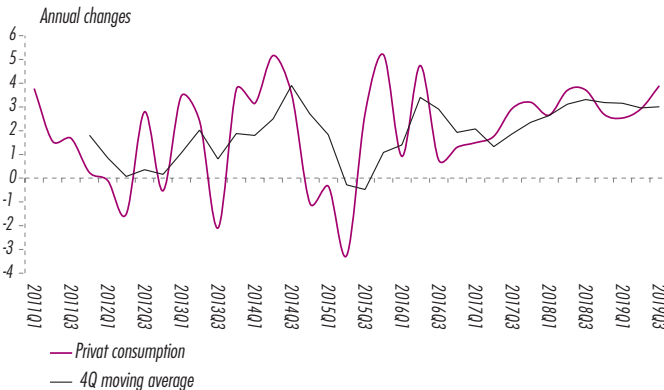
News 24 TV: The USA is giving \$ 1000 per adult. A concrete measure.

Governor Sejko: Yes. The USA is giving \$1000 per adult and is a concrete measure deriving from the budget.

News 24 TV: Is this a measure intended to not decrease consumption level? As consumption gives life to economy.....

Governor Sejko: Yes. This measure is related to consumption level. These measures aims at helping citizens in time of crisis and President Trump has promises an certain amount of aid to every adult, through a draft budget, in order to relief the Americans adversely impacted by the economic slump caused by the coronavirus.

Chart 33 Private consumption



Source: INSTAT and Bank of Albania.

News 24 TV: It goes to in trillion US dollars.

Governor Sejko: It is true that the bill amounts in trillion of US dollars, but it should be understood that the USA budget affords this amount. We are talking about the budget of the Republic of Albania, and the relevant institutions are performing the needed analyses. In this view, families in need are the first to be assisted and employed persons - according to the Prime Minister - wages will be paid to them - and then, certain categories, businesses, and so on.

Absolutely businesses shall be supported, pursuant to a definite plan, which will be announced tomorrow. The Bank of Albania has already taken a measure on the extension of loan payments, although it is not an automatic one. We are closely working with commercial banks, through a task force; in order banks provide facilities to clients. That is what we can do, within our legal framework, to support businesses. In addition, one of our functions as the central bank is to supply the market with liquidity for the continuous lending to the economy.

“One of our functions as the central bank is to supply the market with liquidity for the continuous lending to the economy.”

News 24 TV: Thus, are you going to inject liquidity in the market?

Governor Sejko: We regularly inject liquidity to the market.

News 24 TV: Will there be any increase?

Governor Sejko: There have been increases always.

News 24 TV: Do you have a figure in this regard?

Governor Sejko: We conduct operations to supply liquidity to the market every day. Depending on the liquidity need, we will increase the amount and at the same time take measures related to the banking system to relax the definite limiting ratios, in order for banks to be more proactive in lending. In parallel with the easing of monetary policy do be decided by the Supervisory Council in the next days, we will take other eased measures for banks, to be more proactive in lending, and meet the needs of businesses. To be clearer, businesses facing financial difficulties will benefit from a three-month extension of loan payments. Also, they will continue to benefit loans and overdrafts from banks to continue their business up to the end of the crisis. But, I would like to emphasise that we should be really careful with banks, as this activity takes place through the citizens' deposits. We should understand the financial situation; we should listen to experts and consider the balance sheets of banks. I understand that some businesses are in stress and require for the maximum, but banks also have a balance to manage and the latter is related to households' deposits. We want banks to contribute in the economy, to lend, manage and help, also to be sound.

Chart 34 Bank of Albania open market operations and interbank rates



Source: Bank of Albania.

News 24 TV: *There is a nonsense originating from this logic. In one hand, no everything should weight on banks, but on the other hand, according to recent news, 20 March is a holiday and this weekend will be a total shut down of the country. Absolutely, businesses are the first to suffer; meanwhile they have to pay regularly their loans.*

Governor Sejko: Mr Balla, we decided on a three-month extension to businesses that have difficulties, by considering that this crisis is evolving every day. Depending on the situation, we will consider the possibility on additional facilities, but we cannot say what will happen next. This is crises is an unprecedented one. The future is also unknown to advanced countries and their central banks. We hope everything will end at as soon as possible and at the least effect. But if it will extend, we should understand that any help will take place within the capacities of both banks and state budget. Nothing may be required beyond the capacities.

News 24 TV: *Thus, we should be prepared on private business bankruptcy, or not?*

Governor Sejko: I cannot say that. Of course if a business does not conduct its activity for a prolonged period, then there will be a bankruptcy.

News 24 TV: *Will there be any intentional bankruptcy? That is, a business does not expect to be completely hit by the crisis, but declares in advance the bankruptcy; there may be speculation with the system?*

Governor Sejko: Potentially, everything may happen, but this is not essential. The crucial point is that, overall, we should be careful and take measures to prevent the bankruptcy of businesses at a large extent. This type of crisis will produce a financial bill to state budget, financial system, businesses and households. The crucial point is to manage the situation at the best, first for safeguarding the health, and then coordinate the work started to deal with the financial side in order the bill be at the lowest level.

“The crucial point is to manage the situation at the best, first for safeguarding the health, and then coordinate the work started to deal with the financial side in order the bill be at the lowest level.”

News 24 TV: *Mr Governor, at this moment, pursuant to the Decision of the Council of Ministers, Mr Arben Ahmetaj, the Minister for Reconstruction, has taken the competences for the management of the crisis caused by the pandemic. Mr Ahmetaj will manage the situation for the coordination of institutions, exactly for drafting measures to deal with the possible financial crisis. I have a question related to the earthquake scheme. A rather efficient scheme was employed for the earthquake, which was the successful conference of donations. The donors, to whom it was presented a detailed plan, designed in collaboration with the World Bank and other institutions, where the lost profit was calculated. Is it possible to trigger such a scheme related to the pandemic bill as well?*

Governor Sejko: Yes, it might be possible to follow such a scheme, but it is to be seen. Even in the case of earthquake, the first days were proactive ones, to save the life of people. Then, it has been thought for the financial bill and the management of the recovery. The same will happen in this case. We are still in the first phase and both how many people may lose life and the spread of virus spread are unknown. The crucial point is to contain the further spread and the infected persons be recovered. The information from public health institutions is very important coupled with the observation of relevant regulations. If we would know how long this situation will take then we would have known how much would be the damage and would be able to make calculations. But unfortunately, we do not know this.

News 24 TV: *Nevertheless Mr Governor, we see that businesses are easily alarmed. Let's say that our economy was relatively stable; it has macro stability. Although the very adverse political crisis, two earthquake-related shocks, the economy overall maintained its upward trend, while let's say this trend was fragile. On the other hand, there is a considerable ever-increasing political pressure - mainly from the opposition party, and the President of the Republic, who was the first to set the alarm - that measures should be fast equally to the drastic and tightening measures. Do you thin such pressure is a good one on the economic climate of the country?*

Governor Sejko: We are in democracy, and we have a majority and the minority. Of course the task of the opposition party is corrective pressure. In fact, in crisis situation, it would be good to have collaboration and communication. In this situation, I suggest to have a better communication and collaboration. Thus, I think that any suggestion or opinion may serve to the situation. Nevertheless, public institutions and the Government have all the information and concrete abilities to judge and assess everything useful to face this situation.

News 24 TV: *I see. A manager at a commercial bank has a question: will the extension of loan payments for three months be considered as a loan modification; will it either effect or change the clients' status at the Registry of the Bank of Albania? In simple words, will the history of credit be damaged from this extension?*

Governor Sejko: No. We will modify the whole status.

News 24 TV: *What will be the relevant measure that you will take for this?*

“...There will be a rescheduling of loan payments and interests with no late payment interest rate. And the status of all these clients will not change in the Credit Registry.”

Governor Sejko: First, there will be a rescheduling of loan payments and interest with no late payment interest rate to all banks' clients. There will be no change of status to all these clients in the Credit Registry. They will be considered as average loans. We are in communication with banks, and we have instructed them every day, as the decision making in a two or three days is rather quick, and the clarification of the

information needs a better top-down coordination approach. That is what I liked to clarify to the banker that presented the question, and also to public, clients and businesses, which have this problem.

News 24 TV: Their status?

Governor Sejko: Their status will not be affected. Absolutely, not.

News 24 TV: Mr Governor, these recent days, groups of interest - businesses, Chambers of Commerce, Konfindustria, economic professors - in their reactions have assessed the intervention of the bank of Albania, but they have stated it is insufficient.

Governor Sejko: What is the reason for being insufficient?

News 24 TV: They claim deeper interventions are needed.

Governor Sejko: What does it mean deeper?

News 24 TV: These are recommendations from the American Chamber of Commerce;

1. Request on the extension of the legal deadline for the depositing of financial statements. Here it is about the form on the declaration and profit the payment of tax on profit, annual information on the controlled transactions.

Hence, all these are extended.

2. Removal of fiscal obligations for at least three months, while to businesses and tourism sector for six months, as far as I remember. That is what the minority has requested.
3. The creation of an emergency fund, for accessing the capital, through soft loans and grants, in order businesses may deal with the negative effect of this period.

Governor Sejko: All are logical requests. The Government will react, pursuant to its possibilities, for either completely or partially meeting them. One of the requests by the Albanian Chamber of Commerce, or the group or chambers of commerce, was submitted to the central bank, and in more concrete terms, for the extension of loan payments to clients in difficulty for one year, as there are countries that have applied a one-year extension.

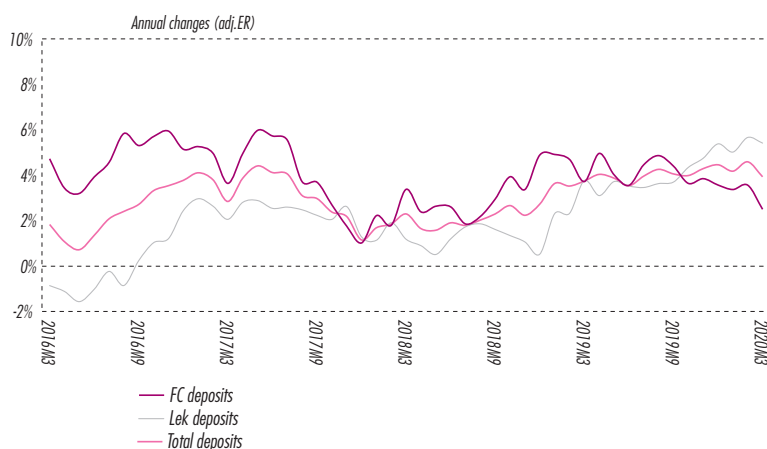
It is difficult to apply a one-year extension, as it would bring large financial consequences on banks. The extension was decided for

three months to see how the crisis will evolve. We should consider if businesses will restart their activity; the shorter is the closure period, the lower will be the loss.

News 24 TV: This is another reason to observe restrictions, in order this situation lasts as shortly as possible.

Governor Sejko: This is true, but I would like to emphasise that the demand for a one-year extension, but I would like to emphasise that the demand for a one-year extension would have a deep financial effect. The extension of loan payments for a one-year period implies to hit the banking system, notwithstanding the good liquidity situation. We should be realistic. Practically, it is impossible, as both financial stability and banks stability should be safeguarded, which not only help economy through lending but first, hold the deposits and savings of citizens. It is crucial to preserve their soundness.

Chart 35 Monetary Indicators

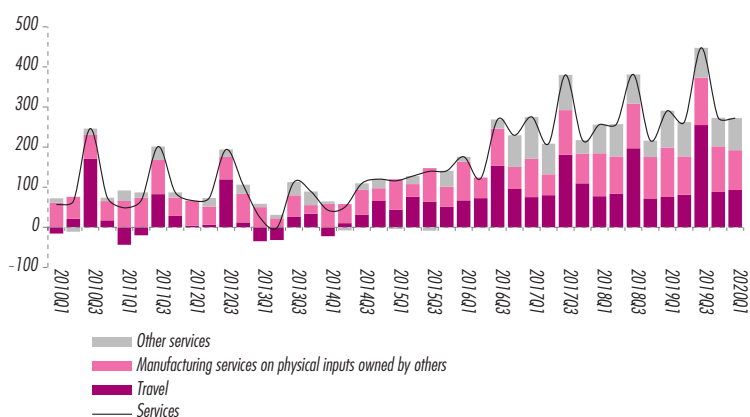


Source: Bank of Albania.

News 24 TV: Nevertheless Mr I would like to ask about the immediate effect that this crisis has on the private aviation industry in Albania, which is fragile. Thus, the aviation industry was hit; construction as well, as it appeared that it grew in the last six months, notwithstanding the political crisis and the earthquake. What I see now in the housing market, is am hesitation, an immediate contraction. Also, tourism, which according to the Association of Tourism, it was hardly struck, as there are many cancellations, particularly from abroad.

Governor Sejko: I am starting with tourism. All sectors that you mentioned above are important industries, but I will start from the most important one - which is one of the main pillars of the Albanian economy, which unfortunately will be affected as well. Hence, after the earthquake, it is suffering the pandemic. Tourism is a source of large travellers and income flows to our economy. Tourism used to be one of the elements for the appreciation of our currency, lek and depreciation of euro, in addition to other inflows from foreign direct investments and remittances.

Chart 36 Main items in services account (net flows in EUR million)



Source: Bank of Albania.

News 24 TV: I think remittances also will be hardly hit....

Governor Sejko: Remittances also may suffer a shock, as the pandemic has hit one of the main countries where remittances come from, Italy.

News 24 TV: Also, Greece, Great Britain, the USA.....

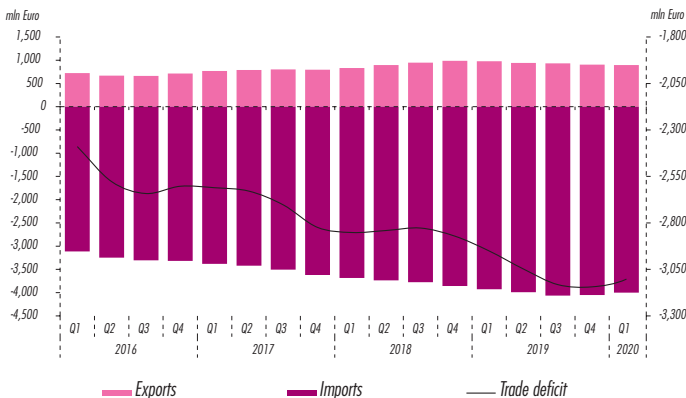
Governor Sejko: They also are economically affected, but still we are unclear about the future. These days, remittances are not affected at all. I have been in contacts with the main financial institutions, which are intermediators for the transfer of remittances in Albania, and they have stated to operate normally. However, we will see how it will proceed in the next days. Tourism, absolutely, will be affected and in this regard it is necessary to think properly. We will consult and collaborate with the Government to assess the optimum initiatives related to this industry that is crucial to the Albanian economy. Of course, construction is a rather

vital sector, which will suffer as well: the effects of this crisis will weight on across all sector.

News 24 TV: What are the sectors to be hit more strongly, in your opinion?

Governor Sejko: The main sectors to be hit mostly are tourism and re-exporting. First, tourism, as I think this crisis led to a cancellation of reservations and it will not by a year with a normal flow of visitors. I repeat it again. We do not know, yet, how long will the shut down last. If it is extended till July the shock will be very huge. But, let's hope that the crisis will not last and the end will be more manageable. Maybe the change of seasons will cause a mitigation of the virus as well. Let's hope!

Chart 31 Trade in goods



Source: Bank of Albania.

News 24 TV: Let's hope, as in the southern hemisphere, where now it is summer, the number of infections has not reached 3000. Would this be an indicator, which with summer approaching, things will change?

Governor Sejko: I am not a doctor. But flues epidemics overall have a certain cycle, that is they are seasonal. Let's hope this virus, although a specific one has its own cycle.

News 24 TV: There is a debate on this detail related to the economic crisis, which is giving sings to begin. Will it be like the crisis in 2008, or the one after 11 September 2001? Steven Mnuchin, the USA Treasury

Secretary, said is that unemployment may hit 20%. Of course, it is a very negative scenario, or not?

Governor Sejko: The crisis, in addition to unemployment, may cause other deformations of economic parameters, that are deteriorations, but unemployment is an important element. It may affect the financial sector; it may affect certain currencies; it may push up both unemployment and bankruptcies. They are all elements that build up a crisis. To the central bank, it is crucial this crisis does not jeopardise the financial stability; affects neither banks nor clients' deposits, notwithstanding the losses to be dealt with. We will do the maximum to preserve price stability. The policy rate is an instrument in this function.

News 24 TV: Are you warning that you will cut the policy rate?

Governor Sejko: In view of the results, the Supervisory Council by voting will take a decision related to the policy rate.

News 24 TV: How will you vote?

Governor Sejko: I will vote for the cut of the policy rate. I am stating my vote. Nevertheless, I will be informed and I will decide based on the results of the analyses conducted by the experts. The information I have is still preliminary. We will consider the analyses and then the Council will take a decision.

News 24 TV: I believe you will expect the packet to be decided by the Government, in order to be clearer regarding the decision to be taken by the Supervisory Council?

Governor Sejko: Yes, This also affects the decision taking.

News 24 TV: The government said the earthquake would be turned in a golden moment, due to the donations and grants, for the further economic growth of Albania. I think it is a little bit impossible to be affirmed nowadays. I doubt these grants, soft credits or donations, be again at the same level as promised. I truly doubt it.

Governor Sejko: You mean about the earthquake.

News 24 TV: There are 1 billion and 140 million to enter in. Do you think this will happen?

Governor Sejko: The credits are dedicated to Albania, and abstracting from the crisis at this moment, they would have been implemented depending on the absorbing capacities we would have, that is to be managed by the Albanian Government depending on projects. Grants also will be delivered according to projects. Credits are being to withdraw upon a strict control, as it is said so far by the Prime Minister and the Albanian Government. For example, the European Bank for Reconstruction and Development, international institutions, the World Bank, etc., do control very well the destination of their funds. One cannot transfer funds from agriculture to tourism.

News 24 TV: Or to buy cars for the administration?

Governor Sejko: Destination cannot be changed. There are concrete projects in this regard.

News 24 TV: Thus, these funds cannot be returned? I am asking given that this crisis, each country has its own concerns.

Governor Sejko: I don't think so. Governments are correct. Those governments which have allocated funds to deal with the earthquake crisis will not withdraw. The main challenge is the efficient processing, in order we would be able to draw these funds. An overall assessment forecasts that 70% of funds will be attained. It will be a very good if would be able to manage 70% of these funds, which is 700-800 million. These funds would have a very good effect, not only for the live of citizens damaged from the earthquake, but also for the economy.

News 24 TV: At the moment the imports will be down due to restrictive measures, in addition to those taken by the EU, there will be no consumption goods flows. This does not mean that in Albania no consumption goods are produced. Thus, form alcoholic beverages, for example beer sector, which is an important and developed one - also agriculture and domestic products, could this moment turn into a golden one to the domestic business, once the health crisis will be over?

Governor Sejko: For the moment, this golden opportunity is to supermarkets and pharmacies. Notwithstanding it is a bad one to some others, of course it may turn to be a golden moment to some other businesses, like domestic producers who may supply the domestic market. Nevertheless, it is a difficult to turn into a golden moment to the entire Albanian economy.

News 24 TV: I am talking about production sector.

Governor: For the production sector, as well. Of course, there will be re-orientations; there will be changes.

News 24 TV: Could this thing be simulated? Because, sometimes, as it is like in PR, the weakest point may turn into the strongest one.

Governor Sejko: Of course, it may be simulated. There are protectionist policies for domestic products and the domestic output may be simulated.

News 24 TV: Today, the protectionist policy is in place, as all countries have shut closed their borders.

Governor Sejko: Absolutely due to the needs, for example agriculture, these day may increase - nevertheless the next figures will tell that - coupled with the fact that villages are not yet affected by Covid-19.

News 24 TV: For the moment, the map shows there is no an expansion.

Governor Sejko: Yes. In addition agricultural production is continuing across villages. Domestic output will meet the demand for agricultural products, for as long there is no import. This is something very good to domestic producers, who have dealt with the problem of collection points....

News 24 TV: To the production sector as well, which faces with very competitive prices from import products.

Governor Sejko: Yes. Other sectors as well, but agriculture is a very important sector that may benefit. Nevertheless, I re-emphasise that all these will be seen in continuation.

News 24 TV: It may count for the domestic tourism as well. In sated of Turkey or Greece, Albanian tourists may go for vacations to Vlora, Durresi...

Governor Sejko: Once the crisis will be over, the Albanian tourists will again go to Turkey and Greece. This situation would be forgotten quickly.

News 24 TV: You say everything would be forgotten?

“An overall forecast, with the previous data, shows that economic upturn in this year, will be compensated in the next year.”

Governor Sejko: The financial bill will remain, but obviously life goes on. People will continue their daily life. And this is normal. Let's hope everything will finish as soon as possible. There may be a re-orientation of domestic producing economies. But in economy level, there will be negative consequences - we should accept this fact - how long will this shock last, this is to be seen. We should deal with the situation aiming at the shock be quite low. Nevertheless, there will be an overall fall in economic growth pace. We do not assess to fall in recession, or at least not in annual level. We may have a recession in this quarter, but it will become compensated in the next period. An overall forecast, with the previous data, shows that economic upturn in this year, will be compensated in the next year. The Bank of Albania has corrected the economic growth, after the earthquake, to 3% this year, and 4% next year. This year, we may have a lower growth, which may go close to zero. But it will be compensated by a rather higher growth in the next year: a straightaway growth up to 5.9%. Of course, these are forecasts and we should finalise them. The Bank of Albania will communicate these forecasts in the Monetary Policy Statement, along with the monetary policy decision. The crucial thing is to properly handle with the crisis and the decrease of the number of infected persons. The faster is the decline in infections and the crisis management the lower with is the financial bill.

News 24 TV: Mr Governor, thank you for being with me tonight!

Governor Sejko: Thank you!

**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA.
KLAN TV
-26 March 2020-**

Klan TV: Thank you for the interview! We are facing an unsettling situation, as one day ago, the Supervisory Council of the Bank of Albania took the decision to provide strong accommodative monetary policy. What is the aim of this very rare accommodative monetary policy?

Governor Sejko: Thank you! The lower policy rate aims to reduce the cost of borrowing for all economic operators in the market, in order to further facilitate the reactivation and reinvigoration of the economic activity. The 0.5% decline has been stronger than previously, when we have lowered the policy rate by 0.25%. Precisely, due to the economic situation which is facing a harder obstacle than before. We have tried our maximum in order to undertake this measure. Naturally, we must understand that lowering the policy rate is not “the magic wand” to solving the economic situation, but it is simply a measure that stimulates lending, and that undoubtedly must be combined with the other measures undertaken by the Albanian government.

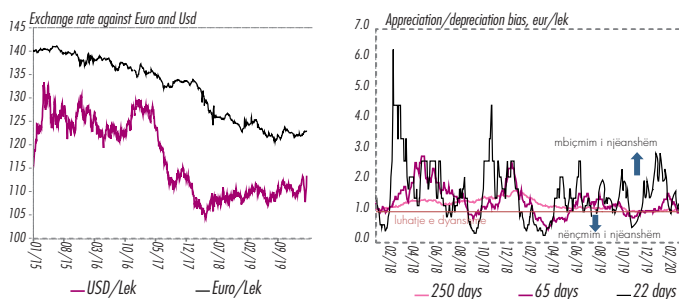
“The lower policy rate aims to reduce the cost of borrowing for all economic operators in the market, in order to further facilitate the reactivation and reinvigoration of the economic activity.”

Klan TV: Domestic currency has been weaker in the past days, in other words lek has depreciated, while the lower interest rate of lek may weaken it further. What is happening in the foreign exchange market?

Governor Sejko: In the Republic of Albania we apply a free exchange rate regime - in other words we do not interfere if our intervention parameters are not achieved - and in accordance with the free regime, the exchange rate naturally is determined by the market, according to supply and demand. This crisis has blocked all these channels - tourism particularly is blocked, as well as foreign investments and enterprises-remittances have continued, but even those will feel the effect. All of these represent a restriction of Euro remittances in the Albanian economy. We intervene when our primary objective, i.e. inflation, is at risk, but in this situation, we will continue to adopt a free exchange rate regime.

Chart 7 MPR II 2020 p. 27 data is kept until March 2020

Chart 38 Exchange rate in the domestic market and the exchange rate appreciation/depreciation ratio*



*The exchange rate appreciation/depreciation ratio is calculated as the ratio of the number of days when the lek is depreciated against the number of days when the lek is appreciated, over a moving time horizon of 250 days. The value of this indicator near 1 indicates an equal number of cases of appreciation and depreciation and it shows that there are no one-sided pressures for appreciation or depreciation. If the value of this indicator is above 1 (below 1), then in the market there are signals for one-sided expectations for exchange rate appreciation (depreciation).
Source: Bank of Albania.

Klan TV: Is the Bank of Albania ready to activate additional operations in case the Albanian economy experiences a very dark scenario?

Governor Sejko: First, we hope we will not experience a very dark scenario. Naturally, our economy, like all world economies, will experience a shock and a negative impact. The rate of economic growth or economic downfall is to be seen and to be calculated; we have adequate liquidity and currency to support the financial system and the entire market. This is one of the measures we use and naturally it will be used in this case as well. Besides the policy rate, if deemed necessary and if legal, economic and macroeconomic criteria are fulfilled, we think we can also use quantitative easing. Buying Treasury bills and Albanian government securities, through the banking system or indirectly, was an example of quantitative easing.

Klan TV: Few days ago, you and the Prime Minister signed an Order where commercial banks were required to extend the payment of loans to those households and enterprises that were affected by the pandemic. How will commercial banks implement this Order?

Governor Sejko: The Bank of Albania has adopted the necessary regulatory amendments that make it easier for banks to help their clients extend loans and interests by three months, i.e. the principal instalment and the interest. If we need to provide more facilitation, we will have to make a decision together with the banking system, but at the present

moment the availability and reaction of the entire system has been quite good.

Question: *As regards the sovereign guarantee fund, which will help large enterprises and provide credit to those that cannot pay their employees, have you worked with banks to set up the regulations necessary to implement this procedure?*

Governor Sejko: We are working together with banks and this is being further elaborated. We must understand that we need to have patience, since any measure adopted - be it the extension of loans and the guarantee issued by the Albanian government - requires a few days to get implemented, as actions need to be coordinated for these instruments to be functional. Therefore, we must exercise some patience before we witness the functionality of this instrument.

Klan TV: *Has there been a change in the scenarios regarding inflation expectations?*

Governor Sejko: This type of crisis that we are facing is new - both to us as the Bank of Albania, as well as all to central banks, or small and large economies, and advanced or undeveloped ones, worldwide. Thus, naturally a longer analysis is required. We will certainly experience a change in inflation since the effects and the shocks of the crisis will affect its performance.

“...some patience, since any measure adopted - be it the extension of loans and the guarantee issued by the Albanian government - requires a few days to get implemented, as actions need to be coordinated for these instruments to be functional.”

Klan TV: *The government expects an economic growth of 2% from 4.1% that it projected at the beginning of 2020, in the budget. Do you support this forecast or do you require further analysis and calculations?*

Governor Sejko: I would be very happy - to be honest with you - if we had an economic growth of 2% this year. This year, growth might be even lower, however this remains to be seen and analysed further more.
Klan TV: Thank you!

Governor Sejko: Thank you too!

**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA.
VIZION PLUS TV
-31 March 2020-**

Vizion Plus TV: The effects of lockdown on the economy will be twofold, both from the demand side, where consumption and investments will fall, and the supply side, where production and trade volumes will contract. But until now costs are hard to calculate, as long as the duration of the pandemic is not known. The Governor of the Bank of Albania, Mr. Gent Sejko, in an interview for Vizion Plus, says that by applying good management, the situation might be kept under control even for 3 months in a row.

Governor Sejko: The measures of the Bank of Albania are one-sided, on the supply side; certainly there are many more measures undertaken by the Government of Albania, which are made public by now, which consist of fiscal policies and fiscal easing. By taking into account the entire measures implemented, I think that we are prepared to withstand this situation for a quarter at least. The situation is truly dynamic and we still don't have the exact numbers, but given our resources and reserves, I believe that we will be able to successfully withstand this situation for one quarter.

Vizion Plus TV: According to the Governor, we are currently far from the scenario that employs the foreign exchange reserve. As the bank may first utilize the mechanism know as quantitative easing that includes the purchase of government Treasury bills.

Governor Sejko: We are injecting and supplying the market with the needed liquidity. As to this we have organised unlimited auctions during this period. If the banking system or the government will need additional liquidity - in case the situation deteriorates due to the lockdown and blockade - we will certainly use quantitative easing, i.e. we will purchase Treasury bills of the Albanian government through the banking system. The foreign currency reserve is the last resort instrument/element that may be used, not because it is taboo, but there are determined legal and economic criteria on its use. I believe

“The foreign currency reserve is the last resort instrument/element that may be used, not because it is taboo, but there are determined legal and economic criteria on its use.”

that the instruments I mentioned will suffice so that we don't engage the foreign currency reserve, since we have the necessary import goods and materials to carry on normally with life. The economy, despite the restrictions, continues to function.

Vizion Plus TV: The lockdown has engendered the depreciation of the domestic currency, causing exchange rate fluctuation. Since the quarantine, Euro has strengthened with around ALL 9, converting to ALL 131 in the foreign exchange market.

Governor Sejko: The current situation has forced the interruption of channels such as tourism or investments and other inputs, due to the isolating measures imposed to protect the health of the population. This naturally will have an impact on the exchange rate, given that, first and foremost, it is driven by the demand and supply of Euro in the market. However, today we noticed a stabilisation, so a tightening of the exchange rate spreads. Hopefully we won't have a continuous appreciation of a very high level.

Vizion Plus TV: There will be an increase in the price of products and services, but the Bank of Albania says that given the market reserves, the increase is not expected to be sensitive.

Governor Sejko: Demand and supply determine the exchange rate and prices in the market, but the good news is that we have adequate food supply and main goods reserves that the market needs, not just for one quarter. This will guarantee that the increase of prices will not be sensitive. Undoubtedly, prices of certain goods of the basket, where market demand is higher, will fluctuate. I believe that the increase in prices will not take gigantic steps.

INTERVIEW WITH GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA. A2CNN TV -1 April 2020-

A2CNN TV: *Mr. Governor, the first question is on today's online meeting with the Prime Minister. What did you actually discuss?*

Governor Sejko: Good evening! Today, as you have witnessed yourselves, we have organised a video-conference with the Albanian Government, the Prime Minister and Minister Ahmetaj, as well as other directors of commercial banks. The meeting was for coordination and advisory purposes, so decision-making was not involved, but there was an exchange of information subject to the actions undertaken recently. This was quite necessary in order to coordinate the actions between commercial banks, the government, the market and the central bank. First and foremost, we discussed the initiative and the decision to extend for three months loan instalments of banks' customers, and we saw that commercial banks, practically, have addressed the issue in a serious and proactive manner. They are acting day in day out with all their customers, be it enterprises and households; and they have not faced any difficulties in this regard. We were asked to start thinking whether, after the first quarter, they would be issues concerning enterprises, so that we can figure out possible easing measures that we might create on the regulatory aspect.

“...there was an exchange of information, subject to the actions undertaken recently and this was quite necessary in order to coordinate the actions between commercial banks, the government, the market and the central bank.”

A2CNN TV: *The issue of loans for a three-month period is quite interesting, taking into consideration that it has been a continuous request of the business community, but has certainly been welcomed by common citizens as well. However, it has often been accompanied by uncertainty, whether we are talking about accepting all requests of households and enterprises or only those that will prove to the bank that they are in difficulty. In conclusion, will the bank take the decision or is there an Order and the banking system is obligated to approve loan extension for each case at hand? This is an issue that needs to be clarified.*

Governor Sejko: Our Decision gives bank the right to judge each case separately; loan extension will not be applicable to all the customers. This could be done only through a law, with a certain guarantee and should have had the shape of an exact moratorium. We deemed this was not the appropriate way, since it could create financial difficulties for some of the commercial banks and to us financial stability assumes primary importance. In spite of this, the philosophy, approach and decisions undertaken by banks have been quite proactive and almost all requests are being handled in an almost automatic manner; commercial banks are applying the extension after receiving the request thereupon, some of them have even applied it to all customers. There are certainly exceptional cases not affected by the crisis, e.g. when the source of income has not been affected by the crisis; in this cases approving the loan extension is meaningless. These customers may be few and far in between, but they exist nonetheless. From today's discussion we do not see any issues. The government was interested to see banks' reaction, and from our perspective we were looking at the financial stability and wanted to see how that process was going. The issues will be apparent perhaps after a quarter, and we will undertake further actions if we were to continue facing these challenges.

A2CNN TV: *In fact, Mr Governor, in the current situation the banking system is quite important, since it is the main financier of the economy as well as the main actor in the implementation of Emergency Plan A which consists of: the sovereign guarantee of US 100 million made available to support medium-sized and large enterprises, which will face difficulties in paying wages and might turn to the banking system to get a loan in order to cover this need; and opening accounts for transferring the war payment. Since banks are themselves businesses, what was the approach of the banking system or recommendations and their requests, so that they are in an optimal situation in this challenging period for all?*

Governor: The points you just mentioned were discussed in today's meeting: how will we operate with the US 100 million guarantee fund, allocated by the government for wages of private sector employees; and the opening of bank accounts at commercial banks, which were required by the government to have a flexible approach while providing the lowest cost possible. I would like to thank all commercial banks' directors on their proactive approach until now, despite few hiccups. Overall, we must be conscious that we are facing an emergency situation and all banks have shown adequate readiness, have been cooperative and

have carried on their activity excellently. Normally, the guarantee fund issued by the government will be used by commercial banks, they have assumed responsibility for this task; this was the confirmation that we received from commercial banks' directors. Nonetheless, the performance of the process will be apparent in the future. Also, commercial banks' directors promised that the opening of bank accounts will be processed quickly. In this context, they were concerned about the work schedule, since the restrictive measures imposed on people create difficulties in the operational functioning of commercial banks. We must be clear that a bank customer wastes more time than a supermarket customer since the process requires time and queuing. The banks were promised that they will continue their operational work up to 13 o'clock. It has been agreed with the Police Department that if banks' employees will be outside after 13 o'clock, they won't be held back if they show their bank's employee card. Today's meeting was to inform and coordinate, to assess whether the banking system has understood the package of the measures undertaken, and the several regulatory amendments adopted and that will be adopted in the future, from the government as well as from central banks. Banks' directors presented several requests to us as a central bank, to take into consideration further facilitations in the future, as regards provisioning or capital requirements. These will be elaborated in the following days, but certainly everything will depend on the duration of the crisis. At the moment, I would say that the financial stability and banking system situation continue to remain sound, with ample liquidity, a high adequacy rate, and a well-trained ready-to-serve staff. Banks will be up and running and fortunately the banking system is one of the main pillars that will help to weather out this difficult situation, in a well-managed and smooth manner.

"Today's meeting was to inform and coordinate, to assess whether the banking system has understood the package of the measures undertaken, and the several regulatory amendments adopted and that will be adopted in the future, from the government as well as from central banks."

A2CNN TV: Mr. Governor, it is certainly good news that the banking system is liquid and well-capitalised, taking into consideration that it is also as a response to the actions undertaken lately by the Supervisory Council of the Bank of Albania, intending here the reduction of the cost of lek and the policy rate, which has reached its historical minimum of 0.5%. Do you consider this a mechanism that will help the recovery of the economy at a second phase, after the health emergency has passed, and will banks respond by reducing the interest of new loans in lek?

Governor Sejko: If you make an observation and look into the measures undertaken by all central banks affected by the situation - in the region, Euro area and beyond - you will understand that they are the same. Since central banks' main objective is price stability, the first measure is lowering the policy rate - with the exception of the European Central Bank, which had a negative interest rate, all central banks and the FED, which had the necessary space, have reduced the policy rate. Policy

“Policy rate reduction serves to lower the cost of borrowing and the cost of debt servicing, thus the accommodative monetary policy is applied by lowering the interest rate, in order to encourage lending, consumption and investments.”

rate reduction serves to lower the cost of borrowing and the cost of debt servicing, thus the accommodative monetary policy is applied by lowering the interest rate, in order to encourage lending, consumption and investments. Certainly, even after this critical situation, the reduction of the interest rate will help the public, all economic agents and the banking system to have a lower credit cost, with a view to encourage consumption and investment.

This is the basic instrument of central banks which we applied as well since, being at the 1% level, we still had some space. In addition to this, as highlighted in previous communications, we have planned other measures with non-conventional instruments that will be used in case the situation worsens. Fortunately, we possess good liquidity, which will be always used in accordance with the legal criteria and restrictions.

A2CNN TV: It has been widely accepted - from Christine Lagarde in the IMF, the ECB, and OECD - that COVID-19 pandemic will be accompanied by an economic crisis, and we are expecting to fall in a deep recession which will engulf everyone, including Albania. It seems that the first signs of this crisis have knocked on the door, considering the lay-offs in some industries, which were driven by the situation. In a letter directed to the Prime Minister the re-exporting industry requests support for large enterprises. In the framework of the entire dynamic, what is the severity of the crisis expected and what measures do you recommend, so that the recovery after the pandemic is as quick as possible?

Governor Sejko: What you say is true and the situation is rather complex. There are a set of measures which we will recommend. In fact, this is a rare type of crisis, which hit the globe almost 100 years ago during the Spanish flu of 1917-1918; that's why the world was caught unprepared. In this situation, all international financial institutions, such as the IMF and

WB, but also central banks in large countries, have started to conduct analysis and their prognosis, with a view to observe the crisis performance and economic and macroeconomic developments. The situation certainly changes every day, so any type of prognosis is very unclear, since it depends on the duration of the health crisis. As long as the situation persists, there will naturally be isolating measures imposed, which hit the economy directly in two directions: production and consumption. This is a really hard strike, which, if it continues, would have implications for the financial system as well. If we refer to some numbers, which are not official yet, the United States of America has anticipated a recession of over 5% during this year, while China a recession close to 4%, so we are dealing with deep recession figures. Albania has a small economy which, nevertheless, is open to markets and our main partners are in the Euro area. Countries such as Italy have received a hard blow from the pandemic and will face their own economic problems, which will spill over in the Albanian economy. As I mentioned previously, everything depends from the duration of the pandemic. The longest the pandemic lasts, the hardest the recovery and the deepest the financial and economic damage. Health experts roughly anticipate that at the end of April there will be a reduction in cases and summer months will present a situation from which we can start to recover. Economic growth after this situation will be rapid, but everything is connected with the damage caused during this period.

“The longest the pandemic lasts, the hardest the recovery and the deepest the financial and economic damage.”

Thank you!

**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA.
“OPEN”, TOP CHANNEL TV
-2 April 2020-**

Top Channel TV: *First in order, is it normal that the Prime Minister and the Governor enter an agreement when institutions should be more independent? I would like to know whether this practice been applied before.*

Governor Sejko: This is quite normal, since we are facing a crisis and in a situation like this, any action serving to ease the financial system for customers and Albanian citizens is common practice. This is done exclusively within the legal thresholds and criteria; it is important that through the regulatory changes we conducted as a central bank and the joint Order with the Prime Minister of the Republic of Albania, commercial banks have addressed this issue in a serious manner and are pro-actively extending the loan instalments for all the customers who are facing financial difficulties.

Top Channel TV: *Are they really extending them? We have talked to some bankers and they have confided in us that the Order has no legal basis. Anyway they are voluntarily implementing this due to the present situation. Is it really being implemented by 90% of banks?*

Governor Sejko: Yesterday we held an audio-conference with all banks' directors, and I keep in touch with them on a regular basis. This action assists also banks themselves in their financial activity, since if customers cannot pay their loan instalments, this would create financial difficulties for the bank's portfolio as well; it is an action that helps both customers and commercial banks. In this light, commercial banks' directors are "grateful" because we are collaborating on the regulatory amendments in order to ease the reserve fund burden to cover credit losses of commercial banks, which are associated with this action. I would like to take advantage of the occasion and express my gratitude to all commercial banks' directors and employees for

"I would like to take advantage of the occasion and express my gratitude to all commercial banks' directors and employees for being proactive, both as regards loan extensions and the overall operational performance while serving the customers."

being proactive, both as regards loan extensions and the overall operational performance while serving the customers. As we are all aware, these days have also been heavy psychologically, and these employees are constantly at the service of customers within the permitted schedule.

Top Channel TV: However, they are the same people who claim that is not underpinned by the law. In other words, they have a contract between private entities and this Order does not have a legal basis. I am interested to know what the legal basis is.

Governor Sejko: I have explained that this is not a legal basis issue. The Bank of Albania has changed the regulation on credit risk that unburdens banks from provisioning, so it is a technical issue, but nonetheless the regulatory amendment has made it easier for banks to extend instalment payments. This might have been also realized through a specific law to conduct a standard moratorium in relation to loan extension for all customers, but it was unnecessary because banks were proactive in their dealing with customers.

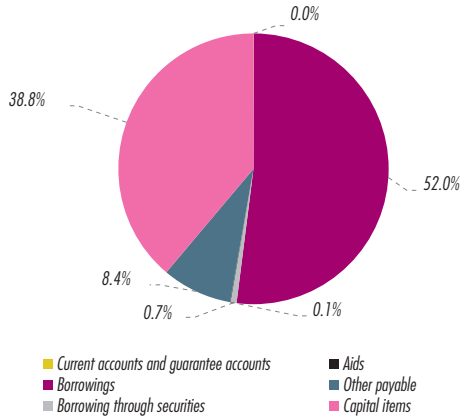
Top Channel TV: How will be dealt with those banks that have problems extending instalments?

Governor Sejko: To my knowledge and from the contacts I have, all banks are extending loan instalments for customers who have applied for this.

Top Channel TV: All of them have extended the loans, there is no opposition in this regard? This is important.

Governor Sejko: The only opposition - you are right - comes from non-bank financial institutions that have a liquidity situation dependent on loan instalments, since they do not accept deposits. Banks are healthier as regards liquidity since they have deposits. If these institutions do not receive instalment payments they would face difficulties in paying off their obligations, but the share of these types of institutions in the financial market is low. Their customers' complaints are justified, since our decision-making includes these institutions as well, but they are not as proactive as banks. Banks which account of 90% of the financial market have seriously applied this measure.

Chart 39 Funding sources allocation of NBFIs for December 2019



Source: Statistics Department and staff's calculations of the Supervision Department.

INTERVIEW WITH GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA. “EKOPOLITIKE”, ORA NEWS TV -11 April 2020-

Ora News TV: *Good evening, I wish you well! In our discussion we will try to clarify as best as possible the situation from your institution's standpoint. Let's start with the economic growth forecast. How will the Albanian economy be affected and, from your point of view, what are the changes to a series of parameters for this year and for succeeding years?*

Governor Sejko: We are conducting analyses and we cannot estimate a correct and clear economic growth number, since the Albanian economy was hit by an earthquake in the last quarter of 2019. As we were preparing the plan to recover from the earthquake damages, the world was hit by COVID-19 outbreak, which had even more devastating effects. The effect of the overall gross production growth of the Albanian economy was negative also in the quarter of last year, since the latest data from INSTAT showed a negative growth of -01 of GDP. The Euro area, the USA, and all large countries, but also our region, have forecasted an economic downfall. We are working mainly with IMF, but also with the WB, to make some correct forecasts, but they are heavily dependent on the duration of the pandemic. One thing is for certain, the shock will be strong and we might have a negative growth this year. However, it is important to be organised, in order to successfully overcome the shock period and to start as quickly as possible with the recovery. This is what I can say for the time being, and none of the central banks, of the region and beyond, can say the growth rate with certainty.

Table 5 Impact on imports, employment and unemployment rate

	Impact on GDP (%)	Impact on imports (%)	Impact on employment (%)	Impact on unemployment (p.p.)	Unemployment rate (%)
Consumption	-4.0	-7.4	-5.5	+4.9	16.1
Investments	-1.1	-2.5	-0.9	+0.8	11.9
Exports	-1.8	-3.6	-1.9	+1.7	12.9
Total	-6.9	-13.5	-8.3	+7.4	18.6

Source: INSTAT and authors' calculations.

Ora News TV: *This is important to emphasize because this was also the response of the Prime Minister of Albania, i.e. it is hard to anticipate.*

However, you think that it will be in the negative territory, it will be minus for at least one year?

Governor Sejko: Yes, it seems that it will be in the negative territory. Forecasts of IMF for some large countries such as the USA, Italy and China, show deep negative figures. Naturally, when countries as large as this will have a negative growth, we will follow suit. In case we will be able to return quickly to a normal situation, then the growth and the containment of the negative growth will also be quicker. This is not "the end of the world" since, after the pandemic has passed, the recovery will gain momentum.

Ora News TV: Normally this type of crisis occurs once a decade, but in Albania there were two devastating factors - the earthquake and the pandemic - which have caused great difficulties to the business, I think, also as regards to credit payment. Meanwhile the data shows that in the first quarter, at least, non-performing loans have decreased. Is there a contradiction here or maybe companies have been as efficient as enterprises to pay them in time? Do you think that they will pay all loans they owe in time?

Governor Sejko: No, the first quarter data do not reflect the effects of the pandemic. In fact, the non-performing loans indicator has evolved quite positively during the first quarter as well, while also including the effects of the earthquake. This proves that commercial banks have done a great deal of work, but the performance of enterprises and customers in regards to lending has also been commendable; this shows that the market has a higher awareness in relation to its enterprises and the relationship with commercial banks. The non-performing loans indicator has been downward from a very high figure some years ago, and we were harvesting the fruits of our laborious work in both non-performing loans indicator and other bank soundness indicators, mainly concerning lending. For the first time, we have recently had a good increase of lending in the economy, so credit growth both for enterprises and households has been close to 8%, but, regrettably, we faced this situation which will also affect the non-performing loans indicator. This indicator does not include and reflect the effects of the crisis we are facing, since the figure needs time to finalise. Naturally in future months we will witness deterioration in the non-performing loans indicator, and we will also see an impact on credit growth, but its level remains to be seen with the time. In cooperation with the banking system, we have taken measures to manage this effect. Banks are conscious in relation

to this issue, and we, the regulators, are managing the situation, but we certainly do not think that the non-performing loans ratio will experience a continuous decline, since it is clear that costumers are facing difficulties and will not be able to honour their obligations. Enterprises are closed, the economy is blocked - this is the landscape we are presented with.

Ora News TV: Governor, in the Decision to reduce the policy rate, you have expressed that: Albania enjoys a good economic and financial health; the functioning parameters of the economic and banking sector are sound; capital liquidity reserves of the banking sector are high. These are reasons for us not to fret. Despite the economic downturn during this year, citizens overall should not be concerned about the Albanian economy?

Governor Sejko: Like the entire world we must be concerned up to a certain degree. We have undertaken several security measures to mitigate the negative effects of the crisis, which we will face necessarily. Albania enjoys a good financial and economic health signifies that we have experienced a good economic growth. A good financial health means that we have a well-capitalised banking and financial system and adequate liquidity. These elements provide the necessary confidence to manage and withstand the period of shock with the least amount of pain. But this does not signify that we will be capable of putting breaks on the economic downfall or that we will not be affected. The financial situation of the banking system is one of the main pillars that will have a positive effect in overcoming this situation. In addition to this, we should not have misunderstandings, the banking system is not the only "rescue boat"; the Albanian government will have other set of measures that we are having a look at, but it is important that the financial system is able to ensure the necessary liquidity to all economic agents in the market and we the central bank have the adequate liquidity to supply the banking system and through it all the economic agents. We have taken several measures and despite the shock we have carried on normally also during these days. We have conducted REPO operations with commercial banks, providing unlimited liquidity supply. The market was able to withdraw all the needed liquidity for the domestic currency. Also, the Albanian government has also withdrawn

"The good news is that not far from yesterday, we signed an agreement for a special instrument designed for times of crises, valued at EUR 175 million which will be granted to the Albanian Government by the IMF in the form of a loan."

a liquidity amount through the Eurobond of the banking system. Good news is that the IMF has recently communicated closely with the Ministry of Finance and with us, and not far from yesterday we signed an agreement for a special instrument designed for times of crises. Thus, EUR 175 million will be granted to the Albanian Government by the IMF in the form of a loan, and the necessary liquidity in foreign currency, i.e. in Euro, will be ensured by both the banking system and the IMF. We must be clear that some parameters or criteria which were forecasted for a normal situation, such as the level of debt and budget deficit, will not be respected, since the situation we are facing is extraordinary. We are certainly collaborating with the IMF and other international institutions, and their orientation is that we will temporarily have to forego some goals, such as fiscal consolidation and the reduction of debt level. Thus, we are obligated to have a temporary increase in debt level and, after overcoming the crisis, we will return to fiscal consolidation. We are working with the forecasts; we are expecting that in 2020 the debt level and the fiscal deficit will increase, and in the upcoming years, this increase will smoothen and reverse. This is not valid only for Albania, since this is an all-encompassing extraordinary situation.

Ora News TV: This is good news, that US 170 million will be shortly accessible to the Albanian government, right?

Governor Sejko: US 175 million will be accessible starting from next week.

Ora News TV: Are they aiming a specific objective necessarily or is it simply an aid or support to state finances?

Governor Sejko: The funds serve the state's budget to manage the crisis and help the Albanian economy fulfil the liquidity needs of the state's budget in foreign currency. Also, as a central bank we have supplied the banking system with the liquidity necessary for all the economic sectors. Managing the outset of the situation has been important, since we are 4-5 weeks under these circumstances and, during this time, we have tested the overall situation. The citizens have quite understood and have demonstrated a high level of civility in respecting the restriction measures in order to safeguard their health. We have seen that despite the challenges imposed by the situation, the public has acted in a mature way and has not fallen victim of panic. Furthermore, the chain of banks has been restricted to cash and despite the queues created as a result of restriction measures, they have been able to offer their services, and

the citizens have obtained the necessary cash. Thus, we were able to manage the most sizeable shock, both as regards withdrawing the necessary cash and conducting the financial transactions. In parallel, we have also taken some easing measures, as was for instance the removal of fees on electronic transfers, which facilitated non-cash transfers, so that customers did not feel obliged to physically go to commercial banks, but transactions were conducted without their presence. Another measure undertaken by the Supervisory Council was the reduction in the amount of charged commissions. Thus, despite the fact that the first week of the pandemic was stressful, the banking system overcame the situation without any issues and the activity has continued normally, naturally within the restrictions.

Ora News TV: Another piece of good news is the decision that banks will not be able to distribute dividend for at least the first six months of 2020.

Governor Sejko: Yes, this was a decision that we undertook during yesterday's meeting of the Supervisory Council; we decided to suspend the distribution of commercial banks' dividend for one quarter. They have a high capital adequacy ratio - at the 18% level from 12% required by the central bank - and this decision was somewhat necessary, but it is a prudential measure, which in the current situation and taking into account the recommendations of the ECB and European Banking Authority, it was adopted to provide more security. We will see the performance of the financial system and the economy in the future and we will analyse it again until the end of the year. Commercial banks have been quite cooperative and done their maximum in managing the situation; we have their full understanding for all the undertaken measures, on which we have first consulted with banks and the Albanian association of banks.

"In fact commercial banks have a high capital adequacy ratio of 18%, from the 12% required by the central bank."

Ora News TV: Mr. Governor, some enterprises and citizens were initially disoriented whether the extension by three months of instalment payments would be automatic. Meanwhile, few days ago, you have put up a link on the central bank's official website, whereby individuals may ask questions or request additional information on the extension. There has been confusion in the public whether the extension is automatic or individual for each case.

Governor Sejko: I have clarified that the loan extension is not automatic. Not all borrowers of all banks will be granted a loan extension for a three month period. This is valid for all customers who are facing financial difficulties due to the situation created by the pandemic. The

“We have adopted the necessary amendments to not burden banks with reserve fund provisions in order to cover loans...”

number of these customers - as enterprises and households - naturally, might be very high, but yet they must contact with the bank and report their situation, in order to benefit from this measure. We have adopted the necessary amendments to not burden banks with reserve funds provisions in order to cover loans, therefore we have offered them the opportunity to realize this extension. Some specific banks have adopted this measure, some other banks are elaborating on it since they do not have the adequate level of liquidity to honour the extension to all applicants. I would like to emphasize that banks are quite proactive in adopting this measure and in all cases when customers have expressed financial difficulties the loan will be extended by three months. However, it must be understood that the portfolio and the number of customers is very large, and the application process takes time, since despite movement restrictions, the extension of loan instalments requires the signing of a new lending agreement. As a result, we have notified all customers to address the central bank to aid the cooperation between customers and banks.

Ora News TV: So in this case you have only assumed an advisory role, helping customers with the procedures with commercial banks?

Governor Sejko: As a supervisory authority we have the right to evaluate commercial banks and oversee the entire process. Naturally the credit agreement is bound between the respective parties, in this case the customer and the bank, and at the end of the day the bank takes the decision, but we have an agreement with all the banks to extend loans and we will observe how proactive is the functioning of the loan extension process. It is true that the main complaints do not come from banks' customers, but from non-bank financial institutions. The latter, in contrast with banks, have liquidity issues, since income from loan instalments, not deposits, are the main source of liquidity. Non-bank financial institutions operate with a different financial scheme, and they do not have the same approach as commercial banks, but they are certainly part of the regulatory amendments and the Order, and we will assist all customers to promptly solve this situation.

Ora News TV: *This decision-making has not been done before, entering even further into uncharted territories. In the second part of the show I would like to cover these unprecedented measures, maybe also regarding the conceptualisation of quantitative easing. If we were to concentrate on this part in the beginning we said that non-performing loans were not high during the first quarter, this is a good thing, but what is expected to happen throughout the year? You said that banks are well-capitalised and can maybe handle non-performing loans, but overall, what are the expectations, with the information available, at least during this difficult month?*

Governor Sejko: As I stated, forecasts are hard during this situation. We hope that the duration of the pandemic and the containment measures, is as short as possible, in order to rapidly start the economic recovery. This is particularly valid during the current tourist season as tourism is one of the main pillars of the Albanian economy. We hope that June will be a positive month; although flights are suspended for a longer period, we expect that domestic tourism will have a positive effect. This positive effect will depend from the duration of the pandemic, taking into consideration the uncertainty of many expectations. It is important to note that this situation met with a sound financial system. This is true for both Albania and many other countries, since luckily the contained risk criteria after the 2008 crisis strengthened the financial system against other financial crisis. We have discussed and have expected criticism on liquidity surplus, not returning liquidity to the economy, and banks have always been under pressure from different economic agents for inadequate crediting, but surely they have their own risk criteria. Banks would like to have a sound credit growth, without repeating non-performing loans or violating risk criteria, which happened prior to 2008, but this pandemic found banks in a very good shape as regards liquidity, and this is beneficial in facing the situation. Also, the measures we undertook as regulators on capital adequacy, where we required a higher capital adequacy ratio, obligating banks to carry higher reserves, are also in favour of this situation. So, despite the situation with returned loans - and we are aware that enterprises that are in a difficult position would have extension of loan instalments and we have adopted the regulatory easing to not burden banks with loss provisions or reserve funds, in order to keep their ratios at an acceptable level - there would certainly be an increase of non-performing loans. We still cannot say how much this increase would

“...The financial stability is a priority and a precondition, which we would not impede despite the crisis.”

be, but it is important that banks' capital adequacy, the liquidity situation and main financial soundness indicators are preserved. The financial stability is a priority, a precondition, which we would not impede despite the crisis. Banks will use all their available capacity to help. They are cooperating by showing a high level of professionalism, and we will overcome the crisis by well-coordinating and undertaking measures, but naturally we would not allow the obstruction of the financial stability.

Ora News TV: So the main thing is that the Albanian economy, even after the crisis, will stand on its feet, with a sound financial system, and this is the goal you are confirming?

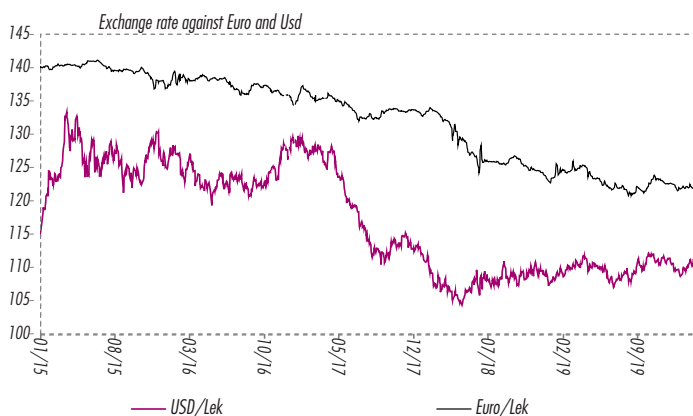
Governor Sejko: Exactly...

Ora News TV: If we could cover some questions coming from people. I would not ask a direct question, but they are maybe topics we must talk about. We have returned to the second part of the show with the Governor of the Bank of Albania, Mr. Gent Sejko. The discussion is focusing on the soundness of Albanian banks - commercial banks - and the Governor is providing all the necessary institutional support and also the institutional analysis which proves their well-capitalisation, meaning that whatever the case they will not be hindered despite the undertaken measures. Their soundness will not be obstructed until the end of this difficult period. Mr. Governor, last week, citizens were disoriented as regards exchange rate fluctuations, particularly Euro. This was due to temporary institutional speculations? Are the grounds for concern?

Governor Sejko: Our exchange rate regime is good. We have emphasized that the exchange rate is determined by market demand and supply on domestic and foreign currency. We have observed that during these years, we have experienced an appreciation of the exchange rate, so our domestic currency has appreciated and Euro has depreciated. We have attracted lots of criticism from enterprises, mainly exporters, and we have intervened according to our central bank parameters. We interfere in the market when there are turbulences and speculations, and when our primary goal of inflation is hit hard, but this are very rare cases and the free exchange rate regime in an open economy, such as Albania, is the one that works and it will not change. We will continue to have a free exchange rate regime. As we have underlined, the exchange rate is based mainly on the fundamentals.

In the past, we have experienced an appreciation and we said that it was based on the fundamentals, revenue from foreign direct investments in the economy, which stood at high levels during the past years - approximately EUR 9 million or 1 billion per annum, according to the official numbers reported by public institutions, statistics institutions or the Bank of Albania. In the last years, we had EUR 2 billion revenue from tourism. Also, remittances have been considerable, at EUR 1 billion. So, only these three channels provide billions of Euro coming into the Albanian economy. Naturally this input, for a small economy such as ours, is sufficient to appreciate the exchange rate. In this situation, as all channels are blocked across the board, we will naturally observe an effect on the exchange rate, which is a very sensitive indicator. First of all, we also had a certain lack of Euro in cash last week, caused by the blocking of flights. Without going into technical details on the method of Euro clearing, I would simply like to say that we were facing an obstacle and this had an effect. So, in addition to the foundational factors, which are essential to the economy and also determine the free exchange rate level, we also dealt with a certain factor for a certain week. Then, the certain amount of Euro was accorded and agreed in order to avoid any issues on supplying the banking system and the market with Euro. However, as long as the free exchange rate regime upholds, the exchange rate will be determined by market demand and supply. We will not interfere and the exchange rate will be the one the market demands.

Chart 40 Exchange rate in the domestic market



Source: Bank of Albania.

I cannot say how much the exchange rate will be, since we are like all other central banks who adopt a free exchange rate, thus we cannot control it. It is different when a fixed exchange rate is adopted. In this case the exchange rate can be controlled, but this has other consequences and effects on the economy. If we apply a free exchange rate regime, like many other countries do, naturally we can neither forecast nor control the exchange rate, but we try to keep an eye and avoid speculations.

In the last days, we have noticed that the exchange rate has stabilised again - spreads have tightened and banks' behaviour regarding the exchange rate is more normal - however, we cannot forecast the level of exchange rate. As the head of central bank, I get questions from many colleagues and friends about the exchange rate course, and in all sincerity it cannot be forecasted. I explained the reasons behind appreciations and depreciations, based on several fundamental factors. If our economy returns to normality and tourism develops - being one of the main pillars of Albanian economy - remittances and foreign investments, which are certainly in Euro, will continue to flow in.

One of the reasons we have followed a de-euroisation strategy is to avoid consequences caused by similar situations that can also be repeated in the future. So, we aim to shirk the exchange rate risk for a better monetary policy transmission and to reduce the negative effect on the financial stability of the country. We have requested a de-euroisation policy to have the lowest possible level of euroisation, but this is not our current battle.

Ora News TV: De-euroisation is a battle of the past, but it belongs to this crisis as well. The instruments that you have used would be efficient in helping all the Albanian citizens, but you are saying that this is a gamble or a bet. Whoever understands the exchange rate may convert the money in euro, then in lek and then back again. According to you this is not recommended, so enterprises and citizens should not play with this, right?

Governor Sejko: What you said is correct. In principle, in moments of crisis, each behaviour or transaction conducted to exchange one currency with another, has been generally proved to cause losses in the balance sheet of enterprises and citizens. Calmness, maturity and the observation of the market must dominate. Financial transactions are recommended to be carried out based on the needs of enterprises for activity and in a calm financial and economic situation. In general, in a panic situation, financial transactions of exchange have resulted in

losses since the situation changes. For the moment, the exchange rate in the market does not fluctuate, but down the line we will see the effects of the crisis on the economy and the effects of the economy on the exchange rate.

Ora News TV: Mr. Governor, I don't know if you watch Netflix. In the movie "Casa de Papel," Albanians have seen that money can be printed out and used freely. In Albania the question is being asked ever more often: Why don't we print money and give them directly to citizens? Have you thought about this? If this is no applied why is that?

Governor Sejko: This is a theory that stems from moments of crisis; it was elaborated in the 2008 crisis but has not been applied. In general, banks through their instruments have applied quantitative easing. The ECB, Fed, Bank of Japan and Bank of England are examples of following the accommodative monetary policies and quantitative easing. Monetary easing is the reduction of the interest rate in order to stimulate lending, consumption and investments, whereas quantitative easing is interfering in the market using liquidity, by purchasing government's debt, securities or government T-bills, through the banking system or individually. These countries have injected liquidity in the market, mainly through the banking system, and are a breath of fresh air for the economy. In these difficult times of crisis, when the market needs liquidity, the theory of "monetary helicopter" has been circulating: central banks print money and directly distribute it to the citizens. This has remained a theory, but naturally in a crisis situation these theories have resurfaced and spread in the public opinion. This theory has not been applied. Our country is characterised by a high level of euroisation and we would have an even speedier inflation if hypothetically we were to do something like this. This is not part of our strategy, because as I explained it, our system has the necessary liquidity in Euro and domestic currency. Through the banking system, we have continuously supplied the market with liquidity; we have even removed the REPO restrictions during this period. Therefore, using the "monetary helicopter" is unnecessary - printing money without criteria and handing them out to citizens - simply because our currency would be depreciated and prices would increase tremendously. Hypothetically, if money was thrown to the market, naturally prices would be quoted in foreign currency and this money would have no value. If we go back to 1997, the economic and financial crisis caused the dollarisation of the economy - everywhere you went, despite the bread

"Monetary easing is the reduction of the interest rate in order to stimulate lending, consumption and investments, so to have a lower rate, whereas quantitative easing is interfering in the market using liquidity, by purchasing government's debt."

shop, goods were quoted in dollars - so lek had no value. The same thing happened in Turkey and the Central Bank of Turkey, during that period, was forced to add three and six zeros to its banknote. The Turkish economy was dollarised and prices were quoted in US dollar. This is what would happen if we were to print money without restriction. So, first of all this is not necessary, and second of all, it would have a negative effect on the economy, an undesired impact on macro economy. We are in a crisis situation and in periods such as this, naturally, all parties would experience losses of some kind. If activities are shut down and somehow even "life", certainly there would be losses of some kind, but these losses are to be accepted, managed and overcome as quickly as possible through adopting adequate measures. Later, we would need to undertake structural reforms in order to accelerate the economic growth, but we must be aware that we will suffer losses, which we need to manage during the pandemic period. The central bank has no strategy in place to adopt the "monetary helicopter," in other words to print lots of money out. We have the necessary liquidity in domestic currency and we will work with what we have, meanwhile foreign currency reserves were already explained.

Ora News TV: So, what you are saying is that if you give citizens ALL 200 thousand extra, its purchasing power will not be ALL 200 thousand, but less, and it will entirely change the behaviour of all economic information in the society? It will cause more of a chaos rather than bring any benefit?

Governor Sejko: Yes, it would be naive for us to print money without criteria, because this would disrupt the fundamentals and cause inflation, so simply put, prices would go up and nothing more. We print money continuously and the monetary measure in circulation has increased in a controlled way before the pandemic as well, due to the economy's need for currency, but this is done while always keeping inflation and macro-monetary parameters under control.

Ora News TV: Correct me if I am wrong, but word has circulated in public that you said there is a potential plan for quantitative easing. How is this any different from "helicopter money"?

Governor Sejko: Quantitative easing is purchasing securities. If the crisis will become deeper, within the criteria and legal definitions applicable, we will finance the deficit, as it is provided for and defined, by purchasing Albanian Government securities through the banking system - this is quantitative easing. Certainly, it is the state's budget that will be managing the crisis in relation to the citizens rather than the central bank. They preserve the macroeconomic and financial parameters of the banking system and

price stability, as well as cooperate with the government to supply the adequate liquidity and maintain a contained level of debt. This is the role of the central bank. It is the state's budget - which is also happening in Albania - the one who distributes or provides the social assistance and wages in times of crisis. The theory "helicopter money" would be central banks going directly to the citizens by printing out money.

Practically, with quantitative easing, the central bank increases government's financing by purchasing treasury bills. This would be the course of action in case the macroeconomic parameters were to become worse; all central banks, in the region and beyond, have adopted this plan. The theory of "helicopter money" has not been applied by any central banks until now. Central banks' interventions and the strong intervention of the Bank of England are the functional way of preserving the parameters in order for the market to function normally.

We must understand that these are the measures that keep the market injected so that the parameters are preserved, but this does not mean that all the effects of the crisis can be prevented. What is important is how to best manage the losses and start as quickly as possible the economic recovery. As a central bank, this is our role, i.e. to undertake measures that will mitigate losses, to manage this period to the best of our abilities and to preserve the macroeconomic parameters for the normal functioning of the market. Fortunately, this is what has happened, even though we have experienced challenging weeks. The concern on health, the suspension of the normal activity, and movement restrictions are elements that have an impact on people's psychology and pockets, which in turn affects consumption. Until now, we are grateful to the public for showing awareness and understanding, and reacting in a civilised and self-possessed manner. Fortunately, these days a low number of cases have been counted; medical professionals are discussing that the peak might have passed at the end of March, and it is thought that by the end of May we will start the easing of the measures and reopening of the activity.

Ora News TV: If you allow me I would like to make a summary for the viewers: you are saying that the Albanian Government has found financing at least for the upcoming months for EUR 175 million from the IMF and EUR 100 million from the Eurobond of the preceding week's auction. So, more or less there is no lack of financing and it isn't necessary to intervene to finance the deficit.

Governor Sejko: This is as far as foreign currency income is concerned. As regards income in lek, currently the Albanian Government is not in a situation that needs to issue Treasury bills; it is not the time yet.

Ora News TV: *Also, you say that there is no room for concern regarding the foreign exchange rate, but the public must be attentive and not get involved in speculations, since it is unpredictable. The public has questions regarding credit restructuring - so, let's return to the primary concern of the citizens - some of them have applied, but some non-bank financial institutions require the payment of instalments and they will charge late fees in the contrary.*

Governor Sejko: I have said it in a previous interview that non-bank financial institutions present the greatest challenge in negotiating these cases. This is because they do not hold deposits and have difficulties in regards to liquidity. The reaction of non-bank financial institutions was not as cooperative as banks in relation to us, the central bank, when we undertook the measure to extend monthly loan instalments. We must understand that extending monthly loan instalments would be like "removing the oxygen" from them, because their business model depends on those instalments. However, we have conversed both with them and the European Bank for Reconstruction and Development (EBRD). The EBRD has shown its readiness and has made available a line of credit, but this requires time due to bureaucratic procedures. It is understandable that the customer would like to immediately resolve this issue with the non-bank financial institution. The public must know that non-bank financial institutions account for 5-6% of the market, while banks have the majority of 95%.

Ora News TV: *The low-income families will be mostly affected by this?*

Governor Sejko: Certainly, I agree with you. I would suggest to the citizens that are concerned about this to send a written complaint at the Bank of Albania's website, and we will surely address the issue in cooperation with the financial institution.

Ora News TV: *The e-mail address is bankofalbania.org, right?*

Governor Sejko: Yes.

Ora News TV: *Mr. Governor, I wish you are successful in managing this unprecedented crisis to the Albanian economy and the entire world.*

Governor Sejko: Thank you!

INTERVIEW WITH GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA. “OPINION”, KLAN TV -7 May 2020-

Klan TV: *Mr. Governor, I have 4-5 simple questions, meanwhile 2-3 questions are in fact concerning the same point. The first - at what degree has the extension of loans made official and is it valid for the entire banking system?*

Governor Sejko: Mr. Fevziu, the extension of loans for the current quarter has naturally been made official and this is a known fact among the public. There is a considerable amount of loans which are extended for one quarter of around 2 billion Euro, and meanwhile other cases are under review.

“There is a considerable amount of loans which are extended for one quarter of around 2 billion Euro.”

Klan TV: *For the entire banking system Mr. Sejko, including micro financing institutions?*

Governor Sejko: Yes, for the banking system and non-bank financial institutions, which operate primarily in the micro lending field. These institutions have extended their loans for three months for those customers that have faced financial difficulties. Therefore not all customers are included, but only those who have applied.

Klan TV: *This is precisely the question, is the loan instalment extended automatically or case by case?*

Governor Sejko: No, the extension is not automatic, but it is reviewed case by case, and it is approved only for those customers that, based on the bank's judgement, are facing financial difficulties. I would like to emphasize that in this process banks have been proactive, and have sufficiently eased the criteria. I may say that banks have approved 99% of applications, because in reality customers face great financial difficulties.

Klan TV: *I believe that during this time almost all people are facing financial difficulties, due to the created situation, while there are many customers who pretend that banks have been closed-off with them.*

Do you have any complaints, or have you made verification in this direction?

Governor Sejko: Are you referring to the extension of loans or the payments relating to the guarantee?

Klan TV: No, I am referring to loans?

Governor Sejko: As regards loan extension, banks have been generally proactive. There might be some exceptions related to a specific issue, but seeing that 21 000 loans have been approved to this date, which includes small and large enterprises, at a value of 2 billion Euro, serves as evidence to that.

Klan TV: Meanwhile, are there no penalties for this extensions? There are many citizens that pretend that the lenders will extend the instalment for three months, but they will later have to pay all three months piecemeal or will pay extra costs.

Governor Sejko: Mr. Fevziu, in our regulatory amendment we recommend banks to adopt loan extension without penalties. And that has been generally the case. So, there has been an extension in time for three months that will not incur any penalties and will not have to be paid piecemeal. So, it is the same form of payment with the principal.

Klan TV: Meanwhile there are claims that banks have kept not so small of a percentage from customers' war wages. So, they have not benefited the gross amount of the war wage issued to them by the government.

"...We have removed the commissions on opening small-valued accounts, precisely for receiving the war wage, and most banks have allowed these accounts to be opened without charging commissions on these new accounts."

Governor Sejko: In this case, there might be a bank or two that keeps commissions for transactions and bank accounts. Different banks charge different commissions. We have removed the commissions on opening small-valued accounts, precisely for receiving the war wage, and most banks have allowed these accounts to be opened without charging commissions on these new accounts. It might have been a case or two, but this is the general outlook.

Klan TV: One economy journalist said a few minutes ago that in one of your declarations you have talked about the first sovereign guarantee, but not the second guarantee, meaning the loan issued that supports the enterprises. What is the deal with the second sovereign guarantee? Have banks accepted it and have they agreed to issue it?

Governor Sejko: Mr. Fevziu, Minister Ahmetaj explained the second sovereign guarantee previously. What we understood is that it has been approved by the government, but has not be declared yet. In this period we have worked only with the first guarantee, thus yesterday, following the meeting of the Supervisory Council, I provided information and data only for the first sovereign guarantee.

Klan TV: Only for the first one?

Governor Sejko: The second guarantee will be seen in action. In contrast to the first guarantee which was issued for wages, the second one is dedicated to enterprises, to support their activity - as it was presented by Minister Ahmetaj - for turnover instruments and fixed assets. The actual terms and conditions were negotiated directly between banks and the government.

Klan TV: And when will it be active?

Governor Sejko: Very soon I believe, since it has passed over to the government yesterday. An important point that you might raise in the upcoming shows, would be the elaboration of this guarantee in relation to enterprises and banks. Even though this remains to be seen, from my judgement I believe that banks would not disburse this guarantee automatically, since they adopt some risk criteria and a customer classification schema. For instance, for customers who always perform badly, the guarantee might not come forthwith. Banks conduct an analysis case by case, since this is always a risk transfer to banks.

Klan TV: Correct me if I am wrong, put more simply, you are saying that those who are used to forgo their payments and extend their loans would have it harder in obtaining a new loan, am I right?

Governor Sejko: I don't want to go into technical details, but different criteria would certainly be evaluated, as Minister Ahmetaj explained, so long as the guarantee covers only 60% of the risk, the rest is up to banks.

Klan TV: Banks would be more prudent?

Governor Sejko: Yes, banks would be more prudent so long as they carry 40% of the risk; they will carry a percentage of the customer's risk and this risk is classified.

Klan TV: Meanwhile, Minister Ahmetaj said that you have conversed yesterday with the Prime Minister on another loan extension. Could you please provide more detail on this?

Governor Sejko: Considering the current situation, there are normally continuous discussions between me and the Minister of Finance, between me and Minister Ahmetaj. Also, today we had a meeting with the Prime Minister and Minister Ahmetaj, during which we discussed the macroeconomic implications of the crisis and the measures that both the government and the central bank may undertake. In this light, we discussed also issues regarding customers, households and enterprises, as well as the support provided by the banking system. The possibility of another extension or restructuring was also discussed during yesterday's meeting with the Supervisory Council. We are evaluating the situation of the banking system from the standpoint of liquidity and other banking system soundness indicators, such as capital adequacy, in order to understand its ability to support enterprises. On the other hand, we should understand that enterprises must be supported, because if links of production are cut due to either failure or bankruptcy of enterprises, it would be impossible to fulfill loan payments. If this were the case, it would be automatically reflected in the size of banks. The banking system and banks understand this, since they conduct their own risk analyses. We are analysing numbers and, after consulting with banks and business groups, in order to understand their financial requests and abilities, we will reach a conclusion before the end of the quarterly term. I reiterate that it is important for us to avoid cutting the production chains, protect ourselves against bankruptcies, but above all maintain the stability of the financial system; to not hit banks.

"...we are evaluating the situation of the banking system from the standpoint of liquidity and other banking system soundness indicators."

Klan TV: Mr. Sejko, what is the severity of the blow we have received?

Governor Sejko: The strength of the blow we have received cannot be measured at this moment because the numbers are obtained at a

later date - both in Albania and the world. As was also declared yesterday at the Declaration of the Monetary Policy, according to the positive scenario, the hardest blow would be in the last quarter until the end of this quarter, and then the recovery will start during summer, but we will be under recession until the end of the year. This year end will record an economic downfall in both Albania and the world. We also heard the assessments of international institutions. The European Union has predicted a deep recession of 7.7% in the Euro area, and Albania will undoubtedly have a recession. We are a small country, Mr. Fevziu, and if we operate with smart policies, if we act wisely.

"This yearend will record an economic downfall in both Albania and the world."

Klan TV: History shows that we haven't acted with much wisdom...

Governor Sejko: We must try. This crisis is a test. During history maybe it hasn't been this way, but we must show wisdom now, since this is the way to overcome the crisis with the least possible pain and damages. We will certainly have an economic downfall which would be allocated to all stakeholders - enterprises banks, households and the government - but the speed of recovery is the significant point.

Klan TV: A viewer claims to not have received the full amount of the war payment, he/she has received ALL 20 000 instead of ALL 26 000. How do you explain this? Maybe it demands an answer from Mr. Ahmetaj.

Governor Sejko: Mr. Fevziu, in this case it could be a human mistake or this individual might have an unpaid obligation toward the bank, which would have been subtracted at the moment of the issuance of the war wage payment.

Klan TV: Another question comes from the public whether another extension will be applied, since credit financial institutions demand customers to pay all accumulated instalments piecemeal in June in order to avoid penalties, at a time when the war payment has not yet been distributed.

Governor Sejko: It is true that non-bank financial institutions face a problem, since, in contrast to banks, they are in a more difficult financial situation. Banks operate with deposits, enjoying a much better liquidity position, whereas financial institutions obtain a loan or have different

patrons, and in case they do not cash out credit instalments as usual, they cannot honour their obligations towards their patrons or banks which have issued them with credit. Therefore, banks have more room to work out these issues, while financial institutions are more restricted. It is precisely this reason that we are analysing the available options so that all customers could benefit at the same measure, both banks and non-bank financial institutions, without distinction. On the other hand, we must also take into consideration the financial situation of non-bank financial institutions, when deciding on whether to apply a restructuring or extension at a second phase, even though non-bank financial institutions account for a very small portion of the financial market.

Table 6 Total assets of NBFIs, December 2018-December 2019, (in ALL billion)

	December'17	December'18	December'19
Total assets of NBFIs*	38.15	46.33	58.1

Source: Bank of Albania.

* Total assets of NBFIs do not include data for Albanian Post Office (Posta Shqiptare) as its balance sheets also presents data for its other non-financial activities.

Klan TV: What percentage of the market is that?

Governor Sejko: Around 6-7% of the financial market, or maybe less. However even these institutions have a considerable importance, since they operate mainly in rural areas. They generally support agriculture, which is in great need of it. So they work with small customers, but they are quite efficient.

Klan TV: Another of our viewer says that he obtained a loan more than a year ago which he pays regularly; he has issued a request for a loan extension and the bank employee told him that instalments will have to be paid at the end together with bank's interest, so, the penalty is substituted with the interest. Is this normal?

Governor Sejko: There might be different cases and claims. I would advise the citizens to send their complaints at the Bank of Albania using through the electronic mail, and we will address their complaints.

Klan TV:Mr. Governor, thank you!

Governor Sejko: Thank you Mr. Fevziu!

INTERVIEW WITH GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA. “MONITOR” MAGAZINE -11 May 2020-

Monitor: *What is the primary role of the Bank of Albania?*

Governor Sejko: The Bank of Albania was created and operates based on the best central banking practices.

The Constitution of the Republic of Albania and the Law on the Bank of Albania provide a clear mandate: maintaining prices stability, a list of tasks that support the realisation of its main objective, where the most crucial is the supervision and regulation of the banking sector, as well as institutional, operational and financial independence in order to fulfil them.

Assigning price stability as the main objective of the Bank of Albania is based on a worldwide theory and experience gathered throughout many years. The philosophical consensus of economic regulation converges on the fact that price stability is an essential precondition for the long-term economic growth of the country, the well-being of the society and social equality, and financial stability. In Albania, the fulfilment of this goal is realised through

“Assigning price stability as the main objective of the Bank of Albania is based on a worldwide theory and experience gathered throughout many years.”

drafting and implementing an independent monetary policy, which is built on modern principles and instruments and functions completely in accordance with the free-market principle. At the core of this policy is assigning interest rates to keep the economy at its optimal level which is conducive to full employment, an increase of real wages in line with productivity, maintaining a stable financial situation for enterprises and creating the premises for an increase in prices parallel our inflation goal.

In parallel with its main objective, the Bank of Albania has a long list of duties, the majority of which are exclusively hers and have a direct impact on the long-term development of the country.

- First, the Bank of Albania oversees the licensing, regulation and supervision of the banking sector, where the objective of its work is to create credible financial institutions that safeguard the savings

of the people and are capable of lending to enterprises and households.

- Second, the Bank of Albania oversees the printing and issuing of banknotes and coins, providing the economy and the Albanian public with a trusted and tangible instrument for payment and at the level of its demand. Also, the Bank of Albania regulates and oversees the domestic electronic payment systems, providing the economy and the Albanian public credible platforms and instruments with low-cost.

Price stability, licensing, supervision and the regulation of the banking sector, as well as the maintenance of physical money and the electronic payment systems, are crucial elements of the financial stability architecture. In addition to this, the Bank of Albania contributes in this direction through: establishing and monitoring the Deposit Security Agency; establishing and maintaining the legal and regulatory framework on resolution; as well as welcoming a continuous dialogue with national and international partners.

- Third, the Bank of Albania manages the domestic foreign reserve in accordance with the best practices in the field.
- Fourth, the Bank of Albania has an important counselling role with the domestic public and private sector, by issuing opinions on the situation and expected economic developments, on the financial stability situation, as well as on important economic acts such as the State's Budget or draft laws, which affect the activity of the financial system of Albania. Also, we have given priority to the financial literacy of the public, aiming to plant the seed of managing personal finances as an essential aspect of the general culture in the market economy.
- Fifth, the Bank of Albania has an important role in the integration of the country. This role is simply and solely the process of the European integration, where we have our own tasks as regards market and financial system integration and beyond. It implies the continuous work to attract foreign investors, as well as the integration with the international platforms of financial commerce.

In the same vein, we have a considerable contribution to the development of statistics of the country, in the academic and professional debate on development strategies etc.

All of these may be summarised as follows: a central bank with a clear, professional and transparent legal mandate is an important precondition for the development of the public sector and a stable and long-term growth of the country. I am convinced that the Bank of Albania fulfils all these premises.

“...a central bank with a clear, independent, professional and transparent legal mandate is an important precondition for the development of the public sector and a stable and long-term growth of the country.”

Monitor: What instruments does the Bank of Albania use to fulfil its main objectives?

Governor Sejko: The monetary policy is based on a modern framework of instruments which is underpinned by the free-market principles. Said differently, the Bank of Albania creates the appropriate monetary conditions - here we refer to interest rates and the size of liquidity - but it only has an indirect impact on interest rates which banks use to operate with their customers. Also, allow me to emphasize that based on law, commercial banks that run domestically are the exclusive partners of the Bank of Albania in the implementation of monetary policy. We cannot carry out operations with other commercial entities, enterprises, households or other financial market operators.

More concretely, our main instruments are repurchase agreement and reverse repurchase agreement with one-week term, which are essentially short-term loans, provided by the Bank of Albania to commercial banks to cover their needs. The interest rate of these operations, which is also known as policy rate, represents the most important interest rate in the financial system and the starting point for determining all other rates of financial instrument, such as deposits, credit and credit instrument to the public and private sector.

In parallel with the repurchase agreement instrument and the support thereof, the Bank of Albania holds and operates deposit and overnight loan instruments, which together restrict the level of interest rate fluctuations in the interbank market, the mandatory reserve on deposits in lek and foreign currency, as well as the market orientation on the future of monetary policy.

Quarterly long-term liquidity injections are also part of the monetary policy instruments arsenal and foreign currency interventions in extreme cases. On other hand, the Bank of Albania may undertake operations to attract or inject inflation infinitely to the banking sector, by purchasing

“In the field of supervision and banking regulation, the Bank of Albania determines the criteria and rules on the banking sector operation, by determining restrictions on the level of capital and liquidity of the banking sector.”

from and selling to it government securities with full rights. These actions are now known as accommodative monetary operations and are constituents of the arsenal of the monetary policy non-conventional instruments.

In the field of supervision and banking regulation, the Bank of Albania determines the criteria and rules on the banking sector operation, by determining restrictions on the level of capital and liquidity of the banking sector, on the activity allowed by banks and the degree of risk that they may take over, as well as taking care that banks have stable and efficient structures for risk management and risk monitoring.

“... foreign reserves are an important anchor of the monetary and financial stability, as well as a crucial element of its credibility to foreign investors.”

Monitor: How much is the foreign reserve of the Bank of Albania and when it is used?

Governor Sejko: First, allow me to highlight that foreign reserves are an important anchor of the monetary and financial stability, as well as a crucial element of its credibility to foreign investors.

- From the financial stability angle, foreign reserves enable the Bank of Albania to promptly respond to banks' demand for liquidity in foreign currency, by guaranteeing - even under unprecedented circumstances - their normal functioning. In this view, an adequate level of foreign currency reserves decreases the risk premia of Albania's banking and financial industry, by piquing the interest of domestic and foreign investors to operate in it.
- From the monetary stability angle, foreign reserves enable the Bank of Albania to intervene in the domestic foreign currency market in case serious issues are encountered in its functioning, or in case of strong and damaging fluctuations of the exchange rate. In this angle they provide an additional instrument of monetary control.

“By analysing the economic and financial circumstances of Albania, I presume that we are still far away from fulfilling the conditions to use foreign currency reserves.”

- From the credibility angle, foreign currency reserves guarantee foreign investors if there is a strong crisis in foreign currency, which impedes - in the short-term - the solvency of the public and private sector of the country. In this case, the foreign currency reserves serves as an instrument

of guarantee to foreign creditors that the Albanian economy has the necessary currency to honour its obligations. That is the reason why an adequate level of foreign currency reserves is essential to lower the costs of borrowing to the public and private sector in capital international markets.

Considering the role of foreign currency reserve, its use is undertaken only under very particular circumstances. By analysing the economic and financial circumstances of Albania, I presume that we are still far away from fulfilling the conditions to use foreign currency reserves. The monetary and financial stability of Albania remains sturdy, the banking sector does not present issues of a lack of foreign currency liquidity, the country is miles away from being threatened by foreign debt insolvency, and the government is proceeding with the issuance of Eurobond in international market in order to fulfil its needs. Also - and, based on our judgement, holding the same weight of importance - the necessary funds to address the consequences of the shock may be ensured by the local market and our domestic currency, lek. The Bank of Albania has ample instruments to fulfil economy's needs for funds in lek, instruments that according to the latest analysis present lower costs than reserves, since the Bank of Albania exercises a weak control over them. At last, this is the right moment to emphasize that the last instant when the foreign currency reserve was used, not in view of the monetary and financial stability of the country, but to mitigate the effects of an economic crisis, was in the eighties. In the period immediately following the changes in the political system of the country and the overthrow of communism, under strong economic and financial upheavals, Albania was forced to use the foreign currency reserve to pay its import receipts for vital goods needed by its people. I believe that Albania is distant away from a similar situation.

Currently, the foreign reserve currency of the Bank of Albania is around EUR 3.2-3.3 billion. Beyond the nominal level, this reserve is in line with our criteria of analysis on its adequacy. It serves to cover over 6 months of import of goods and services and over 150% of the short-term external debt of Albania.

Monitor: What are the mechanisms available to the Bank of Albania to intervene in cases of crisis similar to the one our economy is undergoing due to the COVID-19 pandemic?

Governor Sejko: Our mechanisms to address crises depend on the origin and the consequences thereof.

Shocks on the real sector of the economy, both those that affect the level of economic activity or those that affect the level of prices, as a rule, are addressed through the use of monetary policy instruments. Monetary policy position is eased if the shock has negative consequences on the economy and a downward effect on inflation, and vice-versa.

On the contrary, crises that originate from the financial sector must be addressed through a combination of macroprudential policy instruments - with a view to guarantee financial stability - and monetary policy instruments, in order to address the negative consequences that financial crisis might bring on the economy.

The current shock requires a comprehensive involvement of public authorities. It requires the use of the fiscal stimulus as the primary instrument to engender stimuli targeted to Albanian enterprises and households. The increase of enterprises' liquidity is aided by the temporary accommodation of the taxation burden and public guarantees on credit risk. The compensation of a portion of the missing income supports the purchasing power and reduces the social consequences of the shock on households.

The Bank of Albania has put to use its own monetary policy instruments, has made changes to the regulatory framework of the banking sector, and has undertaken various regulatory and operational measures that guarantee the progress of the banking sector's activity and the payment system.

“At any case, our philosophy has been to provide the entire necessary stimulus to overcome the situation, without prejudging the monetary and financial stability of Albania and without impeding the balance sheet of the banking sector.”

At any case, our philosophy has been to provide the entire necessary stimulus to overcome the situation, without prejudging the monetary and financial stability of Albania and without impeding the balance sheet of the banking sector. In our view, the stability of the monetary and financial system is a necessary precondition for the recovery of the economy after the end of the pandemic. The shock on this stability and putting the banking and financial system under conditions that incapacitate its intermediary

function of funding the economy, would transform this shock in a dragging crisis for the Albanian economy.

Monitor: More concretely, how were these mechanisms used and how is their efficiency measured?

Governor Sejko: You might be aware that we have lowered the policy rate, in order to lower the price of new loans and the cost of servicing the existing debt, and we have also increased the supply with liquidity to the banking sector.

In the field of banking regulation, we have eased the regulatory requirements on credit restructuring and we have encouraged banks to offer enterprises and households who are facing temporary difficulties, extension of credit instalments. Also, we have temporarily suspended the distribution of the banking industry dividends, aiming to increase the level of capitalisation of the banking sector and its lending ability.

In the same vein, we have undertaken a series of other measures to guarantee the progress of the banking sector's activity, to guarantee the normal functioning of the payment system, as well as to ensure the supply of the economy with physical cash, currency and banknotes.

In my opinion, until now the measures undertaken by the Bank of Albania have been appropriate and timely. I would like to reiterate that we have been and will continue to be very careful toward the monetary and financial stability of the country.

The full assessment on their efficiency would be in due time. However, what I could say is that these measures have fulfilled the minimal operational objectives. First, the activity of the financial market remains under control. Liquidity moves freely in the market, without hiccups or blockades, while fluctuation indicators remain at adequate levels - even though they have recorded higher values they have not reached levels that impede the market. Second, the banking sector has reacted positively towards our regulatory measures, by preceding with the extension of the credit instalment payment - which, I would like to emphasize, damages the financial result of this sector in the short-term - and by continuing to support it with funds to enterprises and strained sectors.

"In my opinion, until now the measures undertaken by the Bank of Albania have been appropriate and timely."

I think that - at a longer time period - the success of our work will be measured by the degree of damage limitations on the economy, the

preservation of the economic and financial stability of the country, and the speed of economic recovery at the end of the shock.

Monitor: *How does the Bank of Albania realise its accommodative monetary policy and is there a plan to actually use it in the short horizon?*

Governor Sejko: The quantitative easing instrument is part of the non-conventional framework of monetary policy measures.

This instrument's purpose of use is to increase the volume of liquidity in the economy when a lack is observed or interest rates in the financial market increase, by damaging the monetary policy transmission and obstructing the access of credit to the private sector. In operational terms, the use of this instrument signifies purchasing government securities from the central bank in the secondary market. In other words, there would be fewer government securities in the balance sheets of commercial banks and more available liquidity for financing the private sector.

As I already mentioned, this is a non-conventional monetary policy instrument, since it represents a permanent injection of liquidity in the system. For this reason, it is used only in specific cases that I mentioned above, and for restricted periods of time.

Without judging the future decision-making of the Bank of Albania, I might say that the use of these instruments is part of our contingency plan, but its activation will be conducted only if we assess that it needs to be used.

In this light, it is reasonable to emphasise that - in an indirect manner - the option of using quantitative easing instruments pre-empt the need to use foreign reserves.

"...the growth of physical money in circulation is not as a result of Bank of Albania's policies, but it is the market's demand."

Monitor: *The currency in circulation has grown rapidly over the last weeks. What does this demonstrate regarding your policies? Also, the Bank of Albania is expected to put in circulation new denominations of 1000 Lekë and 10.000 Lekë. Why did you take this course of action?*

Governor Sejko: Allow me to clarify the public that the growth of physical money in circulation is not as a result of Bank of Albania's policies, but it is the market's demand. There are two important moments to understand this situation.

- Physical money represents only part of the economy's payment tools. The other part of these tools is made of deposits and current accounts, credit cards or other electronic money instruments. Physical money may be freely converted in other forms of electronic money and vice-versa.
- It is up to households and enterprises to keep their payment tools whether in a physical or current account form, demand deposits, government debt securities or something else.

The task of the Bank of Albania is to respond to the changes on time and according to the preferred structure of the economy as regards the form of monetary tools. This signifies that if economic operators want to use more physical money in their transactions, then we will supply more cash and vice-versa. This is not an essential element of the contract that we have bound with the public, in order to safeguard the trust on our national currency - but this does represent nor does it have a direct connection to our monetary and physical policies.

The Bank of Albania has undertaken all the necessary decisions and has engaged its structures to fulfil the market's demand with physical cash. To illustrate this, I will bring to your attention some indicators:

- In the first fourth months of this year, the money in circulation increased by ALL 9.9 billion compared to the ALL -1.3 billion decline in the same period last year.
- Only during April, the quantity of money in circulation grew by ALL 6.7 billion, against the ALL 0.7 billion decline in the same period of last year.

The higher money in circulation is supported by ensuring the adequate stock of money at the Bank of Albania, which builds up the trust both in the present and the future.

In this light, it is appropriate to emphasize that the Bank of Albania has started the procedures to print the banknotes of the new series of denomination 1000 Lekë and 10 000 Lekë, respectively since 2019, in order to put them into circulation within the fourth quarter of this year. The printing of the new 1000 Lekë and 10 000 Lekë banknotes is part of the continuation of the Bank of Albania's work to guarantee at any moment the supply of the economy with ready money. Due to this I want to ensure you all that the market is not wanting in physical money and this will continue to be the case for the future as well.

In the long-term perspective, we are conscious that the use of physical money in the Albanian economy is at a high level. This reflects the degree of our financial culture, the informality scale, as well as the development and sophistication of the financial system. In this context, the Bank of Albania has undertaken a series of actions to enhance public awareness on developing the payment system and encouraging the formalisation of the economy.

Monitor: What is your view on “helicopter money” option? What are the advantages and disadvantages and would this be considered as a solution in this situation?

Governor Sejko: The Bank of Albania akin to any central bank does not “gift” money. In any case, our liquidity injection operations are a form of loan, which is always granted in accordance with the collateral, or they are a form of financial assets purchases, which are liquid and have low risk. This moment is crucial. It signifies that the volume of liquidity that we put in the market concurs with the real needs of the economy - which is a precondition for price stability. Also, it signifies that Bank of Albania’s balance sheet is solid and its capital position is stable and does not impede the stability of public finances.

“...the use of “helicopter money” operations by the central banks of advanced and emerging economies, until now, remains a theoretical concept, which has not been put into practice.”

Therefore, the use of “helicopter money” operations by the central banks of advanced and emerging economies, until now, remains a theoretical concept, which has not been put into practice.

Money printing, with the meaning assumed recently, usually refers to the “gifting” of money by public authorities to enterprises and households in need. While referring to this interpretation of the question, I would like to highlight that carrying out similar operations by the Bank of Albania is impossible. First, if it is realised by the central bank, it goes against our main objective, i.e. price stability, therefore it is not permitted in the legal framework that regulates the work conducted by our institution. Second, similar operations would burden Bank of Albania’s balance sheet with losses, which would have to be transferred to the state’s budget. In other words, these operations signify a deterioration of the country’s public debt and as such, may and should be carried out only by fiscal authorities.

Monitor: The IMF and the World Bank forecast that in the basic scenario, the economy will contract by 5% this year. How does the Bank of Albania assess the COVID-19 effect on the economy?

Governor Sejko: The COVID-19 pandemic and the social distancing measures undertaken to address it, have given a complex shock to the economic activity of the country. On one hand, the social distancing measures and the increase of uncertainty have caused a fall in the consumption, investments and Albanian exports. On the other hand, the social distancing measures have also meant a suspension of production in certain economic segments and sectors of Albania.

“The COVID-19 pandemic and the social distancing measures undertaken to address it, have given a complex shock to the economic activity of the country.”

At the last press release issued by the Supervisory Council, in conclusion of the Monetary Policy Quarterly Report, we clearly said that the Bank of Albania is expecting a fall of the economic activity in 2020. Also, we said that this recession will be accompanied by a decrease of employment and increase of unemployment, financial difficulties for many enterprises and households, which are facing a steep decrease in income, increase of foreign and public debt, as well as a fall in the financial system’s income.

Our basic forecast scenario, which is based on the presumption that the pandemic will culminate in the second quarter and social distancing measures will become normal after this period, provides a projection of economic downfall comparable to the one you depicted. Meanwhile, other scenarios that take into account a longer duration of the pandemic provide projections of an even deeper economic downfall.

“Uncertainty on the development of the pandemic and the ensuing damages makes it extra difficult to forecast future economic developments.”

At any case, it is clear that this shock is unprecedented and quite complex.

Our counter cyclical policies - monetary, fiscal and financial - cannot prevent all the negative effects of the shock, but they could and should aim to obviate the long-term implications of this shock on the future

economic growth pace. Hereby I take into account the preservation of enterprises and production capacities of Albania, the protection of families and the strata of society that are in need, and the preservation of the monetary and financial stability of the country.

Monitor: How fast do you expect recovery and return to normality?

Governor Sejko: Uncertainty on the development of the pandemic and the ensuing damages makes it extra difficult to forecast future economic developments.

In our basic scenario, the pandemic will bring a contraction of the economic activity during 2020. Furthermore, given the gradual easing of containment measures, the economic recovery is expected to be relatively fast. Economic growth is expected to go to positive territory in 2021 and to continue on an upward trajectory from thereon. The increase of demand and employment will exercise pressure on the increase of wages, internal costs and inflation.

In a pessimistic scenario, a lengthier duration of restrictions would delay and slow down the recovery of the economy.

“The fiscal, monetary and financial stimuli that we have undertaken have provided a vital support to the economy, particularly to the affected sectors and households.”

The fiscal, monetary and financial stimuli that we have undertaken have provided a vital support to the economy, particularly to the affected sectors and households. Naturally, if the crisis lasts longer and the economic perspective becomes even more challenging, public authorities would have to take into consideration a further increase of economic stimuli, but this is something on which we are conscious and attentive. In conclusion, I would like to say that although the shock we are

undergoing is strong, the response and coordination of macroeconomic policies have created the premises of a fast economic recovery upon the conclusion of the crisis. Albania has all the potentials to overcome this test successfully.

**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA.
ORA NEWS TV
-11 May 2020-**

Ora News TV: You have repeatedly said that if the crisis continues, the effects will have a negative impact on the economy. Society, little by little, is going back to normality. From what you have seen these 9-10 weeks, what is happening with the Albanian economy? What is the outcome?

Governor Sejko: You made a summary in the opening of your speech which is more or less the message of the Supervisory Council of the Bank of Albania for the Albanian economy. The Albanian economy, as well as the economy of the region and beyond, was hit by COVID-19. This hit came both in demand and in supply; the production chain was disrupted as a result of the social distancing measures. Citizens were forced to self-isolate and this has definitely affected the economy. As the Supervisory Council, we analysed and foresee that the strongest hit to the Albanian economy will be experienced in the second quarter- according to the positive scenario we have predicted- whereas in the third and fourth quarter of 2020, Albania will continue to have an economic downturn, although not as strong as in this quarter. The recovery is predicted to happen in 2021- certainly in there will be no return of the virus and we will not have to go back to isolation measures. We hope that in summer there will be a managed and careful softening of the measures, followed by a reopening and necessary recovery of the economic activity.

“We hope the recovery will be fast, although the effects will continue during the next two quarters.”

Ora News TV: We hope at least the tourism activity to recover.

Governor Sejko: Definitely, as we have pointed out in other television appearances, tourism is one of the pillars of the Albanian economy. Our country has both a coastline and agrotourism. We expect that in June there will be a managed easing of measures and tourism will have its effects on the economy, but other than tourism other industries will gradual begin to restart. We expect the numbers of those affected to decline and then it remains to be seen how fast the economic recovery will be. We hope it will be a fast recovery, although the effects will

continue during the next two quarters. As predicted by international institutions, for Albania and the Euroarea, the recovery will be very sharp in 2021. This is yet a prediction, but certainly we can face a more positive or a more negative scenario.

Ora News TV: Mr. Sejko, in the latest report of the Bank of Albania, it is said that the reduction of deposits is fifty million euros; also, non-performing loans have increased in March. What is happening with the deposits of Albanian citizens? Since there is the COVID-19 crisis, but we also have a crisis caused by the earthquake of November. So there are consecutive hits...

Governor Sejko: It must be said, that the Albanian financial system has resisted against these strong and unpredictable hits in the best possible way. At the beginning of the crisis, the forecasts were not so clear, but this test proved once again that our financial system is well-capitalized

“In the beginning of the crisis, the forecasts were more unsettling but this test proved once again that our financial system is well-capitalized and with sufficient liquidity to cope with difficult crisis situations.”

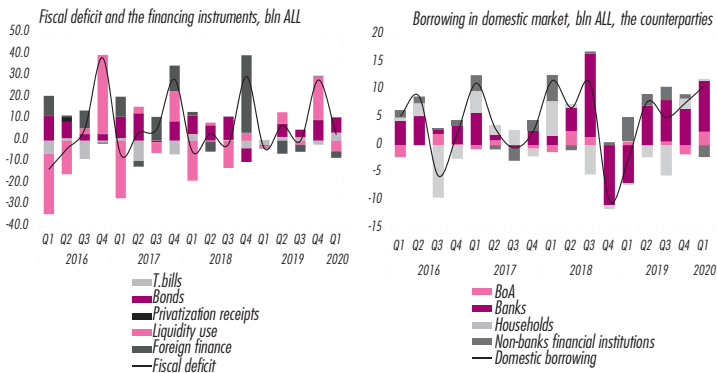
and with sufficient liquidity to cope with such difficult situations. As a matter of fact there is no substantial decline in deposits. Total deposits are around 8 billion, but regardless the figure, the decrease by EUR 50 million is not negligible, as we had a restraint of the economic activity and of course we could have withdrawals, but they were not substantial. The banking system continued to function perfectly well. It carried out its operational activity with no issues in both operational and cash transactions. In spite of this, the de facto issue is the instalment loan extension, which creates an implication on the financial indicators of the commercial banks, as they will not be able to withdraw the liquidity as predicted. The indicator of non-performing loans, so far, has not significantly increased, but of course in the coming month we will have a deterioration of some figures such as the indicator of non-performing loans or the increase of lending in the banking system. The important thing is that banks have liquidity and capital adequacy. Despite their very good condition, as regulators, we must be careful not to pass the entire risk burden to the banking system, but to supervise and monitor the entire activity very thoroughly.

Ora News TV: You are talking about a sound banking system and an economy that still has liquidity; however the Albanian Government constantly applies for loans. It has secured a loan of EUR 174 million

to meet the crisis from the IMF. The question is what happens to the Albanian citizens because it has grown steadily and before the crisis it was at least 65%?

Governor Sejko: Of course, the debt decreased to 65% of gross domestic production before the crisis, but during this period, not only us as the BoA, but international institutions and all central banks around the world, have gone beyond the criteria and parameters of maintaining the level of debt. This strong economic shock certainly imposes non-compliance with the debt level for a certain period. Of course, the Albanian Government will find the necessary resources to face this crisis through loans. All this because the slowdown in: the economy, production activities; businesses; tourism; and all industries; has led to the lack of necessary revenues in the state budget. Similar to what happened to the private sector, the normal function of the state budget was disrupted. Under these conditions, all governments are obliged to apply for loans, to help them overcome this crisis, a debt which will be managed in the upcoming years. This is how all governments will manage to overcome the crisis. So the level of debt will definitely increase, it is important that we overcome this situation without bankruptcy, without loss, and that we are able to maintain the country's financial and monetary stability. It is also of importance to have an economic recovery and for that we will have to better manage the risk (fiscal risk). As a matter of fact, the central bank's main objective is the monetary policy, while the fiscal policy is managed by the government.

*Chart 41 Deficit, instruments for financing it (left) financing instruments in the domestic market (right)**



*Values above the horizontal axis in the chart imply a fiscal deficit, below zero they indicate fiscal surplus.

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

Ora News TV: Two days ago, “The Economist” wrote: “Most economists do not worry that governments will be borrowing recklessly, but that they will reluctant to do so because of irrational fears of public debt increase. When we talk about economic terms, we usually compare ourselves to the countries of the region. Serbia and North Macedonia pursued the policy of carrying on the exports and production, while Albania focused particularly on concessions, so these are activities that have mostly increased the debt, while now this new crisis has hit us. How much can the public debt withstand?”

Governor Sejko: There is no specific figure for this, as it depends on the well-management of public finances; the better the public finances are managed the better the debt level will be. Prior to the crisis, the main management objective of the Albanian Government was fiscal consolidation. So, we have pursued an easing monetary policy, which was drawn toward the lowering interest rates to boost lending, consumption and investment, and a consolidating fiscal policy, which aimed to reduce the level of public debt. After this crisis, added to the hit we received from the earthquake, we will be forced to move from fiscal consolidation to somewhat fiscal easing. It is true that the higher the debt the more difficult it is to manage and the more difficult it is either the liquidation of liabilities by the government, or the attraction of foreign investors and all other macroeconomic parameters, but if there will be good fiscal management of course the debt level will decrease again. For the level of debt there is an objective set by organic law from which we will have to leave during this period, to return later after this crisis is all gone.

Ora News TV: Mr. Sejko, on 8th of April, the central bank decided to abolish bank transfer commissions. How is this process going?

“We made regulatory changes and decided to remove the banking commissions that we apply as Bank of Albania and in this way, indirectly; we force commercial banks to remove banking commissions only for digital transfers.”

Governor Sejko: The process is going well. We have made regulatory changes and decided to remove the banking commissions that we apply as the Bank of Albania and in this way, indirectly; we force commercial banks to remove banking commissions only for digital transfers. With this decision we have been hand in hand with the measures of social distancing and we have created facilities for customers, individuals or businesses, to perform as many digital operations as possible. In fact, these actions

increased sufficiently and this is in line with our objective of combating informality and increasing financial inclusion - increasing the number of individuals with accounts and banking operations. This is one of the measures we took during the crisis, in parallel with other measures.

Ora News TV: Another very important measure is the restructuring of loans, i.e. the extension of loan instalments payments from three to six months. However, there will be businesses that will need further extension. Will the Bank of Albania make another decision on these particular cases?

Governor Sejko: We are still reviewing this. The first decision you mentioned was for a quarterly extension of loan instalments, due to the closure of the activity and lack of income to liquidate liabilities from individuals and businesses. Banks were very understanding in terms of regulatory changes that we as the Bank of Albania made to extend the loan instalments with a quarter. They acted quickly and proactively. We were dealing with EUR 2 billion of deferred loans for a quarter, out of the EUR 4 billion that is the total loan portfolio. So about 50% of the loan portfolio is deferred, about 21 thousand cases. Despite this, we are aware that businesses continue to remain closed. The production cycle for many of them will continue to struggle, their incomes will not be in line with the pre-crisis projections and these difficulties will of course be reflected in the settlement of liabilities to the banking system. In this context, we are once again analysing the situation with commercial banks, to see if another extension will be needed. Of course, for the well-being of the business, this would be necessary, but on the other hand, our main priority is financial stability, that is, to keep the banks sound.

Ora News TV: From the figures so far it appears that commercial banks are sound and healthy, although they have lower profits compared to a year ago.

Governor Sejko: Definitely, every activity has had its gains. Banks are private businesses and like any other business they had their profits, but the effects of the crisis will be felt in the capital as well as in profitability. We are still at the beginning and the financial effects on financial institutions are always reflected with delay. In the months to come we will see deterioration

“Banks are financial intermediaries that have to play their part, but they are not lifeboats to overcome this crisis.”

in the loan portfolio, we will also have a more moderate increase or a decrease in lending rates. Despite the good liquidity situation in the banks, we need to protect them in order for them to have a healthy continuity. We must not forget that all these funds and liquidities we are talking about are the deposits of Albanian citizens and we must manage them well. Banks are financial intermediaries that have to perform their role, but they are not lifeboats to overcome this crisis. They are playing an important role. However, our role as a regulator is to make sure they do everything to help the business, without damaging themselves in the process.

Ora News TV: You said a little while ago that there is no liquidity problem in the Albanian economy. The question is how have the two packages proposed by the government in the framework of measures helped individuals and businesses during this pandemic?

Governor Sejko: The second package is being processed and will be launched very soon. So far, businesses have used only the first government package, which was the sovereign guarantee used to pay the employees' wages. Speaking on regard of the figures of two days ago, not final as it is constantly updated - we are dealing with about EUR 8.5 million, maybe EUR 9 million in loans provided by banks for this purpose. If I am not wrong, the government decided to take over the payment of interest on these loans. It should be noted that, despite the sovereign guarantee which takes over the risk for this part, many clients have even larger exposures, so the risk criteria are slightly wider than the level of this guarantee and requires a more careful look by banks. There are customers who are dissatisfied with banks, but this is a result of their previous experiences with the latter, their business cycle and their financial situation. In other words, not all customers are being able to profit from this guarantee, but the majority of them are.

Ora News TV: Meanwhile, the Bank of Albania started to carry out the unconventional monetary policy. Can you explain to us what it consists of, in order to be more comprehensible for those interested?

Governor Sejko: We have announced that we will continue to ease the policy with our measures for an easing monetary policy. The easing monetary policy is the reduction of the key interest rate, the one we lowered to its historical minimum of 0.5%. This means that citizens can apply for loans with lower interest rates. This is done to stimulate lending, but also consumption and investment. Another measure of the Bank of

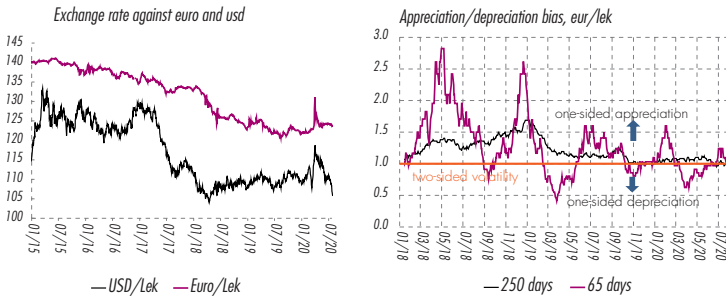
Albania is the unconventional monetary policy, i.e. injecting liquidity into the economy. "Quantitative easing" is a form of liquidity injection in the market. In developed countries, liquidity is injected by buying government or corporate securities. In Albania, since we do not have a capital market and the purchase of corporate securities cannot function, this would be carried out by purchasing Albanian Government securities through the secondary market, i.e. the banking market. In our country, this type of measure has not been applied yet, but in case we see that the level of the budget deficit will expand and the government will need liquidity at some point, certainly we will apply quantitative easing so we are prepared to use it. As far as we know, the Albanian government is preparing to receive a Eurobond and its withdrawal would create sufficient liquidity. However, we will see how the economy will perform in the upcoming months.

Ora News TV: Has the Bank of Albania intervened these days to stabilize the foreign exchange rate, because in the first days of the pandemic, a very rapid growth of the euro exchange rate was observed?

Governor Sejko: The exchange rate is a very sensitive indicator that is mainly determined by market demand / supply. We have a free exchange rate regime, and as such it will be determined by market demand and supply. You should know that the psychological factor has a strong influence on the level of the exchange rate. When there are strong shocks, speculative activity increases and the psychological factor is impacted. Of course, the central banks and the Bank of Albania, have their parameters to intervene. We do not have a specific target for the exchange rate, but we do intervene in case some parameters are impaired, i.e. when the exchange rate level hits the inflation level. In 2018 we intervened by buying an amount of euros to stabilize the exchange rate, whilst now we are in the opposite case, the national currency has depreciated and the Bank of Albania has intervened very little at its peak, selling an amount in two certain days. Subsequently, the exchange rate stabilized and fortunately continuous to remain stabilized. The exchange rate is determined by revenues, so there are some fundamental sources that bring the euro currency to Albania, such as foreign direct investment, tourism and remittances. Of course, these resources will be hit by the crisis and this will lead to a reduction of the euro and in turn demand will fall. So in addition to supply, demand decreased as well, and this created a stable exchange rate. In case that during the summer season the tourism activity will be revived, the exchange rate stabilization will be positively affected. In fundamental

theoretical conditions, crises always lead to depreciation in the exchange rate, so we can have inflation, but in practically Albania has its own specifications. Our trading partners are in the Euro area and we have enough euros. I believe that the rate will be stable and there may not be a need for intervention from us, which would decrease our reserves.

Chart 42 Exchange rate in the domestic market and the exchange rate appreciation/depreciation ratio of eur/lek*



Source: Bank of Albania.

*The exchange rate appreciation/depreciation ratio is calculated as the ratio of the number of days when the lek is depreciated against the number of days when the lek is appreciated, over a moving time horizon of 250 days. The value of this indicator near 1 indicates an equal number of cases of appreciation and depreciation and it shows that there are no one-sided pressures for appreciation or depreciation. If the value of this indicator is above 1 (below 1), then in the market there are signals for one-sided expectations for exchange rate appreciation (depreciation).

**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA.
ABC NEWS TV
-20 May 2020-**

Abc News: *We are in a middle of a crisis and this situation put all central banks and governments at stake. In principle, who should be faced with a crisis of this dimension, central banks, governments or both of them?*

Governor Sejko: It is certain that both governments and central banks will deal with the crisis, including also other actors and the private sector. So everyone ought to be prepared that the effects and consequences of this crisis will affect all market players. Normally, government plays the key role. We have emphasized that fiscal policies play a key role in dealing with the consequences of a crisis. Meanwhile, the central bank's role is the monetary policy and macro prudential policy to influence the mitigation of the crisis. As the central bank, we have lowered the interest rate, thus influencing with our easing monetary policy at a rapid pace, to proactively react in mitigating the effects of this crisis, trying to stimulate lending. Simultaneously, we have increased the injection of liquidity through the banking system, in order to meet the needs of the economy for liquidity. The government has also reacted proactively.

"The Central Bank contributes through monetary policy and macro prudential policy to mitigate the crisis."

Abc News: *You gave a very inclusive and technical interview for "Monitor" a few days ago. You held a meeting with a much selected group of people from the field of business and the banking system, but not everyone who is watching us today are experienced readers of the economic magazine. Let me just explain very briefly that lowering the interest rate - which you have done, down to 0.5%, the lowest at historical level - in your opinion, makes money cheap and facilitates credit service. So, e.g. if someone has applied for a house loan, it is assumed that he will pay less, so this also makes the loan cheaper. Have we understood it correctly that this is what you have done as a Central Bank?*

Governor Sejko: Yes, are very accurate.

Abc News: *You said that the main measure was taken by the government with fiscal policies, i.e. by injecting aid to businesses, but it will be paid by both the Bank of Albania and the banking level? What way is reconciliation with government measures done? Technically you call it the harmonization of monetary policy with fiscal policy. Please, can you explain to us how this is done practically?*

Governor Sejko: The central bank is an independent institution and as I was emphasizing, we, through our easing monetary policy, reduce the interest rate to increase lending to the economy and to reduce the cost of credit, but also to stimulate investments and consumption. On the other hand, the government with its fiscal policies - specifically in the case of this crisis - has reimbursed or compensated the needs of the population in the first place, for the war salary. At the same time, it has issued the sovereign guarantee, which has enabled businesses to also receive salaries. However, what I wanted to emphasize as the most important, is the harmonization of monetary policy with fiscal policy. Bank of Albania has been implementing an accommodative monetary policy even before the crises and it has continued to do so during it, by lowering the interest rate and increasing liquidity injection into the economy. While, it was necessary to change the fiscal policy of the government. We are no longer in a situation of harmonizing or coordinating the easing monetary policy of the central bank with the consolidating fiscal policy of the government, but the government will have to pursue an easing fiscal policy. All these measures taken by the government are in the direction of an easing fiscal policy, as it has postponed taxes and profit tax for a certain period, has issued sovereign guarantee towards commercial banks to help the business to pay the salaries and a second sovereign guarantee in terms of business needs, is being signed with commercial banks and will become effective soon. At the same time, I would like to mention the macro prudential policies that we pursue. We are talking about the regulatory changes in terms of the facilities we create for the banking system, through a 3-month extension of loans settlement for businesses and individuals in difficulty, as well as to have the possibility to restructure loan portfolios of businesses to help them get through this difficult financial situation with as little struggle as possible. I also want to emphasize that monetary stability and financial stability are our top priority. This means that we are ready to do our best, with the support of the banking system, to overcome this crisis, always without fundamentally affecting the soundness of the latter.

Abc News: *In terms of policy harmonization between you and the government, how does this harmonization takes place? It may seem like a curious, naive question, but I will explain later on why I ask such a question.*

Governor Sejko: In a difficult crisis situation like the one we are going through, of course the priority is the fiscal policy of the government as they bear the main difficulty. Through these packages and measures, the government deals with the financial cost of the crisis from the private sector to the public sector, so this cost is transferred. Of course this will lead to an increase in debt and later on, in the future, this cost will be transferred to future generations, as budget management is carried out with citizens' taxes. Of course, the central bank is following its policies set by law, which do not exactly follow the policies of the government, because despite the fact that the policies are harmonized, the central bank is carrying out its role in terms of macroeconomic parameters.

“Through these packages and measures, the government deals with the financial cost of the crisis from the private sector to the public sector.”

Abc News: *Mr. Governor, on 13th of May, you held a meeting with the business and the banking system, where you gave a very detailed speech on the challenges that Albania faces during this crisis. You discussed about economic downturn, unemployment and poverty. We will probably discuss at the end of this interview what awaits us in your assessment as the Governor of the Bank of Albania. Two days after that, on May 15, the Prime Minister in his communication with the public said, I am quoting: “I am telling you that at the end of the year the economic and financial result will be in line with the forecast, better than at the end of last year, and next year we will make a great success story, trust me on this one”. In regard to this, I previously asked you how do you harmonize and reconcile with the government, so that your assessments as the Governor and those of the Prime Minister do not differ much. Do you have a comment on how will the situation be at the end of this year?*

Governor Sejko: I do not believe and do not deem that assessments and judgments are far from each other, but of course the Albanian Government has its own analysis, whereas we have ours. I told you at the beginning of this interview that the bank is an independent institution. In accordance with the law, we are also an advisor to the

government, but more specifically we coordinate in an intensive way with the Ministry of Finance, especially during this situation of crisis. We communicate almost daily about many elements, such as for managing the liquidity situation, which cannot function if the central bank is not affiliated with the Ministry of Finance, as we are both holders and managers of government accounts. Also, we also communicate with Minister Ahmetaj, in the capacity of government coordinator for this situation. However, despite the communication and coordination, the central bank has its assessments and conclusions in view of the crisis, while the government has its own. For the most part, we are in the same line. It is important we understand that this is a temporary situation and it is important to harmonize and coordinate our economic policies as key public actors, so that this crisis goes away as quickly as possible and the loss it caused its offset as soon as possible.

Abc News: During the meeting with the businesses, you said that the Bank of Albania injects money every week in the financial system about 2% of GDP, so it injects liquidity, in parallel you have taken operational measures to guarantee and supply the economy with cash, in response to the increased demand. What way is liquidity injected by the Bank of Albania, because a lot is said these days about printing money and putting it in circulation in the market, inspired from the movie "Casa de Papel"

"For the sake of truth, there has been a growing need for liquidity from the banking system and the economy during this period, as a result of the pandemic."

"Money is put into the market according to the needs of the economy; we have neither printed nor put into circulation a new denomination imposed by the crisis."

Governor Sejko: No, we have continuously been supplying the market with liquidity. We have met the demands and needs of the economy for liquidity through the banking system. For the sake of truth, there has been a growing need for liquidity from the banking system and the economy during this period, as a result of the pandemic. For printing money, of course certain parameters exist. The perception that money can be printed as someone wishes is wrong. The central bank has its own formulas, calculates the monetary circulation, and of course the money is put into the market according to its needs, but always without exceeding certain limits, which would cause inflation. So money is put into the market according to the needs of the economy; we have neither printed nor put into circulation a new denomination imposed by the

crisis. Orders for the new banknote denominations were made in the previous year. There should be no misunderstandings regarding this. The new banknote denominations that we expect this year have been ordered since last year, as part of the process of changing the issue of the Albanian banknote monetary circulation, introduced last year. This year, we expect two new denominations, the delivery of which has been delayed by a quarter, since the printing companies that produce them have been also affected by the pandemic. These banknotes, which were expected in June, will probably be ready in September or October. However, this delay does cause any problems for us, as the amount we have in the central bank stock covers in the best possible way the needs of the economy for liquidity. We have not printed and will not print new money, outside the parameters of money circulation. This is unnecessary, not only because we have the adequate liquidity to respond to the economy, but also because if we did so we would have a growing inflation. Also prices would increase and neither the businesses nor the Albanian citizens would benefit from it. Since you mentioned my interview with the "Monitor", I wanted to better explain the theory of "Helicopter Money", in other words, "throwing money from the helicopter". By this we mean the direct injection or distribution of money directly from the central bank to the citizens, which does not happen in reality. The central bank, within its legal obligations and definitions, operates by supporting the government. In case the budget deficit defined by law expands, i.e. the government needs liquidity, the central bank is the last provider of liquidity, after using every other means. So, the government is the one that always responds at the needs of the economy and the citizens to get through a crisis situation and the central bank plays a supporting role. It does not go directly to the citizen or to the business.

Abc News: So the central bank does not go to the citizens nor to the business, but you said: "The central bank provides the government with liquidity", can you better explain this for us. Inflation refers to currency depreciation. By analogy, when systems were changed in the early 1990s, the lek suddenly depreciated and many people's savings lost the value they had under the dictatorial regime. This more or less gives the general picture of lek depreciation. If the government, through its financial stimulus, lends money to businesses or citizens, as it is doing today, but to finance this, it issues debt, and this debt is then bought by the bank, isn't this the effect of printing money, although indirectly? Because in theory the debts of governments, just like the local debts collective, of enterprises, can be bought by the central bank and this is what is happening today

as we speak Governor. For example, the figures I have here show that 3 central banks in the world: The Bank of Japan, the US Federal Reserve and the European Central Bank (ECB) have begun buying up private sector debt. The ECB currently has 20% of the Euroarea public debt and will soon go to 25%, while it has 30% of the German public debt. Can the Bank of Albania do something of this nature and would not this be a kind of printing or throwing money beyond the limits?

Governor Sejko: What you are presenting is the continuation of the accommodative monetary policy of a central bank, which we have foreseen and communicated in the statement of the last meeting of the Supervisory Council, where we said that the BoA will continue with its easing monetary policy and, if need be, we will start quantitative easing. So, given that we have lowered the interest rate to the lowest historical level of 0.5% and do not have much room to make further reductions with effect on the economy in order to transmit monetary policy to the financial markets, the central bank will continue with a quantitative easing. What you mentioned regards quantitative easing, when the central bank would buy government securities through the banking system or directly. This is what I somehow said, that the central bank would finance the budget deficit, not directly, but through buying government securities. In our case, the quantitative easing would be done only this way, i.e. by buying Albanian Government securities and not securities of private market or corporates. In developed countries with developed capital markets, where there are defined stock exchanges and indices, formalized markets and well-defined rules, central banks naturally prefer to intervene by also buying some of the private sector debt. This happens in countries like Japan, England, USA or Euroarea. The risk level of these

“In our case, the quantitative easing would be done only this way, i.e. by buying securities of the Albanian Government and not securities of the private market or corporations.”

markets may be lower than the governments' risk level. In our country this is impossible, as we have high informality, which has not allowed capital markets to develop sufficiently. Thus, in these circumstances, this could only be done by buying government securities, i.e. by financing the government, always in case they are consumed...

Abc News: Is this scenario real?

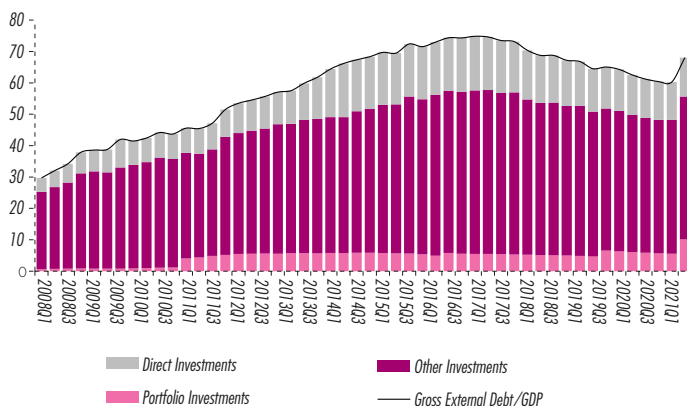
Governor Sejko: Yes, it is and we have communicated this to the public. So it's one of our scenarios - it's the last scenario we may say - in case the government has exhausted all its funding sources. This is what

we refer to when we say that the Central Bank is the last funder in line. By theoretical and practical standards, worldwide, this scenario would be the last scenario ever. However, in our case, we know that our government is shifting towards the Eurobond.

Abc News: What is your opinion on Eurobond, do you think it will succeed?

Governor Sejko: The government is heading towards a new Eurobond, of EUR 650 million, and it is impossible to predict whether it will be a complete success, as this crisis has affected the shock of financial markets around the world. However, we are seeing the first signs of reopening and gradual returning to normality and I believe that the financial markets will be more vibrant during June, when the Ministry of Finance and the Albanian Government have predicted to issue this Eurobond. I am optimistic, but even if it does not succeed, the government has taken measures for a second exit in September-October. However, if the Eurobond were to be successful, the government would meet its needs with a considerable amount of liquidity. Also, during this period, the government has secured an immediate loan of EUR 175 million from the IMF. It has also withdrawn liquidity from the Albanian banking system amounting for EUR 120 million. So, for acute immediate needs, the government has provided the necessary liquidity in foreign currency, while securities auctions have continued, which are organized by the Bank of Albania, for the needs in lek. If the Eurobond were to succeed, the government would have secured its liquidity needs and our quantitative easing scenario would not have been necessary. On the other hand, the sooner the recovery is able; the sooner there will be an improvement in revenue collection, in the direction of revenue management in the state budget, meaning the fiscal would improve. We are only considering the sources of lending, but in case we have a good tourist season and a rapid economic recovery, of course the government balance sheets would also improve, so the situation regarding the revenues in the state budget would improve and normalize too. Meanwhile the current situation, for all these elements I just mentioned would clearly increase of public debt.

Chart 43 Gross external debt by instruments (% of GDP)



Source: Bank of Albania.

Abc News: I want to ask you at this point, for the viewers: if two citizens were to enter into a private debt relationship, they could go to the notary and make a notarized statement for the debt to be recognized. The government, in this case, seeks debt through a security, bond or treasury bills, these for the domestic market or Eurobond for the foreign market. As you said, this increases debt. You said: "Monetary and financial stability is non-negotiable for the Bank of Albania", so what we aim to achieve is the balance between government fiscal stimulus and monetary financial stability. To what extent would Albania's debt be tolerable and to what extent would it be dangerous? Debt is measured by GDP, which is the overall good that a country produces. When our debt goes to 70% of GDP, we worry, while there are countries e.g. as the US the debt of which in 2023 may exceed 106% of GDP; Japan has 200% of GDP; Italy 135% and is expected to go 150% etc. What would be considered a dangerous level for us? Because when the economy starts to function and the government starts to collect revenues, they start to pay off the debt they don't invest. So, at what level does debt become dangerous?

Governor Sejko: Before answering your question about the level of debt, I would like to dwell once again on monetary and financial stability - to simplify it for the public- when we as the central bank say that financial stability is sacred, it means that we care highly for the soundness of commercial banks, in order to safeguard the deposits of Albanian

citizens. We want to keep the banks healthy so that the savings and deposits of Albanian citizens are not affected, and this is of paramount importance and it is not negotiable. We want to overcome the crisis by sharing the responsibility, without overburden the banking system.

Abc News: In order not to repeat what happened in 2001, when there was panic and people flocked toward banks...

Governor Sejko: Yes, Indeed. Panic regarding banks should be avoided at all costs, as this related to the liquidity crisis. Bank panic affects the liquidity, the withdrawal of deposits, but also the deterioration of a crisis situation. If the crisis damage were to be endured by the financial and banking systems, then the indicators and key parameters of the banking system would be misbalanced to the extent that unaffordable capital buffers could be required from the shareholders. In such case, banks would not be able to meet their deposit obligations. We want to prevent this situation and we will certainly succeed. At the moment, the banks are sound- we have said this many times - but if the crisis bill went to the banks, then their balance sheets would deteriorate but we will not allow that to happen. So this is what we mean by non-negotiability of maintaining the financial system, financial stability. Through regulatory changes, macro prudential measures, in cooperation with the banking system, we will do our best to help citizens and businesses, but always without compromising the soundness of the financial system, the consequences of which would appear in a second time. So the crisis may pass, but we can cause a second and an even stronger crisis.

Abc News: In theory, by raising the policy rate to 0.5, citizens are discouraged to save their money in banks. Where will they be invested then? Having no investment funds, we invest mainly in material goods, in real estate. So in theory, lowering the policy rate of the lek, there should not be many deposits in banks right?

Governor Sejko: Yes, to put it simply. With the reduction of the interest rate, the easing monetary policy, both in terms of assets and liabilities, i.e. in terms of credit and deposits, is inseparable. If we lower the interest rate, the transmission of monetary policy goes not only to loans, but also to deposits; on the one hand the interest rate goes down and the borrowers gain, but the depositors lose, in terms of interest. In fact, the accommodative monetary policy stance has precisely this purpose, namely the promotion of lending, consumption and investment. In this case, lowering the rate would boost investment. Since there is no

interest in saving the money in banks, then they would be invested in the economy, other assets would be bought with them; money would circulate. So thanks to this policy, not only is lending increased at a lower cost, but bank deposits are used in the economy. Theoretically, this is what accommodative monetary policy aims for. As a matter of fact, the reality is that bank deposits, despite low interest rates, have grown steadily. The desired result has been to increase investment in the economy, but of course it is also important that banks are sound and have deposits, and in our case they have sufficient deposits. The loan-to-deposit ratio in the Republic of Albania is 50% to 50%, i.e. 50% of the total assets of banks are free deposits; out of 9.5 billion, less than 4.5 billion are loans, the rest are deposits, which banks have placed in other correspondent banks or have invested in various securities, such as the government Eurobond. Of course there are some other parameters, but I am trying to explain it as simply as possible for the viewers.

Chart 44 Interest rates on new deposits in lek and euro



Source: Bank of Albania.

Meanwhile, when we say that we do not compromise financial stability on the one hand, but on the other hand we also do not compromise monetary policy, the public must understand that we want to safeguard banks and also preserve prices. This means that we try, through our monetary policy, to maintain a certain level of inflation, which is currently 3%. In fact, starting from the financial crisis of 2008, Albania and the majority of the world has been in a deflationary situation. Central banks have been forced to behave in the opposite direction to the historical one where they tried to keep inflation under control, whilst now it is

aimed for its moderate growth, at the level of 3%. The situation is expected to be changed somehow as a result of the crises, although this remains to be seen in the future. We would hope that the price level won't be affected through our monetary policy. But let's get back to debt. We do not have a defined level of debt that would be called a risky level, because as you mentioned, some of the countries with stronger economies have a level of debt that is above 100% of GDP. Our debt level was 72%; we reduced it to 65%, after we also adopted a fiscal rule, a law that forced us to reduce debt as we were moving towards a consolidating monetary policy which aimed at reducing the level of public debt. This crisis forced the Albanian Government to change its objective and move towards an accommodative fiscal policy. The measures that come as a necessary response to this crisis increased the level of debt. In every country, being them developed and underdeveloped, regardless of their level of debt, we are noticing an increase in the level of debt between 20-30%. Also, it is impossible to predict exactly how much debt will increase in the future, as economic and macroeconomic parameters change with every passing month. I do not know exactly how much debt will increase after we have utilized all those loan sources we mentioned - how our economy will react, how flexible and absorbing it will be to the shocks coming from the pandemic - but of course we may have, in approximate figures, an increase in the level of debt, like other states. The lower the level of debt and the better we manage the situation, the better it would be for the Albanian economy. However, it is a widely accepted fact that the level of debt will increase. Even in the latest statement of the Supervisory Council of the Bank of Albania was stated that an increase in public debt is inevitable. In case we react in a timely manner and the pandemic ends during the summer period, the economy will start to recover - that is, an economic downturn is predicted in the second half of 2020 whereas it is expected to recover in 2021. Likewise, the level of debt, in view of economic recovery, will decrease. We will accept an increase in the level of debt, in a percentage similar to many other countries economically hit by the pandemic, but starting from 2021, with the economic recovery, the aim to reduce the level of public debt will be restored; this, of course, will take time. This hit and its negative impact on the economy may take more than a year, but it is important

“... Starting from the financial crisis of 2008, Albania and a good part of the world has been in a deflationary situation. “Central banks have been forced to behave in the opposite direction to the historical one where they tried to keep inflation under control, while it is already aiming for its moderate growth, at the level of 3%.”

that we keep in mind that it is temporary and it will recover in 2021. Equally important is the preservation of production chains.

Abc News: How is the first guarantee fund helping? As you mentioned at the beginning, the government has approved two guarantees. The first sovereign guarantee fund, where the government guarantees business, was for the salaries - as you informed the public at a press conference, only 10% of this fund was used - while the second guarantee fund is expected to be detailed, the guarantee for businesses in difficulty. Why so little interest Mr. Governor?

Governor Sejko: Yes. So far, 260 businesses have benefited from the first guarantee fund, with a value of ALL 3.6 billion or EUR 29 million. Meanwhile, there are about 350 other applications, which are in process. This means that about 30% of the first guarantee fund has been used (in total 100 million).

Abc News: So has the figure changed, from 10% to 30%?

“... as some bank executives explained, the guarantee is not a vending machine that supplies cash on demand, but is an instrument that aid the business to cover payroll needs.”

Governor Sejko: Of course, this figure changes every day, and the 30% refers to last Friday, as the figures take a few days to update. So, to be precise, until last Friday, there were 260 cases with EUR 29 million. The process is ongoing, but despite the guarantee, banks have some risk criteria to consider, as businesses, especially large ones, have large exposures to more than one bank. These require a certain risk analysis that takes time. So as some bank executives

explained, the guarantee is not a vending machine that supplies cash on demand, but it is an instrument that aids the business to cover payroll needs. Regarding the second guarantee, it has just been signed and we will see how it works when it becomes effective.

Abc News: Governor, you have announced a figure, which is dynamic and may have changed about 20 thousand businesses with loans to banks in the amount of EUR 2 billion, which have benefited from the 3-month extension of loans payment. Originally, this extension should not have been automatic, but apparently, according to the information I have, it was. Banks have accepted without differentiation the requests for extension of loan payment. What will happen in June, when the loan restructuring deadline expires? Will it be extended even further?

Will you make an assessment when the time comes, and is the negative balance of banks expected to increase?

Governor Sejko: Banks have approved 99% applications for loan instalment extension, worth a total of EUR 2.1 billion. So they have reacted proactively. As the 3-month deadline approaches, in cooperation with the banking sector, as a central bank we are analysing and predicting certain scenarios, to see the effect that another regulatory change will have in this regard. Of course, businesses are in difficulty, and another action will have to be taken, but the actual conditions must be examined in depth and prudently, so that, as I mentioned earlier, we do not shock the commercial banks. By the end of May, we will be forced to make another decision, that is, to facilitate banks to make another extension or restructuring, especially for those individuals or businesses that have been hit hardest by the crisis. This is not a simple decision to make. We are calculating the effects and implications, as we by no means want to pass the entire crisis bill from the private sector to the banking sector. So, there should be a proportional division of the crisis bill among the actors of the market. Of course banks are liquid, but this liquidity has its limit; ratios and levels have several thresholds and precisely to respect these thresholds, to maintain the soundness of financial stability, we are thinking very carefully at the idea for another extension. On the other hand, if we would not react and a second extension would not be accepted, businesses would be unable to respond to commercial banks, and this would be bad not only for businesses, but also for banks. In view of this, we are analysing the situation and the decision in terms of convenience for businesses by commercial banks. It will be published very soon, before May ends. So there may be a 3-month extension or a restructuring in the longer term, we are carefully thinking what we will do. This decision will be made by the Supervisory Council of the Bank of Albania, for which the departments and experts of the Bank of Albania are making the necessary analyses. They will be presented to the Supervisory Council at the next meeting and the decision taken by the Council, and will be published, as well.

“Of course banks are liquid, but this liquidity has a limit; reports and levels have some targets and precisely to respect these targets, to maintain the soundness of financial stability, we are looking very carefully at the decision-making for another postponement.”

Abc News: The last question regarding the economic crisis: as I mentioned on at the beginning of the interview, when I said that

the Prime Minister thinks that the end of the year will find us with an increase, you talked about poverty and a little while ago, you said that the crisis is temporary; in 2021 we expect economic recovery. I got in touch with the former president and founder of the EBRD, the economist and banker Jacques Attali, who was extremely pessimistic. He said that this crisis, the magnitude of which is still immeasurable, is more severe than the crisis of 1929. What is your opinion in this regard? Are you still optimistic or do you share the same opinion with Mr. Attali?

Governor Sejko: I am neither pessimistic nor optimistic, but I try to be realistic. The consequences of realism, after all, are positive. Based on the analysis, indicators and statistics we have, we are generally realistic and often realism is seen as a sign of conservatism by the central bank. However, in relation to what you said about Jacques Attali, I would say that we cannot yet determine whether this crisis will be more severe than the crisis of 1929. A complete comparison with the crisis of that period is impossible, as the world has been in a different economic and social situation, so in a completely different context. The world has had a higher level of poverty, a much lower standard; at that time the crisis was equated with the soup bowl, while today the situation is different. No matter how strong the crisis is, we are aware that we will not go toward queues for just bread. At the same time, we are trying to reduce the impact of the crisis on the finances of Albanian businesses and households, and this is happening all over the world. The losses caused by this crisis we see are related to the level of bankruptcies of businesses that are transmitted afterwards and to the increase in unemployment. Of course, we will have an increase in the unemployment rate and a decline in the economy, meaning a recession situation. Regarding this situation, from the analysis of various international institutions such as the IMF, WB, EBRD, as well as from various central banks, there are approximate forecasts, but the fact that there will be a recession is accepted by all. This economic recession for 2020 is between -8 and -5% levels, so there may be an economic downturn of -8 and -5%. The important thing is that we are dealing with a temporary shock coming from the soundness factor; it is not a financial crisis coming from the financial sector as it happened in 2008. This crisis found the financial system in a much better situation than the 2008 crisis, but on the other hand the consequences and negative effects of this crisis on the financial system will be seen in the future, perhaps in 2021. Having this knowledge, we must try not to fall into fatality. All private and public actors in the market should understand that the crisis bill should be shared, but of course,

as we discussed, the biggest burden is borne by fiscal. The sooner the recovery begins the clearer and less fatalistic we are, the sooner we will recover and the future will be better. If we do not have further closures of the economy caused by the pandemic, 2021 will be the year of economic recovery. The approaching tourist season will tell us something more about the future.

Abc News: Mr. Governor, thank you very much for the time and simple language with which you explained to us the situation we are in!

Governor Sejko: Thank you!

INTERVIEW WITH GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA. NEWS24 TV -29 May 2020-

News24 TV: Hello Mr. Sejko! It is a pleasure to be together again for this interview. Yesterday, the Prime Minister Rama introduced us to what he himself considers as good news, with your co-signing for a further quarterly extension of loan instalments until 31.8.2020. Can you give us some details about this decision?

Governor Sejko: During this period, we have continuously analysed of the macroeconomic situation, as well as the financial situation in relation to commercial banks. As a result of the restrictive measures, bank customers have been in financial difficulties and a quarter would not solve the problem of repaying loans on an ongoing basis, according to the terms and instalments provided by loan agreements. In such conditions, after analysing the financial system and based on the request of the Association of Banks and business associations, we decided to make another quarterly extension of loan instalments. Following the decision from the Supervisory Council, we co-signed with the Prime Minister of the Republic of Albania, because in addition to the effects it has in relation to the balance sheets of commercial banks, this decision affects and has implications on fiscal and taxes, for banks as well as for customers who will benefit from the quarterly extension. So, through this decision, we have facilitated the banks to postpone the loan instalments by three months, for those clients who will continue to have financial difficulties as a result of the pandemic and this extension is valid until 31 of August. So, for those clients who will apply once more to the banks and depending on the analysis that the commercial banks will do, we will have an extension of the loan instalments by another quarter.

"... We have facilitated the banks to postpone loan instalments by three months, for those clients who will continue to have financial difficulties as a result of the pandemic and this postponement is valid until 31 August 2020."

News24 TV: Due to the situation in the country as a result of COVID-19, during the period March-April-May, you together with the Prime Minister of the country signed an order to postpone loan instalments, for every individual and business. Will the same method be applied again?

Governor Sejko: Yes, yesterday we signed the same order with the Prime Minister. So it will be acted in the same way as it was done the first time. This decision is in the framework of inter-institutional coordination and all measures taken in order to create fiscal and monetary facilities for the banking system and the country's economy, to overcome the crisis situation created by the pandemic.

News24 TV: This is the last move Mr. Governor?

Governor Sejko: Yes, this should be the last move. Yesterday in the Supervisory Council of the Bank of Albania, in parallel with the decision to postpone the instalments, regulatory changes were made to enable the banks a deeper restructuring than a quarterly postponement, for those clients who will face greater difficulties from the crisis. Different clients and industries can benefit from this. This is left to the judgment of the banks, as they have complete information and judge more precisely about the difficulties and the need for restructuring of various industries such as tourism, tailoring, transport, etc. The restructuring can take 6 months, 9 months, 1 year or longer, and it will be specific, depending on the client's business cycle and the particular industry. Thus, yesterday's decision has created regulatory opportunities for banks to be more proactive in relation to these restructurings for customers and for certain industries. The quarterly postponement will be the last, as with the regulatory changes we have made, banks have the opportunity, in cooperation with their customers, to make new agreements and restructure loans with longer terms. These measures facilitate customers, but also banks, in relation to the management of their income and expenditure statements.

News24 TV: From what you know, what is the level of loans the instalments of which were postponed as the result of the financial difficulties caused by Covid-19 in the country?

"... We have 23 thousand clients, with a total portfolio of EUR 2 billion who have benefited from the decision of the Bank of Albania to extend the payment deadline of loan instalments."

Governor Sejko: In the first quarter of the extension, we have 23 thousand customers, with a portfolio of a total of Eur 2 billion who have benefited from the decision of the Bank of Albania to extend the payment of loan instalments; loan instalments are at a lower level of about Eur 75-80 million. We will wait and see how the situation will evolve this quarter, as economic activity is restarting and some of the businesses may have job opportunities. This

will be seen in the future. We can only confirm the figure of the first quarter, but I believe that during the second quarter it will be a lower figure.

News24 TV: Mr Governor, I believe you are aware that there have been problems regarding the application for loans with sovereign guarantees. Are they resolved?

Governor Sejko: Banks generally have their own procedures. We must be aware that this has been a stressful period for customers, for banks, but also for public authorities. In such circumstances, the customers, rightly, had requests for a review as soon as possible and the banks reacted very proactively. The figures I mentioned regarding instalment extensions were made in record time; it must be understood that this is a colossal work done commendably and highly professionally by the banks. Likewise, the first sovereign guarantee aimed at payment of wages is still in process. With the figures of the last week, there is EUR 35 million of loans disbursed for this purpose, in 350 cases, as well as 350 other cases are in the review process. Of course the process takes time, as banks have their own risk criteria. The Banking Association itself has emphasized that these guarantees are not a vending machine that produce cash on demand, but everything will be done according to procedures and by respecting certain criteria.

News24 TV: Did you as an institution intervene to fix this relationship that was complicated by the pandemic?

Governor Sejko: Of course we are in constant contact with commercial banks to get the information and check with the issues. At the same time, we, as a supervisory and regulatory institution for banks, according to the law, we look forward to clients' complaints regarding various issues they have with commercial banks. So, based on customer complaints, but also on a close monitoring and cooperation with the banking system, interventions are ongoing; the work to coordinate all actions continues, so that banks are as efficient as possible in helping customers and businesses, but in the meantime by respecting the procedures, as well as maintaining the state of financial stability of the country. We are committed to coordinate the process. In this case, of course we have intervened to help the process in terms of banks, but our role is broader, as we are also serving as coordinators with all other public institutions, especially with the Ministry of Finance and Economy and the Minister coordinator on this issue.

News24 TV: Mr. Sejko, let me ask you a little about the progress of the Albanian economy. When the pandemic had just started, the time when we first talked together, I asked you for a prediction of what the economic situation in our country would be like. Back then you said it was too early to talk about it. Meanwhile, international financial institutions such as the IMF, the WB, and the EBRD have made not so good forecasts regarding the Albanian economy; an economic decline of 9% is mentioned, the lowest in Balkans what are your expectations, Mr. Sejko?

Governor Sejko: We are constantly analysing and forecasting on the performance of the Albanian economy, this is what we do. It is now accepted by everyone that not only Albania, but also the region and the Euroarea in 2020, will have a strong economic downturn, as all countries have been to close down, take measures for social distancing and isolation, in order to be protected from the pandemic. This situation has obviously had a strong effect on the economy, which will cause a sharp economic downturn in 2020. The projected figures of economic decline, both for developed and developing countries, are sharp, not only from the EBRD, but also from the assessment made by the IMF and the WB. For more developed countries, we will have figures at -9 or -10%. In the assessment done so far- as the situation evolves, it remains to be seen what the reaction will be after the reopening - we have estimated that in 2020 there will be an economic decline between 5% and 8%, i.e. -5 and -8 %. In the most recent report and assessment with the monetary policy model, for this year, we have projected a decline of 6%. However, this figure is not definitive, as we continue to process figures, measure the economy and check the development. Meanwhile, we are coordinating the measures, in order to have a faster economic recovery and to react as efficiently and productively as possible. The forecast says that if we do not have comeback of the pandemic, in 2021 the economy will recover.

“The prediction is that, in case we do not have a recurrence of the pandemic, economy will recover in 2021...”

The recovery will be much stronger, so the decline of 2020 will probably be recovered at a rapid pace in 2021. It is important that we react as proactively as possible, so that the economy during the summer is sound and that we continuously manage to make up for the losses we have had from the previous period.

News24 TV: When do you foresee an economic recovery in Albania?

Governor Sejko: If we won't have a return of the pandemic and the economy will gradually reopen, we predict that the recovery will begin as early as the first quarter of 2021. According to the forecast, the strongest shock to the Albanian economy happened in 2020 Q2, recession is foreseen in the third and the fourth quarter of 2020 but not so strong. The recovery is foreseen to happen as soon as the summer period, but the positive figures and the exit from the recession will happen in 2021. These are the forecasts of the Bank of Albania. In parallel with these forecasts it is very important for us to maintain the financial stability as well as monetary and macroeconomic stability in the country. So far the financial stability is sound; banks have good liquidity, a high capital adequacy ratio; and they have reacted very well during this crises situation. The most difficult period was overcome and we have reserves and financial opportunities to cope successfully the situation in the future, but of course the monetary stability was also good. The inflation rate is under control, despite it being below the Bank of Albania target- we must keep in mind that the parameters and targets have already changed due to the extremely strong shock- as well as exchange rate stability. So the macroeconomic, financial and monetary parameters are stable. Maintaining these parameters will avoid any further shocks and will help for a faster recovery of the economy. At the moment the financial markets are calm, but of course there is a need for fiscal and financial facilities to help banks and customers in this difficult situation. So far, the crisis bill has been transferred from the private sector to the public sector, but of course we need to be clear that this crisis will have negative impacts on all private and public market actors; a proportional distribution of the crisis bill between businesses, individuals, the budget and the banking system is needed.

News24 TV: Let us be in solidarity and show our best during this phase. Question from the public: is it possible to extend the instalment for us?

Governor Sejko: Yes, instalment extension is valid for both individuals and businesses. The decision of the Supervisory Council of the Bank of Albania includes all categories of customers of commercial banks. However, this is not an automatic extension. The interested citizen should contact the bank, apply for an extension and prove his financial difficulties. The bank needs to assess whether the customer is really insolvent and in these cases the loan instalment will be postponed. So this postponement only applies to those who are really having difficulties.

"... the second extension of instalments for bank loans is valid for both individuals and businesses."

News24 TV: Do they have to prove that they are really in difficulty and cannot pay? In what way is this carried out?

Governor Sejko: Yes of course. This happened in the first postponement as well, so the clients proved to the bank that they had financial difficulties. The total loan portfolio in commercial banks is around EUR 4 billion, while the loan portfolio of postponed loans is EUR 2 billion, so 50% of all customers have been hit by the crisis and needed the extension, while the other part have continued to settle the instalments regularly. This is what is going to be done this time around as well.

News24 TV: Another question from the public. I have a business and I had to take a loan because of the damage I suffered from the earthquake that hit Albania. Then I had to request a loan again because of COVID-19. I am now in financial difficulty. Is the facility only valid for the last loan or even for the one taken because of the earthquake?

Governor Sejko: I believe that it applies to all the exposures that the client has, regardless of the reason why the loan was granted. The exposure it has to the bank in total. The client will have to communicate with the bank and in case it proves to have difficulties, the client will certainly benefit from the regulatory facilities we have made, but this will need to be clarified with the bank.

**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF
ALBANIA. "PËRBALLË", RTSH (ALBANIAN
PUBLIC TELEVISION)
-7 July 2020-**

RTSH: If we make a comparison with the financial crisis of 2008-2009 or with the Great Depression of the '30s, what place does this crisis take since that is not only financial, but also health and economic?

Governor Sejko: This crisis has specificity; it is being generated by the health factor. So this time we are dealing with a crisis that comes from the pandemic and is being reflected in the economy. Previous crises have been purely economic coming from the financial sector. In the '30s there were huge losses from the crisis, while the crisis of 2008 was a crisis that came from the financial sector; the effects were reflected in the economy, but it has been a pure financial sector crisis - first the Lehman Brothers went bankrupt and then the implications of Goldman Sachs emerged. The issues with the American market were reflected in the European market and the crisis became worldwide. The current crisis is coming from the health sector and will of course be reflected in the economy as well. So it's hard to compare them to each other. An approximate figure for the crisis of the 1930s speaks of a drop in gross domestic product to 15%. So it has been a deep crisis, but we must keep in mind that the world has been poorer and the economy...

"Previous crises have been purely financial crises, while the recent crisis is coming as a result of a health factor."

RTSH: and less interconnected.

Governor Sejko: Yes, even less interconnected. It was certainly an entirely famine crises. Nowadays, the world has accumulated more wealth and the reflection of the crises is not in such dimensions.

The crisis of 2008 was also a strong crisis, but the decline was many times lower than the expectations for this crisis. The figures are being processed, as we are in the first year of the crisis and the effects are measured quarterly. Certainly this is the worst crisis of the 21st century, not only in terms of health, but also in terms of economics, and it applies

to the whole world. It appears that all countries have been affected by COVID-19, although there is uncertainty in the figures. There is equally uncertainty about the evolution of the virus and reflections on the economic and financial situation of the entire globe.

RTSH: Governor, what are you working on these days at the Bank of Albania? What measures have been taken regarding health safeguarding? Are you working from home, or do central bank employees not have the luxury of working from home?

Governor Sejko: Some employees are working remotely, while some departments whose work cannot be done remotely, and work at the premises of the BoA. We have a really functional plan for maintaining social distancing measures. Within our capabilities, we are working at incomplete capacity, but the bank is performing all the functional tasks.

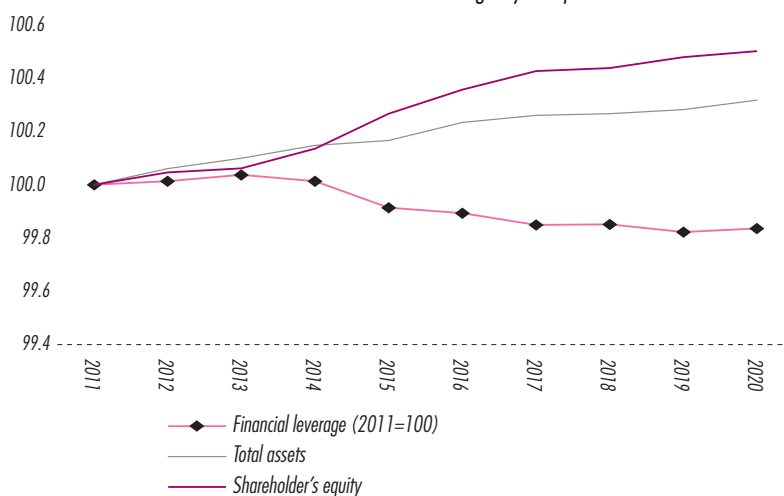
RTSH: If we talk about what you called the element of uncertainty, it stems from fear of the unknown and the contradictory messages that come from health situation. It seems like the only solution is to increase the debt. Is there any other formula/solution? During the previous crises the world has learned some great lessons and the cycle of rapid economic growth has continued. Is it too soon to talk about great lessons from this crisis?

Governor Sejko: The uncertainty, as you said, comes primarily from the evolution of the disease. It was initially thought that the virus would disappear within a quarterly period, similar as during previous pandemics, such as SARS COV 1 AND H1N1. So the preparation was for a shorter period of time, but as long as the pandemic and social distancing measures continue, even consumption will of course decrease; the situation would be the same even without the social distancing measures, as the aggravated psychology of people during the pandemic, affects consumption. In case the consumption decreases, the production will certainly be affected and all the chain factors as well. As for drawing lessons, it is yet still too soon, as they become clear at the end of the crisis, but it is never too early to react and reflect.

RTSH: Money is one of the uncertainty elements of customers. The question that normally arises in these cases is how safe is the money? How safe are deposits? What is the liquidity situation in the banking financial system? Are there any risks? Has the bank predicted the worst case scenario, in such situations?

Governor Sejko: To be realistic, there are always risks, at all times, even during the best of situations. In this case, in many public communications, we have emphasized that we were lucky that this crisis found the financial system very sound, with a high capital adequacy ratio. The reforms undertaken in the Albanian financial and banking sector gave their fruit during these years. Fortunately, the financial sector is in a very good state; there was a high level of non-performing loans, but through a specific reform undertaken by us, we managed to reduce this level significantly. Banks' balance sheets continued to improve and were sound before the crisis. Likewise the capital adequacy ratio in banks has been high. I do not want to tire the public with excessive details; so in short, we have gone through a process of consolidation of the banking sector, which has had a positive impact either on lending to the economy, as well as on the reduction of non-performing loans. Banks have enough liquidity, and they have faced and continue to face this crisis successfully. We have set up our scenarios and perform stress tests on an ongoing basis. They are part of the procedure and are our duty as the central bank. These scenarios are in line with the standards and methodology of the ECB and the EBA (European Banking Authority). Stress tests have shown that even in the worst case scenario, the banking system would successfully cope with the crisis. So, the current situation guarantees that the banking system is sound, but we must be careful not to misinterpret this as an opportunity to charge the entire crisis bill to the banking sector.

Chart 45 Performance of financial leverage by components



Source: Bank of Albania.

RTSH: To whom should we charge the bill?

Governor Sejko: The bill should be distributed proportionally between the public sector, the banking and the private sector, i.e. among all the actors in the market.

RTSH: Isn't it the right time for the banking system to be a little more generous? I mean to take on a bigger share of the bill in comparison to the others, due to specifics, some kind of convenience or a lower risk than others?

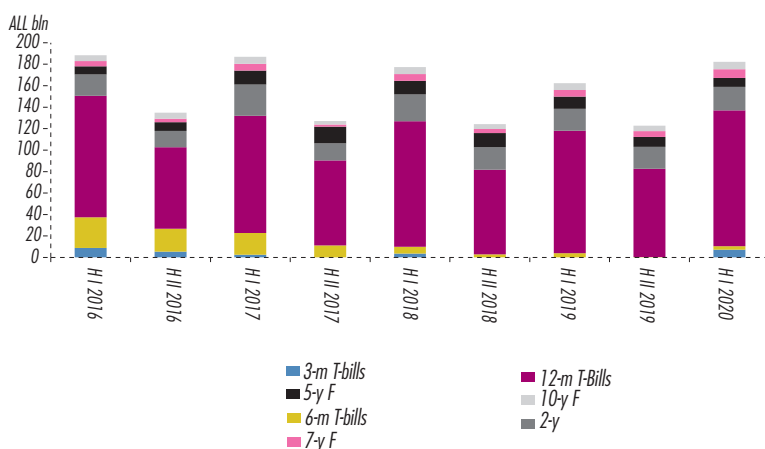
Governor Sejko: I believe that the banking system has taken a sufficient risk with the measures already taken, i.e. the extension of loan instalments with two quarters and the coordination of lending operations with government packages. The banking sector has restructured, extended about EUR 2 billion in 25,000 loans instalment cases; loans are frozen for a six month period. It is working proactively on loan restructuring and business portfolios, and at the same time has granted loans a significant number of businesses for government packages. However, it should be understood that the banking sector works with citizens' deposits. So, only 10% of the assets of the banking sector are shareholders' equity, while 90% are citizens' deposits. In case we with our expectations would pressure the banking sector to take on more risk, we would directly affect the financial stability of the country, the security of deposits. As a central bank would not like to do this and have emphasized that this is an indisputable precondition for any kind of reform and enterprise to overcome the crisis; the financial stability of the country should not be compromised in any way. So the banking sector is sound, passes the stress tests and continuous to resist, but we must not disappoint and cause what should not happen.

RTSH: When we are in a bad day we turn to debt and 5 days ago you said that increasing public debt is a necessary evil. We accept the debt increase but we have not said specifically how much we can borrow? How long can the "bones" of the system hold to not break?

Governor Sejko: In regard to the debt, from the latest analysis or figures, from all states, this crisis has been overcome through borrowing. So the debt level has generally increased in all states, both in developed and underdeveloped countries. So far, the debt has grown by an average of 20-30% in various countries. I say so far, as this crisis may continue and consequently this average may increase in the future. I have mentioned that

debt is a necessary evil referring to the current situation. In cooperation with international financial institutions such as the IMF and the WB, it has been agreed upon the measures taken to overcome the crisis, so the increase in the level of debt has been agreed upon previously with them. The IMF was the first institution to immediately offer Albania a loan of EUR 180 million. In regard to debt, the pre-crisis strategy was fiscal consolidation; The Albanian state also had a target for debt reduction. In this context, the parliament approved a law, but of course this crisis reversed this law, and as I said, it was agreed with the IMF that the debt should be increased precisely to face the crisis. Without this, the bankruptcy of businesses would be impossible to avoid, and just as impossible would be the normal functioning of the state administration and the economy in general.

Chart 46 Composition of issued debt during 2016-2020 H1



Source: Bank of Albania.

Debt growth is bad in principle; however in such a peculiar situation it was completely unavoidable. This is clear not only to us, but to all the states. The important thing is that the debt is managed in the best way possible - and this is a postulate that applies to all times - and then, starting from 2021 onwards, with the overcoming of the crisis, to have a better orientation, again towards fiscal consolidation, towards debt reduction. We will have to work very fast to reduce the level of debt and this certainly requires serious economic reforms.

RTSH: That is, last year in November we had to face the November earthquake, in the spring of 2020 the outbreak of Covid-19, in autumn

2020 the second wave of Covid-19, while next spring we have the parliamentary elections. Has there even been a worst time in the meaning of what you call fiscal discipline?

Governor Sejko: That is true. Unfortunately, the economy has suffered many shocks in a row in a brief period of time, due to natural disasters. I cannot say if there has been a worse time. I can recall year 1997, when the economy of the country and our life, in general, suffered a heavy shock. It was a shock that at a certain extent stemmed from financial sector, from the pyramid schemes, which hit the savings of the population, and affected the financial stability of Albania. What happened drove the economy into recession, pushed the debt level up and deformed the macroeconomic parameters. Meanwhile, the crisis that we are experiencing, notwithstanding certain similarities in terms of macroeconomic parameters, is not very much alike. Effects of this crisis from the pandemic are still in a quarterly assessment process, and the depth of the shock, the economic fall and the impact on the GDP drop will become clearer following.

RTSH: So, we will borrow, and the economy will continue the recession. Related to the forecast on economic fall, the WB, the EBRD and the IMF provide different levels, from 4.5% to 9%. Does the Bank of Albania have an updated forecast on the level of economic decrease for 2020?

Governor Sejko: Of course. The Bank of Albania estimates that the economic fall in 2020 will be 6%. These figures will be revised, but for the moment we foresee a 6% fall of economic growth in 2020, and a rapid economic recovery in 2021. Thus, the forecast of the Bank of Albania is a V-shaped performance. Of course, different institutions have different forecasts, but they do not differ considerably from each other. In such situations, forecasts differ frequently and figures are revised on ongoing basis. Not only Albania, but all other countries worldwide as well, have a negative forecast about growth, even deeper one, at above 10%. The forecast has trended downwards, because, for example, economic growth in Greece is considerably affected by tourism. Notwithstanding the fall this year, the economy is expected to recover swiftly in 2021.

RTSH: Prior to focusing on the rapid recovery, in the annual report it is shown that the Albanian economy is projected to fall in 2020, which will be followed by: increase in unemployment (17000 lost jobs); decrease of household income; worsening of financial situation; and increase of non-performing loans in the banking system. If this

will continue in the next five months, is the optimism on a V-shape recovery still relevant? The Albanian economy is not a producing one at a considerable degree...

Governor Sejko: We are a small flexible economy, albeit a non-producing one.

RTSH: Where does this flexibility come from?

Governor Sejko: We have an industry of services; we are a small country with an economy, which in events of crises may react in a flexible manner and faster than the large economies. The continuation of the pandemic is the biggest problem. Our earlier forecasts showed that tourism was to bolster with the start of the summer season...

RTSH: Was it more positively assessed than needed?

Governor Sejko: Our economic forecasts were based on the forecasts of the health authorities on the prolongation of the pandemic. It appears that the situation will continue to be difficult and restrictions on free movement will continue to be in place. This is comprehensible, as the infection numbers are going up. Our forecast published in the monetary policy statement and then reflected in the published monetary policy reports, is that the second quarter will suffer stronger shocks from the crisis, but the economic fall will continue in the third and fourth quarters as well; economy will start the recovery in 2021.

RTSH: An optimistic forecast?

Governor Sejko: This is a realistic forecast, in view of the scenario that there will not be a second wave of shutdown. We have emphasised, that if there will be second wave, then we will revise the scenario.

RTSH: Has the first wave come to an end?

Governor Sejko: We refer to the statements by the health experts and authorities. The World Health Organisation, its last statement, has emphasised that the worse is not over yet. There is a lot of information, positive and negative altogether, thus there is a high degree of uncertainty.

RTSH: We can distinguish a diplomatic language when you say that the Albanian economy has the premises to successfully withstand these

shocks. Nevertheless, you say that public actors and private operations should take the right decision, in a timely manner and in a coordinated way.

Governor Sejko: This is not a diplomatic language. It's a direct and realistic one.

RTSH: What are the right decisions?

Governor Sejko: I re-emphasise that the financial bill of this crisis should be proportionally divided amid all actors.

RTSH: Who is paying this bill so far?

Governor Sejko: So far, we all are paying this bill.

RTSH: Equally?

Governor Sejko: Yes. Equally. Everyone is bearing a part of this crisis burden.

RTSH: At the beginning we saw efforts to leave the burden of the crisis to each-other.

Governor: Of course, this happens. But, to tell the truth, expectations on public institutions are always high, as they have the responsibility to deal with the crisis. In our statement we have called that all public authorities carry out the reforms and coordinate with each other. In this view, enterprises should understand properly this situation, as misunderstanding occurs frequently. Thus, it should be understood, that there should be a re-orientation of the business, in compliance with the new situation. Expenditures, costs and strategies should be optimised and re-oriented; maybe some investments should be interrupted; the collaboration with banks should be at the optimum level; expectations should be rather realistic than optimistic. I think that enterprises are realistic, from the communications that I have had. It is true that due to the overall "confusion" during the outbreak of the pandemic, various actors tried to avoid the responsibility, but nowadays the situation is clearer.

RTSH: Now they understand we all are on the same boat.

Governor Sejko: Indeed. In fact this is very clear to all, but the duration of this situation yet remains unclear. I think that everything depends on the progress of both vaccine development and then vaccination process.

RTSH: During the Covid-19 situation, the governments took the role of first place actors, but due to their nature, they do not take advices much into consideration, though during crisis times they are indispensable. What is the standard advice of the central bank for the Government in this unprecedented time?

Governor Sejko: The central bank serves also as advisor to the Government. In this case, we have been both advisor and collaborators. In our statements we have called for closer cooperation between all actors - government, central bank, private business - that play their own role in overcoming the crisis. Of course the situation is very complex and I think it has been well managed so far. It has been a very difficult situation, a panic situation but all of that was overcome, influenced also by the developments we saw in different developed countries, such as England or Italy, and the handling of the situation by their citizens. Fortunately and thanks to a very good civic reaction in our country, the extremely difficult quarterly period of isolation was successfully overcome. Also, a fundamental impact had the good coordination between public institutions. As a central bank, we took some measures such as lowering the interest rate, supplying the market with unlimited liquidity etc.

Table 7 Measures taken by governments in selected countries

	Fiscal					Monetary and macroprudential				
	Cash transfers	Employment support	Credit guarantee	Extension of tax payments	Policy rate	Purchase of government securities	Liquidity supply	Required reserve	Credit moratorium	Capital conservation buffer
U.S.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Euro area		✓	✓	-		✓	✓		✓	✓
United Kingdom		✓	✓	✓	✓	✓	✓		✓	✓
Czech Republic	✓	✓	✓	✓	✓	✓	✓		✓	
Romania	✓	✓	✓	✓	✓	✓	✓		✓	
Poland	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Hungary	✓	✓	✓	✓		✓	✓		✓	✓
Serbia	✓	✓	✓	✓	✓		✓		✓	
Croatia	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Kosovo	✓			✓				✓	✓	✓
North Macedonia	✓	✓	✓	✓	✓			✓	✓	✓
Albania	✓	✓	✓	✓	✓		✓		✓	

Source: IMF.

RTSH: Is there sufficient money in the system?

Governor Sejko: Yes. To meet the needs and in response to the situation and capacities of Albania, the central bank, commercial banks and the Government through the received debt, have put sufficient money in the system. In addition to the last Eurobond of EUR 650 million, there are taken EUR 120 million from local banks and EUR 180 million from the IMF. Meanwhile, the national currency in circulation, or the currency put in circulation by the central bank through the banking system, has been 35% higher than in the previous periods. This increase has been necessary as the isolated measures have urged people to withdraw cash at considerable amounts, in response to any eventuality. The banking system has been rather liquid and has responded to the market with cash, regularly and pursuant to the relevant needs. Fortunately, the Bank of Albania is in a very good situation, so the central bank has the necessary liquidity reserves in the national currency, while there has been no problem for the liquidity in foreign currency, as commercial banks have considerable amount of cash in euro. Nevertheless, the point is not only the currency out in circulation, also the functioning of the economic structure. Our economic structure is oriented towards consumption and not production.

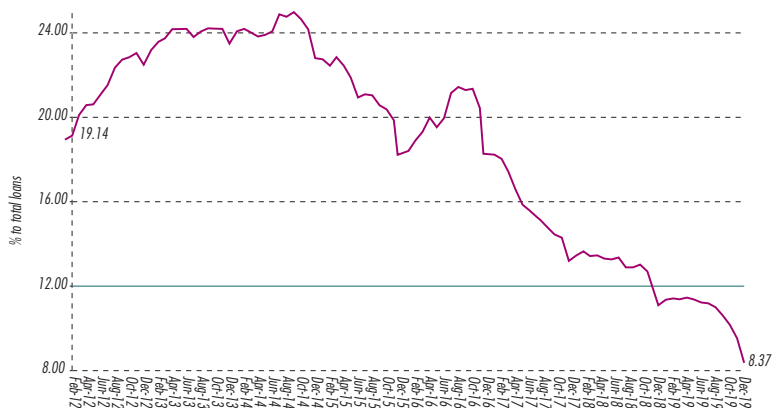
RTSH: If we speak about money delivered, for granted loans, are we brave enough to say that now we are lending for production? Or this is Achilles' heel?

Governor Sejko: I should reply in terms of lending throughout this period, before the crisis and during the crisis. Performance of lending has been climbing throughout these years, due to various measures taken by the Bank of Albania as the supervisory and regulatory institution in this regard. There was a moment of not being pleasant to the banking sector due to a perceived lending as "rather low" or negative. In fact, excluding the paid-in loans and the exchange rate effect, lending has been at a positive level, though not sufficiently enough. Our accommodative monetary policy, first, aims to increase lending for simulating economy and for the increase of consumption and investments. In this light, the cut of the policy rate aims at reducing the credit costs on loans taken for business purposes which provides for more work places. Lending has increased due to the simulating monetary policy, coupled with the reduction of non-performing loans ratio. On the other hand, banks have appeared reluctant in lending, as non-performing loans increased, and banks were afraid of them.

RTSH: *In the report, the non-performing loans have declined from 25% in 2014 to 8.4% in 2019, again a relatively high figure. Are there still enterprises in Albania that consider the loan as a type of grant?*

Governor Sejko: This perception has been considerably changed, particularly in recent years. Enterprises in Albania are clear that the credit should be repaid, that is the agreement with the bank for a certain obligation should be settled, and the payments should be met within the deadline. Of course there are still problems, but they are considerably less than previously. We have succeeded in one thing: non-performing loans ratio dropped at 8.1%, and prior to the crises it has been settled on a downward trend. Lending to economy was upward.

Chart 47 Non-performing loans ratio



Source: Bank of Albania.

RTSH: *Have you foreseen an increase of non-performing loans?*

Governor Sejko: Yes. This crisis will be accompanied by deformation, albeit level still unpredictable. The crises will impact both the non-performing loans ratio and lending growth. What you read from our monetary policy report will impact enterprises, households and families. Banks will be more prudent in lending and will performed analyses on risk revised criteria. Also, enterprises' appetite for loans will change while their development and investment plans will be more prudential. Thus, it is reasonable, that the need for loans and credit appetite from

both enterprises and banks will trend downwards. Some enterprises may fail to afford the situation and will be unable to pay in time their loans and liabilities, notwithstanding the measures we have taken on the extension of the repayments for loan instalments.

RTSH: Mr Governor, one of the challenges you have emphasised is that economic growth not to be based on consumption and construction, but rather on production and export. When do you think will Albania be ready to perform this Pindaric flight?

Governor: We are talking about the measures in place to tackle this difficult economic situation originating the crisis caused by the pandemic. What you are asking is related to structural reforms to be taken for the orientation and development of the Albanian economy. What we have always highlighted is the transition from an economy based on remittances and with high informality level, to a more formalised economy and which is oriented towards exports and production.

Of course, tourism is a service exports and it is one of the main industries, but overall, agrotourism, agriculture and certain industries may turn more typical to Albanian, and in this view they should be developed, and in parallel the informality level should be reduced. The lower is the informality the higher will revenues in state budget and capacities for investments in schools, hospitals, and particularly in infrastructure, which in turn will originate more foreign investments in Albania. The decrease of informality will drive to an increase of security, interconnected with structural reforms in the legislation on the ownership right. Thus, things are intertwined. These undertaken structural reforms should continue further. I do not think that because of the crisis, there should be changes in our economic model, in our structural reforms. We should continue to progress in these structural reforms. Nevertheless, in these circumstances, in parallel with them, we should be flexible to overcome this difficult situation, as we have done so far. We hope that year 2021, will bring back the normality, and the reduction of public debt ratio is one of the reforms that will demand for strong efforts.

RTSH: Will we start now to pay back the debt we are receiving, or it will be for the next generation?

Governor Sejko: Yes. We should try to reduce as much as possible the debt, but of course it will never become zero. The best is one generation levels to the next one a rather lower debt. That is why we

say to reduce debt ratio. Of source debt is received, in turn, previous debt is liquidated; the ratio should be reduced. But it is not an absolute figure. There are countries with a high debt ratio and very high level of economic development and welfare.

RTSH: Because they do produce...

Governor Sejko: Yes. Amid many factors, also because they produce.

Question: They have a strong economy...

Governor Sejko: They do have both a strong economy and rule of law. If we develop both in parallel, we may have a debt ratio 60, 70 or 80 %, but to have also an economy with higher productivity.

RTSH: In times of crises, one of uncertainties is related to the currency. The Bank of Albania has intervened in the market on 27 and 30 March, when EUR 1 was exchanged with ALL 135, and in one month lek depreciated by 7%. In view of the assumption on an worsening of the public health situation, a second wave in autumn, how much stable is the national currency?

Governor Sejko: I will try to provide a summarised answer, as it is a delicate issue on which it is discussed continuously. This is normal, for as long the Albanian economy has a high euroisation level and an exposure of citizens and enterprises to exchange rate risk, as some have income in euro and so others in the national currency. First, the national currency, lek, overall has been stable, excluding the years 1997 and 2008, when it suffered a strong depreciation. Thus, the national currency has been resilient to all hardships suffered by the Albanian economy; lek has been stable...

RTSH: What has driven lek to be so sustainable?

Governor Sejko: This is a very deep and broad analysis. Throughout this period, the Bank of Albania has operated under a free-floating exchange rate regime, which is we have not invented in the market, excluding the difficult moments of crises, when the main parameters have been affected. But the regulations of the central bank clearly stipulate these moments, and those include: shocks on inflation; speculation and disequilibrium of parameters, expansion of spread in market. Nevertheless, these are special cases, rare phenomena. To not affect

the market, interventions of the central bank are made public after three months - with the aim to avoid efforts of speculators to take advantage. This in the immediate moment, intervention in the market is a banking secret. We can say that our national currency has been stable; it has remained stable even in this pandemic period, sometimes even stronger than many other currencies. Excluding a short period at the beginning of the pandemic, where the psychological effect was present and there was a shortage of euro in the market, due to the suspension of flights, we see that lek is stable.

RTSH: Last question, Mr Governor is related to the perception that a bank may do everything. But, what can't a bank do?

Governor Sejko: The law defines the operations to be conducted by banks. They are intermediaries: they receive deposits and invest them into loans. Thus, a bank has a very important role, it is the insurer of citizens' deposits in addition to being a developer of a country economy, through lending to crucial sectors of economy or supporting the citizens. Hence, in one hand the bank guarantees the liquidity surpluses or savings of citizens distributing a profit on them, on the other hand, it helps citizens through lending who need to develop either their business or investment plans. In parallel, thanks to the new technological development, the bank performs other operations, like banking transactions and services. These are the genuine basic operations that a bank should carry out. The activity of banks is regulated by the Law and supervised by the central bank, in order to not speculate and conduct a sound financial activity - this is the financial stability of the country that we mention. Obviously, a bank does not carry out any operation that is not defined by the Law. In simpler word, the bank cannot go beyond the "list of works to do".

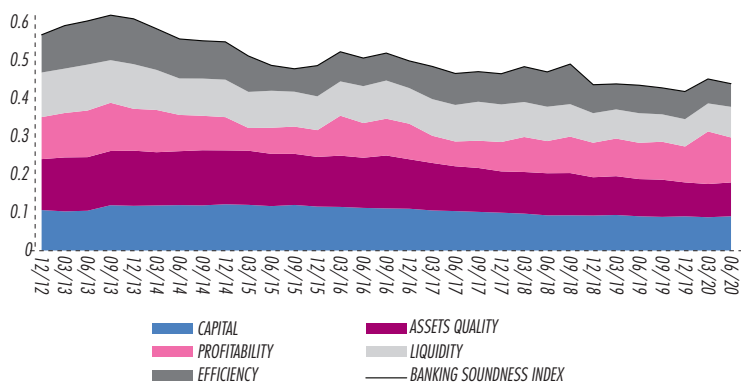
RTSH: May it happens that banks conduct the illegal activity of money laundering?

Governor Sejko: Absolutely not. It is part of the list of risks, as it is related to the image risk, one of the biggest one for the moment.

RTSH: I thank you for being present at the Albanian Public TV, "Perballe"

Governor: Thank you!

Chart 48 Banking soundness index*



*The increase in the value of index shows lower stability. The breadth of each dimension shows its contribution to risk.
Source: Bank of Albania.

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Governatori Sejko në Forumin për vendet e Evropës Qendrore dhe Lindore, të organizuar nga "Euromoney", 15 janar 2020/
Governor Sejko: The Central and Eastern European Forum organised by Euromoney - 15 January 2020



Governatori Sejko në Forumin për vendet e Evropës Qendrore dhe Lindore, të organizuar nga "Euromoney", 15 janar 2020/
Governor Sejko: The Central and Eastern European Forum organised by Euromoney - 15 January 2020



Gubernur Sejko me Ambasadorin Norvegjez, SH.T.Z. Jens Erik Grøndahl, 17 janar 2020/
Governor Sejko with H.E.Mr. Jens Erik Grøndahl, Ambassador Norway to Albania - 17 January 2020



Gubernur Sejko me delegacionin e Bankës Botërore, 6 shkurt 2020/
Governor Sejko meets the representatives of the World Bank Group - 6 February 2020



Takim i Shoqatës Shqiptare të Bankave, 12 shkurt 2020/
Meeting of the Albanian Association of Banks - 12 February 2020



Gubernatori Sejko me Ambasadorin Italian, SH.T.Z. Fabrizio Bucci, 13 shkurt 2020/
Governor Sejko with H.E.Mr.Fabrizio Bucci, Ambassador of Italy to Albania, 13 February 2020



Mbledhja e Konstituencës së Fondit Monetar Ndërkombëtar dhe të Grupit të Bankës Botërore, 28 shkurt 2020/
Governor Sejko attends the IMF/World Bank Constituency Meeting - 28 February 2020



Leksion i Gubernatorit Sejko në London School of Economics and Political Science (LSE), 2 mars 2020/
Governor Sejko delivers a lecture at the London School of Economics and Political Science (LSE) - 2 March 2020



Takimi me sistemin bankar dhe biznesin "Marrëdhëniet Biznes - Bankë", 13 maj 2020/
Governor Sejko: Meeting with the banking system and business community on "Bank - Business relationships" - 13 May 2020



Governatori Sejko në Komisionin Parlamentar të Ekonomisë dhe Financave, 1 qershor 2020/
Governor Sejko at the Parliamentary Committee on Economy and Finance - 1 June 2020



Gubernuratori Sejko në takimim e 43-të të Klubit të Governorëve të vendeve të Azisë Qendrore, Rajonit të Detit të Zi dhe Ballkanit, 2 qershor 2020/
Governors' Club of Central Asia, Black Sea Region and Balkan Countries - 2 June 2020



Mbledhje e Këshillit Mbikëqyrës, 3 qershor 2020/
Meeting of the Supervisory Council of the Bank of Albania - 3 June 2020



Guvernatori Sejko me Ambasadorin Austriak, Sh.T.Z. Christian Steiner, 11 qershor 2020/
Governor Sejko with H.E.Mr. Christian Steiner, Ambassador of Austria to Albania - 11 June 2020



Promovimi i librit "Kriza ekonomike në kohën e koronavirusit", 7 korrik 2020/
The promotion ceremony of the book: "Economic crisis in times of coronavirus" - 7 July 2020



*Takim online me misionin e FMN-së, 2 korrik 2020/
Virtual meeting with the IMF mission - 2 July 2020*



*Governatori Sejko me Misionin e FMN-së për Shqipërinë, 18 shtator 2020/
Governor Sejko meets the IMF Mission for Albania - 18 September 2020*



Mbledhjet Vjetore të Fondit Monetar Ndërkombëtar dhe Bankës Botërore, 20 tetor 2020/
The 2020 Annual Meetings of the International Monetary Fund and the World Bank Group - 20 October 2020



Governatori Sejko në takimin e Ministrave të Financave dhe Governorëve të Bankave Qendrore të vendeve të EQJL-së, me Drejtoren e Përgjithshme të FMN-së, zj. Kristalina Georgieva, 23 tetor 2020/
Governor Sejko attends the CESEE meeting of Finance Ministers and Central Bank Governors, with the International Monetary Fund Managing Director, Ms Kristalina Georgieva - 23 October 2020



Governatori Sejko me Ambasadorin Rumun, SH.T.Z. Mircea Perpelea, 18 nëntor 2020/
Governor Sejko with the H.E.Mr. Mircea Perpelea, Ambassador of Romania to Albania - 18 November 2020



Workshop-i XIV i Kërkimeve Ekonomike për Evropën Juglindore, 10 dhjetor 2020/
14th South-Eastern European Economic Research Workshop - 10 December 2020

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Adelajda Matuka	Ariana Bimo	Artan	Artan Sulejmani	Bledar Hoda
Denada Rada	Elisabeth Beckmann	Elona	Enri Herri	ermir maliqaj

*Governatori Sejko në takim me Ambasadorin Spanjoll, SH.T.Z. Marcos Alonso Alonso, 11 dhjetor 2020/
Governor Sejko meets with H.E. Mr. Marcos Alonso Alonso, Ambassador of Spain to Albania - 11 December 2020*



*Ceremonia e shpalljes së çmimeve fituese të konkursit të hapur “Çmimi i Governorit për Diplomën më të Mirë për vitin 2020”, 21 dhjetor 2020/
Governor’s Award Ceremony for the “Best Diploma Thesis 2020” - 21 December 2020*

