
Governor's public appearance in 2021

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Gent Sejko, Governor of the Bank of Albania, 2021

CHAPTER I

PRESENTATIONS TO THE PARLIAMENTARY COMMITTEE ON ECONOMY AND FINANCE

- *Governor Sejko presents the Annual Report 2020 of the Bank of Albania to Parliamentary Committee on Economy and Finance, 20 April 2021*
- *Governor Sejko presents BoA's Annual Report 2020 to the Assembly of the Republic of Albania, 27 May 2021*
- *Governor Sejko presents BoA's opinion on the Draft Budget 2022, 5 November 2021*

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 to the Assembly. Every year, the Governor presents the Annual Report of the Bank of Albania, answering to the questions and responding to the interest of MPs on specific issues related to it. Also, since 2015, the Governor has presented in a dedicated session the opinion of the Bank of Albania on key issues in the draft budget of the Government of Albania for the next year. In addition, hearing sessions may also take place on the operational activity of the Bank of Albania and the banking system.



GOVERNOR SEJKO PRESENTS BOA'S ANNUAL REPORT 2020 TO THE PARLIAMENTARY COMMITTEE ON ECONOMY AND FINANCE - 20 April 2021-

The Bank of Albania, embarked on a comprehensive package of measures, which consisted in:

- *The reduction of the key interest rate at the historical minimum of 0.5%, and the increase of liquidity injections;*
- *Regulatory measures which encouraged the temporary extension of credit payments for clients in immediate difficulty;*
- *Suspension of profit distribution to the banking sector;*
- *Elimination of costs on the use of electronic platforms of payments operated by Bank of Albania;*
- *Addressing in an eased way the exposures of banks to debt securities of the Albanian Government in foreign currency;*
- *A more frequent and transparent communication with the public, on: the undertaken measures; their effect; and the expectations for the future.*

*Honourable Chair,
Honourable Members of the Committee,*

Thank you for the invitation and the opportunity to present to the Committee, the Annual Report 2020 of the Bank of Albania! The Report presents the contribution of the Bank of Albania to preserving the monetary and financial stability of Albania - such a valuable achievement in the view of unprecedented challenges we have been facing throughout the previous year - and the measures we have taken in fulfilling our legal and institutional duties and commitments.

The COVID-19 pandemic and the necessary measures taken to control it strongly hit the Albanian economy. It caused a negative impact on: the volume of economic activity; employment; the financial situation of households and enterprises; and on the domestic and foreign equilibriums of Albania.

In coordination with fiscal stimulus, the Bank of Albania implemented a complete package of macro-prudential, operational and monetary measures, which were aimed at preserving liquidity in financial markets, reducing borrowing costs, continuing lending and maintaining an uninterrupted flow of financial services. Through these measures, the Bank of Albania enabled: the reduction of crisis financial cost to households and enterprises; the avoidance of its transmission into the financial sector; and the preservation of a calm monetary and financial environment, by establishing the premises for a faster recovery with the normalisation of the situation.

Hence, the impact of crisis on the economy was lower than expected, by showing both the positive effect of measures taken by public authorities and the flexibility and resilience of our economy and financial system.

Our forecasts show the Albanian economy will turn towards recovery during 2021 with the gradual reduction of the negative impact of pandemic. The volume of economic activity is expected to shift on an upward trajectory in the medium and long term, underpinned by the favourable financing conditions, the reduction of uncertainties and the progressive recovery of both domestic and foreign demands. Nevertheless, the guaranteeing of stable economic growth and the management of many-downside risks would call for ongoing attention and prudence.

Dear Ladies and Gentlemen,

Following, I will detail the directions and main results of our work over 2020.

1. ECONOMIC PERFORMANCE, PRICE STABILITY AND THE REACTION OF THE BANK OF ALBANIA

2020 was a hard and challenging year, marked by the negative impact of the COVID-19 pandemic. The measures taken to contain the pandemic coupled with the heightened uncertainties drove the Albanian economy to recession. They caused unemployment to increase and posed financial difficulties to many enterprises and households. Indicators of economic balances worsened: current deficit expanded; budget revenues dropped; public debt lifted up; while the balances of banking and financial sector's operators were put under pressure. In parallel with them, premises for the return of inflation to target faded out.

Figures published by INSTAT for 2020 provide a more detailed view of the impact of this crisis on the Albanian economy. Thus, the volume of economic activity contracted by 3.3% and unemployment rate increased to 11.8%. The economic downturn reflected the simultaneous contraction in almost all components of aggregate demand and in all sectors of economy. The crisis has hit more particularly private consumption and trade flows, where the exports of both goods and services dropped. On the other hand, consumption and public investments have been upwards, by partially compensating the decrease in the private demand. The increase of budgeted expenditures, in parallel with the fall of fiscal revenue drove to a growth of budget deficit and public debt. At the end of 2020, public debt to GDP reached at 76.1%, from 66.3% at the end of 2019.

In terms of time, the maximum negative impact of the crisis appeared in the second quarter, while the two next quarters recorded a gradual improvement of economic indicators, albeit remaining below the levels recorded in the previous year. In particular, output and employment remain at a low level compared with 2019, by reflecting the weak cyclical position of Albania and suggesting that the aggregate demand remains at insufficient levels to generate complete employment of output factors. Hence, the domestic inflationary pressures remain low, while fall of inflation in our trade partners has curbed the increase

of imported inflation. Thus, in 2020, annual inflation averaged 1.6%, remaining below our target.

Dear Ladies and Gentlemen,

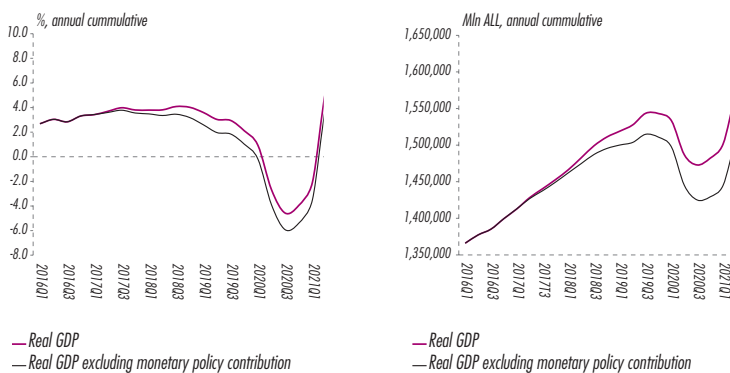
The COVID-19 pandemic is the most serious economic challenge we have been facing during the last two decades. In these circumstances, the intervention of public authorities with extraordinary simulating measures was indispensable to mitigate the negative immediate effect of the crises and contain its long-term impact on economy.

The Bank of Albania, within its jurisdiction, embarked on a comprehensive package of measures, which consisted in:

- The reduction of the key interest rate at the historical minimum of 0.5%, and the increase of liquidity injections, through the adoption of an operational strategy which enabled the unlimited injection of liquidity in the interbank market.
- Regulatory measures which 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 were facing short and medium-term financial difficulties.
- Suspension of profit distribution to the banking sector, to enhance the amortising capacities of the sector against the shock.
- Elimination of costs on the use of electronic platforms of payments operated by Bank of Albania, aimed at reducing the physical costs, increasing the use of electronic payments and better managing the demands for cash to economy.
- Addressing in an eased way the exposures of banks to debt securities of the Albanian Government in foreign currency, according to the Regulation on Capital adequacy and Regulation on large exposures, for securities issued during 2020.
- Last, we were engaged in a more frequent and transparent communication with the public, on: the undertaken measures; their effect; and the expectations for the future.

We assess that the implemented measures have been efficient, by supporting the economy in some directions:

Chart 1 Cumulative economic growth, real and excluding monetary policy contribution (left); cumulative annual GDP, real and excluding monetary policy contribution (right)



Source: Bank of Albania.

First, the monetary and macro-prudential stimulus enabled the reduction of financial costs and the continuous support to households and enterprises with bank loans.

Our immediate reaction and the injection of ample liquidity quantities enabled the smooth functioning of financial markets and the transmission of reduction of the key interest rate to credit prices. Currently, financing and debt servicing costs in economy are lower than in the previous year and the exchange rate is stable.

“Our immediate reaction and the injection of ample liquidity quantities enabled the smooth functioning of financial markets and the transmission of reduction of the key interest rate to credit prices.”

The low interest rates and ample liquidity were followed by an average growth of 6.7% of credit portfolio during 2020, by supporting the continuation of investments and the increasing needs of economy for working capital. Lending to enterprises and in lek, supported by the state guarantee schemes

were the main contributors to credit growth. In this regard, I would like to underline, that for the first time in the last two decades, the share of credit portfolio in lek was equal to the share of credit portfolio in foreign currency at the end of previous year. This positive trend establishes the premises for enhancing the monetary policy's effectiveness and strengthening the financial stability of Albania.

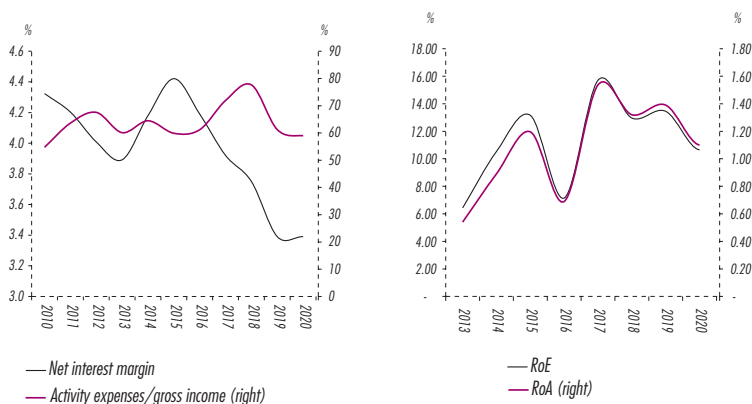
In addition, more than 23,000 enterprises and households having loans at around ALL 200 billion, benefited from the moratorium on the payment of credit instalments and the restructuring of the existing loans. These funds available to them have served to mitigate the financial difficulties that both households and enterprises faced at the beginning of the crises.

Overall, our estimations suggest that our simulating monetary policy has yielded a positive effect of 3.7 percentage points on the economic activity during the last four years, by providing a notable contribution to employment and welfare of Albanian households.

Second, the prudential supervision and monitoring of the banking system performance, the intensive and continuous communication with it, and the temporary suspension of profit allocation, have served to maintain a liquid and well-capitalised banking system with sound practices for risks management.

Indicators of assets quality, financial result and capital of the banking sector appear at good levels. Non-performing loans ratio has remained at low levels and the direct exposure of its activity to market risks remains contained.

Chart 2 Profitability and expense indicators of the banking sector



Source: Bank of Albania.

Third, the increase of operational capacities for supplying cash to economy, the guarantee for the uninterrupted functioning of the national payment system and the reduction costs on electronic payments in lek, enabled the smooth functioning of the financial system.

Last, the intensification of communication with national and international partners and with the public at large, helped to reduce the uncertainty and increase confidence in the future.

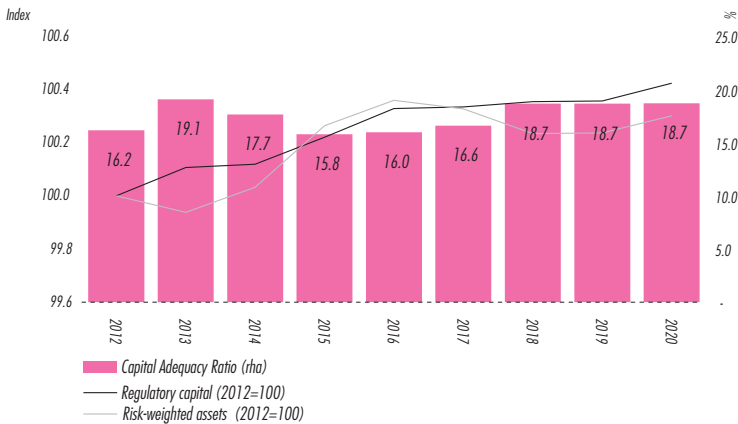
Overall, we assess that the Albanian economy has the necessary premises for a fast rebound of the economic activity once the epidemiological situation has been normalised. Also, this assessment is affirmed by our forecasts, which project an expansion of consumption and investments, growth of the economic activity's volume, increase of employment and improvement of the financial situation of enterprises and households in the following period. The economic growth will help the strengthening of inflationary pressures and the return of inflation to target within 2022.

2. BANKING SUPERVISION AND FINANCIAL STABILITY

Notwithstanding the challenges posed by the pandemic in Albania, the activity of the banking system was stable. The operational measures taken by banks to ensure the continuity of critical functions and the relationships with clients, intertwined with the measures taken by the public authorities to mitigate the pandemic shock, enabled the financial intermediation activity to continue appropriately and the financial indicators of the banking sector to remain at good levels.

The activity of banking system grew by around 7%. Although the banking sector undertook a considerable part of financial burden during the crisis of 2020, it resulted with a positive financial result, albeit 15% lower than in the previous year. In parallel, the capitalisation of the system remains at a good level, above 18%, enabling this sector to continue the activity of financial intermediation. In addition, credit quality slightly improved during 2020. The ratio of non-performing loans fell to 8.1%, as at end of 2020, from 8.4% in the previous year.

Chart 3 Capital Adequacy Ratio



Source: Bank of Albania.

The measures taken by the Bank of Albania to help banks to deal with borrowers facing temporary financial difficulties for the restructuring of loans, created room for the stabilisation of the overall level of non-performing loans. Thus, the Bank of Albania remains particularly attentive in monitoring this indicator.

Direct exposure of banking sector's activity against risks remains contained, but some indicators of these risks have trended upwards. The banking sector remains sensitive to the exchange rate risk through the segment of unhedged loans in foreign currency. Exposure to the interest rate risk remains present, but it is assessed as contained. The Bank of Albania has addressed these risks through regulatory actions of macro-prudential nature and through the macro-prudential policy instruments. Uncertainty about economic developments in the presence of the pandemic remains considerable, and so do the challenges to the banking and financial activity. However, assessments of the banking industry and stress test exercises suggest that the banking sector has sufficient capacities to counter these challenges.

After this panorama of the banking sector in Albania, I will briefly highlight some of the main directions of the work of the Bank of Albania for strengthening banking supervision and supporting financial stability.

The implementation of the recommendations from the Committee of Experts of CoE on the Evaluation of Anti-Money Laundering Measures and counter Terrorist Financing (MONEYVAL). In the evaluation Report of Moneyval, financial entities, particularly banks, are evaluated with a high level of effectiveness ("substantial/considerable"), by undertaking, overall the appropriate measures for the prevention of money laundering and terrorist financing. Also, the Committee has provided a set of recommendations to the Albanian authorities. In the framework of addressing these recommendations, the Bank of Albania is involved in the implementation of the national plan of

measures accordingly, by performing the necessary completions in the regulatory framework and by strengthening the supervisory process. The number of examinations, with particular focus on the terrorism financing issues and implementation of international sanctions, has been increased. These examinations have taken place in non-bank financial institutions and foreign exchange bureaus.

Regulatory and methodological approximation and strengthening of supervisory capacities. The Bank of Albania has continued to work for the improvement of the regulatory framework through the approval of new regulatory acts, as well as the review of applicable regulations, by further aligning this framework with the EU *acquis*, the Basel Committee principles and the best practices of banking supervision. The review of the applicable regulatory framework has also taken into account the situation created in Albania by the pandemic. Also, a part of the approved by laws have aimed at complementing the regulatory framework in the field of resolution, whose responsible authority is the Bank of Albania.

The rigorous monitoring of financial system through on-site examinations. The pandemic situation and the restrictions in place imposed the differentiated condition of on-site examinations. On the other hand, we have intensified the correspondence with banks and non-banks financial institutions, for the sharing of information and increasing the reports. In 2020, 27 examinations were performed, covering banks and non-bank financial institutions, and 74 examinations in Foreign Exchange Bureaus. Credit risk was the main objective of these examinations.

Table 1 Number of examinations by year and theme

Examined institutions	Strategic Risk	Organisational Risk	Credit Risk	Liquidity Risk	Interest Rate Risk	Market Risk	Information and Communication Technology	Operational risk	Reputational Risk	Profitability	Capital
2018	8	10	9	8	8	8	9	8	28*	9	8
2019	13	13	16	13	13	14	13	13	14	13	15
2020	2	8	15	11	2	5	5	5	88**	2	6

* In 2018, examinations on the reputational risk were carried out in 28 FEBs. While, 10 joint examinations on this risk were carried out with the General Directorate for the Prevention of Money Laundering (GDPMU).

** In 2020, examination on the reputational risk were carried out in 74 FEBs, while 14 other examination on this same risk were carried out in banks and NBFIs. Of these, examinations on this risk for 2 banks, 1 NBFi and 1 FEB, were carried jointly with the General Directorate for the Prevention of Money Laundering, while 3 joint examinations in banks were conducted with the Financial Supervision Authority (FSA).

Strengthening the ability for resolution in banks. In capacity of Resolution Authority, the Bank of Albania has drafted the resolution plans for systemic banks, has identified the potential obstacles to the implementation of resolution and has drafted the measures for overcoming these obstacles. In addition, in 2020, the Bank of Albania completed the first cycle of drafting resolution plans for non-systemic banks.

Development and implementation of macro-prudential policy for the purposes of financial stability. The Bank of Albania has a primary role in drafting and implementing the macro-prudential policy. This policy prevents the accumulation of risks and strengthens the financial system's resilience. Throughout 2020, new regulatory acts were implemented - liquidity coverage ratio and the regulation on the implementation of additional macro-prudential capital buffers - which aim at mitigating risks and strengthening the resilience of the banking sector.

The realisation of institutional duties implies also a constant attention on other areas of the Bank of Albania's activity. Following, I will try to provide an overview of them.

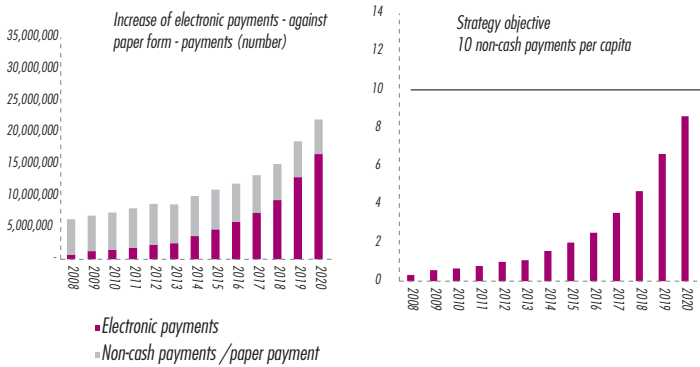
3. OTHER ACTIVITIES

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 the Albanian Electronic Clearing House (AECH) have operated efficiently and safely. In 2020, the regulatory framework on the functioning of both payment systems was reviewed. Both systems have been assessed by international experts related to the principles of Bank for International Settlements (BIS) and the European Central Bank. They have resulted in compliance with these principles.

In the framework of promoting the reforms in payment market, the Bank of Albania has played an active role for the implementation of the National Retail Payments Strategy 2018-2023. More than 50% of the measures set forth in the action plan of the strategy have been accomplished, through a set of regulatory interventions and measures for enhancing financial education. For the purposes of accomplishing the objectives set forth in the strategy, the Bank of Albania has started the work for the transposition of the EU Directive "On the Payment Account", which is expected to increase both transparency in payment services and financial inclusion of the population.

In 2020, the use of electronic payment instruments jumped to 18.5%. This trend was also affected by the measures implemented by the Bank of Albania for the reduction of costs on electronic transfers in lek. The finalisation of the Law "On Payment Services" is expected to boost the use of electronic payment instruments and, overall, the expansion of population inclusion. The approval of this Law, which is initiated by the Bank of Albania, is an important achievement to increase access of population to payment services, and marks a further step towards the integration with the best EU practices.

Chart 4 Volume of electronic and paper payment instruments in years (left) and the volume of payments per person (+15 years-old) in years (right)



Source: Bank of Albania.

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. In parallel with them, we have continued the preliminary work for the preparation of negotiations of Chapters 4 and 17. The Bank of Albania has the role of national coordinator for these chapters, and in this regard, we have strengthened the dialogue to identify the optimum paths for countering the shock.

In addition, we have focused our attention on the preventive measures and the effects of the pandemic on the internal activity of the institution. A year earlier, we completed the platform on Business Continuity Management. In 2020, this platform enabled the units of the Bank of Albania to react effectively for ensuring the normal continuation of processes during the pandemic. All the main activities of the Bank of Albania have continued to operate normally, without any interruption.

Nevertheless, I take the opportunity to emphasise that the Bank of Albania has recorded a progress also in other areas of its

activity, as: compilation and dissemination of financial statistics; management of international reserve; the scientific research; and communication with the public, etc. All these aspects of our work are truly reflected in the Report.

Honourable Members of Parliament,

The Albanian economy showed resilience to the shock during the previous year and has positive development premises in the next and far future. Nevertheless, there are many downside risks, and the economic and financial environment remains challenging.

We deem that the macro-economic policies should continue to maintain the stimulating direction, until economic growth and employment expansion return to a stable track. Further, the priority of policies should move towards the strengthening of economic balances, particularly to the reduction of public debt and establishment of necessary fiscal premises to counter other shocks in the future.

“Fiscal, monetary and financial stimuli are crucial instruments to bolster the aggregate demand. But only structural reforms enable the stable expansion of production capacities and the increase of social welfare.”

In parallel with them, policymakers, at every level, should work for advancing the structural reforms. Fiscal, monetary and financial stimuli are crucial instruments to bolster the aggregate demand. But only structural reforms enable the stable expansion of production capacities and the increase of social welfare.

Allow me to assure that through the preservation of monetary and financial stability, the Bank of Albania remains committed to provide its contribution in this regard.

Thank You!

GOVERNOR SEJKO PRESENTS BOA'S ANNUAL REPORT 2020 TO THE ASSEMBLY OF THE REPUBLIC OF ALBANIA -27 May 2021-

The objectives of our intervention were:

- (i) easing the short-term impact of the crisis on the economy;*
- (ii) reducing possible negative consequences on the production potential of Albania;*
- (iii) safeguarding the monetary and financial stability of the country.*

*Honourable Speaker,
Honourable Members of Parliament,*

Thank you for the opportunity to present the work and results of the Bank of Albania over the course of the previous year, through this direct communication!

The Covid-19 pandemic posed to the Bank of Albania – as it did to the whole economy, to society and to other Albanian institutions - unprecedented and extraordinary challenges. The Bank of Albania, being aware of the complexity and size of this problem, in coordination with fiscal policy, undertook a rapid and thorough intervention.

The objectives of our intervention were (i) easing the short-term impact of the crisis on the economy; (ii) reducing possible negative consequences on the production potential of Albania; (iii) safeguarding the monetary and financial stability of the country.

Overall, I think that the measures undertaken by the Bank of Albania succeeded to tackle the crisis.

- The impact of the crisis on the economy proved to be lower than our initial expectations, reflecting both the resilience and flexibility of the private sector, as well as the positive impact of the response of public policies.
- In addition, the impact of shock on the long-term factors of growth appears contained. Although they are natural problems, we succeeded in avoiding bankruptcy of enterprises at large and a sharp increase in unemployment.
- Lastly, in spite of the strong test, the economic and financial equilibriums of Albania remain solid.

We assess that the Albanian economy enjoys the premises for a rapid economic rebound in the future.

Honourable Speaker,

I would like to emphasise that - throughout 2020 - 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.

Following, I will present in greater detail the work and results of the Bank of Albania over the previous year.

1. ECONOMIC PERFORMANCE AND THE REACTION OF THE BANK OF ALBANIA

The heightening of uncertainty and the enforcement of necessary social distancing measures to contain the spread of the Covid-19 pandemic, drove the Albanian economy into recession, led to an increase in unemployment and triggered financial difficulties for many Albanian enterprises and households in 2020.

Indicators of economic balances worsened. The volume of economic activity contracted by 3.3%, the Albanian economy lost around 43,000 jobs, while the unemployment rate jumped to 11.8%. The fall in income led to an increase in both public

and private debt. In reflection of the slowdown in economic activity, in Albania and globally, the average inflation for 2020 stood at 1.6%, continuing to undershoot our target.

The crisis particularly hit trade and private consumption flows. Thus, the consequences of the crisis were present across all sectors of economy, but - particularly - they were felt in the industry sector and in specific branches of the services sector.

The size and complexity of shock required addressing it with coordinated stimulating fiscal, monetary and financial policies. Within its field of competency, the Bank of Albania undertook a complete package of measures. In more concrete terms, we:

- Lowered the policy rate to its historical minimum of 0.5%, facilitated the banking sector's approach to liquid funds and increased liquidity injections in the interbank market;
- Approved regulatory amendments which induced the extension of credit payments with six months for clients in immediate difficulties, and the restructuring of credit to clients facing longer-term financial difficulties;
- Suspended dividends distribution to the banking system, aimed at boosting the capacity of the sector for financial absorption of the shock;
- Forfeited any charges on the use of electronic platforms for interbank payments operated by the Bank of Albania, aimed at promoting the use of electronic payments.

We assess that the implemented measures have proven effective in reducing the impact of the pandemic.

First, our intervention helped in preserving the monetary and financial stability of Albania. Financial market is calm, characterised by smooth activity and low volatility. This is a qualitative change from the episodes of previous

“The intervention of the Bank of Albania helped in preserving the monetary and financial stability of Albania. Financial market is calm, characterised by smooth activity and low volatility. This is a qualitative change from the episodes of previous shocks and certifies the strengthened maturity of our financial system.”

shocks and certifies the strengthened maturity of our financial system.

Second, the monetary and macro prudential stimulus established the necessary conditions for the continuation of lending. Credit to the private sector grew 6.7%, on average, in 2020. In addition, more than 23,000 enterprises and households benefited from the moratorium on credit instalments, for a credit portfolio totalling around ALL 200 billion. Overall, our assessments show that the accommodative monetary policy stance implemented during the last four years, has generated a volume of economic activity around 3.7% higher, by making a considerable contribution to the improvement of social welfare.

Third, the prudential supervision and monitoring of the banking sector's performance, continuous communication with this sector, and the temporary suspension of dividend distribution, served to keep the banking sector liquid, well-capitalised and with sound practices for the management of risks.

Last, guaranteeing the uninterrupted function of payment systems and the reduction of costs for online payments in lek have supported smooth functioning of the financial market.

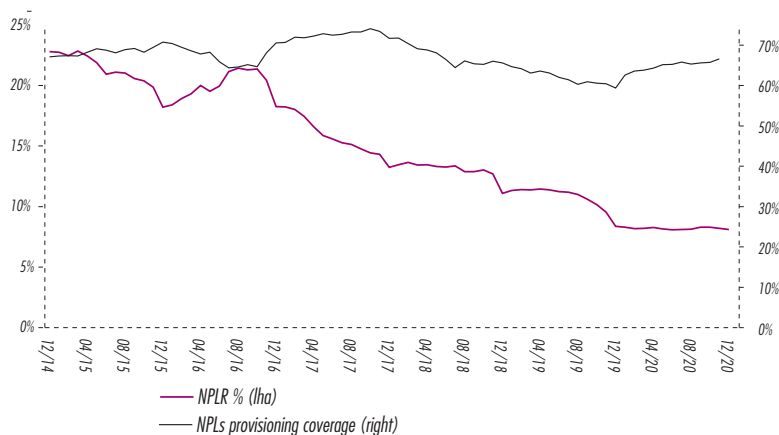
2. FINANCIAL STABILITY AND BANKING SUPERVISION

Our banking system carried a considerable part of the financial burden of the crisis, by conducting its function of absorbing shocks, directly and properly. This development is different, in qualitative terms, from previous episodes of crisis, which reflects the ongoing work that the Bank of Albania has performed for: improving supervision and regulation; strengthening security networks; and consolidating the banking sector.

In spite of the challenges, the activity of the banking system appears stable. In 2020, the assets of the banking sector grew

by around 7%, the financial result remained in positive territory, and its capitalisation is satisfactory, while the non-performing loans ratio dropped to 8.1% at the end of year.

Chart 5 Non-performing loans ratio and provisioning



Source: Bank of Albania.

The direct exposure of the banking sector's activity to market risks remains contained. The assessments of the banking industry and stress tests suggest that the capacities of the banking sector are sufficient to deal with their potential increase.

In addition to measures undertaken due to the pandemic, the Bank of Albania has continued its work for the long-term strengthening of the supervision framework of the banking system. In this regard, the work has mainly consisted of:

- Implementing the recommendations from the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). In this view, the necessary amendments to the regulatory framework are in place and the number of examinations focused on the financing of terrorism issues has been increased.
- Further improving the regulatory framework, by continuing alignment with EU Acquis, the Basel Committee principles and the best international practices.

- Conducting on-site examinations, by placing priorities and carrying out targeted examinations in view of the implementation of containment measures.
- Enhancing the resolution ability, while in the capacity of Resolution Authority, the resolution plans for systemic banks have been drafted.

3. OTHER ACTIVITIES

Honourable ladies and gentlemen, the Bank of Albania has maintained constant attention on other fields of its activity, as well, which directly contribute to both the development of the financial market and the economic life of Albania.

In this regard, I would like to evidence:

- further development of the payment system, through legal and infrastructural changes;
- continuous supply of cash to the economy, and strengthening of its quality;
- good management of the foreign exchange reserve;
- the support to the European integration process;
- improvement of financial statistics;
- enhanced efforts for the increase of financial education and inclusion; and
- research work and the enhancement of communication with the public.

Also, the established internal audit systems have continued to contribute to the good management of the normal processes of the work and the continuation of all functions of the Bank.

Honourable Members of Parliament,

The year 2021 is expected to mark a positive return towards the recovery of the economy in Albania.

The opening of partner economies, the vaccination of the population and the monetary and fiscal stimulus in Albania

will underpin the expansion of economic activity during the years 2021 and 2022. Nevertheless, uncertainties in these expectations remain present and the probability of other negative shocks in the future is not negligible.

The full recovery of the economy and stable return of inflation to target should continue to be supported by macroeconomic stimuli in the short run. In the medium and long terms, the economic policies should shift towards a more stable balance between the need to supply stimuli and the need to preserve monetary and financial stability.

“... the end of the crisis should be followed by a complete return of attention to the need to accelerate the agenda of structural reforms. These reforms are the only instrument for the sustainable acceleration of the pace of economic growth and to turn its results into a rather comprehensive improvement of social welfare.”

Concluding my speech, allow me to highlight that the end of the crisis should be followed by a complete return of attention to the need to accelerate the agenda of structural reforms. These reforms are the only instrument for the sustainable acceleration of the pace of economic growth and to turn its results into a rather comprehensive improvement of social welfare. They should aim at increasing competition, further improving the investment climate and business environment, and the long-term strengthening of the sustainability of public finances.

Thank You!

GOVERNOR SEJKO PRESENTS BOA'S OPINION ON THE DRAFT BUDGET 2022 TO THE PARLIAMENTARY COMMITTEE ON ECONOMY AND FINANCE

-5 November 2021-

*Honourable Chair,
Honourable Members of the Committee,*

First, I would like to thank you for the invitation to present to this Committee the opinion of the Bank of Albania on the 2022 draft budget.

This draft budget determines the fiscal policy stance for 2022, allocates the necessary funds for financing the development programmes, and introduces tax legislation for the next year. Therefore, the Bank of Albania has valued and continues to welcome the open discussion on the projections this draft budget is based on, the objectives included in it, and the instruments forecasted to achieve these objectives. I hope the opinion of the Bank of Albania will be an added value in this regard. I hope the opinion of the Bank of Albania will be an added value in this regard.

In compliance with the legal mandate, the opinion of the Bank of Albania on the draft budget 2022 will focus on issues, which are within the scope of our competence and expertise.

In more concrete terms, my comments will address the following fields:

1. Trend and impact of fiscal policy on the economy;
2. Public borrowing and its impact on the domestic financial markets; and
3. Enhancing the effectiveness and sustainability of public finances.

"The draft budget 2022 empowers the perspective of the Albanian economy rebound, after the dual shock from the earthquake and the pandemic, also in view of the continuous medium to long-term challenges that lie ahead."

First, I will summarise our vision on the development perspectives for Albania and the contribution that we, as policymakers, could provide in this regard.

1. MACROECONOMIC PERSPECTIVE, FISCAL POLICY AND BUDGETARY PROJECTIONS

The draft budget 2022 empowers the perspective of the Albanian economy rebound, after the dual shock from the earthquake and the pandemic, also in view of the continuous medium to long-term challenges that lie ahead.

The shocks we faced over the last two years were the biggest test to the economic, monetary and financial equilibriums of the country and to the stability of growth sources.

“The Bank of Albania deems that the economic developments in 2021, and in particular: the high growth rates over the first half of year; the partial recovery in labour market indicators; the gradual improved balance sheets of private sector; inflation and exchange rate stability; as well as the increased lending to private sector; show that the Albanian economy is successfully dealing with this challenge.”

The Bank of Albania deems that the economic developments in 2021, and in particular: the high growth rates over the first half of year; the partial recovery in labour market indicators; the gradual improved balance sheets of private sector; inflation and exchange rate stability; as well as the increased lending to private sector; show that the Albanian economy is successfully dealing with this challenge. In addition, the fact that the volume of output in Albania, both in aggregate level and in most sectors, has exceeded the pre-earthquake and pre-pandemic level shows that the medium to long-term impact of both shocks on the economic growth sources is very likely to be low.

The easing of restrictive measures implemented to control the pandemic spread, the improved confidence of businesses and households, the increased foreign demand, coupled with

the stimulating monetary and fiscal policy fuelled the economic rebound. These policies, amid others, guaranteed the monetary and financial stability in Albania, bolstered lending at low cost to economic activity, and eased the financial burden on the private sector.

The Bank of Albania deems that the development perspectives for Albania remain positive and the economic recovery is consolidating. Therefore, our economic policies - both monetary and fiscal policies - should start to gradually orientate towards normalisation. This normalisation will serve to improving the macroeconomic equilibriums, increasing policy space to withstand potential adverse shocks in the future, and strengthening the financial sustainability of the country. The Bank of Albania finds that the optimum sequencing of this normalisation would result in turn in a fiscal consolidation, which is reached and supported by the gradual withdrawal of monetary stimulus. This approach provides the proper support to the recovery process and mitigates the fiscal risks originating from the growth of public debt.

Based on the above, allow me to share with you the following findings of the Bank of Albania:

The draft budget 2022 is based on the assumption for a positive and firmly economic growth, both over the course of 2022, and in the medium-term horizon. In particular, the draft budget envisages that budget revenues in 2022 will increase by around 8% from the expected level of 2021, reaching at 28.7% of GDP.

The Bank of Albania deems that the macroeconomic projections, which outline the budget, are realistic under their baseline scenario, although remaining on the upside to our projections. Also, projections on budget revenues for 2022, seems acceptable, but they take into account an expected positive effect from the enhancement of economy formalisation.

From this perspective, the Bank of Albania:

- Suggests the need for a continuous attention from fiscal authorities on the performance of revenues, aimed at identifying, in a timely manner, the possible negative differences between the fact and the plan, and taking the necessary measures for controlling both budget deficit and public debt.
- Encourages the timely and rigorous implementation of measures which support the formalisation of the economy. Our experience has shown that - despite their short-term costs - structural reforms yield long-term benefits to the country.
- Considers indispensable the finalisation and implementation of the Medium-Term Revenue Strategy at an earlier time possible. This strategy - amid others, should aim at simplifying the tax system, enhancing its stability; and avoiding the ineffective tax exemptions. Coupled with the strengthening of formalisation, it will enable the growth of income collection, improvement of competition, within and across sectors.

“The Bank of Albania welcomes the beginning of fiscal consolidation during 2022. The speed of consolidation appears to be conditioned by the upsurge of prices in international markets and the need to conclude the restructuring process.”

Second, the draft budget 2022 envisages the beginning of fiscal consolidation process. According to draft budget projections, budget deficit is programmed to reduce to 5.4% of GDP in 2022, against the expected 6.8% in the current year. Also, primary deficit is programmed to record a consolidation of 1.9 percentage points of GDP over 2022, while gross public debt is projected to reduce by 1.1 percentage points.

The Bank of Albania welcomes the beginning of fiscal consolidation during 2022. The speed of consolidation appears to be conditioned by the upsurge of prices in international markets and the need to conclude the restructuring process. In their absence, the Bank of Albania deems that this consolidation should have been more ambitious. Also, we welcome the adoption of a numerical objective for the fiscal consolidation pace, materialised through the inclusion in the Organic Budget

Law of an objective on a primary positive balance starting from 2024.

From this perspective, the Bank of Albania:

- Encourages the adoption of relevant provisions in the draft budget, which enable the acceleration of fiscal consolidation momentum over the course of 2022, that is, the further reduction of deficit and debt - in case the budget revenues are higher than expectations, or in case the need for subsidies on both imports and energy results lower than the current assessment.
- Suggests the revision of the provisions in Article 7 of the Draft Law on the 2022 Budget, enabling revenues in the form of grants designated for financing the reconstruction of the damages from the earthquake to be used in reducing the budget deficit.
- Encourages a faster pace for fiscal consolidation in the medium and long-term horizon.
- Assesses that this consolidation, in line with the Medium-Term Revenue Strategy, should be based - to a greater extent - on the growth of revenues than on the shortening of public expenditures.

Third, the draft budget 2022, envisages public investments at 6.4% of GDP. This level is slightly lower than in the previous year, but remains sufficiently high.

The Bank of Albania encourages the maintaining of spaces for capital investments in the budget structure of Albania. These investments are necessary for: the overall improvement of the country's infrastructure; accelerating the pace of economic growth in the medium and long-term; and increasing the welfare of the society.

“The Bank of Albania encourages the maintaining of spaces for capital investments in the budget structure of Albania. These investments are necessary for overall improving of the country's infrastructure, accelerating the pace of economic growth in the medium and long-term, and increasing the welfare of the society.”

From this perspective, the Bank of Albania:

- Assesses that the discipline of current expenditures and the stable growth of public revenues' base will establish the premises to maintain the space for public investments, even in the presence of fiscal consolidation.
- Deems that the selection process of investment projects may be further improved, through the adoption of a formal assessment structure on their profitability in a timely manner.

2. FINANCIAL MARKETS, BUDGET DEFICIT AND PUBLIC DEBT

The draft budget 2022 envisages the budget deficit level to be around ALL 101 billion, or 5.4% of GDP. This deficit is envisaged to be financed with ALL 50 billion (or 2.7% of GDP) by domestic borrowing and ALL 51 billion (or 2.7% of GDP) by external financing.

Financing in the domestic market is foreseen to be provided through the issue of securities. Meanwhile, external financing is expected to be provided as following: ALL 25 billion (or 1.4% of GDP) from external financing projects; around ALL 17.5 billion (or 1% of GDP) from the budgetary support of international partners; and the rest ALL 8.5 billion (or 0.3% of GDP) from the funds ensured by the expected issue of Eurobond in international markets over the course of 2021.

This Eurobond (expected at EUR 700 million or around ALL 85 billion) will be used for the following: ALL 34.1 billion for the payments of external debt over 2021, ALL 42.5 billion for the payments of external debt in 2022, and ALL 8.5 billion for financing budget deficit over the course of 2022. In absence of Eurobond, the Government would have decreased at a corresponding degree the planned expenditures during the period 2021-2022, or would have increased the borrowing in the domestic market.

The Bank of Albania assesses that this financing plan is reasonable, given the high levels of deficit and targeted borrowing from the Government in the 2021-2022 horizon. The entirely financing of these deficits in the domestic financial market would drive to an increase of interest rates and reduction of funds available for lending to private sector. Also, the Bank of Albania supports the objectives and work of the Ministry of Finance and Economy to further extend the maturity structure of public debt.

“The Bank of Albania highlights that the increasing trend of both external borrowing and foreign currency borrowing, exposes the public debt not only to the risk from the interest rates, but also to the risk arising from the unfavourable fluctuations in the exchange rate.”

However, the Bank of Albania highlights that the increasing trend of both external borrowing and foreign currency borrowing, exposes the public debt, not only to the risk from the interest rates, but also to the risk arising from the unfavourable fluctuations in the exchange rate. Therefore, the Bank of Albania deems that the financing structure of both deficit and budget should aim at a greater support on the domestic markets and currency in the medium and long term. This approach would reduce the probability and intensity of possible shocks in the future

For this purpose, the Bank of Albania suggests:

- First, a revision of the provisions laid down in Article 10 of the Draft Law on the Budget 2022, which limit the borrowing in the domestic financial markets – designated for financing the budget deficit - at the maximum level of ALL 50 billion, and reduce this borrowing for maximally half of the quantity of possible revenues from privatisation over the year.
- Second, the continuation of the work on the expansion and further diversification of investors base in the domestic market. This objective should be fulfilled, amid others, through continuing the improvement programme on the functioning of secondary market, which in turn, drives to an increased interest of domestic investors.
- Third, the adoption of a more ambitious approach to reducing external debt in the medium and long-term horizon. This objective

is in line - and becomes possible from - the primary objective on decreasing the level of public debt.

Allow me, in conclusion, to address briefly some suggestions of the Bank of Albania, which in our view, would support the enhancement of the long-term sustainability and effectiveness of public finances.

3. ENHANCING THE EFFECTIVENESS AND SUSTAINABILITY OF PUBLIC FINANCES

While assessing the draft budget 2022 as a balancing act between - on one side - the needs to supporting the economic recovery and ultimately reducing the consequences originated from both the earthquake and the pandemic, and - on the other side - the preservation and consolidation of the public finances sustainability, the Bank of Albania finds it appropriate to provide the following suggestions and recommendations.

On deficits in health and social insurance schemes

“The Bank of Albania suggests the periodic revision of the pension scheme, health insurance scheme and other social insurance schemes, aimed at maintaining these schemes on a stable trajectory and affordable for the state budget.”

The draft budget 2022 projects that the deficit of the social and health security schemes, is expected to be at around ALL 101 billion or 5.4% of GDP. This level is equal to the 2022 budget deficit and around two times higher than the targeted budget deficit for 2024-2025.

Both social and health insurance schemes continue to constitute a considerable burden on the state finances. In this context, taking into account also the unfavourable demographic trends, the Bank of Albania suggests the periodic revision of the pension scheme, health insurance scheme and other social insurance schemes, aimed at maintaining these schemes on a stable and affordable trajectory for the state budget.

On the management of Public - Private Partnership programmes

The draft budget 2022 envisages that payments from state budget and the liabilities that arise from concessionary contracts and PPPs will fall within the legal limitations, more concretely at 3% of tax revenues of the previous year.

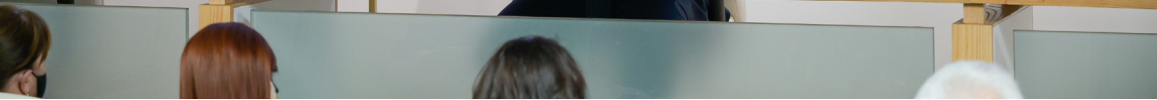
Nevertheless, in line with our previous positions, the Bank of Albania suggests:

- Including an overall upper limit on the PPPs total value. This regulation would supplement the control of the level of potential risk that PPPs would have on the soundness of public finances.
- The integration of contracting and selecting of PPPs process with strategic program of investments, as identified in the long-term development programs of the country.
- Continuous improvement of professional capacities of units that manage the assessment, contraction and monitoring of these projects, particularly regarding legal and financial obligations that they pose to the budget.

On the pace of the realisation of budget expenditure throughout the year

Finally, the Bank of Albania reiterates the appeal for a better allocation on a timely manner of budget expenses throughout the year. The realisation of budget expenditures throughout the year continues to show more concentration in the fourth quarter. This phenomenon - repeated and dictated to a larger extent by the uneven realisation of public investments- creates unnecessary fluctuations throughout the year in liquidity indicators and interest rates in the domestic financial market.

Thank you for your attention!



CHAPTER II

PRESS CONFERENCES ON MONETARY POLICY DECISIONS

- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 3 February 2021*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 24 March 2021*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 5 May 2021*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 7 July 2021*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 4 August 2021*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 6 October 2021*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 3 November 2021*
- *Governor Sejko: Statement to the Press Conference on the Monetary Policy Decision of the Supervisory Council of the Bank of Albania, 22 December 2021*

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 questions by the journalists.

BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 0.5%

- 3 February 2021-

Economic activity has been improving during the second half of last year.

Inflation continues to undershoot the target, while economic activity and employment remain below pre-pandemic levels.

Aggregate demand will trend upwards and economic activity will gradually normalise during the next two years.”

Dear Ladies and Gentlemen,

Today, on 3 February 2021, the Supervisory Council of the Bank of Albania reviewed and approved the Quarterly Monetary Policy Report. The new information analysed in this Report shows that economic activity has been improving during the second half of last year. The Supervisory Council deems this improvement was faster than the expectations of the Bank of Albania. Though, it notes that inflation continues to undershoot the target, while economic activity and employment remain below pre-pandemic levels

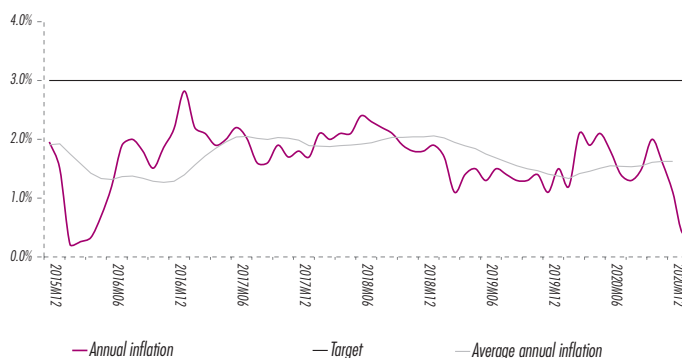
Our updated projections suggest that aggregate demand will trend upwards and economic activity will gradually normalise during the next two years. This normalisation, in turn, will enable an increase in employment, wages and profit margins of enterprises, hence creating premises for inflation to converge to its 3% target within 2022.

The Supervisory Council assesses that the realisation of these projections requires maintaining the favourable financing conditions throughout the medium-term horizon. In this view, the Supervisory Council considers that the current monetary policy stance remains adequate.

Economic activity in Albania showed recovery trends in the second half of 2020, after the deep recession recorded in the second quarter. Nevertheless, the negative impact from the pandemic continues to be present, on both macroeconomic indicators and on enterprises and households financial soundness indicators.

Inflation registered 1.6% on average in the fourth quarter, slightly upwards from the previous quarter. Its fluctuations mainly reflected the volatilities in prices of food items. On the other side, core inflation - which reflects more clearly the medium-term trends of prices increase - continued to be stable, but below the rates targeted by the Bank of Albania. This performance shows the fading out of supply-side shocks in the second half of year, and the weak pressures generated from the aggregate demand.

Chart 6 Inflation rate in the fourth quarter

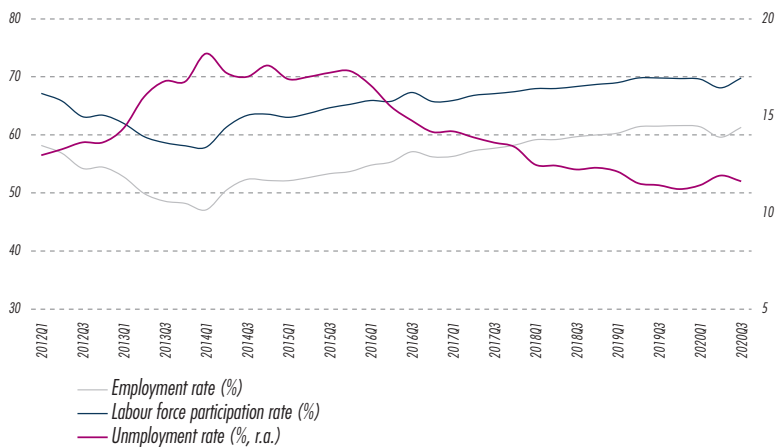


Source: INSTAT, calculations of BoA.

According to INSTAT data, the economic activity recorded and annual fall of 3.5% in the third quarter, considerably improving, in relative terms, when compared to the depth of recession recorded in the second quarter. This improvement reflected the opening of the economy, growth of investments, and a slower drop in both private consumption and exports. The expansion of aggregate demand was reflected in the increase of the construction sector activity, and a lower contraction in the sectors of industry and services.

The improvement of the economic activity was also reflected in employment indicators. Employment increased by around 34 000 persons during the third quarter, recovering around 2/3 of losses recorded in the previous quarter. The unemployment rate fell to 11.6%.

Chart 7 Labour market showed improvement in the third quarter



Source: INSTAT and estimations of the Bank of Albania.

The available data on economic activity for the fourth quarter are indirect and still incomplete. However, the Bank of Albania assesses that economic activity in Albania has continued to recover further, notwithstanding the difficulties caused by the pandemic and the unfavourable external environment.

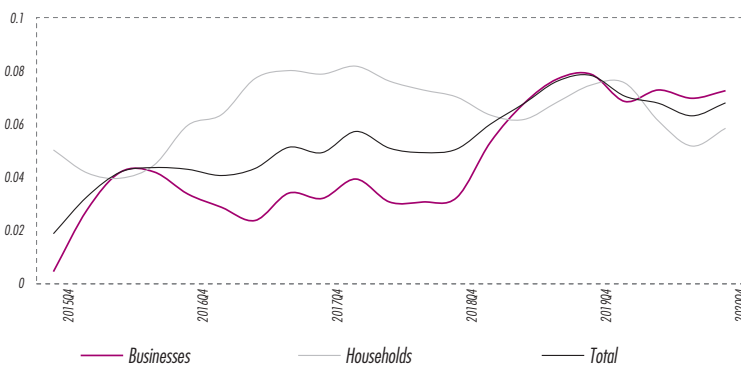
Apart from the easing of containment measures taken to control the pandemic spread, the recovery was fuelled by the fiscal stimulus transmitted throughout 2020 and the stimulating financial and monetary policies implemented by the Bank of Albania.

The budget deficit accounted for around 5.1% of GDP in the first 11 months of year. This deficit reflected both the fall in income during the calendar year, and the increase in current and capital expenditures during the year.

According to our estimates, the stimulating monetary policy and the temporary easing of regulations on the functioning of banking system implemented by the Bank of Albania, enabled the smooth functioning of financial markets and established an adequate environment for sustaining lending last year.

Financial markets have continued to function normally during the fourth quarter as well. The exchange rate was stable; the interest rates remain close to their historical minimums, while lending continued to grow further. In particular, credit to private sector recorded an annual growth of 7.7% during 2020, thus helping both the Albanian households and enterprises to fulfil their needs for liquidity and providing the needed financial means for increasing consumption and investments.

Chart 8 The growth of credit to the private sector in 2020 Q4 is driven by the expansion of loans to enterprises



*Notes: The data represent annual changes in % of credit to the private sector according to economic agents. This data are adjusted for written off loans and exchange rate fluctuations.
Source: Bank of Albania.*

The Bank of Albania judges that the banking sector has helped to mitigate the consequences of the pandemic. This sector undertook a part of the financial burden of the shock, and simultaneously maintained sound indicators of liquidity, profitability and capitalisation. The non-performing loans ratio, in particular, dropped to 8.1%, at the end of December. This level is close to the historical minimums of the last decade. The continuation of this active role by the banking system during the next period will be crucial for the sustainable economic recovery.

Our baseline scenario of the expected developments assumes a gradual alleviation of measures taken to contain the pandemic and the progressive reduction of its consequences. In this scenario, the Albanian economy is expected to record relatively fast and stable growth rates in the next two years. Inflation is expected to stay close to the current rates in the present year. Further ahead, the return of economic activity close

to the potential will provide the conditions for inflation to converge to target within 2022.

The Supervisory Council assesses that the economic normalisation should continue to be supported by maintaining a simulating profile of economic policies. In addition, it finds that the balance of risks remains on the down side. In particular, downside risks arise from:

- a possible worsening epidemiological situation in Albania and globally;
- 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; and
- a slower reaction by enterprises and households towards the improved financial conditions.

In conclusion to its discussions, the Supervisory Council assesses that the monetary policy stance remains adequate for increasing economic growth and for the sustainable return of inflation towards the 3% target.

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 Supervisory Council highlights that monetary policy stance will continue to remain accommodative throughout the medium-term horizon, in order to provide favourable financing condition, which support economic growth and return inflation to target. In addition, the monetary stimulus will benefit from maintaining the current form of unlimited liquidity injections at fixed price to the banking sector, at least through the second quarter of this year.

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

“... the monetary stimulus will benefit from maintaining the current form of unlimited liquidity injections at fixed price to the banking sector, at least through the second quarter of this year.”

BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 0.5% **-25 March 2021-**

Economic activity has been gradually improving during the last months.

Both the accommodative monetary policy and fiscal stimulus have underpinned the economic activity in Albania.

The current monetary policy stance remains adequate.

Inflation recorded lower values than our expectations during the first two months of the year.

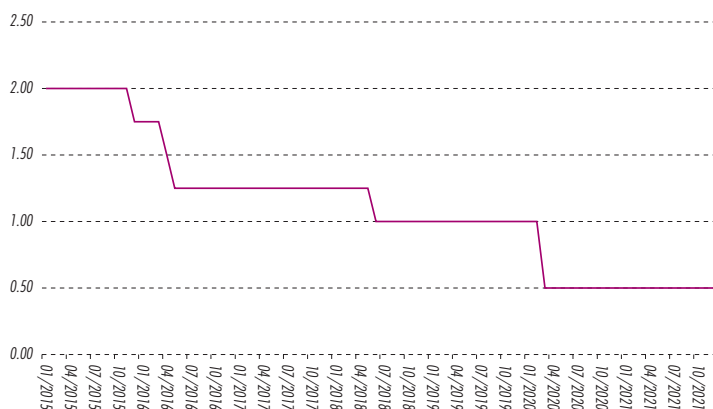
Dear Ladies and Gentlemen,

Today, on 24 March 2021, the Supervisory Council of the Bank of Albania reviewed and approved the Intermediate Monetary Policy Report.

In balance, the new analysed information shows that economic activity has been gradually improving during the last months. The fall of inflation in the first two months of this year, appears to reflect the temporary effect of supply-side fluctuations. Though, the Supervisory Council notes that inflation continues to undershoot the target, while economic activity and employment remain below pre-pandemic levels.

Our updated projections suggest that economic activity will gradually normalise during the next two years. This normalisation, in turn, will enable an increase in employment, wages and profit margins of enterprises, hence creating premises for inflation to converge to its 3% target within 2022.

Chart 9 Policy rate



Source: Bank of Albania.

Against this backdrop, the Supervisory Council assesses that the current simulating monetary policy stance remains adequate. The Bank of Albania will aim at maintaining the favourable financing conditions throughout the medium-term horizon, to guarantee the recovery of the economy and the return of inflation to target.

[Following, I will introduce in more details the reasons backing the decision-taking and the conclusions on the discussions of the Supervisory Council.]

Inflation recorded lower values than our expectations during the first two months of the year. Annual inflation rate dropped to 0.4% in January, while it increased at 1.1% in February. This performance was driven by volatilities in prices of food items, which, like in the previous year, remain object to unexpected supply-side volatilities, in the pandemic context.

On the other side, factors with medium-term impact on inflation - aggregate demand, employment and wages performance - have been in line with our expectations. Domestic pressures on wages - though still insufficient for the return of inflation to target- and prices appear stable and continue to significantly contribute in the formation of inflation, as shown by the performance of core inflation. Hence, the effect of supply-side shocks is expected to be transitional and not jeopardise the return of inflation to target within 2022.

The new information on the economic activity, overall, is in line with our expectations. Direct data on the performance of both gross domestic product and aggregate demand are still not available, but indirect data suggest for a continuation of the recovery during the last two quarters. The growth in the volume of sales, the increase in electrical energy consumption, better performance of fiscal revenue, and the expansion in both exports and imports signal for a better performance of economy.

On the other hand, labour market showed a fall in employment in 2020 Q4, and an increase in unemployment rate at 11.8%. The fading out of positive impact of summer season in service branches and the tightening of measures to contain pandemic have negatively affected the employment dynamics at the end of the previous year.

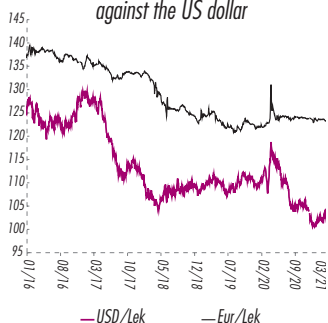
Both the accommodative monetary policy and fiscal stimulus have underpinned the economic activity in Albania.

Fiscal policy has continued to maintain stimulating features, mainly due to the increase of capital expenditure. Budget revenues have recorded a slight decrease, while public expenses increased. In line with the adopted budget, fiscal policy will remain stimulating throughout 2021 as well, by fuelling the growth of aggregate demand and the expansion of economic activity.

The stimulating monetary policy has provided for the establishment of favourable financing conditions. Financial markets operate smoothly and are characterised by ample liquidity and contained risk premia. Their good situation has enabled the pass through of fiscal stimulus, which in turn has maintained the interest rates on loans to private sector at low levels. Also, the exchange rate appears stable, by reflecting the supply and demand balance for foreign currency.

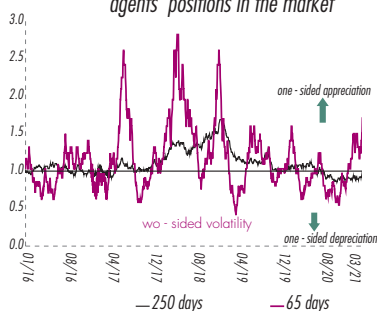
Chart 10

Lek has fluctuated on the appreciating side against euro and on the depreciating side against the US dollar



*Note: Data show the daily performance of ALL exchange rates against Euro and US dollar.
Source: Bank of Albania.*

Beyond the short-term volatilities, the performance of eur/lek exchange rate signals a balancing of agents' positions in the market



*Notes: Data show the exchange rate appreciation/depreciation ratio which is calculated as the ratio of the number of days when the exchange rate is appreciated against the number of days when the exchange rate is depreciated For more information, see:**
Source: Bank of Albania.

The simulating monetary conditions have supported the growth of bank credit, which has continued to be a stable financing source to Albanian households and enterprises. The volume of bank credit to private sector recorded an annual growth of 7.1% in February. The expansion of credit was relatively balanced, regarding: the structure of currencies; enterprises or households; and the financing of investments or working capital. In addition, the progressive expansion of the share of loans in lek to total loans shows encouraging signals regarding the strengthening of monetary policy effectiveness. This indicator marked 50% at the beginning of 2021.

The upward performance of lending is providing a considerable impact in bolstering aggregate demand and economic recovery. It reflects the effect of simulating monetary, financial and fiscal measures, for boosting lending, the good financial situation of banking sector, and the pro-active position adopted by banks given the situation we are going through.

Looking ahead, the Supervisory Council expects the economic activity to return to positive growth rates in 2021 and in the next period. Economic growth is expected to be supported by a considerable monetary and fiscal stimulus, the reduction of uncertainty and the recovery of global economic activity. These factors are expected to boost the increase of: consumption; exports; and investments; as well as gradually increase incomes in all sectors of economy. The growth of demand will support

the increase of employment, in turn, further rise in wages, and a gradual convergence of inflation to target within 2022.

In any event, these projections are based on and conditioned by the assumption that the pandemic will progressively subside during 2021. How pandemic will evolve and its impact on economy continues to remain an uncertainty source in economic forecasts.

The Supervisory Council deems that the balance of risks continues to remain on the down side. In particular, downside risks arise from:

- a prolongation of pandemic and restrictive measures imposed on the economic activity;
- a slower rebound of both consumption and investments, due to a more prudential behaviour of Albanian households and enterprises;
- a slower monetary stimulus pass-through, due to a more prudential behaviour of banks in lending.

In consistence with these projections, the Supervisory Council assesses that the current monetary policy stance remains 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.

In addition, the Supervisory Council judges that monetary policy stance will continue to remain accommodative throughout the medium-term horizon, for the stable rebound of economic activity and for the return of inflation to target.

Last, the Supervisory Council highlights that the materialization of the down-side risks would require further easing of monetary policy stance.

“... monetary policy stance will continue to remain accommodative throughout the medium-term horizon, for the stable rebound of economic activity and for the return of inflation to target.”

BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 0.5%

-5 May 2021-

The recovery pace of economic activity accelerated during the last two quarters.

The economic outlook has been improving.

The acceleration of: family consumption; exports of goods and services; and the upward private investments, are expected to lead the expansion of activity.

Dear Ladies and Gentlemen,

Today, on 5 May 2021, the Supervisory Council of the Bank of Albania reviewed and approved the Quarterly Monetary Policy Report.

The new information analysed in this Report shows that the recovery pace of economic activity accelerated and the economic outlook has been improving during the last two quarters. The Supervisory Council considers that this performance reflects: (i) the flexibility of the Albanian economy and the stability of its financial system; (ii) the support provided by the monetary, financial and fiscal stimulus; and, (iii) recently, the reduction of containment measures and the increase of confidence in response to the vaccination process.

Nevertheless, the Supervisory Council notes that - in the current stage - the economic rebound is incomplete and the supportive factors are yet unconsolidated. The consequences of the pandemic in economy remain notable, being reflected in: the still low levels of the aggregate demand; the fall of employment; and the increase of unemployment. In addition, inflation remains below our 3% target.

In this view, the Supervisory Council deems that the monetary policy stance should continue to be accommodative. The monetary stimulus will serve to bolstering consumption and investments, which in turn will fuel the rise in employment, wages, and profit margins, in line with our inflation target.

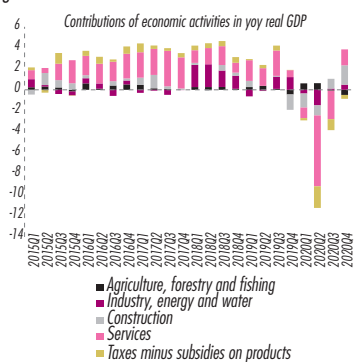
Overall the new information, in the last months, has been in line with our expectations, although the growth of economic activity was somewhat higher and inflation rate was somewhat lower.

Inflation recorded a swift and unexpected fall in January, due to the reduction in the prices of food items. The recovery of these prices in the next period led inflation increases in February and March, but the average rate of this indicator was low in the first quarter, at 0.9%. On the other hand, core inflation was stable, around 1.5%, thereby suggesting that the fluctuations in food prices will have only transitional effects on inflation.

According to INSTAT data, the volume of the economic activity in Albania grew by 3% in the last quarter of previous year, after three consecutive quarters being downwards. The expansion of consumption, investments and exports underpinned the economic growth, which was reflected in the improvement of production and services activities. The available data for the first quarter are only indirect, but they signal the continuation of economy recovery, as shown by the improvement of economic agents' confidence; fiscal accounts; and trade flows.

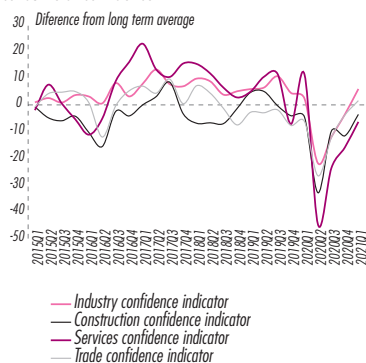
Chart 11

Production and services activity supported the economic growth in 2020 Q4



Note: *Year 2018, semi-final data.
 ** 2019 and 2020, a first assessment.
 Source: INSTAT and Bank of Albania.

Economic sentiment indicator continued to improve, defined by the increase of both enterprises and consumers' confidence



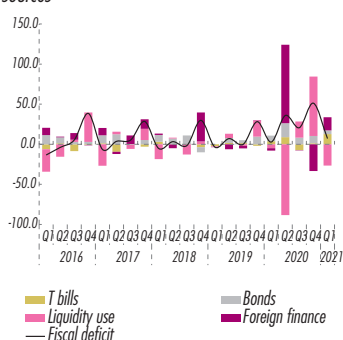
Source: Bank of Albania.

Although set on an upward path, aggregate demand remains below the pre-pandemic levels and inadequate to fully utilise production factors. Consequently, economic activity in Albania contracted by 3.3% during 2020, the Albanian economy lost around 43,000 jobs, while unemployment rate jumped at 11.8%. Also, the growth pace of both wages and other production costs has slowed down.

The weakness of aggregate demand and economic cycle called for a strong and coordinated response from the macro-economic policies. Fiscal stimulus of 2020 was in the form of temporary tax facilities, supply of sovereign guarantees and increase of current and capital expenditure. For 2021, the fiscal stimulus is in the form of capital expenditure's growth, for supporting the reconstruction and infrastructure development programme. Fiscal data of the first quarter are in line with this performance, thereby showing a simultaneous expansion of both fiscal revenue and spending, as well as budget deficit.

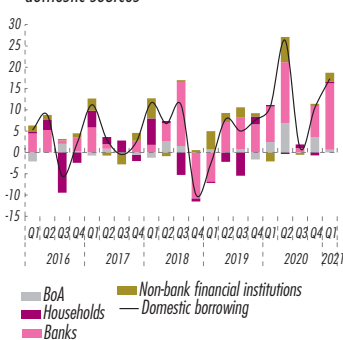
Chart 12

The deficit was financed by foreign and domestic sources



Notes: Budget deficit by quarters and its financing, in ALL billion
Source: Ministry of Finance and Economy.

Banks carried the main share in financing with domestic sources



Notes: Government borrowing in debt securities, by buyers, in ALL billion, by quarters.
Source: Ministry of Finance and Economy.

On its side, the Bank of Albania provided the necessary monetary stimulus to guarantee the smooth functioning of financial markets and further boost lending to economy. In addition, the temporary and targeted easing of the banking sector's supervision aimed at and provided for further facilities to Albanian enterprises and households, in the form of a half-yearly moratorium on credit payments and encouragement for its restructuring.

Monetary and financial stimuli have been passed through at a good level. Hence, monetary conditions in economy have been and continue to remain accommodative. Financial markets function calmly and interest rates continue to be close to historical minimums, notwithstanding the short-term fluctuations. Also, exchange rate appears stable. In particular, banking sector has continued to fund enterprises and households, by

reflecting both the soundness of balance sheets and the suitable reaction of this sector against the shock. In March 2021, the non-performing loans ratio dropped to 8%, recording the lowest rate since 2009, and by reflecting the soundness of real sector's balance sheets.

Credit to private sector grew annually by 7.5%, on average, in the first quarter. This growth was broad-based, boosted by the expansion of lending to both segments: households and enterprises. In this context, it should be emphasised that the increase of loans for investment purposes is encouraging to the economic growth in the future. Also, the progressive expansion of credit share in lek, whose indicator to total stood at 52% in March, provides positive signals regarding the increase of monetary policy's effectiveness and financial stability.

Our forecasts for the outlook remain positive. The continuation of vaccination process in Albania and globally, monetary and fiscal stimulus, and the return of confidence at historic levels, will open the way to the progressive expansion of economic activity in the next years. The baseline scenario of forecasts projects the economy to recover at a stable pace during 2021 and 2022, following the contraction being suffered in 2020. The acceleration of: family consumption; exports of goods and services; and the upward private investments, are expected to lead the expansion of activity. In turn, both employment and wages are expected to trend upwards, by enabling inflation to converge to target within 2022.

The Supervisory Council deems that the full recovery of economy and the stable increase of inflation towards the target should continue to be supported by a simulating profile of economic policies. Judging on these factors, the Supervisory Council of the Bank of Albania finds that the current accommodative stance of the monetary policy remains adequate, for bolstering economic growth and for the stable return of inflation to target.

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.

In addition, the monetary stimulus will benefit from maintaining the current form of unlimited liquidity injections at fixed price to the banking sector, at least during the third quarter of this year.

Also, the Supervisory Council concludes that the balance of risks continues to remain on the downside over the short run, while medium-term risks appear more balanced. In particular, downside risks, in the short run, arise from:

- a lower than expected improvement of epidemiological situation in Albania and globally;
- problems arising in the monetary policy transmission mechanism, in the form of slower credit supply growth; and
- a slower reaction by enterprises and households towards the improved financial conditions.

For these reasons, the Supervisory Council highlights that the monetary policy stance will continue to remain accommodative throughout the medium-term horizon. Any timely normalisation of monetary policy will be cautious, by neither compromising the stability of economic recovery, nor damaging the prospects for inflation return to target.

Finally, the Supervisory Council reiterates that the gradual normalisation of economic situation and the strengthening of stability should put on the focus of the decision makers the need for accelerating the agenda of structural reforms. These reforms should aim at enhancing competition; further improving the investment climate and business environment; and the long-term strengthening of public finances stability. They are the sole instruments which will enable a long-term solid growth of the Albanian economy.

“... the monetary policy stance will continue to remain accommodative throughout the medium-term horizon. Any timely normalisation of monetary policy will be cautious, by neither compromising the stability of economic recovery, nor damaging the prospects for inflation return to target.”

BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 0.5% -7 July 2021-

The Albanian economy has shown a clear recovery trend in the first half of 2021.

The supportive factors of economic growth have been consolidating.

Inflation has pursued an upward trend in April and May, by correcting the fall in the first quarter.

The Albanian economy is expected to record a fast and sustainable growth rates in the current year and in the next two years.

Dear Ladies and Gentlemen,

Today, on 7 July 2021, the Supervisory Council of the Bank of Albania reviewed and approved the Intermediate Monetary Policy Report.

The new analysed information suggests that the Albanian economy has shown a clear recovery trend in the first half of 2021. Also, inflation has been upward in April and May, by correcting the fall in the first quarter.

The updated projections affirm the scenarios we have introduced continuously during 2021. The Albanian economy is expected to record a fast and sustainable growth rate in the current year and in the next two years. This growth, in turn, will enable an expansion of employment and rise of wages, by establishing the premises for inflation to return to its target during 2022.

The Supervisory Council deems that factors underpinning the rebound of the Albanian economy have been expanding and strengthening. In addition, downside risks, despite still present, have been reducing. Nevertheless, the Supervisory Council points out that inflation continues to undershoot the target, employment continues to remain below the potential level, and the stability of economic growth continues to require maintaining the simulating monetary conditions.

Against this backdrop, the Supervisory Council assesses that the current monetary policy stance remains adequate.

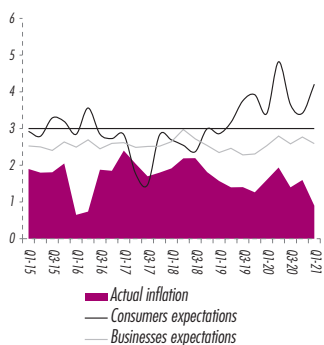
Following, I will introduce in more details the reasons backing the decision-taking and the conclusions on the discussions of the Supervisory Council.

Inflation has pursued an upward trend in April and May. The average rate of inflation settled at 1.9% in April and May, notably above the average of the first quarter. Inflation rose mainly due to the increase in food and oil prices. Meanwhile, the prices of other basket items did not change significantly. This dynamic affirms our previous estimations that the fall of inflation in the first quarter would be temporary. At the same time, it suggests that current speed of its increase is unstable.

Factors conditioning the stable return of inflation to target are being improved, but it is expected to converge to target in the medium term. The growth of aggregate demand still has not enabled the stable increase of employment and wages. In addition, the rapid upsurge of consumption prices in partner countries appears to be a transitional phenomenon, for the moment. Last, economic agents' expectations for inflation continue to remain below the target.

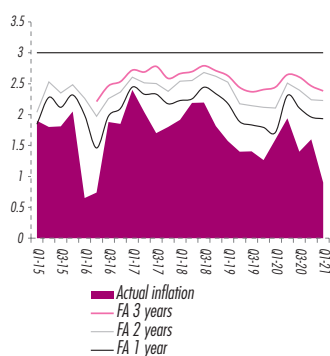
Chart 13

Expectations on inflation one-year-ahead of enterprises and consumers



Source: INSTAT and Bank of Albania.

Expectations on inflation of financial agents by three time horizons



Source: INSTAT and Bank of Albania.

The Bank of Albania assesses that all these three factors will be improving in the medium-term horizon.

In line with our exceptions, economic activity in Albania has been recovering in the first two quarters of 2021. According to INSTAT data, the Albanian economy grew by 5.5% in 2021 Q1, while analysis of indirect data suggests even faster growth rates in the second quarter.

The recovery of economic activity expanded on a broad base. In terms of aggregate demand, it reflected the expansion of consumption and private investments, increase of budget expenditures and the expansion of goods and services. In sectoral terms, it reflected the simultaneous expansion in production sector and services sector.

The improvement of economic activity is still not completely reflected in the labour market. According to INSTAT data, employment recorded an annual fall of 2.6% in 2021 Q1, while unemployment rate stood at 11.9%. These indicators suggest that the Albanian economy is still far from the complete normalisation of its activity, and simulating policies should continue to sustain this process.

The supportive factors of economic growth have been consolidating. Reduction of containment measures due to the vaccination process, the improvement in business and consumer's confidence, expansion of foreign demand, and both fiscal and monetary stimulus, have established the necessary premises for a gradual normalisation of economic activity.

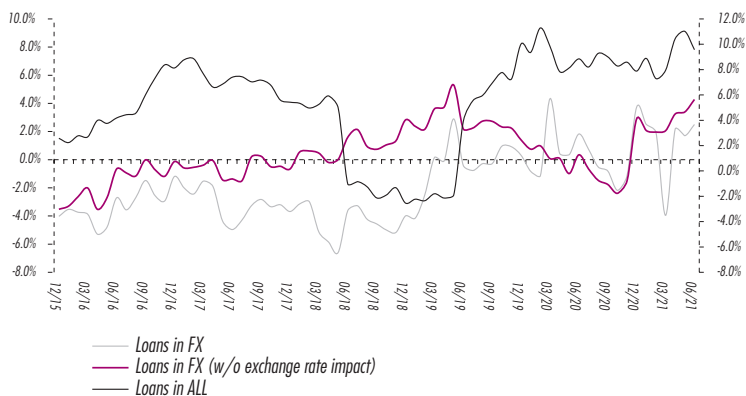
Fiscal policy has continued to maintain a simulating nature during the first half of year. Fiscal stimulus was in the form of expanded current and capital expenditure, by 10% and 29%, respectively, till May, while budget revenues grew by around 19%. The observation of budget projections implies that fiscal stimulus will remain present during 2021, while it is expected to tighten in the next years. The Bank of Albania assesses that maintaining this fiscal policy stance serves both to support the economic rebound in the short run and to strengthen fiscal stability in the long term.

In parallel with fiscal stimulus, the accommodative monetary policy has enabled to create favourable financing conditions. Financial markets operate smoothly and are characterised by ample liquidity and contained risk premia. Their good situation has enabled the pass through of fiscal stimulus, which in turn has maintained the interest rates on loans to private sector at low levels. Also, the exchange rate appears stable, by reflecting the supply and demand balance for foreign currency.

The improvement of loan demand and the favourable supply-side conditions have driven to a relatively fast growth of lending. Credit portfolio to private sector recorded an annual increase of 7.8% in May, from the average growth rate of 6.8% in 2020. Beyond the overall growth of portfolio, lending dynamics provide other positive signals.

First, the increase of credit portfolio has broadly supported the financing of enterprises' investments and mortgage loans, by signalling the upsurge of investments in the private sector and an improving situation of its liquidity. Second, loans in the domestic currency continue to maintain higher increasing rates, by being reflected in the progressive growth of the share of loans in lek to total credit. This encouraging development establishes the premises for a better transmission of the monetary stimulus and a higher resilience of the banking system against the financial stability risks. Third, non-performing loans ration fell to 7.8% in May, by suggesting a good quality of this portfolio.

Chart 14 Loans in lek and loans in foreign currency including and excluding the exchange rate effect, annual changes



Source: Bank of Albania.

Judging on the factual trends of the economic and monetary developments, and their determinant factors, the Supervisory Council deems that the Albanian economy will record fast and stable economic growth rates in the medium-term horizon. The improvement of external environment, the reduction of uncertainty, the simulating fiscal-monetary policy mix and the strengthening of private sector's balance sheets will underpin the economic growth. These factors are expected to boost the increase of: consumption; exports; and investments; as well as gradually increase incomes in all sectors of economy. The expansion of the demand will support the increase of employment, in turn, wages will rise further and inflation will gradually convergence to target within 2022.

In any case, the projections are based on assumption of avoiding the serious restrictions on the economic activity, due to further shocks from the pandemic. Nevertheless, the course of the coronavirus (COVID-19) pandemic and its impact on economy continue to remain a source of uncertainty in economic forecasts.

The Supervisory Council assesses that downside risks have somewhat faded out further in this round of analyses, and the overall balance of risks appears more neutral. In particular, downside risks arise from: deterioration in the epidemiological situation and its negative impact on the economy; and a slower rebound of both consumption and investments, due to a more prudential behaviour of Albanian households and enterprises. Conversely, upside risks arise from a more expansionary domestic fiscal policy than current forecasts, and from a more rapid increase of inflation in partner countries

In consistence with these projections, the Supervisory Council assesses that the current monetary policy stance remains 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.

In addition, the Supervisory Council judges that monetary policy stance will continue to remain accommodative throughout the medium-term horizon, for the stable rebound of economic activity and for the return of inflation to target.

“...the Supervisory Council judges that monetary policy stance will continue to remain accommodative throughout the medium-term horizon, for the steady rebound of economic activity and for the return of inflation to target.”

BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 0.5%

-4 August 2021-

The supportive factors to the recovery of the Albanian economy are strengthened during the last quarters.

The economic outlook has been improving.

The downside risks, despite still present, have been reducing.

Inflation continues to undershoot the target; the pandemic consequences are still present in the economy.

Dear Ladies and Gentlemen,

Today, on 4 August 2021, the Supervisory Council of the Bank of Albania reviewed and approved the Quarterly Monetary Policy Report.

The new information we analysed shows that economic recovery is on track.

The Supervisory Council assesses that the supportive factors to the recovery of the Albanian economy strengthened during the last quarters. Also, the economic outlook has been improving and the downside risks - though present - have been reducing. Nevertheless, the Supervisory Council notes that: inflation continues to undershoot the target; the pandemic consequences are still present in the economy; and the economic growth should be underpinned by a simulating fiscal-monetary policy mix.

In this perspective, the Supervisory Council judges that the monetary policy stance should continue to be accommodative throughout the medium-term horizon. The monetary stimulus will help to maintain ample liquidity and low financing costs, by bolstering the expansion of consumption and investments in the private sector. In turn, this stimulus will serve to: the strengthening of economic growth stability; the increase of employment and wages; and the stable return of inflation to target.

Against this backdrop, the Supervisory Council assesses that the current monetary policy stance remains adequate.

[I will now outline in more detail the main findings in the Quarterly Report, our expectations for the future, and the reasons backing today's monetary policy decision.]

The new information for the recent quarter has been to the upside of our expectations.

In the second quarter, the average inflation was up at 1.8%, by correcting the fall recorded in the first quarter. This increase mainly reflected a higher inflation of fuels and food items, particularly in unprocessed food items. Meanwhile, inflation of other basket items was stable. In particular, core inflation - which better represents the balance of factors affecting the prices of consumption items in the medium term - was stable.

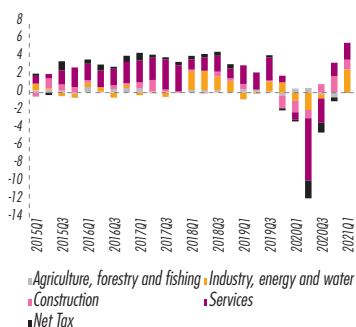
Overall, inflation, during the last quarter, was subject to frequent and unexpected fluctuations of supply-side factors, which have shown and are expected to have a transitional impact. On the other side, factors with a medium-term impact on inflation - increase of wages and production costs; prices in partner countries; and inflation expectations - appear stable, though, still insufficient for inflation return to target.

Our updated analysis and projections suggest these factors will strengthen in the next quarters, by supporting the return of inflation to target within 2022.

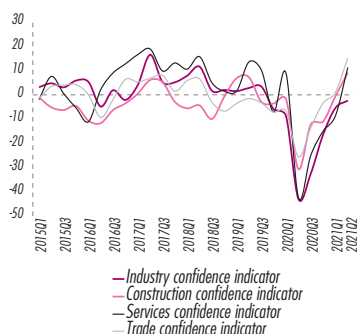
According to INSTAT data, the Albanian economy grew by 5.5% in first quarter, by exceeding our expectations. This growth reflected the simultaneous expansion in both consumption and investments of private sector, and the increase in the exports of goods. At the same time, it benefited from a higher base effect - due to the downside revision of economic growth of 2020 from INSTAT - and from transitional factors, like the swift increase of electrical energy production. Available information suggests a strong acceleration of economic activity in the second quarter, although at a rate which will not be indicative for the further growth pace of the Albanian economy.

Chart 15

Production and services activity supported the economic growth in 2021 Q1 *Economic sentiment indicator improved significantly*



Source: INSTAT and Bank of Albania.



Source: Bank of Albania.

Notwithstanding this improvement, labour market showed a sluggish performance in the first quarter. Employment rate continued to be below the pre-pandemic level, unemployment rate increased at 11.9%, while market pressures on the rise of wages are still weak. Based on the historic performance, the Bank of Albania deems that the stable increase of employment and wages will follow, with a time lag, the expansion of the demand for goods and services.

In macroeconomic perspective, the acceleration of economic growth has reflected the reduction of restrictions, due to the improvement of epidemic situation and the expansion of vaccination process, the increase of business and consumer's confidence, the improvement of external environment, and the simulating fiscal and monetary policies.

Fiscal policy has continued to maintain a simulating nature during the first half of year. Budget deficit stood at around 3.4% of GDP, in this period, by generating a positive fiscal incentive. This performance reflected the fast increase of expenditure as a ratio to income, despite the latter recording an annual growth of around 37% in the second quarter.

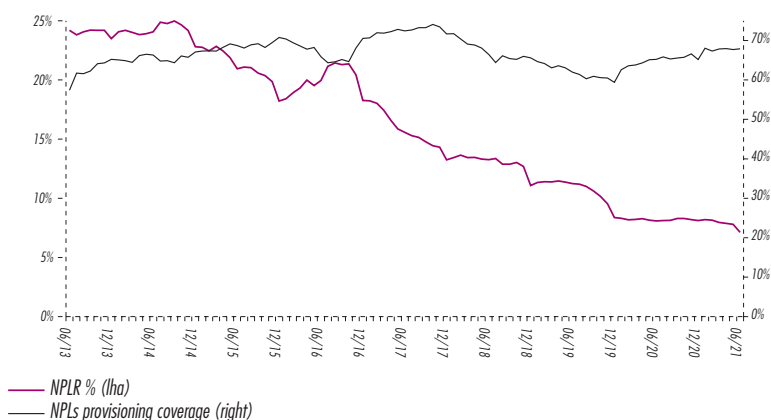
The Bank of Albania has considered the simulating nature of fiscal policy as indispensable at the peak of the pandemic. On the other hand, along with the end of health and economic emergencies, we expect the Government to turn attention on the consolidation of public finances.

Our projections for the future factorise a progressive reduction of fiscal stimulus during the second half of year and in the next period.

On its side, the accommodative monetary policy stance of the Bank of Albania has continued to generate a calm financial environment, characterised by normal circulation of fund in the market, low lending costs and a stable exchange rate.

In the second quarter, credit to private sector grew by 7.7%, on average, by continuing to reflect a relatively rapid upsurge of credit in lek, loans for investment purposes and house purchases. The reported growth of loan demand in the third quarter and the easing of lending conditions provide a continuous funding to meet consumption and investment needs. The improved balance sheets of Albanian businesses have played an important role in this regard. They have been reflected in the 7.1% fall of non-performing loans ratio in June 2021.

Chart 16 Non-performing loans ratio and provisioning



Source: Bank of Albania.

The updated forecasts in this quarterly report suggest a positive performance of economy in the medium-term horizon, by revising upwards the projection of economic growth pace in the current year. The expansion in both consumption and private investments and the increase in the export of goods and services will underpin the economic growth. In turn, this performance will reflect the improvement in business and consumer's confidence, the gradual normalisation of economic activity in

partner countries, and the favourable financial environment in Albania. Further, the growth of aggregate demand will drive to the increase of employment and rise of wages, by establishing the premises for inflation converge to target within 2022.

These forecasts are based on the assumption of avoiding strong restrictions on the economic activity due to the pandemic, and of the slow, but progressive reduction of fiscal stimulus in the medium-term horizon.

Based on the above information, the Supervisory Council assessed that the monetary stimulus has been effectively transmitted in the financial markets. Also, it deems that this stimulus should continue to be present in the economy during the medium term as well, aimed at supporting ample lending to the economy and at a low cost, and to offset the expected reduction of fiscal stimulus.

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 Supervisory Council judges that the maintenance of an accommodative monetary policy stance, throughout the forecasting horizon, is crucial for the economic recovery and for inflation return to target.

Nevertheless, the materialization of baseline scenario would require a gradual normalisation of monetary policy, towards more stable interest rates. Any timely normalisation of monetary policy will be cautious, by neither compromising the stability of economic recovery and nor damaging the prospects for inflation return to target.

Also, the Supervisory Council finds that the downside risks have been reduced, though the epidemic situation continues to remain a source of potential shocks. Thus, the long-term impact of the pandemic on the economy, although at minimum level for now, still is subject of assessments.

Last, the Supervisory Council reiterates that the gradual normalisation of economic situation and the strengthening of recovery stability should put on the focus of the decision makers the need for accelerating the agenda

of structural reforms. These reforms should aim at enhancing competition; further improving the investment climate and business environment; and the long-term strengthening of public finances stability.

“The Supervisory Council judges that the maintenance of an accommodative monetary policy stance, throughout the forecasting horizon, is crucial for the economic recovery and for inflation return to target.”

BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 0.5%

-6 October 2021-

The increase of inflation reflected the shocks stemming from the external environment, due to the upsurge of prices in international markets.

Inflationary pressures generated by the domestic economy appear upwards, but still contained.

Fiscal and monetary policy has provided the adequate support to the economic recovery.

Fiscal stimuli remains in positive territory, but its intensity has been reduced over the last months.

Dear Ladies and Gentlemen,

Today, on 6 October 2021, the Supervisory Council of the Bank of Albania reviewed and approved the Intermediate Monetary Policy Report.

The new information analysed in this Report shows a fast recovery of the economic activity in Albania, coupled with pressures on an increase of inflation in Albania and globally. On one side, reduction of restrictions, improvement of households and enterprises' confidence, and the positive effects of economic stimulus, drove to a broad-base growth of the demand for goods and services. On the other side, temporary supply-demand imbalances in international markets have raised additional shocks on inflation, beyond those dictated by the economic recovery.

The updated forecasts affirm the projections for a further growth of Albanian economy over the medium term, which in turn will establish the premises for the stable convergence of inflation to target during 2022.

Nevertheless, the materialisation of these projections depends on the course of the pandemic, the stability of global economic recovery, and the impact of current supply-side shocks. The increase of prices in global markets will affect the performance of inflation, in Albania and internationally. This impact is expected to be temporary, but it constitutes a risk factor to the level of inflation and - potentially - to the speed of economic rebound. This impact is expected to be transitional, but it constitutes a risk factor to the level of inflation and - potentially - to the speed of economic rebound.

Judging on the expected economic and monetary developments, and the balance of risks surrounding them, the Supervisory Council assesses as necessary to maintain the accommodative monetary policy stance. The monetary stimulus has continued and will continue to serve to the stable return of inflation to target, and underpin the economic growth.

Following, I will introduce in more details the reasons backing the decision-taking.

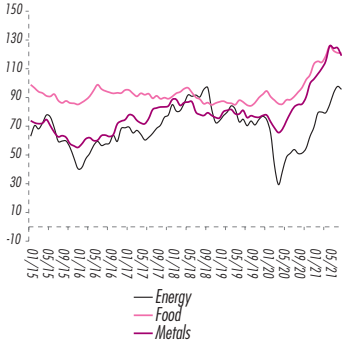
The new information of recent months has confirmed the trends as expected by the Bank of Albania, although the economic growth was faster and inflation somewhat higher than expected.

Inflation settled at 2.2% and 2.4% in July and August, trending upwards from 2021 H1. This upswing in inflation mainly reflected the increase in food and oil prices. Meanwhile, prices of other basket items did not change significantly.

From the macroeconomic perspective, the increase of inflation reflected the shocks stemming from the external environment, due to the upsurge of prices in international markets. In recent months, prices of commodities, foods and energy products have picked up swiftly. This increase has reflected both the rebound of global demand coupled with the difficulties encountered by the return of supply in pre-pandemic levels. Current projections show a normalisation of the situation in the next year, by suggesting that it will considerably affect the final prices of consumption, but temporary. Nevertheless, central banks, worldwide, continue to be attentive to the performance of energy products and commodities prices.

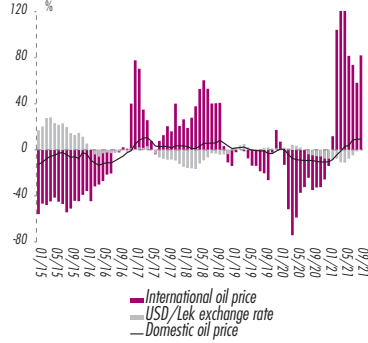
Chart 17

Main indices have continued to pursue an upward path



Source: World Bank.

Oil prices in Albania have reacted at a lower level to fluctuations in prices in global markets



Notes: Annual change of Indicator. Domestic oil price is approximated to the change of the oil price index in the CPI basket.
Source: INSTAT, staff estimations.

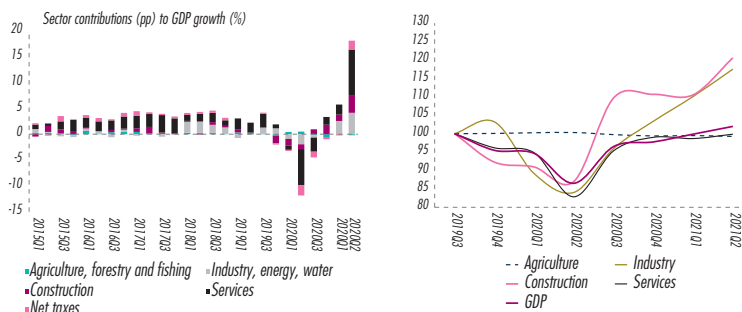
On the other hand, inflationary pressures generated by the domestic economy appear upwards, but still contained. This performance is triggered by an increase of employment and wages which still is insufficient for inflation to converge to target.

According to INSTAT data, the Albanian economy grew by 17.9% in the second quarter of 2021. This growth suggests that the Albanian economy has almost recovered the losses in the economic activity caused by the earthquake and the pandemic. The analysis of available data shows that, the growth in 2021 Q2 reflects, not only the strong base effect of the sharp economic fall in the second quarter of the previous year, also the extent and strength of factors fuelling the growth in the first half of year. In addition, the analysis of indirect data suggests fast growth rates in the third quarter as well.

Chart 18

Economic growth has accelerated significantly supported by both "production" and "services"

Almost all the sectors of the economic activity have returned to the levels of the pre-pandemic and earthquake period



Source: INSTAT and Bank of Albania.

Note: The value added of the economic sectors adjusted seasonally and turned into an index based on the 2019 Q3. Source: Bank of Albania.

The recovery of economic activity expanded on a broad base. In terms of aggregate demand, it reflected the expansion of consumption and private investments, increase of budget expenditures and the expansion of goods and services. In sectoral terms, it reflected the simultaneous expansion in the activities of construction, industry and services.

The improvement of economic activity has started to be reflected in the labour market, although its recovery remains partial. Employment rose by 1.1% in the second quarter, while unemployment rate declined to 11.6%. Notwithstanding the improving trends, employment continues to be lower and the unemployment rate higher than the pre-pandemic levels. The return of economy to full employment seems to need more time and continuous support with macroeconomic stimuli.

Fiscal and monetary policy has provided the adequate support to the economic recovery.

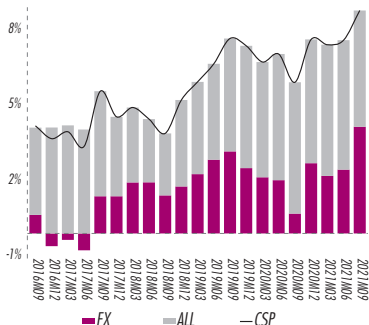
Fiscal stimuli remains in positive territory, but its intensity has been reduced over the last months. This performance is conditioned by the slowdown in the pace of realising public expenditures vis-a-vis the high rates of revenues collection. In the next year, the Bank of Albania expects a return to the consolidation of fiscal policy orientation. This would serve to both the increase of reaction space to potential shocks in the future, and in terms of the adequate sequencing of policy normalisation.

The monetary stimulus has provided a favourable financial environment for the growth of economy and for inflation return to target. Financial markets are functioning smoothly, financing costs to both public and private sectors are low, and the banking sector balance sheets are solid. In addition, lek exchange rate has manifested a slight appreciation during the months of summer, in line with its seasonal behaviour. The Bank of Albania assesses that financing conditions for bolstering aggregate demand remain adequate and reflect a good transmission of our monetary stimulus.

Bank credit continues to be a stable funding source to the economy, by reflecting the favourable financing conditions, the increase of the demand and the positive approach of banks to lending. Credit to private sector grew 8.4%, on average, in July and August. Credit growth has financed the expansion in the investments of Albanian firms and households, and meeting their needs for liquidity. Also, lending continues to preserve two positive features: First, loans in lek continue to show a high growth pace, hence indicating a good transmission of the monetary stimulus, and the enhancement of the banking system resilience to risks. Second, non-performing loans ratio fell below the level of 7.0% recorded in August, suggesting a good quality of this portfolio.

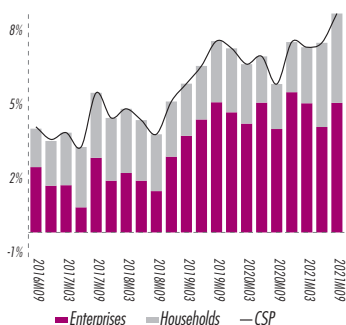
Chart 19

The increase of credit to the private sector expanded, affected by higher lending in foreign currency



Note: The data indicate the annual changes of lending by currency to the private sector.
Source: Bank of Albania.

The increase of credit in 2021 Q3 is supported by lending to enterprises



Note: The data indicate the annual changes of lending by agents to the private sector.
Source: Bank of Albania.

Overall, economic outlook remains positive. The Albanian economy is expected to grow faster in the current year and to expand at a stable pace in the next years. The favourable external environment, the

reduction of uncertainty in Albania, the simulating fiscal-monetary policy mix and the improvement of private sector balance sheets will underpin the economic growth. These factors are expected to boost the increase in consumption, exports and investments. The expansion of the demand will support the increase of employment, in turn, further rise in wages, and a gradual convergence of inflation to target within 2022.

Risks to this forecast are balanced, although the performance of economy remains object to possible adverse shocks from the pandemic, while upside risks to inflation depend on the course of prices in global markets.

Potential downside risks arise from: (i) replacement of restrictions due to a worsening of the epidemiology situations; (ii) a lower recovery of investments and consumption due to a more careful approach of firms and households; and (iii) a faster tightening of monetary conditions in euro zone, driven by the last increase of inflation.

Potential upside risks arise from: (i) a faster growth of economic activity driven by a smoother fiscal consolidation; and (ii) a more rapid or persistent rise of prices in global markets. In particular, the last scenario is increasingly drawing attention in the last weeks, by reflecting the sharp upsurge in oil, natural gas and energy prices in global markets, and their impacts in the tightening of monetary policies.

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

Also, the Supervisory Council deems necessary maintaining the current liquidity injection auctions with fixed price and unlimited quantity to the banking sector during the last quarter of 2021.

The Supervisory Council assessed that the materialisation of expectations in the baseline scenario - which forecasts the adoption of a consolidating fiscal policy direction, the continuation of economy rebound, and

temporary impacts on inflation from supply-side shock - would require the gradual normalisation of monetary policy over the next quarters. This normalisation would serve to both: our mandate to maintain price stability; and a sustainable economic growth over the medium and long term.

In addition, the Supervisory Council will continue to monitor the consequences arising from the increase of prices in global market. In case this surge would prove to be sharper and more persistent in time, and if this impact on the domestic inflation will be higher than the current expectations, the Supervisory Council remains ready to review the monetary policy stance; being attentive the latter is always in line with our inflation target.

“The Supervisory Council remains ready to review the monetary policy stance; being attentive the latter is always in line with our inflation target.”

BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 0.5%

-3 November 2021-

The Albanian economy continues to recover from the shocks originating from first the earthquake and then the pandemic.

Inflation was up, both in external and domestic environment, due to the temporary supply-side shocks.

Forecasts on the economic outlook remain positive.

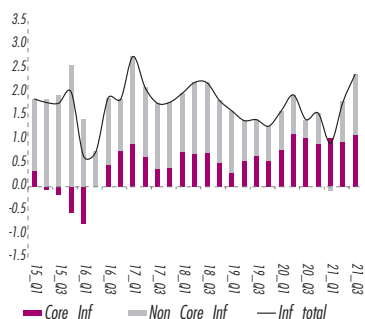
Dear Ladies and Gentlemen,

Today, on 3 November 2021, 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 Albanian economy continues to recover from the shocks originating from first the earthquake and then the pandemic. This performance is reflected in: higher economic activity; expanded employment and higher wages; improved private sector's balance sheets; and a steady growth of bank lending.

Chart 20

Core and domestic pressures slightly strengthened, but with a stability of the respective contributions



Source: INSTAT and estimations of the BoA.

Short-term and imported pressures contributed to the acceleration of headline inflation in the third quarter



Source: INSTAT and estimations of the BoA.

In addition, the new information shows an increase of inflation, both in external and domestic environment. The upswing in inflation was mainly driven by shocks generated from demand and supply bottlenecks in international markets. The latter are expected to be temporary and their impact on inflation is expected to be transitory. On the other hand, despite edging up, domestic pressures on employment, wages and inflation are still moderate.

Our forecasts for the outlook remain positive. Our forecasts on the economic outlook remain positive. Our projections suggest that the Albanian economy will continue to grow in the medium-term, supported also by the monetary stimulus, generating thus the conditions for inflation to converge to target within the following year.

Against this backdrop, the Supervisory Council assesses that the current monetary policy stance remains adequate.

[I will now outline in more detail the main findings in the Quarterly Report, our expectations for the future, and the reasons underpinning today's decision on monetary policy.]

The new information analysed in this Quarterly Report resulted on the upside of our expectations.

Inflation has trended upwards in the third quarter, averaging 2.4%. This performance reflected - at a larger extent - supply-side shocks from the surge in prices of food, energy, oil and transport costs in international markets.

The effect of shocks on inflation is expected to be present in the current quarter and during the first half of next year, while it is expected to dissipate thereafter. This assessment is based on the consensus of international institutions and market expectations. According to this consensus, prices of oil, energy and food items are expected to stabilise and then decline in 2022, hence reducing pressures on production costs and on consumer prices in Albania.

Domestic inflationary pressures have strengthened even if only gradually and in a contained manner. This dynamic reflects the still insufficient expansion of employment, wages and production costs as well as the expectations of businesses and financial markets for a moderate inflation.

Economic activity in Albania is continuing its recovery. According to INSTAT data, the Albanian economy grew by 17.9% in the second quarter of 2021. The available indirect data signal a further expansion of economy in the third quarter.

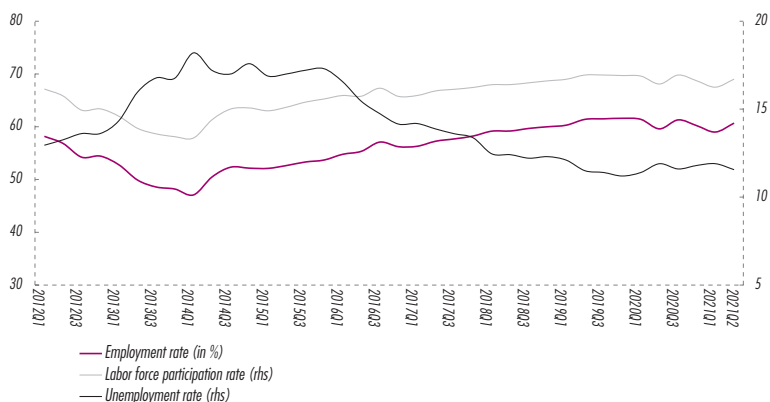
The easing of containment measures, improved confidence in the economy, better external environment and expansionary macroeconomic policies have all supported the economic rebound.

This recovery was broad based. In terms of aggregate demand components, it reflects the increase in consumption and private investments, expansion of exports of goods and services, and the positive contribution - although receding – from the fiscal stimulus. In sectoral terms, it reflects the growth across almost all sectors and branches of production and services, except of agriculture.

The expansion of the demand for goods and services has enabled the return of economic activity to both pre-earthquake and pre-pandemic levels. This recovery, present at the economy and sectoral level, suggests that the potential output of the country has remained relatively unaffected by the adverse shocks and their medium-and long term impact on the economy will be relatively low.

Nevertheless, economic recovery has been - so far - partially reflected in the labour market. Although the unemployment rate declined at 11.6% in the second quarter, it still remains above pre-pandemic levels. The slower upturn of employment and wages is a known phenomenon in the recovery process. Nevertheless, it dictates contained pressures on inflation and requires a continued accommodative monetary policy stance.

Chart 21 Labour market reflected a slight increase in employment rate in 2021 Q1



Source: INSTAT and estimations of the BoA.

The monetary policy stimulus has continued to be transmitted into low financing costs and favourable lending conditions. Financial markets are calm and characterised by normal trading volumes, contained risk premia and low interest rates. In addition, the lek exchange rate is stable, by recording contained fluctuations, in line with typical seasonal factors.

This financial environment has enabled a fast and stable growth of credit to the private sector. Bank credit portfolio grew by 8.9% at the end of the third quarter, driven by the expansion of loans in lek, of loans for investment purposes and mortgages. The positive performance of lending has reflected the expansion in both demand and supply. The latter is affected by both sound balance sheets of the banking sector, where the reduction of the non-performing loans ratio to 6.5% in September stands out, as well as the pro-active approach adopted by the banking sector towards lending.

Fiscal policy has maintained its expansionary stance over 2021, although the intensity of the fiscal stimulus has receded in recent months. The budget deficit decreased to 2.7% of GDP in the third quarter, reflecting a faster increase of revenues relative to expenditures, but it is expected to be expanding in the fourth quarter.

The fiscal stimulus is expected to be withdrawn in the following years. The Bank of Albania deems that the strengthening the sustainability of the economic recovery makes it necessary to reserve increased attention towards fiscal consolidation. This fiscal consolidation increases policy space to withstand potential adverse shocks in the future, reduces risk premia in financial markets and strengthens the macroeconomic stability of Albania.

Our baseline scenario projections remain positive. According to this scenario, the economy is forecasted to record a fast growth over the course of 2021, and continue to grow at a slower, but stable pace, in the following years. This growth will reflect improved economic confidence and balance sheets of private financial sector, increased foreign demand and a favourable financial environment. The expansion of demand for goods and services will drive to the rise of employment, wages and profit margins, in line with our inflation target.

In this scenario, the effect of supply-side shocks is expected to be transitory and inflation is expected to return to our 3% target in the course of 2022. In addition, this scenario is consistent with a balanced economic policy mix in the future: fiscal consolidation is expected to accelerate in the following years, while the monetary stimulus will continue, although at a gradually reduced intensity.

The balance of risks appears tilted on the upside in the short term and balanced in the medium term. On the one hand, a faster or prolonged increase of prices in international markets and a slower consolidation pace pose upside risks to inflation. On the other, a slower recovery of global economy poses downside risks to inflation.

Judging on these projections, the Supervisory Council of the Bank of Albania deemed that the current monetary policy stance remains adequate for supporting the economy and inflation converging to target within 2022.

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 Supervisory Council assessed that the materialization of the baseline scenario - the further consolidation of the recovery and domestic inflationary pressures - would require a gradual normalisation of monetary policy in the following quarters. In addition, the improved liquidity situation in banking sector will enable the adoption of traditional auctions of liquidity injection into the banking sector, starting from the first quarter of the next year. The gradual reduction of monetary stimulus will guarantee the achievement of our inflation target and establish the premises for a sustained economic growth in both medium and long term.

Also, the Supervisory Council considered that the materialisation of risk scenarios would require a revision of the monetary policy stance, by both bringing forward in time and accelerating the monetary policy normalisation in case upside scenarios materialise, or conversely by pushing it further in time and decelerating the intensity of normalisation, in case downside scenarios materialise.

In any case, the Supervisory Council highlights that monetary policy stance will be consistent with the achievement of our inflation target over the medium term.

“The Supervisory Council considered that the materialisation of risk scenarios would require a revision of the monetary policy stance, by both bringing forward in time and accelerating the monetary policy normalisation or conversely by pushing it further in time and decelerating.”

BANK OF ALBANIA KEEPS THE POLICY RATE UNCHANGED AT 0.5%

-22 December 2021-

The rise in demand, employment and wages has pushed inflation up in the course of 2021.

Economic activity grew at a fast pace over 2021, and growth sources were broadly based.

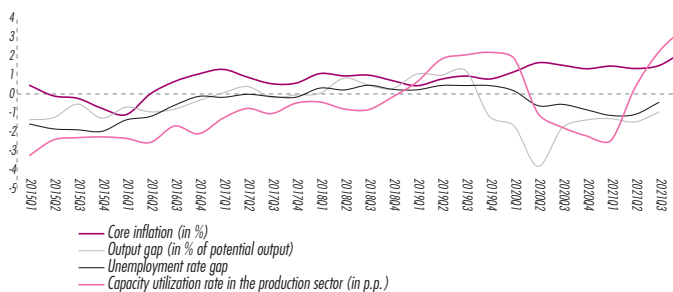
The accommodative monetary policy stance has: reduced the costs of financing; boosted credit growth; and contributed to the easing of the borrowers' financial situation.

Dear Ladies and Gentlemen,

In today's meeting, 22 December 2021, the Supervisory Council of the Bank of Albania reviewed and approved the Intermediate Monetary Policy Report.

The analysis of the available information shows the economic activity in Albania continues to recover, labour market indicators are improving, but inflation has risen sharply in the last two months. The upsurge in prices for oil, electricity and food in global market, have started to be reflected - both directly and indirectly - in the prices of consumption items in Albania. They have originated from the temporary mismatch between demand and supply. In this view, their effect will be present also in the course of the first half of the coming year, but – further - it will subside.

Chart 22 The cyclical position of the economy continued to improve in the third quarter, being reflected in the rising rates of domestic (core) inflation during the fourth quarter



SNotes: The output gap is the average of several measurements on which the method of moving average is applied. The capacity utilisation rate gap is estimated as a deviation of the current value from the relevant historical average, and then the moving average method 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 stated as the difference of equilibrium unemployment rate to actual unemployment rate and then the method of moving average is applied. The Chart shows the results of the most recent general reassessment conducted in 2021 on the output and unemployment gap.

Source: INSTAT and estimations of the Bank of Albania.

In the baseline scenario, the convergence of the economy to equilibrium and the reduction of the effects stemming from the supply-side shocks will enable inflation to return to the target in the second half of 2022.

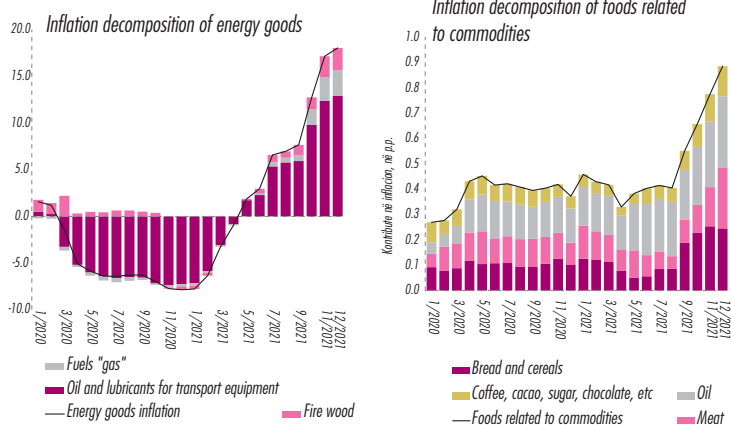
Against this backdrop, the Supervisory Council assesses that the current monetary policy stance remains adequate.

[Let me now make an overview of the findings of this Report in greater detail.]

The new information we analysed was overall in accordance with our expectations.

Inflation in Albania increased sharply, reaching at 3.1% in November. The rise in demand, employment and wages has pushed inflation up in the course of 2021. Nevertheless, the upswing in inflation, in the fourth quarter, primarily reflects the effect of the considerable rise in prices for food, oil and electricity in global markets. This shock is expected to keep inflation above our target in the next months. Further, we expect demand-supply to re-adjust in global markets, logistic problems be resolved and energy prices to stabilise. This performance will ease inflationary pressures and reduce the effect of foreign prices on inflation in Albania.

Chart 23



Source: Instat, BoA.

Economic activity grew at a fast pace over 2021, and growth sources were broadly based. The Gross Domestic Product expanded by 11.7% in the first half of year, bolstered by the increase in consumption and investments, both private and public ones, and by the growth in the exports of goods and services. Although available information is partial and indirect, it suggests the further growth of economy in the second half of year. Nevertheless, the economic growth rates are expected to be lower and fluctuate around the potential growth level, while the strong effect of comparative base with 2020 will be reducing.

The expansion of economic activity was accompanied by the improved labour market. Employment rose by 0.7%, unemployment rate dropped at 11.3% and the average wage recorded an annual increase of 6.9%., in the third quarter. Improving trend in labour market indicators and the increased job demand reported from enterprises signal that pressures on the growth of wages will strengthen in the future.

Increased confidence in economy, the improved external environment, and the domestic simulating economic policies have underpinned the economic growth. This broad gamma of factors suggests the sustainability of the economic growth in the future.

The accommodative monetary policy stance has: reduced the costs of financing; boosted credit growth; and contributed to the easing of the borrowers' financial situation. Hence, it has supported the expansion of economic activity and has created the prerequisites for the return of inflation to target.

The interest rates on loans to both enterprises and households have remained at low levels, in reflection of the good liquidity situation, the contained risk premia and the supportive approach of banks to their clients. Also, the exchange rate has been characterised by two-sided fluctuations in the last two months.

Bank credit has recorded high growth rates, by increasingly supporting the rise in consumption and investments. The volume of credit to private sector recorded an annual growth of 11 % in November. Credit grew to both enterprises and households for investment purposes and for meeting short-term liquidity needs, both in lek and foreign currency. The augmented loan demand, as reported in the bank lending survey, the eased credit standards and the sound position of banking industry suggest a good performance of credit in the next period. In

particular, the fall of non-performing loans ratio to 6.2% in November, shows the increase of both enterprises and households' creditworthiness, as well as the improved soundness of banking sector balance sheets.

The rapid increase in revenues and the mitigated growth pace of primary expenditures have driven to a slowdown of the fiscal stimulus in the last months. Nevertheless, the high accumulated level of expenses, coupled with the budget deficit, in December, implies a possible upsurge of fiscal stimulus to the economy.

The Bank of Albania judges that fiscal policy consolidation in the future is reasonable - given the strengthening of sustained recovery - also necessary to expand the space for facing potential shocks in the future and enhancing the macroeconomic stability of Albania.

The simulating fiscal policy has supported the economic growth, although at a lower degree from a year earlier. The fast increase in revenues and the mitigated growth pace of primary expenditures have driven to a slowdown of the fiscal stimulus in the last months. Nevertheless, the high accumulated level of expenses, coupled with the budget deficit, in December, implies a possible upsurge of fiscal stimulus to the economy.

Our projections for the outlook remain positive. The favourable financing conditions, the improved confidence and private sector's balance sheets, and the gradual normalisation of the economic activity in partner countries are expected to support the economic growth over the medium term. These factors are expected to boost the increase in consumption, investments, and exports. Expansion of economic activity will be accompanied by the more dynamic increase of employment, wages and other production costs, by strengthening the domestic inflationary pressures. Inflation, underpinned by these factors, is foreseen to sustainably return to 3% target at the end of 2022, and stay close to it in the medium term. On the other hand, the external supply-side shocks will dictate inflation rates above the target in the short run, but their effect is expected to be transitional.

The balance of risks surrounding inflation appears tilted upside in the short run and balanced in the medium term. On the one hand, a faster or prolonged increase of prices in international markets and a slower consolidation pace pose upside risks to inflation. On the other hand, slower recoveries of both global and Albanian economies, due to the prolongation of the pandemic or upswing of prices in international markets, constitute a downside risk to inflation.

Judging on these projections, the Supervisory Council of the Bank of Albania deemed that the current monetary policy stance remains adequate. The monetary stimulus supports the increase in the demand for goods and services, compensates the expected reduction of fiscal stimulus and establishes the premises for the rise of employment, wages and inflation in line with our target.

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.

At the same time, the Supervisory Council notes that the achievement of inflation target in the medium term will require the gradual normalisation of the monetary policy in the next period. This normalisation is expected to begin in the coming quarters. The reduction of monetary stimulus guarantees the observation of our inflation target and establishes the premises for a sustained economic growth in both medium term and long term.

However, the Supervisory Council notes that the balance of risks to inflation continues to remain to the upside, dictated by the prolongation and intensity of the supply-side shock in global markets. Against this backdrop, the Supervisory Council highlights that it will carefully monitor inflation performance and its determinant factors, to assure - in any case - that the monetary policy stance is consistent with the achievement of inflation target.

“The Supervisory Council notes that the achievement of inflation target in the medium term will require the gradual normalisation of the monetary policy in the next period.”

Dear media representatives,

In conclusion of this communication, taking the opportunity that this meeting is the last one for this year, I would like to present a brief overview of the work of the Bank of Albania in 2021.

The last couple of years were unprecedented and challenging to the Albanian economy and the Bank of Albania. I am pleased to note that the institution rose up to the challenges and successfully fulfilled its legal duties.

As I mentioned in the first part of my speech, the accommodative monetary policy implemented by the Bank of Albania has provided a significant contribution to the economic recovery, after the shock of the pandemic.

“The focus in our supervisory activity was the revision of regulatory framework to minimise the consequences originating from the pandemic, in addition to the continuation of the work for the convergence of our activity regulations and practices with the best international standards.”

In addition, this policy is accompanied by an intensive decision taking of the Bank of Albania regarding **supervision, licensing and regulation** of banking activity. The focus in our supervisory activity was the revision of regulatory framework to minimise the consequences originating from the pandemic, in addition to the continuation of the work for the convergence of our activity regulations and practices with the best international standards. In the context of the pandemic situation, the Bank of Albania:

- Approved the suspension of the profit allocation for 2020 and of the profit to be realised in 2021 of the banking industry up to December 2021.
- Implemented some temporary regulatory amendments, which postponed the payments of instalments or eased the restructuring process of loans to those households and enterprises facing difficulties caused by the pandemic.

In parallel, the Bank of Albania has continued to implement its duties in the framework of licensing, supervision and regulation of the banking sector, throughout 2021. I would like to note here the further progress in the consolidation field of banking industry, with the proposed acquisition of Alfa Bank from OTP Bank, the continuation of the collaboration with homologue authorities in the framework of the supervisory colleges and the fight against money laundering, as well as the continuing work for the compilation and revision of the supervisory regulatory framework, aimed at its further approximation to the EU directives and regulations and with the Basel Committee standards.

Developments in the field of **banking resolution** have taken place in the last couple of years, by completing the regulatory and methodological resolution framework with other by laws and methodological documents, in compliance with the European regulatory framework, and by fully preparing the resolution plans for all banks of the banking sector.

In the field of **Payment Systems**, the Bank of Albania paid special attention to the fulfilment of strategic objective for boosting both financial inclusion of population and the use of electronic payment instruments. The legal and regulatory interventions coupled with the undertaken infrastructural developments in place since 2018 and so far, in the framework of the Albanian National Retail Payments Strategy (NRPS), have resulted successful, while their impact is expected to become more notable in the next years.

The Bank of Albania has continued to **manage the foreign exchange reserve, in compliance with the main objectives of investing foreign currency reserve**: liquidity and security. For this purpose, I would like to point out the finalisation, in 2021, of the new arrangement with the European Central Bank, represented by the Bank of France, on the approval of a credit collateralised line up to €400 million.

Notwithstanding the created difficulties due to the pandemic, the Bank of Albania has continued, throughout this period, to contribute and perform its duties in the framework of the **European Integration process** of the country, in all its dimensions. In more concrete terms, the Bank of Albania has fulfilled at a considerable level the commitments arising from the National Plan for EU Integration, and has participated actively in all the meetings with the respective EU sub-committees.

“Notwithstanding the created difficulties due to the pandemic, the Bank of Albania has continued, throughout this period, to contribute and perform its duties in the framework of the European integration process of the country, in all its dimensions.”

Public communication has always been a constant priority of the Bank of Albania. For the purposes of ensuring that the duties and activities of the institution are adequately understood by the broad public, the Bank of Albania, throughout the conduction of its activity, has always been focused on the implementation of a responsible and transparent communication policy. For this reason, the National Bank of Austria in its report “Focus on the European Economic Integration” for the second quarter of 2021, which contains a detailed analysis on the transparency and communication with public, ranked the Bank of Albania first among all the banks of Central, Eastern and South-eastern countries.

Issue of the banknote, its physical security and the well-management of cash, is another crucial pillar in our activity. The Bank of Albania successfully addressed the emergency situation created by the pandemic. In June 2021,

we signed the agreement with the ECB on the protection of euro banknote from counterfeiting, making thus the Bank of Albania an integral part of the European process in the fight against banknotes counterfeiting.

In addition, we have continued the work for the completion of the new series of banknotes. In June 2021, two other denominations, 1,000 Lekë and 10,000 Lekë were put in circulation. The particular in this process is the addition in the series and the production of the banknote with the highest denomination of 10,000 Lekë. At the same time, I would like to emphasise, that in 2021, there were produced the two last banknotes of the series, 500 Lekë and 2000 Lekë, which are expected to be put in circulation in the next days, by concluding the completion of our new series composed of six banknotes and six coins.



The new banknotes will be available to the public starting from 17.01.2022 by circulating in parallel with the other banknotes of the current series. These banknotes are designed and produced with state-of-the-art technology and embody contemporary and sophisticated security features.

The vision, leadership and devotion of the **Supervisory Council** made possible the work, achievements and results in the activity of the Bank of Albania. The Supervisory Council has guaranteed the well-functioning

of the institution and has oriented and led the compilation of the Medium -Term Development Strategy of the Bank of Albania.

The Internal Audit has assisted the Supervisory Council throughout its activity. This important function was certified pursuant to the International Standards for Internal Auditing, and fulfilled all the planned auditing engagements.

In conclusion, I would like to point out that the Bank of Albania will continue to carefully supervise both the economic and financial reality of Albania. Many challenges lay ahead, but what I note is that the institution is able to tackle them.

Hoping that 2022 will drive to an end to the pandemic and enable the return of both social and economic life to normality, I reaffirm that the Bank of Albania remains fully committed for taking the adequate measures in fulfilling its legal mission.

“The Bank of Albania will continue to carefully supervise both the economic and financial reality of Albania. Many challenges lay ahead, but what I note is that the institution is able to tackle them.”



Erdina

Yan Sun

Gerit Sako

Ejola Jata

Mirida Titi

CHAPTER III

JOINT PRESS CONFERENCE 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 and the Minister of Finance and Economy, 12 October 2021*

Joint press conferences 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, the IMF missions visit Albania and meet with representatives of its main institutions. At the conclusion of each visit, a joint press conference is held with the Governor of the Bank of Albania, the IMF Mission Chief and the Minister of Finance and Economy.

GOVERNOR SEJKO: STATEMENT AT THE JOINT PRESS CONFERENCE, VIRTUALLY, WITH THE IMF MISSION CHIEF AND THE MINISTER OF FINANCE AND ECONOMY

-12 October 2021-

Dear Ladies and Gentlemen,

The Bank of Albania and the Albanian authorities, over the last two weeks, have been engaged in intensive discussions with the IMF Mission, in the framework of Article IV consultations. Discussions in these meetings were focused on the current challenges to the Albanian economy in its path towards recovery, and the structural reforms which will enable a faster and more stable development of Albania in the long term.

“The Bank of Albania and the IMF Mission share similar views related to the current economic and financial developments, forward guidance on these developments in the future, and the stance of fiscal, monetary and macro-prudential policies to the challenges that lie ahead.”

I am pleased to see that the Bank of Albania and the IMF Mission share similar views related to the current economic and financial developments, forward guidance on these developments in the future, and the stance of fiscal, monetary and macro-prudential policies to the challenges that lie ahead.

Let me briefly detail the vision of the Bank of Albania on the above-cited issues.

The available data, obtained during the first nine months of year, suggest the Albanian economy is on a recovery track. This recovery has resulted faster than our projections and was supported by a broad gamma of factors. The reduction of restrictions due to the vaccination process, the improved confidence of Albanian businesses and households, the increase of external demand, coupled with monetary and fiscal stimuli, have underpinned the swift recovery of consumption, investments and exports.

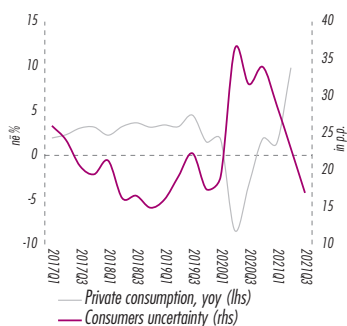
The coordinated monetary and fiscal stimulus had a crucial role in this regard, together with a temporary and targeted facilitation of

regulations on the functioning of the banking sector. These measures reduced the financial burden of the shock on the Albanian businesses and households. Thus, these measures provided a breathing space to struggling businesses to survive this shock, halted the considerable upsurge of unemployment and build up the premises for a rapid and sustainable economic rebound once the pandemic abates.

In the same line, the structural reforms we have been committed with during the last years on enhancing the stability and effectiveness of the financial system, have given their fruits. These reforms, amid others, were aimed at and succeeded in: increasing the use of the national currency in the financial transactions; reducing the non-performing loans; consolidating the banking sector; and further improving the regulation and supervision of the financial system in general, and banking sector, in particular. Their timely implementation, enabled the banking sector to share a considerable part of the financial bill of the crisis, and continue to fuel lending, at low costs, to the Albanian economy

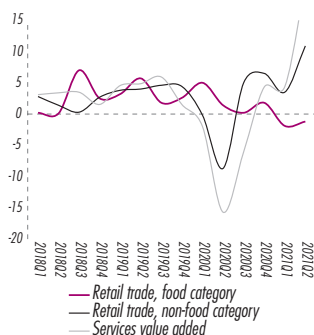
Chart 24

Private consumption accelerated the growth in the second quarter, in reflection of consumers' reduced uncertainty



Note: Indicator of consumer uncertainty is measured from Consumer Confidence Survey and expressed as net balance in percentage points.
Source: INSTAT and Bank of Albania.

The growth of consumer spending for long-term durables lead consumption



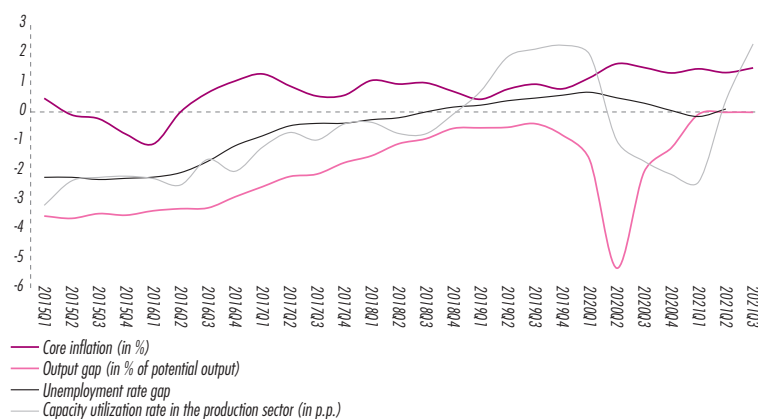
Note: All indicators are expressed in annual changes.
Source: INSTAT and Bank of Albania.

Expansion of the demand has helped the recovery of the domestic production, driving it to the pre-crisis level. Nevertheless, this recovery is still incomplete in the labour market, where the employment ratio stands below the pre-pandemic levels, and the increase in wages is still insufficient for inflation to converge to target.

That is why inflation continues to undershoot the target, notwithstanding the volatility showed in the last year. Recently, its performance is object to supply-side shocks, which have been stemming from the upsurge in the prices of foods, energetic products and other commodities in the global market. Information from markets and our analyses show that the effect of these shocks will be transitory, but it poses an additional uncertainty element.

Looking ahead, our projections on the performance of the Albanian economy remain positive. Economic activity in Albania, in absence of shocks, is expected to grow in the next years. Though, the momentum of economic growth is expected to slowdown, this pace will be stable and sufficient to ensure: a fuller utilisation of production capacities; an increase of employment and wages; and inflation converge to target within 2022.

Chart 25 Cyclical position of economy continued to improve in 2021 Q3



*Note: Cyclical position is estimated by the indicators of: output gap; unemployment gap and production capacity utilisation.
Source: INSTAT and estimations of the BoA.*

This scenario of developments is surrounded by downside risks in the short run. In particular, the possible worsening of the epidemiology situation or the spike of prices in global markets may trigger negative effects on the performance of both global and Albanian economies. On the other hand, balance of risks appears more symmetrical in both medium and long term.

The Bank of Albania deems that the materialisation of the developments in baseline scenario would require a gradual normalisation of the economic stimulus. This normalisation will provide a better balance between the economic growth and the monetary and financial stability of Albania, and will re-establish the necessary premises to tackle other potential shocks in the future.

“The Bank of Albania supports a progressive reduction - but in a clear and stable manner - of fiscal stimulus. The shift of fiscal policy focus towards the consolidation and decrease of public debt will help to reduce risk premia in financial markets.”

At the same time, the Bank of Albania assesses that the normalisation process should be prudential, conditioned by the speed of the recovery and the stability of sources to the economic growth; as well as coordinated amid the employed policies and instruments

The Bank of Albania supports a progressive reduction - but in a clear and stable manner - of fiscal stimulus. The shift of fiscal policy focus towards the consolidation and decrease of public debt will help to reduce risk premia in

financial markets. Also, fiscal consolidation will increase related-spaces for tackling shocks in the future.

“Our attention in the future will be on: carefully monitoring the pandemic consequences in the banking sector’s balance sheet; identifying in advance the potential problems; and taking the corrective measures in a timely manner.”

On the other hand, our assessments suggest the monetary policy should continue to remain accommodative. The monetary stimulus will continue to provide the necessary support to the economic rebound and facilitate fiscal consolidation process. Current supply-side shocks are not expected to jeopardise the stability of prices in the medium term. As such, they do not require interventions of monetary policy. Nevertheless, the Bank of Albania retains her attention to assess the impact,

extension and transmission of these shocks to our economy. This will help us to adjust, in following, our monetary policy stance in compliance with our objective to maintain price stability.

Finally, I would like to highlight that the Bank of Albania has completely normalised the temporary easing macro-prudential measures. Our attention in the future will be on: carefully monitoring the pandemic consequences in the banking sector’s balance sheet; identifying in advance the potential problems; and taking the corrective measures in a timely manner.

In addition, the Bank of Albania will continue to work for: the approximation of its regulatory and supervision framework with the European Union standards; the further development of the financial system - in collaboration with other institutional stakeholders - ; and the enhancement of payment systems.

Concluding, I would like to thank the Mission for the fruitful discussions held in a constructive mode and transparent spirit, and extend my congratulations to the new Minister of Finance and Economy and wish much success in her new post.

Thank You!



**KARTEMONEDHA
JONË e RE** SIGURT & MODERNE
Seria e Re e Kartëmonedhave Shqiptare
Banka e Shqipërisë, 15 qershor 2015

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CHAPTER IV

SPEECHES AND PRESENTATIONS AT CONFERENCES

- *Governor Sejko: Address to the closing ceremony of the Twinning Project “Enhancing Bank of Albania’s alignment with EU Acquis”, 18 January 2021*
- *Governor Sejko: Speech at the Scientific Conference on “Pandemic and recovery – the coping strategies and expectations”, 9 February 2021*
- *Governor Sejko: Address to the opening ceremony of the Global Money Week 2021 in Albania, 23 March 2021*
- *Governor Sejko: Keynote speech at the Conference on: “New normal: Challenges & Opportunities”, European University of Tirana, 30 April 2021*
- *Governor Sejko: Address at the Launching of the two banknotes, 1000 Lekë and 10000 Lekë, of the New Albanian Banknote Series, 15 June 2021*
- *Governor Sejko: Address at the promotion of the book on: “Facing crisis: the challenges of economic theory and policies”, by Academic Prof. Dr. Anastas Angjeli, and Prof. Dr. Adrian Civici, 22 July 2021*
- *Governor Sejko: Address at the launching of awareness campaign: “Neither old nor new, I am simply Lek!” 17 November 2021*
- *Governor Sejko: Welcome Remarks at the 15th SEE Economic Research Workshop, 6 December 2021*
- *Governor Sejko: Address at the year-end event organised by the Albanian Association of Banks, 16 December 2021*
- *Governor Sejko: Address to the end-of-year meeting with journalists, analysts and media representatives and the Governor’s award ceremony for the best diploma thesis 2021, 20 December 2021*

Conferences and workshops

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

**GOVERNOR SEJKO: ADDRESS TO
THE CLOSING CEREMONY OF THE
TWINNING PROJECT “ENHANCING
BANK OF ALBANIA’S ALIGNMENT WITH
EU ACQUIS”
-18 January 2021-**

*Your Excellences Ambassador Soreca, Ambassazxdor Bucci and
Ambassador Zingraf,
Dear Mr Franco,
Dear friends from Banca d’Italia and Bundesbank,
Dear colleagues,*

It is with great pleasure that I welcome you to the official closing ceremony of the Twinning Project “Enhancing Bank of Albania’s alignment with EU Acquis”.

This project launched on December 2019, was funded by the EU and followed the successful completion of the previous project on “Needs analysis for the Bank of Albania” - designed and led by the ECB, in partnership with 11 central banks of the European System of Central Banks.

As we all know, the first half of 2020 was marked by the emergence and rapid global spread of COVID-19. Within a very short time, the world changed dramatically in ways that we could have never imagined. Thus, the project was temporarily suspended. However, with the pandemic likely to last, just like the rest of the world, we embraced remote working, a reality which soon became as effective as the “traditional” way of work. We managed therefore to complete the project successfully and on time.

Dear Ladies and Gentlemen,

The twinning program involved eight departments of Bank of Albania and addressed important issues, in the areas of:

- Banking Supervision and Financial Stability;
- Monetary Policy and Statistics;
- Internal Audit;
- Payment Systems; and

- Other central banking functions such as human resources and European integration.

Each component was incorporated into a number of tangible results, in the form of regulatory documents, guidelines and specific recommendations related to policies. Therefore, I'm happy to highlight that:

- New bylaws for implementing Basel III and Capital Requirements Directive were developed;
- New policy papers and guidelines for approximation with ESRB recommendations were drafted;
- An improved Monetary Policy Document was released;
- New bylaws and a new manual aiming to align BoA monetary statistics and financial accounts with ECB requirements were drafted;
- New bylaws, manuals, policy documents and training plans for harmonization of Audit activity in line with ECB and ESCB standards were developed;
- New legal act for Payment Accounts Directive implementation was drafted;
- New manuals for alignment with ECB standards the BoA payment system oversight framework were drafted;
- A gap analysis followed by a roadmap on ECB TARGET2 system implementation was performed;
- New guidelines aiming to align to ECB standards regarding the e-recruitment process, recruitment of external applicants and conditions of staff employment were drafted;
- A roadmap to design the role and challenges of the European Integration Office (EIO) was laid out.

Dear Ladies and Gentlemen,

I could not conclude without spending a few more thanks to all the institutions and their experts involved in this endeavour. First, I would like to thank the European Commission for its support for funding this project. I am confident that the Commission will continue to support our future initiatives towards the integration in the EU. A special thank goes to EU Delegation here in Albania for their valuable assistance during preparatory period of the project. I hope that soon the EU Council will approve the negotiating framework for the accession of Albania, thus marking a new phase of the EU integration process.

I would like to thank the Bank of Italy, for their long-term commitment

in supporting our institution. The impressive work done from the Italian experts deserves special credits, especially under the current unprecedented circumstances due to pandemic. I take the opportunity to personally thank the Project Leader, Mr. Zeloni and Resident Advisor, Mr. Gola for their efforts and support.

Absolutely, we are very grateful to Bundesbank for its active participation in the project, including their leading role in the regional project on “Strengthening the Central Bank Capacities in the Western Balkans with a view to the Integration to the European System of Central Banks”. Also, we thank the National Bank of Romania and Banque de France for their specific involvement in this project. We are confident the cooperation with these central banks will strengthen further in the future.

Last but not the least, I would like to extend my warm appreciation to the staff of the Bank of Albania, who overcame the difficulties generated by the Covid-19 pandemic, and managed to bring this project to success in all of its targeted objectives.

Concluding, I iterate that the Bank of Albania remains firmly committed in its road of fast converging with the model of European System of Central Banks. We strongly believe this is the best contribution we can make for our country in the process of the EU integration, a strategic goal we have incorporated in our work plans for 2021 and beyond. I’m confident our cooperation will continue in the future and the European support and mentorship will accompany us on every step towards the European family.

“The Bank of Albania remains firmly committed in its road of fast converging with the model of European System of Central Banks. We strongly believe this is the best contribution we can make for our country in the process of the EU integration, a strategic goal we have incorporated in our work plans for 2021 and beyond.”

Thank you!

GOVERNOR SEJKO: SPEECH AT THE SCIENTIFIC CONFERENCE ON “PANDEMIC AND RECOVERY – THE COPING STRATEGIES AND EXPECTATIONS” -9 February 2021-

*The COVID-19 pandemic and monetary policy. All eyes on the
central bank balance sheet*

Covid-19 pandemic caused an unprecedented negative shock and to that extent required an extraordinary response from monetary and fiscal authorities around the globe. In the face of this shock, central banks have gone beyond the traditional frameworks, by adopting an expansionary monetary policy to expand the central bank's balance sheet. This material describes the dilemmas and changes faced by the theory and practice of the monetary policy, as a result of the pandemic pressure on the economy; and analyses the possibility for utilizing these changes in developing countries with small open economies, such as Albania.

“In the face of this shock, central banks have gone beyond the traditional frameworks, by adopting an expansionary monetary policy to expand the central bank's balance sheet.”

The monetary policy, starting in the USA, in the early 1980s focused on keeping inflation under control and anchoring inflationary expectations through managing the interest rate. For almost 30 years, this stance established the premises for stability and sustainable economic growth. However, after the bursting of the financial global crises in 2008, central banks immediately cut the interest rates, which quickly reached the lower threshold of 0. This rendered the interest rate, as the main instrument of monetary policy, practically useless. In order to re-activate the economy, the central banks of advanced economies (Federal Reserve, European Central Bank, Bank of England, and Bank of Japan) conducted massive temporary liquidity injections, by purchasing securities in capital markets. Even though purchasing programme was thought to be temporary, they were repeated continuously in order to support the economic activity and achieve the objective of prices stability. This practice drove to the increase of money in the economy and the expansion of central banks' balance sheet.

The negative shock caused by the pandemic and the response of authorities to bring it under control, demanded an even higher reaction from monetary policy. Based on the same theoretical arguments, similar to the financial crises case, central banks injected extraordinary amounts of liquidity to the economy, by purchasing every category of debt and mortgage –backed securities traded in the market. One year from the outbreak of the pandemic, the four above-mentioned central banks, in an explicit or implicit manner, consider the expansionary monetary

“The application of such unconventional practices has turned currently all eyes on the central bank’s balance sheet as a saving instrument from the negative effects of the pandemic.”

policy through the expanding the balance sheet as a permanent instrument of the monetary policy. Accepting in their balance sheets even debt and mortgage-backed securities from the private sector. Other central banks of advanced countries have also adopted a similar approach comparably, as required. The application of such unconventional practices has turned currently all eyes on the central bank’s balance sheet as a saving instrument from the negative effects of the pandemic. Hence, it is natural that economists are faced with a dilemma whether these unconventional practices are appropriate even for small, opened economies, with a high scale of euroisation and weak currencies (meaning that the currencies are not tradeable in international markets). The answer provided in this research is: Perhaps, but no indispensably! This is because unconventional policies carry risks of both monetary and financial nature. I will try to discuss this issue shortly, using the example of the Albanian economy.

Relating to the situation of the Albanian economy during the pandemic, the Bank of Albania assesses that the pandemic has delivered a heavy blow to the economic activity, employment and investments, putting enterprises and households under great strain to meet financial needs and obligations. In response to these shocks, the Bank of Albania has undertaken a set of measures of monetary character through easing the monetary conditions, by reducing the interest rate and injecting unlimited amount of liquidity to the economy. At the same time, a set of macroprudential measures were implemented to ensure that short-term financial problems of enterprises and households do not harm the stability of the banking system and do not obstruct its intermediary activity and role in the economy. This framework of measures and regulatory changes are similar to the ones implemented by the European Central Bank and regional central banks. The current statistics show that they have played a significant role in mitigating negative effects of the pandemic.

Consequently, the financing costs of the private sector remain low, the exchange rate is stable and the banking sector shows good liquidity and capital indicators. In comparison with central banks in advanced countries, the Bank of Albania has not applied unconventional monetary policy measures in order to expand its balance sheet. Following, I will continue to elaborate on the reasons why this approach has not been adopted in Albania.

First, and the most important, at the moment of the pandemic outbreak, the monetary policy interest rate of the Bank of Albania was neither in negative territory, nor close to the zero threshold. As a result, the monetary policy had considerable space for monetary expansion through the decrease of the interest rate in its conventional form. The Bank of Albania deems that even in the actual moment there is still space to easing the monetary policy, by means of conventional measures.

Second, unconventional policies or the application of new monetary policy concepts (QE), in the case of the Albanian economy, are mainly limited by the lack of tradeable instruments in the capital market. The capital market structure in Albania is quite limited and debt and mortgage-backed securities of the private sector are non-existent. Subsequently, the expansion of the balance sheet of the central bank remains conditioned from the limited size and supply of the financial market.

Third, without capital markets, the expansion of the central bank's balance sheet through purchasing government securities in the secondary market automatically drives to an increase of the public debt; and may continue until public debt reaches the long-term sustainable threshold. The increase of public debt beyond this threshold damages directly and simultaneously confidence in the fiscal and monetary policy, by exposing the country to threats such as financial and balance of payments crises.

Overall, the new concepts on the nature and instruments of the monetary policy do not consider certain core principles of sustainability of the intermediate balance sheets of the government, central bank and the economy, in general. These principles expressed in the form of quantitative limitations are crucial to stable policies for small and opened economies which are developing. The application of such practices that goes unstudied may be dangerous to these economies.

In conclusion, the success and utility of the proposed changes to achieve the monetary policy objectives, is still to be proved in the future by the

actual results of central banks, which have also applied the empirical and academic studies.

GOVERNOR SEJKO: ADDRESS AT THE OPENING CEREMONY OF THE GLOBAL MONEY WEEK 2021 IN ALBANIA

-23 March 2021-

*Honourable Minister of Education, Youth and Sports,
Dear Mr Chairman of the Albanian Association of Banks,
Dear students, teachers, friends and colleagues,*

I am pleased to welcome you in the opening ceremony of Global Money Week 2021. For more than one decade, the Bank of Albania has been engaged in this world-wide movement, in organising during the last week of March, educational and awareness activities dedicated to children, young people and students. Global Money Week, already turned into a tradition, is organized in collaboration with the Albanian Association of Banks, and with the valuable support of the Ministry of Education, Youth and Sports. Due to difficulties arisen by Covid-19 pandemic, the Global Money Week, this year won't be launched at the premises of the Museum of the Bank of Albania, but virtually, in compliance with the health safety and social distancing measures and regulations.

“For more than one decade, the Bank of Albania has been engaged in this world-wide movement, in organising during the last week of March, educational and awareness activities dedicated to children, young people and students.”

I have already emphasised in my previous comments to this event, that GMW is an world-wide initiative organised by the OECD International Network on Financial Education (OECD/INFE), aimed at raising awareness of the younger generation to become in turn financially responsible citizens in the future.

Every year, in March, central banks, public agencies and financial institutions and civil society organisations from around the world organise GMW activities. The number of countries engaged in this global event and consequently the number of the involved of children and young people has been trended upwards. This year, GMW will take place in around 175 countries and will involve around 40 million children and young people.

The global health and economic emergency caused by COVID-19, and its social effects have affected almost all aspects of life to all age groups of the society. We know that different age groups are experiencing these effects in different ways. Hence, related to students and younger people, in addition to health aspect, the pandemic has posed to them challenges in the field of education and employment. For these reasons, it is more important and relevant than ever, to provide them with the required knowledge on the personal finance management and the correct use of banking products.

“This theme highlights the crucial importance of knowledge in an evolving digitalised and innovative market, which enable people to avoid physical contact while using the financial and banking products, hence providing for a better protection of public health.”

In this context, the theme of this year competitions and activities to take place is “Take care of yourself, take care of your money”. This theme highlights the crucial importance of knowledge in an evolving digitalised and innovative market, which enable people to avoid physical contact while using the financial and banking products, hence providing for a better protection of public health. In this view, the Bank of Albania, as the supervisory and promoter institution of the Albanian banking system, in addition to the immediate response to the difficulties created by COVID-19, through a complete package of monetary, supervisory, macro-prudential and operational measures, finds also important the drafting and organisation of educational initiatives, like “Global Money Week”.

Through these educational and awareness-raising activities, we aim at approaching the young generation to the complicated world of finance and banking; to introduce and pass through knowledge on possibilities; the risks that both financial and banking products have; as well as introduce the young public to the necessary information on borrowing and savings. This communication and awareness of young people, in turn help both financial and banking markets become more resilient, comprehensive and efficient.

The Bank of Albania has not limited its educational activities only with the Global Money Week. Financial literacy of public is an important part of our daily work. Thus, through virtual educational tools available at our webpage, students and teachers may learn throughout the year on financial issues, by watching videos and reading the literature dedicated to both the pre-university education and students. Our webpage contains

simplified information on themes of everyday life, as: the opening of a bank account; personal budget management, drafting a saving plan; applying for a bank credit, etc.

In addition, for those who opt for deeper information and knowledge, our website provides didactic tools to better understand aspects of economy and finance which affect the life of all citizens, like: what is economic growth; labour market, circulating flow, how do financial crises spread; what is competition, etc.

Also, the elective module "Personal Finance in Your Hands", from some years now integrated in the high school teaching curricula, introduces to students the world of personal finance, informs and shapes their needed skill to manage money in a more profitable way. This textbook is supplied and allocated for free to all high schools which elect to study it. It is accompanied with a guideline to teachers of economy subject. A similar approach has been adopted for younger children. Hence, the teaching package tailored for the financial education of pupils in class I, II and III of secondary schools, addresses issues, as: the difference between needs and desires; where does money come from and for what does it serve; the right management of money and savings, etc. This package may be used in free classes; classes dedicated to school projects; or in intra-subject projects.

"The Bank of Albania assesses that financial education should start at an early age. This affirmative sentence constitutes the philosophy of our programmes. The Bank of Albania aims at building up the communication bridges, awareness-raising and financial knowledge empowering to the new generation."

All that I mentioned above, makes clear that the Bank of Albania assesses that financial education should start at an early age. This affirmative sentence constitutes the philosophy of our programmes. The Bank of Albania aims at building up the communication bridges, awareness-raising and financial knowledge empowering to the new generation. They should gradually acquire the necessary knowledge, abilities, position and behaviour to take sound financial decisions and be able to deal with emergency situations, like the current one we are experiencing. Concluding, I would like to thank all participants and collaborators of the Bank of Albania in all its educational initiatives and programmes, and particularly for the Global Money Week. Absolutely, such themes as planning personal finance may not be quite attractive to new age groups, nevertheless being aware of their importance and impact on the

life of everyone, it is crucial that our institutions never stop their efforts to bring them to the attention of the young people. This is what we have tried to achieve through the activities and competitions that will take place during GMW 2021, and which I kindly invite you to attend.

I sincerely thank you for your contribution and I wish a successful performance to all participants!

**GOVERNOR SEJKO: KEYNOTE
SPEECH AT THE CONFERENCE ON:
“NEW NORMAL: CHALLENGES
& OPPORTUNITIES”, EUROPEAN
UNIVERSITY OF TIRANA**

-30 April 2021-

*Honourable Professor Gjuraj,
Honourable Professor Xhepa,
Dear students and participants,*

It is a great pleasure for me to greet the proceedings of this Conference on the “New normal”. This topic is both an emergent and unresolved issue of the current economic debate. We altogether: policy makers; academics; and operators in the private sector, are aware that a new reality lies ahead in the post-pandemic world. “What would be the contours of this new reality?”; “What challenges and opportunities lay ahead of the private sector?” and “Which will be the objectives and instruments of the monetary policy”. These questions still lack a thoroughly answer.

For this reason, I would like to thank the European University of Tirana, for selecting this topic of an utmost importance.

The European University of Tirana is a hearth of knowledge which has succeeded in positioning at the centre of: education; academic discussion; and innovation enhancement. Today, it manifests a consolidated profile in the academic debate.

While trying to summarise the Bank of Albania’s opinion on the selected topic, following, I will address in my speech three specific issues: First, I will show briefly the impact of the pandemic on the Albanian economy and the measures taken by the Bank of Albania to minimise its effects. Next, I will focus on the academic discussion about the “New normal”. Last, I would like to highlight the role that has the institutional flexibility and strength to change, as an instrument for accommodating the new paradigms and adopting the best practices in policy making.

1. BANK OF ALBANIA CONFRONTING THE CHALLENGES OF COVID-19 PANDEMIC

The Covid-19 pandemic and the containment measures taken to protect the public health triggered an unprecedented economic crisis, in Albania, and worldwide. The increase of uncertainty and the induced restriction of the mobility of goods, services and citizens, in Albania, drove to a 3.3% contraction of the economy and the loss of 40,000 jobs during 2020. In addition, the pandemic generated economic problems, at both macro and micro levels, and tested the resilience of the foundations of the Albanian economy and society.

“The Bank of Albania intervened through a package of monetary and financial measures aimed at containing the short-term impact of the pandemic and safeguarding the production capacities and the economic and financial stability of Albania. These are two indispensable preconditions for the rapid, solid and long-lasting growth of the country.”

The response of authorities in Albania, like across the world, was fast and unprecedented. The Bank of Albania intervened through a package of monetary and financial measures. These measures were aimed at containing the short-term impact of the pandemic and safeguarding the production capacities and the economic and financial stability of Albania. These are two indispensable preconditions for the rapid, solid and long-lasting growth of the country.

In this context, the Bank of Albania:

- reduced the policy rate to a historical low of 0.5%, in March 2020, and established the needed operational conditions to supply with sufficient liquidity to banks;
- provided the necessary regulatory relief and instructed banks to help enterprises and households in difficulties, through the placement of a short-term moratorium on credit instalments as well as in the form of a targeted credit restructuring;
- temporarily forfeited the commissions applied by banks on the use of electronic payment platforms and the fees applied on the interbank transactions costs for the payment systems AIPS and AECH operated by the BoA;
- last, we suspended the distribution of profit from commercial banks for 2020 to enable the maintaining of capital adequacy of the banking system.

The stimulating measures undertaken by the Bank of Albania were coordinated with an augmented fiscal stimulus. Fiscal stimuli were in the form of tax relief and direct transfers to households and enterprises, whose income were affected by the closure of the activity and in the form of sovereign guarantees on loans to enterprises, aimed at minimising the negative effect from income and preserving the liquid position in their balance sheets.

The stimulating macro-economic policies helped in containing the impact of the pandemic on the real and financial sectors of Albania, and succeeded in safeguarding the macroeconomic stability uncompromised. The economic contraction, fall of employment and the damage in the financial balances of enterprises resulted lower than our initial projections. The banking sector continues to be well-capitalised, liquid and profitable. The risk premia and interest rates in the financial market remain at low levels, by underpinning lending to the economy, in response to its needs for working capital, consumption and investments. In particular, non-performing loans ratio remains at a low level, notwithstanding the worsened cyclical position of the economy, by showing the benefits of the banking sector's consolidation process and the advantages of the continuous improvements in the regulatory and supervisory framework.

The undertaken stimulating policies have helped in reducing risk in the short run, but they cannot address structural changes, which have been noted from times now or which are directly related to the pandemic. A "New normal" is expected to guide the need for the adaption of the private sector and a re-thinking of the institutional government paradigms.

"A "New normal" is expected to guide the need for the adaption of the private sector and a re-thinking of the institutional government paradigms."

2. CHALLENGES OF THE FUTURE

Policy-making institutions are expected to tackle complex structural challenges, which will determine the shape and content of a new reality within a not too far future. The increase of barriers in international trade, the population ageing, international migration, decrease of innovation, global warming, the growth of inequality and increasing social tensions are critical global issues.

Public authorities, in their response, should engage, without losing time, in coordinated structural reforms - among others - bolstering innovation and reallocation of sources among the sectors of economy, free trade, stability of pensions system and maintenance of social consensus.

Further, a “New normal” would call for a prudential coordination of public policies, for reaching an optimum balance between the economic growth and the economic, monetary and financial stability.

Allow me to elaborate somewhat further on this issue.

The global financial crisis and the pandemic renewed attention to the indispensable role of fiscal policy: an instrument for the stabilisation of the economy and mitigation of crises. This lesson is expected to be relevant - both in medium- term and long-term- by paving the path to a more active role of fiscal policy in the future. Nevertheless, it should in no case skip the need for preserving the fiscal stability. In contrary, fiscal stability remains a precondition to long-term growth and enables the establishment of the necessary premises for the amortisation of shocks.

“In the area of central banking, the “New normal” will continue to be characterised by a flatter Phillips curve, where wages, employment or economic growth will continue to have a weak relation to inflation.”

In the area of central banking, the “New normal” will continue to be characterised by a flatter Phillips curve, where wages, employment or economic growth will continue to have a weak relation to inflation. Challenges to maintaining price stability will continue to be present. It dictates the need for the improvement of transmission mechanism of monetary policy by making indispensable the exploring of unconventional instruments as feasible and valuable alternatives for managing future shocks.

All these challenges lead to the need for enhancing the flexibility of public institutions making them more able to evolve, adapt to changes around them, and to boost innovation. In this context, I am proud that the Bank of Albania has always been and remains frontrunner of change.

3. BANK OF ALBANIA, AN EVOLVING INSTITUTION

Throughout the transition history, The Bank of Albania has shown able to change and embrace better contemporary and most effective practices. The nature and functions of the institution were fundamentally transformed

in 1992, when the Albanian economy started the transition process towards a free market economy. Within a short period of time and in the presence of a shortage of an institutional heritage, the Bank of Albania succeeded to establish the contours of an independent monetary policy, being empowered in the presence of a free-floating exchange rate, regulate and supervise a private banking sector that functions based on the market principles.

The qualitative transformation of the Bank of Albania towards a modern central bank evolved further with the approval of the new Law on the Bank of Albania in 1997, which lays down the primary objective “to achieve and maintain price stability”. This Law sets out the decision-making, financial and operational independence of the central bank in the pursuit of its objectives, in line with the best international practices. In addition, it is encouraging that this institutional independence enjoys a broad social consensus.

During these years of transition, our monetary policy has marked a notable progress towards: developing a theoretical framework; building up the completion of our knowledge with empirical studies; perfecting the instruments for its implementation; and the transparent communication with the public. Since 2015, we have formally adopted “the inflation targeting regime”. This regime provides the adequate incentives, discipline and flexibility to the maximisation of the long-term social welfare.

In parallel with the evolution of the monetary policy, the Bank of Albania, in years, has built on a modern and effective regulatory banking framework, in line with the best international practices. From time we have implemented the regulatory standards incorporated in Basel I, II and III. Then we have helped the establishment of the Albanian Deposit Insurance Agency (ADISA) and the resolution framework. These two elements are crucial for the stability of the financial system. In addition, we have been working in collaboration with other public authorities, on the development of the complete supervisory and regulatory architecture. I would like to mention in this regard the establishment of the Financial Supervisory Authority

“The Bank of Albania has shown itself an institution able to be adapted and change to keep up with the times. In parallel, the gradual, well-thought and to some extent, conservative evolution has always been important to the Bank of Albanian aimed at adopting the best international experiences resistant to the time.”

(FSA) and the Financial Stability Advisory Group (FSAG).

In the light of such a historical background of development and evolution, the Bank of Albania has shown itself an institution able to be adapted and change to keep up with the times. In parallel, the gradual, well-thought and to some extent, conservative evolution has always been important to the Bank of Albania aimed at adopting the best international experiences resistant to the time. I think these two development features provide the appropriate guarantees that we will know to face the challenges of the "New normal".

Dear participants,

I avail the opportunity for addressing to this Conference and highlighting the importance of sharing knowledge and experiences among us on such an important theme.

I would like to conclude my speech by thanking you again for the invitation!

GOVERNOR SEJKO: ADDRESS AT THE LAUNCHING CEREMONY OF THE TWO BANKNOTES, 1000 LEKË AND 10000 LEKË, OF THE NEW ALBANIAN BANKNOTE SERIES

- 15 June 2021-

Dear Ladies and Gentlemen,

Welcome in this special day, when we are introducing to the public the two next denominations of the new Albanian banknote series.

One of the main responsibilities and legal obligations of the Bank of Albania is guaranteeing the supply of economy with cash, both in value and structure, and ensuring confidence of the public in the national currency. After 20 years, the Bank of Albania, in 2016, undertook the initiative to start the production project of a new banknote series, which is legal tender, by improving and fully refreshing up its style and shape. In this framework, in September 2019, the Bank of Albania launched the new banknote series, which consists of six denominations: 200 Lekë, 500 Lekë, 1000 Lekë, 2000 Lekë, 5000 Lekë and 10000 Lekë.

“The theme of the new series of the Albanian banknotes embodies the portraits of the most illustrious national figures, and evokes the most notable moments in the history of our nation in its endeavours for freedom and prosperity.”

The theme of the new series of the Albanian banknotes embodies the portraits of the most illustrious national figures, and evokes the most notable moments in the history of our nation in its endeavours for freedom and prosperity. The theme echoes through historical eras, starting from Antiquity, moving through the Middle Ages, the National Awakening, the Independence of Albania, and concluding with the symbols of the national flag and anthem on the largest denomination, the 10.000 Lekë banknote. Thus, our banknotes promote the historical and cultural heritage of our country and highlight the most powerful achievements of many prominent historical figures through centuries.

I feel good when I see that the two first denominations of this series, 200 Lekë and 5000 Lekë, put in circulation since September 2019, are welcomed by the public, have met the expectations of the Bank,

and already are gradually becoming a sustainable part of currency in circulation, by supporting the continuous strengthening the quality of banknotes in circulation, aimed at preserving their integrity, in relation with the public, and upholding a dignified image of both the Bank of Albania and the Albanian state.

Today, nearly two years later following the launching and the successful issuance in circulation of the first two denominations, the Bank of Albania is launching the two other banknotes, part of the new series of the Albanian banknotes, the denominations: 1000 Lekë and 10000 Lekë. The latter is a completely new denomination in the series of the Albanian banknotes.

The printing and issue into circulation for the first time of the new banknote with the largest value, 10000 Lekë, represents in itself, the adoption of the banknotes' structure to the evolution of the structure of prices and wages, the development the electronic payments, and of the other indicators related to the management of currency.

This note with the largest denomination accompanies the economic development of the country, and according to all analysis, meets the market requirements to have it in the structure of our series of banknotes, which are legal tender. The presentation and issue of this note will enable a better and more efficient circulation of cash, by helping the structure of the currency in circulation, reducing the costs of production, storage and distribution, thus enhancing the efficiency of the Bank of Albania in cash management and issuance. In addition, the presence of this new highest-value banknote in the structure of the Albanian banknotes increases also the effectiveness of the Bank of Albania to manage a rather adequate strategic stock to meet the increased market demand for cash in contingency cases.

“Despite the development in other means of payments, as electronic ones, currency in circulation is set on an upward trend from years now. This trend reflects the ongoing demand of economy for cash as a payment means.”

Despite the development in other means of payments, as electronic ones, currency in circulation is set on an upward trend from years now. This trend reflects the ongoing demand of economy for cash as a payment means. The Bank of Albania is attentive while planning to guarantee the fulfilment of this demand of the market, in both normal and atypical situations. The current situation caused by the Covid-19 pandemic, is a real example in this regard.

Economy has increased further its demand for cash throughout this period. Thus, over 2020, currency in circulation lifted by ALL 52 billion or three times higher than the growth recorded in 2019. Also, in the first five months of 2021, the growth amounted around ALL 10 billion. Meeting the demand of market for cash is achieved through ensuring and planning the sufficient stock of cash at the Bank of Albania, which guarantees the security for both the present and future.

Allow me to detail briefly some of the features of these two denominations:

The 1000 Lekë banknote, part of the new series, has a refreshed design, but it retains the same motives presented in the existing one, embedding changes related to the whole configuration of all added and improved elements.

The theme of the 10000 Lekë banknote are the symbol of flag and national anthem - the main symbols of our national identity - accompanied with the portrait of the distinguished poet of the Albanian National Renaissance, at the same time, author the "National Anthem", Aleksandër Stavre Drenova - commonly known by the pen name "Asdreni".

The presentation of a new series of banknotes means more than a simple change of its image. The Bank of Albania continuously improves the quality of the banknote in circulation, aiming to preserve its integrity. Both new banknotes, like all the other denominations of the new series, contain advanced security features. They are produced with cutting-edge technologies for banknote printing and personalised by denomination.

"The presentation of a new series of banknotes means more than a simple change of its image. The Bank of Albania continuously improves the quality of the banknote in circulation, aiming to preserve its integrity."

The 1000 Lekë banknote integrates the raised print in the portrait of Pjetër Bogdani, numerals, lettering, and in the short lines, which help the visually-impaired people to easily identify and recognise the banknote. The security thread turns into a dark solid line when holding the banknote against the light, and changes colour from green to purple at different angles; the sun symbol with colour-changing image depending on the tilting angle; and on the back, the iridescent stripe at the centre that displays the value 1000 Lekë.

The 10000 Lekë banknote integrates the raised print in the portrait of Asdreni, numerals, lettering and in other areas of the banknote, as well as the element which helps the visually-impaired people to easily identify and recognise the banknote. The watermark image; the hologram accompanied by various optical effects; the security thread which turns into a dark solid against the light and changes colour from green to purple depending on titling angle; and on the back, the iridescent stripe at the centre that displays the value 10000 Lekë.

A safe banknote means that we can use cash securely and easily for its identification as a genuine banknote. This is the foundation of a sound financial system: confidence in the core financial operations where currency has its implacable role as an intermediary.

From 30 June 2021, the banknotes of the new series 1000 Lekë and 10000 Lekë will be legal tender in the Republic of Albania and will be used as means of payment, alongside the existing banknotes.

Seeing the beauty and quality of these banknotes, I can absolutely tell you that the work done for their realisation was too valuable. Hence, on behalf of the Bank of Albania, I would like to thank all the experts that have helped and have been actively engaged for their successful realisation. In addition to the precious work of the Bank of Albania's staff, I would like to highlight the rather precious contribution of many renowned academics, historians, Albanologists, numismatists and experts from the most experienced companies in the field of banknote production.

Meanwhile, the Bank of Albania is working on the completion of the new series with two other banknotes, 500 Lekë and 2000 Lekë, which are in production process.

“... I would like to call on the users to handle each banknote with due care, in order to preserve their durability, quality and integrity in circulation. Banknotes are more than a valuable paper.”

Concluding, I would like to call on the users to handle each banknote with due care, in order to preserve their durability, quality and integrity in circulation. Banknotes are more than a valuable paper. They boost and sustain the economic activity of Albania and similarly tie with visible threads our national identity.

I wish the public will welcome both new banknotes we are presenting today, like the previous ones.

**GOVERNOR SEJKO: ADDRESS AT
THE PROMOTION OF THE BOOK ON:
“FACING CRISIS: THE CHALLENGES OF
ECONOMIC THEORY AND POLICIES”, BY
ACADEMIC PROF. DR. ANASTAS ANGJELI,
AND PROF. DR. ADRIAN CIVICI.
-22 July 2021-**

The COVID-19 pandemic posed unprecedented and extraordinary challenges to the entire society. Public health emergency and, at the same time, the economic and financial difficulties caused by this shock and the measures undertaken to curtail the pandemic, dominated the global scene and continue to grasp the attention of the society and policy-makers, while continuing to affect their decision-making. The complexity of problems which we are facing requires quick and robust intervention coordinated with the health, fiscal and monetary authorities. The measures taken by authorities may minimise the negative effects of the pandemic and have established the premises for a fast recovery, hoping that vaccination and other health measures will bring the pandemic to an end.

The above narrative is elaborated with professionalism and realism in the book “Facing Crises: the challenges of economic theory and policies” by co-authors, Anastas Angjeli and Ardian Civici. The authors have followed the health issues, economic developments, and have described the decision-making of authorities, in order to analyse and clearly illustrate the mechanism of these crises and the economic and financial policies undertaken in response to it.

The COVID-19 pandemic has presented authorities with hard and complex choices and has further deepened the issues faced by societies and humanity at the global level. The authorities carry out quick decisions to respond to unexpected developments. The adopted changes have imposed a shift in policies from traditional to non-conventional ones, which have brought significant changes, not solely to the way institutions carry out their activity, but also to mandates and their objectives.

“Through a combination of events, history and doctrines of economic theories, the authors present a clear situation on the most current distinctive issues, and the necessity to review economic thought.”

After a relatively long and vigorous period of policy-making, the authorities are evaluating these policies regarding both their success and potential side-effects on the economy and society at large.

“... the digital revolution is a great potential for the development of the banking system and the rapid and safe financial inclusion of corporations. This is also a good opportunity to create flexible instruments that allow for a swift response against negative shocks and guarantee the financial stability of enterprises and the economy.”

The idea for this book sprang from these discussions. Through a combination of events, history and doctrines of economic theories, the authors present a clear situation on the most current distinctive issues, and the necessity to review economic thought. Professors Angjeli and Civici bring the analyses down from the theoretical level to the practical one, by giving concrete recommendations on policy-making and elaborating the Albanian case.

This discussion opens the door to a thorough analysis on the crises of the Albanian economy, where small enterprises were hit the hardest. The analysis presents the response of authorities and assesses the impact of the implemented policies on the economy and its specific sectors. The co-authors summarise and compare the assessments conducted by the Albanian and international institutions; they bring an in-depth evaluation on the effects of the pandemic in the overall macroeconomic and financial framework. They identify the vulnerabilities and the economic and financial issues that should be carefully addressed. Attention was paid especially to structural changes in the financial system, labour market and in the educational field. The current of discussions flows to the direction of the foundations, which will be able to determine growth potentials and developments in the medium and long-term future as well.

Without becoming repetitive, I would like to point out that the professors correctly concur that this transformation will not stop at the banking system only, but it will extend over the entire Albanian economy. The transformation must respond to the sectorial developments, structural changes and digital trends that will affect the economy. The orientation of educational programmes must keep in mind the economic and commercial developments occurring on the global stage. These are especially important to a small and open economy like ours.

After a detailed description of the aid package and the financial and economic situation of enterprises, the book presents a correct explanation of the success and effects that the decision-making had on enterprises and the economy. In this regard, the book provides the reader with a

possibility to evaluate the effects of policies from an independent and critical standpoint. It offers a chance to optimise and coordinate policy-making in the future.

The co-authors are right to assess that the digital revolution is a great potential for the development of the banking system and the rapid and safe financial inclusion of corporations. This is also a good opportunity to create flexible instruments that allow for a swift response against negative shocks and guarantee the financial stability of enterprises and the economy. The digitalisation will also enrich the banking and financial system with new stakeholders and services.

During the crises, the Albanian people and society encountered strong dilemmas and choices. The hard decision to choose between the economy and health is identified by the authors as the fundamental and most difficult dilemma that authorities had to face. However, the ongoing analyses identifies that the choice between the economy and health, which dominated short-term decision-making is not disconnected from other decisions encountered by our society such as: the command of law, equality before law, and the reduction of economic and financial inequalities. If we were to add environmental issues, such as global warming, we will come to understand that in unison they play an important role in the society's capabilities to face the negative shocks of the pandemic.

“During the crises, the Albanian people and society encountered strong dilemmas and choices. The hard decision to choose between the economy and health is identified by the authors as the fundamental and most difficult dilemma that authorities had to face.”

As I mentioned above, these challenges play a crucial role in the revision of the mandate and objectives of institutions, including central banks. The position that we assume towards them has a direct effect on the economic and financial stability of households, enterprises and the entire economy.

Last, I would like to say that the authors have wittingly dedicated special attention to the policies and strategies adopted by the USA and the EU regarding the crises. I highlight the word “wittingly” because the philosophy of the developed policies and strategies and the instruments adapted by the two largest economies in the market, are not just an important subject matter from the academic standpoint, but they also serve as a guide to all other economies. Furthermore, advanced

economies are key partners of small and opened economies. They issue the two dominant currencies to the world economy and finance. For all the reasons already stated, developments in the USA and the EU have an important and direct role to our economy. Consequently, they must be taken into account in the context of economic and financial decision-making.

Concluding, I would like to congratulate Prof. Angjeli and Prof. Civici for their work and dedication to their exceptional analysis on the economic, financial and social effects of the COVID-19-pandemic on both the global and Albanian economy. I am confident that the analyses, comments and the recommendation of the authors will prove valuable to institutions and policy-makers.

GOVERNOR SEJKO: ADDRESS AT THE LAUNCHING OF AWARENESS CAMPAIGN: “NEITHER OLD NOR NEW, I AM SIMPLY LEK!” - 17 November 2021 -

*Honourable Professor Civici,
Honourable Treska,
Dear participants, colleagues, and media representatives,*

I have the pleasure to welcome you in this very important day for the Bank of Albania on the occasion of launching the awareness campaign: “Neither old nor new, I am simply Lek!” This new initiative of our institution in the field of financial education is part of a broad corpus of programmes and projects in the framework of comprehending and taking care of the national currency and banknote. It is the materialisation of the Bank of Albania’s efforts to fulfil the recommendations of the

Albanian Parliament embodied in the resolution on the assessment of our institution activity, for eliminating the use of outdated terms “new lek” -“old lek”. We are conscious, that unfortunately, this happens perpetually, not only in day-to-day communication amid citizen, also in their economic and financial interactions, thus becoming either intentionally or not a source of misunderstandings.

“This new initiative of our institution in the field of financial education is part of a broad corpus of programmes and projects in the framework of comprehending and taking care of the national currency and banknote.”

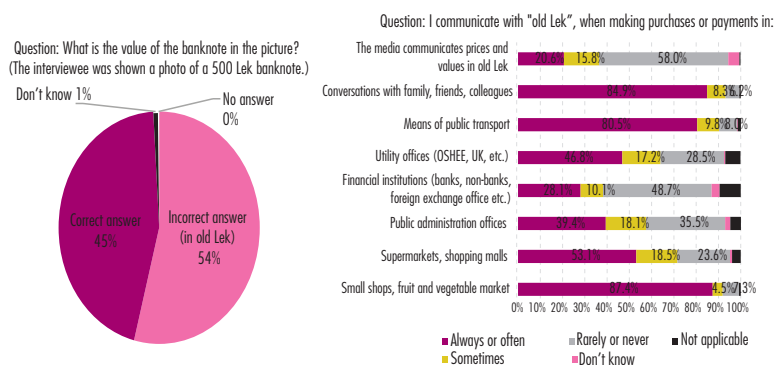
Before presenting this campaign, allow me to briefly address this phenomenon on the historical perspective, how it has arisen. The monetary reform in 1965 replaced the earliest Lek banknotes with new ones, in a ratio of 10 to 1, by changing at the same degree the value of prices, wages and, of any other financial operation. Since then, most of citizens have not been adopted yet with this change and are used to communicate with the outdated term “old lek”, driving to confusion in both the communication of prices of goods and services and the accurate reading of economic and financial indicators.

Even before the launching of this awareness campaign -postponed due to the difficulties caused by the restrictions imposed to tackle the

Covid-19 pandemic situation - the Bank of Albania has been attentive in encompassing this message in its educational publications and programmes, such are: Global Money Week, or the campaign on the issue in circulation of the new banknotes.

Recently, we have conducted the measurement on the use of terminology “new Lek” – “old Lek” on a national level, through the inclusion of dedicated questions in the survey on measuring financial literacy of the Albanian population structured pursuant to the model of International Network of Financial Education (INFE, OECD). The analyses of these questions provides information on the degree of wrong use of terminology by: location-residential, age-group, gender, education, employment and average level of income, as well as the settings where it is more frequently used; aimed at adopting the campaign undertaken by the Bank of Albania on the elimination of the outdated terms “new lek”- “old lek”.

Chart 26 Reading the banknote value (left) and how often do you communicate using “old Lek” in different situations (right)



Source: Survey on Measuring the Financial Literacy (2019), Bank of Albania.

Results of the survey show that more than half of interviewees (54%), in terms of a 500 Lekë banknote, in an instinctive manner either wrongly identify or read its value, by adding a “0” to turn its value into “old lek”. The situations or sets where the interviewees, more than 80%, responded that habitually speak with the outdated term “old lek”, are mainly informal or family ones: small shops or fruit and vegetables markets; conversations with family members, friends and colleagues; followed by means of public transport. On the other side, data show

that the wrong communication of Lek value occurs very rarely across financial institutions (banks, non-banks, etc.), only 28.1%, or in the offices of public administration (39.4%), although it might be expected these figures would have been even lower.

In addition to public and financial institutions, another strong-minded factor affecting the communication of public is media, the written and audio -visual media. According to 20% of public perception, media always or frequently communicate prices and monetary values in "old Lek". This percentage, though a low one, sheds light on the need for a higher inclusion of media in the efforts to completely eliminate this phenomenon, particularly by bearing into mind its mission to transmit the information truly and accurately to the public, coupled with its educational role.

In terms of analysis by socio-demographic groups, the survey results show that the monetary value in "old lek" is more frequently used by: (i) males; (ii) old-aged people; (iii) persons with a low-education level; (iv) unemployed persons in labour market; and (v) individuals with a low level of family income. These groups identified in the survey will be the focus in the projects of this awareness campaign for bringing to an end the use of the wrong term "old lek".

Against this backdrop, the Bank of Albania is launching this awareness campaign, which will extend in time and will aim at being a comprehensive one, affecting various groups of interest. In a medium-term period, and through various channels, we aim at knocking at the doors of every Albanian to uproot the terms "new" or "old", by avoiding the confusion in the communication of prices and enhancing the correct reading of economic and financial indicators. Lek is the national currency in Albania, and the face value of each coin or banknote is the one written on it.

Nevertheless, the fact that this incorrect use is inherited in the day-to-day speaking and has been resistant for more than 55 years, illustrates that the sporadic and isolated efforts of a solely institution to rectify this phenomenon are insufficient. A joint and coordinated commitment among central institutions of the country, media and other relevant actors is crucial in this regard. Particularly, the role of

"... the fact that this incorrect use is inherited in the day-to-day speaking and has been resistant for more than 55 years, illustrates that the sporadic and isolated efforts of a solely institution to rectify this phenomenon are insufficient."

media is vital in this campaign, which through the transmission power to the public, has the skill to affect the mentality and communication pattern of the public at large. School, is another key factor for the establishment and cultivation of a new mentality. School may help for disrupting this 55-year chain and not transmitting it to the young generation.

On behalf of the Bank of Albania, I invite all the participating institutions, and more broadly, to join us in this meaningful and demanding commitment to educate the Albanian public, with a view to abandoning forever the use of these outdated terms in the economic and financial interactions, and definitely turning it into a linguistic relict.

I warmly thank you for the insofar contribution and allow me to recall once again that our currency is neither "old" nor "new", but simply Lek!

GOVERNOR SEJKO: WELCOME REMARKS AT THE 15TH SEE ECONOMIC RESEARCH WORKSHOP

- 6 December 2021 -

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

It is a great pleasure to open the proceedings of the 15th SEES Economic Research Workshop, which is being organised virtually this year as well, due to the COVID-19 pandemic restrictions that are still in place. I take this opportunity to express my wish that we would all stay safe and healthy and for the negative effects of the pandemic to come to an end as soon as possible. I hope that the vaccination process, progress in knowledge, cures against COVID-19, and an improvement in the overall situation caused by the pandemic, would enable us to welcome you in Tirana next year. I am glad to note that we have again a full house and a rich agenda this year, with two days in which colleagues and researchers from central banks as well as distinguished universities in Albanian and worldwide will present their works. This workshop's panels will be very interesting. We really appreciate your interest in participating in this workshop and in the research carried out by the Bank of Albania throughout 2021. The annual organisation of this workshop has served to share experiences with the participating central banks and have enriched research work, becoming in turn an integral contributor to policy formulation. These workshops have made a valuable contribution for confirming and interpreting research results, which enable the compilation, calibration and implementation of policy measures for tackling the pandemic and similar shocks. Your findings, comments and discussions assist our authors to improve their studies, and in turn contribute to the formulation and decision making of policy at the central bank. Evidence, analysis and forecasts based on the research work that you will present in these two days will provide accurate and valuable information for orienting and coordinating decision making in the future.

“The annual organisation of this workshop has served to share experiences with the participating central banks and have enriched research work, becoming in turn an integral contributor to policy formulation.”

20 research projects will be presented and discussed this year, which in spite of covering a broad gamut/range of topics, are directly related to the activity and interests of the central bank. We have discussed almost the same topics a year ago however, you could rightly say: "What a difference, compared to last year?"

In 2020, discussions were focused on the modern monetary policy, and the role of the central bank's balance sheet as a permanent instrument of monetary policy that can and should be broadly used to bolster aggregate demand.

"The current monetary policy debate is concerned with the size and duration of the recent jump in inflation. The latest inflationary developments have divided academics and central bankers into two camps with diametrically opposed positions."

The current monetary policy debate is concerned with the size and duration of the recent jump in inflation. The latest inflationary developments have divided academics and central bankers into two camps with diametrically opposed positions. In one camp are those who think that the current inflation is a jeopardising phenomenon which risks leading to an inflationary situation, and consequently calling for an immediate intervention to subdue the balance sheet policies and the increase of interest rates. The other camp holds that current inflationary developments are a temporary phenomenon which has arisen from supply-side problems that reflect the negative effects of the pandemic. These diametrically opposed views among economists show that work to improve inflation models should continue, particularly as, after all these years of studies and research to understand the phenomenon of inflation, we are again going through doubts and mixed positions.

In last year's workshop we have foreseen the high uncertainty in relation to both production and distribution networks, are two factors that are hampering the recovery momentum. The pandemic appears to have placed burdens on globalisation, and this is expected to have significant effects on the economy. The combination of both factors has yielded an immediate impact on prices, driving inflation up as a result of supply-side effects. Nevertheless, this conclusion is ambiguous. Many voices from the world of academia and central banking consider that inflation may also be an effect of central banks' expansionary policies. To be sure, these opposing views have arisen as a result of ambiguities related to the effects, geography and degree to which the pandemic has affected the economy. That is why studies on the effects of the pandemic should

continue. Meanwhile, it is clear that all models - no matter how good they are - need interpretation from the perspective of the events that the moment poses and in the view of the dominant phenomena of time.

Dear participants,

COVID-19, coupled with the issues it has caused and the restrictions taken to contain it, continues to dominate both our economic and social life and activity. It has also certainly become an important part of the analysis and research work of the central bank. This is not a surprise. I think that the shock triggered by the pandemic and the related effects will continue to be part of the research agenda for a long time, even after the pandemic is over.

However, recent developments show that the research agenda of the central banks have been enriched by the study of other risks, such as those related to climate change and environmental protection, demographic risks, digitalisation and digital currency. These have been identified as big and long-term challenges to both the global economy and the authorities of every country. The Bank of Albania has started to work on to establish the infrastructure for modelling and analysing these phenomena. It is crucial to not think of these topics only for the purpose of testing assumptions or academic discussions, but rather to consider them in the concrete framework of policy making and decision taking. I am confident these topics will become important themes for discussion themes in our Research Workshop in the future.

“However, recent developments show that the research agenda of the central banks have been enriched by the study of other risks, such as those related to climate change and environmental protection, demographic risks, digitalisation and digital currency.”

I am hopeful for two-days of productive workshop interactions. I invite you to join the panels of presentations and become part of the fruitful comments and discussions!

GOVERNOR SEJKO: ADDRESS AT THE YEAR-END EVENT ORGANISED BY THE ALBANIAN ASSOCIATION OF BANKS

-16 December 2021 -

*Honourable AAB Chairman,
Dear senior representatives and colleagues from the banking system
in Albania,
Ladies and gentlemen,*

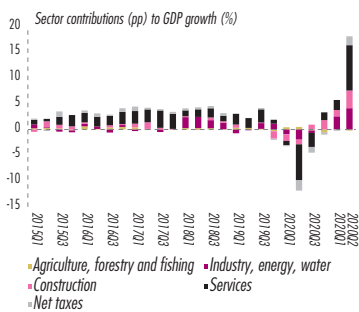
It is a great pleasure to return back to this special event of the end of year, traditionally organised by the Albanian Association of Banks. It is even more significant to share the experiences, meaningful moments, and even hardships we all have been going through in the course of these past two years.

First, allow me to provide briefly an overall view on the economic performance in 2021.

The Albanian economy has shown a remarkable recovery over 2021, surpassing our initial expectations. The ongoing positive momentum is strong, broad based and tangible. Our gross domestic product stands already at its pre-crisis level, employment is recovering, internal and external balances have strengthened, and the main banking sector's soundness indicators have been improved.

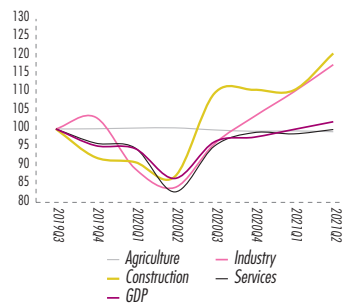
Chart 27

Economic growth has accelerated significantly supported by both "production" and "services"



Source: INSTAT and Bank of Albania.

Almost all the sectors of the economic activity have returned to the levels of the pre-pandemic and earthquake period



Note: The value added of the economic sectors adjusted seasonally and turned into an index based on the 2019 Q3.
Source: Bank of Albania.

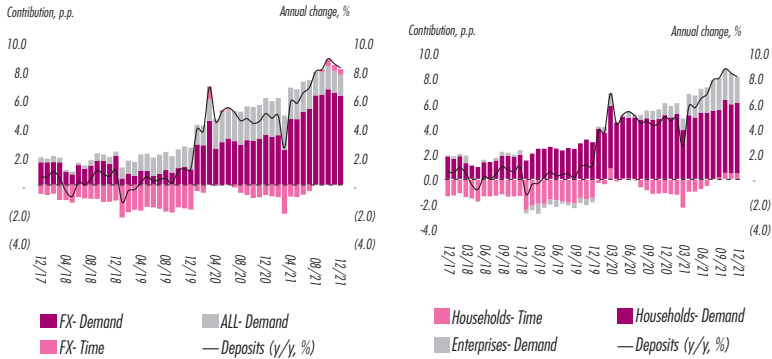
In this view, I would like to highlight that the sources of economic growth have returned to their upward and diversifying trend. In terms of the aggregate demand, the rebound in economic growth has been supported by the exports of goods and service edging up, coupled with the increased domestic consumption and investments.

From a sectorial perspective, the expansion of economic activity did largely reflect the recovery of the industry sector and the services sector. From a policy perspective, the ongoing recovery is driven by an accommodative financial environment, attributable to the strong fiscal and monetary stimulus. Furthermore, it reflects a higher global demand, strong private sector balance sheets, and heightened optimism amongst businesses and households.

The Albanian economy enjoys the necessary prerequisites for a stable and sustained growth in the future, while the opening of accession negotiations with the European Union will bolster both the economic growth and the domestic and foreign investments.

Again this year, the Albanian banking sector continued the trend of positive performance and showed a steady resilience to external shocks (two-year effects of pandemic). Banking activity continued to expand (over 9%), largely supported by domestic deposits (over 80% of assets), and without affecting the overall capitalization of the banking (18.4%), due to increased capital buffers and prudential dividend policies followed by the banks, fully cooperating with Bank of Albania. Profitability has improved and liquidity remains strong.

Chart 28 Deposits by maturity and currency (left) and deposits by maturity and sector (right)

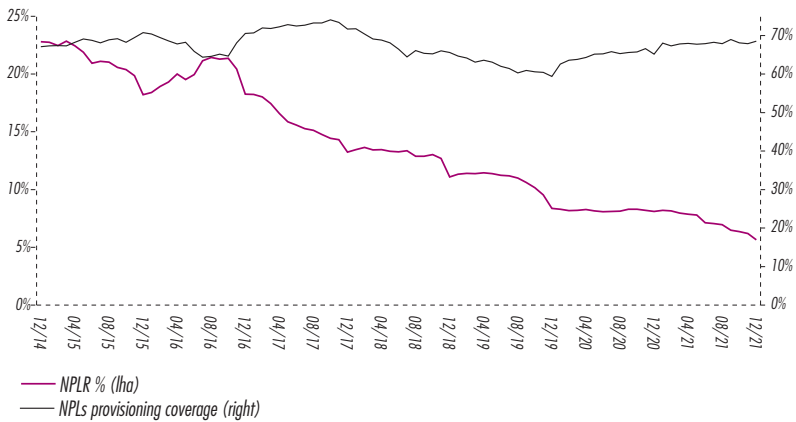


Source: Bank of Albania.

The loan portfolio shows a well-diversified increase (+10% overall), between Lek and foreign currency, business, retail and mortgage.

The NPLs ratio continued to decrease (from 8.13% to 6.3%), benefiting both from the increase of overall loan portfolio and the reduction of non-performing loans (-17%). Alongside the reduction of NPLs values, the overall coverage ratio has improved (from 65% to 70%).

Chart 29 Non-performing loans ratio and provisioning



Source: Bank of Albania.

Nonetheless, there is still ample room for credit growth, considering large

liquidity reserves, low loan to deposit ratios and positive profitability that can fully support capital

Dear representatives of the banking sector,

In the context of these two hard years, the prospective on the economic growth in Albania is positive and optimistic, while it provides to the banking system a robust ground to expand their activity, through the strong engagement, efforts and commitments of all stakeholders.

“Again this year, the Albanian banking sector continued the trend of positive performance and showed a steady resilience to external shocks (two-year effects of pandemic).”

Let me now share with you some of the main common challenges that we have to face together in the following years.

First, the banking sector will continue to consolidate further in the next year, after the acquisition of Alpha Bank from OTP NYRT. This development is expected to lead to increased competition, especially between major players in the market. The loan portfolio remains the largest contributor to income in the balance sheet, and in order to maintain the competitive position, banks need to preserve and increase it continuously. While the market offers opportunities for loan growth and banks are well equipped with liquidity and capital buffers, it is indispensable to establish a long-term vision and set forth strategic objectives, designed carefully to exploit such potential in the long run, for building the necessary infrastructure within the bank and strengthening the relationships with clients.

Second, the Bank of Albania has an important role in the process of aligning the legislative framework to the EU requirements, as the responsible authority for the oversight of 90% of financial market. Part of this process is the additional capital requirements that have been introduced during last years. Our aim has been to introduce smoothly these requirements, without impairing the competitiveness of individual banks and curtailing their growth potential. The process is extended over a long time frame and during this frame we will closely monitor the progress of building necessary capital and MREL buffers, as well as carefully calibrate the aggregate capital requirements in an appropriate and flexible manner, in order not to hamper the organic and healthy growth of the banking activity. Meanwhile, the positive profitability provides a good support for the capital growth.

Third, while we have been determined in introducing for the first time the cap on EIR and penalties, we recognize that such new rules, being introduced for the first time in Albania, will have operational and financial implications for the market. In 2021, the Bank of Albania started a comprehensive consultation process regarding the upcoming regulatory changes related to the introduction of the cap on EIR and penalties. These changes became necessary, following the expansion of consumer loans market, to reduce asymmetries within this market and to fulfil the role of BoA with regard to customer protection and financial inclusion. We have received different types of feedback from the market actors (mostly positive from banks), and have reflected to the largest extend possible all their comments and suggestions. In this light, we will be prepared and reasonably flexible for the necessary calibration and the smooth transition. In the next year, we will continue the dialogue with the industry, following the results of the first EIR cap application and mostly debated rate cap on consumer loan penalties.

Fourth, the financial infrastructure of the banking sector has been enhanced further during the last couple of years. The Bank of Albania and the National Payment Systems Committee have implemented the national strategy for enhancing the small value payment market and increasing the financial inclusion of the population. The first results are promising and they will be followed by other steps by the Bank of Albania and the banking sector, aimed at achieving a quantitative objective, that is, to see the number of bank account holders doubled by 2023. The Bank of Albania will be soon launching the new payment system for the settlement of domestic euro payments. This system intends to enhance the efficiency on this market's segment by reducing the costs bared by banks with actual solutions which are channelled to the end customer and beyond. That is going to enhance also the formalisation of Albanian economy.

Concluding, I take the opportunity to reaffirm and re-assure you on the devotion and strong position of the Bank of Albania to always be transparent, open and supportive throughout its activity.

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

Thank you!

**GOVERNOR SEJKO: ADDRESS TO
THE END-OF-YEAR MEETING WITH
JOURNALISTS, ANALYSTS AND
MEDIA REPRESENTATIVES AND THE
GOVERNOR'S AWARD CEREMONY FOR
THE BEST DIPLOMA THESIS 2021
- 20 December 2021 -**

*Dear ladies and gentlemen,
Dear students,
Dear participants,*

After a hard period due to the pandemic while we all had to keep the physical distances, this reunion at the Bank of Albania premises to spend some time together as the year end approaches, embodies a special value. Overall, the end-year meetings accompanying the holiday season, serve as a balance to recall the achievements of the year we are preparing to leave behind, coupled with the challenges that lay ahead in the next year.

The two past years were challenging to the entire globe, and particularly to Albania, as we before the pandemic had to deal with the devastating earthquake of November 2019. The today-meeting makes us optimistic and gives hope that in the future we will have the possibility to communicate and collaborate in normal conditions and out of concerns and restrictions triggered by the pandemic. The shocks faced over the last two years affected sharply our way of living, tested the economic, monetary and financial equilibriums of the country and the stability of growth sources. They show that the sustainability of the economic and financial stability depend on the work of monetary institutions coupled with the ability and capacity of the entire society to act swiftly and efficiently in this fight against the pandemic. In this light, first and foremost, in the health context, vaccination, and hopefully, the relevant cures under progress, will turn into powerful instruments in curtailing the effects of the pandemic on both economy and finance.

"The end-year meetings accompanying the holiday season, serve as a balance to recall the achievements of the year we are preparing to leave behind, coupled with the challenges that lay ahead in the next year."

The good news is that the analyses carried out in our institution indicate that the economic rebound, the achievement of price objectives and the preservation of financial stability are being materialised accordingly to the optimistic forecasts of the Bank of Albania. The continuation of stimulating monetary and fiscal policies has: guaranteed both the monetary and financial stability of Albania; bolstered lending at low cost to the economic activity, and eased the burden that the prolongation of pandemic imposed on private sector and households.

“The crucial role that mass media has played in meticulously detailing and conveying the policy message to the audience for enhancing its awareness, has supported and benefited to the prudential policy making.”

The crucial role that mass media has played in meticulously detailing and conveying the policy message to the audience for enhancing its awareness, has supported and benefited to the prudential policy making. The pandemic and restrictions in place to contain it posed a barrier to public communication by increasing the distance with institutions, and above all, they turned into the most pressing issues of our time. In this view, I take this opportunity to thank all the journalists (particularly those covering economic issues), who through the professional commitment and integrity assisted the public at large to acquire the decision making of monetary and fiscal authorities throughout this unprecedented situation.

The professionalism in making and conveying the news and economic analysis were a valuable and indispensable support to maintaining price and financial stability. Allow me to thank you once again for the work and devotion you exhibited over the course of this year. I strongly believe that the truthfulness and objectivity in reporting economic and financial news will continue to accompany you in fulfilling your duty in the coming year.

I reaffirm that the Bank of Albania will continue to be a transparent institution, ready to provide opinions and assessments as necessary in all public debates related to the performance of our economy and financial markets. A certificate of this commitment and achievement of the Bank of Albania in the communication with the public is the ranking first of the Bank of Albania among all the banks of Central, Eastern and South-eastern countries, for very active public communication, in the last report: “Focus on the European Economic Integration” for the second quarter of 2021, published by the National Bank of Austria.

Dear guests,

The Bank of Albania continues to focus scrupulously on financial education and research considering it a crucial pillar of its activity. They are seen as the foundations for increasing the social-economic development and welfare of the citizens of Albania. From this point of view, I kindly invite you to share together a special moment of this meeting: the traditional ceremony for the Governor's Award for the Best Diploma.

“The Bank of Albania continues to focus scrupulously on financial education and research considering it a crucial pillar of its activity. They are seen as the foundations for increasing the social-economic development and welfare of the citizens of Albania.”

The Bank of Albania for this 15th year ceremony in a row has selected and valued three scientific works amid all the presented researches by students graduated in Albanian and abroad. Allow me to reiterate and point out that over the years, we delightfully have noticed that the quality in the research work of participants has been on rise, turning the performed analyses and researches increasingly more professional.

As in previous years, Albanian students from domestic or foreign universities have applied and presented their best research work. We are happy to notice that participation and interest from students and universities has been significantly edging up, showing appreciation, reliability and reputation of this competition. This year, we received 25 studies, whose common characteristic is the addressing of the reality in the last couple of years. They mainly scrutinise the economic, financial and social effects of the pandemic and the resistance of market and financial

“We are happy to notice that participation and interest from students and universities has been significantly edging up, showing appreciation, reliability and reputation of this competition. This year, we received 25 studies, whose common characteristic is the addressing of the reality in the last couple of years.”

institutions to this shock. Thesis on the forward guidance of financial market, focusing on the digital currency effects; exploitation of large detailed databases for evaluating the behaviour of financial market segments which, which have been out of the research attention, are important to the country development; in addition to the study of other important issues to Albania, like fiscal policy, etc.

The addressed themes and their findings are based on the application of contemporary research methodologies and make use of granular statistical information, which is both thoughtful and structured one. Above all, this information is employed rigorously pursuant to the academic standards and requirements to research and argue through theoretical and empirical hypothesis on the economic and financial phenomena and events.

For this reason, the commission found difficult in making a selection as all topics were coherent, interesting and properly addressed. Nevertheless, we succeeded to identify carefully those minor variations and distinguished nuances which make the difference to the winning theses amid all the presented works. Eventually, we have come to a decision on the "Governor's Award for the Best Diploma Theses" for 2021. Though, I would like together with the winners to thank and congratulate all the participants in this contest for their engagement, ideas, the applied methods and findings based on the appropriate methodologies. I wish this passion and devotion is part of your commitment as you advance in your careers

Let us now present the winning contestants.

Thank you and happy holidays!



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FLET Z. GENT SEJKO, GUVERNATOR I BANKËS SË SHQIPËRISË

CHAPTER V

INTERVIEWS

- *Interview with Gent Sejko, Governor of the Bank of Albania. "Argument" Scan Tv, 17 May 2021*
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**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA.
“ARGUMENT” SCAN TV
-17 May 2021-**

Scan TV: Good evening everyone, welcome to Scan, welcome to Argument!

Today we are at the headquarters of the Central Bank of Albania to talk with the Governor, Mr. Gent Sejko, precisely on the expectations and analysis on almost half of 2021 and 2020. We are here to talk about the soundness of the Albanian economy, seen from the perspective of the real economy and of course the progress of financial institutions, whether these are banks or non-bank financial institutions, or other economic agents that deal with the country's financial activity.

We asked the Governor about the issues that actually affect many of us, related to Albania's ability to overcome the crisis it experienced in 2020 as a result of the pandemic. The level of economic growth, the ability of companies to hire people, and also the power of the Albanian economy to be an important actor in the region, whether empowered or supported by tourism, and why not also by financial activity.

We also have have been informed regarding the launch of the new 10,000 Lekë banknote, a denomination circulating for the first time in Albania's modern economic history. We also talked about money outside the system, or about those issues that were relatively troublesome in the last months of last year, during the pandemic. The great struggle of financial education for the inclusion of every citizen, Albanian citizen, in the great financial organization of the use of credit cards, online payments or electronic marketing. You will be able to learn all these and many more from this interview with the Governor of the Bank of Albania, Mr. Gent Sejko. Stay tuned!

Governor Sejko: Hello everyone, here we are in the meeting room of the Supervisory Council of the Bank of Albania, the place where the most important decisions of the highest financial institution in the country are taken.

Scan TV: *I have the pleasure and feel honoured to be given the opportunity to interview the Governor of the Bank of Albania, Mr. Gent Sejko. Thank you very much for accepting our invitation!*

Governor Sejko: Thank you and welcome!

Scan TV: *Mr. Sejko, I am starting with an issue that has been quite problematic throughout 2020, when the Bank of Albania facilitated commercial banks so that they could postpone loan instalments to enterprises and households. Today, almost at the end of the first half of 2021, does the situation require such an intervention again or does it appear more stable?*

Governor Sejko: The situation is certainly more stable. Figures and indicators clearly show that the situation has improved significantly. 2020 was a very difficult year. Faced with this aggravated crisis situation, it was deemed necessary to implement a series of interventions and emergency measures. As a supervisory and regulatory financial institution, we took our own measures. Worth mentioning here, was the postponement of loan instalments by two quarters. In parallel, we also undertook some macro prudential measures, such as some regulatory changes that had to do with giving commercial banks the opportunity to carry out proactive credit restructuring. So, in this context, we relieved banks from regulatory requirements for provisions and reserve funds to cover loan losses.

The measures I previously mentioned had a positive effect on the coordination of the work of the commercial banks with clients, enterprises and households. We had a certain expectation at the beginning of the crisis, an expectation which was far worse

compared to what happened in reality. Fortunately, the indicators turned out to be quite positive overall. Thus, the level of total gross output fell less than what was expected. More specifically, the economic decline reached at -3.3% whereas a forecast of the International Monetary Fund expected it to fall down to -7.5%.

Scan TV: In some cases, the forecast for the economic fall was -12%.

Governor Sejko: At one point, the forecast for the economic decline was -12%. In fact, during the second quarter of 2020 there was a deep economic decline, which was compensated in the following two quarters, where the above-mentioned measures certainly had their impact. These measures had a very positive effect on the continuity of economic activity and the sustainability not only of the banking system but also the overall economic activity.

“The end of 2020 resulted in some more positive indicators than we expected, not only in relation to GDP, but also in relation to other indicators of the financial system.”

The end of 2020 resulted in some more positive indicators than we expected, not only in relation to GDP, but also in relation to other indicators of the financial system. Non-performing loans did not increase; on the contrary they decreased even more. These loans decrease at a larger extent from what was expected compared to the previous level, reaching 7.96%.

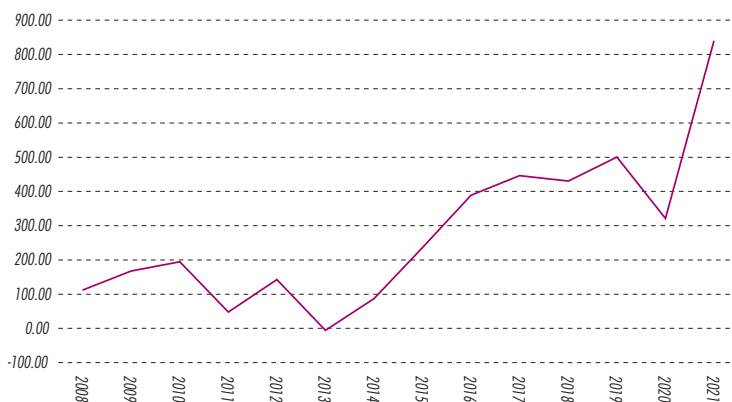
Despite our forecasts for an increase in the number of non-performing loans, the banking system continues to be quite optimistic in this regard. This optimism is also based on the increase in deposits and lending, but also a total increase in the balances of the banking system despite the entire crisis situation that our country went through.

Our macro- and micro-prudential regulatory measures were also combined quite effectively with the Albanian government's fiscal measures and packages, such as sovereign guarantees, which were channelled through the banking system. In this context, the harmonization of easing measures, the easing monetary policy, the reduction of the policy interest rate, to its historical minimum level of 0.5%, helped to stimulate lending, consumption and investments.

Financial markets now appear calmer and with satisfactory stability. The exchange rate is stable and our forecasts are much more optimistic. As for the economic growth, for this year, after the relevant revisions, the Bank of Albania estimates that it will reach the level of 5.3%. Moreover, for the coming years, we anticipate an economic growth slightly below 5.3%, but always around these levels, between 4.5 and 5%. Of course, this is conditioned by the situation of the pandemic.

I repeat that all these predictions are conditioned by the risks that come from an extension in time of the pandemic. Based on the information obtained from experts on the field and international and national doctors are noticing that the trend of infections is downward. Currently, we are right before of the tourist season and tourism has a great impact on the Albanian economy. Revenues from tourism in general are around EUR 2-3 billion, which enter in the Albanian economy every year. Last year tourism dropped by almost 50%. This decrease could have been even more significant if regional tourism from Macedonia, Kosovo or the border countries did not have a positive impact. This year has a more positive expectation, but our forecasts and trends are conditioned by the duration of the pandemic.

Chart 30 Net income from tourism (euro mln)



Source: Bank of Albania.

Scan TV: *Under current conditions, we cannot be aware yet of the surprises that the pandemic may bring us. Despite this, I would like to ask you: Is the banking system sound, well-capitalized and liquid to face any kind of unexpected situation?*

Governor Sejko: As I pointed out above, despite the impact that the pandemic had on the banking system, it remains sound and with a high level of capital adequacy at over 18% compared to the level of 12% that is the minimum required rate.

At the same time, the banking system continues to have high liquidity surplus. Of course, this liquidity surplus should translate into healthy credit for the economy. As I previously mentioned, non-performing loans have remained at quite low levels and this shows that bank lending is quite prudent and serious, it is proactive, but always with serious and regulatory criteria.

The banking system is in quite good condition. The soundness of the banking system has a significant effect and has served as one of the main pillars to sustain and stimulate economic recovery. This is because the soundness and good quality of

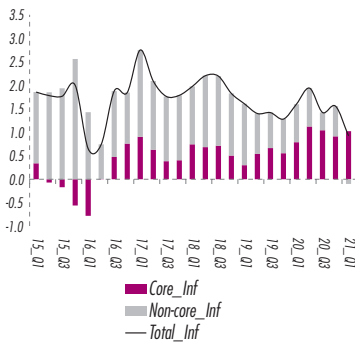
the banking system constitute a fundamental prerequisite for the continuation of economic growth in the future.

Scan TV: Mr. Governor, we reported a few days ago about a slight increase in inflation, which, based on the report of the Bank of Albania, stands at 1%, which is the limit advised by the Bank of Albania. Are there consequences as a result of low inflation? Without going into the depth of very technical issues, can you explain more in simple language in order clarify the general public?

Governor Sejko: Of course. Currently, inflation stands at 1.9%. This level suffered a slight decline and has generally fluctuated due to basket prices, which make up the package from which inflation emerges. Inflation has been below the legal objective of the Bank of Albania of 3%. Of course, this is not a major problem for us, but it is a symptom of the economy in general because inflation shows the level of prices. If we were to experience excessive inflation, then we would be facing a situation of rising prices which would not be pleasant.

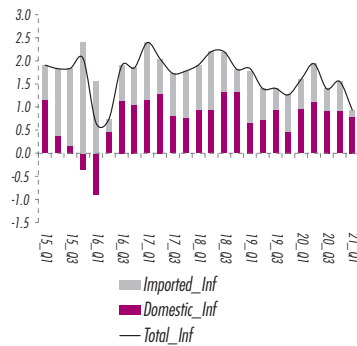
Chart 31

Medium-term inflationary pressures maintained a stable and slightly upwards impact on headline inflation



Source: INSTAT and Bank of Albania's calculations.

Short-term and imported pressures decreased significantly, defining the slowdown of headline inflation



Source: INSTAT and Bank of Albania's calculations.

We want to stimulate the economy. Our aim to achieve a level of inflation that has an impact on economic growth. Let's overheat the economy a little more, as it is very laid back.

Scan TV: Overheat...?

Governor Sejko: We want to ignite the economy. This is our goal, which is why we follow an accommodative monetary policy. Taking into consideration the fact that the situation after the 2008-2009 crises around the world, including the Euro area and the United States, has not been very favourable, with a significant drop in demand, money circulation and investments. In this context, the financial system has experienced a situation with major issues as a result of loan losses. All this extremely difficult situation has created an impede and impasse in the economy and for this reason the central banks have undertaken easing monetary policies by reducing the policy interest rate to historical minimum levels, even in negative areas.

Many central banks of big countries have applied negative interest rates and this has actually been done to encourage investors, consumption and investment. In order, to make it possible to transfer savings and investments from the financial system to the real economy. The Bank of Albania has followed the same path, without reaching the levels of negative interest rates. However, we managed to reduce the interest rate to stimulate the economy and to reach our inflation target, which stands at 3%.

The low level of inflation accompanied by a difficult situation indicates that economies are operating below their potential. So they show a weak consumption and investment demand. We anticipate that our inflation target will be reached around the end of 2022, so that the economy is operating at its potential within this period.

Scan TV: We have closely followed the reports of the Bank of Albania and the decision on decreasing the policy interest rate down to 0.5%, which is also the lowest historical rate. I asked you before at the beginning of our interview: Are businesses in a more favourable situation after the interventions of the Bank of Albania or will we have to see further decrease in the policy interest rate?

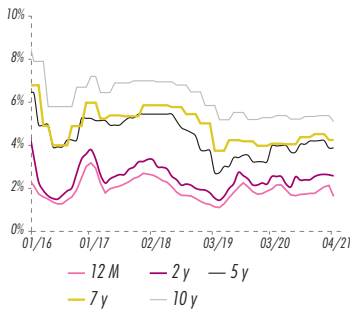
Governor Sejko: Of course, this decision is taken by the Supervisory Council of the Bank of Albania. Currently, the situation is expected to improve. Under these conditions, I do not believe that a further reduction of the policy interest rate will be necessary.

Only if we had a worsening of the economic situation and materialization of the risks I mentioned above, then we would be needed to take such an action. But I repeat once again that I do not believe that we will find ourselves in the face of such a situation.

However, I re-emphasize that this interest rate continues to be quite stimulating for the Albanian economy. Our monetary policy was well-transmitted to all segments of the financial market, both in T-bills, loans and deposits.

Chart 32

Yields in primary market have shown a downward trend since March



Note: Data show the interest rates (monthly average) on public T-bills and bonds issued in the primary market.
Source: Bank of Albania.

Yields curve has slightly flattened and has mitigated the convex in the medium-term segment



Note: Data show the interest rates (monthly average) on Government debt securities by various maturities calculated.
Source: Bank of Albania.

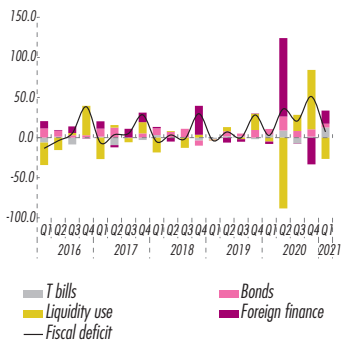
Scan TV: Mr. Governor, we just concluded the electoral campaign and the general parliamentary elections of 25 April. During the campaign and especially in the last two or three months there were rumours about an increase in currency outside banks. Since I have the opportunity to ask you, are these rumours true to some extent and what does the Bank of Albania think about this potential risk?

Governor Sejko: Certainly, currency outside banks has increased. This has been a phenomenon that we have taken into consideration even during the crisis period. This phenomenon has also happened in the countries of the region and beyond.

As a result of the pandemic and the expenses to address the relevant issues, we have experienced an increase in the money supply, in general, accompanied by an increase in credit and deposits, but also with an expansion of the budget deficit, up to ALL 100 million.

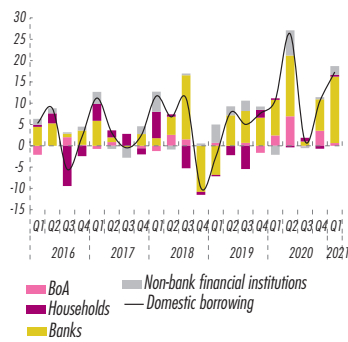
Chart 33

The deficit was financed by foreign and domestic sources



Notes: Budget deficit by quarters and its financing, in ALL billion
Source: Ministry of Finance and Economy.

Banks carried the main share in financing with domestic sources



Notes: Government borrowing in debt securities, by buyers, in ALL billion, by quarters.
Source: Ministry of Finance and Economy.

At the same time, it is worth mentioning that the specific situation created by the pandemic has oriented people towards using cash.

We are still a highly cash-intensive economy. This is an issue that we have been constantly trying to address. For this reason, we also undertook a package of measures at the level of structural and financial reforms. Despite this specific increase related to the situation created by the pandemic, our objective remains unchanged to formalize the economy and increase financial inclusion and financial education.

It is important to note that despite the increase in the use of cash in the economy during this period, the banking system remained stable, liquid and with sound parameters.

Scan TV: Will the campaign for financial education and the reduction of cash in the economy continue to be your objective?

Governor Sejko: Absolutely. We aim for this structural reform with our main objectives to focus on financial education within the framework of financial inclusion and modernization of the payment system. In view of this goal, we also approved the Law on Payment Services in 2020. Pursuant to this Law, several reforms are included to modernize the payment system, which are being monitored step by step with plans and concrete measures.

“... We will be able to make possible to circulate in our system not only of payments in domestic currency, but also payments in foreign currency such as in euro, dollar and other currencies...”

Of course, all this activity is being carried out in cooperation with the Albanian Association of Banks, the Ministry of Finance and Economy and other actors of the market. However, the central bank plays the main role, as the coordinator and initiator of these reforms.

In this context, we are working to make possible the operationalization of the circulation of payments in euro, within the territory of the Republic of Albania. Currently, the central bank carries out the circulation of payments in lek. Meanwhile, payments in euro, dollar or foreign currency are made through correspondent banks.

Through these changes in the legal and regulatory framework, we will be able to make possible to circulate in our system not only of payments in domestic currency, but also payments in foreign currency such as in euro, dollar and other currencies.

This operationalization would speed up the time of payment transfers and reduce their costs considerably. So, it would help economic agents in both possible directions, both in speeding up the time for making the transfer and in significantly reducing the costs of the transfer.

Scan TV: I believe this also applies to us consumers as the final beneficiaries in this process.

Governor Sejko: Absolutely. I am trying to explain it as simply as possible. If we needed to make a transfer from one bank to another bank within the territory of Albania in foreign currency, then today this transfer would be carried out through a correspondent bank located for example in New York or Washington, if the transfer is in Us Dollars, or in Frankfurt if it is in Euro; i.e. in the country that the correspondent bank has its headquarters.

With the implemented changes, transfers will be carried out within the territory of the Republic of Albania and will be carried out through local banks. In this context, the currency date or the deadline for making the payment will be shortened, but what is most important, the corresponding costs will also be significantly reduced. I will repeat it once more, the main reason here lies in the reduction of costs and we aim to achieve this within 2020.

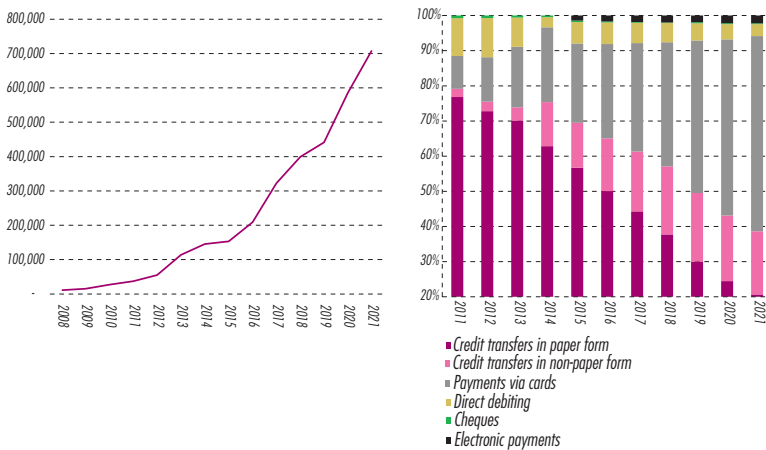
At the same time, we plan to undertake another set of measures such as: the implementation of a switch and a national platform for carrying out card payments in Albania.

"... we anticipate undertaking another set of measures such as: the implementation of a switch and a national platform for carrying out card payments in Albania."

I would like to emphasize here that this measure would sufficiently reduce costs for card users and significantly increase their use, both of debit and credit cards. In terms of financial inclusion, another measure worth mentioning is the implementation of a direct debt scheme regardless of the agreements that banks may have with utility companies, such as water and electricity ones.

Our goal is that even the poorest strata of the populations and households with minimal income can have access to bank accounts, through being able to make payments with very low commissions or maybe even with zero commission. This way, financial inclusion increases significantly, where each household has its own bank account and is part of the financial system. These are some quite innovative elements for Albania, which have been widely applied in other countries. In this aspect, our objective is to increase the formalization of the economy and, at the same time, financial inclusion. The more enterprises and households are involved, the more consolidated their relationship with the banks become. This has a positive effect in many aspects and above all in reducing the inequality between different social strata.

Chart 34 Number of online accessible accounts (left) and expansion of electronic payments use in years (right)



Source: Bank of Albania.

Of course the key here is financial education. Financial education is the proper education of the public to achieve the objectives I just mentioned, and by this we mean the provision of appropriate information not only to enterprises, which are better informed, but also for ordinary individuals. More specifically, here we discuss households in rural areas and other areas who have limited information regarding banking products and fail to benefit from them.

We anticipate taking concrete actions within the framework of the financial structural reforms that we, as a central bank, are pursuing. These reforms will serve the modernization of the payment system, which must keep up with what happens in other countries.

We can confidently say that currently a significant progress has been made during these years. If we go back in time, we can remember that only 10 or 15 years ago, we did not own any debit or credit cards and the Albanian economy was fully dependent on cash.

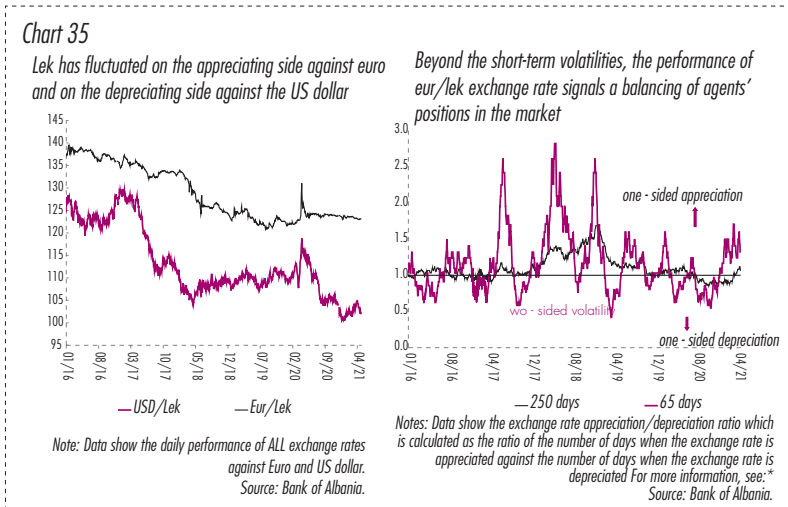
Great progress has also been made in terms of the use of ATMs - using debit and credit cards.

But, of course, we are now living in the age of digitization and we must modernize the system not only in terms of increasing the use of card payments, but also through the implementation of mobile payments and digitization of payments.

Scan TV: Mr Governor, you mentioned something regarding the deeuroization policy followed by the Bank of Albania. Firstly, I would like to ask you about the results achieved. Do we finally have a stable exchange rate in Albania against other currencies? Is this also the result of this policy and are these two related to each other?

Governor Sejko: These two elements are not directly related to each other. In Albania, we apply a floating exchange rate regime based on supply and demand. Currently, we have a stable exchange rate which is a very positive element for the economy and for commercial agents and especially for exporters and importers.

Exchange rate stability mitigates risks that may result from losses caused by exchange rate fluctuations. But it certainly, also affects the financial system, both banks and borrowers; because fluctuations in the exchange rate, either for the appreciation or depreciation of the lek, would cause losses according to the different exposures that the agents would have; while a stable rate helps all participating actors.



Of course, we have experienced slight fluctuations in the exchange rate, since we have a floating regime. We are fully aware that with this floating exchange rate we will have high inflows of the Euro currency. Despite not being a member of the European Union, Albania is geographically in the euro area. Our

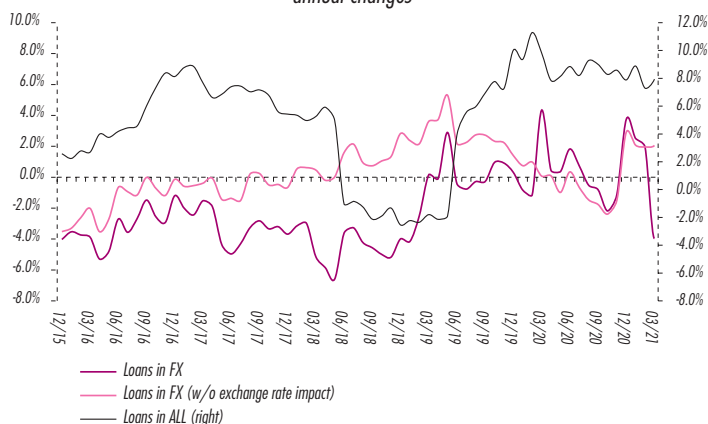
main trading partners are in the euro area. Albanian emigrants are mainly employed in the euro area. Tourists come mainly from the euro area, but even those who come from other countries, in general use Euros. Foreign direct investments are mainly carried out in euros. So, despite all these large inflows with the euro currency, again the exchange rate has been stable. Without saying concrete figures, we can say that there are billions of euros entering the Albanian economy from these sources. And maintaining a stable exchange rate clearly shows the stability of the lek.

De-euroization is about reducing the use of the euro where it is not needed, and this happens for two reasons. We have our domestic currency, Lek, and as long as we use this currency, we help our economy in two ways.

First, we have a better transmission of monetary policy. It is an instrument that has at hand, while many developed countries, since they became members of the euro area, no longer have it accessible because their monetary policy is carried out by the European Central Bank.

As we emphasized at the beginning of the interview, we have the opportunity to stimulate lending, consumption and investments through monetary policy. This instrument has helped us to have an economic growth of approximately 4% during the last 4 years. Without any doubt, the structural reforms undertaken by the Albanian government, the Bank of Albania and other actors have had an impact here.

Chart 36 Loans in lek and loans in foreign currency including and excluding the exchange rate effect, annual changes



Source: Bank of Albania.

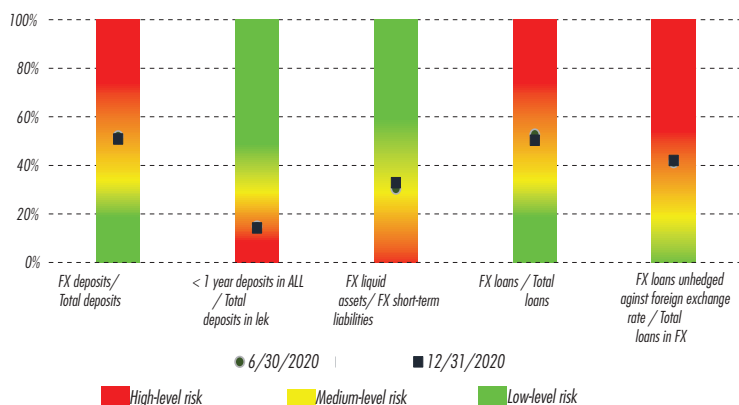
But on the other hand, we are threatened with a serious risk aiming the financial system, which is the exposure to euro of those clients whose income is in the domestic currency, Lek. For example, if you have obtained a loan in foreign currency, either as an enterprise or a household (let's say in euro since the euro is the most used currency), and you have your income in lek, then under the conditions of an inflationary situation in the medium or long term if we had a depreciation of the domestic currency, then the bank's customers solvency to pay loan instalments would be significantly reduced.

And not only would customers not be able to pay instalments and loans, but at the same time banks would have serious problems with their balance sheets. Considering the fact that a quarter of the total loans are in foreign currency and unhedged, then we would face a significant deterioration of the banks' balance sheets. And this is serious exposure. We are faced with the same situation as the external debt that the Albanian government has taken is in foreign currency, while the budget revenues are in the domestic currency.

In this view, both the external debt and the exposure of customers to the banks constitute a serious risk in case of depreciation of the exchange rate. Of course, we are currently in a stable situation as long as we apply a floating exchange rate regime.

However, the economy is very complex and we have witnessed the most diverse experiences that have happened even in the most developed countries, such as in Switzerland with the Swiss franc, where serious issues appeared not only in the banking system but also in the economy. For these reasons, we have applied a de-euroization policy with the aim of reducing the use of euro, and currently this policy has worked.

Chart 37 Main indicators for monitoring the use of foreign currency in the Albanian banking sector



Source: Bank of Albania.

In this context, the Advisory Group of the Financial Stability Committee composed of the Bank of Albania, the Ministry of Finance and Economy and other regulatory agencies signed a Memorandum of Understanding on the De-euroization Policy in 2017, and in February 2018 we gave a go to this project. From this moment, we have a decrease in euro exposures both in assets and liabilities, both in loans and in deposits.

Currently, we are experiencing a significant increase in lending in lek, which is a very positive development. So, households and enterprises have become aware that there is no need to have exposures in foreign currency when their income is in lek and the interest rates of the lek remain at very low levels, almost like the rates of the euro.

The instalment was smaller when the interest rate in euro was lower than in lek. Now that they are almost approximate, both in the short-and-in-the-long-term, it is more beneficial to the borrower if the bank lends in Lek. This program is also a reform within the requirements of the European Union. So, it is not our invention, since the same program has been implemented in all developing countries, which have the same phenomenon. Of course there was a misunderstanding, so I am repeating once again why we should use lek instead of euro.

Scan TV: Is this a question?

Governor Sejko: We are still far from the EU standard. Our economy, despite the positive progress that it has achieved, is still far from the standards and convergence with the economy of the European Union. We can take refer to the Czech Republic, which still has its own currency and is ready to become part of the euro area, but still wants to have this instrument of monetary policy in its hands despite having fully met the standards to adopt the Euro.

Croatia is applying another program, gradually adopting the Euro. We need to use monetary policy instruments. When we reach the required level, we cannot set an exact period of time here, but perhaps after a few years, after seriously following the steps of these countries, which today enjoy a higher economic standard, it will be closer than we think the day when we too will be not only members of the European Union, but also an integral part of the euro area.

At the moment, at this stage of economic development, we implement this policy, which is also a request of the European Union.

Scan TV: Are these policies appropriate for the current stage of our economic development?

Governor Sejko: I would not like to deepen too much in this matter in order not to go into technical details, but I would like to emphasize that the use of the euro is not allowed and carries some obvious risks. In this context, there are countries that have adopted the euro as their currency, such as: Kosovo and Montenegro and often comparisons are made with our country.

Scan TV: And are these countries not members of the European Union?

Governor Sejko: Yes, these countries are not members of the European Union and, at the time they earned their independence, they did not have their own national currency. Under these conditions, an agreement was made and they were allowed by the Euro area to be able to use the euro as their national currency. Thus, they have made it possible to avoid the risk of the exchange rate, but they no longer have the instruments of monetary policy.

Currently we are in a completely different situation. Even if we did not have the wit and logic of these advantages or disadvantages, we would not be allowed to implement the adoption of the Euro.

Scan TV: Whoever had a question regarding this, got their answer.

Governor: We wouldn't be able to do it if we were allowed, that's all. And the basic reasons are the ones I mentioned above, that we need to stimulate the economy in order to have economic growth, in function of the well-being of Albanian citizens.

These are instruments that influence economic growth. So, it is the monetary, financial and macroeconomic policies that must be harmonized with the fiscal policies of the Albanian government in order to have the required result of economic growth.

Scan TV: Mr. Governor, allow me to ask you one last question. This year we expect the issuance for the first time of 10,000 Lekë denomination, a banknote that we have never had before. When will it launch and when will we be able to use it?

Governor Sejko: Very soon. In June, we plan to make the relevant announcement and launch the presentation for the circulation of the 10,000 Lekë banknote. We have changed the entire series of the Albanian banknotes. Last year we introduced a new series of banknotes. Two new denominations, the 5,000 Lekë and 200 Lekë banknotes were put into circulation. This year we will issue two new denominations of this series, which are 10,000 Lekë and 1,000 Lekë.

Scan TV: 10,000 Lekë is a new denomination that has not circulated before?

Governor Sejko: Yes, it is a new denomination that will be out into circulation. The largest denomination so far has been 5000 Lekë and this year we plan to put into circulation the new 10000 Lekë banknote. I think it's the right time, since it's been years since prices have gone up. This banknote will be simpler for its users, as it is a larger denomination to keep either in a wallet or in circulation. In this context, the need for large amounts of cash usage decreases.

Together with the 10,000 Lekë banknote, the 1,000 Lekë banknote will be put into circulation as part of the new series. At the 1000 Lekë banknote the theme will remain unchanged but the design, appearance will change and some security elements have been added. We anticipate launching these two new denominations in June.

Perhaps by the end of the year or the beginning of the next year, the last two denominations of the series will be put into circulation. Then the entire series will be launched.

It is important that people understand it right, so I will say it once again. These new denominations will be in circulation in parallel with the old denominations, so the old denominations will continue to be functional. Certainly, the 10,000 Lekë denomination is new and doesn't have old banknotes already circulating, but for all other denominations we will have two legal tender banknotes each. So we have both the new and old 5000 Lekë denomination in circulation. The same will happen with other banknotes.

Scan TV: Until their complete replacement with the new banknotes?

Governor Sejko: Yes. Until they are completely replaced by new banknotes. Old banknotes that are highly used are gradually disposed. There is a specific formula regarding the circulation of money. So the old money is gradually withdrawn from circulation and destroyed and its place is gradually taken by new money, new denominations.

Scan TV: Thank you very much Mr. Governor! You showered us with highly important information. Moreover, from June we will have a new banknote in circulation, and the best news is that the Albanian economy is stable and on its way to a sustainable growth.

Mr. Governor, thank you very much for the interview, all the best!

Governor Sejko: Thank you!

INTERVIEW WITH GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA. “MONITOR” MAGAZINE - 7 June 2021 -

Monitor: How did the Albanian economy face the crisis caused by the pandemic compared with the initial assessments and what are some of the reasons why?

Governor Sejko: Although more than a year has passed since the COVID-19 outbreak, the Albanian economy continues to tackle its impacts. However, the statistics available that cover the pandemic period and the positive turn that key economic indicators have made, allow us to present a preliminary assessment of the situation.

This process serves to critically identify the strengths and weaknesses of our economy and financial system, and to derive the necessary lessons for the future.

At the beginning of 2020, the pandemic put almost the entire world under serious threat, which left deep scars in the socio-economic life. Under the impact of the pandemic, the volume of economic activity in Albania contracted, unemployment increased and the financial soundness of many businesses and households worsened – a similar picture was painted in almost all affected countries.

Although the negative impact of the economic crisis was inevitable, its size was lower than our expectations. Compared with our initial expectations, the Albanian economy experienced a slight decrease in economic activity and employment, a lower number of

“Compared with our initial expectations, the Albanian economy experienced a slight decrease in economic activity and employment, a lower number of bankruptcies, a satisfactory stability of monetary and financial indicators, as well as, it maintained good indicators of the banking sector soundness.”

bankruptcies, a satisfactory stability of monetary and financial indicators, as well as, it maintained good indicators of the banking sector soundness. In this context, I affirm that our economy have successfully overcome the pandemic test, showing an admirable resilience and flexibility in view of the Covid-19 crisis.

In my view, there are three factors which played key roles in this regard.

First, the policies implemented by public policies, which reacted in a timely and persistent manner, provided the necessary support to the Albanian economy. The simultaneous fiscal, monetary and financial stimulus was effective in avoiding the negative impact of the shock. The fiscal stimulus was in the form of temporary tax facilities, supplying sovereign guarantees and increasing current and capital expenditure. It provided a direct contribution to the aggregate demand, by amortizing the decline of the private sector income and by supporting it with liquidity. Also, the Bank of Albania increased the monetary stimulus and temporarily facilitated the regulations governing the banking sector. These measures enabled the smooth performance of the financial markets and established an adequate environment for credit growth. The funding costs remained favourable, the exchange rate was stable, and interest rates remained close to their historic minimum levels. The increase of lending helped Albanian businesses and households to meet their liquidity needs and offered the necessary financial tools for the growth of both consumption and investment. The mobilisation of our measures underpinned domestic demand and safeguarded the monetary and financial stability. The well-calibrated and well-coordinated measures, as well as the speed of response preserved job positions, wages, production capacities and liquidity.

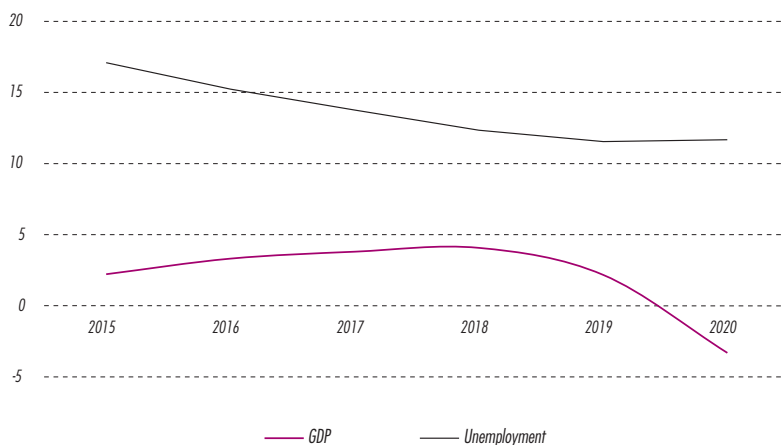
Second, the banking sector gave a substantial contribution to mitigating the impacts of the shock. This undertook a part of the financial burden of the shock, while at the same time maintaining sound indicators of liquidity, profitability and capitalisation. Its

stability has been improving, supported by our continuous reforms and measures to address weaknesses, increase liquidity and capital reserves, as well as strengthen the framework of risk management. In parallel with the regulatory measures undertaken during the pandemic period, we consolidated the dialogue with the banking industry, in order to understand operational stability and business dynamics, as well as to address liquidity and credit risks.

Third, the ability of businesses and employees to adapt to the new conditions. The quick adaptation to the new way of working, producing and consuming contributed to maintain business-client and employer-employee relationships.

Overall, due to the action of these factors, the impact of the crises on the economy was less severe and premises exist for a faster and stronger recovery. The stimulating financial conditions, the reduction of restrictive measures due to vaccination, as well as the improved trust on economic agents, have cleared the way for a stable recovery.

Chart 38 Economic growth and unemployment rate (in %)



Source: Bank of Albania.

However, the pandemic continues to remain a threat for the economic development in the near future and the economy has not fully recovered to the pre-pandemic period. It means that the

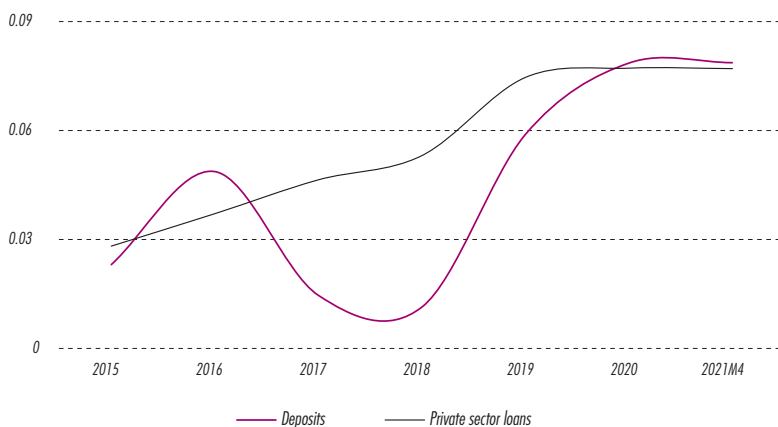
economy still needs the support of macroeconomic stimuli, but these stimuli should be carefully synchronised, in order to avoid the accumulation of risks over the medium and long-term horizon.

To conclude, allow me to highlight the fact that structural reforms must remain a significant instrument in order to accommodate an efficient reallocation of growth resources, which will enhance productivity growth and the potential of our economy.

Monitor: So far, the banking system has remained stable against the crises shocks, aided also by the support of temporary regulatory measures of the Bank of Albania. What is your assessment regarding the performance of the banking system and the challenges it will be faced with after the effect of these measures come to an end?

Governor Sejko: The performance of the banking activity in the past 12 months is assessed as satisfactory. The sector has recorded an expansion of activity; strong growth of deposits and a good performance of lending in the domestic currency; quite good liquidity indicators; positive and stable financial performance; as well as adequate levels of capitalisation.

Chart 39 Loans and deposits growth rates



Source: Bank of Albania.

The regulatory measures of the Bank of Albania have helped the performance of the banking sector during this period, but we assess that the highest impact was due to the good financial situation of the banking sector even prior to the earthquake of November 2019 and later the pandemic.

The focus was on easing the prudential measures since their purpose was to alleviate the pandemic shocks for borrowers and in parallel for banks as well. The moratorium on loan repayment deferral and the preservation of the status-quo for the classification and provisioning of restructured loans, allowed banks and borrowers to find the most appropriate alternative to restructure credit and safeguard its quality. Throughout the period of the implementation of the regulatory easing measures, the Bank of Albania has communicated with banks to ensure that they selected the correct loans for restructuring and utilised the opportunity to conduct an effective restructuring process. This was necessary not just to mitigate the initial shocks of the pandemic, but also regarding the performance of credit portfolio quality upon the completion of the regulatory easing measures. To assess the later, the Bank of Albania has collected the preliminary information from banks. Based on the collected data, the banks have issued a heterogeneous assessment regarding the performance of credit quality, but generally expect that in case of an eventual decline of the credit portfolio quality, it will be limited and affordable. Despite this assessment, we have conducted regular stress-tests including scenarios shocks that have a more negative impact on the shocks and assess the capacity of banks to absorb these shocks.

In March 2021, the regulatory easing measures of the Bank of Albania for credit restructuring ended, and its normal addressing is re-established. Next months will show the performance of credit quality. Meanwhile, the Bank of Albania maintains the restrictions on the distribution of banks' profit as an additional instrument to safeguard the capital position and absorb the eventual additional costs related to credit risk.

The above developments show that the banking activity risks are present, but our assessments of the activity indicators confirm that the banking sector is strongly resilient to withstand them. In parallel, we continue to improve the micro and macroprudential regulatory framework, in line with the best standards in each area, in order to ensure sound banks and a stable banking sector that expands the activity and strengthens support for the economic development of Albania.

Monitor: What is the impact of the consolidation process of the banking system over the past three years?

Governor Sejko: Over the past years, the banking system has developed quite dynamically. The picture of the banking system has changed significantly, regarding the number of banks as well as the origin or the volume of capital and the nature of activity.

“The picture of the banking system has changed significantly, regarding the number of banks as well as the origin or the volume of capital and the nature of activity.”

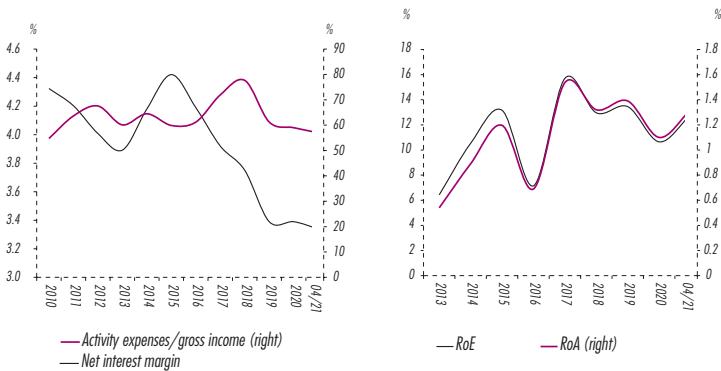
The current situation of the banking system is the result of developments initiated many years ago, when different national and international stakeholders expressed interest to become part of the Albanian banking system, which coincided with the decision of the existing stakeholders to shift the focus. The decision of large banking groups to leave the region had its own effect on Albania, as some banks left due to the decisions adopted by the EU authorities, which limited the presence of some bank branches, mainly of Greek origin, in various South-eastern European countries.

These developments resulted in the current banking system which consists of 12 banks, from 16 which were present at the end of 2017. These changes came as a result of the merging of three banks from three other ones, and the voluntary liquidation of a fourth bank.

The picture on the origin of capital has also changed. The share of the domestic capital in the banking sector assets has increased considerably, accounting for over 30% of the system and is continuously moving upwards. This share is higher if we refer to the credit portfolio, accounting for over 36% of the system portfolio. During the last year, there is an expansion of the banking activity outside the Albanian borders, as two banks which operate in the Albanian market, one of which with domestic capital, are also operating in Kosovo.

With a different picture in our hand, the banking system shows sound financial indicators where the capital adequacy ratio is over 18% for many years now, and the liquidity indicator is also high, at over 44% against the regulatory minimum of 20%. The higher presence of domestic banks has diverted banks' attention towards the domestic market and credit portfolio has increased by 6% over the last 12 months, while non-performing loans ratio has decreased by 0.4 percentage point over the same period. The financial result of the system in April reached ALL 6.56 billion, with a satisfactory return, as RoA and RoE stood at 1.23% and 11.97%, respectively.

Chart 40 Profitability and expense indicators of the banking sector



Source: Bank of Albania.

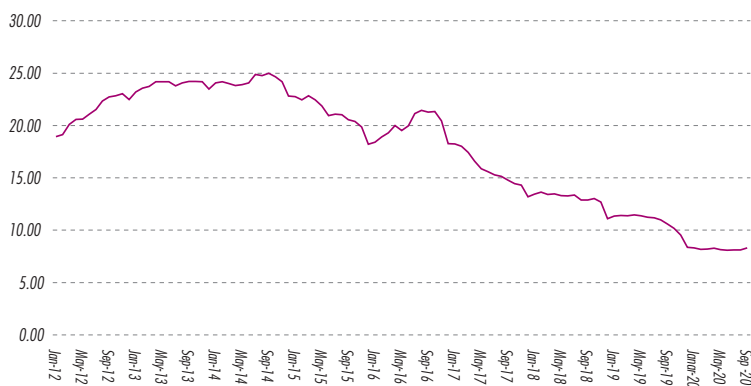
The Bank of Albania has paid attention to the consolidation process given the strategic importance and the importance of maintaining the stability of the banking system. The overview of the situation and the data show a satisfactory consolidation process, as financial parameters are preserved within the prudential expectations, for both economic development and financial stability of Albania.

Monitor: The share of non-performing loans continued to decrease, despite the pandemic, also affected by the easing measures of the Bank of Albania. When these measures have ended, what do you expect as regards the performance of this indicator? Which are the most affected sectors by the crises and how is this reflected in their solvency to banks?

Governor Sejko: The indicator of non-performing loans reached 7.88% at the end of April 2021. Despite the experienced crises, this indicator has trended downwards compared with the beginning of the pandemic, despite recurrent fluctuations.

In fact, this indicator has trended continuously downwards for many years in a row. In September 2015, the Bank of Albania was engaged in the national plan for decreasing the amount of non-performing loans. This plan included several important legal reforms and initiatives of the Bank of Albania, activities which were fully accomplished by the institutions involved. As a result of this plan, the non-performing loans indicator has decreased by around 12.7 percentage points, since it was drafted. Its effects continue to resonate in the current moment due to the construction of the appropriate infrastructure, which helps banks to administer the portfolio of non-performing loans.

Chart 41 Non-performing loans



Source: Bank of Albania.

Related to the management of the pandemic situation, it is important to understand that the measures undertaken did not only have measurable effects on non-performing loans. It was an opportunity provided to banks to alleviate borrowers from settling payments, so that they would improve their internal financial situation through the liquidity created to regain their solvency. A large number of borrowers regained their creditworthiness.

Since the measures were divided into stages, the closure of the first and most important stage, during which the settlement payments were interrupted for a large number of borrowers, was expected to be accompanied by an increase of non-performing loans. This phenomenon showed a much lower materiality and the non-performing loans ratio stood at 8.3% in September 2020, from 8.18% at the end of February 2020. This ratio is trending downwards since September 2020.

Nevertheless, its performance during the rest of 2021 will depend on a series of factors, where the scale of the pandemic crises may extend its effect on borrowers, depending on the

restrictions imposed, as well as the developments in Albania and in countries which are economically related to Albania.

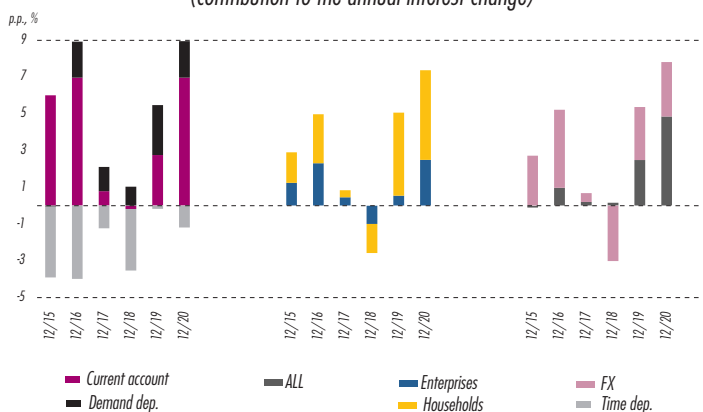
The impact of the crises across the economic sectors is approximately in direct relation to the share of each sector in the credit portfolio. The approach adopted by banks in providing solutions during credit restructuring to adapt business cycles with the new payment arrangements, remains an important factor in this regard.

Monitor: What is your assessment on the deposits performance and in particular lending to the economy in the pandemic year, and what must be done to booster it in the future?

Governor Sejko: The performance of deposits and loans or - in other words - of both sides of the banking sector's balance sheet has been one of the positive surprises of the reaction of our financial system during the pandemic.

In figures, banks' deposits grew by ALL 93 billion or almost 8% during 2020. I would like to highlight that this rapid growth has mostly reflected the expansion of deposits in the domestic currency, which generated over 60% of additional deposits in banks. If we consider a broader historic perspective, the growth of deposits during the pandemic year shows a clear difference from the past, when the increase of uncertainty was rarely accompanied with contraction of savings deposited in banks. These circumstances signal a consolidated confidence of public in the soundness of the banking sector and, it is a concrete product of our joint efforts in this regard.

Chart 42 Performance of deposits by maturity, sector and foreign currency
(contribution to the annual interest change)

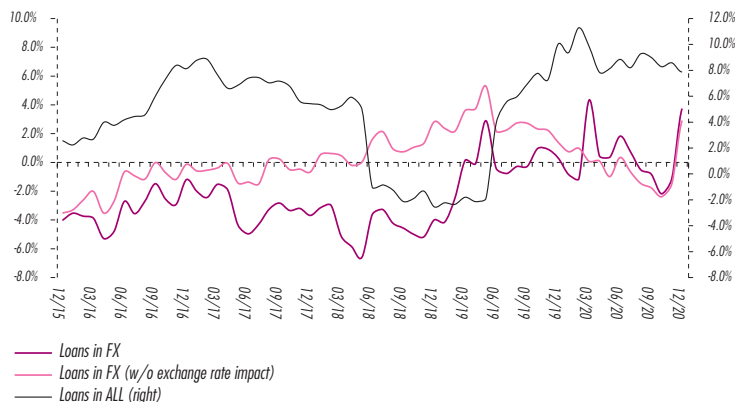


Source: Bank of Albania.

In addition, lending to private sector, excluding the exchange rate fluctuations and written off loans from the banking sector's balance increased by about ALL 50 billion, or 7.7%, in 2020. As I mentioned previously, the expansion of lending during 2020 was one of the keys to success of Albania in tackling the shock. Furthermore, another positive element is the credit structure, which was based on the expansion of credit in domestic currency (above 60% of additional credit) and the expansion of loans to enterprises (above 70% of additional credit). As in the case of deposits, credit growth during a crises-year is new to our financial sector, and it is an encouraging signal as regards the role that this sector could play in the future, not solely in the support of economic growth, but also in withstanding shocks.

Looking ahead, I think that credit growth will stand on more solid grounds.

Chart 43 Loans in lek and loans in foreign currency including and excluding the exchange rate effect, annual changes



Source: Bank of Albania.

On the one hand, we are seeing an upward trend in the loan demand, especially from enterprises and for investment financing. On the other hand, we have made considerable progress during the past year regarding credit supply. The banking sector presents sound balance sheets; the consolidation process has increased competition and has brought new and motivated stakeholders to the market, while credit risk has structurally decreased, due to the reform that we have undertaken to address non-performing loans.

To be more precise, allow me to stress out that lending performance would benefit if the same structural issues of the Albanian economy were addressed. In this context, I am convinced that further improving business environment, decreasing informality, increasing competition and business transparency, as well as encouraging foreign investments, will pave the way to a faster and healthier lending.

Monitor: The policy rate is at the minimum levels, while the Bank of Albania has declared that the accommodative monetary policy will continue. How much more space does the Bank of Albania have in order to continue pursue this the accommodative stance of monetary

policy? What has been its effect so far and how do you assess the transmission speed of these policies?

Governor Sejko: As you may well know, in March 2020 we undertook a further easing of the monetary policy, by cutting the policy rate and increasing liquidity injection in the banking sector. The strong monetary stimuli have had a good level of pass-through, which continues to be present during this year as well. Financial markets are calm, liquidity circulates smoothly and risk premia are contained.

By guaranteeing the well-functioning of the financial market, we have enabled the monetary policy to reach the last borrowers, Albanian enterprises and households, in the form of low funding costs and activity refinancing, as well as higher credit volume. Also, the low interest rate environment has not exerted pressure for a stronger exchange rate, which would make our export performance even more difficult. Overall, the financing costs are accommodative and have bolstered the growth of lending to the private sector, which in turn has supported consumption and investments.

Our assessments show that thanks to our monetary stimulus, the volume of the economic activity and inflation are 3.7 and 0.7 percentage point higher, respectively, compared with their hypothetical level if these stimuli were missing during the past four years.

Regarding forward guidance - as usual - is dictated by the need to create adequate conditions to observe our medium-term inflation objective. The Bank of Albania has stated to maintain the accommodative stance of the monetary policy throughout the medium-term horizon. This statement reflects the Bank of Albania's judgement that monetary conditions shall remain accommodative across this horizon, aimed at boosting aggregate demand, creating new jobs, and increasing wages and profit margins in line with our inflation target.

Put in simpler terms, this means that we will maintain a relatively low policy rate, enabling households and enterprises to take more loans, serve the existing loans with lower costs, and increase consumption and investments. This policy and projections are consistent with our expectations that inflation will return to target within 2022.

Although the economic outlook is positive, the uncertainty about the pandemic still presents risks in the short-term period. In case higher monetary stimuli are needed, we possess the necessary tools to achieve this. A further monetary accommodation can be realised through lowering the policy rate – despite we know that there is less room available in this regard - as well as through applying quantitative easing. In any case, our stimuli will be provided by taking into account a full cost-benefit analysis, the development scale of our financial market, legal restrictions and the need to preserve the monetary and financial stability in Albania.

Monitor: You have stated that non-conventional instruments will be used. Could you be more specific as to what instruments are you referring to and when are they expected to be implemented? What is their expected impact to financing the Albanian economy?

Governor Sejko: As I already mentioned, the current circumstances of the economy and our expectations for the future do not dictate the need for a further increase of the monetary stimulus. The stimulus provided through conventional monetary policy instrument – the policy rate – continues to be transmitted to the economy, ensuring adequate funding conditions to support the continuing recovery of the economy and the return of inflation to target.

On the other hand, the Bank of Albania continuously drafts contingency plans, which allow us to be prepared for every circumstance. These plans include the use of non-conventional

monetary policy instruments, if the country would be faced with another shock that causes negative consequences which could not be overcome in the limited conventional space.

Selecting the most adequate instruments takes into account a set of criteria, the most important being the legal framework, the developmental stage of the financial market and the nature of potential shocks. While taking into consideration these dimensions, we deem the quantitative easing as the best option.

“The stimulus provided through conventional monetary policy instrument – the policy rate – continues to be transmitted to the economy, ensuring adequate funding conditions to support the continuing recovery of the economy and the return of inflation to target.”

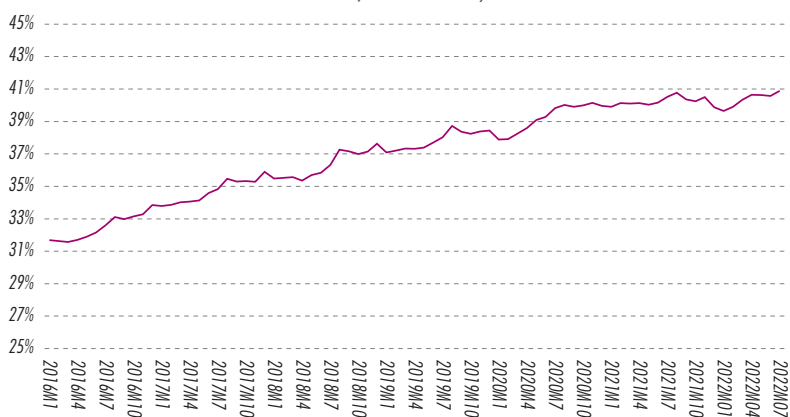
How does it work in practice? The central bank purchases government securities in the secondary market. Such an operation would bring interest rates down for these securities and increase liquidity volume in the economy, encouraging banks to issue more loans. The implementation of this instrument signifies an infinite liquidity injection into the system; consequently it must be used in very specific cases and for short-term periods.

Its use would be appropriate if there is lack of liquidity in the financial markets and/or higher risk premia, which would shift the interest rate curve. Currently, we are not facing any such obstructions in the transmission mechanism of our monetary policy and, as a result, we do not see the need to implement this instrument.

Monitor: The amount of currency outside banks has been increasing in the past years, despite the measures undertaken to discourage the use of cash. How do you explain this increase and what additional measures must be adopted in order to encourage the use of electronic payments?

Governor Sejko: Currency outside banks increased by about ALL 53 billion in 2020 compared with only ALL 16.7 billion increases in the previous year. However, the acceleration of the increase of this indicator is not an isolated phenomenon, but it reflects the overall tendency of acceleration for all other monetary indicators, such as deposits or credit.

Chart 44 Currency outside banks/M2 (ratio)



Source: Bank of Albania.

As we highlighted previously, the relatively quick growth of currency in circulation during 2020 was driven by some factors, most notably:

- the rapid increase of monetary base in the economy, as a response to high levels of budget deficit and the relatively quick growth of lending during last year;
- the pandemic, which increased the preference of households for cash due to the uncertainty, but also the desire to reduce physical contacts. This phenomenon has been widely observed in other countries.

What I think it must be avoided is the fact that the high growth of cash in the economy has not been to the expense of deposits. As I said above, the latter increased by around ALL 93 billion

in 2020, providing sufficient funds to the banking sector for financial intermediation.

Beyond these factors, I would like to emphasize that the high presence of cash in the Albanian economy is also favoured by its structural features, such as the informal economy, the degree of financial education, and the relatively high concentration of population in the rural areas. In my view, these issues should be addressed through structural reforms in the payment systems, continuous education of the population, as well as constant improvement to the fiscal administration.

The Bank of Albania continues to remain an institutional actor that invests towards enhancing financial literacy and improving the payment system.

Monitor: Following the approval of the new law on payments drafted by the Bank of Albania, what is its expected effect on the payment system in Albania? How competitive is it?

Governor Sejko: Payment services are an integral part of the payment systems and as such are continuously on the focus of the Bank of Albania. Also, being one of the core financial services, they are considered first instrument, but also quite significant for enhancing financial inclusion.

In this regard, as it has been previously expressed in public communications, the Bank of Albania and the National Payment System Committee have undertaken a reform since 2018 for the modernisation of retail payments market in Albania, materialised in the National Retail Payments Strategy (2018-2023). The main goal of this strategy is to encourage the financial inclusion of the population (from 40% in 2016, to 70% in 2023) and the use of electronic payments (achieving 10 cashless payments per capita by year 2023, from 4.3 in 2016), by developing modern and inclusive retail payments market in Albania.

The Law “On payment services” is considered one of the most important measures undertaken to fulfil the reform and to achieve the abovementioned objectives. First, by presenting the new actors and services as well as re-dimensioning the current activity of non-bank financial institutions that offer payment services and transfers. The Law is assessed to strengthen competition in the payments market. In order to make our expectations even more tangible in regards to competition boost, the Law creates an environment which aims to adjust the regulatory requirements between banks and non-banks, by providing all the necessary tools to operate on equal grounds in the area of payment services and especially of electronic ones. This competition will naturally create more efficient services costs as well as regarding the convenience of use for the general public.

In addition, the presentation of two innovative activities – the initiation of payment services and account information – besides innovation promotion is deemed to encourage competition even further. To put it into simpler language, the services offered by the fintech companies encourage the use of electronic trade, a quite important national objective of, which enables alternative easy to use online payments at low costs. Alongside the payment initiation service, account information services allow clients and businesses to have a global perspective on their financial situation, as well as to consolidate their various accounts that they might have with one or more banks or payment institutions. It is important to highlight that while serving the purpose of using these services, the law lays down the so-called open banking concept, which is one of the innovations of the payments market on an international scale.

Furthermore, other significant issues regulated by the law include the consolidated framework for consumer protection, by creating conditions for transparency, and the rights and obligations of parties. Also, the law stipulates the establishment of a specific unit to address disputes outside of court, which

have a significant impact on the consumer protection framework. Building a consolidated consumer protection framework is even more significant for a market lacking a very developed financial education and inclusion.

The Bank of Albania and the market are supporting all the above-stated legal and regulatory developments and will continue to do so, including infrastructural developments. Here, I would like to mention the payment settlement system in euro within Albania and the rather ambitious medium-term projects, such as the Instant Payment and National Switch.

The operationalisation of the payment settlement system in euro within Albania, a project that is already towards its finalisation, aims at enabling Albanian citizens to carry out euro payments within Albania with very low costs and within a much shorter timeframe as compared to the current process offered by the corresponding banks. This project is also assessed to have very positive effects as regards the management of cash in euro by banks.

“National Switch Project aims to create national platforms that through the reduction of payments cycle and promotion of innovation, encourages payments remotely. The reduced costs as well as improvements to the efficiency of the services used will contribute towards this goal.”

On the other hand, the Instant Payment/National Switch Project aims to create national platforms that through the reduction of payments cycle and promotion of innovation, encourages payments remotely. The reduced costs as well as improvements to the efficiency of the services used will contribute towards this goal.

Monitor: The Bank of Albania will put into circulation two new banknotes of the new series: 1 000 Lekë and 10 000 Lekë. When will these banknotes be put into circulation? Why did the Bank of Albania decide to add the 10 000 Lekë denomination in the new series of banknotes and what could you reveal more about this banknote?

Governor Sejko: The new banknotes of the denomination 1 000 Lekë and 10 000 Lekë are expected to be put into circulation at the end of June 2021. The printing of the new 1 000 Lekë and 10 000 Lekë banknotes is part of a multiannual work effort of the Bank of Albania to issue the new Lek banknotes series and to guarantee the supply with cash to the economy at any moment.

“The entry into circulation for the first time of the banknote with the highest denomination, 10 000 Lekë, represents the adoption of banknotes structure to: the structure of prices and wages; developments of payment system; and other indicators related to handling currency.”

Allow me to note here that one of the main responsibilities of the Bank of Albania is to provide the economy with cash, both in value as well as in structure. The minting and entry into circulation for the first time of the banknote with the highest denomination, 10 000 Lekë, represents the adoption of banknotes structure to: the structure of prices and wages; developments of payment system; and other indicators related to handling currency.

This note with the highest denomination accompanies the economic developments of the country and according to all reviews, fulfils the market demand to include it in the structure of our banknotes that are legal tender. The introduction and issue into circulation of this note will enable a better and more efficient circulation of cash, supporting the existing structure of currency in circulation, and at the same time reducing costs of production, storage and distribution, thus strengthening the efficiency of the Bank of Albania in cash management and issue.

Furthermore, the presence of the new highest denomination in the structure of the Albanian banknotes increases the efficiency of the Bank of Albania in managing a strategic stock, which is more responsive to the increasing demand of the market for cash.

Despite developments in other payment means, for example electronic, currency in circulation continues, year after year, to trend upwards, which reflects the continues demand of the economy for cash as a payment means. The Bank of Albania carefully plans to fulfil the market demand, both in normal situations as well as in atypical ones. The latest COVID-19 situation is an actual example in this regards. In this period, the demand of the economy for cash jumped up. Thus, in 2020, currency in circulation has increased by ALL 52 billion or three times more compared to 2019. Also, in the first five months of 2021, an increase by ALL 10 billion was registered. Meeting the market demand for cash is supported through ensuring and planning the adequate amount of cash stock at the Bank of Albania, which serves as a guarantee both for the present and the future.

The theme of the new 10 000 Lekë banknote includes the national flag and the anthem, as well as the portrait of the national renaissance poet, Asdreni, who was nationally recognised as the author of the "National Anthem" of Albania. His verses together with the National flag are symbols of the Albanian identity since the Declaration of Independence. Similar to all the other new denominations, this banknote has advanced security features of, produced with cutting-edge technologies, , which facilitate the identification for the public, increase trust in the national currency and render falsification more difficult.

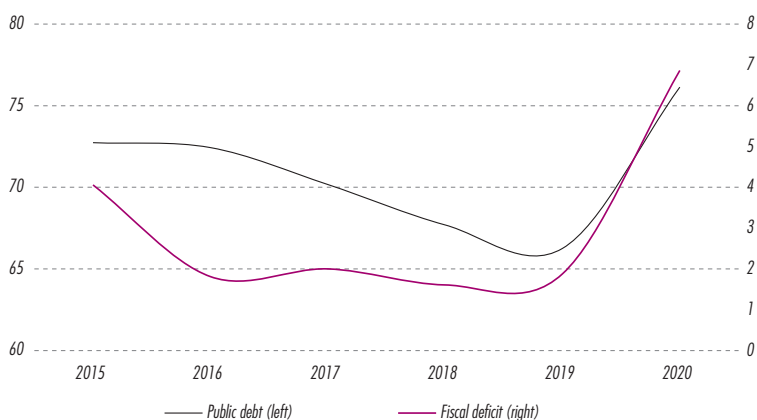
Monitor: What are the main challenges to our economic recovery after the pandemic? What must be done to encourage a sustainable development which is oriented toward innovation and higher value added?

The challenges faced by the institutions occupied with the drafting and implementations of economic policies are twofold.

Looking into the future, in the short horizon we must ensure the sustainability of economic growth and the full recovery

after the pandemic shock. This will require, in general terms, a stimulating combination of economic policies in the medium-term horizon. The adequacy of this combination shall be reviewed continuously, as regards intensity as well as composition. Strengthening the sustainability of the economic growth should be accompanied by a gradual re-orienting of the fiscal policy towards the consolidation of the public debt, which would entail an increase of the relative share that monetary policy possesses as an instrument for economic support.

Chart 45 Fiscal indicators in % of GDP



Source: Bank of Albania.

Over the longer-term span, the Albanian economy would benefit from the acceleration of structural reforms, in the direction of increasing the speed and sustainability of economic growth. The Bank of Albania has continuously repeated this call. In this regards, it is appropriate to emphasize that the diagnosis on the scale of development of the Albanian economy, its ability to generate domestic investments and attract foreign ones, as well as its ability to compete in the global market, are public and transparent.

With a view to address our structural weaknesses and develop our strategic advantages, I surmise that a complete and

comprehensive programme of reforms must be oriented on three main goals:

- first, to further develop the physical and digital infrastructure of Albania, as well as its connection with the regional and global economies;
- second, to continue improving the business environment, reducing informality, promoting competition, decreasing the political and economic risk premia, as well as improving contractual guarantees;
- third, to grow investments in education and health, gear the school curricula towards professional education and IT degrees, in order to enhance the qualifications of the labour force and to position our country at a higher degree in the value-added diagram.

I think that Albania is currently addressing these three main priorities, but we must come to terms that we are in the midst of a regional and global competition, which we cannot lose. In this context, I think that our structural reforms agenda must be guided by clear priorities, have stable political and social anchors, and possess the required flexibility in terms of operational instruments.

“Our structural reforms agenda must be guided by clear priorities, have stable political and social anchors, and possess the required flexibility in terms of operational instruments.”

Concluding, I should point out that that all these measures must be complemented by preserving a stable monetary and financial environment, which has been and will remain the primary objective of the Bank of Albania.

**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA,
NEWS 24.
- 17 June 2021 -**

News 24: The Bank of Albania has launched two new banknotes, which will be put in circulation on 30 June. Today, we will talk with the Governor of the Bank of Albania, Mr Gent Sejko, about these new banknotes, and also discuss the economic performance after the Covid-19 pandemic. Hello, Mr Governor!

Governor Sejko: Hello, and welcome!

News 24: Thank you! As I mentioned previously, we will talk about the banknotes to be put into circulation on 30 June. Can you tell us which are these denominations and what is their use to the citizens?

Governor Sejko: The new denominations of the banknote, 1000 Lekë and 10000 Lekë, were launched on 15 June 2021, at the premises of the Bank of Albania. The denomination of 10000 Lekë is completely a new one. The new revised series of the Albanian banknotes was launched in September 2019. The new series retains the same theme of the existing banknotes, while the dimensions have been changed and security elements have been added to the banknote in order to improve it.



The new changes also aim to adapt to international banknote standards, referring mainly to the euro, but also to the banknotes of advanced countries. Our aim is for our economic agents and citizens to have in their hands a safer and more qualitative banknote. The note of 10,000 Lekë is the highest denomination of the banknote. This denomination is completely new, theming the anthem of the flag and the portrait of the poet of the national renaissance, Asdreni. Both 1000 Lekë and 10000 Lekë banknotes of the new series will be legal tender and will be used as a means of payment in the Albanian market on June 30. These days, we are introducing and informing the public about these two notes.

News 24: Let's talk about the security features, as we will have a new banknote which will be put in circulation on 30 June. As you already explained the 10 000 Lekë banknote is a larger value denomination, a new edition in the Albanian currency. Where is the decision of the Bank of Albania based on and is this large-value banknote necessary to the Albanian economy?

Governor Sejko: In fact, The Supervisory Council of the Bank of Albania has taken the decision on this denomination nine or ten years ago. Meanwhile, in these years, a new project on the re-designing and revision of the banknote has been taking place. This project is being materialised in new denominations in circulation pursuant to the planned timeline.

Of course that the moment was right, as all actors: the Albanian market, the financial system, economic agents and the users needed a higher-value denomination. As you know, the 5000 Lekë banknote has been the highest-value denomination, part of the 1996 emission. If we consider how many years have passed and what the level of both prices and wages has been in Albania, compared with year 1996, the need for a higher denomination is clear.

This higher-value denomination is indispensable to both the market and the Albanian economy. At the same time, it will help the central bank for a good administration of the money reserve, the banking system as a whole for the administration of the money available in their treasuries and also the Albanian businesses and individuals. This denomination could have been put on the market earlier, but we can say that we are still in time for a higher denomination in the Albanian banknote series.

News 24: So this means, Mr. Governor, that there was a long discussion at the meetings of the Supervisory Council regarding the launch of the 10,000 Lekë banknote in order to make a decision?

Governor Sejko: Yes. The decision of the Supervisory Council was made earlier. Of course, there is a defined legal procedure, not only for the denomination and quantity of the banknote, but also for the theme.

“... the theme of the banknote is not only an attribute of the Bank of Albania, but also the result of the work of a commission consisting of historians, numismatists, albanologists, experts in the field and, of course, experts of the Bank of Albania.”

In the new banknote series, we have not changed the theme for the denominations, we have changed the size. The symbols of all banknotes are what they have been and reflect the history of the Albanian nation from ancient times to the present day with its efforts for freedom and prosperity. In this context, the last banknote represents the flag anthem. Of course, the theme of the banknote is not only an attribute of the Bank of Albania, but also the result of the work of a commission consisting of historians, numismatists, albanologists, experts in the field and, of course, experts of the Bank of Albania.

This commission has selected the theme for the minting of the 10,000 Lekë banknote, with the national anthem. After the decision of the Supervisory Council on the denomination of the banknote, the moment comes for the commission to decide the relevant theme and then the experts decide the security elements and formatting of the denomination, which are related to the appearance of the banknote. This whole process has been completed successfully and now we have in our hands the highest denomination of 10,000 Lekë.

News 24: Mr Governor, the 10 000 Lekë banknote - as you said - embodies the symbols of the national flag and the national anthem. The design features the portrait of the poet Asdreni, the author of our national anthem. Let's talk a bit about the portrait of Asdreni, as it has raised strong debates in social platforms on the similarity with the nowadays politicians. Do you have any comment on this issue?

Governor Sejko: In fact, I have not read the comments on social networks, which received mixed reviews. The poet Asdreni is a prominent poet of the National Renaissance and author of the text of the anthem of the national flag. The committee that I mentioned

above made the selection of the theme for the 10,000 Lekë denomination, which we are putting in circulation.

It should be taken into account that the entire series of our banknote bears a portrait - in this case related to the theme of the flag anthem. The portrait is of our outstanding revivalist Asdreni. Comments with the likeness of politicians can be very different. I think that the theme chosen by the commission with the relevant experts under the obligation of the law in function of the 10,000 Lekë banknote, is a topic selected with due seriousness and care.

News 24: In addition to the 10,000 Lekë denomination, what about the 500 and 2,000 Lekë denominations? Mr. Governor, when are they expected to be put into the market?

Governor: The new series has two more denominations, which are in the production process. In September 2019, we first issued the 200 Lekë denomination with polymer material and the 5000 Lekë denomination, which are now in the hands of users and have been welcomed by the public.

While now we are putting into circulation the 1000 Lekë and 10000 Lekë denominations which are the other two denominations of the series. The last two denominations, 500 Lekë and 2000 Lekë, are expected to arrive in November or December, depending on the factory. Given these circumstances, our prediction is that they will be put into circulation at the beginning of next year. After this moment, we can say that the new series of Albanian banknotes will be fully completed. Once again, I emphasize that the existing banknotes, of all denominations, will continue to circulate alongside with the new banknotes

News 24: The existing denomination will still be in circulation?

“The existing denomination will still be available to the public and economic agents, in parallel with the new ones.”

Governor Sejko: Yes. The existing denomination will still be available to the public and economic agents, in parallel with the new ones. The existing denomination will be gradually withdrawn from circulation till the new banknotes completely replace them. Both series of banknotes which are legal tender will co-circulate for a long time.

News 24: Mr. Governor, we have been talking so far about the new banknotes that will be put into circulation, but as I said a little while ago, I also want to touch on the topic of the economy after the COVID-19 pandemic. When more than a year and a half has passed since the beginning of the COVID-19 pandemic, can you tell us, Mr. Governor, how the Albanian economy dealt with this shock, which was actually very difficult not only for Albania, but for all countries of the world, and when do you estimate a full recovery?

Governor Sejko: The Albanian economy has managed quite well and has shown itself to be flexible and resilient to the pandemic. The results of the economic indicators prove that our economy has suffered a smaller contraction than we had predicted at the beginning of the pandemic. If we go back in time, last year the international institutions, which make the relevant assessments for the economic performance, such as the International Monetary Fund and the World Bank, released some rather pessimistic forecasts with an economic decline of up to 7.5%. Meanwhile, for the second quarter of last year, the forecast for economic decline reached the level of 12.5%.

Fear and uncertainty about how the economies of the largest countries would react to the impact of the pandemic dominated the whole world. But, fortunately, as a result of the measures taken by the Albanian government in cooperation with the Bank

of Albania, and with the reaction of the market agents, the economy proved resilient and the economic fall was 3.3%.

The forecast of the Bank of Albania is in line with the International Monetary Fund for this year, for an economic growth of 5.3%. So we expect to have significant economic growth starting this year. While for the following year we have predicted an increase at the level of 4.1%. However, it is very important to note that the pandemic has been well managed, and we are seeing a fall in the numbers of infections. We hope that the summer season will not only experience a recovery in the tourism sector, which has a strong impact on the Albanian economy, but that this resurgence will go parallel to the decline in infections. If in the autumn and after we will have a good management of the crisis from the pandemic, of course our forecasts for economic recovery will also materialize.

The signs are quite positive. We expect the economy to rebound this year followed by next year. The fact that the Albanian economy has resisted and the financial markets have been calm and the exchange rate stable is quite positive news.

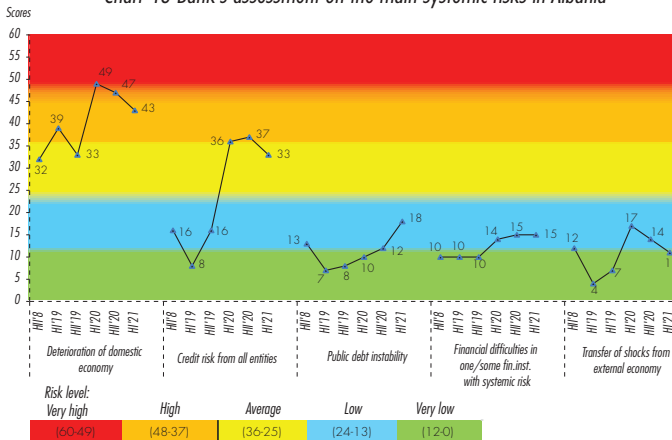
The banking system has reacted positively and shown resilience against the impact of the pandemic. It is worth mentioning, among other things, that the increase in lending at a significant level of 7.5%, is a very positive indicator for such a difficult pandemic year.

Forecasts have been quite pessimistic. For this reason, we continue to be very prudent in terms of bad loans and non-performing loans, which not only did not increase during this crisis period, but instead recorded a further decline. Had we not experienced the financial crisis or the pandemic hit, the decline in non-performing loans would have been even more significant.

Meanwhile, non-performing loans dropped from 8.1% at the end of 2020, to 7.8%. The institutional communications with commercial banks, which communicate directly with the clients, declare that in the future we do not expect a deterioration of the non-performing loans.

Of course, in our analysis as a central bank, we have taken into consideration even the most pessimistic scenarios. However, our banking system is well capitalized and with a very good liquidity situation. Under these conditions, he would successfully cope with any kind of deteriorating situation. Fortunately, we are not faced with such a situation; on the contrary, we expect a rebound and improvement of the economy, as the banking system supports it with financing.

Chart 46 Bank's assessment on the main systemic risks in Albania



Source: Bank of Albania.

News 24: Mr Governor, what are the challenges that the economy is facing while recovering after the pandemic; what should be done to bolster its sustainable development?

Governor Sejko: There are many challenges faced by all economies, ours is no exception. In the first place, our main

challenge will not be economic in nature, but one related to the health system. This challenge is related to the good management of the pandemic situation. Fortunately, the signals are quite positive and optimistic with the vaccination of the population moving at high rates.

In terms of the economy, as a supervisory and regulatory financial institution, we have clear objectives, which are also defined in the law. As a primary objective, we have price stability and financial stability.

For us as a central bank, the main challenge is maintaining price stability and reaching the target inflation level. At the same time, another major challenge for us is maintaining a stable financial system, which will help the economy to recover in function of increasing the well-being of Albanian citizens.

As we have emphasized before, we will continue to pursue our accommodative monetary policy with an interest rate at its historical low. This policy serves us best to stimulate consumption, investment and credit.

At the same time, the fiscal policy will have to remain accommodative for a certain period of time. In the future, after the situation has been overcome, the fiscal policy should move towards fiscal consolidation, i.e. towards reducing the level of debt. At the moment, when we reach the target of inflation of 3%, then our monetary policy will have to become tighter.

This moment is expected to happen before the end of 2022. In this context, monetary policy and fiscal policy will continue to be accommodative and well-coordinated with each other. As the central bank, we have continuously stated that our monetary policy will continue to be accommodative.

Currently, the use of contingency plans, i.e. quantitative easing, is not considered necessary. This is because our economy has reacted quite well and we did not have to use this plan. Other challenges are mainly related to structural reforms.

We have before us a series of structural reforms, which must be undertaken in the Albanian economy. These reforms consist of infrastructural improvements in all aspects of life, starting with improving the business climate, reducing the level of informality and implementing fair competition in the market. These reforms must continue to affect the key sectors of our economic and social life. Among them, reforms in education and health are of vital importance. Our future depends on education and health, which clearly proved how important it is for all of us.

Albania is on the way of the European integration process and of course these reforms are coordinated, supervised and widely consulted with our international partners.

The central bank as a financial institution has its share of structural reforms, which must be coordinated and harmonized with other reforms. In this context, I would like to emphasize that our main challenge remains the preservation of the country's monetary and financial stability.

Fortunately, even in this period of crisis, we have been able to properly manage the situation, which has never gotten out of control for a single moment. In parallel, we must continue to manage all the other challenges I mentioned above.

News 24: Mr. Governor, you spoke about the economy as a whole and about the reforms that have been undertaken and should be undertaken. In these conditions we are in, can we talk a little about the situation of the banking system after the COVID-19 pandemic?

Governor Sejko: As I mentioned above, the banking system is well capitalized and in a very good liquidity situation. Not only during the pandemic crisis, but also in the years that have passed, the banking system has faced a number of challenges.

“... the realization of a process of merger by absorption of large international banks has also been reflected in their subsidiaries in the region and Albania.”

The banking system has gone through a consolidation process as a result of structural changes not only in Albania, but also in the region and beyond. In this context, the realization of a process of merger by absorption of large international banks has also been reflected in their subsidiaries in the region and Albania. We have seen the withdrawal from the system of some of the most important European banks in the Albanian market and the region. Initially, this process started with the withdrawal of the French bank and then the Greek one. For the central bank, it has been a special challenge to successfully administer this very delicate process.

Currently, the banking system has 12 commercial banks in its composition, out of 16 that operated a while ago. From this point of view, one of the main objectives of the central bank has been the consolidation of the banking system. Non-performing loans have experienced a significant drop from 25% that resulted in its peak, to 7.8%. Despite the strong shocks that our economy has experienced, both from the earthquake and the pandemic, we continue to successfully manage non-performing loans and keep them under full control.

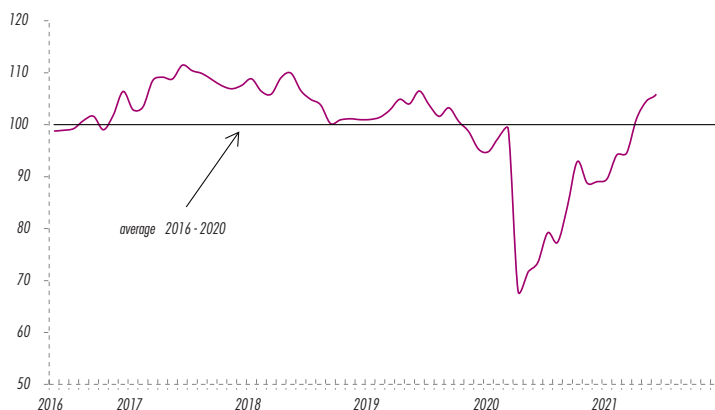
Lending to the economy has been growing even during the crisis period, at 7.7%. We forecast that we will have a further increase in lending in the future as well. Of course, this increase is directly related to the level of demand, because the banking system has the offer for financing, but the demand is related to the real economy.

Financial markets have been generally calm and the exchange rate has been stable. The banking system has resisted the crisis quite well. It has a high liquidity surplus and this reflects trust and safety to depositors. On the other hand, these deposits represent costs for the banks and must be translated into sound loans for the economy. In this way, banks can raise profitability and the economy will benefit from increased lending. At the same time, bank clients will feel more secure about their investments.

Our expectations are that the economy will recover. The banking system resisted quite well during the last year, which can be described as a very difficult year. The measures taken by us to postpone the payment of loan instalments for two quarters with a moratorium to help businesses and individuals, had a significant impact here. At the same time, a valuable contribution was made by the proactive restructuring of the banks themselves in function of the regulatory changes implemented by the central bank to adapt to the pandemic situation.

These measures have now been fully implemented. Banks no longer need such assistance as the situation appears much better. On the other hand, through the associations, we are informed that a state of optimism prevails in the market and in the various industries. All actors are waiting for an economic recovery despite the signs that the pandemic will subside. In this context, it is important to reiterate that the banking system is in a very good condition to influence the recovery of the Albanian economy.

Chart 47 The Economic Sentiment Indicator (ESI)



Source: Bank of Albania.

News 24: Mr. Sejko, recently you held a meeting with representatives of the International Monetary Fund. In this meeting, the IMF representatives have recommended you to continue with an easing monetary policy to increase the monetary stimulus. Do you have a comment about this issue?

Governor Sejko: Yes. During the past week, we concluded the next mission with the International Monetary Fund. Within the framework of the institutional agreement, the IMF communicates, evaluates and follows economic developments. The evaluations and recommendations of the International Monetary Fund, from the last mission, are completely in line and in accordance with the conclusions and analyses of the Bank of Albania. One of the recommendations of the IMF has been the pursuit of an accommodative monetary policy. The Supervisory Council of the Bank of Albania has followed the same line in its attitude to continue with an accommodative monetary policy, maintaining the interest rate at the historical minimum level, in function of the economic recovery and the promotion of consumption, investments and lending for a period of time until the economy

has strengthened sufficiently and our inflation target has been achieved.

Also, the International Monetary Fund, in the last mission, assessed positively the stability of the banking system. Of course, we must remain vigilant to monitor the situation, as the pre- and post-crisis periods carry enough risks.

Currently, we have a very significant interaction with the IMF within the framework of the assistance we receive from this institution. This assistance is also channelled through permanent resident consultants as well as other consultants based in Washington. All projects or reforms undertaken by us have gone through a close consultation with IMF representatives.

News 24: Mr Governor, thank you for the interview!

Governor Sejko: Thank you!

**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA,
FAX NEWS.
- 17 June 2021-**

Fax News: Starting from June 30, the banknotes 1,000 Lekë and 10,000 Lekë banknotes will be put into circulation. The main debate will be about the 10,000 Lekë banknote, since it is the highest denomination that we already have or will have after June 30. Why was there a need for this banknote and could a larger denomination of currency favour corruption? We will have the opportunity to discuss all these issues today with the Governor of the Bank of Albania, Mr Gent Sejko.

Mr Governor, thank you for all the material that you agreed to share with the viewer, since it is attractive when a new currency is printed, normally even with higher values.

My initial question is, why was a banknote necessary, which will be worth 10,000 Lekë, given that we already have 5,000 Lekë in use?

Governor: Thank you for coming!

The Bank of Albania has carried out a complete review of the banknote series and subsequently made the relevant communications on the revised series in September 2019. The new 10,000 Lekë denomination was part of the new revised series of banknotes. The Supervisory Council of the Bank of Albania actually approved the new 10,000 Lekë denomination many years ago, even before my mandate at the Bank of Albania, it must have been 9 or 10 years ago, and of course this period was the right time for the process of determining the theme, design, and finally producing this cut.

Currently, the highest-value denomination of 5000 Lekë was part of the 1996 issuance. We are aware that since then prices and wages have increased several times in our country. Under these conditions, it was necessary to launch a higher denomination.

We materialized it and are already putting it into circulation. Thus, starting from June 30, these two banknotes, the new denominations of 1000 Lekë and 10000 Lekë have become part of the new revised series that will be legal tender in the Republic of Albania and will be in use as a means of payment. The highest denomination had been in use for a very long period before. Therefore, changes in the level of prices, wages and the needs of the Albanian economy have made it necessary to introduce a new denomination of 10,000 Lekë.

Fax News: That is, it will be easier to conduct daily transactions, right?

“The higher denomination of 10,000 Lekë helps the central institution, also the banking and financial system in managing the amount of currency in circulation as well as users in determining the price level.”

Governor: Absolutely! Put it in a simpler language, for the citizen and for the public, without going into the need for good administration of the paper money reserve, this higher denomination helps not only the central institution, but also the banking and financial system in managing the amount of money in circulation as well as users in determining the price level.

Of course, putting this note into circulation does not mean that other notes are excluded. All the previous denominations are in circulation. This is a higher denomination, which will serve for larger purchases and circulation in larger quantities. I am convinced that the right moment has come for this denomination to facilitate the circulation of money in paper form, both by individual users and by businesses and the banking system. At

the same time, I would like to emphasize that this will also help the central bank for the good management of cash.

Fax News: General information for citizens shows that high-value denominations have fewer opportunities for counterfeiting, so they have higher security features. At the same time, I would like to ask you what a person who holds a 10,000 Lekë banknote in his hand for the first time should keep in mind, taking into consideration the fact that when he enters the market, the opportunities to be deceived are greater, if I could use this term.

Governor: The new series of banknotes has a perfection of security features. One of the reasons for its review is enhancing standards in the use of banknotes, and these standards include security features to prevent counterfeiting. If we look at them in more technical detail, we will notice that the higher the denomination of the banknotes, the more additional security features they have.

For example, the denominations of 5,000 Lekë and 10,000 Lekë have the hologram as a security feature, which the other denominations do not have and which is an element that is very difficult to be counterfeited. The Bank of Albania, at the moment of introducing the new banknote denominations, also started the process of training the employees of commercial banks on the security features and the quality of banknote. Banks are the first that will be trained and get acquainted with the banknote and the information about these security elements. At the same time, this information will be delivered to post offices and other financial agents.

After the training of this specialized part, the information of the Albanian public on the elements contained in the new banknote will start, as a standard process that has always taken place with the issuance of the banknote. The security features are modern elements, and I think they are sufficient to prevent counterfeiting of the banknote. Banknotes are produced by international companies

and currently there are a limited number of international, specialized companies that generally produce the banknotes of all countries. These two denominations of banknotes were produced by the French company Oberthur. While the last two denominations were produced by the English company De La Rue.

Both are two of the world's largest companies specializing in banknote printing. The redesign was done by the German company GDI. Undoubtedly, the aforementioned companies are specialized, and it is precisely these companies that provide the security elements of banknotes worldwide. Banknotes have these security features to make them safer for the user.

Fax News: In fact we are a society that has a wide use of cash notes in the economy. From the reports published by the Bank of Albania, we can say that about 40% of adults have bank accounts, and out of 4% of them use online transactions. To guide the citizens and their financial education, a national program and strategy for financial education was launched earlier. What has been done in terms of financial education in terms of increasing the use of banking transactions and reducing cash in the economy?

Governor: What you say is definitely one of the main objectives of the central bank, but also a challenge for us. The fight against informality, overall, is a challenge for the whole of Albania.

Even for us as a financial, regulatory and supervisory institution, the fight against informality constitutes one of the main objectives in terms of modernizing the payment system, increasing financial inclusion and educating the public at large for these purposes.

Regardless of the improvement of the quality of the banknote as a means of payment, we are working towards the modernization of payment systems and

“Even for us as a financial, regulatory and supervisory institution, the fight against informality constitutes one of the main objectives in terms of modernizing the payment system, increasing financial inclusion and educating the public at large for these purposes.”

increasing financial inclusion, which means increasing the number of citizens and businesses involved in relations with banks and equipped with bank accounts. For this purpose, the Law on payment services was approved last year, which creates a new space and further improves the legal and regulatory possibilities.

We are currently carrying out the relevant amendments in the regulatory framework in accordance with the Law to perfect the electronic payment system and to further modernize the payment system in the Republic of Albania. The Bank of Albania also chairs the National Committee of the Payment System, which consists of representatives of the Ministry of Finance and Economy, the Financial Supervision Authority and the Albanian Association of Banks. In this perspective, all possible ways to implement new forms of electronic payments in the banking system and the financial market are being considered, with the aim of facilitating payments for Albanian citizens and increasing financial inclusion.

Based on empirical studies, financial inclusion reduces inequality because the facilities that people benefit from using banking channels create a real impact on their social well-being. So, on the one hand, the fight against informality is intensified, and on the other hand, the relations of citizens with the financial system and with everything else are eased.

“Financial inclusion reduces inequality because the facilities that people benefit from using banking channels create a real impact on their social well-being.”

In this context, a number of measures have been taken, including a plan for financial education. We have undertaken a series of activities as part of the Money Week, in cooperation with the Ministry of Education, Sports and Youth and second level banks.

Commercial banks themselves are institutions, which have an impact on the financial education of the public since the competition between the banking system itself brings the introduction of new

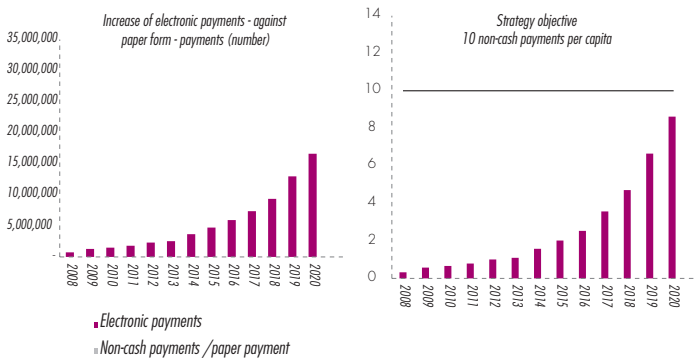
products to the market. In addition to the Bank of Albania’s strategy, this is a challenge that has been, is and will continue for many years. If we notice, in the most advanced cities and areas, financial education and financial inclusion have been evolved significantly.

Fax News: Also, banking coverage.

Governor: Yes. Banking coverage, precisely for these reasons, is more complete and has a higher level of both financial education and financial inclusion, while rural areas are still lagging behind in this area.

Currently, our objective is to further modernize the payment system and the use of electronic payments. An element that is worth mentioning as an example is that during the pandemic period we implemented a change in the regulatory framework to relieve banks from commissions, so that the end user, i.e. the Albanian citizen, would pay lower commissions for electronic payments and avoid the use of cash. As a result of this intervention, it can be said that there was a high increase in the use of electronic payments.

Chart 48 Volume of electronic and paper payment instruments in years (left) and the volume of payments per person (+15 years-old) in years (right)



Source: Bank of Albania.

In parallel, the wider use of debit and credit cards as payment instruments would facilitate and modernize the systems. This is a long and multi-step process. We have a strategy with concrete objectives, which is being rigorously implemented.

Certainly we anticipate that in two or three years there will be a higher increase in financial inclusion. If we look at where we have been and where we are, we can say that great progress has been made.

We will not be able to forget that until recently, 10 or 15 years ago, we had neither ATMs in Albania nor the use of bank cards, so only cash was used in the economy. Even wages were received in cash, while today, people, especially in cities, have bank accounts, and payments are made through banking channels. In general, anyone who has a bank account also has a debit card and can withdraw the amount of money in use through ATMs.

So, in a relatively short time, there are some more modernized payment elements. We come from a very basic level and have reached a significant level of development, which is a result of the legal and regulatory amendments made by the central bank.

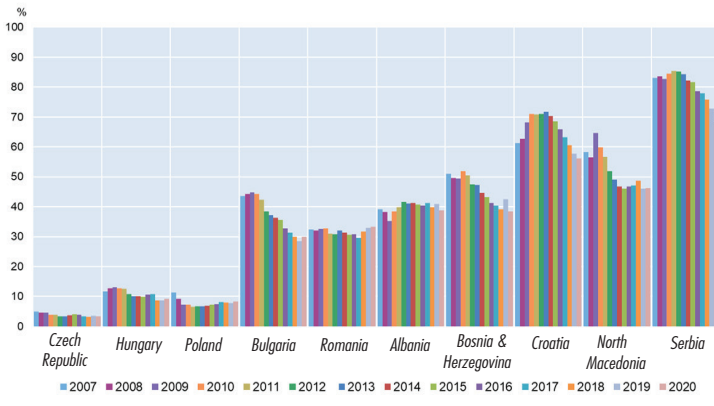
At the same time, it is worth mentioning the impact that European banks and foreign banks have had. In this context, commercial banks have obviously followed the same standard. So the market has elevated the required standard but of course there is still a need for further improvements and progress. We are working towards this objective. These are medium and long-term challenges, so they require their time. It is important that there is progress. Gradually and step by step, this is one of our main objectives.

Fax News: Mr Governor, I can't conclude this interview without also asking about the deeuroization process.

Governor: As we have stated earlier, this process has started strongly, while we are experiencing a decrease in tourism income, reduction of remittances and a high number of large and small purchases in euro. It cannot be said that the project is stuck in place, but just like the previous issue that we discussed as an integral part of financial inclusion, it is a long-term and challenging project for the Albanian economy.

Albanian economy is a small, but open one. Our trading partners are in the Eurozone. Albanian immigrants are mainly in Eurozone countries. The main commercial exchanges, import-exports are from Eurozone countries. We are surrounded by neighbouring countries such as Italy, Greece, but also Montenegro and Kosovo, which use the euro. So in all directions, the euro is a strong currency, which affects the Albanian economy and the main inflows in the Albanian economy are in euro. Of course, tourism, foreign investments and all other elements are also transactions carried out in euro.

Chart 49 Euroistaion Index



Source: Bank of Albania.

Price stability and financial stability is the main objective of the central bank as a financial institution. Price stability is mainly achieved through the main instrument of the central bank, which is the interest rate. Through the reduction and increase of the interest rate, the central banks aim to boost consumption, investments and lending in the economy in order to have an economic recovery and growth in function of the well-being of Albanian citizens.

In this context, this core instrument used by the central bank makes it possible to exercise control over the domestic banknote through the interest rate. Since the European Central Bank is the bank that issues the euro in the European Union, then the decrease or increase of its interest rate is exercised on this currency.

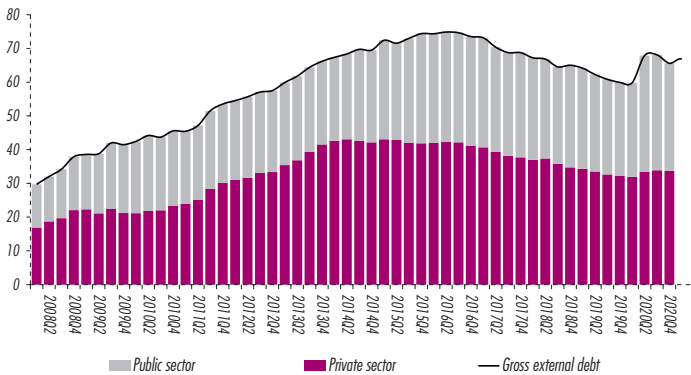
Lek is our national currency, and the key interest rate of the Bank of Albania affects Lek. In this perspective, the high level of euroization in the economy would contain the transmission of the central bank's monetary policy. So, it would contain the possibility that the central bank has to influence the well-being of Albanian citizens and economic growth.

Fortunately, the European Central Bank has also followed a policy of lowering the interest rate, that is, it has kept a minimum interest rate, which is currently a negative rate, and this has had a positive impact on the part of lending in euro in commercial banks.

At the same time, the Bank of Albania has followed the same accommodative monetary policy. To this end, if there will be a new higher use of the national currency in the economy, then the power of the central bank's monetary policy will also increase. On the other side is financial stability. Of course, we, as a central bank, would like for the benefit of economic agents and Albanian citizens, who receive their salaries in the national currency, to be credited in the national currency as well, to avoid the risk of the foreign exchange rate.

In simpler words, if you were to get a loan to buy an apartment in euro and you have a salary in the national currency Lek, and in the event that in the long term we would have a depreciation of the national currency, then you were unable to repay the loan. Currently, a quarter of the loan portfolio in Albania is in foreign currency, so they are in euro, uncollateralized, as we call them “unhedged”, with clients who have income in the national currency, so we are facing a serious risk exposure to foreign exchange rate. At the same time, the debt of the Republic of Albania, the foreign debt remains at a considerable level. As we know, the debt level is about 68% of GDP.

Chart 50 Gross external debt by sectors (% of nominal GDP)



Source: Bank of Albania.

The vast part of this debt, more than 50% of it is in foreign currency. Considering the fact that the revenues in the state budget are in the national currency, we have a high exposure and for this very reason, it is recommended by the European Union and the International Monetary Fund to follow a deeuroization policy to increase the transmission of monetary policy and to safeguard financial stability in order to mitigate the risk derived from exposure to the exchange rate. These are some of the main reasons why the Bank of Albania has undertaken a deep deeuroization policy.

Fax News: The question is not why you undertook it, but why hasn't this process progressed?

Governor: I have continuously dealt with this issue with the aim to inform the public in the framework of transparency, and also to understand the objective of deeuroization policy, which frequently is confused with the foreign exchange rate. For this reason, in the light of this interview as well, through your prestigious television, allow me to re-emphasise this major objective. To respond in more concrete terms to your question, as to whether the de-euroization policy has been progressing or not, I can mention some facts: the high growth of lending in lek and the enhanced transparency to the public, as two crucial elements of this policy.

Transparency is one of the crucial elements to understand the risk that originates from the euroization of the economy. In this context, clients of the banking system, both enterprises and households, have already understood the risk deriving from the exposure to the exchange rate if taking a loan in foreign currency. Thus, if your income are in lek, it better to take a loan in lek, not in another currency. That is the purpose of this detailed explanation that I tried to provide today.

In this view, we have experienced a considerable growth of lending in lek. In the last year, lending grew by 7.7%. Most part of this growth is in lek. This fact clearly shows that this element of our de-euroization policy has functioned.

In parallel, deposits in the national currency have been considerably up. That is, in the parameters we have projected for a positive progress in the de-euroization policy. I would like to re-highlight that we do not expect to remove euro from circulation. Euro of course will remain in circulation.

Fax News: In addition, Albania aspires to enter in the European Union. In this context there is no reason to claim removing euro from circulation.

Governor: Absolutely! We are in the phase that the Albanian economy needs to recover. The Albanian economy needs deep structural reforms. The de-euroization policy is one of these reforms for the Bank of Albania. Once the Albanian economy reaches a certain level of economic development, then we will shift to another stage, like Croatia or Czech Republic is now. They have close standards with the European Union and are very close to adopting the euro as national currency.

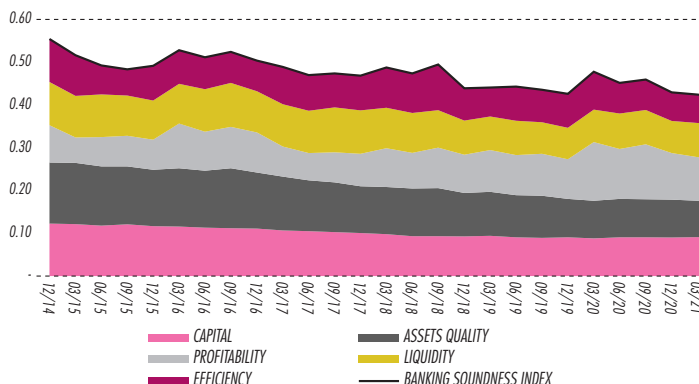
Fax News: Let's talk somewhat longer on lending to the economy. Apart from the pandemic, are there other reasons that inhibit this process or are investors looking to secure their finances in other non-banking ways?

Governor: Credit to the economy has actually grown quite well given the situation created by the pandemic crisis and the earthquake. The region and the Euro area have experienced a very difficult financial situation since 2008.

The United States of America and the European Union experienced a severe financial blow from the 2008 crisis. Currently, we are still in a post-crisis situation as a result of the COVID-19 pandemic, a heavy shock on the economies across the worldwide, also on Albania and the region. Despite this extremely difficult situation, lending has grown significantly. Currently, we look at the horizon of an economic recovery throughout this year, but also a good increase in lending, based on the information obtained from the banks, as well as the analyses and questionnaires carried out for this purpose.

Of course, banks are institutions that offer loans, so they are from the supply side, while the demand comes from the real economy. The more the real economy grows, the more the healthy demand for credit will grow and more banks will be able to lend.

Chart 55 Banking soundness index*



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

In this context, excess liquidity of banks is a very positive element. Obviously, for banks, this is a high cost and problematic in terms of profitability. For the economy, this indicates security for depositors and financial opportunities to lend to the economy. The economic recovery, the revitalization of economic activities and commercial agents operating in the Republic of Albania, will increase demand for loans, and this will drive commercial banks to increase their lending.

Fax News: Are we facing a market distortion or a request for financing outside the banking market

Governor: Regarding lending to the economy from the informal market, the Bank of Albania have conducted analysis and it turns out that we do not have an informal market that competes with the banking system.

Borrowing and lending in the Republic of Albania are regulated by code and are not prohibited. Our concern would be if there were unlicensed financial institutions operating that carried out unlicensed activity and speculated on the deposits and funds

of businesses and citizens. In conclusion, we can strongly say that this phenomenon is no longer worrisome and does not remain at the levels that is often thought of, as tangible results have been achieved in terms of financial inclusion or the fight against informality and the modernization of the payment system. However, challenges such as credit growth and economic growth remain open and are closely interconnected.

Fax News: I thank you for the interview and I hope that we will have a quick recovery of the economy and that the users of these banknotes will have them in their hands for as long as possible and will be involved in banking services as much as possible.

Governor: Thank you!

**INTERVIEW WITH GENT SEJKO,
GOVERNOR OF THE BANK OF ALBANIA.
"TOP TALK" TOP CHANNEL TV
-21 June 2021-**

Top Channel: Greetings everyone, welcome to the Top Talk show. As was already revealed, a new banknote will be issued in circulation on June 30th. That is the new denomination of 10 000 Lekë or as it is commonly used in the everyday language old ALL 100 0000. In fact, this decision was controversial. Several comments followed discussing the reasons behind this issuance at this specific time, and the benefit of this new banknote to the people.

The Governor of the Bank of Albania, Mr Gent Sejko is today at Top Talk show to address some questions raised by several financial market specialists, who object this decision. Thank you Mr Sejko for being at Top Talk today.

Governor Sejko: Denis, thank you for the invitation!

Top Channel: Let's first satisfy our curiosity. Why did you pick this time to issue a new banknote with such high denomination of 10 000 Lekë?

Governor Sejko: In fact, as I have previously stated, the Supervisory Council of the Bank of Albania has decided to issue this denomination since 2014...

Top Channel: Political reasons then...

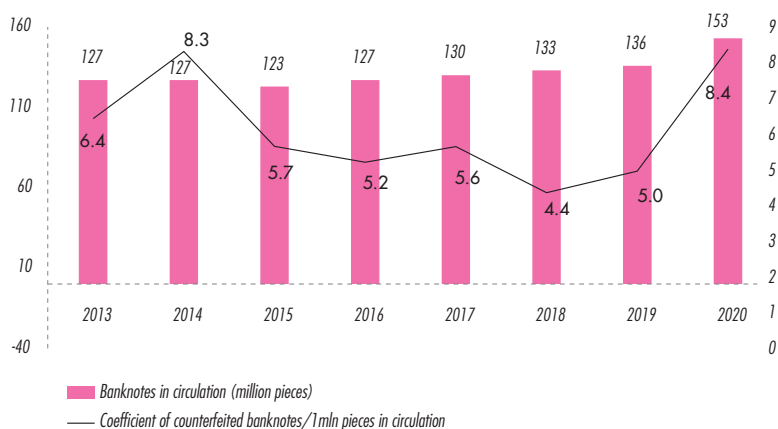
Governor Sejko: The Supervisory Council of the Bank of Albanian has undertaken this decision-making policy, for the first time, in 2014. This was also supported by the analyses conducted by the Department of Issuance of the Bank of Albania, which concluded that the new banknote 10 0000 Lekë should

be put in circulation. Then, given the necessary time, and in collaboration with the Supervisory Council, it was deemed appropriate to review the entire series of banknotes beyond this denomination. In this regard, we took into consideration several aspects, which we have explained in detail, such as: enhancing the security features and the quality standards of the banknote.

Top Channel: *You mention the enhancement of security features; however, do we have cases of counterfeit notes, because I cannot recall such cases?*

Governor Sejko: We currently do not have cases of counterfeit banknotes; however, there is always a potential risk. Since you are asking, there were few inconsequential cases regarding the 1000 Lekë and 2000 Lekë banknotes, where the quality of counterfeit was poor, with 8.5 cases for 1 million banknotes.

Chart 52 Counterfeited banknotes statistics



Source: Bank of Albania.

Top Channel: *So the risk of having a history of counterfeit banknotes is quite low, right?*

Governor Sejko: The risk is low indeed. The existing banknotes will also remain in circulation. In parallel with the new

denominations, we are putting in circulation the new 1000 Lekë banknote, as well as the other denominations, which are appearing in a redesigned form while maintaining the same underlying theme. These will be available for circulation and will be used as legal tender.

Top Channel: *You said that putting in circulation the new banknotes has been part of your plans for a long time, my question is: Who is benefiting from them? Let me put it more simply. Most people get paid monthly wages of ALL 40.000, ALL 50.000 or ALL 60.000, and I think that the new 10 000 Lekë banknote is too large to go do groceries. In other words, who is benefiting from this banknote?*

Governor Sejko: The banknote is not only useful to people and enterprises, but it is a monetary circulation instrument for banks and the central bank. The paper banknote is one of the instruments of payments. In this regard, the assessment and the decision conducted by the Supervisory Council of the Bank of Albania are based, first and foremost, on the administration of paper money by the central bank and the banking system. Therefore, it is business as usual to have a higher denominated banknote in circulation, while also keeping in mind the cash management. This will facilitate both the management and the treasury process.

Top Channel: *What does the treasury process mean?*

Governor Sejko: The treasury process means to have the necessary reserve of paper money in circulation, in order to fulfil the needs of the financial system and the Albanian economy, indirectly.

Top Channel TV: *Albania has a high level of informality as regards two aspects: first, Albanians continue to keep money under the pillow and second, money coming in from illegal sources, or dirty money, as it is commonly known. I think that the largest denomination automatically facilitates this type of money that I just mentioned: dirty*

and illegal money. Have you ever thought of this controversial aspect of what you are trying to promote?

Governor Sejko: I don't think this is a controversial process. Regarding the issues you just mentioned, there are several aspects that need to be treated separately from each other.

“The Moneyval Committee on money laundering has issued a positive assessment for Albania, in the report addressed to the European Commission, in the framework of the European Integration.”

First, on the issue of preventing money laundering that comes from illegal traffics, I shall inform you that there are a set of legal measures applicable, where the Bank of Albania is involved. Since you mentioned it, I would like to highlight that the Moneyval Committee on money laundering has issued a positive assessment for Albania, in the report addressed to the European Commission, in the framework of the European Integration.

This report highlights that the central bank and the banking system are essential components in this process. However, there are several other elements, which must be appropriately addressed, and I would like to stop at the circulation of cash in the economy, specifically. It is crystal clear that international traffics are conducted using solid currencies, such as the euro and the British pound. So, a simple observation shows that the illegal money caught in criminal activities, is not lek. The lek is used only for domestic circulation.

Top Channel TV: *Can this turn lek into an objective, making it a target of safeguarding the value of our national currency. By having a high denomination available, one starts thinking of saving money in lek.*

Governor Sejko: The banknote is an instrument of payment, which must exist without a question, and it exists in all the

advanced and developing economies. Thus, despite the above-mentioned risks, central banks cannot fail to issue denominations needed by the market and the payment system. Meanwhile, on the other hand, all the necessary measures must be put in place to prevent illegal traffics and to avoid bottlenecks in the economy.

Top Channel TV: *OK then, the banknotes 50 000 Lekë or the new 5 000 Lekë, which has been available for a long time, does not comply with this framework?*

Governor Sejko: Absolutely, the new 5 000 Lekë was issued in 1996, so it was practically the right time for a new higher denomination, given also the analysis conducted.

Top Channel TV: *Will the existing note of 5 000 Lekë remain in circulation?*

Governor Sejko: All denominations will remain in circulation.

Top Channel TV: *None of them is discontinued.*

Governor Sejko: Absolutely not, we have declared it several times, the new series...

Top Channel TV: *But the range is expanded...*

Governor Sejko: The range is expanded to the effect of money management, the treasury, and utility provided to other users such as agents, individuals and enterprises.

Top Channel TV: *Yes, certainly all the other denominations will be available. I have heard some comments that say that we are not issuing the new note of 10 000 Lekë and discontinuing the other denominations. All the other denominations will remain. Thus, small denominations will be used for small payments, whereas large payments will use larger denominations. This is an additional element*

which provides some facilitation. So, this does not substitute the other denominations.

Governor Sejko: Naturally, another logical fallacy I may say, correct me if I am wrong, but all the awareness-raising and political camping are pushing for the fiscalisation or the formalisation.

Top Channel TV: *The formalisation and the circulation of all money through the banking channels.*

Governor Sejko: Indeed.

Top Channel TV: *People will use their debit and credit cards more, which renders everything more transparent, more controlled, and it is becomes easier to monitor, but also safer. Now, putting this new banknote in circulation, it seems that this contrasts the policy which invites people to use less cash.*

Governor Sejko: Absolutely not.

Top Channel TV: *Why?*

Governor Sejko: The money, banknotes and denominations are another element of the modernisation of the payment system, as well as the war against the informality in the economy. The formalisation and the work dedicated to increase awareness on electronic money, debit and credit cards, are some other initiatives which walk hand-in-hand with each other.

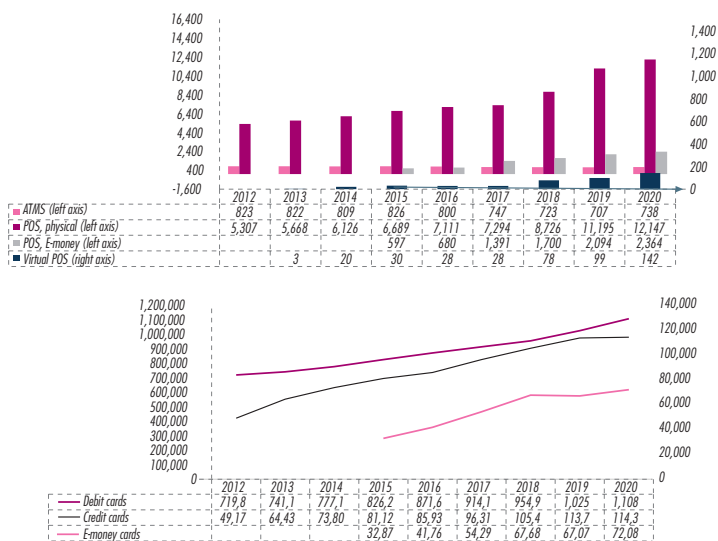
Top Channel TV: *Since you mentioned it, do you have the data available on the percentage of Albanians that use ATM-s or debit/credit cards?*

Governor Sejko: ATM-s are used by a high number of Albanians, but credit cards...

Top Channel TV: What is the level of our financial literacy: is it low or are we going toward...

Governor Sejko: Our literacy has significantly increased in this direction. The progress realised with the credit/debit cards and electronic payments used in internet banking has been very tangible over the last years. It is worth mentioning that 10 or 15 years ago, ATM use was quite low or almost non-existent.

Chart 53 Developments related to ATMs and POS (left), as well as related to debit, credit and pre-paid cards (right)



Source: Bank of Albania.

Top Channel TV: We are now in 2020, therefore....

Governor Sejko: In this regard, we are an undeveloped country...

Top Channel TV: An undeveloped country...

Governor: Our central bank has a national strategy. It is also worth mentioning the function of the Payment System National

Committee, which has undertaken a series of valuable initiatives in this area. These would have to be discussed another time since they are of significant importance.

Top Channel TV: It is a fact, that there are still large companies or other entities, which use two balance sheets.

Governor Sejko: The standard with two balance sheets serves the fiscal evasion, and this issue has been addressed.

Top Channel TV: Are they connected?

“The banknote is a payment instrument that facilitates payments and money management for commercial banks and the central bank.”

Governor Sejko: Money and fiscal evasion are undoubtedly connected with one another. The banknote is a payment instrument that facilitates payments and money management for commercial banks and the central bank. Measures against informality are another set of measures, which are part of the structural reforms and must be adopted by the Albanian government, the bank of Albania, and all the other stakeholders involved in the implementation of law in the Republic of Albania.

Top Channel TV: I have two questions. First, you previously said that dirty money is mostly in euro and the British pound. Currently, legal commerce and exports are conducted in euro. In this context, how far are we from the euro, and are we preparing to adopt the euro, or are we still far from making this currency official? Should we be invested on the euro rather than the lek?

Governor Sejko: These are two separate issues, but also simultaneously related to each other. Albania is at a certain stage of the economic development and to reach the Euro area we will have to continue the de-euroization process and, in parallel, strengthen the use of domestic currency.

Top Channel TV: Why?

Governor Sejko: Since the use of the domestic currency gives the central bank the opportunity to better transmit the monetary policy, and monetary policy transmission results in better consumption, investment, and lending. Everything I mentioned previously is directly translated in economic growth and a higher well-being for the Albanian citizens. In the same vein, this preserves financial stability and the financial soundness of banks and the deposits of Albanians. So, if loans will continue to be in euro and your revenues in lek, in the case of possible lek depreciation, you will face strenuous payment difficulties. We have witnessed several crises due to this factor.

Top Channel TV: You are talking about inflation?

Governor Sejko: Yes, I am talking about inflation. If there would be inflation, people, citizens, and enterprises will fail to pay their loans and this will bring not only financial loss...

Top Channel TV: ...but chaos as well?

Governor Sejko: It will cause chaos, which we have experienced before as well. For these reasons, the policies implemented in accordance with the recommendations of the European Union and the International Monetary Fund as well, are founded precisely upon stimulating the national currency. Once Albania reaches a certain economic level, our policies will change regarding the adoption of euro as a currency.

Top Channel TV: Let's take a deeper look at this issue. Do we have a final objective in mind? In other words, we will be using euro by 2030 or by 2040? So, do we have a medium or long-term objective?

Governor: This will depend on our level of commitment in regards to implementing the economic reforms.

Top Channel TV: Do we aspire to adopt the euro or keep our national currency?

Governor Sejko: In this direction, several analyses and empirical observations were conducted. Over 90% of Albanians support the adoption of euro as currency. Our lifestyle is directed toward the euro. Certainly we want to move towards the euro and the European Union. The euro is the currency, when we talk about the currency...

Top Channel TV: Agreed, I was talking in practice, not just as a political approach, but a financial one.

“Our way of living, aspirations, and anchor is the euro. All our efforts are projected toward the European Union. We have already determined our direction toward the West.”

Governor Sejko: This is the only road ahead of us. Our way of living, aspirations, and goals point toward the euro. All our efforts are projected toward the European Union. We have already determined our direction toward the West. Our economy is free and open. Our standards are in full congruence with the course of euro adoption. Furthermore, the standards of new banknotes and the changes that they have undergone, show that our goal is to emulate the euro. Despite the following, we should be serious about our structural reforms in order to continue on the road toward the European Union. This requires the necessary time, without a doubt. The faster we implement the structural reforms, the shorter our trip toward Europe.

There are several scenarios in regards to convergence to euro. There is a pessimistic, optimistic, as well as a realistic outlook. The optimistic scenario, which is supported by a set of empirical analyses, shows that within a considerable time period, we are going to meet the standards imposed. So, within 20 years, we will adopt the euro as a currency. This may happen even faster if we fully rely on the pessimistic scenarios.

Top Channel TV: *I will take this discussion in a completely different course, since talk regarding virtual currency is ever more present. So, there is the domestic currency, Lek, euro and the virtual currency or Bitcoin as it is commonly known. Currently, we can also imagine directly transcending from lek to Bitcoin, without adopting euro at all, right? The question could come across as a bit naive, but I believe that it is worth discussing it.*

Governor Sejko: No, certainly this issue needs to be discussed and analysed. Virtual currencies, Bitcoin, crypto-currencies are not under the control of central banks, there are cases which...

Top Channel TV: *Is this the future, Bitcoin and virtual currencies? I would like to ask this question to you since you are a professional in this area.*

Governor Sejko: Certainly it is the future, but not the way you put it. Central banks, the Federal Reserve in the United States, the Central Bank of England, and the European Central Bank are thoroughly analysing the potential impact of digital currency. In this context, the goal is that the new technological advances will allow the central bank to be the one to issue the digital currency, in parallel with the paper money (cash) or its other forms. Meanwhile, since crypto-currency is not currently under the control of central banks, it holds high risks for potential investors. Simultaneously, its market volatility is still unsupervised.

Top Channel TV: *The actual question is this: Are the central banks and those who devise the global financial policies, encouraging or discouraging the crypto-currency?*

Governor Sejko: Financial market possesses a variety of instruments on their disposal. The central banks and other regulators assume legal responsibility on all payment instruments and other financial market elements, thus, raising awareness and informing the public is a must. From this perspective, these

payment instruments and financial reforms should be managed, supervised, and launched by the financial institutions in order to give guarantee to the general public. Any other financial market feature, payment instrument or investment method, which is not monitored or supervised by financial institutions, has considerable risks for investors and central banks.

Top Channel TV: *It is clear that they are not currently being promoted, especially from central banks. I have a last question related to the new denomination of 10 000 Lekë, or old ALL 100 000. Does this large denomination carry an additional risk for the increasing inflation? Usually when new denominations are issued, inflation is the logical conclusion.*

Governor Sejko: The new denomination follows the level of inflation, and the issuance of banknote does not incite inflation. High inflation is followed by issuing banknotes of large denomination.

Top Channel TV: *That is why I asked this question, because this is always the significance behind it.*

"In our case, the new denomination issued was not a product of inflation. This was the result of several years of research. And, the main reason is that it helps the payment system to run smoothly."

Governor Sejko: We are not facing an inflationary situation. Usually, the challenging situations that are followed by deep economic crisis, force certain countries to issue banknotes with some added zeros due to inflation. In our case, the new denomination issued was not a product of inflation. This was the result of several years of research. And, the main reason is that it helps the payment system to run smoothly.

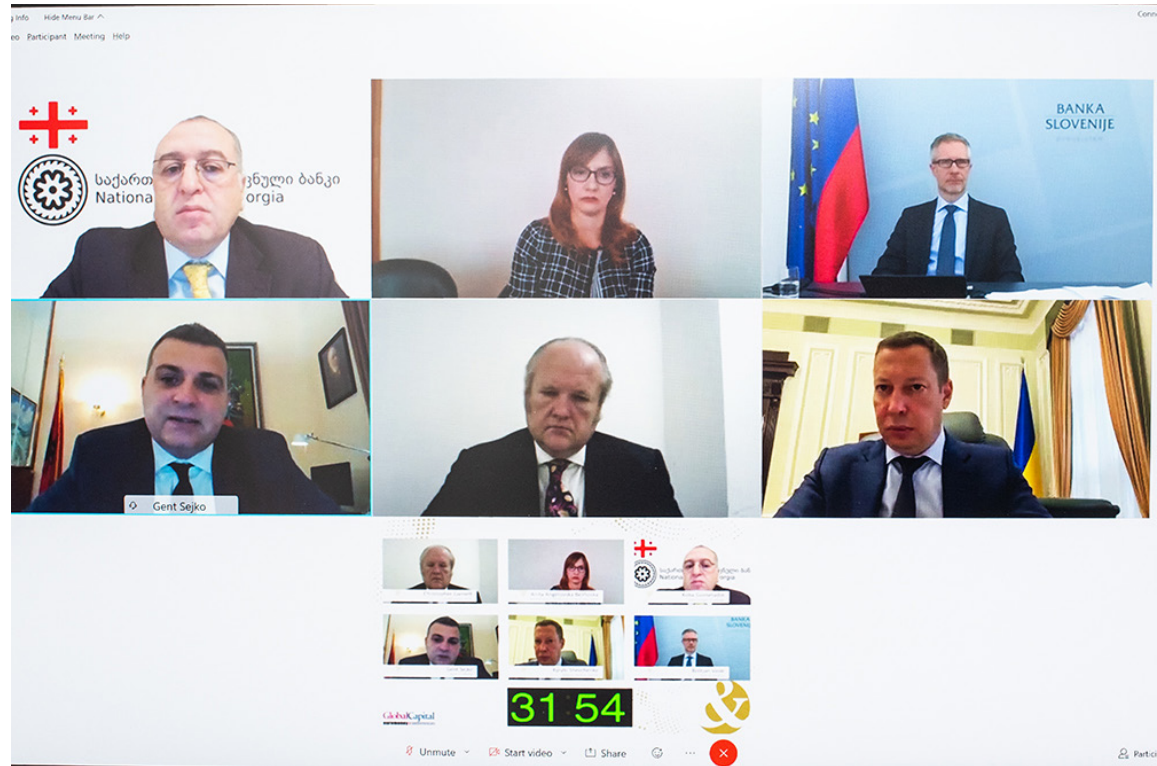
Top Channel TV: *So, it is related to the debt that exceeds 80%, right? The public debt, I mean.*

Governor Sejko: No. It has no relation to the public debt. As was explained a few minutes ago, this is just a simple payment instrument. So, it is put into circulation to help the circulation of money as a financial means. Here, we are not facing an inflationary situation. Our goal is that inflation will increase slightly, since it currently is somewhat below the objective of the Bank of Albania.

Top Channel TV: Let's hope the best for the new denomination of 10 000 Lekë! Thank you, Mr Sejko. We were with the Governor of the Bank of Albania. This is the new banknote 10 000 Lekë that will be put in circulation on 30 June, together with the new banknote 1000 Lekë.

FOTO GALERI / PHOTO GALLERY

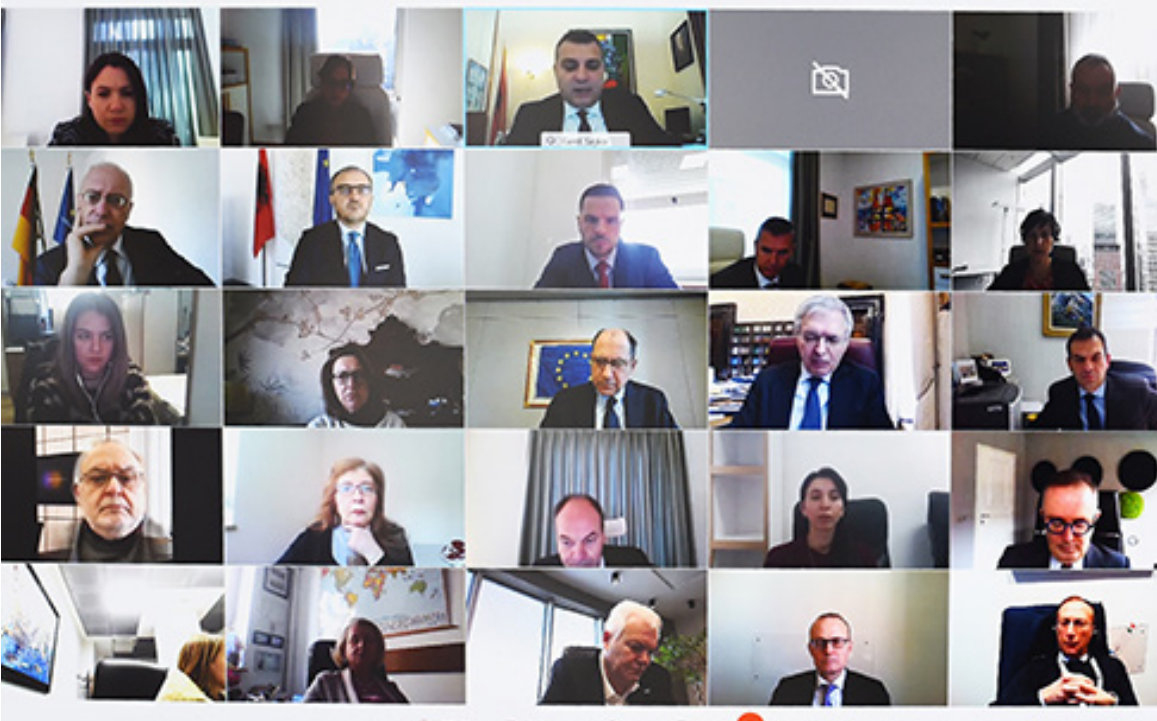
Gubernatori Sejko në Forumin për vendet e Evropës Qendrore dhe Lindore, të organizuar nga "Euromoney", 14 janar 2021 /
Governor Sejko attends the Central and Eastern European Forum organised by Euromoney, 14 January 2021



Gubernatori Sejko në Ceremoninë e Përfundimit të Projektit të Binjakëzimit "Forcimi i kapaciteteve të Bankës së Shqipërisë në kuadër të përafrimit me legjislacionin e Bashkimit Evropian, 18 janar 2021 /
Governor Sejko attends the Virtual closing ceremony of the twinning project "Enhancing Bank of Albania's alignment with EU acquis", 18 January 2021



Guvernatori Sejko në Ceremoninë e Përfundimit të Projektit të Binjakëzimit "Forcimi i kapaciteteve të Bankës së Shqipërisë në kuadër të përafrimit me legjislacionin e Bashkimit Evropian, 18 janar 2021 /
Governor Sejko attends the Virtual closing ceremony of the twinning project "Enhancing Bank of Albania's alignment with EU acquis", 18 January 2021



Guvernatori Sejko me Ambasadorin e ri të OSBE-së në Shqipëri, SH.T.Z. Vincenzo Del Monaco, 22 janar 2021 /
Governor Sejko receives H.E. Mr. Vincenzo Del Monaco, new Ambassador of the OSCE Presence in Albania, 22 January 2021



Gubernur Sejko në Konferencën Shkencore “Pandemia dhe rimëkëmbja – strategjitë e përbaljes dhe pritshmëritë”, 9 shkurt 2021/
Governor Sejko at the Scientific Conference on “Pandemic and recovery – the coping strategies and expectations”, 9 February 2021



Gubernur Sejko në një mbledhje online me Misionin e FMN-së për Shqipërinë, 10 mars 2021/
Governor Sejko: Online meeting with the IMF Mission for Albania, 10 March 2021



Gubernur Sejko në ceremoninë e hapjes së Javës së Parasë, 23 mars 2021/
Governor Sejko: Address to the opening ceremony of the Money Week, 23 March 2021



Gubernur Sejko me Ambasadorin e Japonisë SH.T. Z. T akada Mitsuyuki në Tiranë, 26 mars 2021/
Governor Sejko receives the Ambassador of Japan H.E. Mr. Takada Mitsuyuki in Tirana, 26 March 2021



*Governatori Sejko online në Mbledhjet e Pranverës të Fondit Monetar Ndërkombëtar dhe të Grupit të Bankës Botërore, 9 prill 2021/
Governor Sejko virtually attends the IMF and WB Spring Meetings, 9 April 2021*

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Governor Sejko meets with H.E. Mr. Volodymyr Shkurov, the first Ambassador of Ukraine resident in Tirana, 15 April 2021*



Guvernatori Sejko gjatë prezantimit të Raportit Vjetor të Bankës së Shqipërisë për vitin 2020 në Komisionin e Ekonomisë dhe Financave, 20 prill 2021 / Governor Sejko presents BoA's Annual Report 2021 to the Parliamentary Committee on Economy and Finance, 20 April 2021



Guvernatori Sejko në konferencën “Normalja e re, sfidat dhe oportunitetet” të Universitetit Evropian të Tiranës, 30 prill 2021 / Governor Sejko attends the Conference on: “New normal: Challenges & Opportunities”, European University of Tirana, 30 April 2021



Guvernatori Sejko gjatë prezantimit të Raportit Vjetor të Bankës së Shqipërisë për vitin 2020 në Kuvendin e Shqipërisë, 27 maj 2021 /
Governor Sejko: Address to the Assembly of the Republic of Albania presenting the Annual Report of the Bank of Albania for 2020, 27 May 2021



Guvernatori Sejko me një delegacion të Bankës Botërore, 3 qershor 2021 /
Governor Sejko meets the World Bank delegation, 3 June 2021



Governatori Sejko në takim përmblyllës online me Misionin e FMN-së për Shqipërinë, 14 qershor 2021
Governor Sejko: Virtual meeting with the International Monetary Fund Mission, 14 June 2021



Governatori Sejko në prezantimin e dy kartëmonedhave 1000 Lekë dhe 10000 Lekë të serisë së re të kartëmonedhave, 15 qershor 2021/
Governor Sejko: Address at the Launching of the two banknotes, 1000 lek and 10000 lek, of the New Albanian Banknote Series, 15 June 2021



*Guvernatori Sejko me profesionistët e rinj, pjesëmarrës të Programit LEAD Albania 2021, 23 qershor 2021/
Governor Sejko meets the young professionals participating in the LEAD Albania Program 2021, 23 June 2021*



*Guvernatori Sejko në një takim diskutimi me Shoqatën Shqiptare të Bankave, 29 qershor 2021/
Bank of Albania meets and discusses with the Albanian Association of Banks, 29 June 2021*



Guvernatori Sejko me një delegacion të Bankës Evropiane për Rindërtim dhe Zhvillim, 1 korrik 2021/
Governor Sejko meets representatives of the European Bank for Reconstruction and Development, 1 July 2021



Guvernatori Sejko në ceremoninë e promovimit të librit: "Përballë krizës, sfidat e teorisë dhe politikave ekonomike", nga autorët Akad. Prof. Dr. Anastas Angjeli dhe Prof. Dr. Adrian Civiçi, 22 korrik 2021 /
Governor Sejko: Address at the promotion of the book on: "Facing crisis: the challenges of economic theory and policies", by Academic Prof. Dr. Anastas Angjeli and Prof. Dr. Adrian Civiçi, 22 July 2021



Guvernatori Sejko me Zëvendëspresidentin e Bankës Evropiane për Rindërtim dhe Zhvillim, z. Jurgen Rigtierink, 8 shtator 2021/
Governor Sejko meets with the EBRD's First Vice President, Mr Jurgen Rigtierink, 8 September 2021



Guvernatori Sejko në tryezën e organizuar nga Ambasada e Mbretërisë së Bashkuar në Tiranë, 15 shtator 2021/
Governor Sejko attends the round table on: "Economic development of Albania: Challenges and opportunities", 15 September 2021



Gubernatori Sejko në konferencën e përbashkët për shtyp online me Shefen e Misionit të FMN-së dhe Ministrin e Financave dhe Ekonomisë, 12 tetor 2021 / Governor Sejko at the joint press conference with the IMF Mission Chief for Albania and the Albanian Minister of Finance and Economy, 12 October 2021



Gubernatori Sejko në Mbledhjet Vjetore Virtuale të Fondit Monetar Ndërkombëtar dhe Bankës Botërore, 21 tetor 2021 / Governor Sejko attends the virtual Annual Meetings of the International Monetary Fund and the World Bank Group, 21 October 2021



*Guvernatori Sejko me Drejtorin Ekzekutiv për Shqipërinë pranë Bankës Botërore, z. Matteo Bugamelli, 25 tetor 2021/
Governor Sejko meets the Executive Director of the World Bank for Albania, Mr. Matteo Bugamelli, 25 October 2021*



*Guvernatori Sejko gjatë prezantimit të opinionit të Bankës së Shqipërisë për projektbuxhetin 2022, 5 nëntor 2021/
Governor Sejko presents BoA's opinion on the Draft Budget 2022, 5 November 2021*



Guvernatori Sejko me Drejtorin Rajonal të Korporatës Financiare Ndërkombëtare (IFC) për Evropën Qendrore dhe Juglindore, z. Ary Naïm, 16 nëntor 2022 /
Governor Sejko meets the Regional Director of the International Financial Corporation (IFC) for the Central and Southeastern Europe, Mr Ary Naïm, 16
November 2022



Guvernatori Sejko në hapjen e fushatës ndërgjegjësuese “As i vjetër e as i ri, jam thjesht Lek!”, 17 nëntor 2021 /
Governor Sejko at the launching of awareness campaign: “Neither old nor new, I am simply Lek!”, 17 November 2021



Guvernatori Sejko në hapjen e fushatës ndërgjegjëse “As i vjetër e as i ri, jam thjesht Lek!”, 17 nëntor 2021 / Governor Sejko at the launching of awareness campaign: “Neither old nor new, I am simply Lek!”, 17 November 2021



Guvernatori Sejko në çeljen e punimeve të Workshop-it XV të Kërkimeve Ekonomike për Evropën Juglindore, 6 dhjetor 2021 / Governor Sejko: Welcome Remarks at the 15th SEE Economic Research Workshop, 6 December 2021



Gubernurori Sejko në takimim përmblyllës të vitit, të organizuar nga Shoqata Shqiptare e Bankave, 16 dhjetor 2021 /
Governor Sejko: Address at the year-end event organised by the Albanian Association of Banks, 16 December 2021



Gubernurori Sejko në takimim e fundvitit me gazetarë, analistë dhe drejtues të medias dhe ceremoninë e shpalljes së fituesve të Çmimit të Gubernurorit për Diplomën më të mirë 2021, 20 dhjetor 2021/

Governor Sejko: End-of-year award ceremony with journalists, analysts and media representatives for the Governor's Prize for Best Diploma in 2021, 20 December 2021



Gubernuratori Sejko në konferencën për shtyp mbi vendimmarrjen e politikës monetare të Këshillit Mbikëqyrës të Bankës së Shqipërisë, 22 dhjetor 2021/
Governor Sejko: Statement to the Press Conference on Monetary policy Decision of the Supervisory Council of the Bank of Albania, 22 December 2021



Gubernuratori në mbledhjen e Grupit Këshillimor të Stabilitetit Financiar, 29 dhjetor 2021/
Governor: Meeting of the Financial Stability Advisory Group, 29 December 2021

