

# ANNUAL REPORT 2022

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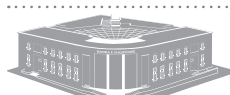
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# C O N T E N T S

LEGAL FRAMEWORK	7
FOREWORD BY THE GOVERNOR	9
2022 YEAR IN BRIEF	11
1. SUPERVISORY COUNCIL OF THE BANK OF ALBANIA	14
2. THE ACTIVITY OF THE BANK OF ALBANIA	21
2.1. Monetary Policy	21
2.2. Monetary operations	48
2.3. Financial stability and macro-prudential policy	50
2.4. Supervision	56
2.5. Resolution	65
2.6. Currency issue	68
2.7. Payment systems	71
2.8. International reserve management	83
2.9. Statistics	88
2.10. Research	92
2.11. European integration and international collaboration	95
2.12. Transparency and public communication	99
2.13. Financial education	103
3. HUMAN RESOURCES AND INFRASTRUCTURAL CAPACITIES	106
3.1. Human resources	106
3.2. Infrastructure improvements	108
4. INTERNAL AUDIT	109
4.1. Highlights in internal audit	109
4.2. About the Audit Department	110
4.3. Engagements and main findings in 2022	111
5. OPERATIONAL RISK MANAGEMENT	112
6. MEDIUM-TERM DEVELOPMENT STRATEGY OF THE BOA 2023-2025	115
FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2022	119



## BOXES

Box 1	Monetary policy and its impact on inflation	26
Box 2	The AIPS EURO system for the settlement of domestic euro denominated transfers within Albania	73
Box 3	Flows affecting international reserve in 2022	87

## TABLES

2.	<i>The activity of the Bank of Albania</i>	
Table 1	Real growth and contributions of components	30
Table 2	Contribution of key items to annual inflation	37
Table 4	Main macroeconomic and financial indicators	47
Table 5	Structure of liquidity injection operations by the BoA	49
Table 6	Financial system activity indicators	54
Table 7	Number of examinations by years and topic	59
Table 8	Banks' ownership structure, number of banks	63
Table 9	Number of banks, non-bank financial institutions, savings and loan associations and foreign exchange bureaus licensed by the BoA	64





## CHARTS

2.	<i>The activity of the Bank of Albania</i>	
Chart 1	<i>Inflation and policy rate</i>	23
Chart 2	<i>The interest rates in lek and credit performance for the private sector</i>	24
Chart 3	<i>Policy rate in some central banks and inflation rate</i>	26
Chart 4	<i>Simulation results without the monetary policy response to inflation and the non-performing loans ratio</i>	27
Chart 5	<i>Economic activity by sectors and contributions of components</i>	29
Chart 6	<i>Annual change of domestic demand by components</i>	30
Chart 7	<i>Consumption and investments</i>	31
Chart 8	<i>Net exports</i>	31
Chart 9	<i>Fiscal impulse and the nature of fiscal policy</i>	32
Chart 10	<i>Budget deficit and financing and public debt ratio to GDP</i>	33
Chart 11	<i>Revenues and expenditures</i>	33
Chart 12	<i>Performance of labour market indicators and private sector wages</i>	35
Chart 13	<i>Annual inflation and target; domestic inflation, regional inflation, and EU inflation</i>	36
Chart 14	<i>Indicators of cyclical situation</i>	38
Chart 15	<i>Decomposition of inflation long and short-term components and domestic and imported</i>	39
Chart 16	<i>The performance of economic agents' expectations for inflation</i>	39
Chart 17	<i>Cumulative adjustments to interest rates in lek following the start of the monetary policy normalisation cycle</i>	42
Chart 18	<i>Performance of the interbank market and the foreign exchange market</i>	43
Chart 19	<i>Performance of yields in the primary market</i>	44
Chart 20	<i>The policy rate and interest rates on new loans and deposits, the average of the period</i>	45
Chart 21	<i>Credit to the private sector and deposits of banks</i>	46
Chart 22	<i>Banking system liquidity</i>	48
Chart 23	<i>The Resolution Fund build up throughout the years and the targeted level for 2027</i>	67
Chart 24	<i>Structure of banknotes in circulation</i>	69
Chart 25	<i>Counterfeit banknotes statistics</i>	70
Chart 26	<i>Number and value of transactions processed in AIPS, and their ratio to GDP</i>	72
Chart 27	<i>Progress of the number and value of transactions for customers processed in the AIPS EURO system</i>	72
Chart 28	<i>Number of AECH transactions in years and the ratio of transactions processed in AECH in relation to population over 15 years old</i>	74
Chart 29	<i>Performance of the AFISaR system according to the number and value of processed transactions, and in percentage to GDP</i>	75
Chart 30	<i>The performance of transactions in the AFISaR system according to four main group-types</i>	76
Chart 31	<i>Performance of the number of payment instruments over the years and the number of payment instruments used during 2022 by households and enterprises</i>	77
Chart 32	<i>Performance of the number of electronic and cash payment instruments in years; number of payments per capita in years</i>	77
Chart 33	<i>Volume of home banking transactions to total accounts and online accessible account</i>	78
Chart 34	<i>Number of ATMs and POS terminals for 100.000 adults and number of ATMs and POS terminals</i>	79
Chart 35	<i>Number and value of cash transactions at bank's windows</i>	80
Chart 36	<i>FX reserve performance</i>	83
Chart 37	<i>Distribution of reserve by maturity of instruments</i>	84
Chart 38	<i>Composition of the reserve portfolio by evaluation and counterparty</i>	84
Chart 39	<i>Return of Foreign Exchange Reserve</i>	85



Chart 40 *Change of interest rates in international markets* 85

3. *Human resources and infrastructural capacities*

Chart 41 *Female/male ratio in management in BoA* 106



## LEGAL FRAMEWORK

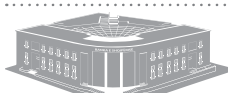
The Bank of Albania is the central bank of the Republic of Albania. Article 161 of the Constitution of Albania defines the status of the Bank of Albania and Law No. 8269, dated 27.12.1997, "On the Bank of Albania", lays down its objectives, duties, relationships with the banking system and state institutions in Albania, as well as requirements for organisation and management, financial statements, and allocation of capital and profit.

The primary objective of the Bank of Albania is to achieve and maintain price stability. The Bank of Albania is autonomous and independent from any other authority in the pursuit of its objectives and the performance of its duties.

The Bank of Albania is accountable to the Assembly of the Republic of Albania and its paid-up capital is owned exclusively by the State of Albania. The Bank of Albania is governed by the Supervisory Council, which is chaired by the Governor. The Governor also serves as the General Executive Director of the Bank.

The Bank of Albania operates in accordance with the following legislation:

- Article 161 of the Constitution of the Republic of Albania;
- Law No. 8269, dated 23.12.1997, "On the Bank of Albania", as amended;
- Law No. 9662, dated 18.12.2006, "On banks in the Republic of Albania", as amended;
- Law No. 133, dated 29.4.2013, "On payment system";
- Law No. 55/2020, dated 30.4.2020, "On payment services";
- Law No. 52, dated 19.5.2016, "On savings and loan associations and their unions";
- Law No. 133, dated 22.12.2016, "On the recovery and resolution of banks in the Republic of Albania";
- The Statute of the Bank of Albania, approved by the Decision No. 90, dated 2.12.2015 of the Supervisory Council.





*GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA*

## FOREWORD BY THE GOVERNOR

Dear reader,

Over the course of 2022, the Albanian economy experienced another challenge. The military aggression of Russia in Ukraine led to huge human and social costs, shocked geopolitical equilibriums, and yielded a new economic reality. This reality was translated into an overall upsurge of prices in global markets; elevated uncertainties for enterprises and households; and tightening of financial conditions.

This shock - the third one in a row - also impacted the Albanian economy, following the lingering effects of the earthquake and the pandemic. Consequently, inflation rose rapidly in Albania, reaching unprecedented levels, not seen for more than two decades, testing the monetary and financial equilibriums of Albania. Meanwhile, greater uncertainty, increased financial costs and an expensive bill for imports curbed economic growth.

Nevertheless, the Albanian economy continued to show admirable resilience. Economic growth in Albania stayed in positive territory during 2022 and wages increased. Inflation was kept under control and declined in the last quarter. The financial market ran smoothly, while domestic and external equilibriums remained solid.

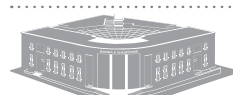
A complex of factors are illustrated by this dynamic. First, the Albanian economy entered 2022 with a positive development momentum and sound financial balance sheets, following the fast and comprehensive rebound of 2021. Second, both private and banking sectors showed a high degree of flexibility and experience in addressing the challenges. Third, monetary and fiscal policies have reacted well and in a timely manner, by preserving the economic and financial equilibriums of Albania and helping to amortise the shocks.

The Bank of Albania continued to provide its positive contributions in light of these developments.

In response to the increasing premises for high and persistent inflation, we started a normalisation process in monetary policy stance, which was materialised in a gradual, but progressive raise in the key interest rate. This reaction significantly contributed to controlling inflation, maintaining public confidence in price stability, and guaranteeing stability of the foreign exchange rate. In this context, it preserved the necessary preconditions for un-jeopardised sustainable and long-term growth in Albania.

In parallel, ongoing reforms in the field of regulation and banking supervision, and further work throughout 2022, on consolidation of the banking sector, risk management and convergence to the European regulatory framework, have resulted in a sounder and more effective banking sector. This sector continued to carry out its function of financial intermediation, providing necessary funds to the Albanian economy for covering operational needs and expanding production capacities.

In the same vein, the Bank of Albania has continued to work for the development of the financial system of Albania, by progressing towards the development of financial markets, improvement of payment infrastructure, supply of reliable coins



*and banknotes to the economy, and enhancement of financial education. These measures underpinned a reduction in transactions costs, an increase in the efficiency of financial products, and the heightening of financial inclusion of the public.*

*Last, I would like to highlight that the Bank of Albania has continued to provide its contribution in: the integration process of Albania to the European Union; supplying the economy with financial statistics; and in deepening the academic debate on the economic and financial challenges we face.*

*All of our activities have taken place in a spirit of transparency and accountability, which has been implemented through a continuous dialogue with public institutions and economic actors.*

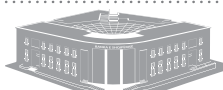
*Dear reader,*

*Despite the economic and financial developments of 2022 should be considered positive in the context of the shocks we have tackled, still other challenges are ahead. Our primary challenge - in the medium term - is to safeguard the monetary and financial stability of Albania, in the face of a very challenging external environment. This objective requires taking courageous, consequential and consistent measures, which prioritize the sustainable and long-term growth of the country over short-term costs. In the long term, the further economic and social development of the country requires the continuation and acceleration of structural reforms, an objective that becomes even more imperative in the presence of an increasingly complex global reality.*

*The experience of recent years has shown that responding in timely manner and effectively to challenges requires human and institutional capacities, which must keep up with the demands of the times. To this end, I am confident that the experience and devotion of the staff of the Bank of Albania are one more guarantee for the fulfilment of our tasks and the objectives for the development of Albania.*

*Sincerely,*

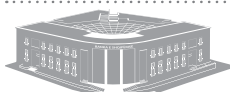
Gent SEJKO  

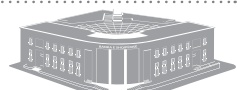


## 2022 YEAR IN BRIEF

- Following a fast rebound in 2021, the economic and financial activity in Albania was affected by the military aggression of Russia in Ukraine which started in February 2022. This shock drove an increase in food, commodity and energy prices, heightened uncertainties among economic agents, and tightened financial conditions. Inflation picked up considerably due to this gamut of factors, while economic growth showed signs of deceleration globally.
- Against these developments, the Albanian economy displayed a solid performance over 2022. Economic growth was at 4.2% in the first three quarters of the year, while improving trends in labour markets were reflected in an increase in employment and wages and a decrease in the unemployment rate to its historical minimum.
- The inflation rate averaged 6.7% in 2022, from 2.0% in the previous year. Soaring inflation mostly reflected external supply-side shocks. Nevertheless, a stable demand for goods and services, reduced spare capacities in the labour market and increased expectations for inflation backed transmission of these shocks in the Albanian economy.
- The elevated inflationary pressures dictated the initiation of a normalisation process in the monetary policy stance. In 2022, the Bank of Albania increased the key interest rate to 2.75% from 0.50%. This normalisation is indispensable for the return of inflation to the target. In turn, it contributes to safeguarding the economic and financial equilibriums as well as the welfare of Albania. Fiscal policy has maintained a course of consolidation.
- The banking system structure has changed: the number of banks shrank to 11 and the share of banks with Albanian capital increased. The banking system is resilient to shocks and has contained risks. It closed the year 2022 with positive financial results, a fit level of activity capitalisation, and with improvement in the indicators of credit quality. The non-performing loans ratio fell to a new minimum of 5%, from 5.7% in the previous year.
- The Bank of Albania has taken decisions to complete the banking regulatory and supervisory framework aiming at alignment with the Basel committee principles and the EU ACQUIS; the regulatory framework for the implementation of the Law "On Payment Services"; and the framework for the compilation of financial statistics. In addition, new methodologies and guidelines have been approved for strengthening banking resolution and completing the macro-prudential policy framework.
- On January 2022, the AIPS Euro started to operate, enabling Albanian citizens to conduct euro-dominated payments within Albania with lower costs and shorter time. Regulatory and infrastructural improvements of payments have led to an increase in the use of electronic payment instruments.
- In January, the last two banknotes in the new series, the denominations of 500 Lekë and 2000 Lekë, were put in circulation, marking the successful finalisation of one of the Bank of Albania's most important projects - the designing, printing and issue for circulation of the new series of banknotes.



- *The Bank of Albania has intensified institutional engagements within the framework of the opening of membership negotiations with the EU, through representations in bilateral meetings with the EC. The Bank of Albania chairs the work for the alignment with EU Acquis for Chapters 4 and 17, and provides contribution to other chapters as well.*
- *In collaboration with the World Bank (WB), Albanian authorities and market actors, the "National Strategy of Financial Education and Inclusion" has been drafted. This strategy aims at improving financial literacy and inclusion of the public at large. Also, work has started for drafting the strategy on green finances, pursuant to best international practices.*
- *The Bank of Albania has organised national and international activities, with the purpose of sharing opinions and experiences on the expectations of central banks' policies. In addition, educational activities dedicated to the public at large have taken place, including events related to the Museum of the Bank of Albania.*
- *In February, the Assembly of the Republic of Albania voted and re-elected Mr Gent Sejko as the Governor and Chair of the Supervisory Council of the Bank of Albania. In April, the Council was completed with 9 members, following the appointment of two members: Ms Natasha Ahmetaj and Mr Anastas Angjeli. The Supervisory Council re-elected Ms Natasha Ahmetaj as Second Deputy Governor of the Bank of Albania.*





## SUPERVISORY COUNCIL OF THE BANK OF ALBANIA



*(left to right)*

*Mr. Artan Hoxha, Member  
Ms. Suela Popa, Member  
Mr. Anastas Angjeli, Member  
Ms. Natasha Ahmetaj, Member  
Mr. Gent Sejko, Chair  
Ms. Luljeta Minxhozi, Deputy Chair  
Mr. Ridvan Bode, Member  
Ms. Edlira Luçi, Member  
Ms. Violeta Staka, Member*

## 1. SUPERVISORY COUNCIL OF THE BANK OF ALBANIA

*The Supervisory Council is the highest decision-making and supervisory body of the Bank of Albania. As such, it is responsible for formulating monetary policy and approving guidelines for its implementation. The Supervisory Council has the ultimate responsibility for deciding on the strategy of the Bank of Albania, the appointment of heads of departments, approval of organizational structure, as well as the fulfilment of obligations related to risk management and compliance. The Supervisory Council performs its activity in line with the provisions of the organic law and the procedures established in the Regulation on the organisation and functioning of this body.*

*The internal audit functions are delegated to the Audit Committee, which is responsible for the financial reporting process and the internal audit system.*

*The decision-making process at the Bank of Albania is guided by the principles of lawfulness, professionalism, independence, and transparency.*

In February, the Assembly of the Republic of Albania re-elected Mr Gent Sejko in the position of Governor and Chair of the Supervisory Council of the Bank of Albania. In April, the Council was completed with 9 members, after the appointment of Ms Natasha Ahmetaj and Mr Anastas Angjeli. In support of the organic law and with Governor's proposal, the Council re-elected Ms Ahmetaj as the Second Deputy Governor of the Bank of Albania.

The Supervisory Council held the meetings, as scheduled in the annual schedule of meetings, virtually, through the Webex platform. Eight of these meetings focused on the review and approval of the monetary policy. Four meetings were dedicated to financial stability, while three meetings addressed: (i) the annual programme of the Supervisory Council; (ii) the Annual Report of the Bank of Albania; and (iii) the medium-term strategy, the annual and medium-term budget.

The Council has been informed regularly about the institution's management policies, methods and procedures related to the use of financial assets for the operational activity of the Bank of Albania. Information was also presented regularly on the financial position and result of the Bank of Albania, as well as on the international reserve management. The Council has received regular reports on the findings and recommendations from internal and external audits, on the effectiveness and quality of internal control systems, risk management and Bank of Albania's management.



The Bank of Albania has regularly submitted the fulfilment level of recommendations presented in the resolution on the assessment of its activity, in compliance with the obligations arising from the Assembly of Albania's manual for monitoring independent constitutional institutions.

### ***The Supervisory Council - the highest decision-making body of the Bank of Albania***

The Supervisory Council has the power to approve all the decisions, regulations and guidelines of general application, issued by the Bank of Albania.

The Council held 15 meetings in 2022. Eight of these meetings focused on the review and approval of the monetary policy, divided in four quarterly and four intermediate ones.

The Council approved 66 decisions and 1 guideline, of which 49 were acts approved for the first time, and 17 were amendments to existing acts. These acts were issued in accordance with the duties of the Supervisory Council, as stipulated in the Law on the Bank of Albania, such as: (i) monetary stability; (ii) licencing, regulation and supervision of banks and other financial institutions; (iii) provision of financial infrastructure (currency issue; payment settlement; clearing of payments and securities; and oversight of payment system); (iv) foreign exchange reserve management; (v) statistics.

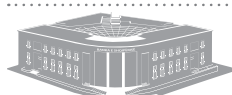
Based on the recent developments in the financial markets, under the conditions of an increase in the key interest rate, in October, the Council approved the extension in time of the intermediation investment activity of natural persons in treasury bills through the Bank of Albania. The Council estimated that maintaining this channel leads to faster transmission of monetary policy in the economy, and facilitates individual decision-making under the new monetary conditions.

### ***Management and internal organisation***

The Law on the Bank of Albania stipulates that the Supervisory Council is responsible for: (i) approving the Statute and the internal regulations of the Bank of Albania; (ii) determining the organisational structure; and, (iii) approving the appointment of the heads of departments and defining employment conditions at the Bank of Albania.

In March, the Council approved some amendments to the regulation on the organization and operation of the Payment System, Accounting and Finance Department, related to the activities for the operation of the new AIPS EURO system, which went live in January 2022.

In November, the Council approved the Medium-term Development Strategy of the Bank of Albania 2023-2025, keeping the Bank of Albania's mission, vision



and values unchanged. The Medium-term Strategy updates the existing strategy, extends the implementation deadline of this document beyond 2024 and sets out the objectives for the next medium-term period. The budget of the Bank of Albania was drafted in accordance with the objectives set forth in the strategy.

### ***Budget***

The Supervisory Council decides on the budget of the Bank of Albania, the management policies and the procedures on using financial assets to carry out the operational activity of the institution, pursuant to the Law on the Bank of Albania.

In November, the Council approved the budget of the Bank of Albania for 2023 and the planned medium-term budget for 2024-2025. The budget was drafted in accordance with the Medium-term Development Strategy of the Bank of Albania, and departmental projections on medium-term incomes and expenditures.

The budget aims at completing the main functions, smoothly conducting the activity, and fulfilling the strategic objectives of the Bank of Albania: (i) the normal conduct of the activity of the Bank of Albania to fulfil its legal duties; (ii) preservation and improvement of the quality of currency in circulation; (iii) improvement and continuous updating of the information technology infrastructure and security system; and (iv) retention of the human resources capacities, rationalization of the organizational structure, management and promotion of human capacities.

The capital expenditures and the projections included in the budget were preliminarily approved by the Capital Expenditures Committee.

### ***The Supervisory Council - the highest supervisory body of the Bank of Albania***

To ensure compliance with the law and other acts regulating the daily activity of the Bank of Albania, the Supervisory Council is regularly informed by the internal and external auditors.

### ***Internal audit***

The internal audit is an activity independent of the management, which provides evaluation, reporting and objective certainty, as well as includes the compliance, internal auditing, and risk management functions.

#### ***1. Control over management***

*The administrators (the Governor and the two Deputy Governors) inform the Supervisory Council on monthly basis about the economic, financial and monetary developments in accordance with the legal obligations.*





The Supervisory Council has been also informed about the institution's management policies and the use of financial assets for the realisation of the operational activity of the Bank of Albania. In accordance with the organic law, the Governor is accountable to the Supervisory Council for the implementation of the approved decisions, as well as for the guidance, control and oversight on the management and operations of the Bank of Albania.

The Inspector General and the Audit Department control and submit to the Council reports and recommendations on the accounts and books, as well as on the budget, accounting and audit procedures at the Bank of Albania.

## 2. *Activity of the Audit Committee*

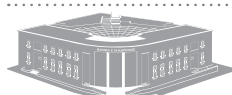
The Committee has the mandate to reinforce the internal and external control lines, in order to improve the decision-making of the Supervisory Council and of the Administrators of the Bank.

In order to increase efficiency and in-depth in specific areas, the functions of internal audit are delegated to the Audit Committee, which exercises its duties to support the strengthening of internal and external control lines. The Audit Committee is responsible for: (i) the financial reporting process, (ii) the internal control system, (iii) the internal and external audit, and (iv) compliance with the legal and sub-legal acts which are in force.

The Committee is composed of three members of the Supervisory Council, appointed by the Council, for a three-year term, with the right to be re-elected only once. The Administrators of the Bank may not be members of the Committee. The Chair of the Committee shall be chosen by the members.

In March, the Supervisory Council approved the re-appointment of the chair and member of the Audit Committee Ms Suela Popa and Mr Ridvan Bode. The other Committee member is Ms Edlira Luçi.

In 2022, the Audit Committee met seven times and addressed issues such as: (i) the financial result of BoA for 2021; (ii) the financial statements for 2021 and the opinion of the external auditor (meeting of the panel of external auditors EY); (iii) the commitments undertaken by the internal audit and the operational risk management activity for 2021; (iv) the letter addressed to the management and the opinion of the external auditor; (v) the audit of financial statements for the Bank of Albania and the Pension Fund (meeting of the panel of external auditors EY); (vi) the audit plan for 2023, along with (vii) the draft budget for 2023 and the mid-term guiding plan 2023-2025. The Committee has informed the Council regularly on its activity and the implementation of its responsibilities, through specific information.



### 3. *Internal audit*

The General Inspector and the Control Department, periodically and independently: (i) assess the accounts and the accounting records, the management and operational procedures of the Bank of Albania, in order to ensure the implementation of the legal and sub-legal acts; and (ii) offer reasonable assurance on the efficiency of the control system, risk and processes management, for the fulfilment of the institutional objectives.

The Inspector General has reported regularly to the Council on the realisation of this plan and the result of the auditing engagements. The plan is based on the international standards for internal auditing and the updated risk assessment of the identified functions in the revised audit universe.

In April, the Council approved some amendments to the Regulation "On the internal audit policy of the Bank of Albania" that reflect the updates adopted to the international internal audit standards and recommendations addressed by internal audit quality assessment carried out by the central Bank of Turkey in December 2020.

### 4. *Operational risk management and business continuity*

The Inspector General has informed the Supervisory Council about the activity of the Operational Risk Management Unit and the progress of program implementation for the business continuity management of the Bank of Albania. This unit is engaged in operational risks assessment arising from cyber-attacks at national level, and revision of scenarios in view of cyber risk management.

### ***External audit***

The organic law provides that the Bank of Albania's accounts and records may be checked by external auditors of internationally-recognised auditing institutions appointed by the Council. The external auditor expresses his opinion if the reports prepared by the Bank of Albania represent fully and fairly the financial situation of the institution, in accordance with generally-accepted international accounting standards.

The financial statements of the Bank of Albania are audited so as to offer a reasonable reassurance that they are not inaccurate, as a result of errors or fraud. This provides the external auditor with a key role in maintaining the trust of financial markets and of the public in financial statements of the Bank of Albania.

The Audit Committee reviews the Bank's financial statements and assesses whether they are drawn up in accordance with International Financial Reporting Standards and in accordance with the external auditor's opinion.



Prior to submitting the opinion on the financial statements, the Committee meets with the external auditor, without the presence of the administrators, where the progress of the audit process is discussed.

### ***Accountability and transparency***

In accordance with the organic law, the Supervisory Council approves all reports and recommendations that the Bank of Albania presents to the Assembly or the Council of Ministers, as well as the annual and financial reports of the Bank of Albania. Upon approval by the Council, these reports are published.

### ***Approval of the Annual Report***

In March, the Supervisory Council approved the Annual Report 2021 and sent it to the Assembly and the Council of Ministers. The report describes the economy and financial situation in Albania and the activity of the Bank of Albania over the reporting period. The financial statements audited and certified by the external auditor and its opinion are an integral part of the Annual Report. The financial statements for 2021 were audited by Ernst & Young- Certified Auditors, Albania Branch.

In the opinion of EY Albania, the financial statements give a fair view of the Bank of Albania's financial position as at 31 December 2021, and of its financial performance and cash flows in accordance with International Financial Reporting Standards. As at end-2021, the total assets of the Bank of Albania amounted to around ALL 749 billion. Investments in debt securities by around 42% and the balances with banks, part of the international reserve of BSH- of have the highest share in total assets, accounting for around 37%.

In accordance with the provisions of the Annual and Periodic Monitoring Manual of independent constitutional institutions, the Report was accompanied by the information on the implementation of the Assembly's requirements for the annual reporting of the Bank of Albania.

### ***Other reporting to the Assembly and the Council of Ministers***

In accordance with the organic law, the Bank of Albania has to publish: (i) a detailed opinion on the situation of the economy, quarterly; and (ii) a statement of threats to the stability of the financial system, half yearly.

Through the compilation and publication of these quarterly and half-yearly reports, the Supervisory Council has regularly fulfilled the accountability obligations of the Bank of Albania to the Parliament and the transparency obligations to the public, financial system and media.

The Supervisory Council, in February, May, August and November, approved the quarterly monetary policy reports, which constitute the main instrument



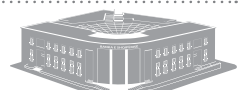
of accountability and transparency in this regard. These reports present a comprehensive description of the latest macroeconomic developments and the factors that affect the performance of consumer prices in Albania.

In April and September, the Supervisory Council approved the half-yearly financial stability reports. These reports present the Bank of Albania's assessment on financial system developments in Albania, underline potential risks to financial stability and make recommendations in relation to necessary measures for reducing risks.

The reports have been sent to the Assembly of the Republic of Albania, the Council of Ministers and other central institutions.

### *Approval of financial result*

In March, the Council approved the gross loss from the activity of the Bank of Albania for 2021, amounting ALL -347,606,107.28. The net loss from the activity of 2021 was the total gross loss result from the activity of the Bank of Albania and net expenses for provisions (which are calculated as the difference between provisions for 2021 and reversals for provisions).





## 2. THE ACTIVITY OF THE BANK OF ALBANIA

### 2.1. MONETARY POLICY

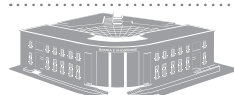
*According to the Law “On the Bank of Albania”, our monetary policy is formulated and implemented for the purpose of achieving and maintaining price stability. The Monetary Policy Document, which details the objectives, explains the principles and lays out monetary policy strategy, defines price stability as keeping the consumer price inflation rate at 3%, in the medium term. Through fulfilment of this objective, the Bank of Albania contributes to stable development of the economy and improvement in the welfare of Albanian citizens.*

*The Supervisory Council of the Bank of Albania makes monetary policy decisions. These decisions are based on the contemporary framework of analysis and forecast. This framework makes use of all available information and is based on tested econometric models and the best practices of central banking.*

The Albanian economy experienced another challenging year in 2022. The fast-soaring inflation, driven mainly by an upsurge in prices across global markets after the war in Ukraine, affected every aspect of the domestic economic and financial activity. This was reflected as intensified uncertainty, increased production costs for enterprises, a rise on households’ cost of living, and tightened financing conditions for both the public and private sector.

Nonetheless, the Albanian economy’s resilience against these shocks improved. The performance of inflation was kept under control. The volume of economic activity and level of employment continued to increase. The private sector’s balance sheets recorded an improvement, while the main indicators of financial stability and banking system soundness remained solid. These dynamics reflect the economy’s broad growth base, sound financial balances, the private sector’s flexibility, as well as the monetary and fiscal policies’ adequate response.

High levels of external inflationary pressure, sustainable economic growth, and a gradual strengthening of internal inflationary pressures triggered a change in the direction of the monetary policy course. Since March, the BoA has embarked on a normalisation process in its monetary policy stance, which it deemed necessary for the control of inflation in the short term, and for its return to target within the medium term. This will help maintain overall economic and financial equilibriums, preserve the value of savings and wages, protect households’ purchasing power, and enhance the long-term well-being of Albanian society.



### 2.1.1 MONETARY POLICY IN 2022

The Albanian economy experienced a positive boost at the beginning of 2022. The losses suffered from the pandemic, which affected both the volume of economic activity and employment levels, were recovered fully during 2021. Households and enterprises' balance sheets improved and inflation was on a gradual trajectory of converging to the target.

However, Russia's invasion of Ukraine that started in February 2022, and the sanctions imposed on Russia engendered a new economic reality. This reality brought a rapid increase in food and energy prices, heightened uncertainty, as well as tighter financial conditions, reflecting interest rate rises by central banks.

Albania could not escape this reality. Economic activity decelerated rapidly in the third quarter, whereas inflation started to go up reaching the highest levels in the past two decades.

In 2022, the average inflation was 6.7%, significantly up from the 2.0% recorded in the previous year. The elevated inflation was initially urged by an overall upswing in prices of goods in international markets, particularly in food and oil prices. Later, external inflationary pressures spilled over to higher production costs and domestic inflationary pressures. Consequently, the increase in domestic prices was broadly based and relatively stable. These features are illustrated by a rapid increase in the core inflation<sup>1</sup>, which recorded high historical levels, fluctuating between 5-6% over the course of the year. In addition, this development reflected the positive performance of the domestic economic environment, characterised by a stable consumer demand and a robust labour market.

Despite the upswing in prices, the Albanian economy demonstrated good resilience against the shock. Albanian consumption, investments and exports rose, reflecting the flexibility and soundness of the private sector's balance sheets, on the one hand, and good coordination between stimulating monetary and fiscal policies, on the other. According to INSTAT data, economic activity in Albania grew by 4.2% on average in the first three quarters of 2022, with good sectoral distribution. However, the pace of growth fluctuated over the quarters and experienced a decelerating trend over the year, reflecting the rapid intensification of uncertainties in the second quarter and the comparative base effect, respectively.

The increase in demand and production underpinned growth in both employment and wages. Employment and participation in the labour force edged up, while the unemployment rate dropped to 10.6% in 2022 Q3, the lowest level recorded since this indicator was first measured. The higher demand for labour force and notable increasing labour shortages were translated into a

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<sup>1</sup> Core inflation reflects the performance of more stable prices in the CPI basket.



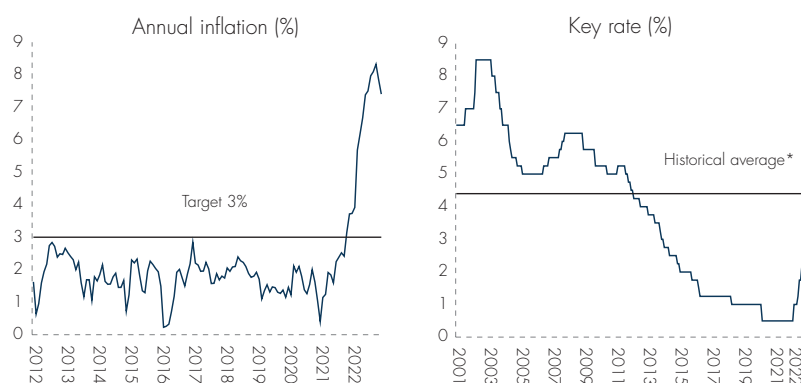
fast growth of wages. Not least, this fast growth was prominent in the private sector, where wages were up by 11.6% on average, in the first nine months of 2022.

The positive performance in the labour market and wages cushioned household's income, in addition to establishing the premises for more stable inflationary pressures. In view of this new economic context, the BoA assessed that high and persistent inflation remains the major challenge to the Albanian economy.

Pursuant to its legal mandate of price stability, the BoA started the normalisation of the monetary policy stance in 2022. This normalisation was realised by raising the key interest rate from 0.5%, at the beginning of the year, to 2.75% at the end of 2022. In the same vein, the BoA communicated its normalisation strategy by emphasizing three of its main features. First, normalisation was and remains necessary for inflation to return to its target, in a stable manner. Second, the normalisation path will be data-driven. Third, despite normalisation, the monetary policy stance continues to remain stimulating to the growth of aggregate demand, while providing a better platform for the sustainable and long-term growth of the country. Forward guidance helped in reducing uncertainties across markets and in better anchoring inflationary expectations.

The steps toward the normalisation of the monetary policy were also underpinned by the adoption of a consolidated fiscal policy. In the face of mounting inflationary pressures, the monetary and fiscal policy responded to reduce these pressures, while maintaining the macroeconomic equilibriums and helping to dampen the shocks.

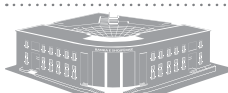
Chart 1 Inflation and policy rate (in %)



\*Calculated by excluding 2020-2021, when the policy rate was cut to extremely low levels.

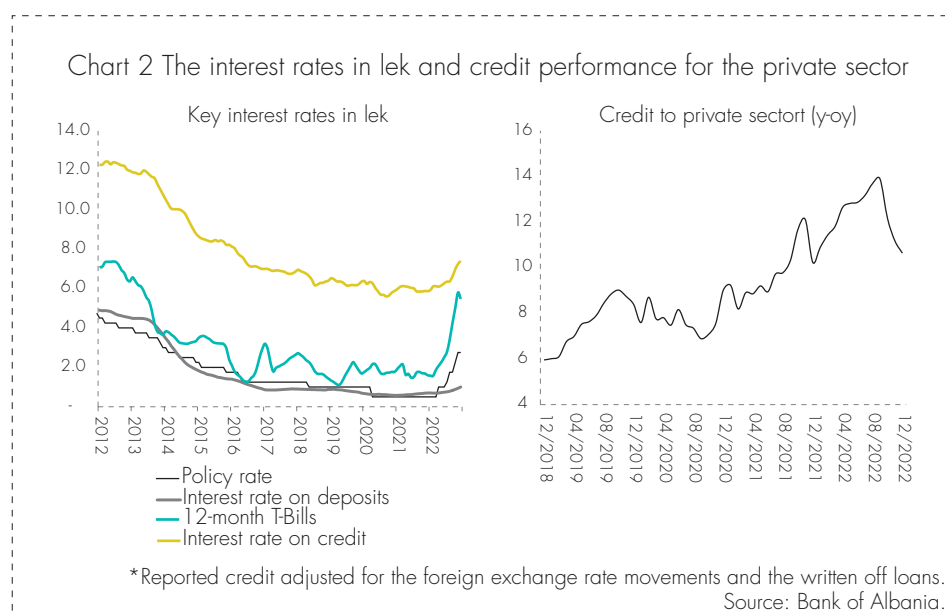
Source: INSTAT and the BoA.

The normalisation of the monetary policy stance was reflected in our financial market. Transmission of the monetary policy was immediate and complete



to the interbank market; rapid to the government securities market; and is still in progress in the credit and deposit market. The raise in the key interest rate contributed to preserving the attractiveness of savings instruments in lek, despite the aggressive rise in the interest rate of the euro chosen by the ECB. In partial reflection of this, the lek deepened its appreciating trend against the euro over the year, given also the high inflows of foreign currency. This performance helped to absorb part of external shocks on inflation.

**The financial market ran normally in 2022; this market remained liquid and with contained risk premia.** Although interest rates rose, credit flows continued to finance the activity of the private sector. The credit volume for this sector grew by 12.3% on average in 2022, from 9.8% in the previous year. This credit has financed the consumption and investments of households and enterprises, while also fulfilling their need for liquid financial assets. Meanwhile, the quality of credit portfolio continued to improve and the non-performing loans ratio fell to 5.0% in December, recording the lowest level in the last decade. The financial sustainability of the banking sector and its positive approach towards lending was conducive to the continued support of the economy with funding.



**The initial effects of the monetary policy reaction are evident as the rapid upsurge in prices has slowed down.** After rising progressively until October, inflation slowed down afterwards, dropping to 7.4% in December. The fall of inflation in the last two months of the year, signalled a turning point, which is expected to continue in 2023 as well. Our projections show that inflation will return to the Bank of Albania's target within the first half of 2024. The decline in inflation will be driven by the stabilisation of prices in global markets and the impact of the monetary policy stance normalisation (for further information read Box 1).



**The gradual rise in the policy rate toward a neutral level will establish the premises for a better balance between demand and supply.** Economic activity is expected to continue recording positive growth rates, despite the forecasted slowdown in the short run. Economic growth will continue to benefit from the private sector's balance sheets, a stable banking and financial environment, the continuous support of lending, as well as expanding export revenues. On the other hand, economic growth will be reflected in a further increase in wages and employment, which will help Albanian households to cushion price shocks.

\* \* \*

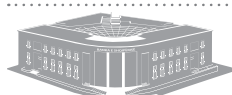
**Recent years have been hit by a series of major shocks that have generated a challenging economic environment.** Under such conditions, it becomes ever more important to undertake monetary-policy decisions which are based on a robust and contemporary framework of analysis and forecast, as well as coordination with economic policies, effective public communication, and continuous dialogue with our national and international partners.

**In this spirit, the BoA has continued its work throughout 2022 to further enhance its analysing, forecasting and research capacities in the field of monetary policy.** In broad terms, the work has been focused on the following main directions:

- *Enriching and enhancing economic and financial analyses* by advancing research work forward, including new indicators, as well as conducting deeper study on specific economic events;
- *Enhancing the consistency of macroeconomic forecasts* by improving the predictive capabilities and complementing the base scenario forecasts with alternative risk scenarios, which enables the assessment of monetary-policy reaction options and the identification of the most efficient alternative available;
- *Ongoing public communication* through the periodical Monetary Policy Reports, which have been enriched with information on the most relevant economic events, press conferences, articles and publications;
- Close cooperation with international institutions and the Albanian government, particularly in regards to the Bank of Albania's engagements in the framework of the European integration process.

Working on these areas has contributed to drafting an appropriate monetary policy stance, which is steered toward fulfilling the objective of price stability.

Our 2023 priorities are focused on improvement of decision-making quality and the enhancement of monetary policy efficiency. They reflect the results achieved up until now, the best international practices, and structural adjustments to the economic and financial environment where we carry out our activity. The Bank of Albania will aim to improve and enrich its database and the econometric model portfolio. It will also work to enhance communication with the public.



### BOX 1: MONETARY POLICY AND ITS IMPACT ON INFLATION

In 2022, the rapid surge in prices across global markets affected the Albanian economy, as inflation and the costs of production picked up. Expected inflation rose as well. In order to avoid the stable deviation of inflation from its target, the Bank of Albania reacted by increasing the policy rate in 2022, from 0.50% at the beginning of the year, to 2.75% at the end of it.

Normalisation of the monetary policy stance was a necessary decision to: curb the rising inflation; help inflation return to its target in the medium term; and ensure financial stability in Albania. The reaction of the Bank of Albania is in the same line with the behaviour of other central banks, which experienced a similar situation, although at different intensity.

This box shows that if the normalisation of monetary policy stance was not adopted, the inflation rate would have been on average 4.5 p.p. higher than in the 2022-2024 period, and the non-performing loans ratio would have been 4.2 p.p. higher than during 2022-2024, triggering a considerably high cost to the Albanian economy.

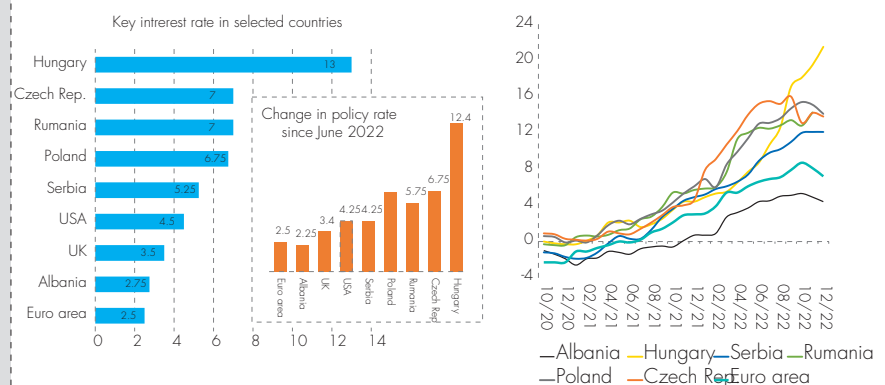
#### Inflation performance in the global arena and the response of central banks

Russia's invasion of Ukraine, in the first quarter of 2022, led to a sharp surge in prices globally. This was reflected in rising inflation all around the world, particularly in those countries where food and energy have considerable share in the consumption basket. Inflation rates were notably higher than the targeted rates of central banks, across most countries.

Although rising inflation was driven, initially, by supply-side shocks, the severity and its persistence in time had serious consequences for monetary policy at a global level. Soaring energy and commodity prices triggered higher production costs, and their effect spilled over to a broader range of prices. This, in combination with a strong labour market and higher inflationary expectations, suggested that the rapid surge in prices was not going to be short-lived.

Under these circumstances, the central banks of advanced economies started the normalisation process of the monetary policy, gradually reducing the extremely high monetary stimulus injected into the economy, which took the

Chart 3 Policy rate in some central banks (left) and inflation rate (right)

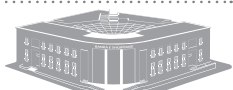


Notes: Policy rate until January 2023; changes to policy rate since 2021.

Source: Relevant central banks, staff's calculations.

Notes: Deviation of inflation from the central banks' target.

Source: Statistical institutions; staff's calculations.



form of significantly low rates as well as quantitative credit easing programmes.

### **The monetary policy of the Bank of Albania in 2022**

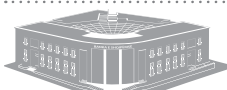
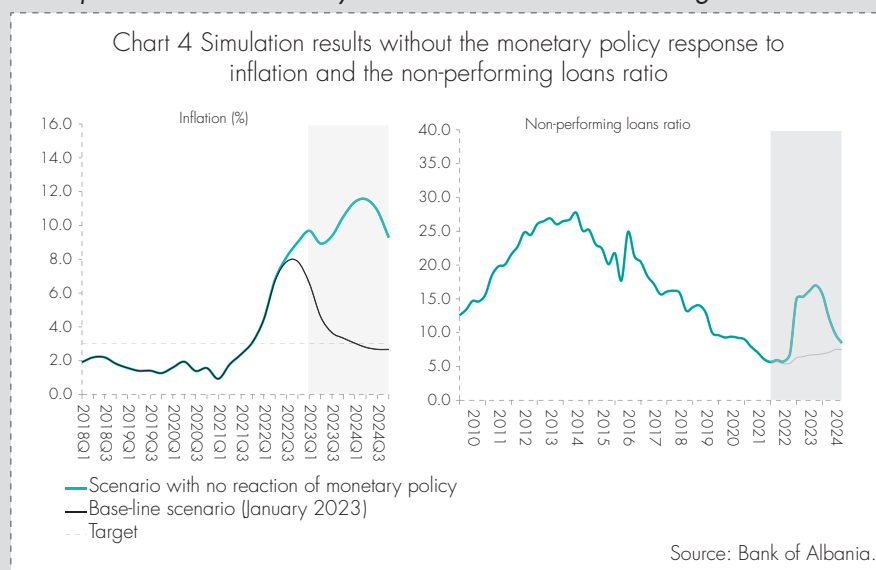
The acceleration of the inflation rate over the course of 2022 due to foreign supply-side shocks corresponded to a fast growth of aggregate demand in the Albania economy, a fall in unemployment and an increase in employment and wages, and higher capacity utilisation rate. The shock from import prices was persistent and its intensity was high. Its impact spread to other consumer goods prices and caused a rise in production costs and expected inflation. In these circumstances, anchoring inflationary expectations became extremely necessary in order to avert second-round effects of supply shocks.

The Bank of Albania started a normalisation stance of monetary policy in March 2022, by raising the policy rate to 1.00%, from its historical lowest level of 0.50%. Further normalisation continued with four other rounds of raising the policy rate, up to 2.75% as at end of 2022. The target of this monetary policy stance was to control inflationary expectations, stabilise the economy, and avert second-round effects of inflationary spirals<sup>1</sup>.

### **The impact of monetary policy normalisation on Albania: Methodology and Results**

In order to assess the impact of the monetary policy normalisation course in 2022, we have carried out empirical simulations through the Medium-term Projection Model<sup>II</sup> (MPM), used to generate macroeconomic projections and guide decision-making in relation to the monetary policy of the Bank of Albania. Its goal is to illustrate the behaviour of key macroeconomic variables when the monetary policy reaction fails. This simulation is later compared to the basic medium-term projection scenario, which also includes the monetary policy effects, in order to identify the direct impact of the latter more clearly.<sup>III</sup>

Assessments confirm that the timely response of the monetary policy in 2022, mitigated inflationary expectations, gave an appreciating impulse to the currency, and avoided the increase of non-performing loans. As soon as the time lags in transmission of monetary policy signals to the financial market and later to the real economy are factored, the monetary policy normalisation process will help stabilise the economy and inflation will return to target in 2024.





*Results show that without the response of the monetary policy:*

- The inflation rate would have been around 0.4 p.p. higher than in 2022, and 6.5 p.p. higher, on average, in 2023 and 2024.
- The lek exchange rate against the euro would have been 1.6% more depreciated during 2022, and on average 11% more depreciated in 2023-2024.
- The weakening of the exchange rate would drive non-performing loans up, assessed at 1.4 percentage points in 2022, and 5.6 p.p. on average in 2023 and 2024.

*These results show that monetary policy normalisation has had measurable benefits to the monetary and financial stability of the country. By the same token, they suggest that a delayed monetary policy response to inflationary pressures, would be much stronger and with higher costs to the Albanian economy.*

<sup>i</sup> For a more detailed theoretical discussion of the channels of monetary policy impact on the economy see "Box 1: Monetary policy in Albania and its contribution to economic growth and inflation," the Annual Report 2020. [https://www.bankofalbania.org/Politika\\_Monetare/Raportet\\_Periodike/Raporti\\_Tremujor\\_i\\_Politikes\\_Monetare\\_2016\\_II.html](https://www.bankofalbania.org/Politika_Monetare/Raportet_Periodike/Raporti_Tremujor_i_Politikes_Monetare_2016_II.html)

<sup>ii</sup> Hledik, T.; Kika, E. & Mitre, O. (2021), The Albanian medium term projection model, Bank of Albania Working Paper, 45(84) [https://www.bankofalbania.org/rc/doc/Hledik\\_Kika\\_Mitre\\_The\\_Albanian\\_Medium\\_Term\\_Projection\\_Model\\_18790.pdf](https://www.bankofalbania.org/rc/doc/Hledik_Kika_Mitre_The_Albanian_Medium_Term_Projection_Model_18790.pdf)

<sup>iii</sup> We have outlined an interactive process in order to conclude with this parallel scenario of the history of the Albanian economy and to compare it with the factual results and basic macroeconomic projections.

## ECONOMIC ACTIVITY

*The year 2022 posed a challenge to both the Albanian and global economies. Imbalances between demand and supply in global markets, production chains issues, and the economic consequences of the military conflict in Ukraine, were reflected in rising prices, tighter financing conditions, and higher uncertainties in both the domestic and external environment.*

*However, despite this defying environment, the economic activity in Albania continued to grow and improve over 2022. The Albanian economy showed a high degree of resilience, recording relatively moderate levels of inflation, broadly-based economic growth, higher employment and wages, as well as an improvement in the fiscal and external balances of Albania. These indicators are encouraging for the future.*

*Nevertheless, the Albanian economy is still suffering the consequences of the shock that will persist in the future. Under these circumstances, the prudent policies of the public sector, such as the monetary policy stance normalisation, fiscal consolidation and financial risks management, as well as the attention*

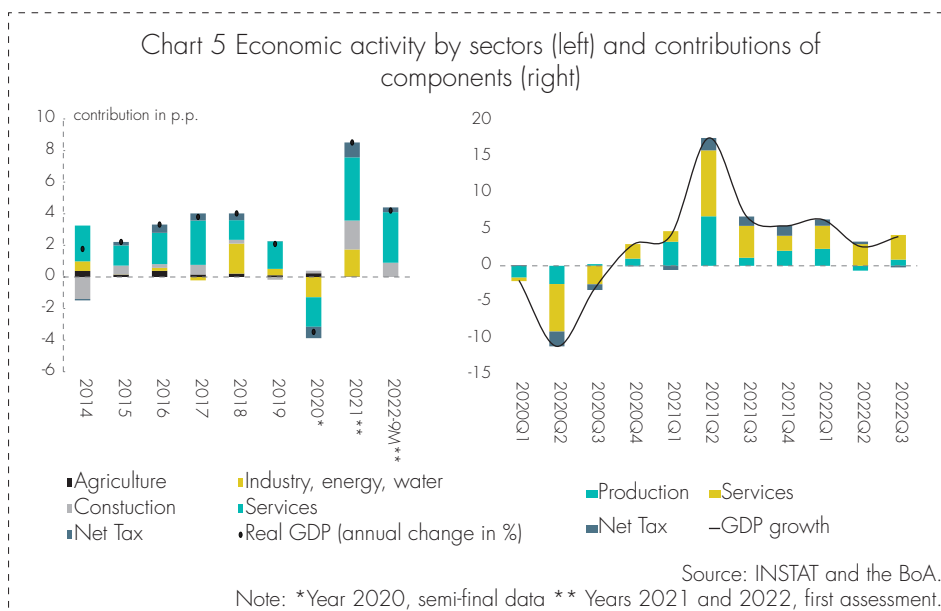




*that the private sector pays to controlling costs, growth of productivity and increasing the soundness of balance sheets', remain pertinent.*

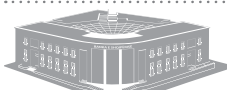
Gross Domestic Product expanded by 4.2% in the first nine months of 2022, following its increase by 8.5% in 2021<sup>2</sup>. Growth was driven mainly by expansion in the services and production sectors, whereas agriculture and industry experienced a slower and more volatile performance.

The services sector contributed by 3.2 percentage points to economic growth in the first three quarters of 2022. The recorded growth was driven mainly by the "Trade, transport and accommodation" branch, with the largest impact from the sub-branch of "Accommodation", which reflected the good performance of tourism and related activities, followed by the branches of "Trade" and "Real estate".



The manufacturing sector provided an average contribution to economic growth of 0.8 percentage point in the first three quarters of 2022. This sector experienced a high variation in growth rates from one quarter to the other. The contribution of production to annual growth fluctuated by quarters, from 2.3 to -0.7 and 0.8 percentage point, respectively. These fluctuations reflect almost entirely the developments in "Construction". The growth rates recorded for this branch were 27% in Q1, -3.5% in Q2, and 10.7% in Q3. This performance reflected the response of the sector's businesses toward the new economic circumstances related to costs and supply chains for commodities, due to the war in Ukraine. The other production branches generated, on average, low contributions to "Agriculture" and negatively low ones to "Industry". The overall

<sup>2</sup> The information published by INSTAT on gross domestic product by the method of production and expenditures covers developments to the third quarter 2022, published on 23 December 2022. The growth recorded in 2021 reflected to a considerable measure the effect of the low comparative base of the first year of the COVID-19 pandemic.



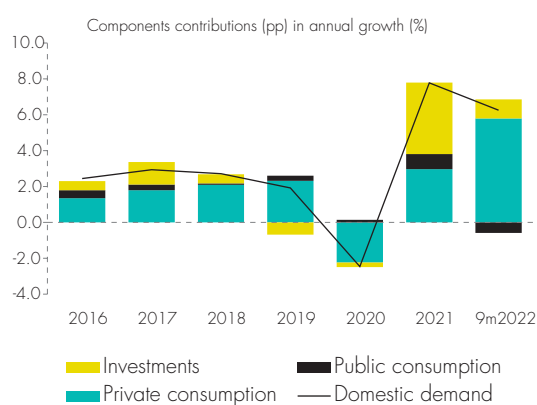
dynamic of "Industry" was dragged into negative territory due to the slowdown observed in the branches of "Mining" and "Energy".

**Table 1 Real growth of GDP (in %) and contributions of components (in percentage points)**

	2018	2019	2020	2021	2022 Q1	2022 Q2	2022 Q3
Agriculture	0.2	0.1	0.2	0.0	-0.1	0.0	0.1
Industry, energy, water	1.9	0.4	-1.3	1.7	0.4	-0.3	-0.2
Construction	0.2	-0.2	0.2	1.8	2.0	-0.4	1.0
Services	1.2	1.7	-1.9	4.0	3.2	3.0	3.4
Net taxes	0.4	0.0	-0.7	0.9	0.9	0.3	-0.2
Real growth of GDP	4.0	2.1	-3.5	8.5	6.4	2.6	4.0

Source: INSTAT and Bank of Albania's calculations.

**Chart 6 Annual change of domestic demand by components**



Source: INSTAT and BoA.

### **Private consumption mainly boosted the growth of domestic demand**

Domestic demand grew by 6.1% in the first nine months of 2022. The main contributor was private consumption, which recorded a stable growth throughout the period. On the other hand, investments appeared volatile, reflecting the performance of construction activity. Thus, investments recorded a sharp rise in Q1 and Q3, but an annual decline in Q2.

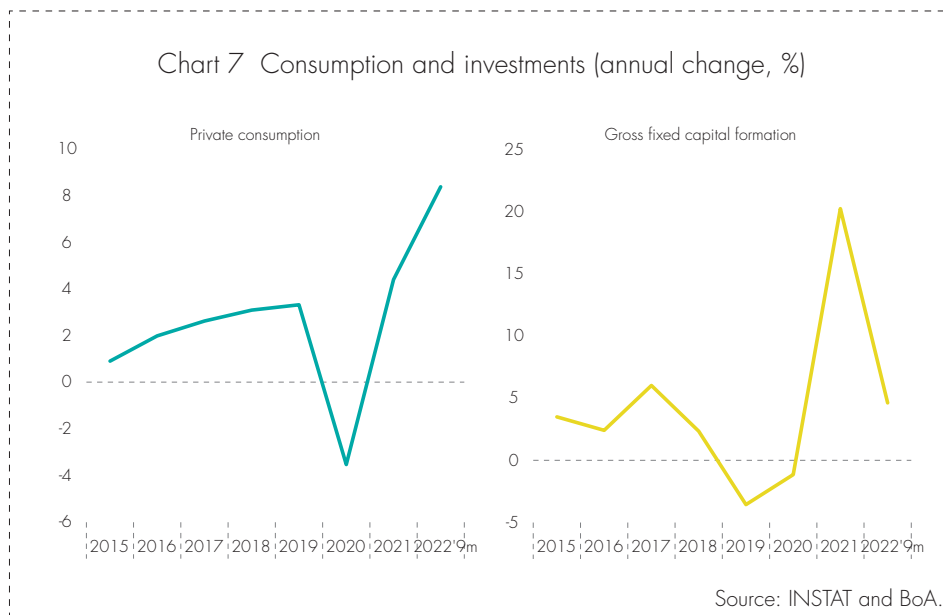
### **Private consumption grew by an average rate of 8.4% during the first three quarters of 2022**

Private consumption registered a rapid growth in the first three quarters of the year, recording the highest rate in the past ten years and providing the main contribution, of 6.4 percentage points, to the expansion of aggregate demand. This performance reflected growth of employment and wages, increase of credit, continued favourable financing conditions, as well as sound Albanian households' balance sheets. In terms of composition, rising consumption was mostly in the form of higher spending on both durable consumer goods and services.

### **Investments grew by an average rate of 4.6% during the first three quarters of 2022**

Investments continued to make a positive contribution to economic growth during 2022, albeit lower than in the previous year. The slowdown of investment growth is attributed to public investments, which provided a negative contribution during 2022, while private investments grew at a similar rate to that of 2021. The needs of enterprises to expand their capacities, increase of credit and continued favourable lending conditions coupled with the good financial situation of enterprises supported enterprises' growth in investments.



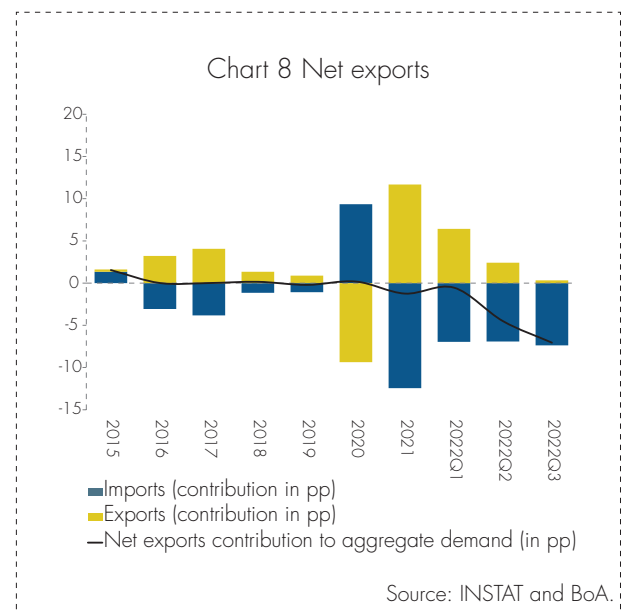


### Net exports had a negative contribution to economic growth

Net exports generated an average contribution of -4.0 percentage points to economic growth, in the first nine months of 2022. The trade deficit expanded by 38.7% in real terms, reflecting the rise in real exports by 9.2%, and the expansion of imports in real terms by 17.2%.<sup>3</sup>

Although the export of goods and services has remained in positive territory, which reflected the higher interest for Albanian goods and services, soaring prices in international markets and a shortage of domestic supply for a series of import items, have caused their financial bill to increase rapidly, thus curtailing the growth rate.

*Fiscal policy was consolidating during 2022, as both primary and overall budget deficits were reduced. This consolidation had a counter-cyclical nature, helping to control inflationary pressures. In the same line, it improved the sustainability of public finances and enhanced their ability to withstand future shocks.*



The discretionary fiscal policy had a consolidating profile in 2022, as primary deficit was lower than in the previous year. Fiscal consolidation, standing at

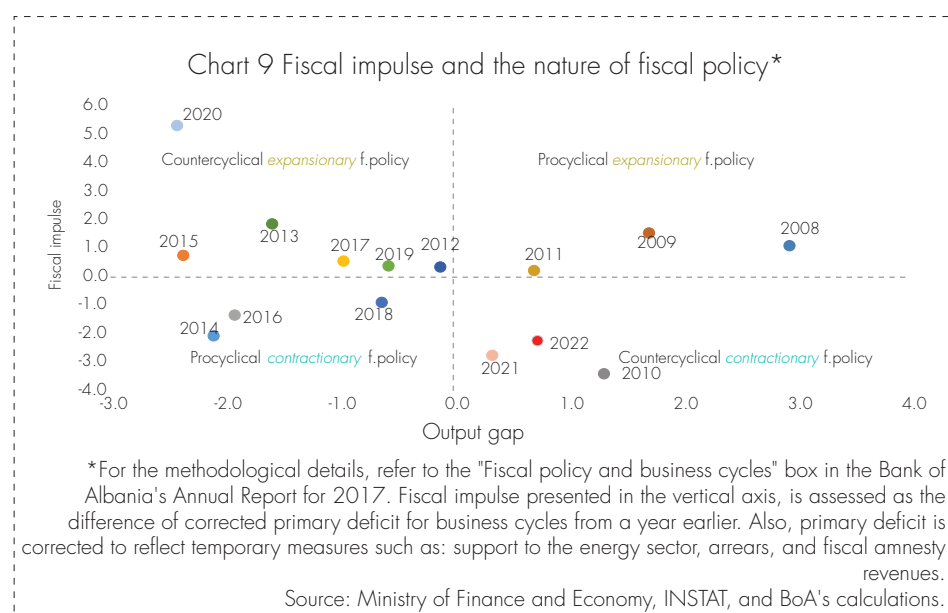
<sup>3</sup> Both exports and imports recorded high nominal growths by 41.2% and 28.8%, respectively. The differences in real terms are related to the differing deflators. The much-higher deflators for export offset their real growth by 9.2%. Meanwhile, import deflators are lower, so real import growth stood at 17.2%. As a result, the contribution of foreign trade to growth is assessed as negative for the first nine months of 2022, particularly in the third quarter.



around 2.2% of GDP<sup>4</sup>, helped in containing the expansion pace of aggregate demand and mitigating inflationary pressures.

This consolidation took the shape of a fast increase in budget revenues driven mainly by rapidly soaring prices, while public spending, which focused mostly on supporting the energy sector, expanded at a slower pace. The aim of supporting this sector was to cushion the transmission of high energy prices from the international to the domestic energy market, to the benefit of the most vulnerable economic agents, such as households and small enterprises.

The budget deficit in 2022 was around ALL 78 billion, from ALL 84 billion, which was planned in the latest review. The fiscal deficit was estimated at around 3.6% of GDP, from 4.5% in the previous year. The entire deficit was realised in December, while the fiscal balance recorded positive values in the first eleven months of the year.

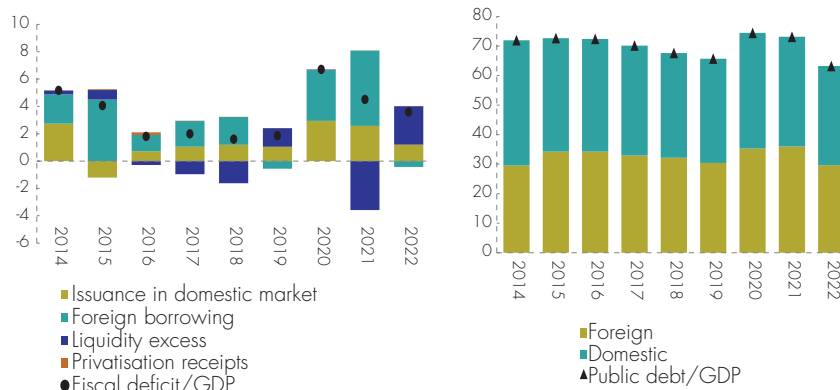


The deficit realized in 2022 was financed largely by the use of excess liquidity in foreign currency inherited from the previous year, while securities issued in the primary market funded around 33% of the budget deficit. In total, the government securities portfolio grew by ALL 26.3 billion, of which ALL 30.1 billion was denominated in lek, and 3.8 billion were securities in foreign currency. In contrast to previous years, the additional borrowing from the domestic market was only in short-term securities, or T-bills with up-to-one-year maturity. Net external borrowing reduced by ALL 9.4 billion, or 0.4% of GDP, as a result of higher principal payments on foreign debt compared to foreign currency inflows used for financing the deficit.

<sup>4</sup> The GDP of 2022 is calculated by the BoA.



Chart 10 Budget deficit and financing (left) and public debt ratio to GDP (right)\*

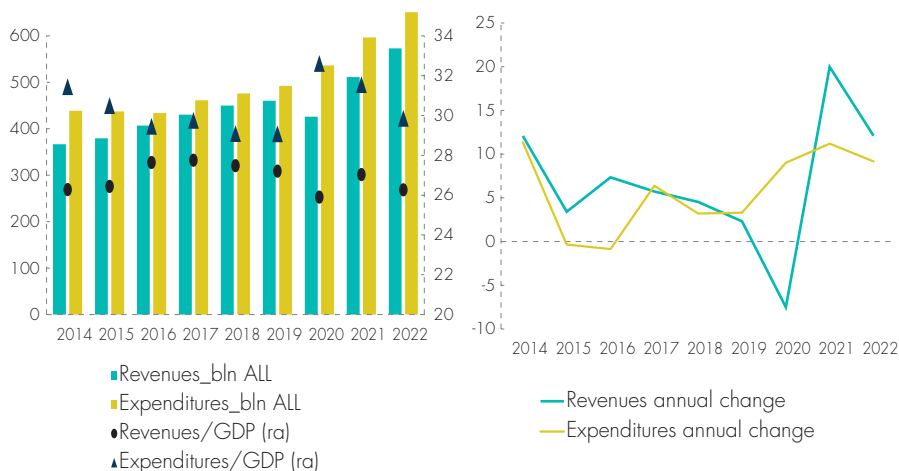


\*Public debt data refer to the third quarter, as full disclosure of data from MoFE for 2022 is not complete.  
Source: INSTAT, MFE and BoA's staff calculations.

The gross public debt to GDP ratio fell to 63.3% of GDP<sup>5</sup>, as at end of year, around 9.9 p.p. lower than the ratio assessed at the end of 2021. This decline is attributed to the fast growth of the economy in nominal terms, the appreciation of the domestic currency against the euro, as well as the fiscal consolidation. Domestic public debt was estimated at around 33.6% of GDP, from 37.2% recorded at the end of 2021. Foreign public debt in terms of GDP shrank by 6.4 p.p. from the end of 2021.

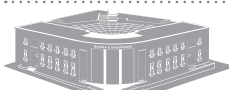
Budgeted expenditures in 2022 were around ALL 651 billion, up by 9.2% from the previous year. In terms of GDP, budgeted expenditures were assessed at 29.9%, from 31.6% in the previous year. Half of the increase in total expenditure is due to the support provided to the energy sector. The other items that contributed to higher expenditures were social insurance expenses,

Chart 11 Revenues and expenditures



Source: INSTAT, MFE and BoA's staff calculations.

<sup>5</sup> BoA's GDP calculations.



which reflected the government's aid packages to protect the most vulnerable groups in society from rising prices, operational expenses, local government expenses, as well as interest payments on existing debt. The distribution of expenditures throughout the year continued to be uneven: around 21% of the annual expenditures were realised only in December.

Fiscal revenues amounted to ALL 573 billion, assessed at around 26.3% of GDP. In annual terms, revenues expanded by around 12.1%, where VAT revenues provided the main contribution, by around 5.9 p.p. Social insurance income, tax revenues, and personal income tax also had a positive contribution. The performance of VAT revenues reflects, in addition to the higher economic activity volume, the impact of the rapid rise in prices, both domestically and globally. Also, the positive performance of both social insurance and personal incomes, reflects the positive developments in the domestic labour market along with the increase in the minimum wage in Albania.

### 2.1.3 LABOUR MARKET

*In 2022, the labour market was characterised by the fall of the unemployment rate to its lowest historical level and a fast wage growth*

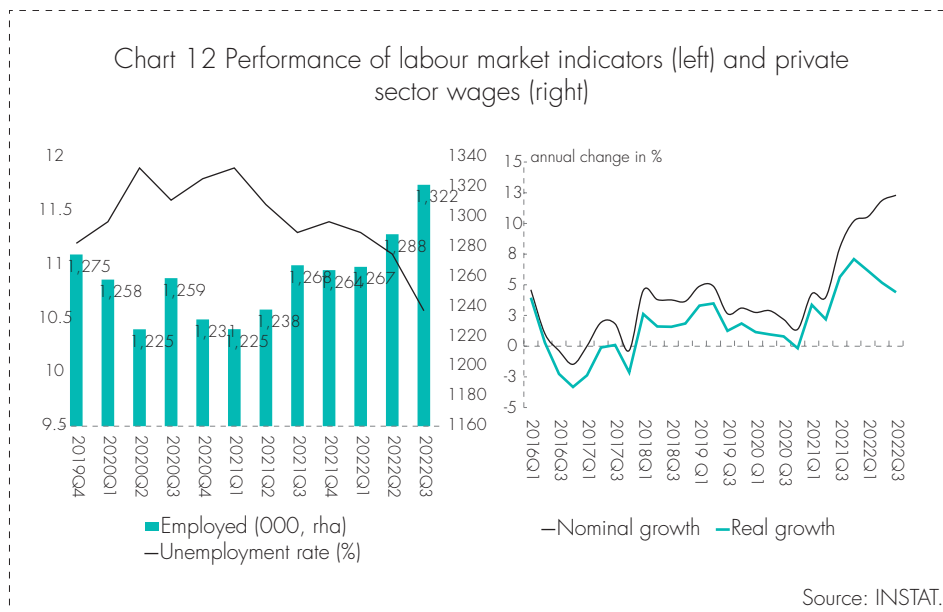
According to the Survey on Labour Force, employment rose by 3.9% during the first nine months of 2022, compared to only 0.5% in 2021. As expected, employment recovery was more delayed compared to economic growth in the post-pandemic period. The number of employed persons exceeded for the first time the last level of 2019 in the second quarter of 2022, further expanding during the third quarter. Contributions are broadly-based, but the return of positive increasing rates in employment in the sector of "Agriculture" accelerated the growth of total employment, as well.

The expansion of employment was reflected in a considerably lower unemployment rate. This rate dropped to 10.6% in the third quarter, down by 0.7 p.p. in annual terms. Also, the number of unemployed persons fell to a historically low level. During this time, labour market data show that participation in the labour force has gone up, while inactivity has gone down. In terms of employment structure by age-group, higher employment was supported by the expansion of jobs for 30-64 years-old and over 65 years-old, against the decline in the share of the younger age-group of 15-29 years-old to total employment, in the labour force and the working age population.

The improvement of the labour market indicator has put considerable pressure on wages. Enterprises report difficulties in filling their vacancies, both in terms of quality and quantity, adding to wage growth pressures beyond the subsequent rises in the minimum wage. The annual growth rate of the nominal wage for the overall economy was 7.3%, and for the private sector 11.6%, in the first nine



months of 2022. The growth in wages is broadly-based, in both economic sectors terms and wage level and degree of qualification terms.

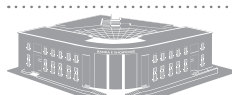


Nevertheless, rising inflation has triggered a deceleration in the growth rate of the real wage. Thus, the rise in real wage is calculated at 1.0% for the overall economy, from 4.3% in 2021. Meanwhile, the rise in the private sector was 5.2%, slowing down from the first to the third quarter.

## 2.1.4 INFLATION AND ITS DETERMINING FACTORS

*Inflation increased sharply during 2022, averaging at 6.7%. The rapid surge in commodity prices in international markets due to the war in Ukraine, engendered a hike in global, regional and domestic inflation. The rise in global prices, though mitigated by appreciation of the domestic currency, had a significant impact on inflation, both directly, in the form of higher prices of imported consumer items, as well as indirectly, in the form of higher production costs and inflationary expectations. In the same vein, domestic inflationary pressures have picked up due to improvement of the cyclical position, fast absorption of free labour capacities, and a rapid growth of wages.*

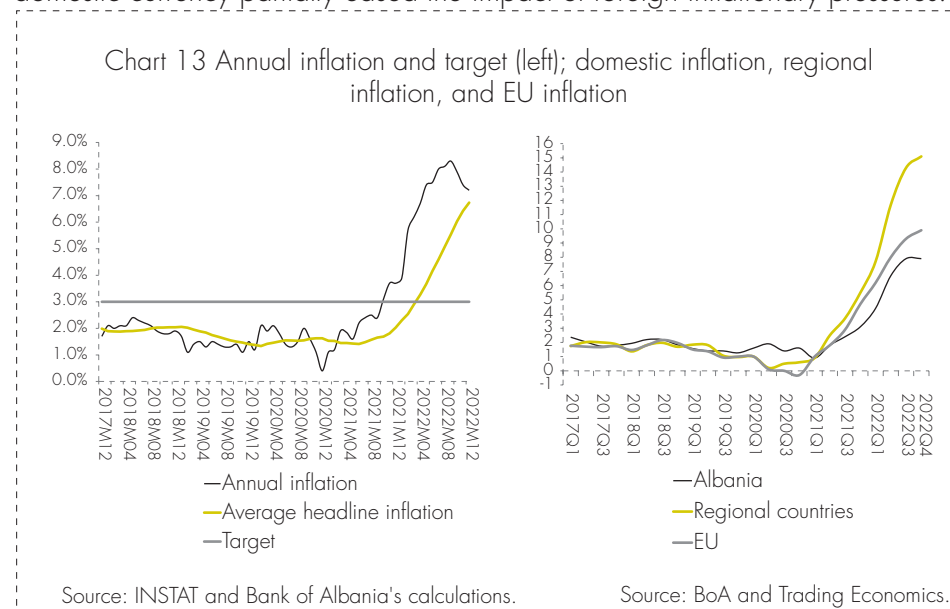
Inflation hit high historical levels during 2022, an average of around 6.7%, standing 4.7 percentage points above the value of the previous year. The inflation trajectory stood above the Bank of Albania's target of 3% throughout the year, reaching a historical peak in October (8.3%). March was the month during which inflation experienced the fastest rise, by 1.8 percentage points; this period corresponds to the price shock following the start of the Russian military aggression in Ukraine. Inflationary pressures intensified in the



successive months, as geopolitical tensions increased, the conflict escalated, and international sanctions were imposed on Russia. The crises, following the conflict was translated, inter alia, into the highest historical prices recorded for oil, gas, energy, industrial goods, grains, and food commodities.

These developments considerably increased the external inflationary pressures. At the same time, the recovery of domestic demand, tightened labour markets, and higher inflationary expectations, generated domestic inflationary pressures at a considerable level and with an intensified persistence. Consequently, core inflation recorded high values since March as well.

Although prices remained high, in the last two months of the year, inflation fell due to a deceleration in oil prices and a fall in transportation costs for goods. Inflation in Albania, compared to other countries, recorded lower values because energy prices for households remained unchanged, and the appreciation of domestic currency partially eased the impact of foreign inflationary pressures.



*Inflation rates were elevated on the back of basket items, whose prices recorded sharp double-digit rises almost throughout the year, particularly in the group of food and energy goods.*

Inflation remained notably above its target, since an ever-increasing number of CPI basket items shifted from low inflation levels towards those above 3%.<sup>6</sup> On average, around 46% of basket items recorded an inflation rate that exceeded 3% in 2022; this share rose by 29 percentage points compared to the previous year. On the contrary, the share of the basket items with an inflation lower than

<sup>6</sup> The assessment is based on the annual inflation data of CPI basket items pursuant to COICOP classification (at a two-digit level for a total number of 96 goods and services), for each of the annual inflation rate ranges: below 1%, 1-3%, and over 3%. The share to the total of 96 items is calculated each month based on the number of items in each inflation range.





1% shrank during this year (34%), compared to the previous year (56%). The basket items with inflation ranging between 1-3% also accounted for a lower share (20%), compared to the previous year (26%), although the difference recorded here was milder than in the extreme inflation ranges.

The **"Processed foods"** category continued to provide a considerable contribution in determining inflation (42% of headline inflation). The upswing in processed food prices in international markets affected the increase of prices in this category. This category's large contribution to inflation was driven mainly by the two-digit rise in prices in the sub-groups with a considerable weight on consumption such as "Bread and grains", "Dairy and eggs", "Oil and fat", which increased by 15.7%, 17%, and 24%, respectively. The **"Unprocessed foods"** category provided a higher contribution than in the previous year, but the growth rate was lower than in the group of other food items<sup>7</sup>. Within this category, the contribution of the Fruits and Vegetables sub-groups were on a downward trend, in certain months, reflecting additional domestic supply effects.

The other categories, as well, recorded higher contributions than a year earlier. Comparatively, the contribution of the **"Non-food items"** category was significantly higher, reflecting the rise in oil prices in both domestic and foreign markets. This category accounted for 10% of headline inflation in the previous year, while in 2022 this contribution doubled. Given the apparent deceleration in fuel prices during November and December<sup>8</sup>, the contribution of the relevant category shifted, falling progressively compared to the previous year. The rest of inflation consisted of prices of more stable components of inflation including **"Services"**, **"Housing"** and **"Durable consumer goods"**.

Table 2 Contribution of key items to annual inflation (p.p.)

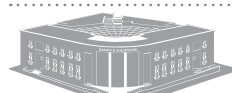
	Average contributions by year					Average contributions by quarter - 2022				Annual inflation 2022 (in %)
	2017	2018	2019	2020	2021	T1	T2	T3	T4	
Processed food	0.2	0.2	0.5	0.6	0.6	1.4	3.0	3.5	3.4	12.8
Unprocessed foods	1.0	0.9	0.9	0.8	0.8	1.5	1.2	1.7	1.9	8.4
Services	0.1	0.1	0.1	0.2	0.2	0.4	0.5	0.6	0.5	3.1
Goods with regulated prices	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
Housing (rent)	0.3	0.1	0.2	0.1	0.1	0.1	0.2	0.3	0.4	2.4
Non-food consumer goods	0.3	0.1	-0.2	0.2	0.2	1.0	1.6	1.5	1.2	9.9
Durable consumer goods	0.0	0.0	0.1	0.1	0.1	0.0	0.2	0.3	0.4	3.4
Inflation (%)	2.0	1.4	1.6	2.0	2.0	4.4	6.7	7.9	7.9	6.7

Source: INSTAT and BoA.

The recovery of demand and the labour market pushed up the prices of a wider range of products. Not least, a considerable hike was recorded in the services sector during the summer period, for activities related mainly to tourism.

<sup>7</sup> The average contribution of "Unprocessed foods" doubled in 2022, compared to 2021. Whereas, the contribution of the "Processed foods" category increased by almost five-folds in 2022, compared to the previous year.

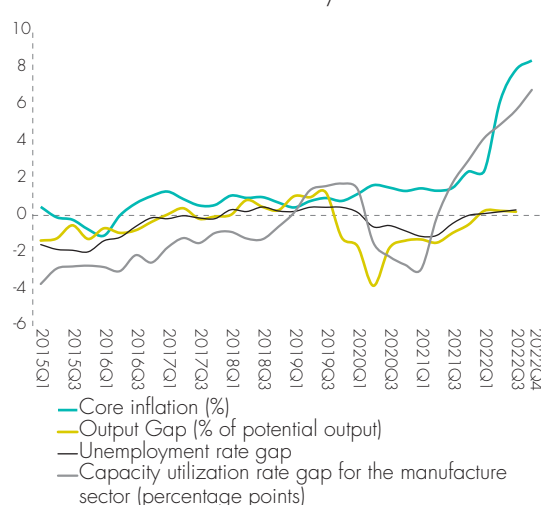
<sup>8</sup> In November-December, the annual inflation of the "Services for personal transportation vehicles" category, where fuel accounts for the largest share, was around 9% on average, after the double-digit rises of around 24% on average during January 2021-October 2022 period.



The prices of tourist packages, transportation services, hotels, restaurants, and bars stand out. The categories of "Durable consumer goods" and "Housing" provided a higher contribution, reflecting the impact from climbing costs of commodities and construction. As energy prices for households remained intact, regulated prices in this category did not add contributions to headline inflation, during 2022.

*The cyclical position has continued to improve during the first nine months of 2022, reflected in high rates of core inflation*

Chart 14 Indicators of cyclical situation



Source: INSTAT and Bank of Albania's calculations.

Stable economic growth has driven to an improvement of the cyclical position during 2022. Economic growth was high, while the unemployment rate has been declining, and the capacity utilisation rate remained considerably above the long-term average. These developments were reflected in high core inflation rates throughout 2022.

*Inflation rose progressively, as domestic contributions expanded in 2022*

In addition to the cyclical improvement, the domestic economy faced intensified external inflationary pressures, over the course of 2022. The upward inflation trajectory received strong impulses from imports during the first months of 2022, due to the crises in commodity prices following the conflict in

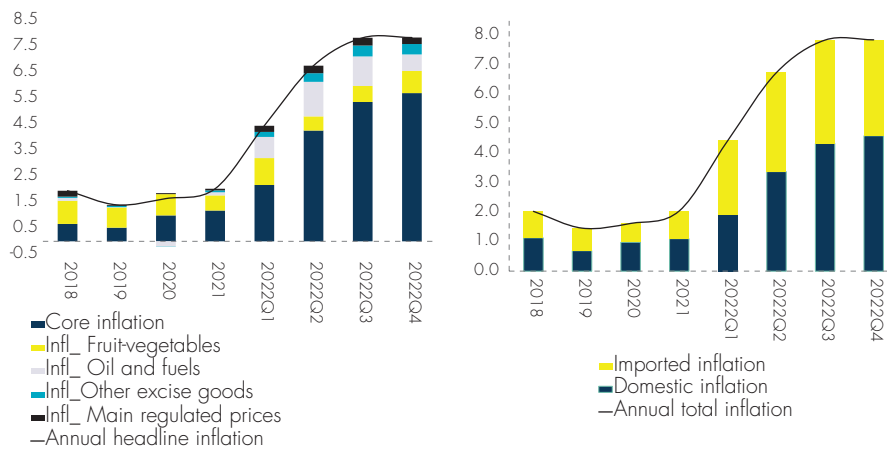
Ukraine. The imported element accelerated considerably, becoming dominant in the values of headline inflation. The high international prices also affected those items in the CPI basket with a more stable inflation, significantly expanding the domestic and core inflation. Increased costs of production, services and labour coupled with inflation expectations transmitted the spread of rising effects. Thus, contributions from domestic and more stable components of inflation, gained traction during the second half of 2022.

Core inflation was around an average of 6.5%, standing 4.8 percentage points above the 2021 average. The elevated inflationary pressures were also verified by the net core inflation component,<sup>9</sup> which increased from 1.5% in the first quarter, to 3.8% in the last quarter. For the same periods, domestic inflation registered 2.5% and 6%, with a relevant contribution of 43% and 58%, respectively, to the formation of headline inflation. Hence, the intensity of imported inflation - from a dominant contribution of 57% in the beginning of the year – fell to 42% at the end of 2022.

<sup>9</sup> Net core inflation excludes the processed foods sub-groups (including bread and grains) from the calculation of core inflation. Net core inflation takes into account 44.1% of the CPI basket of 2022.



Chart 15 Decomposition of inflation long and short-term components (left) and domestic and imported (right)



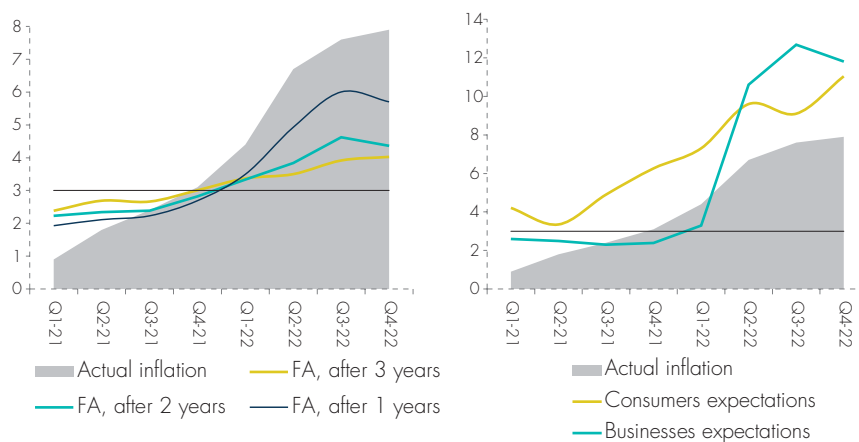
Source: INSTAT and Bank of Albania's calculations.

Inflation developments in 2022 affirmed the Bank of Albania's assessments that the sharp increase of inflation was not going to be transitional, but one with longer term consequences on the economy, requiring, thus, normalisation of the monetary policy stance.

### *Inflation expectations increased gradually over 2022*

Inflation expectations<sup>10</sup> were revised upward during 2022. Enterprises recorded the highest increase, with inflation expectations up at 9.9%, from 2.4% in the previous year. In the same vein, the short-term expectations of consumers and financial agents were revised upwards, at 4.6 p.p. and 2.8 p.p., respectively. Meanwhile, financial agents' inflation expectations in the medium-term horizon,

Chart 16 The performance of economic agents' expectations for inflation



Source: BoA.

<sup>10</sup> Inflation expectations are calculated through direct observations made on enterprises, consumers, and financial agents.



were stable and closer to the target. After three years, financial agents expect inflation to average 3.7%, 1 percentage point higher than the expectations in 2021. The quarterly dynamic of expectations signals that their rising trend will subside by the end of 2022.

### **2.1.5 BALANCE OF PAYMENTS AND EXTERNAL POSITION OF THE ECONOMY**

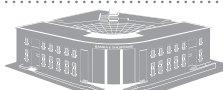
*Current deficit improved in the first nine months of 2022, in both nominal terms and in relation to GDP. The increase in the export of goods and services provided the main contribution to the tightening of current deficit. Also, financing was ensured mainly by Foreign Direct Investments (FDIs), which grew in double-digit terms during this period. At the same time, the gross external debt ratio to GDP appears lower, while indicators measuring both long-term solvency and liquidity have improved.*

*The current deficit ratio to GDP dropped to 4.6% for the first nine months of 2022, from 5.5% in the same period in 2021*

The contraction of current deficit was driven mainly by the increase of tourism inflows. In the first nine months of 2022, these inflows expanded by 48.8%, and total services grew by 39.1%. The current levels recorded exceeded the pre-pandemic ones (2019). This satisfactory performance is related, among other factors, to the positive effects of tourism, due to the complete lifting of restrictions imposed on the international movement of travellers. In addition to Albanian exports, the imports of services also benefited from this phenomenon. Imports of tourism services expanded by 68.5% during the same period and stand above the pre-pandemic levels as well.

Also, exports and imports of goods recorded high annual growth rates. These developments reflect mainly the rapid rise of global prices after the Russian military attack on Ukraine. The growth of imports had a larger impact compared to the export growth. Importing activity was also influenced by a rising demand for energy imports, due to challenges faced by domestic production in the first nine months of 2022. As a result, the trade deficit of goods expanded by 16.3% in annual terms. On the other hand, the positive impact from the services account was more significant, driving the overall trade deficit of goods and services down by 4.7%, during the same period.

As regards income, the deficit in the primary income account deteriorated, whereas the level of secondary income appears almost unchanged. The outflow of primary income expanded considerably, due to the flow of income from direct investments. These flows reflect the good performance of FDIs in the last years, and the improvement of economic activity in Albania. The income inflows from seasonal employment were upward, reflecting the rebound of these flows in the post-pandemic period. However, they were not able to offset the outflow impact.



As regards secondary income, remittances continue to register high growth rates. Inflows expanded by 9.8% in annual terms, during the first nine months of 2022. On the other hand, "General Government" and other private flows have contracted, offsetting the impact of remittances. As a result, the account surplus rose by only 0.3% during the same period.

### *FDIs were the main source of financing the current deficit*

The inflows of FDIs expanded by 34.8% during the first nine months of 2022. The growth was mainly underpinned by the sectors of "Real estate," "Energy," "Mining" and "Manufacturing," as well as other branches which had a positive broadly-based impact. The reinvestment of company's profits was the main source of FDIs during this period, reflecting the profitability of investments in the Albanian economy. The FDIs ratio to GDP accounted to 7.3%, up by 1.1 percentage points compared with the previous year.

### *External debt sustainability indicators improved in 2022*

External debt stock is estimated at EUR 9.947 billion at the end of 2022 Q3, with an annual growth rate of 10.9%. Stock grew mainly due to the issuance of a Eurobond of EUR 650 million in 2021 Q4. Though the stock expanded, the debt ratio to nominal GDP stood at 56.3%, down by 3.7 percentage points in annual terms. "General Government" continues to be the main holder of external debt, accounting for 48.5% of total. In terms of time structure, the long-term debt is dominant, accounting for around 91.0% of total.

The considerable expansion in both exporting flows and fiscal revenues, also due to rising prices during 2022, has enabled an improvement of solvency indicators. The debt stock ratio to the exports of goods and services dropped to 127.1% at the end of 2022 Q3, from 162.6% at the end of 2021. Also, the ratio of foreign debt stock to fiscal revenues fell to 204.8%, from 230.5% at the end of 2021.

At the same time, the stock of international reserve was sufficient to counter the short-term pressures of external debt. As at end-December 2022, the reserve was sufficient to cover 7.1 months of imports of goods and services, or 355% of the short-term gross external debt.

*Table 3 Main indicators of balance of payments and external debt (in % to GDP)*

	2015	2016	2017	2018	2019	2020	2021	2022 Q1-Q3
Current deficit	8.6	7.6	7.5	6.7	7.9	8.7	7.6	4.6
Trade Deficit	17.3	16.8	15.1	13.7	13.7	14.5	13.2	8.6
Exports	27.3	29.0	31.6	31.6	31.3	22.7	30.8	37.9
Imports	44.6	45.8	46.7	45.3	45.0	37.3	43.9	46.5
Remittance inflows	5.8	5.7	5.5	5.2	5.1	5.1	4.9	4.4
FDI inflows	8.7	8.8	7.8	7.9	7.8	7.1	6.7	7.3
External debt	74.4	73.5	68.7	65.0	59.9	64.4	63.2	56.3

Source: BOA.



## 2.1.6 FINANCIAL MARKETS AND MONETARY INDICATORS

*The rapid increase in inflation triggered the normalisation of the monetary policy stance in 2022, in both Albania and the world. This shift was reflected in rising interest rates for the entire range of financial market instruments, although this upward trend was not uniform across all market segments.*

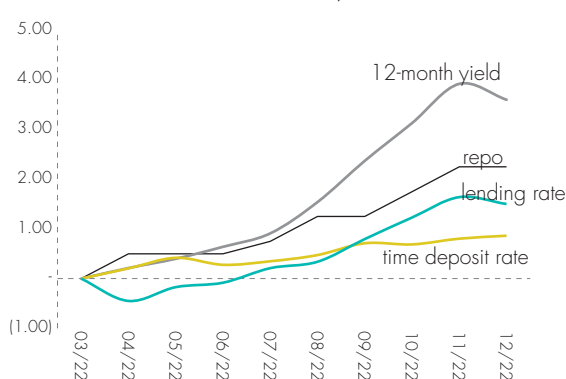
*However, although trending upwards, interest rates and financing conditions have remained stimulating over the course of 2022. Credit to the private sector continued to expand during the year, accelerating in the first three quarters and decelerating in the fourth quarter. Credit growth was broadly based, covering the needs of Albanian households and enterprises for short- and long-term financing.*

*Overall, financial markets in Albania were relatively quiet, although their volatility was more pronounced compared to the previous years. In particular, the foreign exchange market was characterised by an appreciating performance of the lek against the euro, as a response to the improvement of the external position of the economy.*

*The normalisation of the monetary policy stance was transmitted into higher overall interest rates in the financial market*

Monetary policy signals, in the form of successive policy rate rises, were transmitted effectively thanks to the soundness of the banking system, an adequate liquidity level, and low risk premia of financial markets. Nonetheless, the transmission was uneven across different segments of the economy. It was immediate and complete to the interest rates in the interbank market, an important precondition for the monetary policy transmission to the economy. Further, the response of deposit rates was slower, whereas credit rates rose at a faster pace, following more closely the policy rate changes, which is a typical characteristic of a rising cycle. Meanwhile, yields on government securities experienced an increased volatility. These yields rose rapidly during the first three quarters, as a response to higher uncertainties felt from market participants. Later, these uncertainties were contained, the primary market was stabilised in the fourth quarter, and yields started to adjust downwards.

Chart 17 Cumulative adjustments to interest rates in lek following the start of the monetary policy normalisation cycle



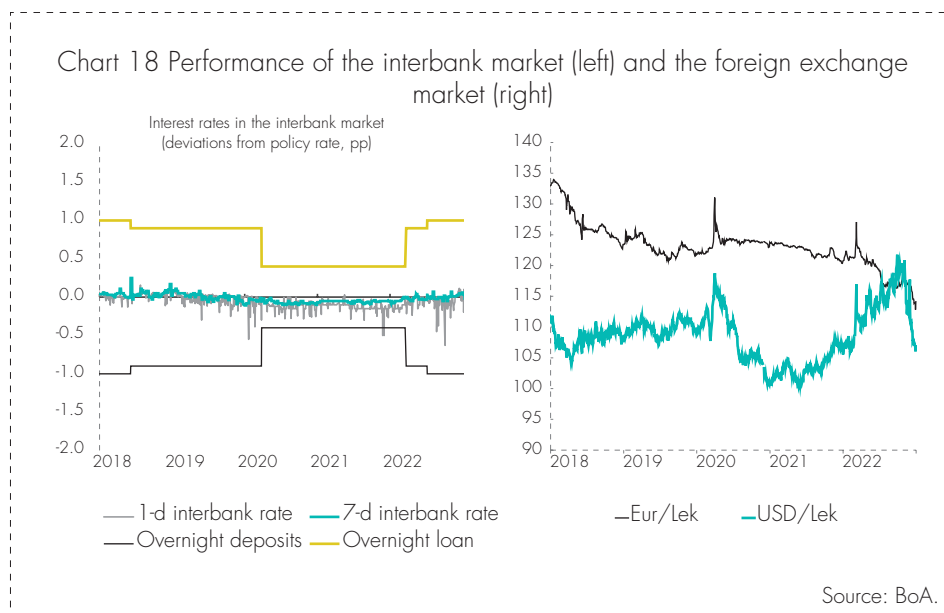
Source: BoA.

Notes: The cumulative adjustment to credit rate are expressed in three-quarters moving average.

*Liquidity conditions in the interbank market were adequate, as transmission of the higher policy rate and achievement of the operational objective of the monetary policy were rendered possible*



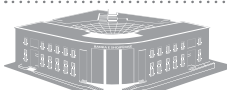
Interest rates in the interbank market were immediately transmitted to policy rate changes, fluctuating closely to its value. Their performance reflected the lack of liquidity pressures in the currency market and the improvement of short-term liquidity management by the banking system. The trading volume in this market has fluctuated close to the level of the previous year, for both the 7-day and 1-day segments. The Bank of Albania has continued to carry out regular liquidity injection operations through its main instrument, the one-week repo. In addition to the weekly repos, 3-month maturity injections have also been carried out. The banking system's demand for liquidity has been slightly higher than in the previous year<sup>11</sup>.



***The foreign exchange market appeared calm, characterised by an appreciating performance of lek against the euro***

The foreign exchange market was dominated by an appreciating trend of lek during 2022, reflecting an improvement of the balance of payments, normalisation of the monetary policy stance, and a contained risk premia in the domestic financial market. The strengthening of lek started in the second quarter of the year. It intensified and has continued on the same path in the fourth quarter as well. On average, the euro/lek exchange rate fell to ALL 116.4 in the last quarter, from ALL 121.9 in the first quarter, and ALL 122.4 in 2021. The annual average appreciation deepened to 2.9% during this year, from 1.1% recorded in the previous year. The appreciating pressures were absorbed by the exchange rate market, without causing volatilities or shocks to the expectations of its participants, demonstrating that the degree of maturity and consolidation have risen.

<sup>11</sup> The liquidity offered in regular repo auctions has increased somewhat for the 7-day repo, whereas 3-month maturity injections have maintained the level of the previous year.





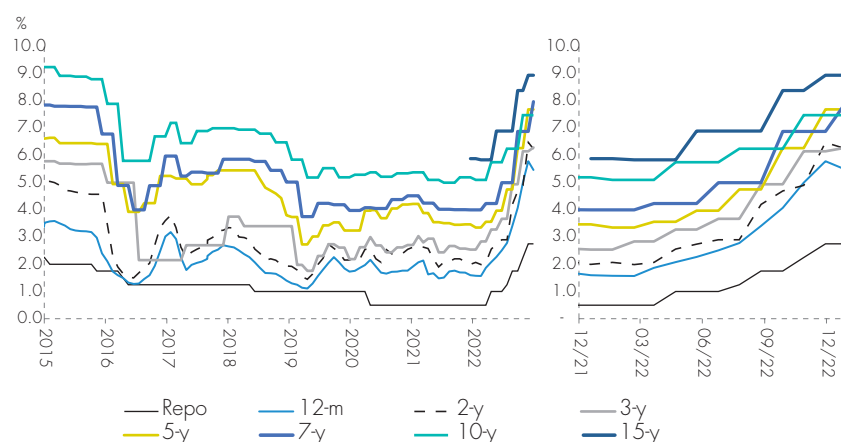
The performance of the lek exchange rate against the US dollar during 2022, reflected the strong appreciation of the latter in the global market. As the Fed adopted a more aggressive approach than the European Central Bank in raising interest rates, the US dollar strengthened continuously against the euro, which peaked in the third quarter of the year, and started to fall in the fourth quarter. In the domestic market, the US dollar was averagely quoted at ALL 113.2, from ALL 103.5 in the previous year, with an average lek depreciation of 9.3%.

*Yields on government securities overreacted to additional uncertainties from rising inflation and rapid normalisation of the monetary policy, but they started to adjust in the last weeks of the year*

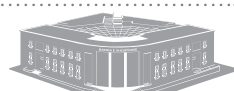
Yields on government bonds and T-bills surged significantly during 2022, beyond the transmission of the monetary policy normalisation. As at end of 2022, the 12-month yield was 5.5%, or 3.7 p.p. above the average of the previous year. Bonds with 2- to 7-year maturity experienced the same rise, while the 10-year bonds recorded a more contained hike.

The upward spike in yields, particularly more apparent in the second half of the year, reflected the higher perceived interest rate risk, given the rising inflation and the acclimatisation of the market operators to a low-rate environment. The resurgence of demand for government debt instruments was driven by deceleration of inflation in the last two months of the year, preservation of the same policy rate, and mitigation of future uncertainties. As a result, the increase of yields slowed down in November, and they started to fall in the consecutive weeks. The spread between yields and the policy rate, after the sharp increases in the third quarter, started to narrow and approach the average level of the previous years.

Chart 19 Performance of yields in the primary market

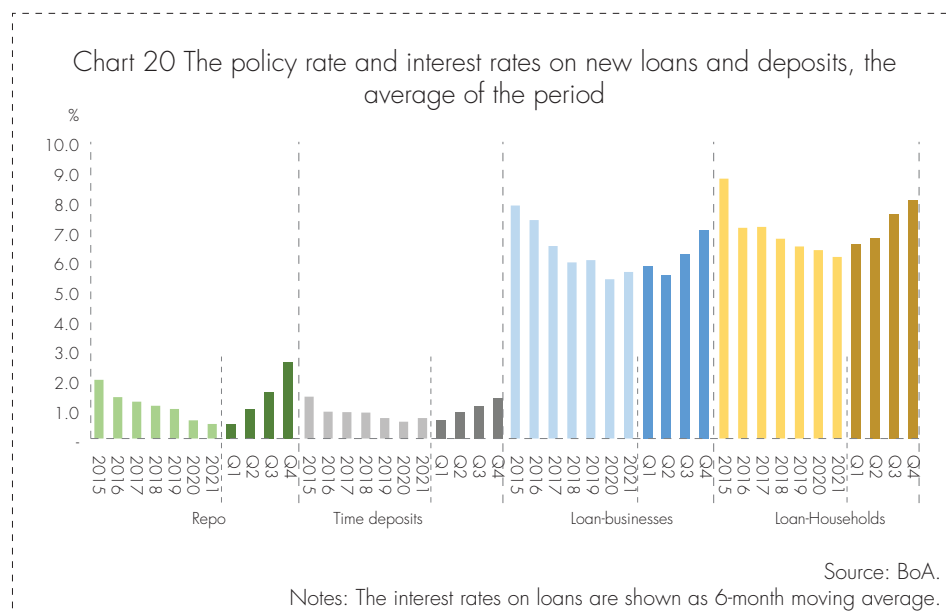


Source: BoA.



*Interest rates on loans and deposits increased during 2022, as they responded to the rising policy rate, but their level remains supportive for the economic growth.*

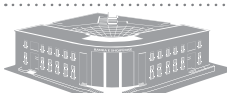
Following a period of decline and minimum levels, interest rates on loans and deposits increased, in 2022. The interest rates on time deposits in lek rose gradually after the first quarter of the year, reaching 1.4% in the fourth quarter, from 0.7% average recorded in 2021. The interest rate on credit in lek to households reflected, in full, changes in the policy rate. It registered 8.0% in the fourth quarter, or up by 1.9 percentage points compared to the previous year. Rate rises were witnessed by all types of households' loans, particularly consumer credit, where rates climbed at a faster pace. On the other hand, the average interest rate of credit to enterprises in lek reached 7.0% on average in the fourth quarter, up by 1.4 p.p. from the average of the previous year.



There are two main points which need to be emphasised in regards to the performance of loan rates. First, their behaviour was not influenced by the higher volatility of government securities yields. Their increase followed the raise of policy rate, without carrying the burden of uncertainty premia that has accompanied developments in the government securities market, reflecting thus, the accumulation of experience and maturity in the banking sector. Second, despite the rising interest rates of loans, their current level is still boosting consumption and investments, reflecting the stimulating nature of the monetary policy.

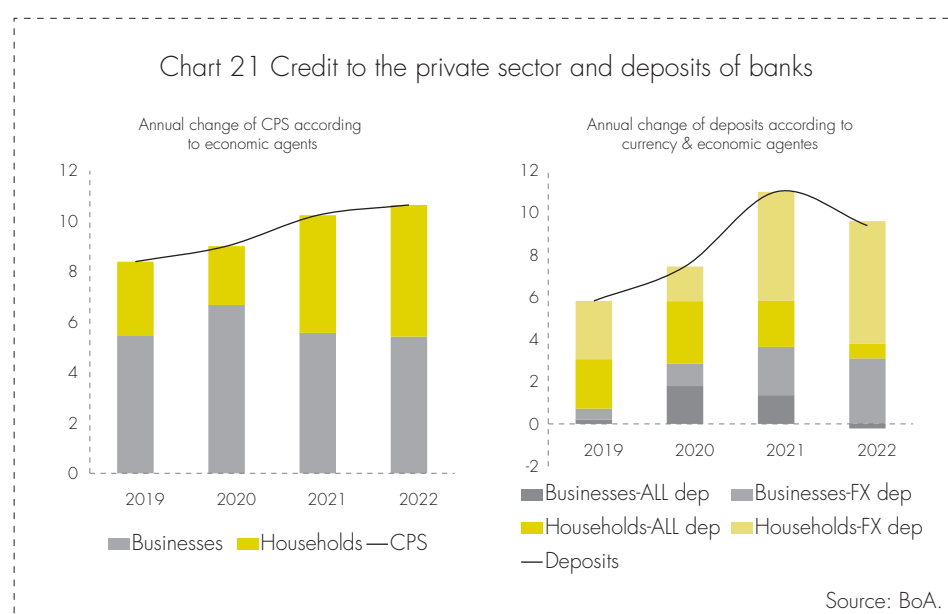
*Bank credit to the private sector has grown at a rapid pace, despite the impact of increased uncertainties and the tightening of credit conditions*

In 2022, credit to the private sector grew, on average, by 12.6% up by around 4 percentage points from the previous year. Over the course of the year, until the third quarter, lending grew rapidly, then it slowed down in the last quarter, reflecting a weaker demand and tighter credit conditions.



Higher credit in foreign currency, particularly in the euro, was the main contributor to lending. This portfolio recorded an annual growth of around 15.6%, a twofold rate increase compared to the previous year. On the other hand, the portfolio of credit in lek grew by 9.2%, slowing down by 2.4 p.p., compared to the previous year. Lending in lek was slower due to suspension of the supportive measures undertaken by the government, as well as a re-orientation of enterprises' demand for financing toward foreign-currency credit. Nonetheless, at the end of the year, the credit portfolio structure remains shifted slightly towards lek, which accounts for 50.9% of the private sector's credit.

The segments performing noticeably better than the previous year were loans to cover the liquidity needs of enterprises, and loans for house purchase to households. The latter grew by 17%, in annual terms, or up by 5 p.p. from the previous year, affected by higher households' demand for house purchases.



### *Deposits expanded with high growth rates, driven mainly by high foreign currency flows into Albania during 2022*

Deposits recorded an annual growth of 10.4%, on average, up by 1 p.p. from the previous year. The faster expansion of deposits in foreign currency compensated the slower growth of deposits in lek. Foreign-currency deposits of banks grew by 15.7%, or up by 6 p.p. from the previous year. Good performance in the tourism sector coupled with other positive developments in the external sector of the economy, supported the growth of deposits in foreign currency over 2022. Also, the limited alternatives of foreign-currency investments had a positive contribution. Conversely, deposits in lek grew by 3.9% over 2022, decelerating due to a higher interest of households to invest in government securities, as well as lower budget deficit levels.



Furthermore, in 2022, higher interest rates spurred a return of savings to time deposits. Not least, chasing higher returns, there is a preference for placing foreign-currency savings in deposits with over two years of maturity. At the end of the year, deposits with over-two-year maturity accounted for 15.1%, or up 1.3 p.p. than the previous year.

Table 4 Main macroeconomic and financial indicators

	2018	2019	2020	2021	2022*
Annual average inflation					
Headline inflation (in %)	2.0	1.4	1.6	2.0	6.7
Core inflation (in %)	0.9	0.7	1.4	1.7	6.5
Economic growth					
Real GDP growth (annual, in %)	4.0	2.1	(3.5)	8.5	4.2
Labour Market <sup>1</sup>					
Participation rate in the labour force	68.3	69.6	69.1	69.3	72.7
Unemployment rate (15+)	12.3	11.6	11.7	11.5	11.0
Fiscal sector					
Budget balance (including grants, % of GDP)	-1.6	-1.9	-6.7	-4.5	-3.6
Budget revenues (as a percentage of GDP)	27.5	27.2	25.9	27.0	26.3
Budget expenditure (as a percentage of GDP)	29.1	29.1	32.6	31.6	29.9
Public debt (as a percentage of GDP)**	67.7	65.8	74.5	73.2	63.3
External sector					
Current account (official transfers exempted in % of GDP)	-7.3	-8.4	-8.5	-7.9	-4.8
Imports of goods (fob, as a percentage of GDP)	30.0	29.4	28.4	33.0	33.2
Exports of goods (fob, as a percentage of GDP)	7.7	6.6	6.0	8.2	10.8
FDIs (as a percentage of GDP)	7.9	7.8	7.1	6.7	7.3
Monetary and financial sector					
Repo rate (end of period)	1.0	1.0	0.5	0.5	2.8
M3 aggregate (annual growth, end of period)	-0.2	4.3	10.5	8.6	5.2
Credit to the private sector (annual growth, end of period) <sup>2</sup>	2.0	8.4	8.9	10.3	10.6
Deposit/GDP <sup>3</sup>	68.5	70.1	77.9	74.6	69.0
Credit/GDP <sup>3</sup>	30.7	31.5	35.3	33.3	30.9
12-month average yield	1.9	1.6	1.9	1.7	3.2
ALL/USD average exchange rate	108.0	109.9	108.7	103.5	113.0
ALL/EUR average exchange rate	127.6	123.0	123.8	122.4	119.0
NEER	96.8	92.0	89.9	86.3	78.6
Banking Sector					
Non-performing loans ratio/total loans (%)	11.1	8.4	8.1	5.7	5.0

Source: INSTAT, BoA, Minister of Finance and Economy (MFE).

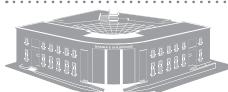
\* Data on economic growth for labour market and the external sector are from the first 9 months of 2022.

\*\* Statistical Debt Bulletin, MFE, 2022 Q4, on debt data and BoA's assessment on GDP.

1/ "Labour force survey results", published by INSTAT.

2/ Based on the monetary flow data published by the Statistical Department. The data is adjusted for the foreign-exchange effect and written-off loans.

3/ GDP assessment for 2022. Data as a ratio to GDP are calculated on this assessment, except when differently specified.



## 2.2. MONETARY OPERATIONS

*The Bank of Albania implements its monetary policy by using indirect market instruments. These include open market operations, standing facilities, and a required reserve. The main market operations are the repurchase and the reverse repurchase agreement of seven-day maturity, whose interest rate represents the policy rate.*

### *Open market operations and liquidity shortfall*

Open market operations are made up of three sub-items: main operations; fine-tuning operations; and structural operations. These are used for short-term management of liquidity in the money market, mainly aimed at accomplishing the Bank of Albania's operational objective: *orienting short-term interbank interest rates close to the Bank of Albania's policy rate, and limiting their volatilities.*

The main operational event in 2022 took place on 23 February, when one-week injection auctions changed the form from "fixed price" to "variable price". The change in the form of auction was declared since the end of December 2021 to give commercial banks enough time to adapt. The auction in the form of fixed price was used throughout the pandemic period, since 11 March 2020. The number of banks participating in one-week injection auctions has fallen to an average of only 5 banks per auction, in contrast to the maximum 7 recorded in the March-December 2020 period. The sum injected in one-week and three-month operations increased to record levels of ALL 40.8 billion, on average, in comparison to the ALL 36.6 billion average recorded in 2020-2021. In 2022, the share of injections with longer than seven-day maturity was 37%, compared to 41% in 2021, and 44% in 2020.

Despite the change of the auction form, the interest rate in the interbank market remained on average, below the policy rate, the same as in 2020 and 2021.

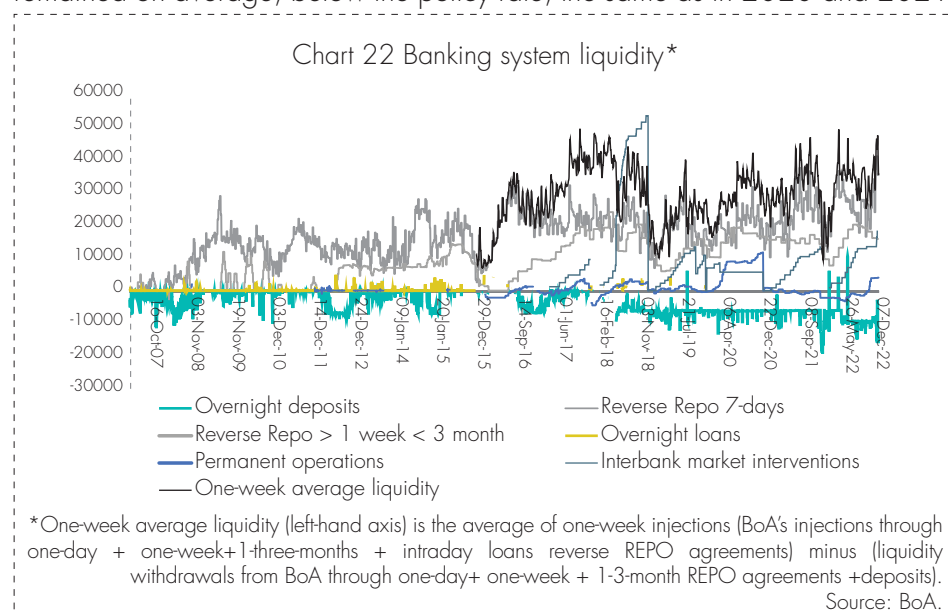


Table 5 Structure of liquidity injection operations by the BoA

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Main instrument	64%	55%	80.7%	61.6%	54%	61%	56%	59%	63%
Long-term liquidity	36%	45%	19.3%	39.4%	46%	39%	44%	41%	37%

Source: BoA.

### Standing facilities

Standing facilities – overnight deposits and overnight loans at the Bank of Albania - are instruments available to commercial banks to manage liquidity on a daily basis and to define a corridor in which interest rates fluctuate in the interbank market. The Bank of Albania has gradually raised interest rates up to 2.75%, from 0.50% recorded over 2022. In the same vein with the rising policy rate, standing facilities rates have also been raised, maintaining a symmetrical range. The overnight deposit rate is 100 percentage points below the policy rate, while the overnight loan rate is 100 percentage points above the policy rate.

The instrument of overnight deposits has been used daily, over 2022, with an average of ALL 9.1 billion compared to an average of ALL 6.6 billion in 2019-2021 period and ALL 4.6 billion in 2018.

In 2022, the use of overnight loans was present in 22 cases throughout 2022, compared to 1 case during 2020-2021 period, 16 cases in 2019, and 42 cases in 2018. The adjustment of the auction form has impacted the reuse of this instrument, while the increase in forecast quality and the better distribution of liquidity in the banking system has reduced the number of uses.

### Required Reserves

The required reserve is an instrument through which the Bank of Albania aims to adjust money supply, the liquidity situation in the system, and manage the interest rates in the interbank market. It implies the placement of a certain amount of reserve in lek and in foreign currency with the Bank of Albania.

In 2022, an amendment was adopted to the regulation on Required Reserves in lek, which enabled banks to hold in custody a portion of their excess reserves in cash. The 1-year temporary period, when the regulatory amendments of 2018 for the de-euroization were adopted, ended in 2019. The Bank of Albania decreased the remuneration rate applied on the required reserve holdings in lek to 5.00% and 7.50%, from 10% in the previous year, and increased the remuneration rate for the required reserve in foreign currency to 12.5% and 20.0%, by applying a higher rate for banks which have a higher exposure from liabilities in foreign currency. It was decided that the remuneration rate on required reserves in lek was to be equal to the policy rate, from 70% of policy rate which it was previously.



A regulatory amendment has been adopted on the remuneration rate on required reserves in foreign currency and on the excess balances of banks with the Bank of Albania. As the interest rate on the overnight deposit in euro rose to the positive territory, the remuneration rate on the required reserves in this currency was adopted at 0%. Starting from September 2016, banks paid for the required reserves in euro an interest rate equal to the overnight deposit rate of the European Central Bank. The remuneration rate on the excess reserves in US dollars has remained 0% since 2011.

The remuneration rate on the excess reserves in lek and the US dollar remained 0% during 2020, as in the past four years. On the other hand, the remuneration rate on excess reserves in euro remained at the level set in 2016, at 0.25 percentage points lower than the ECB's deposit interest rate.

## 2.3. FINANCIAL STABILITY AND MACRO-PRUDENTIAL POLICY

*Pursuant to the legal framework in force, the Bank of Albania's work is also focused on preventing and managing the systemic risk in the banking sector and the financial system. The Bank of Albania conducts this process, which is closely related to the objective of safeguarding financial stability, through drafting and implementing the macroprudential policy, detailed in the Macroprudential Policy Strategy.*

*The Bank of Albania monitors systemic risk on a regular basis, by identifying the sources of risk, assessing the risk level, and determining the probability of it spreading from the external environment to our financial system, from one bank to the other, or from one segment of the financial system to the next. These assessments guide the decision-making process regarding the type, degree of calibration, implementing subjects, and the operationalisation method of the instrument that is used to handle the risk, in accordance with the intermediate macroprudential objectives.*

### 2.3.1. ASSESSMENT OF SYSTEMIC RISKS AND MACROPRUDENTIAL MEASURES

In 2022, in order to safeguard financial stability, the Bank of Albania focused on: a) regularly monitoring and assessing systemic risk; b) implementing and analysing the impact of macroprudential measures; c) analysing the effect of geopolitical and economic events on the soundness and stability of the banking sector; and d) fulfilling the regulatory and methodological macroprudential framework. Furthermore, in congruence with the 2017 Memorandum<sup>12</sup>, the BoA has continued to publish the six-monthly report "On the performance

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<sup>12</sup> A Cooperation Memorandum between the Ministry of Finance and Economy, the Bank of Albania, and the Financial Supervisory Authority "On extending the use of the national currency in the financial system and the Albanian economy."





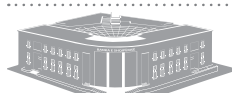
of indicators that the BoA monitors in the framework of the de-euroization process.” The last report emphasizes that, since the measures first started to be implemented, the effects have been mild and extended in time. To this end, in order to improve the efficiency and realisation of long-term objectives, additional measures might be considered in the real sector of the economy.

### *Monitoring systemic risks*

The Bank of Albania employs a series of indicators, models and surveys in order to identify the source of systemic risks and to assess their intensity, severity and speed of creation. The relevant analyses form the basis of macroprudential discussions and decision-making, while published materials, such as the Financial Stability Report, and analyses and surveys, support the transparency and the accountability of the BoA toward the public and the financial system. Systemic risks in the banking sector and the financial system are analysed in the context of intermediate macroprudential objectives and relate to the excessive growth of loans and borrowing; the concentration of exposures; the shortage in liquid assets and lack of liquidity; as well as the contribution of systemically-important financial institutions to systemic risk. The performance of risk indicators shows that systemic risks in the banking sector and financial system, were contained during 2022. The indicators related to credit growth, liquidity position, foreign exchange market volatility, concentration of exposures, and financial system activity show that the situation is balanced. The most pressing issues found in the Macroprudential Map of Systemic Risks are related to indicators measuring loans in foreign currency, the gap between assets and liabilities with short-term maturities, loans for construction and real estate purchases, and prices in the real estate market. According to the analysis of the Bank of Albania, these risks are mitigated by the following factors: the tightening of unhedged loans in foreign currency, the high level of liquid assets of banks; the tightening of banks’ lending standards to households and enterprises, and the raise of interest rates on loans. These analyses are accompanied by recommendations to neither define new macroprudential measures nor adopt amendments to the existing measures.

### *Macroprudential measures*

In 2022, the Bank of Albania continued to implement the requirement provided for in the Regulation “On macroprudential capital buffers” (Regulation 41/2019), and follow banks’ quarterly reports to figure out the degree to which these requirements are fulfilled. Since 2020, banks started to fulfil with annual buffers of 0.5 p.p. the requirements on capital conservation buffer (CCoB), as well as the capital buffers for systemically important banks (SyRB), which is announced once every year at the end of March. The countercyclical capital buffer (CCyB) is used to mitigate or decelerate the excess growth of credit and to enhance the resilience of banks during periods of credit market overheat. Although this instrument is active, the capital buffer rate for Albania has remained unchanged at 0%, since the indicators show that the rate of lending to GDP



is still low. Overall, the banking sector - aided by a good starting position of the capitalisation level - has been able to fulfil these requirements. The BoA assesses that fulfilling these requirements as well as the new ones related to the functioning of resolution, will continue to contribute to strengthening the resilience and soundness of the Albanian banking sector.

### *Analysis on the impact of the Russian invasion of Ukraine*

Economic and financial developments that followed the start of the Russian military aggression in Ukraine, during the first months of the year, took precedence in the financial stability analyses of the Bank of Albania in 2022. In order to assess banks' initial position and their capacities to withstand the potential financial costs of this shock, the BoA conducted a specific analysis pertaining to the stress test, based on the specific survey carried out by banks as well. Almost all banks reported that they had taken measures to conduct several simulations for assessing the financial implications of the shock, by size and quality of each specific exposure. Both the survey and the stress test concluded that the banking sector was liquid and well-capitalised, and able to withstand the assumed shock.

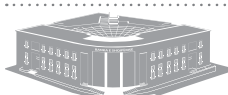
### *Legal and methodology framework*

During 2022, the Bank of Albania made some consequential steps toward fulfilling the macroprudential policy framework. The regulatory basis of the institution was complemented by a draft-regulation on the indicators that support the implementation of macroprudential measures on lenders. Meanwhile, the body of methodological documents is enriched by the analysis of the exercise on the interconnection and the risk of crises spreading in the financial system; the methodology on the implementation of the systemic risk macroprudential buffer; and an improved and more complete version of the methodology on the stress test exercise that assesses capital adequacy.

- The draft-regulation "On data reporting, identifying and monitoring the indicators of lending and real estate investments," which is still undergoing consultation with the banking sector, aims to standardise the methods by which banks determine, monitor and report the indicators related to lending standards and their exposures to real estate properties. It also sets out the methods by which banks may implement critical values and thresholds on indicators used to measure credit to income, credit to property value, and credit instalment payment to income. It also stipulates the Bank of Albania's right to use these indicators as macroprudential policy instruments, by applying upper and lower limits to them, if necessary. The subjects of reporting are institutions licensed by the BoA to grant loans for real estate purchases or investments. The approval and implementation of this sub-legal act is expected to be a consequential step in the process of aligning the national macroprudential framework with the practices adopted by the EU.



- In 2021 and 2022, the BoA completed the analysis on the interconnection and the risk of crises spreading in the domestic financial system. This analysis takes the shape of a stress-test exercise that evaluates the capital adequacy of banks and other financial institutions to withstand shocks springing from foreign banks and other segments of the domestic financial system such as investment funds, pension funds, savings and loan associations, and insurance companies. This analysis provides an important contribution to identifying the subjects and segments of the domestic financial system that are particularly exposed to the banking sector, due to the size and concentration of loans, deposits and realty relationships established by some of these banks with these subjects or their administrative bodies. The exercise demonstrates that the interconnection between domestic banks does not pose a risk on their soundness, since interbank exposures are limited in relation to banks' capital. The other segments of the financial system don't pose a risk to the banks' soundness either, whereas the banking sector appears to be exposed to some non-residential banks, which have established special rapports with domestic banks. This exercise is conducted annually and reflects an important instrument for assessing systemic risk and its spread, not only within the banking sector, but also across the entire financial system of Albania.
- Drafting the methodology to implement the systemic risk buffer (SyRB) was another important development made toward fulfilling the macroprudential framework. SyRB is the only capital buffer stipulated in Regulation 41/2019 that, despite being allowed by the regulatory framework, has not been implemented by the BoA. In accordance with the latest EU directive on capital requirements, the systemic risk buffer may be used to mitigate or prevent all systemic risks that are not adequately addressed by other instruments. According to this Regulation, the BoA may adopt SyRB after assessing that the banking sector is faced with non-cyclical structural developments or events, which might risk the stability of the entire financial system or a specific segment thereof. During 2021-2022, the BoA completed the methodological manual on how to use SyRB, which includes the conditions necessary to determine risk indicators, the formulas for calculating threshold values, and the method for obtaining the value of SyRB. The methodology illustrates the case when SyRB is used to address the structural systemic risk of euroization, and following the same principles and approach, SyRB may be used to mitigate or avoid the risks related to banks' exposures to specific markets, such as the real estate market, type of collateral, exposure type, or quality of bonds purchased by banks. By publishing this methodology in 2023, the BoA aims to present banks with the technical aspects of the implementation of this key macroprudential instrument, and to enhance the transparency of its macroprudential policy.



- One of the technical assistance activities on the functioning of financial stability during 2020-2022, was related to drafting the stress-test methodology according to the top-bottom approach. The methodology describes how to manage important financial risks and serves to assess their potential effects on the financial and banking situation, in case they materialise. The risk factors addressed by the model correspond to extraordinary events with a high probability of occurrence. The methodology is accompanied by an analytical package and a guideline on the satellite model for calculating credit risk.

### 2.3.2. BANKING SYSTEM ACTIVITY

Financial intermediation assessment based on financial institutions' aggregate balance sheet, continued to expand in 2022 as well. The largest relative growth was recorded in the segment of pension funds. Conversely, the balance sheet of investment funds shrank and their share to GDP fell. The decline of the share of financial system assets to GDP, in 2021-2022, reflects the growth of GDP at a more rapid pace compared to the expansion of financial institutions' balance sheets. The Albanian banking sector concluded 2022 with a positive financial result, a good capitalisation level of activities, which was reflected in a capital adequacy ratio of 18% and improved indicators of credit quality. Banking loans and deposits continued to expand with a pace comparable to 2020, but slower than in 2021. Loans and deposits in foreign currency recorded the steepest growth. The expansion of the banking sector's activity during the year is mainly attributed to the growth of credit and investments in securities, as well as treasury and interbank transactions. The flow of banks' liabilities was determined almost entirely by the growth in the stock of deposits, by around 6%, in annual terms.

Table 6 Financial system activity indicators

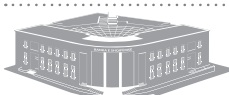
Financial System indicators	2019	2020	2021	2022*
Financial soundness indicators (banking sector)				
Regulatory capital as a percent of risk-weighted assets (%)	19	19	19	18
Non-performing loans (gross) as a percent of total loans (%)	8.4	8.1	5.7	5.0
Return on equity (ROE) (annual basis, %)	13.0	10.4	12.6	12.3
Non-interest expenses to gross income (%)	57	55	55	47
Liquid assets as a percent of short-term liabilities (%)	49	47	46	41
Deposits/Loans (%)	207	211	214	212
Loans in foreign currency to total loans (%)	51	50	51	51
Net open position in foreign exchange as a percent of regulatory capital (%)	7.4	7.9	8.9	5.0
Weight of assets to GDP (%)				
Banking Sector	87.2	97.8	93.9	87.9
NBFIs	3.9	4.2	4	3.7
SLAs and Union	0.6	0.7	0.7	0.7
Insurance companies	2	2.4	2.2	2
Pension funds	0.2	0.2	0.2	0.3
Investment funds	4	4.2	4.1	2.5
Financial system	97.9	109.5	105.1	97.1

Source: BoA. \*For 2022, the third quarter is the last period.



Credit quality continued to improve during 2022, as well. The non-performing loans ratio dropped to 5%, from 5.7% in the previous year. The performance of this indicator was affected by overall credit growth and a continuous contraction of the non-performing loans portfolio, due to the restructuring and measures undertaken by banks to collect non-performing loans. The share of paid-off non-performing loans in 2022 was around 22% of the total non-performing loans reported by banks at the beginning of the year, whereas three years ago this ratio was around 30%.

The banking sector recorded ALL 22 billion profit in 2022, comparable to 2021. The rising interest rates brought in higher income from interest and securities investments, whereas interest expenses were lower. Non-interest income was lower compared to the previous year, due to losses from investments in financial instruments reported by some banks. Net provision expenses on assets increased somewhat in 2022 compared to 2021. The fall of expense to income indicator shows that the banking sector has become more efficient in the last few years. Overall, compared to last year, the increase of net interest income during 2022 was offset by higher expenses and a more sluggish non-interest income.



## 2.4. SUPERVISION

*The supervisory function of the Bank of Albania has as its main objective the early identification and control of major risks (credit risk, liquidity risk, operational risk, interest rate risk, capital and profitability risk, reputational risk and money laundering), as well as the assessment of internal audit and the effectiveness of corporate governance, as important risk-mitigating factors in the activity of banks, non-bank financial institutions, and other institutions licensed by the Bank of Albania.*

*Timely action and effective regulatory measures through ongoing supervision and their implementation remain one of the most important steps to successfully finalize the ultimate goal - to safeguard the soundness of financial entities.*

### 2.4.1. MAIN DEVELOPMENTS

#### *Structural developments*

A major development during 2022 was the continuing consolidation of banking activity, where one of the banks operating in the domestic market, OTP bank, purchased the shares of Alpha Bank in Albania. This process was finalised with the complete absorption of the activity of Alpha Bank. In December 2022, the Albanian banking system consisted of 11 banks.

The shareholder structure also underwent some changes, where Eurosig acquired the shares of the United Bank of Albania. The share of banks with Albanian capital accounted for 33.8% of the total system's assets. Banks with domestic capital have been more stable over the past three years, prompting the process of banking intermediation through lending to the domestic economy.

#### *Rise in interest rates*

International developments were unfavourable to banking activity. Inflationary pressures caused rising interest rates, which were more pronounced in the second half of the year. These developments pushed up the cost of credit and, consequently, banking activity faced more challenges related to paying off loans with floating interest rates. As a result, the BoA engaged in discussions with banks regarding this risk and required them to analyse its potential effects on their financial situation, through various stress-test scenarios.

Results on the level of non-performing loans at the end of 2022 show that this risk has not materialised. However, the BoA remains cautious toward these developments, by adopting an active approach to anticipate potential negative effects, through undertaking the necessary measures.



### *The equivalence assessment of the Albanian supervision regulatory framework with the EU requirements*

An independent assessment of the current supervisory framework, adopting a comprehensive approach, was carried out with the assistance of the European Bank for Reconstruction and Development (EBRD) and PriceWaterhouseCooper (PwC) Spain. The equivalence was re-assessed based on the methodology published by the EBA at the beginning of 2022. This analysis reached the conclusion that the procedural and regulatory framework, as well as supervisory practices, are at a high degree of equivalence and approximation with the applicable standards of the EU countries. This approximation is assessed particularly high in relation to capital requirements, applicable mitigation techniques, large exposures, liquidity, financial leverage, macroprudential supervision, professional confidentiality, and international cooperation. By mid-2022, the BoA made an official request to the EBA to consider the equivalence assessment for Albania in accordance with the updated methodology of the EBA.

### *Drafting the regulatory framework on Payment Services*

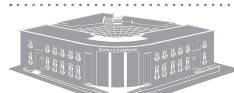
In 2022, the BoA continued to work on completing the regulatory framework in accordance with the Law "On Payment services," by approving several sub-legal acts conducive to regulate the activity, supervision and the management of risks borne by the subjects of the law, drafted in compliance with the EU regulations and the guidelines of the European Banking Authority (EBA). Special attention was paid to drafting a regulation on the risk management and supervision of electronic payment institutions, further approximating with the provisions of the relevant EU directive 2009/110/EC. During 2022, the BoA continued to focus on transposing the Directive 2014/92/EU (PAD) in its regulatory framework, which aims to enhance transparency and market competitiveness, as well as financial inclusion of Albanian citizens.

### *Green finances*

The Bank of Albania is willing to adopt the measures undertaken by the government at a national level regarding the shift towards a green economy. In this framework, the supervision has been engaged on the issue of climate risk in the supervisory processes of licensed institutions. The first step toward this engagement was the drafting of the medium-term strategy for this purpose. The draft strategy includes actual steps to be taken by the supervision during 2023-2025 in order to include climate risk in supervisory processes, which will be harmonised with the relevant international processes. These steps were laid out in cooperation and coordination with the FinSAC project of the World Bank.

### *Preparing the guideline on financial reporting*

A good part of the year was dedicated to prepare the relevant guideline on data reporting according to international accounting standards. Reporting





tables which will be part of the reporting system after the entry into force of this Guideline, have also been prepared. This project also includes the so-called bridge tables that facilitate the work of banks in the process of converting the existing reporting system to the new one according to the IFRS standards. These tables, which refer to the core financial reports, such as, assets and liabilities; income and expense statement; and off-balance sheet items; are drafted with the assistance of the FinSAC project of the World Bank, as well as with the participation of some commercial banks in Albania.

### *Cybernetic risk*

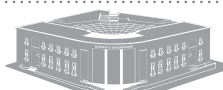
Cyber-attacks against critically-important institutions in Albania, including the banking system were fiercely present during 2022. Some of these attacks were partially "successful". The attacks against the banking sector have forced it to raise its guard and focus more efforts on protection, prevention and investigation. In this context, during the last year, isolated incidents were identified in the sector of non-bank institutions and in one bank. The latest incident created several difficulties to the bank initially, which was able to quickly return to business as usual.

In these circumstances, in 2022, particularly in the last part of the year, banks tried to increase cooperation with third parties supporting them in security and information systems, with one another, and with the National Authority for Electronic Certification (NAEC), by maximising synergies through the exchange of information on strengthening controls on cyber-security, indicators of compromise etc. The cyber-security situation in the banking system has been kept under control and free of materialised incidents.

Meanwhile, the BoA has been attentive to this situation, by intensifying communication with the banking system, where the need for additional security measures is emphasized, particularly in regards to accessing third parties, as well as the reporting of incidents in a timely manner, in order to undertake coordinated corrective measures.

### *Implementation of recommendations of assessment report by Moneyval Committee and ICRG/FATF action-plan*

In the framework of implementing the recommendations from the Committee of Experts of CoE on the evaluation of Anti-Money laundering Measures and counter terrorist Financing (MONEYVAL), the Bank of Albania is included in the implementation of the national plan of measures, in the direction of improving the regulatory framework and strengthening the effectiveness of the supervisory process, in order to address the primary issues identified in the report. In this framework, the number of on-site examinations has been increased, focusing particularly on terrorism financing issues and implementation of international sanctions, especially on more vulnerable entities such as non-bank financial institutions (NBFIs) and foreign exchange bureaus (FEBs). Related to the



identified violations, in addition to the recommendations for specific entities, also supervisory measures, such as "warnings" and "fines" are implemented. In 2022, a total of 82 examinations were carried out in the field of money laundering prevention and terrorism financing, which comprised 5 banks, 5 non-bank financial institutions, 2 SLAs and 70 FEBs (of which 28 FEBs underwent the process of implementing recommendations as a result of deficiencies observed in previous examinations). Four of these examinations were carried out in collaboration with the General Directorate for the Prevention of Money Laundering (GDPML).

## 2.4.2. ON-SITE EXAMINATIONS

In total, 13 on-site examinations were performed in 2022. Most of them - 4 full-scope and 4 thematic examinations - were carried out in banks.

Simultaneously, 2 non-bank financial institutions and 2 SLAs underwent full-scope examinations. Additionally, one non-bank financial institution underwent a thematic examination on the follow-up of the recommendations. One non-bank financial institution was charged with an administrative measure (suspension of activity for 12 months), due to repeated breaches of the regulatory framework.

Table 7 Number of examinations by years and topic

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
2020	2	8	15	11	2	5	5	5	88*	2	6
2021	7	7	12	7	7	7	8	8	109**	6	6
2022	8	9	12	12	8	8	8	8	82***	8	12

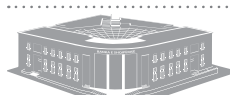
\* In 2020, 74 examinations were carried out at Foreign Exchange Bureaus on Reputational Risk.

While the other 14 examinations regarding this risk were carried out in banks and non-bank financial institutions. Of these, examinations on 2 banks, 1 non-bank financial institution and 1 Foreign Exchange Bureau were carried out with the General Directorate for the Prevention of Money Laundering, and examinations on 3 banks were carried out in collaboration with the Financial Supervision Authority.

\*\* In 2021, 90 examinations were carried out at Foreign Exchange Bureaus on Reputational Risk and 19 other examinations regarding this risk were carried out in banks and non-bank financial institutions. Of these, examinations on 2 banks, 6 non-bank financial institution and 1 Foreign Exchange Bureau were carried out with the General Directorate for the Prevention of Money Laundering.

\*\*\* In 2022, 70 examinations were carried out at Foreign Exchange Bureaus on Reputational Risk. While the other 14 examinations regarding this risk were carried out in banks and non-bank financial institutions.

In 2022, as well, additional attention was paid to credit risk, as targeted examinations on this risk were carried out in 3 large banks. Also, thorough risk assessments were part of the full-scope examinations carried out in the other banks.



Credit risk assessment has gone hand in hand with the relevant capital requirements assessment, since credit risk accounts for 87% of total demand for capital of banks. The assessment on capital requirements' calculation shows an improvement, since banks have invested in systems and programmes which demonstrate a high level of accuracy in calculating capital requirements, and are in compliance with the regulatory provisions. However, it is of utmost importance to continuously improve this infrastructure, in order to accommodate regulatory amendments, as well as to acquire the appropriate instruments to control and plan future capital requirements.

Operational and information technology risk are always present in licensed institutions' activity. As foreign attacks on key Albanian institutions, including banks and other financial institutions, became more pronounced particularly during last year, guaranteeing an effective protection of the system's integrity, clients' assets and their persona data has become indispensable.

With a view to supervise liquidity and market risk, in addition to full-scope examinations, parallel examinations have also been carried out to assess the adequacy of the internal regulatory framework and the processes for implementing new regulatory requirements on the net stable financing of banks. Examinations were undertaken particularly in the last quarter of 2022, in four systemically-important banks, and will continue in 2023 in all the other banks, more or less. The examinations have identified several drawbacks concerning the process of governing the implementation of the liquidity coverage indicator, as well as its erroneous calculations.

A good number of banks have oriented part of their investments toward foreign and domestic credit instruments, exposing themselves to price volatilities that occurred in 2022, due to rising interest rates. However, all banks in general were able to withstand these shocks, re-orienting the structure of their financial instruments on their balance sheets.

During 2022, examinations carried out in non-bank financial institutions and SLAs focused on their risk profile and market share. Risks related to credit, policy systems, transparency with clients, and money laundering took centre stage. The examinations identified that the activity of these institutions (particularly the lending activity) generates stable revenues that have incessantly supported capital. Overall, the internal organisational and regulatory framework is congruent to the size and complexity of the relevant subjects, but there is always room for improvement in accordance with the best practices, as well as dynamic risk management during activity expansion. As regards transparency and the prevention of money laundering, there is a satisfactory compliance with legal and regulatory requirements. If there are weaknesses identified, subjects respond adequately to address them.

Examinations identified the need to improve the overall management of financial risks, operational and IT risks, as well as provide adequate controls on



them. During 2022, the maximum EIR for consumer credit was published twice, following the regulatory amendments of last year<sup>13</sup>. The impact of setting this limiting rate has been sizeable, as the effective interest rate dropped by roughly three times for the small loan segment in turn contributing to the normalisation of the market.

### 2.4.3. REVIEW OF THE LEGAL AND METHODOLOGY FRAMEWORK

The Bank of Albania has continued to complete and improve the supervisory regulatory framework, by approving several new regulatory acts and reviewing some existing ones, furthering thus its approximation with the EU acquis, while taking into account the developments of the banking and financial system in Albania.

The following are some of the main changes to the regulatory framework during 2022:

- I. **In accordance with the requirements laid down in Law 55/2022 "On Payment services," the Supervisory Council approved:**
  - The regulation "On the public registry of payment service providers," which determines the subjects and data that will be entered in the public registry of payment service providers and their agents. This registry will be created and updated by the BoA;
  - The guideline "On the criteria on how to stipulate the minimum monetary amount of the professional indemnity insurance or other comparable guarantees." The purpose of this guideline is to define the criteria and indicators, as well as the formula for the calculation, on how to stipulate the minimum monetary amount of the professional indemnity insurance or other comparable guarantees to be held by the entities stipulated in this guideline;
  - The regulation "On strong customer authentication and common, open and secure standards of communication," which determines the requirements for payment service providers, for the purpose of implementing security measures for: the application of the procedure of strong customer authentication, the protection of the confidentiality and the integrity of the payment service user's personalised security credentials; the establishment of common, open and secure standards for the communication (open banking) between different payment service providers, payers and payees, in relation to the provision and use of payment services;

<sup>13</sup> Amendments to the Law No. 48, dated 1.7.2015, "On consumer loans and mortgages". These amendments represent the concept of the maximum effective interest rate (maximum NEI), which is the maximum level that can be reached by the effective interest rate, which is adopted to consumer loans.



- The regulation "On carrying out the activity and supervision of electronic money institutions," which aims to set out the rules for the carrying out of the activity of electronic money institutions, for the management of risks related to this activity and their supervision, as well as the rules and requirements on electronic money issuance by electronic money issuers. In addition to fulfilling the Law "On Payment services," the requirements laid down in this Regulation are also congruent to the requirements set out in the Electronic Money Directive 2009/110/EC (as amended), aiming to further approximate to this Directive. The approval of this Regulation was also accompanied by some amendments to the Regulation "On risk management in the activity of non-bank financial institutions," revoking some of its requirements which are now provided for in this new Regulation. Upon entry into force of the above Regulation, Regulation "On electronic payment instruments" is repealed.

**II. In the framework of reviewing the regulatory acts to fulfil the objective of implementing the Basel III requirements and to further approximate to the EU acquis, the following were approved in 2022:**

- Amendments to the Regulation "On capital adequacy ratio," which consist in the revision of capital requirements for exposures to securitisations and market risk, in compliance with the revised provisions of the European regulations 575/2013/EU (CRR) and 2019/876/EU (CRR2);
- Amendments to the Regulation "On the bank's regulatory capital," which consist in the revision of some references to Regulation "On capital adequacy ratio," regarding securitisation;
- Amendments to the Regulation "On the core management principles of banks and branches of foreign banks and the criteria on the approval of their administrators," and the new Guideline "On internal and effective governance of banks." The amendments adopted to this regulation and the new guideline aim to provide the details on the requirements and basic rules for improving the internal and effective governance of banks and branches of foreign banks.

**III. With a view to transpose the Directive on Payment Accounts 2014/92/EU (PAD) and Regulations 2018/32/EU, 2018/33/EU and 2018/34/EU supplementing this Directive, the following are made mention of:**

- The approval of the Regulation "On the comparability of the fees related to payment account and payment account switching service," which determines the requirements for transparency and comparability of fees charged to consumers in their payment accounts, as well as determining requirements concerning the switching of payment accounts between payment service providers; and



- The compilation of the final draft-law "On the payment account with basic features," which is still in the process of public consultation.

#### IV. Other developments concerning the review of the regulatory framework in 2022 took place, during which the following were approved:

- Decision on the suspension of the profit allocation from banks in 2021 and the profit which will be realised during 2022, until 31 December 2022, which is an important measure undertaken for three consecutive years, helping to maintain banks' capital level;
- Amendments to the Regulation "On licensing and activity of non-bank financial institutions," which clarify the interpretation of the additional activities permissible to financial institutions dealing in micro-lending and non-bank financial institutions that purchase non-performing loans; and
- Amendments to the Regulation "On licensing and activity of savings and loan associations and their Unions," in the framework of implementing the recommendations of the Committee of Experts of CoE on the evaluation of Anti-Money laundering Measures and counter terrorist Financing (MONEYVAL), regarding the integrity of the founding members of the Savings and Loan Associations, as well as payments and/or future capital growth.

### 2.4.4. LICENSING FRAMEWORK AND APPROVALS

The banking sector continues to be dominated by foreign banking group subsidiaries with capital originating from the EU, meanwhile the number of banks operating in Albania fell by 1, compared to the previous year. At the end of 2022, there were 11 banks operating in Albania.

Table 8 Banks' ownership structure, number of banks (at period-end)

	2016	2017	2018	2019	2020	2021	2022
Banks in Albania, of which:	16	16	14	12	12	12	11
I. Majority foreign owned <sup>1</sup>	13	13	11	8	8	8	6
• EU-based banks	9	9	7	6	6	6	5 <sup>2</sup>
• Turkish based	1	1	1	1	1	1	1 <sup>3</sup>
• Majority owned by an international financial institution (Saudi Arabia)	1	1	1	1	1	1 <sup>4</sup>	
II. Majority Albanian owned	3	3	3	4	4	4	5 <sup>5</sup>

Source: BoA.

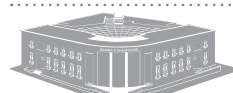
<sup>1</sup> "Majority" is in any case the simple majority of 50 per cent plus 1 vote.

<sup>2</sup> Banks with capital origin from EU countries at the end of 2021 are from: Italy (Intesa Sanpaolo Albania), Austria (Raiffeisen), Germany (Procredit), Hungary (OTP Bank, Albania), and Bulgaria (First Investments Bank Albania).

<sup>3</sup> National Commercial Bank.

<sup>4</sup> United Bank of Albania.

<sup>5</sup> Majority Albanian owned banks at the end of 2022, are: Union Bank, Credins Bank, American Bank of Investments, Tirana Bank and United Bank of Albania Bank



In 2022, the Bank of Albania issued preliminary approval for ownership of the qualifying holding of shares of two banks; ownership of the qualifying holding of shares of four non-bank financial institutions; the judicial re-organisation thorough merging by absorption of one bank; amendments to the statutes of three banks; the issuance of subordinate debt from five banks and the settlement of subordinate debt from one bank; approval of authorised chartered auditors (statutory auditors) for auditing the financial statements of all banks in 2022.

The Bank of Albania approved 53 bank administrators, specifically by position classification, 17 members of the steering council, 5 members of audit committees, and 31 executive directors and managers of the bank's internal audit.

In 2022, the network of banks within the territory of the Republic of Albania was expanded with 1 new branch, while banks have reported reduction of the number of 21 branches and agencies within the country. As of the end of the year, banks operated through 401 branches and agencies.

Based on submission of applications, the Bank of Albania licensed 2 electronic financial institutions: "Rubicon" sh.a., "VELOX PAY" sh.p.k., and 1 non-bank financial institution involved in micro-credit -"LENDAL" sh.p.k. In 2022, the BoA refused the license application to one micro-credit financial institution. Also, the BoA issued an approval for additional financial activity to 1 non-bank financial institution, FAB Invest (formally known as OMNIFACTOR), and 1 electronic money institution, RPAY. At the end of 2022, there were 38 non-bank financial institutions, micro-credit institutions, and electronic money institutions in operation.

Non-bank financial institutions also received preliminary approvals for 7 administrators, 1 Chairman of Steering Council, and 1 Chairman of Audit Committee. In addition, preliminary approvals were issued for the appointment/reappointment of one Chairman of the Steering Council, and one Chairman of the Audit Committee of savings and loan associations.

During 2022, 56 new foreign exchange bureaus were licensed, while licences were revoked for 29 existing foreign exchange bureaus. By the end of 2022, there were 583 foreign exchange bureaus in the market.

*Table 9 Number of banks, non-bank financial institutions, savings and loan associations and foreign exchange bureaus licensed by the BoA's (end-period)*

	2016	2017	2018	2019	2020	2021	2022
Banks	16	16	14	12	12	12	11
Non-bank financial institutions	28	31	30	32	30	35	38
Foreign exchange bureaus	428	426	463	503	538	556	583
Unions of savings and loan associations	2	1	1	1	1	1	1
Savings and Loan Associations	13	13	13	14	14	16	16

Source: BoA.





## 2.5. RESOLUTION

*The law “On the recovery and resolution of banks in the Republic of Albania” grants the Bank of Albania the capacity of Resolution Authority in Albania. This legal mandate aims to ensure an organized resolution of banks in insolvency, avoiding negative impact on the real economy and the financial system, by minimizing the use of taxpayers’ money, as well as guaranteeing the protection of customer assets in the form of insured deposits.*

The Bank of Albania, in the capacity of Resolution Authority, has further developed the functions of this capacity according to the priorities foreseen in the medium-term development plan for 2022-2024. It has strengthened the capacity for resolution in banks, completed the annual MREL intermediate level of requirements, continued to complete the regulatory and methodological framework for resolution, as well as completed and monitored the Resolution Fund.

In the process of drafting Resolution Plans, the Bank of Albania has maintained stable dialogue with banks regarding the increase of resolution by regularly monitoring the fulfilment of the recommendations communicated as part of the annual inspection process in banks.

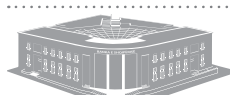
The BoA was invited by the Single Resolution Board- SRB- to participate in the meetings of the EU banking Resolution Colleges with subsidiaries operating in Albania, in accordance with the cooperation agreement signed between the two institutions in October 2018.

### 2.5.1. STRENGTHENING THE ABILITY FOR RESOLUTION IN BANKS

#### *Resolution plans*

Every year, the Bank of Albania drafts and updates the resolution plans for every bank operating in Albania. During the annual cycle for 2022, the BoA updated resolution plans according to the following: information periodically provided by Banks, results from on-site inspections, and self-assessment reports provided by banks about their capacity for resolution. The plan defines the preferred strategy for Resolution and the measures that each bank must undertake in terms of their ability to implement this strategy.

As part of the annual process of drafting plans, in 2022 the following were made possible: identification and assessment of economic functions with critical importance for the Albanian banking sector, assessment of public interest for all banks, and the drafting of a complete framework for assessing the capacity for resolution in relation to all the objectives defined in the regulatory requirements in force (Box 1). At the end of this process, an executive summary of resolution plans was provided to each bank, focusing on the following: strategic analysis of the business, the “minimum requirement for regulatory capital instruments and



eligible liabilities" (MREL) that the bank must meet to absorb losses, the need to recapitalize in case of resolution, and an assessment of the bank's ability to efficiently implement the resolution strategy. In regard to the latter, it is estimated that in 2022 banks have undertaken concrete steps and initiatives to increase their capacity for resolution. They have progressed in relation to objectives such as governance, increasing capacity for absorption of losses and recapitalization after implementation of the resolution strategy, ensuring operational continuity in resolution, and improving the quality of reporting for the purposes of planning.

### *Minimum requirements for regulatory capital instruments and eligible liabilities*

The "Minimum requirements for regulatory capital instruments and eligible liabilities" (MREL) constitutes the foundation of the legal framework which supports strengthening the capacity of the banking sector for resolution and maintenance of financial stability. In this regard, MREL is another important indicator in addition to the requirement for regulatory capital, which aims to increase the ability of banks to withstand shocks, and, when necessary, to resolve crises without using public funds.

Since 2021, the BoA communicates, yearly, the intermediate level of requirements for MREL that must be fulfilled by banks within the next 12 months, as well as the final level of requirements that must be fulfilled by 2027. In 2022, the banking sector met the MREL intermediary level of requirements through the use of regulatory capital instruments and eligible liabilities. By meeting this objective, banks took an important step towards the final objective of raising the sufficient capacity of financial instruments to strengthen their balance sheet, towards the goal of meeting capital requirements at all times.

In December 2022, banks were notified of the MREL intermediate level of requirements which must be met for 2023. The Bank of Albania regularly monitors the ability of the banking sector to fulfil the requirements for MRE, through regular reports of this indicator as part of the process of drafting resolution plans.

### *Inspections in Banks*

The Bank of Albania has continued to work towards strengthening the ability for resolution in banks. In this context, it has carried out annual on-site examinations of banks that provide critical functions for the economy, focusing on evaluation of the fulfilment of recommendations made in 2021, and the determination of new priorities that banks must fulfil in 2023. Following this examination cycle, the BoA prepared individual reports for each bank with a focus on achieving bank's ability to implement resolution, according to the strategy and instruments selected in the relevant plan. In these reports, the BoA has left a series of recommendations that must be fulfilled by each bank, according to certain deadlines, in order to minimize possible obstacles and increase their ability to implement plans. In 2022, the BoA completed, for the first time, inspection of non-systemic banks with a focus on resolution. The purpose of inspection in these banks was to improve reporting within the annual cycle of drafting plans for resolution.



### 2.5.2. PREPARING A RESILIENT FRAMEWORK FOR RESOLUTION

Aiming to prepare a resilient framework for resolution, the BoA has drafted several methodological and guiding documents which support banks in taking efficient measures to fulfil the recommendations of the Bank of Albania.

Thus, in accordance with the provisions laid down in the Regulation No. 78/2020 "On the minimum requirements for regulatory capital instruments and eligible liabilities", the BoA has updated the methodological document for the method of calculating the MREL, for 2022.

In addition, the BoA is engaged in the preparation and drafting of two guidance documents related respectively to: (i) operational continuity in resolution situations, and (ii) liquidity and funding in resolution situations. These documents are drafted in accordance with the best European practises and are intended to help banks increase their ability for resolution, in accordance with the "Objectives of the ability for resolution and relevant principles" summarized in the previous Box.

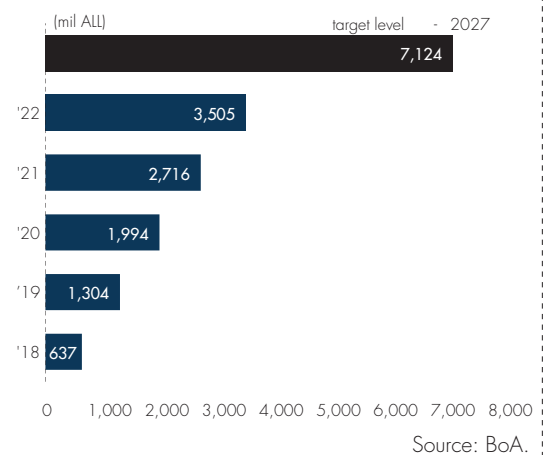
In addition, the Bank of Albania has drafted and approved the guidance manual "On the assessment of insolvency in the bank", which aims to align supervisory and resolution practices, in relation to the interpretation of the different circumstances of when a bank is considered to be close to an insolvency situation.

### 2.5.3. RESOLUTION FUND

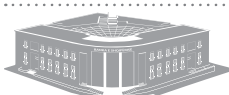
In accordance with legal and regulatory requirements, banks pay annual contributions to the Resolution Fund, in order to meet the target level of the Fund.

The BoA estimated the target level of the Fund for 2027 at 0.5% of the total liabilities of the banking sector, calculated as the difference between assets and capital of all banks licensed in Albania. Based on the latest assessment of 2022, the target level of the Fund is ALL 7.12 billion. After adding the banks' annual contribution to the Fund during 2022, at ALL 734.6 million, the Resolution Fund reached about ALL 3.5 billion at the end of 2022 Q3, reaching about 50% of the target level aimed for by 2027.

Chart 23 The Resolution Fund build up throughout the years and the targeted level for 2027 (ALL million)



The Bank of Albania regularly monitors the performance of the financial assets of the Resolution Fund, based on the periodic reports of the Deposit Insurance Agency, as the Fund's Administrator, based on the investment policy approved by the BoA. The investment policy follows the principles of liquid assets, low risk for debt securities and reasonable return on investments.



## 2.6. CURRENCY ISSUE

*The Bank of Albania has the exclusive right for the issue and circulation of the national currency – the Albanian lek. The BoA determines the form, measure, weight, model, and other features of Albanian banknotes and coins of legal tender in Albania, as well as of coins and banknotes for numismatic purposes.*

*The Bank of Albania's objectives for banknotes and coins include improving the quality of banknotes in circulation, strengthening the engagement for protection against counterfeiting, and reviewing the themes, design and security features in the Albanian banknotes series of legal tender.*

One of the main responsibilities of the Bank of Albania is to continuously ensure public confidence in the national currency. The central bank fulfils this responsibility by issuing a banknote that communicates security and stability to the Albanian public.

The Bank of Albania, on 17.1.2022, put into circulation the two last banknotes of the new series, 500 Lekë and 2000 Lekë. By putting these banknotes into circulation, one of its most important projects, the designing, printing and putting into circulation of the new series of banknotes, was successfully completed.

Completing the new series of banknotes with contemporary and sophisticated security features, has endowed the Albanian banknote with more durability, quality and credibility, and has given it a modern appearance.

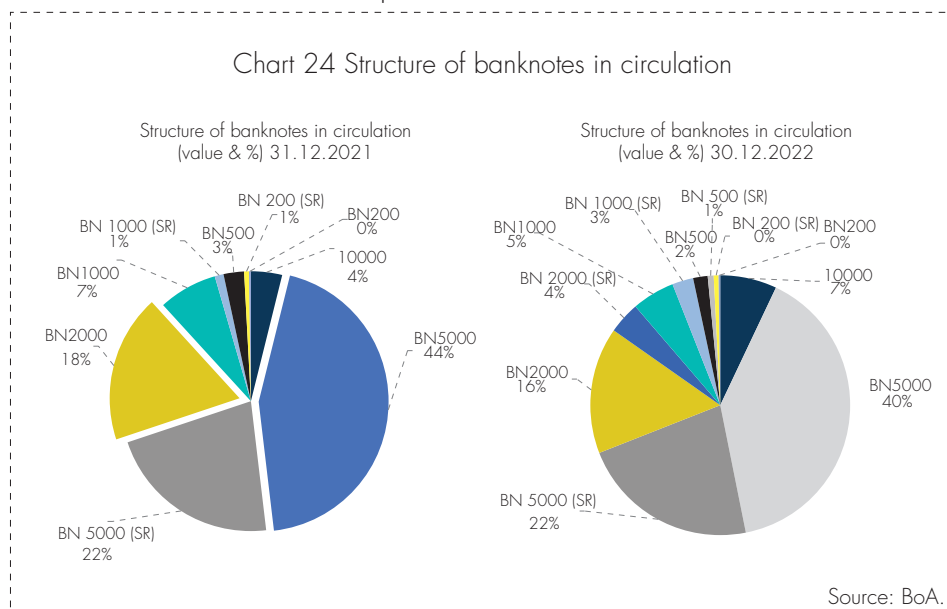


### *The value of banknotes in circulation<sup>14</sup> increased in 2022*

As of end-2022, there were around 161 million notes in circulation worth around ALL 394.7 billion. Compared to 2021, the number of banknotes in circulation increased by around 7.5 million notes (4.9%), while their value increased by ALL 23 billion (6%).

The average value of a banknote in circulation reached ALL 2448 at end-2022, from ALL 2421 at end-2021. The increase in the average value of a banknote in circulation is due to the change in the structure of banknotes in circulation in favour of banknotes with a nominal value of 10000 Lekë, 5000 Lekë and 2000 Lekë.

At the end of 2022, there were 257 million coins in circulation, compared to 241 million at the end of 2021. The value of coins at the end of 2022 reached 6.44 billion ALL, compared to 5.96 billion ALL at the end of 2021.



### *The quality of the banknotes in circulation is kept under control*

In 2022, around 100.8 million banknotes were processed, which were checked for authenticity and fitness for recirculation. The sorting rate<sup>15</sup> was 20.7%, compared to 19% in 2021. Unfit banknotes were replaced case-by-case with new banknotes fit for circulation.

The banknote circulation coefficient<sup>16</sup> for 2022 was 0.66, implying that a banknote is returned at the cash desks of the Bank of Albania, on average less than once a year. This coefficient is higher for 500 Lekë and 1000 Lekë

<sup>14</sup> It is the number and value of banknotes put into circulation by the Bank of Albania.

<sup>15</sup> Ratio of unfit banknotes and to the total number of banknotes sorted during one year.

<sup>16</sup> Ratio of the number of banknotes received at the Bank of Albania cash desks to the average annual number of banknotes in circulation.



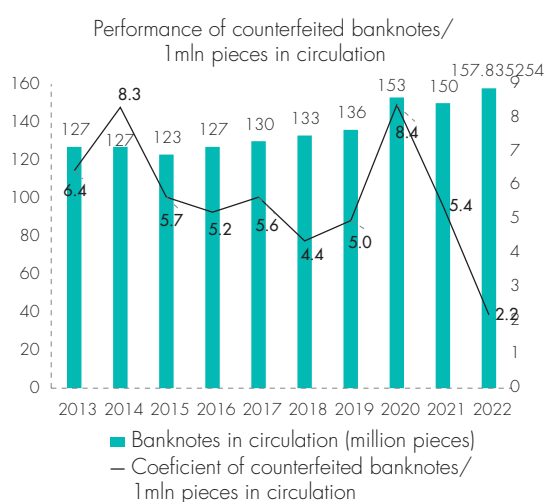
banknotes (around 1.28 and 0.98, respectively) and lower for 5000 Lekë, about 0.16, which shows that the latter are returned more rarely at the cash desks of the Bank of Albania.

### *Protecting banknotes and coins against counterfeiting*

In view of safeguarding the currency from counterfeiting, the Bank of Albania has continued to organize activities for the prevention and protection against counterfeiting.

Throughout 2022, 343 counterfeit national banknotes and 79 counterfeit national coins were withdrawn from circulation. The coefficient of counterfeit banknotes per 1 million banknotes in circulation continues to remain at very low values. For 2022, this coefficient was 2.2.

Chart 25 Counterfeit banknotes statistics



Source: BoA.

By structure the 5000 Lekë and the 1000 Lekë denominations have the main share in the total counterfeit banknotes, followed by the 2000 Lekë and the 500 Lekë denominations. Amongst counterfeit coins, the 50 Lekë denomination continues to be the most counterfeited, in insignificant amounts compared with the genuine coins, followed by a pronounced downward trend, compared to the previous years.

From the technical and/or technological aspect of counterfeiting Albanian banknotes, colour digital printings dominate, mainly ink-jet accompanied by the use of additive artisanal and technological methods to imitate security elements.

Whereas, security feature imitations in counterfeit banknotes, readable by authenticating/sorting equipment has not been encountered in any case.





## 2.7. PAYMENT SYSTEMS

*Operation, oversight and reform of payment systems are some of the main functions of the Bank of Albania. Their implementation guarantees the security, sustainability and efficiency of the basic infrastructure of payments in lek. This is a crucial precondition for transmitting the monetary policy, safeguarding financial stability and the overall economic growth.*

*In fulfilment of these responsibilities, the Bank of Albania, beyond the stable operation of payment systems, has paid particular attention to the oversight and catalysing role in the fulfilment of the National Retail Payments Strategy.*

### 2.7.1. PERFORMANCE OF PAYMENT SYSTEMS

The Bank of Albania plays a key role in promoting the normal functioning of payment systems through the operation and administration of three main infrastructures for the processing of interbank payments and one infrastructure for the settlement of securities. AIPS system is considered the core infrastructure for the settlement of payments in the national currency, the settlement of transactions of financial markets; the AECH system enables the clearing of interbank transactions with a value of less than ALL 1.5 million of bank clients (households and enterprises); the AIPS EURO system, which began live operation on 24 January 2022, represents the newest infrastructure that settles euro payments domestically. This system enables the gross settlement, in real time, of clients' payment orders of participants in the system for payments in euros, within the territory of the Republic of Albania. Also, since 2015, the BoA operates the central system of settlement and registration of transactions with government securities - AFISaR. During 2022, all systems have operated smoothly and in accordance with the rules and operating schedules laid down in the relevant regulations, providing maximum availability.

#### *AIPS - Albanian Interbank Payment System for large-value payments*

In the AIPS system, a volume of 153,972 transactions was settled during 2022, with a total volume of liquidity circulated in the system of ALL 13,020 billion, reflecting an annual increase of 11.1% in number, and 21.0% in value. Also, the value of transactions processed in AIPS as a ratio to GDP<sup>17</sup>, trended upward, by imposing an increase in the use of the system and the importance of this system to the Albanian economy. From the point of view of the distribution of transactions according to typology in the AIPS system, the item "Payments for customers" (item with the main share of payments in terms of number, of 72.2%) continues to show increasing rates.

<sup>17</sup> BoA's GDP assessment for 2022.

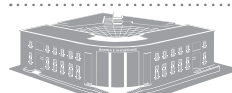
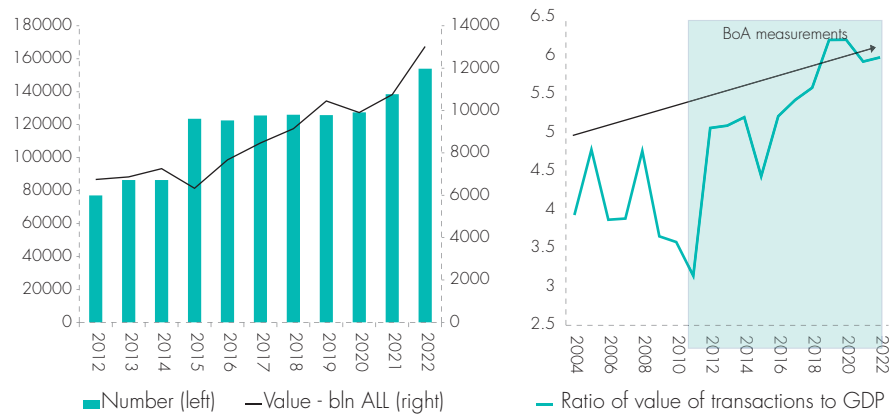




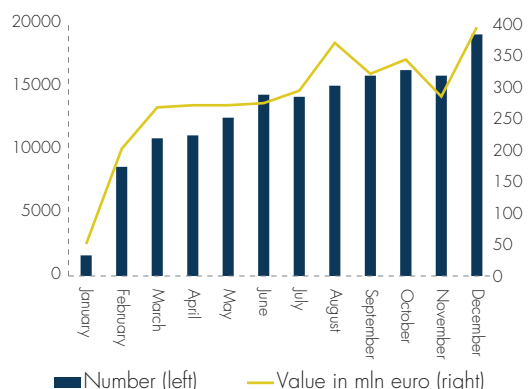
Chart 26 Number and value of transactions processed in AIPS, and their ratio to GDP.



Source: BoA.

The intraday loan facility (ILF) is an AIPS system instrument offered by the Bank of Albania to participating banks in order to manage daily liquidity and ensure normal continuation of interbank payments operation. During 2022, banks received 319 ILF with a value of about ALL 271.4 billion. Compared to the previous year, there is a significant increase in the number and value of ILFs, by about 61.9% and 23.9%, respectively. Despite this, the ratio of the value of ILFs to the total value of the activity of the AIPS system results in 2.1%, being close to the levels during the pre-pandemic years. The low value of this ratio indicates that the system's exposure to liquidity risk is low.

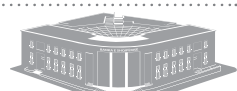
Chart 27 Progress of the number and value of transactions for customers processed in the AIPS EURO system



Source: BoA.

### Payment settlement system in euro within Albania (AIPS EURO)

In the first year of its operation, 156,044 customer payment transactions were processed in the AIPS EURO system, with a total value of approximately EUR 3,346 million, dictating an average value per transaction (for customers) of EUR 21,445. The chart below shows the progress of the AIPS EURO system throughout 2022, where an ever-increasing use of the system by bank customers is noted, especially in the second half of the year.



### BOX 3: THE AIPS EURO SYSTEM FOR THE SETTLEMENT OF DOMESTIC EURO DENOMINATED TRANSFERS WITHIN ALBANIA

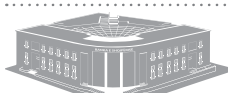
One of the objectives pursued by the Bank of Albania in recent years, has been modernization of payment systems, with the aim of promoting the use of electronic payments and bolstering financial inclusion. In this regard, on 24 January 2022, the AIPS EURO system began to operate, which enables Albanian citizens to make payments in Euro within Albania at much lower costs, as well as within a much shorter time-period than the process carried out previously through correspondent banks.

The project is a result of several years of work, conceived in 2016, in the framework of the recommendations of the National Payment System Committee. A study drafted by the BoA in cooperation with the Albanian Associations of Banks in this regard identified the costs borne by the banking system for carrying out transactions in euros through correspondent banks, which reached a very significant annual value. These costs are channelled as costs for the consumer, Albanian enterprises and the economy as a whole. Based on this analysis and on market studies, aiming to reform and modernize the payment system, the project became part of the action plan of the National Retail Payments Strategy in Albania (2018-2023).

In the medium term, the system is expected to have a significant impact on a wide spectrum of factors in the Albanian market. The AIPS EURO system is estimated to contribute to the maintenance of financial and monetary stability as it has created an additional mechanism for the Bank of Albania for monitoring this segment of the payments market. The operation of the AIPS EURO system also has a positive impact on households, enterprises, and the wider economy, thus reducing the time and costs for processing payments. In concrete terms, the commissions applied in this system do not exceed the amount of 50 Euro in any case, while previously they could vary by up to 200 or 300 Euro per transaction. Also, before the AIPS EURO system existed, in addition to commissions for departure transfers, customers also paid commissions for arrival transfers, both of which are now avoided.

From the point of view of volume, there is a significant increase in interbank transactions compared to those processed in the same period last year through correspondent banks. In this perspective, it can be said that the project has direct and indirect effects on the well-being of the client, the bank and the economy as a whole. It is necessary to note that due to the very fact that payments are carried out within Albania, in addition to the shorter time required for the payment to be processed, benefits are also evident in cases when inaccuracy occurs during the payment process, where the solution to the problem will be much more easily and quickly discovered, compared to the processing of payments through correspondent banks. For these reasons, it is a positive development that payments in euro within Albania will now be regulated in their entirety by the legal and prudential regulatory framework of consumer protection created by the law "On payment services".

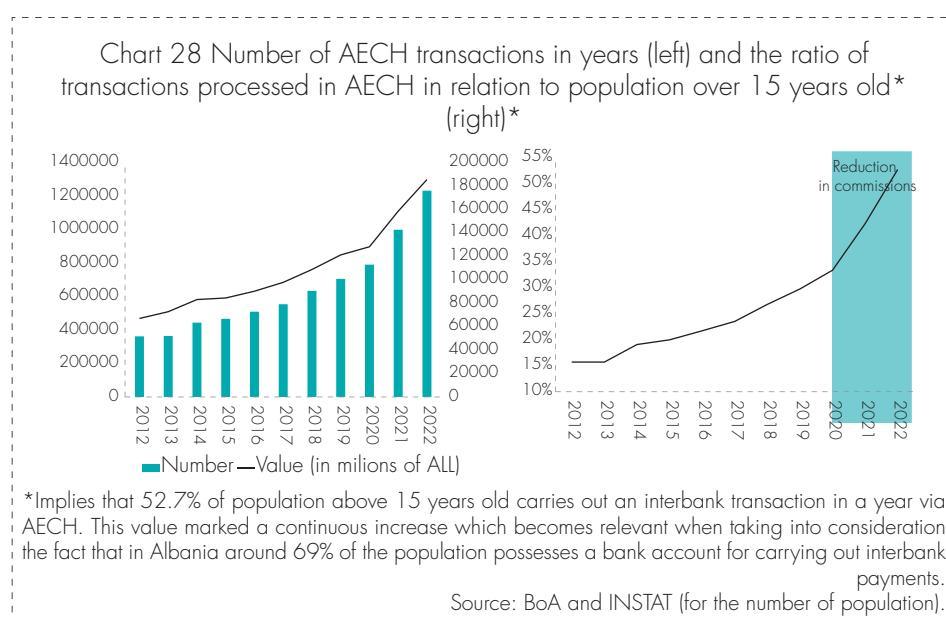
The potential reduction of euro-denominated cash management by banks is an added value of this project, if this system will be widely used. Consequently, the issues and costs incurred by this process will decrease. The AIPS EURO can be considered as an added instrument within the framework of the formalization of the economy, bolstering financial inclusion and reducing cash, hence leading to the promotion of e-payments.



### Albanian electronic clearing house for retail payments (AECH)

The activity of the AECH system has continued to grow in 2022. The number of cleared transactions was 1,231,847, increasing by 23.3% compared to 2021. Their value reached ALL185,475.62 million, up by 17.1%.

The ratio of transactions carried out in AECH in relation to the population continued to increase, indicating a wider use of this system by the public. The continuous increase of transactions processed in the AECH system, mainly for payments to bank customers<sup>18</sup>, reflects the efficiency of the measures taken by the BoA on the commissions applied by banks.



The most recent regulatory amendment for the use of the system is that of 2020, which provides for the elimination of commissions for retail payments initiated electronically (home-banking) up to the amount of ALL 20,000, as well as the differentiation of fees for the other part payments initiated electronically up to 50% of those initiated in paper form, with the aim of expanding the use of this system. These measures have been reflected in a faster growth of payments under ALL 20,000, suggesting that electronic credit transfers are finding use in the daily life of the general public.

### Albanian Financial Instrument Settlement and Registration System (AFISaR)

The AFISaR system, which has been operating since 2015, is the central system for the settlement and registration of transactions with government securities.

<sup>18</sup> The analysis of the indicator of the distribution of payments according to participants shows that payments for customers initiated by banks continue to occupy the main weight of transactions processed in the AECH system, prevailing over transactions initiated by other participants (MFE and BoA).



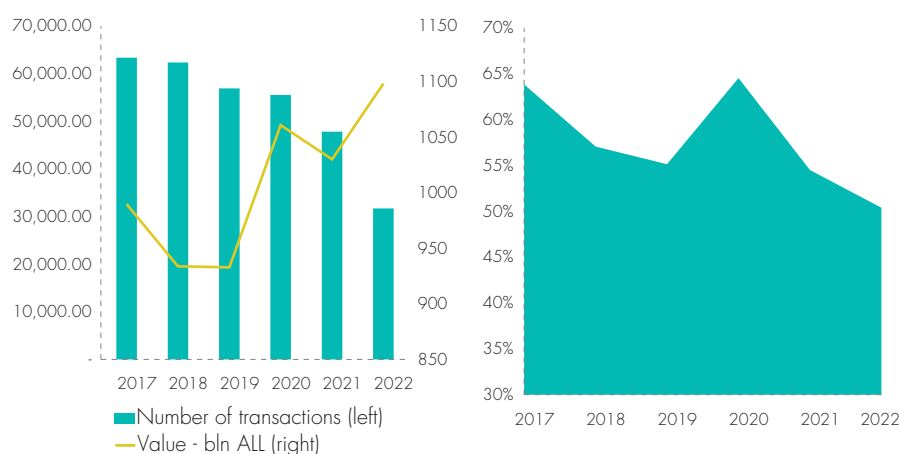
This system is operated by the BoA in the capacity of fiscal agent. Through the AFISaR system, the Bank of Albania offers the issuer (Ministry of Finance and Economy) and the market, the organization of auctions for the issuance of Albanian State securities in the domestic market both in lek and the euro, as well as the settlement and registration of transactions with these securities in the secondary market - actions where the collateral is the securities of the Albanian State or the reverse repurchase agreements with the subject these securities. The system also provides tax collection services for securities income and interest payment events. It informs account holders in this system about the balance and movements in these accounts.

At the end of 2022, the AFISaR system registered 15 financial institutions as direct participants, including 1 issuer (Ministry of Finance and Economy) and 1 central bank (BoA), 7 indirect participating financial institutions with accounts through the Bank of Albania, and connection with 1 Private Stock Exchange. At the end of 2022, there were 18,934 individual accounts in the AFISaR system opened through the Bank of Albania.

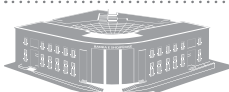
At the end of 2022, the total nominal value of Albanian securities issued in the domestic currency in the AFISaR system, was ALL 712.21 billion, up by 5.4% from the end of 2021. Issue in the European currency decreased by 31% compared to the previous year, at EUR 69 million.

In terms of transactions, the volume processed during 2022 was 31,705 transactions. Although down by 34% from a year ago, the value of transactions recorded during the past year increased by 6.7% at ALL 1,071 billion. The decrease in the number of transactions continued from 2021 and is related to the Supervisory Council's decision to close the mediation activity of households' requests in government T-bills auctions. The number of these transactions is high but their value is relatively low. Trading in the primary and secondary market,

Chart 29 Performance of the AFISaR system according to the number and value of processed transactions (left), and in percentage to GDP (right)

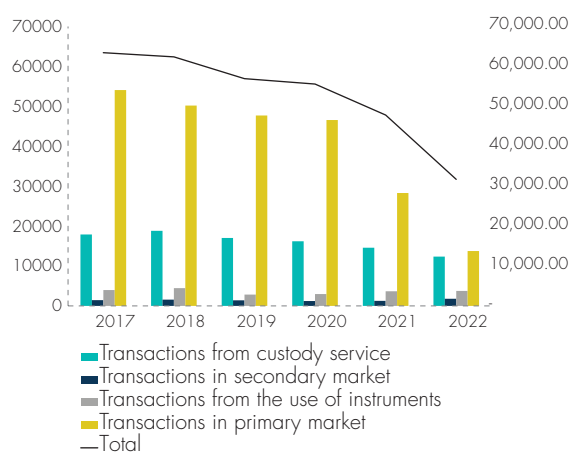


Source: BoA.



as well as the use of instruments by commercial banks dominated in value, thus, in absolute terms, making the increase of traded value positive. In relative terms, the value of transactions in relation to GDP decreased for the second consecutive year.

Chart 30 The performance of transactions in the AFISaR system according to four main group-types



Source: BoA.

When analysing the use of the AFISaR system for four general types of transactions, for the above-mentioned reasons that led to the decrease in the total number of transactions, the latter, in the primary market and custody transactions (Tax collection, coupons payments, etc.) decreased by 50% and 15%, respectively. Transactions in the secondary market increased by 41%, and transactions using collateralized instruments increased by 2%. Meanwhile, although up from the previous year, the transactions concluded in the stock exchange and settled in AFISaR, remained at a minimum level of 10 transactions during 2022.

## 2.7.2. PAYMENT INSTRUMENTS

The year 2022 was characterized by an upward trend in the use of electronic payment instruments. Banks' reports on payment instruments show a continuous increase in card payments, electronic money payments, and home banking payments.

The number of payments in total increased by 18.1% in 2022, reaching 33.7 million payments. The total value of payments was ALL 5,767 billion, up by 9.0% compared to the previous year.

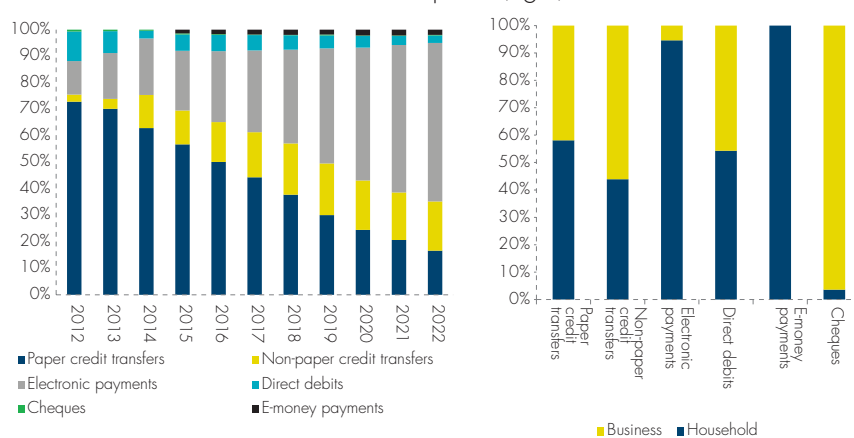
Card payments were the main payment instrument in terms of the number of payments, surpassing for the third year in a row, credit transfers in paper form, which has been the most used payment instrument over the years. The number and value of card payments increased by 26.9% and 36.6%, respectively, compared to 2021. However, the value of these payments had a share of 3.0% in relation to the entire value of payments made.

Home-banking payments exceeded the number of cash transfers for the first time, coming in second place among the most used payment instruments (18.6%, as the number of payments to the total of all payments). The rapid trend of increasing use of home banking shows the greater familiarity of the public with this instrument as well as its promotion by the banking system. In particular, the number of payments made through the mobile banking service, which reached 2.3 million transactions, represents an increase of 29.3% compared to the previous year. They reached ALL 267 billion, with an annual growth of 21.7%.



Likewise, electronic money payments in the banking system grew during 2022, but the value of these payments still remains at low levels (0.1% of the total of all payments for 2022). E-money or prepaid payments are used exclusively by households and not by enterprises, while the same trend is also observed in card payments, which continue to be used more by households than by enterprises (94.7% households and 5.3% enterprises). On the other hand, enterprises continue to use more traditional forms of banking (credit transfer in non-paper form, checks, etc.) compared to households, who have embraced the innovations offered by the banking market.

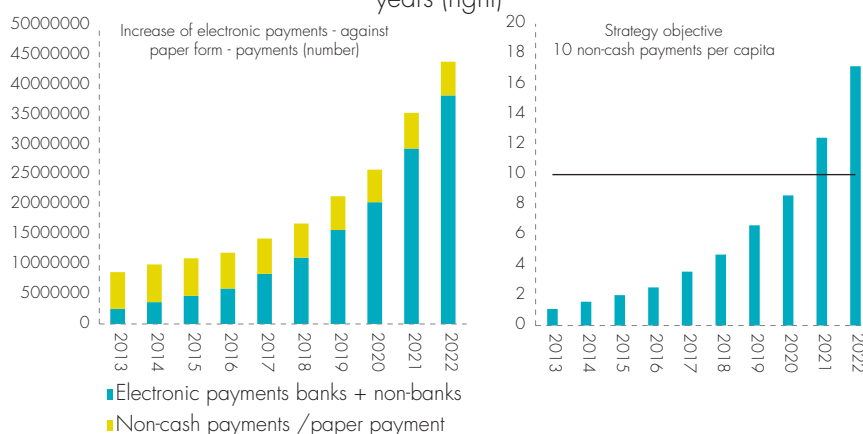
Chart 31 Performance of the number of payment instruments over the years (left) and the number of payment instruments used during 2022 by households and enterprises (right)



Source: BoA.

The progress of electronic payments throughout 2022 has contributed to the fulfilment of the quantitative objectives of the National Strategy of Retail Payments (2018-2023), reaching a level of use of electronic payments per capita at 17.19 out of 10 payments which is the objective of the Strategy. Also, positive developments have been noted in the expansion of the percentage of the population that owns a payment account.

Chart 32 Performance of the number of electronic and cash payment instruments in years (left); number of payments per capita (+15 years old) in years (right)



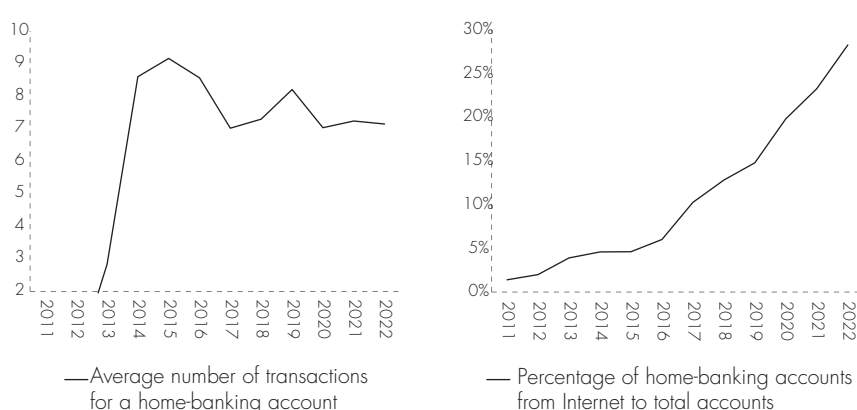
Source: BoA.



## Home Banking

The initiation of credit transfers in electronic form is carried out through “home banking” services<sup>19</sup>, offered by 11 banks,<sup>20</sup> and is increasingly being used in the Albanian market. It is being used not only for basic account status information services, but also for carrying out on-line payments. In 2022, a significant increase in the volume of payments and the value of “home banking” transactions is observed, in concrete terms at 22.4% and 29.7%, compared to the previous year. What contributed to the use of home banking are the measures taken by the Bank of Albania to reduce commissions, but also the development of the infrastructure, the spread of opportunities to access the Internet, as well as the familiarization of bank customers with the use of this instrument. Also, it is estimated that bank policies have played a positive role in the promotion of these alternative payment methods, which is reflected in the increase of accounts accessible remotely by about 24.0% and an increase in accounts accessible from the Internet to the total of all customer accounts by 28.3% during 2022.

Chart 33 Volume of home banking transactions to total accounts and online accessible account\*



Source: BoA.

## Bank cards

At the end of 2022, all the 11 banks that operate in the Republic of Albania were licensed as card issuers, of which seven were licensed also as card accepters. The infrastructure provided by these banks has trended upward in terms of the number of POS terminals, increasing significantly by 18.1% compared with 2021. In addition to the positive trend of increasing the number

<sup>19</sup> These products provide remote access to the bank account, via on-line, telephone or software that the bank makes available to its customers.

<sup>20</sup> At the end of 2022, the banking system in Albania had a total of 11 banks, compared to 2021 where there were 12 in total.

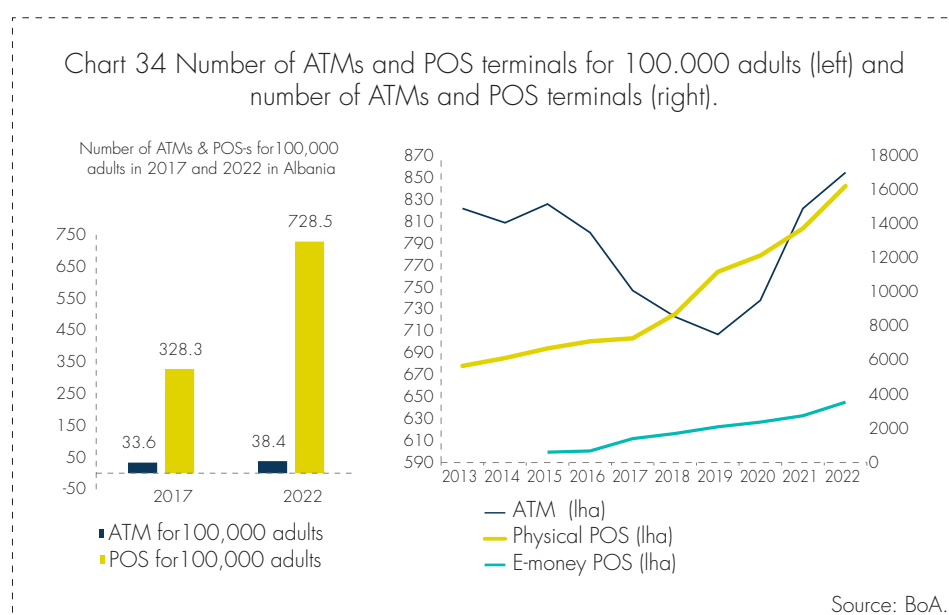




of POS terminals, their concentration continues to be quite high in the district of Tirana<sup>21</sup> (83.3%), where the largest number of entrepreneurs and population is also concentrated. On the other hand, there has been an increase in the distribution of the POS terminals in other regions in the territory of the Republic of Albania during 2022 (except in Elbasan). Also, the use of cards at POS terminals increased by 35.5% compared to the transactions carried out at these terminals during the previous year.

The number of ATMs increased by 4.0% compared to 2021. Despite the fact that ATMs are mainly used for cash withdrawals, throughout 2022 we have an expansion of the function of ATMs that enable deposits to be made, a function which was used at higher levels than in 2021.

The number of ATMs and POS terminals per 100,000<sup>22</sup> adults in Albania increased over the last 5 years, which shows a familiarity of the public with this service, as well as the higher use of cards at the points of sale where this service is offered. The growth of this indicator helps to increase the financial inclusion of the population and the formalization of the economy.



## Cash transactions

Cash transactions carried out by customers at bank's windows decreased in number (by 9.2%) and a slightly increased in value (by 1.3%), in 2022 compared to the previous year. The use of cash in the Albanian economy still remains a dominant phenomenon, which carries high costs for various actors and the economy in general. In this context, the coordination of efforts at the market level to encourage the use of the most efficient and low-cost instruments

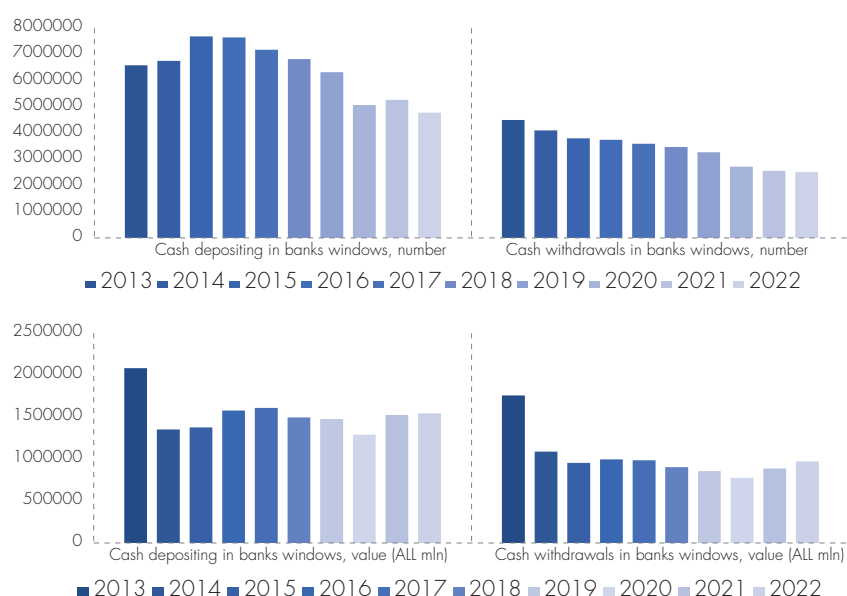
<sup>21</sup> Regions are divided according to the branches of the Bank of Albania.

<sup>22</sup> The adult population (over 18 years old) in 2022 is 2,227,586 (Source: INSTAT).



is of particular importance and constitutes one of the priorities of the Bank of Albania<sup>23</sup>.

Chart 35 Number and value of cash transactions at bank's windows (households and businesses)



Source: Reports submitted by banks according to the "Methodology for reporting payment instruments".

### 2.7.3. ELECTRONIC MONEY INSTITUTIONS

Electronic money products, based on the legal and regulatory framework of the Bank of Albania, are also offered by non-bank financial institutions licensed as electronic money institutions. Throughout 2022, 9 electronic money institutions have operated in the Albanian market, from which only 7 managed to stay in operation to the end of 2021. The increase in the number of electronic money institutions also came as a result of the adoption of the law "On payment services". In 2022, these institutions together performed a volume of approximately 10.2 million electronic money payments, with a value of ALL 45.35 billion.

The number of payments with electronic money has significantly increased in both number and value in 2022, specifically at 50.2% and 190.2%. Although the number of electronic money payment transactions has reached 30.3% of the total of all payments passing through the banking system, in value, the payments made through this instrument by electronic money institutions remain at quite low levels, or less than 0.8% of the total value of payments made.

<sup>23</sup> The Bank of Albania is cooperating with the World Bank as the main international partner for the drafting of the National Strategy for Education and Financial Inclusion (2022-2027).



The increase of the number of electronic money institutions has also brought a wider range of terminals that they provide for their customers (both physical and virtual), specifically with a significant increase of 123.3% compared to the end of 2021. The use of electronic money provides convenience mainly to that part of the Albanian population that does not own a bank account. The advantages for this part of the population consist in increased flexibility for carrying out payments, considering the increase in the number of these institutions in the country, but also in a lower cost for the payments made, especially for the payment of fines, monthly utility bills, etc.

#### **2.7.4. PAYMENT SYSTEM OVERSIGHT AND THE REFORMATORY ROLE**

In 2022, the Bank of Albania continued the work to achieve the objectives of the National Strategy of Small Value Payments (2018-2023), fulfilling to a significant degree the action plan of this strategy. In this direction, a series of legal and regulatory measures, as well as infrastructural developments, have been undertaken.

##### *Improving the legal and regulatory framework*

The Bank of Albania has continued the work to complete the regulatory framework in implementation of the law "On payment services", a very necessary step for the implementation of the law in practice and the promotion of the intended results (for the approved regulations, please see section 2.4.3 Review of the legal and regulatory framework, above).

Meanwhile, in 2022, the draft regulation "On the exercise of activity and supervision of payment institutions" was drawn up, which is in the process of consultation with the relevant entities. The object of this regulation is to determine the rules for exercising the activity of payment institutions and for the administration of the risks related to this activity, as well as for their supervision.

Another important step, within the framework of the National Strategy of Retail Payments (2018-2023), is the drafting of the draft law "On the account of payments with basic services", which is in the process of consultation with the involved parties. This draft-law is considered an important element in promoting financial inclusion. Specifically, its object is to determine the terms and conditions for opening and using a payment account with basic services for consumers and households, including in particular those who are not covered by banking services, regardless of income level, employment status or history of solvency within the Republic of Albania.

At the end of 2022, the regulation "On the comparability of fees related to payment accounts and for the service of transfer of payment accounts" was adopted, and it enters into force on 1 March 2023. The object of this regulation is to determine the requirements on the transparency and comparability of the



fees charged to consumers for their payment accounts, as well as to determine the requirements for the transfer of payment accounts between payment service providers.

### *Infrastructural developments and the reformatory role of the BoA*

One of the main achievements of the Bank of Albania in 2022 was the creation and operation of the AIPS-EURO system for interbank payments in euro within Albania, analysed more in Box 3.

Another project of great interest, within the framework of the implementation of the Albanian National Retail Payments Strategy, is that of instant payments. This innovation in the field of payments aims to expand services and payment instruments, promote competition between different instruments in order to reduce costs, as well as cover market segments that do not use electronic instruments.

In fulfilling its role as a catalyst, the BoA has supported and organized several meetings and consultations with various actors or third parties involved in the payment market. In November, the National Payment Systems Committee (NPSC) held its eighth meeting, where the main legal, regulatory and infrastructural developments in the payment market were discussed. A special space was devoted to the role of financial education in promoting financial inclusion. In this framework, the discussions were focused on the work carried out for the creation and implementation of the National Strategy for Education and Financial Inclusion.



## 2.8. INTERNATIONAL RESERVE MANAGEMENT

*The Bank of Albania is the national responsible authority for maintaining and managing the international reserve of the Republic of Albania. It uses its best opportunities to achieve and maintain a certain level of international reserve, conducive to Albania's financial stability, and in accordance with the monetary policy.*

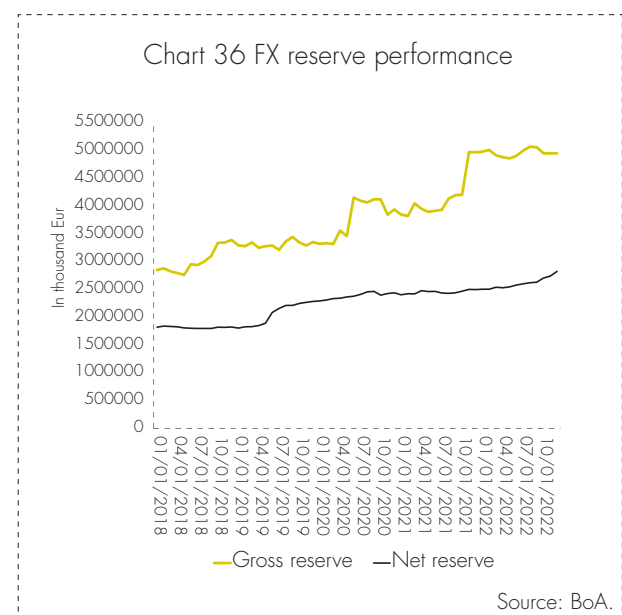
The Regulation "On the policy and management of the international reserve", approved by the Supervisory Council, lays down the purposes of maintaining the international reserve. In accordance with the best international practices, the goals of maintaining the international reserve, in addition to the implementation and support of monetary policy and exchange rate policy, includes safeguarding of financial stability. Liquidity and security are defined as the primary objectives of the exchange reserve management process. Ensuring returns from reserve funds management represents a third objective, as long as it does not infringe the objective for liquidity and security. The Supervisory Council also approves the qualitative principles and criteria for the development of international reserve management.

Allowed entities in which the international reserve is invested include the governments of the USA, Japan, United Kingdom, Canada, Australia and those in the euro area, which overall are rated at least A- (for the euro area governments the accepted minimum rate is BBB<sup>24</sup>). The entities allowed for investment also include agencies or institutions related to governments, multilateral institutions or other entities rated at least AA- (for banks/other financial institutions, the accepted minimum rate is A-).

At the end of December 2022, the stock of the gross international reserve is EUR 4,955.95 million, including monetary gold (about 97.39 thousand ounces or 3.03 tons).

### Composition of the reserve portfolio by currency

At the end of December 2022, the composition of the gross international reserve was: USD 17.7%; EUR 66.2%; GBP 2.1%; JPY 2.0%; AUD 1.0%; SDR 5.6%; Gold 3.3%; RMB 2.2%. Exposure in the currencies AUD (Australian dollar) and RMB (Chinese renminbi) reflects the decision of the Supervisory Council to invest part of the reserve in accordance with the SDR basket. The share of the currency RMB is allocated in two currencies, RMB and AUD, in accordance to a ratio approved by the Investment Committee.



<sup>24</sup> Names / instruments listed up to BBB- are included in the category "For investment" (investment grade).

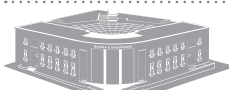
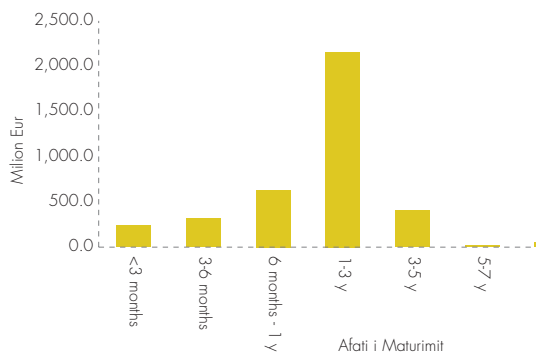


Chart 37 Distribution of reserve by maturity of instruments\*



\*The chart does not reflect the funds held in the current account. The balance of current accounts at the end of the year is about Eur 700 million.  
Source: BoA.

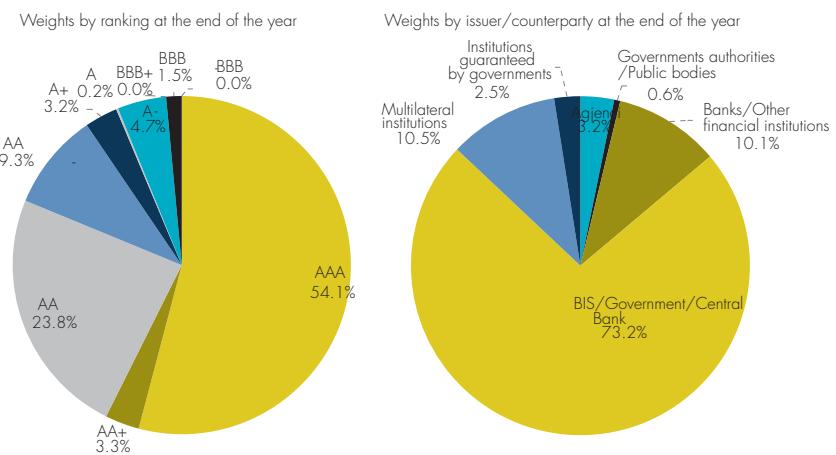
### The composition of reserve portfolio by maturity term

The international reserve is invested in liquid assets, mainly with a maturity of 1 - 3 years. The share invested in debt instruments with a term of over 5 years has been reduced compared to the previous year, representing about 2% of the reserve portfolio invested in securities at the end of the year. Given the significant increase in interest rates in the main economies, the share invested in debt instruments against the total stock of investment reserve has increased significantly during this year. The portfolio managed by the external administrator (World Bank) continues to be invested against a 1-3 year reference portfolio, mainly in debt instruments issued by governments and government agencies.

### Composition of the reserve portfolio by rating and type of issuer/ counterparty

Around 90.5% of the international reserve portfolio resulted invested in names with high quality rating (class AAA and AA including exposures in current accounts). Exposures by type of issuer/counterparty are represented by governments/central banks (73.2%), followed by agencies (3.2%), multilateral institutions (10.5%), banks/other financial institutions (10.1%), institutions guaranteed by governments (2.5%) and government authorities/public bodies (0.6%).

Chart 38 Composition of the reserve portfolio by evaluation (left) and counterparty (right)



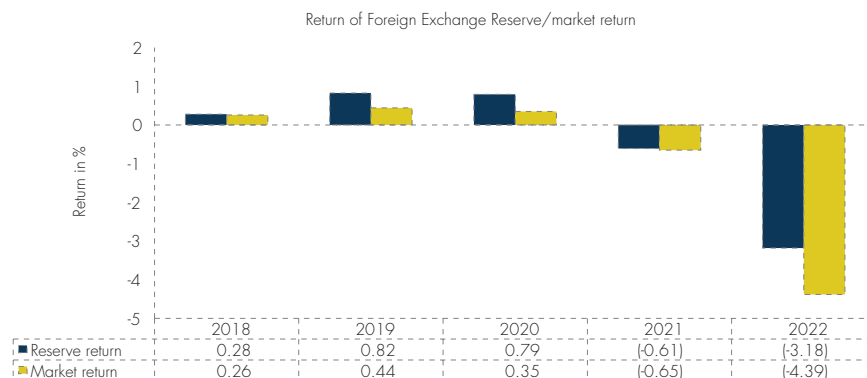
Source: BoA.

### Return on the investment of reserve portfolio

The absolute return of the total reserve for 2022, including the fund managed by the World Bank, was negative at (3.18) %. The return generated by active management of the reserve portfolio has been slightly negative.



Chart 39 Return of Foreign Exchange Reserve\*, \*\*



\*For the purpose of comparison, in the chart, the market return reflects the aggregate performance of the markets in developed countries according to the share that the main currencies Eur, Usd, Gbp, Jpy and Aud have in the foreign exchange reserve portfolio.

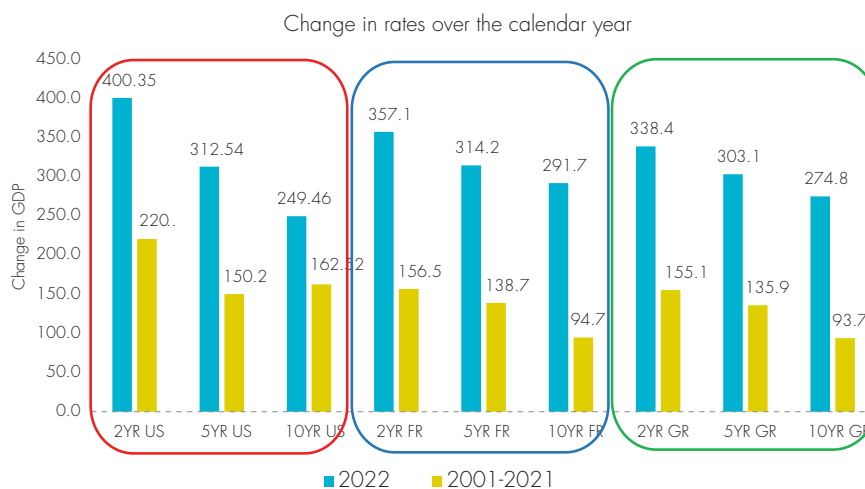
\*\*The return estimation does not account for the exchange rate effect.

Source: BoA.

The negative return of the reserve portfolio came as a result of the significant and unexpected increase in interest rates during 2022 in the main currencies/markets in which the foreign reserve portfolio is invested. The size of the interest rate hike and the growth rate are considered unprecedented.

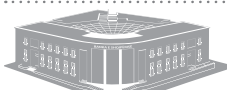
The start of a rising US interest rate cycle by the end of 2021 was followed by the start of policy rate hikes by the Federal Reserve from March 2022 onwards. In July, the European Central Bank also started to increase the policy interest rate, moving first to a neutral level (0 percent) and then, in September, to a positive policy rate. The increase in interest rates is associated with a decrease in the price of bonds in the portfolio and therefore with a decrease in the value of the portfolio, recording a negative return on investment for the period<sup>25</sup>. Chart 38 shows the risk (volatility) of rates during 2022 compared to the ones during the last 20 years.

Chart 40 Change of interest rates in international markets



Source: Bloomberg.

<sup>25</sup> We recall here the inverse relation between the interest rate and the security price in the portfolio.





On the other hand, the increase in interest rates has created opportunities for the realization of new liquidity investments with higher interest rates, leading to the beginning of the gradual improvement of income from coupon securities. The increase of income from coupons will mitigate the effect created by the capital loss that will be recorded in case of sale of securities/liquidation of reserve portfolio investments.

### *Other developments related to the international reserve*

In the framework of the periodic reassessment of the weight of monetary gold in the foreign exchange reserve, at the beginning of February, the Supervisory Council decided to purchase 23 gold ingots (9,200 oz or about 0.29 tons of gold). Purchases of monetary gold were made during February - March.

Cooperation with the World Bank in the framework of Reserves Advisory Management Program (RAMP) continued in 2022. The World Bank has continued to provide training and specialized education programs. These qualifications aimed at consolidating and increasing the level of professionalism of the employees engaged in the process of administering the foreign exchange reserve, of the staff that supports or monitors the progress of this process, as well as of the Bank's staff in general.

Considering the primary objectives of the foreign exchange reserve administration process, which are liquidity and security, we were able to renew and postpone the deadline for some agreements that serve the Bank of Albania to preserve the availability of the necessary liquidity with the aim of maintaining and supporting the financial stability of country. During 2022, two amendments were signed with the European Central Bank related to the postponement of the existing agreement for the collateralized credit line at the amount of EUR 400 million. The new deadline for this agreement is January 2024. The agreement based on Repo with the Bank for International Settlements was also renewed, for the amount of EUR 500 million. In support of liquidity needs is the Swap agreement with the People's Bank of China, for the amount of Rmb 2 billion.

Regarding the information technology infrastructure that supports the activity of foreign reserve administration, during 2022 a preliminary assessment process on the needs of the Bank of Albania for obtaining a new system to support the activity of foreign reserve administration and beyond, was carried out. The project is estimated to last for at least 2-3 years.



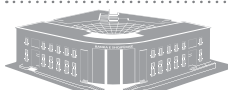
**BOX 4: FLOWS AFFECTING INTERNATIONAL RESERVE IN 2022**

During 2022, the gross international reserve, estimated and reported in the euro, decreased by Eur 18.07 million, at Eur 4,955.95 million at the end of December. The main factors that have impacted the gross foreign exchange reserve are grouped below:

- Transactions with the Ministry of Finance and Economy provided a negative impact, estimated at EUR 447.5 million, according to the following items:
  - net inflows from extension of various loans from the World Bank at EUR 247.90 million;
  - net outflow from the renewal of foreign currency debt in the domestic market in the amount of EUR 30.87 million;
  - Transfers (outflows) for debt service and other of at Eur 664.53 million.
- Transfers from commercial banks and other entities provided a positive impact in the amount of EUR 322.63 million, according to the following items:
  - transfers from commercial banks to their account at the Bank of Albania to fulfil the required reserve, to manage the balance sheet exposures, etc. at EUR 3,395.07 million;
  - transfers from commercial banks at the amount of EUR 3,065.95 million;
  - net outflows for the account of other entities (IDA, etc.) at EUR 6.49 million;
- Bank of Albania's transactions provided a positive impact, estimated at EUR 210.66 million, according to the following items:
  - net purchase of foreign currency by commercial banks and other institutions at EUR 202.22 million:
    - from commercial banks at Eur 131.54 million,
    - from the Ministry of Finance and Economy at Eur 60.60 million,
    - From other institutions, at EUR 10.08 million;
  - Inflows from interests, coupons, etc. (calculated on a cash basis) created by the investment of the foreign exchange reserve, calculated at Eur 18.78 million;
  - Transfer at Eur 10.34 million.
- Market factors provided a negative impact in the amount of EUR 103.86 million, according to the following items:
  - fluctuations in the exchange rate of the currencies constituting the foreign exchange reserve have positively affected the value of the gross reserve reported at the amount of Eur 51.93 million;
  - the revaluation effect for the portfolio, as a result of interest rate fluctuations, is calculated at a negative value of Eur 155.79 million<sup>2</sup>.

<sup>1</sup> The net effect of SWAP transactions carried out with the Ministry of Finance and Economy for 2022 is EUR 32.4 million, while the total volume (considered purchase-sell) is EUR 700.4 million

<sup>2</sup> This value contains also the impact created from the payment of coupons and securities and is corrected for transactions of purchase/sale/maturity of securities on cash basis.



## 2.9. STATISTICS

*The BoA creates, collects, compiles and shares a wide range of statistics and data needed to support its functions. The statistics function at the Bank of Albania aims to produce unbiased, objective and reliable statistics in service and in fulfilment of the legal objectives of the Bank, as the central bank of the Republic of Albania and as a statistical agency within the National Statistical System.*

Official economic and financial statistics are beneficial to the general public and economic agents and support political decision-making processes in many areas. Statistics affect investment decision-making and market prices; they provide the basis for the development of economic policies and help the individual to make well-informed decisions on savings and capital investments. Therefore, reliable economic and financial statistics are indispensable for the whole society.

The Bank of Albania provides numerous products and services to meet this need for statistical data, which has grown even further over the last decade. More than 300 statistical tables shown on the Bank of Albania website provide current and historical data on interest rates and exchange rates, on the financial behaviour of households and businesses, on means of payment and international financial flows.

In addition, the Bank of Albania publishes a series of regular and ad-hoc statistical reports and analyses that provide specific information on current economic topics and operates a direct contact with the public for questions and information on the statistics it produces.

At the same time, the Bank of Albania also provides a wide range of statistics to national and international organizations under various mandatory data distribution programs. Recipients of the Bank of Albania's statistical data include European institutions such as the ECB and Eurostat, international organizations such as the IMF and BIS.

In order to meet the need and demand for growing volumes of data and to maintain their quality, the Bank of Albania continues to address the creation of a strong national statistical framework to be seamlessly integrated into the European one and to rely on modern IT infrastructures and trained specialists.

In 2022, the statistical function of the Bank of Albania continued with increased activities in order to achieve full statistical compliance with the requirements that will be placed before it as a central bank member of the European System of Central Banks. In this regard, new statistical indicators and reports have been developed working on the approximation of existing statistics, and the publication of detailed statistical indicators has begun in accordance with the



time frame provided in the Data Transmission Program at Eurostat.

With the focus and function of the methodological alignment of statistics with international standards and their harmonization according to the *acquis communautaire*, the following has been achieved:

1. *The approximation of Regulation No. 1073/2013 of the European Central Bank regarding statistics on assets and liabilities of investment funds (reviewed) (ECB / 2013/38)"*
2. *The approximation of Regulation No. 1374/2014 of the European Central Bank on statistical reporting requirements for insurance companies (ECB / 2014/50)*
3. *The approximation of Regulation No. 2018/231 of the European Central Bank on statistical reporting requirements for pension funds (ECB / 2018/2)<sup>26</sup>*

The above-mentioned regulations fully ensure harmonization with the regulatory basis of the European Central Bank, in relation to the balance of the situation of the sector of other financial institutions and align the regulatory basis in the field of statistics with the *acquis* of the European Union. Their implementation shall be realized in 2023. Pursuant to the Memorandum of Cooperation between the Bank of Albania and the Financial Supervision Authority, in order to implement these three regulations, data reporting forms will be collected by the AMF and will be sent according to the specified calendar. This mode of cooperation has been established to ease reporting difficulties for entities.

4. *Compliance with reporting standards in accordance with EC Regulation<sup>27</sup> on Balance of Payments Statistics*

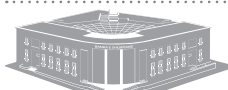
In the transmission of Balance of Payments data to Eurostat, the Bank of Albania has achieved a high degree of compliance with the 6th edition of the BP Manual and the Investment Position. Achievements have been noted in terms of compliance with the *acquis* related to International Trade in Services Statistics (ITSS), through methodological and infrastructural harmonization.

5. *Reporting for the first time to EUROSTAT the complete financial accounts of Albania on a transaction basis for all sectors of the economy*

Since 2021, the Bank of Albania has been committed to an ambitious agenda for the drafting and reporting to EUROSTAT of complete information on financial accounts according to ESA 2010 for stock data, transactions and other changes in volume. Pursuant to the ECB guidelines for reporting in the field of quarterly financial accounts, improvements have been made in the methodology, in terms of deadlines and the quality of financial accounts. Quarterly financial

<sup>26</sup> The Supervisory Council of the Bank of Albania approved the regulations in December 2022.

<sup>27</sup> Regulation (EC) No 184/2005 of the European Parliament and of the Council of 12 January 2005 on Community statistics concerning balance of payments, international trade in services and foreign direct investment (OJ L 35, 8.2.2005, p. 23).)



accounts are the primary source that reveals the mutual financial flows between households, corporations, financial institutions and foreign sectors. In 2022, the definition of flows between the government and the non-financial corporate sector has improved for the part in which they relate to corporate debt engaged by the government and/or concessions and public-private partnerships.

*6. Compilation of government finance statistics in accordance with the ESA2010 standard*

The compilation of government finance statistics, for the entire list of institutions classified as sub-sectors of the General Government (in accordance with the ESA2010 standard), was part of the work plan for 2022 of the three institutions (BoA, INSTAT, MFE), supported by the IMF through the project: "On government finance statistics - Excessive Deficit Procedure (EDP) and government financial accounts according to methodological standards and international best practices".

The Excessive Deficit Procedure (EDP) is one of the basic instruments through which the EU fiscal policy framework is implemented, which derives from the Treaty on the Functioning of the European Union (TFEU). The TFEU obliges EU member states to comply with fiscal discipline by respecting two criteria: the ratio of the general government deficit to GDP and the ratio of public debt to GDP. During the year, we were able to fulfil the obligation to transmit to EUROSTAT the quarterly data of the General Government, respectively from the BoA (financial accounts) and INSTAT (non-financial accounts).

*7. Harmonization with international standards (IFRS and bank accounting) of regulatory reporting for banking supervision, for banks at BoA in accordance with EBA's ITS for regulatory reporting*

An intensive work is done on the adoption of the common framework of the financial reporting standards of banks (FINREP) according to the EBA standard. The process is assisted by FINSAC.

*8. Completion of the Financial Soundness Indicators framework and implementation of the changes provided by the new FSI Guide (IMF, 2019)*

The implementation of the new requirements has led to the drafting and reporting of new indicators that complete the framework for assessing the soundness of the financial sector, which in particular are related to the activity of other financial institutions, non-financial corporations, individuals and real estate markets. This serves to complete the analytical framework in support of evaluative analyses and macro-prudential policies.

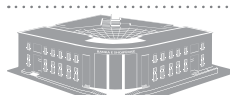
*9. Increasing reliance on survey resources along with participation in international research networks*



General statistics provide a “first view” of economic issues, but sometimes a more in-depth view is needed, which is achieved by analysing disaggregated and survey-based sources. The appropriateness and speed of monetary policy’s response to disruptions and unexpected circumstances also depends on the ability to see complexities in fine detail. All these are precisely the purpose of statistics.

The statistical work has also included the coverage of surveys which have an international standard format. The Household Finance and Consumption Survey (HFCS), the Survey on the access to finance of enterprises (SAFE), and the Bank Lending Survey (BLS) are part of a growing set of survey resources that provide additional economic insights. The Household Finance and Consumption Survey is conducted by national central banks to assess the effect of financial shocks on households, to achieve a better understanding of household financial decision-making and behaviour, to assess the effects of social, tax, educational and other policies, as well as conduct research on poverty and inequality. It is a joint project of 23 EU member states implemented within the Household Finances and Consumption Network of the ECB. The results of the survey conducted in 2021 were processed and used to enable the comparison of Albanian households with those in the EU. The main findings confirm the relatively high share of fixed assets, while deposits account for the largest share of financial assets, which is comparable to the structure of households’ assets in other EU member states.

The Bank of Albania plans to conduct the Survey on the access to finance of enterprises, which examines the financial needs of this segment of the economy and the obstacles it faces.



## 2.10. RESEARCH

*The Bank of Albania aims to base its decision-making process on the solid foundation of a body of knowledge tested on the Albanian economy. Investment in creating solid research capacities contributes to improving the Bank of Albania's qualitative work, reputation and credibility as an institution with the relevant methodologies and required knowledge to guarantee the macroeconomic equilibriums of Albania. Therefore, the active development of scientific research assumes a primary role in the Bank of Albania's development strategy.*

The focus of scientific research at the Bank of Albania in 2022 was the analysis and exploration of economic and financial phenomena in the function of monetary policy and banking stability. Other research efforts were directed towards important issues such as the challenges of the banking system in coping with climate change in the future; improving education and financial inclusion in the country; the research of new phenomena related to technological changes of digitization; as well as issues on international finance and development economics. Research continued to support the decision-making process for formulating and implementing the Bank of Albania's policies through the testing of new computer methods by artificial intelligence, with the aim of enriching the portfolio of economic models used in the central bank.

In the function of monetary policy decision-making and financial stability, research projects continued to pay special attention to economic analyses in uncommon conditions, such as the case of the pandemic or the challenges presented by the potential consequences of global warming. Studies have focused on the efficiency of monetary policy actions carried out through the policy interest rate and the current operational framework, as well as on the role of financial institutions in the context of managing the potential risk that peaks as a result of climate change.

The impact of the pandemic has been analysed through different scenarios that assess the ability of the local economy to renew itself in time. The material examines the instruments made available by the Bank of Albania to understand the reaction of the monetary authority within the current operational framework. It also makes a quick assessment of the easing economic policies, in order to draw appropriate lessons on their use to mitigate unprecedented negative effects in the future.

Other research projects in the function of monetary policy focused on investigating the structure of the central bank's balance sheet as a tool beyond the basic instrument for influencing the money supply; building an indicator of financial conditions in Albania as a tool for evaluating the transmission of monetary policy and determining its appropriate stance; in the research of monetary aggregates as indicators that can inform on price trends in the future;





and in researching the factors that determine the prices of certain food and non-food items.

Climate change poses another socio-economic challenge, the effects of which are already evident around the globe. Discussions on green finance have begun to take an even greater part in the agenda of the Bank of Albania. Two separate studies in this area focused first on the perception and definition of various climate problems from the perspective of the central bank, and second on the construction of measurable indicators for climate risks. In addition, the Bank of Albania in cooperation with the World Bank (FinSAC) is devising a strategy for green finance in accordance with international best practices, which will serve the objectives of maintaining a stable banking system, and for orienting green lending with the aim of protecting the environment.

Research projects focusing on financial literacy and inclusion emphasize the challenges that financial education of households presents for the efficiency of monetary policy transmission. Technological changes bring even more uncertainty to countries with insufficient financial literacy such as Albania, the financial literacy of which, unfortunately still remains lower than the average literacy of households worldwide<sup>28</sup>. For these reasons, financial education has become a strategic priority for the Bank of Albania. In cooperation with the World Bank, a draft strategy on financial education was completed in 2022. This paper will be enriched with the objectives and definition of a clear action plan to promote the growth of financial literacy in Albania. The Albanian Household Wealth Survey (AHWS), conducted by the Bank of Albania, is an important basis for determining the objectives and monitoring the evaluation of the progress of financial education, in accordance with the BoA's strategy. The survey analysis also suggests that financial education and literacy play a key role in the decision to save and on the components of the savings portfolio. The data on the individual balance sheets of over 2,000 Albanian families enable us to recognize and analyse different aspects of the households' behaviour in relation to real and financial assets, exposure to credit, different forms of savings and investments, as well as their consumption.

Research on the function of financial stability are focused on analysis of the financial fragility of Albanian households and those in the region, on the investigation of housing price behaviour and its social-economic implications in the country, on the examination of the progress of the banking system in Albania, and on testing the co-integration of the determinant factors for bank credit.

Two projects are focused on assessing the financial fragility of Albanian households and those in the Western Balkans countries. For housing price monitoring, work has been done to build an index that relies on technological

<sup>28</sup> The Survey on Measuring the Financial Literacy of the Population conducted by the BoA in 2019 highlights that households in Albania possess only 53% of the total knowledge, behaviours and proper financial attitudes.



innovation to obtain information found on the web, with the aim of analysing the progress of housing prices on a monthly basis, according to data generated by users. Banking performance is evaluated by its capacity to generate profit, based on the breakdown method of the return on equity (ROE). Other research materials on the credit market in Albania try to shed light on whether there is a long-term co-integrating relationship between demand factors and the bank credit supply, as well as on the role of global factors on credit to the local economy.

Finally, research analyses focusing on development economics have emphasized the importance of “inclusive” economic growth to enable a more equal distribution in society.

These and other studies have become the subject of discussion in activities and conferences organized by the Bank of Albania and other institutions, where comments and remarks are made in order to further improve them. In this framework, on 5-6 December 2022, the BoA organised the “16th Regional Research Workshop in South-East Europe”. This workshop aimed to serve as a discussion forum on the latest research on economic and financial issues and promote the exchange of views among researches from the Bank of Albania, other central bankers, academia in the region and beyond.

More complete and detailed information on the research papers of the Bank of Albania is found on the official website of the Bank of Albania in the sub-category “Publications/Researches and Working papers”. Other research works are published as articles in the “Economic Review” of the Bank of Albania. The semi-annual magazine “Scientific novelties at the Bank of Albania” provides information about newly completed research materials, about those in process, materials presented in the “Friday Seminars”, and on other activities organized by the Bank of Albania throughout the year.



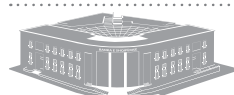
## 2.11. EUROPEAN INTEGRATION AND INTERNATIONAL COLLABORATION

*The Bank of Albania has continued to contribute to the fulfilment of the obligations stemming from the Stabilization and Association Agreement, the Progress Reports of the European Commission, joint EU-Albania subcommittees and the National Plan for European Integration. It chairs two Inter-institutional Work Groups for chapter 2 of the acquis.*

The European integration process marked a step forward when the first Intergovernmental Conference (IGC) on accession negotiations was held between the EU and Albania on 19 July 2022, a historic moment in Albania's European integration journey. With the beginning of the negotiations, the process continued with the screening meetings for each chapter of the acquis between the Albanian delegations and representatives of the European Commission, where the European side re-explained the EU legislation regarding new elements for the period of 2019-2022. Meanwhile, bilateral meetings have started to be held for each chapter of the acquis according to the grouping of Chapters. In these meetings, the Albanian side explains the current situation in terms of legalities, institutional considerations and implementation of the legislative framework, highlighting existing legal and institutional or administrative gaps compared to the EU framework for each issue included in the chapter. Also, an important part of these meetings is dedicated to future plans for further alignment with the EU, thus presenting will and clarity in fulfilling the main criteria in each chapter for moving forward with membership negotiations. The bilateral meetings will end in September 2023 and based on them, the European Commission is expected to approve a screening report for each chapter in the EU Council.

The Bank of Albania, as the leading institution for Chapter 4 - Free movement of capital and Chapter 17 - Economic and Monetary Policies, has been maximally engaged preparing these bilateral meetings. It has had a leading role in the coordination of the work with the contributing institutions in these chapters, through frequent meetings of inter-institutional European integration work groups and through cooperation with the Office of the Chief Negotiator. Also, the Bank of Albania contributes to the work of other chapters such as Chapter 9 – Financial Services; the Economic Criterion Chapter; Chapter 32 – Financial Control; and Chapter 18 – Statistics. In addition to these chapters, the Bank of Albania also contributes to chapters 24, 28 and 20.

The Bank of Albania was represented at the annual high-level meeting of the Stabilization and Association Committee and in the meetings of two subcommittees: 1) Domestic Market and Competitiveness and 2) Economic, Financial and Statistical Issues, as well as Economic and Financial Dialogue between the EU and Western Balkan Countries and Turkey. In the above mentioned meetings, issues such as drafting and implementation of monetary



policy, financial stability, indicators and developments of the banking sector, financial inclusion of the population, etc. were discussed at the political and technical level.

In October 2022, the European Commission published the 2022 Report for Albania, which describes the progress made by Albania during June 2021 - June 2022. The report commends the work of the BoA in terms of drafting and implementing its monetary policy, which is considered appropriate and effective. Also, the report commends the BoA's work in the direction of maintaining financial stability and the approximation of legislation in the field of supervision and payment systems.

### *Relations with the International Monetary Fund*

The Republic of Albania continues to have SDR 139.3 million quotas and owns 2,858 votes or 0.06% of the total amount of the votes of all members of the IMF. It is in the same constituency with Italy, Greece, Portugal, Malta, and San Marino. This constituency has a total of 207,948 votes or about 4.13% of total votes of all IMF members. The total amount allocated and disbursed up to 31 December 2022 is SDR 295.2 million.

Albania's relations with the IMF continue to be focused on Article IV consultations. On 7 December 2022, the Executive Board of the IMF concluded the Article IV consultations with Albania, at the end of which it published the assessments on the performance of the Albanian economy and made the relevant recommendations.

### *Relations with the World Bank Group*

The World Bank Group started its work in Albania in 1991 and has supported a number of projects aiming at immediate poverty alleviation and the provision of sustainable and long-term development tools to drive further growth. Albania is part of the constituency composed by Greece, Italy, Portugal, Malta and Timor-Leste.

The World Bank has supported the Bank of Albania in the field of payments, financial supervision, resolution, financial education and inclusion, etc.

### *Technical cooperation*

In September 2022, the German Central Bank and the European Commission launched the second phase of the "Programme for Strengthening the Central Bank Capacities, of candidate countries and potential candidates for EU membership in the Western Balkans" funded by the EU.

This program will further support central banks and banking supervisory agencies in the EU candidate countries and potential candidates of the Western Balkans



and aims to further strengthen the capacities of the beneficiary institutions, mainly through further improvement of their analytical and policy instruments, through the acquisition of the best international and European standards in national practices. The program is supported by the European Union (EU) through its Instrument for Pre-Accession Assistance (IPA III).

### *Participation in international conferences, forums and seminars*

The following is a summary of international activities, attended by the Administrators of the Bank of Albania:

- On 21-24 April 2022, the Governor of the Bank of Albania, Mr Gent Sejko, attended the Spring Meetings of the International Monetary Fund and the World Bank Group in Washington D.C., USA. Each year, the Spring Meetings bring together central bank governors, ministers of finance of member states and senior officials of international financial institutions.
- On 29 April 2022, Governor of the Bank of Albania, Mr Gent Sejko attended the 8th Research Conference organised jointly by the National Bank of North Macedonia with the European Investment Bank, on "Building resilience in time of crisis: the role of policies". This conference focused on the new duties faced by central banks in the context of dynamic changes in the financial system and new global challenges.
- On 24-25 May 2022, the Governor of the Bank of the Bank of Albania attended the Central and Eastern European Forum (CEE). It is an annual Euromoney event that brings together renowned figures of politics, economy and finance from CEE countries to discuss the latest economic developments in European countries and beyond. Governor Sejko attended the meeting as a discussant in the panel on "Rethinking the role of central bankers".
- On 8 June 2022, the Governor of the Bank of Albania, Mr Gent Sejko, attended the Annual Meeting of the Governing Board of the Centre of Excellence in Finance held in Ljubljana, Slovenia. This meeting was particularly important, as Slovenia handed over the Chairing of the CEF Governing Board to Albania.
- On 22-23 September 2022, the Governor of the Bank of Albania, Mr Gent Sejko, attended the conference on "Is inflation back and in which form?", organised at the Graduate Institute of International and Development Studies, in Geneva, Switzerland. The conference, organised for the 10th consecutive year, in the framework of the BBC (Bilateral Assistance & Capacity Building for Central Banks) programme, aims the sharing of experiences and knowledge among participants, who represent the central banks in partner countries of this programme.



- On 1 October 2022, the Governor of the Bank of Albania, Mr Gent Sejko attended the annual regional summit in Bečići, Montenegro. This year's summit, on "Monetary policy in an inflationary environment" addressed the latest developments in the economies of the region and the current challenge they are tackling due to the upsurge in prices in global markets.
- On 12-16 October 2022, the Governor of the Bank of Albania, Mr Gent Sejko, attended the Annual Meetings of the International Monetary Fund and the World Bank Group, in Washington DC, USA. These meetings are a high-level forum bringing together top level decision-makers in the IMF and the WBG, central bankers and ministers of finance of respective member countries, to discuss the latest developments in the global economy.
- On 21 November 2022, the Governor of the Bank of Albania, Gent Sejko, was invited by the Governor of the National Bank of Austria, Mr Robert Holzmann, to attend the conference on the European economic integration 2022: "Economic and monetary policies under war conditions - implications for the Central European, South and South Eastern countries," held in Vienna, Austria. The purpose of this conference was to analyse the impact of perennial crises such the war in Ukraine, the effects of the COVID-19 pandemic, and climate changes on the economies of the Central, South and South Eastern Europe.



## 2.12. TRANSPARENCY AND PUBLIC COMMUNICATION

*Public communication constitutes an important link in the Bank of Albania's activity, in fulfilling its obligation to provide maximum transparency in its decision-making and effectiveness, as well for achieving the permanent objective of increasing the confidence in this central institution. In this framework, for the Bank of Albania communication with the public is a primary issue of strategic importance, to transmit its monetary policy directly and comprehensively to the public.*

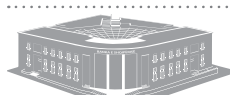
### *An open and transparent central bank*

Beyond legal obligations, the Bank of Albania communicates a variety of information to the public regarding its role and activity, ranging from the decision-making of the Supervisory Council to its daily operational activity. This transparent communication helps increase the effectiveness of policies pursued by the Bank of Albania, allowing the public to understand decisions in a timely and clear manner, and to also be able to fairly evaluate them.

In this context, the Bank of Albania uses a variety of communication channels, in order to explain its role and its main objective more clearly, to maintain price stability as well as the means of its realisation. The year 2022 continued to be a difficult and challenging year for the Albanian economy due to the situation created by the pandemic and communication with the public has responded to the challenges created by this situation. In this context, communication with the public was aimed at informing them about the ongoing measures taken by the BoA for normalization of the monetary policy and the return of inflation to the target.

Monetary Policy strategy is based on a defined decision-making cycle in an annual calendar of 8 meetings of the Supervisory Council. A Governor's press conference is held after each meeting. Its aim is to explain the decision taken by the Supervisory Council and the analysis used to support this decision, to the public. Relevant press conferences were organized in response to this cycle, in 2022, during which the Governor responded to media interest on various issues related to the Bank of Albania. Press conferences were followed by publication of the Governor's speeches and related Q&A, in Albanian and English.

Also in 2022, each meeting was followed by publication of a brief summary of the main decisions taken by the Supervisory Council of the Bank of Albania. All public decisions of the Supervisory Council, as well as orders or acts of the administrators, applicable by entities licensed by the Bank of Albania, were published in full in the Official Bulletin of the Bank of Albania, in 9 issues of this publication.

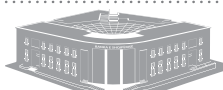


The Bank of Albania's communication is further complemented continuously and in real time with a number of periodic reports, observations, analyses, data, evaluations and opinions of the Bank of Albania on the macroeconomic situation of Albania and the role of the Bank in supporting its financial stability. Communication with the public is directed toward the interest, academic level and professional training of targeted groups connected with the Bank of Albania, among which, media has an important role. In this framework, the media is continuously informed and sensitized on issues related to the BoA and on the economic and financial performance of Albania. In 2022 as well, communication with the media continued through press conferences, speeches, presentations and press releases held in activities organized by the Bank of Albania or other domestic and foreign institutions. It has continued through interviews or participation in dedicated TV programmes, expression of views on specific issues of interest to the Bank of Albania or other public activities of the Governor and its other representatives. In 2022, the activity of the Bank of Albania was presented to the public primarily through 120 public announcements, press releases, speeches, interviews and participations in TV shows. Seven presentations of its periodic reports were held "off the records" for the media during this year. These meetings aimed to direct the media toward a correct understanding of the decisions made by the Bank of Albania and are seen as effective means of communication with the public.

To promote interaction with the public, in 2022, we introduced digital communication through social networks: Twitter (information), Facebook (financial education), and YouTube (video and Flickr (photo) to present the general activities of the Bank of Albania to the public, in a timely and comprehensive manner.

### ACTIVITIES WITHIN THE COUNTRY

- *On 17 January 2022, the Bank of Albania issued into circulation the two consecutive denominations of the new Albanian banknotes series, 500 Lekë and 2000 Lekë, which are legal tender.*
- *On 1 March 2022, Governor Sejko held a meeting with the Minister of Finance and Economy, Mrs. Delina Ibrahimaj, to discuss about the current situation and the expected economic performance of Albania. Their conversation focused on the assessment of possible risks that the Albanian economy may face as the conflict between Russia and Ukraine escalates, and the necessary measures to prevail over the situation.*
- *On 9-11 May 2022 Bank of Albania co-organises with the State Secretariat for Economic Affairs (SECO) the Workshop on "Strengthening research capacity at central banks." The goal of the activity is to share experiences in the field of scientific research among participants of central banks from countries partnered with the BCC programme (Bilateral Assistance & Capacity Building for Central Banks), such as: Azerbaijan,*



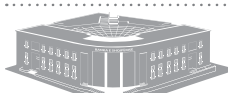


Bosnia and Herzegovina, Columbia, Morocco, Peru, Tunisia, Ukraine and Albania.

- On 27 October 2022, under the auspices of the Governor, the Bank of Albania co-organised with the London School of Economics and Political Science (LSE) the Annual Conference: *Inflation is Back: How to Deal with It under Heightened Uncertainties?*. The Closing Panel with the Governors' Round table brought together in a discussion panel, the Governor of the Bank of Albania, Mr Gent Sejko; the Governor of the National Bank of the Republic of North Macedonia, Ms Anita Angelovska Bezhoska; the Deputy Governor of the National Bank of Hungary, Mr Barnabás Virág; Member of the Board of Directors, National Bank of Romania, Mr Csaba Bálint, moderated by Mr Cristian Popa, Former Senior Advisor to the Vienna Initiative Steering Committee and Former Deputy Governor of the National Bank of Romania. The Governor's panel provided a summary of the recent macroeconomic and inflationary developments, and the reaction of central banks in a new environment with additional foreign uncertainties, and domestic economic weaknesses, which pose more difficulties to the monetary policy's reaction of the central bank, which have as primary objective the price stability and the financial stability.
- On 9 November 2022, the National Payment Systems Committee held its 8th meeting, chaired by, Luljeta Minxhozi, First Deputy Governor of the Bank of Albania. In his greeting speech, the Governor highlighted that, aiming to support the developments in the market, the Bank of Albania, is working on the improvement of payment system aimed at introducing new standards of both communication and services which address the infrastructural needs for the implementation of the strategy.
- On 5-6 December 2022, the Bank of Albania organized the 16th SEE Economic Research Workshop. This workshop aims at providing a a discussion forum on the researchers conducted by the Bank of Albania throughout 2022, and promoting the exchange of views among researchers from the Bank of Albania, other central bankers, academia, and scholars and policy-makers in the region and beyond, on the results of scientific research on issues related to the activity of central banks. During the two-day proceedings, 35 research works will be presented, of which 11 from Bank of Albania researchers.
- On 20 December 2022, on the occasion of the end-of-year, Governor Sejko held a meeting with publicists, politics and economics analysts, and representatives of the media. During this event, the three winners of the Governor's Award for the Best Diploma Thesis 2022 were announced.

### *A responsible and accountable central bank*

The Bank of Albania aims to inform citizens, and in particular the Parliament, on all its activities. Institutional relations with the Assembly develop in several directions, where the most significant ones are the Governor's hearing sessions in the Parliamentary Commission of Economy and Finance (CEF) and plenary sessions of the Assembly. In May 2022, the Governor presented the Annual



Report of the Bank of Albania to CEF and after, in June to the Assembly of Albania, responding to MP's interest in related matters. As every year, the Governor presented in November 2022, in a special hearing of the CEF, the opinion of the Bank of Albania regarding government's draft-budget for the upcoming year (2023).

More comprehensive and up-to-date information on the financial and economic situation as well as on main macroeconomic developments, and the role and the contribution of the Bank of Albania in this regard, can be found on the official website, [www.bankofalbania.org](http://www.bankofalbania.org). In 2022, the Bank of Albania continued its regular update of its website, which had around 2.2 million visitors, who visited our website about 6.3 million times, and browsed in total around 9.7 million sections.

Our website is constantly enriched with a broad statistics system for many sectors of the Albanian economy, such as the banking sector, the fiscal sector, the real sector and the external sector, which are published according to a defined schedule that is updated semi-annually. Bank of Albania publications provide detailed and updated information on developments, in Albania and globally, in banking and financial systems, currency and financial stability, amendments and enrichment of banking legislation and its regulatory framework, as well as other relevant issues. Bank of Albania publications are consolidated sources of accurate and reliable information for the public.

Periodic and non-periodic publications, in 2022, consisted of about 4900 pages of analyses, statistics and research in both Albanian and English. The set of periodic reports was the same as in the previous year: Annual Report, Quarterly Monetary Policy Report (quarterly), Financial Stability Report (semi-annual) and Supervision Report (Annual). In addition to periodic reports, the following were published with the Official Bulletin (depending on the meeting of the Supervisory Council): the semi-annual Economic Magazine of the Bank of Albania, the semi-annual magazine "Research newsletter", as well as various study and educational papers. In 2022, the Bank of Albania continued to distribute for free all of its publications, taking into account the social responsibility regarding reducing paper publications.

In order to inform the public, the Bank of Albania informs its citizens in writing or in electronic form, depending on how they want to receive this information. In 2022, 75 official requests addressed to the coordinator were answered. A total of 1623 correspondences with departments within the Bank of Albania and the general public for information, or with complaints and questions regarding the banking system, were received by the Bank's official contact address at [public@bankofalbania.org](mailto:public@bankofalbania.org).



## 2.13. FINANCIAL EDUCATION

*Public financial education is a significant part of the activity of the Bank of Albania. It is realised through educational activities and programmes, visits at the Museum, exhibits, as well as periodic and non-period publications. Two are the main goals of the activities prepared by the Bank of Albania: presenting the central bank, its functions and role to the public; and cultivating and strengthening financial literacy in the Albanian society.*

### *Educational publications*

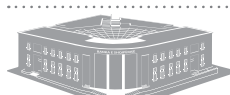
In 2022, the distribution of textbooks, "Personal finances in your hands" for 7 high schools, which have chosen this book as their schoolbook (a total of 800 textbooks) has continued as well as the distribution of brochures and educational materials prepared in previous years mainly for Museum visitors and participants in the educational activities of the Bank of Albania.

### *The Museum of the Bank of Albania*

Since October 2015, the Museum of the Bank of Albania has already been added to the diverse mosaic of museums as an added value and at the same time precious in the field of numismatic and banking history in our country. Organized to provide historical knowledge, spiritual heritage, as well as educational environments, the Museum of the Bank of Albania naturally promotes the learning processes of young people and schoolchildren, in other new, inspiring dimensions, different from traditional learning processes.

In 2022, the Museum was visited by about 3200 visitors. The majority of visitors are children and students of secondary schools or high schools. Visitors under 18 years old account for around 69% of the total number of visitors. A tradition has already been created where schoolchildren, as well as university students, return to the Museum of the Bank of Albania to conduct a one hour of lecture in addition to the guide.

Attention has been given to the 18th of May each year which is the International Day of Museums. On this day, the Museum of the Bank of Albania remains open to the public during extended hours and without restriction on the number of visitors. In accordance with the international theme of this day, "The Power of Museums", in cooperation with the General Directorate of Archives, for the provision of original documents, two temporary exhibitions were opened in the Museum's premises with the following themes: "Efforts to create the central bank, 1913-1926" and "Dr. Pas / Mitrush Kuteli, his prominent personality as an economist and banker". The International Day of Museums was closed with an open lecture held at the premises of the Bank of Albania by the Director of the National Historical Museum, Dr. Dorian Koçi.



During the month of October in 2022, three lectures were held as part of the “Museum Nights” cycle, now a tradition for the Museum, held by researcher Gjon Boriçi, publicist Bajram Peçi and collector Artan Lame. The topics presented in these lectures have been quite interesting and have attracted the attention of the public to be regular participants in them.

### ***Promotion of the numismatic collection of the Bank of Albania***

At the Museum of the Bank of Albania, visitors and the general public can buy items from the numismatic collection of Albanian coins and banknotes. The number of people interested in purchasing items from this collection remained high even during 2022.

Prices for items from the numismatic collection are published on the official website of the Bank of Albania. To whom it may interest, the “Catalogue of Numismatic Collection” was published at the e BoA Museum online Store, which presents numismatic items for sale with pictures, information on emissions and related prices.

### ***National Strategy for Financial Education and Financial Inclusion***

The year 2022 marked the beginning of the BoA’s efforts in cooperation with decision-making authorities and other market actors to design and implement a national strategy for financial education, which will aim to improve the culture and financial inclusion of the general public. In close collaboration with academic and financial market actors, it will focus on developing and coordinating research and analytical work on goal setting, designing education and financial inclusion programs, communication, creating implementation instruments, monitoring and evaluation of the progress of the strategy, communication, measuring the effectiveness of financial education programs at the national level and finally, it will focus on the adaptation and implementation of a “National Strategy for financial education”.

### ***Awareness campaign “Neither old nor new, I am simply Lek!”***

In 2022, the Bank of Albania continued raising public awareness about the misreading of the value of the national currency, as part of the “Neither old nor new, I’m simply Lek” campaign.

During this period, several communication channels were used, such as:

- cooperation with banks and the Albanian Association of Banks for the promotion of the campaign slogan and its poster on social networks, websites, ATMs, publications, etc.;
- cooperation with the Audio-visual Media Authority for media awareness and compliance with the standard in the presentation of monetary values during broadcasts, news editions and entertainment programs;

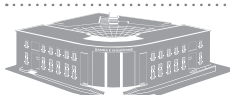


- cooperation with the media for the realization of several shows and interviews for the transmission of campaign messages to the general public;
- cooperation with the Ministry of Education and Sports for the organization of lectures in primary and middle schools, High schools, and universities to help disrupt this 55-year-old chain and not transmit it to the new generation.

The Bank of Albania once again calls on the public to leave behind once and for all the use of this wrong terminology in economic and financial relations, to finally turn it into a linguistic relic. The Bank of Albania reiterates that our currency is neither old nor new, but it is simply Lek!

### *Educational activities*

On 24 March 2022, in the premises of the Bank of Albania, the celebration ceremony of the Global Money Week for 2022 was organized, under the slogan, "Build your future, and be smart with your money! The Governor of the Bank of Albania, Mr. Gent Sejko, the Minister of Sport and Education, Ms. Evis Kushi, and the Chairman of the Albanian Association of Banks, Mr. Bledar Shella addressed the ceremony. The Bank of Albania participated for the eighth time in this celebration, where in cooperation with the Albanian Association of Banks and with the support of the Ministry of Education and Sports, and the Deposit Insurance Agency, they organized educational and awareness activities, including for over 8000 pupils and students, from more than 140 schools of all levels, from all over the country. The activities included 5 school contest & competitions, lectures in university auditoriums, as well as lessons in secondary and high schools.



### 3. HUMAN RESOURCES AND INFRASTRUCTURAL CAPACITIES

*Development of the Bank's human resources, in compliance with the objectives, strategy and implementation of the relevant policies of the Bank, aims at creating an adequate and motivating environment, which serves not only to increase employees' professionalism, but also to continuously improve the administrative processes of the institution.*

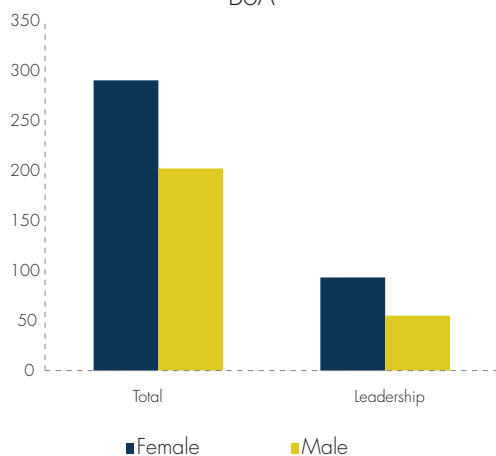
#### 3.1. HUMAN RESOURCES

In view of the medium-term strategic objectives of the institution, the administration of human resources has aimed to follow best practices and examples in this field. It is oriented towards the professional growth of staff, strengthening and maintaining a motivating and accountable work environment for employees, as well as improving the regulatory basis and organizational structure of the Bank. This has been achieved through the continuous acquisition and implementation of the best human resource management practices, which are applied in similar institutions in the European Union, taking into account the new conditions and developments that arose as a result of the pandemic.

Proper human resources management requires adapting the institution's regulatory infrastructure to the best standards, by providing promotion opportunities for professional employees, aiming at increasing employee motivation and work effectiveness. Through policies for professional motivation, the goal is to retain staff, one of the main challenges faced by central banks. The pursuit of consolidated policies on employment, management and career promotion of human capacities for a structured professional and flexible organization remains one of the main goals of the Bank. We also emphasise, that rationalising the organizational structure and improving the Bank's effectiveness, in line with its strategic objectives and the relevant regulatory framework, are a priority of these policies.

Gender representation at the level of specialists and managers is shown below. The ratio of women to men in total employees is 58% - 42%, while this ratio at the management level is 62% - 38%.

Chart 41 Female/male ratio in management in BoA



Source: BoA.

In 2022 changes were made, aimed to improve and strengthen some important processes, as well as to better adapt the structures of some of the Bank's units with specific tasks that stem from the objectives and activity of the institution.



Special attention is given to the combination of experienced staff and new ones. The average age of staff members is 45 years old. 88% of employees in the Bank have higher education. 58% of employees have completed postgraduate studies at the Master / PHD level, and have obtained internationally-recognised professional certificates.

An important element of human resource policy is the identification of interpersonal and professional skills and their usage to train and build the professional capacities of the employees, through professional trainings they have attended in Albania and abroad. Participation in these specialized training, organized by central banks, international financial institutions (IFIs) or other institutions, besides increasing professional knowledge, also allows the staff of the Bank to exchange professional and managerial experiences with representatives of these institutions.

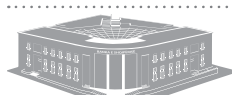
The distribution of training participations is respectively 40% in European central banks, such as Bank of England, European Central Bank, Bank of France, Bank of Italy, and Bank of Germany. The trainings conducted by International Financial Institutions account for 22% of the training courses attended, namely at The International Monetary Fund (IMF) and the World Bank, as well as 37% of participants in activities of other organisers, such as Centre of Excellence in Finance (CEF), EUROSTAT, Joint Vienna Institute (JVI), European Commission (EC).

In 2022 participation in training activities conducted online as well as in trainings developed abroad, as a result of technical meetings of the screening type near the EC, has continued. Most of the professional trainings in 2022 were conducted on Central Banking (14.85%), Financial Statistics (11.88%), European Integration (11.39%), Banking Supervision (8.91%) and Monetary Operations (8.42%).

The rest of the training has been organised in areas such as monetary policy, resolution, information technology, financial stability, and internal auditing. It should be noted that the largest number of professional training is focused on building the central bank's institutional capacity to fulfil its core functions.

### ***Agreements and collaboration***

In 2022 as well, part of the activities were realized in the framework of the cooperation agreements of the Bank with homologue institutions such as SECO (State Secretariat for Economic Affairs), European Commission, ECB and Bank of Germany, and EBA (European Banking Authority). Six (6) different activities with the participation of 22 employees were realised in the framework of these agreements, aimed at acquiring targeted and specific information.



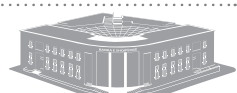
### 3.2. IMPROVEMENTS IN INFRASTRUCTURE

In 2022, in view of the Bank's strategic objectives, attention was focused on several aspects for improving technological infrastructure, increasing and improving electronic services that the Bank offers to third parties, further automating internal processes and security in information technology.

Information security in general and cyber security in particular have always been the focus of the institution. Taking into account the geopolitical situation and cyber-attacks targeted at Albania, in 2022 the level of alert has been raised in proportion to these threats, further intensifying the strengthening of protective and monitoring measures, updating the regulatory and procedural framework in implementation of international standards and best practices, accompanied by a continuous and very intensive process of education and awareness of all employees about cyber risks. In addition, communication at the technical level with national and international institutions has been intensified for better coordination and faster exchange of information for the function of resilience against possible cyber-attacks in the banking system in general and the Bank of Albania's systems in particular. In the implementation of the project on a global scale CSP (Customer Security Program), undertaken by SWIFT for all financial institutions, the Bank of Albania has met the highest security standards above all the infrastructure of this system.

In terms of increasing and improving the electronic services that the Bank of Albania offers to third parties, for 2022 we can single out the start of the operation of real-time gross settlement of euro transfers within the country and further modernization of payment systems, reducing significantly processing time and corresponding processing costs for payments.

In addition to the above, work continued regarding further automation of the Bank's internal processes, responding to the needs of operational activities in order to increase efficiency and effectiveness; as well as the expansion and improvement of network infrastructure, as a continuous process aimed at optimization and virtualization of central equipment in order to better manage them, improved costs and services, as well as the adoption of new technologies for the protection of the environment and energy efficiency.





## 4. INTERNAL AUDIT

*Internal audit at the Bank of Albania is carried out by the Control Department. The main objective of the Control Department is to ensure compliance with the laws and by-laws in the activity of the Bank of Albania. The internal audit function ensures periodically and independently to the Bank's Administrators and the Supervisory Council the verification and evaluation of internal audit systems by testing certain controls and procedures but not being their substitute.*

### 4.1. IMPORTANT DEVELOPMENTS IN THE INTERNAL AUDIT ACTIVITY

#### A. Implementation of the Internal Audit Policy

The Annual Internal Audit Plan at the Bank of Albania was reviewed and approved in accordance with International Standards on Auditing. The annual plan for 2022 was drafted by the Department of Audit and the Inspector General and it was submitted for review by the Audit Committee. Furthermore, the plan was presented to the Supervisory Council, and was approved by its Decision No.3 dated 12.1.2022.

#### B. Internal Audit Quality Assessment Programme

Standards for the Professional Practice of Internal Auditing (Standards) require that an external quality assessment (EQA<sup>29</sup>) of the internal audit activity to be performed at least once every five years by a qualified, independent appraiser or evaluation team from outside the institution.

The last assessment was carried out in 2020, by an independent team of the Audit Department of the Central Bank of the Republic of Türkiye (CBRT). This is the second assessment carried out by external experts for the Control Department, after the first one that was carried out by the Bank of the Netherlands in 2015.

The general opinion is that BoA's Internal Audit Activity is "Overall Compliant"<sup>30</sup>, as the highest rating with the Standards of the Institute of Internal Auditors (IIA) and the Code of Ethics according to the IIA Quality Assessment Manual. This level of compliance demonstrates a clear goal and commitment to achieving the Essential Principles for the Professional Practice of Internal Audit and the Definition of Internal Audit.

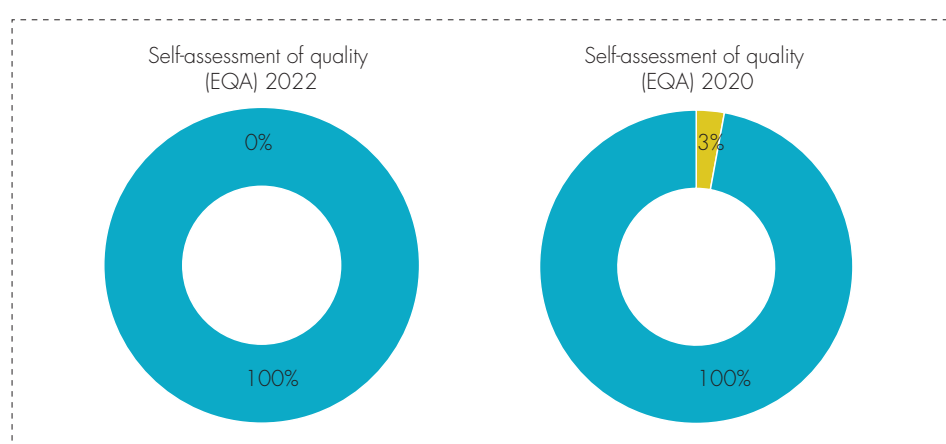
<sup>29</sup> External Quality Assessment

<sup>30</sup> The IIA Quality Assessment Manual suggests a three-point scale, "Overall compliant", "Partially compliant" and "Non-compliant".



The current status of the implementation of the recommendations addressed by EQA 2020, for improvements in the practice of Internal Auditing at the Bank of Albania are shown below:

Compliance levels according EQA	Implementation status of EQA's recommendations (2022)	Standards assessed during EQA by level of compatibility 2020
Non compliant	0	0
Partially compliant	0	3
Overall compliant	104	101
Overall assessment	Overall compliant	Partially compliant
TOTAL	104	104



During 2022, the Audit Department revised the Internal Audit Manual with the latest International Professional Practices Standards of Internal Auditing. The review of this Manual addressed all open recommendations left in the final Internal Audit Quality Assessment (EQA).

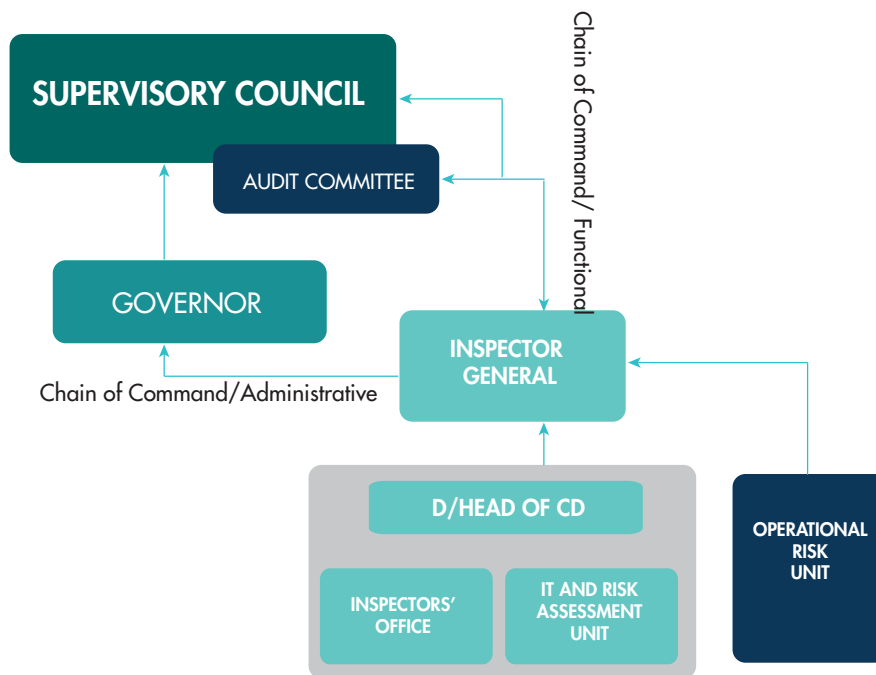
## 4.2. ABOUT THE AUDIT DEPARTMENT

*In accordance with the Law "On the Bank of Albania", the statute of the Bank of Albania, the policy and regulation of the Internal Audit and the regulation of the Audit Committee, the structure of the Control Department is presented in the following chart. It ensures the preservation of the objectivity, independence, integrity of information, the efficient use of resources and the effectiveness of internal control systems at the Bank of Albania*

### A. Organizational structure of Audit Department

Following is provided the organizational structure managed by the Inspector General:





### B. Professional capacity building and continuous training

In order to meet the strategic objective regarding capacity building of internal audit staff members, the audit inspectors have participated in on-line training programmes for internal audit and risk management provided by central banks. The audit inspectors own the ACCA, CIA, CISA certification titles<sup>31</sup>, and have attended the minimum mandatory classes for upholding those titles. Also, during 2022, two inspectors of the Audit Department have been included in the training program offered by the Ministry of Finance and Economy to earn the title "Public Internal Auditor". This title will professionally enhance the performance of auditors.

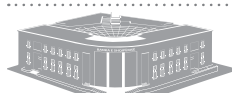
## 4.3. ENGAGEMENTS AND MAIN FINDINGS IN 2022

Audit engagements conducted during 2022 are focused on: providing an opinion on the adequacy of the internal controls established by the Management for the audited functions/processes, including supporting applications for carrying out activities.

During 2022, a total of 31 recommendations resulting from 9 assurance engagements were addressed. The recommendations mainly addressed the need for improving the processes (51%); the review of the regulatory base (23%) and others on the implementation of the regulatory base (26%).

The findings and recommendations for each of the audits carried out during this period were first addressed to the heads of the units and then to the BoA's Administrators.

<sup>31</sup> ACCA, Association of Chartered Certified Accountants.  
CIA, Certified Internal Auditor.  
CISA, Certified Information Systems Auditor.



## 5. THE OPERATIONAL RISK MANAGEMENT

*The main objective of Operational Risk Management is to: manage uncertainties and possible risk to the activity of the Bank; inform at any time the Administrators; assist the decision-making process on risks that may hinder the achievement of Bank of Albania's objectives or have adverse financial and/or reputational impacts.*

*The Operational Risk Management Unit, as one of the second control lines in the Bank of Albania, has continued its activity in the direction of strengthening and increasing its role. During 2022, the unit continued monitoring and reviewing the risks identified with the Bank's units compiled regular reports for the Administrators, the Audit Committee and the Supervisory Council, on the results and analyses of the Banks' exposure to operational risk.*

### A. Assessment of Operational Risk Management by international experts

The growth and strengthening of the unit's activity is reflected in the latest assessment carried out by the international experts of the IORWG (International Organization Risk Working Group).

This organization has been active since October 2005, and currently is made up of 102 central banks and Supervision and Monetary Authorities such as the BIS, the ECB, and the IMF. The Bank of Albania joined this organisation that develops and directs the Operational Risk Management for Central Banks, in July 2015.

For 2022, the assessment by experts for the Bank of Albania was 84.45%, upward from the last assessment, which was 76.1%. The progress for these years has always been positive and is currently fully in line with the medium-term objectives of the ORM at the Bank of Albania. Most of the central banks that have consolidated the risk management function for at least 5 years are assessed at this level. It is worth emphasizing the fact that based on the table below, a few points are enough to be considered "Advanced", a category in which only a small number of central banks belong to.

AD-HOC	BASIC	MANAGED	ADVANCED	MATURED
<61%	≥61%	≥69%	≥86%	≥94%

### Methodology used by IORWG

The assessment is done periodically based on the IORWG assessment matrix, based on 5 main pillars:



- a) the level of design of processes and control systems covering these processes;
- b) the way and structure of the organization of the risk management function;
- c) the level of accurate and timely reporting;
- d) results after risk management; and
- e) risk culture, which is a challenge that requires awareness and continuous training from the Bank's units.

This IORWG's assessment was carried out for all member central banks for 2022, following the annual survey. It certifies from an independent international organization, the level of maturity of Operational Risk Management at the Bank of Albania, the awareness and education of the population, which has influenced and will influence the good functioning and continuous improvement of basic and supporting functions, within of risk management.

### **B. Business continuity management at the Bank of Albania (BCM<sup>32</sup>)**

The Supervisory Council at the Bank of Albania has already approved a complete framework regarding Business Continuity Management. The purpose of Business Continuity Management is that in case of operational interruptions during a Crisis/Emergency, to support the Bank in its efforts to improve the reaction capacity, ensure the continuation of critical processes and recover the normal activity of the Bank as rapidly as possible.

Crises expose the strengths and weaknesses of any organization's governance, as well as their ability and flexibility to manage through the crisis. Risk prevention, continuity planning and improvement in the management of major shocks are essential to ensure the sustainability of the Institution.

Cyber threats are nowadays the most serious risks faced not only by banking systems, but also by the most powerful states. In the framework of improving the Bank's responsiveness to these cyber-attacks, in addition to the operational measures taken, regulatory changes were also made. First, MWV plans for the cyber-attack scenario were reviewed. Secondly, a detailed operational action plan was drawn up between the Bank of Albania, the Ministry of Finance and Economy, and commercial banks, in cases when the clearing-settlement systems at the Bank of Albania do not work. In this plan, the payments needed to be carried out were prioritized and the steps to be followed by each party in making the payments were defined.

### **C. Whistleblowing function at the Bank of Albania**

The consolidation of whistleblowing function has helped the Operational Risk Management as well. In compliance with the Law No.60/2016 "On Signalling (Whistleblowing) and Protection of whistle-blowers", this unit aims to:

<sup>32</sup> BCM - Business Continuity Management.



- a) prevent and suppress corruption at the Bank of Albania;
- b) promote alerts on suspected corruption actions or practices;
- c) whistle-blowers who signal suspected corruption actions or practices at their workplace.

With the approval of the regulation "On administrative investigation of signalling, protection of confidentiality and protection from revenge in the Bank of Albania", the Bank has operated with a full regulatory framework, with all the necessary guidelines and tools to enable employees to signal the suspicious cases.

During 2022, the presentation on this function was addressed electronically to all employees of the Bank of Albania to remind, raise awareness and stimulate the reporting of possible cases of corruption.



## 6. MEDIUM-TERM DEVELOPMENT STRATEGY OF THE BOA 2023-2025

The Medium-Term Strategy of the Bank of Albania updates the existing strategy, extending the deadline for its implementation. It defines the objectives for the next medium-term period, which serve as a basis for drafting the budget of the Bank of Albania, the process of forecasting expenses and income, in order to meet the duties assigned by the organic law and strategic objectives.

The Strategy encompasses the main functions of the Bank of Albania: the policies (monetary policy, foreign currency reserve, banking supervision, macro-prudential policy); the financial infrastructure (currency issue, payments systems); horizontal functions (research, statistics); and supporting services (human resources, legal issues, internal audit and Information technology).

In line with the main objective of safeguarding price stability, the Bank of Albania promotes and supports: (i) the foreign exchange system; (ii) the internal financial market; (iii) payment systems; and (iv) help for the improvement of monetary and lending conditions in support of the country's stability and economic developments. Other objectives which are conditioned by the primary objective are promoting maintenance of liquidity levels, solvency, and the smooth functioning of a banking system based on market principles.

The Bank of Albania takes care of the tasks addressed in the Resolution of the Parliament on the assessment of its activity to be included in the strategic objectives, according to the respective fields.

The following are the main objectives of the BoA's activity.

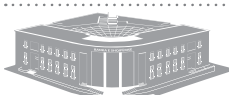
### a. *Monetary Policy*

Monetary policy will focus on implementing the lessons learned from dealing with the pandemic, analysing the implications of the innovation of financial markets and products, as well as monitoring climate risks in the economic and financial environment. Cooperation with macro-prudential and fiscal policies will increase, in order to improve the efficiency of monetary policy in the direction of sustainable and long-term growth of the country.

The Bank of Albania will continue intermediation to purchase and manage the government securities accounts of individuals, for a faster transmission of the monetary policy to the economy and easing of the decision-making of individuals in the new monetary conditions in the country. Also, other initiatives will be undertaken to stimulate the money market, in cooperation with the banking system and regulatory authorities.

### b. *Financial System Stability*

The Bank of Albania aims to improve the implementation processes of the



macro-prudential policy, with a focus on (i) the enrichment of macro-prudential instruments aimed at structural systemic risks; (ii) completing the regulatory framework on the requirements to the banking sector for ensuring adequate cyber protection; and (iii) increasing the capacities for the analysis and improving the resilience of the Bank of Albania and the banking sector, in the face of adverse effects of climate change.

In the framework of strategic developments, the Bank of Albania is in the process of approving the strategy for the administration and supervision of financial risks related to the climate in the financial sector during the period 2023-2025. The strategy will include the position and activity of the Bank of Albania in the medium term regarding the administration of the challenges the country is facing in the context of climate change and the transition to an economy with net-zero carbon dioxide emissions.

The regulatory framework will continue to align with Basel 3 and be updated in terms of operational risk oversight and information and communication technology risk. Cooperation with banks to manage the risk of cyber-attacks will increase. The process of managing non-performing loans will be harmonized with European Union practices.

In the capacity of the Supervision Authority, the Bank of Albania will draft technical manuals that support the banking sector in the preparation of contingency plans, in accordance with legal requirements. In addition, fulfilment of the individual work program for dealing with possible obstacles to supervision for each bank, will be monitored.

**c. *Payment Systems***

The Bank of Albania will continue to implement regulatory and infrastructural innovations such as: (i) updating systems to accommodate developments in the field of retail payments; (ii) promoting the use of the direct debit scheme; and (iii) supporting the participation of new actors.

Within the framework of the National Strategy for Retail Payments, the Bank of Albania is engaged in drafting the law "On the account of payments with basic services" for the promotion of financial inclusion, and in the Instant Payment project for the support of market actors in the creation of a regulatory framework that promotes the safety and efficiency of the services provided.

**d. *Quality of money in circulation***

The Bank of Albania aims to preserve the quality of banknotes in order to increase the public's confidence in money. Its activity will continue to focus on meeting the increasing needs of the economy for cash suitable for circulation.

**e. *Management of international reserve***

The implementation of a new system for the management of the foreign exchange reserves portfolio, through the addition of new classes of financial





instruments, will ensure the management, measurement and reporting of the risks that are carried, and the income that is created during the investment of the portfolio. The system will support the implementation of monetary policy and payment and transfer services.

**f. *Drafting and distribution of statistics***

An integrated system will enable the efficient and secure administration of data collected and distributed by the Bank of Albania. The number of users (experts or not) and statistics used by the public will increase, through increased visualization, reading and presentation of the data produced.

**g. *Scientific Research***

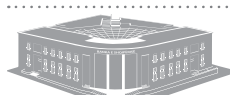
Research work will pay attention to the analysis of climate risks and the construction of models for the assessment of their effects on the Albanian economy. These models will be transformed into platforms of analysis and orientation for making decisions related to monetary policy and financial stability.

**h. *Good governance***

The continuous strengthening of good governance will be realized through the increase of institutional independence, transparency and accountability, in accordance with the obligations arising from the process of gradual approximation with the legislation of the European Union.

In the field of information technology, work will be done for expanding and improving infrastructure, adopting new technologies and strengthening cyber security and protection.

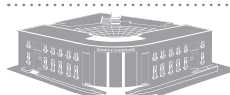
Processes for the good management of assets and financial resources will be improved, in accordance with the budget forecasts, reflecting the changes in the International Financial Reporting Standards (IFRS). The general accounting framework will be continuously revised to adapt to the evolution of standards, to provide a complete framework according to IFRS.





## **BANK OF ALBANIA**

### **FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2022** (WITH INDEPENDENT AUDITORS' REPORT THEREON)





## INDEPENDENT AUDITORS' REPORT

To the Supervisory Council of the Bank of Albania

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### OPINION

We have audited the financial statements of the Bank of Albania (the "Bank"), which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

#### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") and with Institute of Authorizes Chartered Auditors of Albania Code of Ethics ("IEKA Code"), together with the ethical requirements of the Law No. 10091, dated 5 March 2009 "On the statutory audit and the organization of the statutory auditors and chartered accountants professions", amended, that are relevant to our audit of the financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



## Other information included in the Bank of Albania 2022 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditors' report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of management and those charged with governance for the financial statements

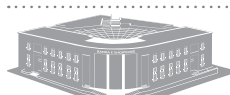
Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain a reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank of Albania's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves true and fair presentation.

We communicate with those charged with governance of the Bank of Albania regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Statutory Auditors  
Branch in Albania

Mario Vangjel  
Statutory Auditor

March 28, 2022  
Tirana, Albania



Nikolay Garnev  
Partner, Audit



## STATEMENT OF FINANCIAL POSITION

In ALL million	Note	31 December 2022	31 December 2021
<b>ASSETS</b>			
Cash and balances with banks	9	90,273	274,725
Trading assets	13	14,313	14,767
Monetary gold	10	18,900	17,101
Accounts with the International Monetary Fund	11	47,697	58,141
Loans to banks	12	51,088	41,583
Investment in debt securities	14	485,221	318,478
Property, equipment, right-of-use and intangible assets	15	21,376	21,031
Other assets	16	3,502	3,683
<b>TOTAL ASSETS</b>		<b>732,370</b>	<b>749,509</b>
<b>LIABILITIES</b>			
Currency in circulation	17	401,129	378,142
Due to banks	18	217,692	186,733
Deposits and borrowings from third parties	19	2,007	2,772
Due to Government and public institutions	20	63,491	106,510
Due to the International Monetary Fund	11	41,932	43,723
Other liabilities	21	1,021	1,333
<b>TOTAL LIABILITIES</b>		<b>727,272</b>	<b>719,213</b>
<b>CAPITAL AND RESERVES</b>			
Capital		2,500	2,500
Reserves	22	5,921	28,092
Accumulated losses		(3,323)	(296)
<b>TOTAL CAPITAL AND RESERVES</b>		<b>5,098</b>	<b>30,296</b>
<b>TOTAL LIABILITIES, CAPITAL AND RESERVES</b>		<b>732,370</b>	<b>749,509</b>

The financial statements were authorized for issuance by the Supervisory Council of the Bank of Albania and signed on 23 March 2023 on its behalf by:

  
 Gent Sejko  
 Governor


  
 Ledia Bregu  
 Director, Payment Systems, Accounting and Finance Department

The notes on pages 127 to 190 are an integral part of these financial statements.



## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In ALL million	Note	2022	2021
Interest income calculated using the effective interest method	23	4,857	2,300
Interest expense	23	(1,259)	(1,125)
<b>Net interest income</b>		<b>3,598</b>	<b>1,175</b>
Fee and commission income		150	123
Fee and commission expense		(45)	(46)
<b>Net income from fees and commissions</b>		<b>105</b>	<b>77</b>
Net trading income	24	35	617
Net gain/(losses) from sales of financial assets at FVOCI	25	(4,165)	281
Net other income		24	47
Net gain/(losses) from changes in the fair value of monetary gold	10	(98)	284
Net foreign exchange gains/(losses)	22	(14,473)	625
<b>Total income from banking operations</b>		<b>(14,974)</b>	<b>3,106</b>
Impairment losses on financial instruments, net	8(E)(vi)(b)	(18)	(1)
Employee benefit expenses	26	(1,507)	(1,517)
Depreciation and amortization	15	(356)	(380)
Other general and administrative expenses	27	(795)	(648)
<b>Net profit/(loss) for the year</b>		<b>(17,650)</b>	<b>560</b>
<b>Other comprehensive income:</b>			
<b>Items that cannot be reclassified to profit or loss at a future point in time</b>			
<b>Items that can be reclassified to profit or loss at a future point in time</b>		<b>(13,567)</b>	<b>(2,481)</b>
Debt instruments at FVOCI – net change in fair value	22	(13,567)	(2,481)
<b>Other comprehensive profit (loss) for the year</b>		<b>(13,567)</b>	<b>(2,481)</b>
<b>Total comprehensive profit (loss) for the year</b>		<b>(31,217)</b>	<b>(1,921)</b>

The notes on pages 127 to 190 are an integral part of these financial statements.





## STATEMENT OF CHANGES IN EQUITY

In ALL million	Capital	Legal reserve	Revaluation reserve	Fair value reserve	Other reserves	Retained earnings / (Accumulated losses)	Total
As at 1 January 2021	2,500	12,500	(6,904)	2,126	21,995	-	32,216
<b>Total comprehensive income</b>							
Net result for the year	-	-	-	-	-	560	560
<b>Other comprehensive income</b>							
Fair value reserve (debt instruments FVOCI)	-	-	-	(2,481)	-	-	(2,481)
<b>Other comprehensive income, net of tax</b>	-	-	-	(2,481)	-	560	(1,921)
<b>Total comprehensive income</b>	-	-	-	(2,481)	-	560	(1,921)
<b>Contributions and distributions</b>							
Distribution to Government of Albania (Note 20)	-	-	-	-	-	-	-
<b>Total contributions and distributions</b>	-	-	-	-	-	-	-
Transfers to reserves (Note 22)	-	-	909	-	(53)	(857)	-
<b>As at 31 December 2021</b>	<b>2,500</b>	<b>12,500</b>	<b>(5,995)</b>	<b>(355)</b>	<b>21,942</b>	<b>(296)</b>	<b>30,296</b>
<b>Total comprehensive income</b>							
Net result for the year	-	-	-	-	-	(17,650)	(17,650)
<b>Other comprehensive income</b>	-	-	-	-	-	-	-
Fair value reserve (debt instruments FVOCI)	-	-	-	(13,567)	-	-	(13,567)
<b>Other comprehensive income, net of tax</b>	-	-	-	(13,567)	-	-	(13,567)
<b>Total comprehensive income</b>	-	-	-	(13,567)	-	(17,650)	(31,217)
<b>Contributions and distributions</b>							
Capital deficit reserve (Note 22, 14)	-	-	-	-	6,020	-	6,020
Distribution to Government of Albania (Note 20)	-	-	-	-	-	-	-
<b>Total contributions and distributions</b>	-	-	-	-	6,020	-	6,020
Transfers to reserves (Note 22)	-	-	(14,571)	-	(53)	14,623	-
<b>As at 31 December 2022</b>	<b>2,500</b>	<b>12,500</b>	<b>(20,566)</b>	<b>(13,922)</b>	<b>27,909</b>	<b>(3,323)</b>	<b>5,098</b>

The notes on pages 127 to 190 are an integral part of these financial statements.



## STATEMENT OF CASH FLOWS

In ALL million	Note	2022	2021
<b>Cash flows from operating activities</b>			
Net result for the period		(17,650)	560
Adjustments for:			
Depreciation and amortization	15	356	379
Net impairment loss on financial instruments	8(d)vi b)	18	1
Net interest income	23	(3,594)	(1,175)
Net trading income	24	(131)	(1,411)
Net gain/(loss) on sale of investments in debt securities	25	(4,165)	280
Net gain/(loss) from changes in the fair value of monetary gold	10	98	(284)
Net realized losses from foreign exchange	22	14,566	169
		<b>(10,502)</b>	<b>(1,481)</b>
Changes in:			
Trading assets		582	834
Monetary Gold	10	(1,892)	-
Accounts with the International Monetary Fund	11	10,426	(12,931)
Loans to and deposits with banks	12	(9,471)	4,047
Other assets		180	(847)
Currency in circulation		22,987	22,904
Due to banks		36,265	9,116
Deposits and borrowings from third parties		(766)	293
Due to Government and state institutions		(40,121)	72,750
Due to the International Monetary Fund		(1,676)	20,505
Other liabilities		(310)	272
Reserve		(28)	(54)
Other		18	71
		<b>5,692</b>	<b>115,479</b>
Interest received		4,125	2,875
Interest paid		(1,277)	(1,165)
<b>Net cash flows from operating activities</b>		<b>8,540</b>	<b>117,189</b>
<b>Cash flows from investing activities</b>			
Acquisition of investment securities		(390,008)	(248,558)
Proceeds from sold and matured investment securities		200,151	195,220
Acquisition of property, equipment and intangible assets		(700)	(1,046)
<b>Net cash used in investing activities</b>		<b>(190,557)</b>	<b>(26,402)</b>
<b>Cash flows from financing activities</b>			
Distributions to Government	20	-	-
<b>Net cash flows from financing activities</b>		<b>-</b>	<b>-</b>
<b>Increase in cash and cash equivalents</b>		<b>(182,017)</b>	<b>90,787</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>274,725</b>	<b>187,601</b>
Effect of movements in exchange rates on cash held		(2,435)	(3,663)
<b>Cash and cash equivalents at the end of the year</b>	<b>9</b>	<b>90,273</b>	<b>274,725</b>

The notes on pages 127 to 190 are an integral part of these financial statements.



## NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2022

(Amounts in ALL million, unless otherwise stated)

### 1. GENERAL

The Bank of Albania (the 'Bank') is the central bank of the Republic of Albania established pursuant to the Law No. 8269, dated 23 December 1997 'On the Bank of Albania', as amended.

Pursuant to this Law, the Bank's main responsibilities include:

- formulating, adopting and executing the monetary policy of Albania, which shall be consistent with its primary objective;
- formulating, adopting and executing the foreign exchange arrangement and the exchange rate policy of Albania;
- issuing or revoking licenses and supervising banks that engage in the banking business in order to secure the stability of the banking system;
- holding and managing its official foreign reserves;
- acting as banker, adviser to, and fiscal agent of the Government of the Republic of Albania; and
- promoting an effective operation of payment systems.

### Macroeconomic and geopolitical uncertainty

#### *The war in Ukraine*

In February 2022, following the military conflict between Russia and Ukraine, certain countries announced new packages of sanctions against the public debt of the Russian Federation and a number of Russian banks, as well as personal sanctions against a number of individuals.

Due to the growing geopolitical tensions, since February 2022, there has been a significant increase in volatility on the securities and foreign exchange markets, fluctuations in energy and petrol prices, significant depreciation of the ruble against the US dollar and the euro. At end year, the external environment was characterised by increasing prices, slowing down economic activity and tighter financing conditions. Similar conditions are observed in domestic market as inflation remained high and interest rates increased. Economic activity has continued to show signs of resilience as private consumption and investments continued to expand.

#### *Inflation, interest rate, foreign currency fluctuations and the current economic environment*



The Bank is an institution mandated by the Law to draft the monetary, regulatory and macroprudential supervision policies, in support of price and financial stability.

With the aim of efficiently fulfilling these tasks, the Bank has a high level of operational and financial independence. This means that: (i) the Bank has the opportunity and obligation to follow those policies and use those instruments which it deems most appropriate for the fulfillment of its objectives, without (ii) being limited by their impact on the financial result of the Bank.

As a result of stressed international market conditions, with strong and rapid developments, the increase in the base interest rate was a necessary measure of the Bank of Albania, to control the increase in inflation and to support the overall economic and financial stability of the country. Also, the strengthening of the exchange rate has brought - as a whole - positive consequences to the soundness of public balances and has helped monetary and financial stability. A stronger exchange rate has helped to control inflation (which has also meant the need for slower increases in the base interest rate) and financial stability (by controlling non-performing loans in foreign currency).

The Bank is subject to the regulatory requirements of the Assembly of the Republic of Albania and the Law 'On the Bank of Albania', as amended.

## 2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the International Financial Reporting Standards ('IFRS'), as issued by the International Accounting Standards Board (IASB).

## 3. FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Albanian Lek ('ALL'), which is the Bank's functional currency. All amounts have been rounded to the nearest million, except when otherwise indicated.

## 4. BASIS OF MEASUREMENT

These financial statements have been prepared on a historical cost basis, except for the following items:

Items	Basis of measurement
Monetary gold	Fair value
Financial instruments at FVTPL	Fair value
Financial assets at FVOCI	Fair value



## 5. USE OF ESTIMATES AND JUDGMENTS

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

### A. Judgments

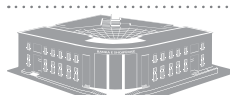
Information about judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Applicable to 2022 and 2021:
  - Note 7(A)(ii) and Note 8(A)– classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding;
  - Note 8(E) (vi) (a): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECLs;
  - Note 7(B) – currency in circulation: classification of cash in circulation as a financial liability;
  - Note 7(G) – monetary gold: measurement of monetary gold at fair value with changes in fair value recognized in profit or loss; and
  - Note 7(V) - The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

### B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2022 is included in the following notes:

- Applicable to 2022 and 2021:
  - Note 8(E)(vi)(a) and Note 7(A)(vii) – impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information and key assumptions used in estimating recoverable cash flows;
  - Note 7(A)(vi) – determination of the fair value of financial instruments with significant unobservable inputs; and use of fair value models.



## 6. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

### *New and amended standards and interpretations*

The Bank has not early adopted any new standards, interpretation or amendments that have been issued but are not yet effective in these financial statements. Other amendments and interpretations apply for the first time in 2022, but do not have an impact on the Bank's financial statements.

*The following amendments are effective for the periods after 31 December 2022 and are not expected to have a material impact on the Bank.*

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments).** The amendment introduces new guidance on application of materiality concept, and in particular it amends the requirement to disclose material accounting policies in place of current requirement to disclose significant accounting policies. The amendment may lead to removal of disclosure of non material accounting policies.
- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments).** The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The effect of these amendments are subject to the nature of future changes in policies and estimates.
- **IAS 12 Income taxes:** Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments). The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The standard is not applicable as the Bank is not subject to income tax.
- **IAS 1 Presentation of Financial Statements:** Classification of Liabilities as Current or Non-current (Amendments). The amendment has introduced certain clarifications related to classification in cases of rights to defer settlement or compliance with covenants. The Bank presents its assets and liabilities in order of liquidity however it does provided current vs non-current disclosures in the notes. As a result the impact of the amendment is expected to be limited.
- **IFRS 16 Leases:** Lease Liability in a Sale and Leaseback (amendments). No impact is expected from the amendment as the Bank rarely enters in such transactions.



- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures:** Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. These standards do not apply to the Bank as it has no consolidated financial statements nor any investments in associates.

## 7. SIGNIFICANT ACCOUNTING POLICIES

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

The Bank may recognise a financial asset or liability in its balance sheet if, and only if it becomes a party to the contractual terms of the financial instruments used. The Bank derecognises a financial asset from its balance sheet:

- when it loses control over the contractual rights that constitute the financial asset;
- when the obligation stated in the contract is extinguished, cancelled or expired.

### A. Financial instruments

#### (i) *Recognition and initial measurement*

The Bank initially recognises loans and advances and deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Financial assets and liabilities are recognised in off-balance-sheet accounts from the trade date to the date of their settlement and are recorded in the Bank of Albania's balance sheet at the settlement date (value date). The initial recognition is at acquisition cost, i.e. the fair price paid on acquisition. Transaction costs are included in the acquisition cost of all assets and liabilities, except for financial assets and financial liabilities recorded at FVPL where transaction costs are added to, or subtracted from, this amount. From that moment on, any changes in their fair value are recognised by the Bank as income or expense.

#### (ii) *Classification*

On initial recognition, a financial asset is classified as measured at either one of the following categories:

- amortised cost (AC);



- fair value through other comprehensive income (FVOCI); or
- fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The business model of financial assets held to collect contractual cash flows includes all current accounts and deposits of the Bank with foreign correspondents, and the cash flows under the model used for these assets represent only principal and interest payments.

These financial assets are measured at amortised cost.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The business model of financial assets held to collect contractual cash flows and for sale includes: securities and investment. Assets in this group are measured, as follows:

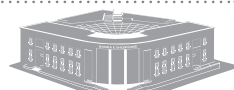
- debt securities: at fair value in other comprehensive income.

All other financial assets are classified as measured at FVTPL.

### ***Business model assessment***

The Bank makes an assessment of the objectives of a business model in which an asset is held at a portfolio level, because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular





- interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
  - the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
  - the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how future cash flows are realised.

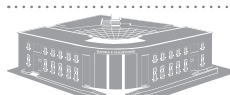
Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL, because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

***Assessment whether contractual cash flows are solely payments of principal and interest ("SPPI")***

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms; and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.



### *Reclassifications*

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

### **Financial liabilities**

The Bank classifies its financial liabilities as measured at amortised cost. For details, refer to (B), (D) and (H).

### *(iii) Derecognition*

#### **Financial assets**

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of: (i) the consideration received (including any new asset obtained less any new liability assumed), and (ii) any cumulative gain or loss that had been recognised in other comprehensive income ('OCI'), is recognised in profit or loss.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them.

In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.



## Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

### (iv) *Modifications of financial assets and financial liabilities*

#### Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (refer to (vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as a separate line as a "modification profit or loss" (refer to Note 7(L)).

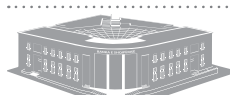
#### Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss.

### (v) *Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.



Income and expenses are presented on a net basis only when permitted under the IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

**(vi) Fair value measurement**

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as "active" if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.<sup>a</sup>

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period, during which the change has occurred.



**(vii) Impairment**

The Bank recognizes loss allowances for expected credit losses "ECL" for financial assets that are debt instruments and are not measured at FVTPL.

The Bank measures loss allowances at an amount equal to lifetime ECL except for the following for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments for which credit risk has not increased significantly since initial recognition.

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'.

12-month ECLs are the portion of ECLs that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

**Measurement of ECLs**

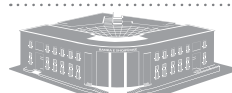
ECLs are a probability-weighted estimate of credit losses and are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

For more details, refer to Note 8(D)(vi)(b).

**Credit impaired financial assets**

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future



cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and
- the disappearance of an active market for a security because of financial difficulties.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

- the market's assessment of creditworthiness as reflected in the bond yields;
- the rating agencies' assessments of creditworthiness;
- the country's ability to access the capital markets for new debt issuance;
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and
- the international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

### ***Presentation of allowance for ECLs in the statement of financial position***

Loss allowances for ECLs are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

### ***Write-off***

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.



Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

## **B. Currency in circulation**

Currency in circulation includes banknotes and coins in circulation and is presented under liabilities as a net of nominal value of all the banknotes and coins issued and the nominal value of the banknotes and coins on hand as at the reporting date.

## **C. Cash and cash equivalent**

Cash and cash equivalents include banknotes and coins on hand in foreign currency and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

## **D. Financial assets and liabilities at fair value through profit or loss (Trading assets and liabilities)**

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position, with transaction costs recognized in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

## **E. Financial assets and liabilities at fair value through other comprehensive income**

Financial assets and liabilities at fair value through other comprehensive income represent those for which the Bank expects to collect contractual cash flows by either holding or selling the instrument. Investment securities include debt securities measured at FVOCI; gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:



- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

## F. Loans and receivables

Loans and receivables include loans measured at amortised cost (refer to Note 7(A)(ii)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method. When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

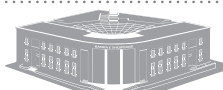
## G. Monetary Gold

The Bank of Albania as a central bank maintains particular volumes of gold as part of Albania's international reserves. In compliance with the requirements of the Law on the Bank of Albania, the Bank may take any necessary action in connection with the acquisition, possession and sale of gross international reserves, including monetary gold. Consequently, monetary gold as part of international reserves may be immediately used by the Bank without further constraints which determines it as a monetary asset. Pursuant to the requirements of the 'General Provisions for Defining the Valuation Basis in the Financial Statements' to the IFRS, the Bank defines the recognition and valuation of the monetary gold as an asset reported at fair value through profit or loss as the most reliable and appropriate base for a subsequent valuation of this financial asset. Gold is measured at market value based on the London Bullion Market fixing in US dollar at the reporting date. Gold in standard form (monetary gold) is initially recognised at acquisition cost.

Monetary gold is valued at its fair value being the market value based on the official London Bullion Market price at the reporting date. Changes in the fair value are recognized in profit or loss and accumulated in the "Revaluation Reserve" in Capital and Reserves in accordance with Article 64 (a) of the Law 'On the Bank of Albania'. Unrealised gains and losses on the revaluation of the monetary gold and other gold instruments of the Bank are recognised in the income statement.

## H. Deposits and borrowings

Deposits and borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.





## I. Printing and minting costs

The costs of printing banknotes and minting coins, which have not yet been put into circulation, are initially recognized as assets at acquisition cost and subsequently amortized on a straight-line basis over 5 years and 10 years, respectively.

## J. Intangible assets

Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Bank and the cost of the asset can be measured reliably. Intangible assets are comprised of computer software and licenses.

Intangible assets acquired by the Bank are stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use. Work in progress is not amortized.

The estimated useful lives are as follows:

- |                          |           |
|--------------------------|-----------|
| – Software and licenses  | 4 years   |
| – Other intangible asset | 6.6 years |

## K. Property and equipment

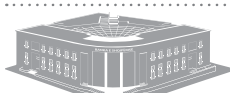
### (i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

The cost of certain items of property and equipment was determined by reference to fair value at 31 December 2014, which the Bank elected to apply as deemed cost as part of the transition to IFRS. Adjustments to the accounting records, as well as the relevant recognition records in the revaluation reserve are reported in accordance with International Financial Reporting Standards.

### (ii) Subsequent costs

The cost of replacing a part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic



benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised.

The costs of the maintenance of property and equipment are recognised in profit or loss as incurred.

### (iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land, work in progress, and numismatic coins and objects are not depreciated.

The estimated useful lives are as follows:

–	Buildings	25 - 70 years
–	Installations	4 – 20 years
–	Vehicles	5 - 10 years
–	Furniture and equipment	4 - 20 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

## L. Interest

### *Effective interest rate*

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows by considering all contractual terms of the financial instrument, but not future credit losses.

For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.



### *Amortised cost and gross carrying amount*

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount recognized and the maturity amount and for, financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

### *Calculation of interest income and expense*

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, refer to Note 7(A)(vii).

As at 31 December 2022 and 31 December 2021 there are no credit-impaired financial assets.

### *Presentation*

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- interest on debt instruments measured at FVOCI calculated on an effective interest basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income (refer to Note 7(O)). Profits and losses, arising from changes in



the fair value of financial instruments reported at fair value through profit or loss, are recognised in the income statement.

Interest income and expense are recognised on an accrual basis in accordance with the Bank's interest rate policy and concluded agreements with international financial institutions and customers of the Bank. Interest income and expense are recognised in the income statement. Interest income and expense also include the amortisation of the discount and premium calculated on the basis of the effective interest rate.

Interest income on foreign securities held in the Bank of Albania's portfolio includes interest rates on interest coupons of securities issued. Interest income on deposits includes interest income on deposits in foreign currency and in gold.

Other financial income/expenses include income and expenses from sales and changes in the fair value of financial assets and liabilities held for trading and assets available for sale.

Net gains/losses from financial assets and liabilities include net gains from operations in securities, net gains from operations in foreign currency, net revaluation gains on securities, net gains from gold revaluation, net gains from revaluation of futures, and net gains from revaluation of assets and liabilities denominated in foreign currency.

## M. Fees and commissions

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, fund transfer fees, placement fees and credit registry fees are recognised at the moment the related services are performed.

In accordance with IFRS 15, revenue from contracts with customers is recognised when the Bank has fulfilled its performance obligations by transferring the promised services to the customer. Revenue is recognised at an amount reflecting the consideration expected to be received in return. No changes in the valuation and recognition of fees and commissions have occurred as a result of the entry into effect of IFRS 15. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

## N. Transactions in foreign currency

Transactions in foreign currencies are translated into the functional currency at



the spot exchange rates at the date of the transactions. The exchange rates of the major foreign currencies as of 31 December 2022 and 31 December 2021 are disclosed in Note 8 F(ii).

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on translation and those arising from available-for-sale investments are recognised in profit or loss.

According to the Law No. 8269, dated 23 December 1997 'On the Bank of Albania', and the Decision No. 104 dated 27 December 2006 of the Supervisory Council, the net gains/(losses) from foreign exchange that are recognised in profit or loss in the period are accumulated to the 'Revaluation reserve' included in Capital and Reserves. According to Article 64 (b) in the above mentioned law, the Government of Albania issues debt securities at market interest rates to cover any negative balance of the revaluation reserve arising from the Bank's activity.

## O. Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, and foreign exchange differences.

## P. Taxation and profit distribution policy of the Bank

Based on the Law 'On the Bank of Albania', the Bank is not subject to income tax. The Bank's policy of distribution of profit from banking operations is defined in the Law 'On the Bank of Albania'. According to Article 10(2) of this Law, the Bank allocates all the realised profit to the State Budget after having fulfilled its requirement for the reserve fund pursuant to the Law and as determined by the Supervisory Council of the Bank.

According to Article 11 of the Law 'On the Bank of Albania', no transfer, redemption or payment under Articles 8, 9 or 10 of this Law shall be made



if the assets of the Bank are less than the sum of its liabilities and paid-up capital. If such conditions arise, based on Article 7 of the Law 'On the Bank of Albania', the Ministry of Finance and Economy shall transfer interest bearing negotiable government securities to the Bank, in such amount as would be necessary to remedy the deficiency.

## Q. Employee benefits

### (i) *Defined contribution plans*

Obligations for contributions to defined contribution plans are recognized in profit or loss as the related service is provided and included in personnel expenses.

### (ii) *Social and health contributions*

The Bank makes compulsory social security and health contributions in a fund operated by the Albanian state that provide pension, health and other social benefits for employees. Obligations for such contributions are recognized in profit or loss when they are due and included in personnel expenses. The Albanian state provides the legally set minimum threshold for such contributions.

### (iii) *Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognized for the amount expected to be paid under short-term cash bonus if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

## R. Leases

The Bank assesses at contract inception whether a contract is, or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank applies a single recognition and measurement approach for all leases, except for the short term leases and leases of low-value assets.

The Bank recognises lease liabilities to make lease payments and Right-of-use assets representing the right to use the underlying assets.



***Right-of-use asset***

The Bank recognises right-of-use assets at the commencement date of the lease. Right-of use assets are measured of cost, less any depreciation or impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of the right-of-use assets include the amount of the lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated in a straight-line basis over the lease term.

The right-of-use assets are presented within Note 15 Property, equipment, right-of-use and intangible assets.

***Lease liabilities***

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any incentive receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalty for terminating the lease, if the lease reflects exercising the option to terminate.

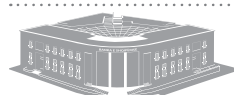
Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

As at 31 December 2022, the Bank does not have any lease contracts except for a short-term lease.

**S. Impairment of non-financial assets**

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the highest of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.



Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if a change has occurred in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

## T. Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised as a provision is measured as the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

## U. Grants

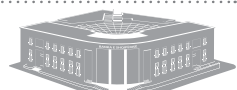
Grants are recognized initially as deferred income when there is reasonable assurance that they will be received and that the Bank will comply with the conditions associated with the grant. Grants that compensate the Bank for expenses incurred are recognized in profit or loss on a systematic basis over the period in which the related expenses are recognized. Grants that compensate the Bank for the cost of an asset are recognized in profit or loss on a systematic basis over the expected life of the asset.

# 8. FINANCIAL INSTRUMENTS: CLASSIFICATION, RISK MANAGEMENT AND FAIR VALUES

## A. Classification of financial assets and financial liabilities

The Bank's accounting policies on the classification of financial instruments under IFRS 9 are set out in note 7(A)(ii).

- (a) The Bank has classified the exposures with the IMF as debt instruments measured at amortised cost, given the long-term strategic objective of the Bank to hold these instruments and their contractual cash flows meeting the SPPI criteria.
- (b) Investment debt securities are held by the Bank in separate portfolios to meet everyday liquidity needs. The Bank seeks to minimise the costs of managing those liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets.





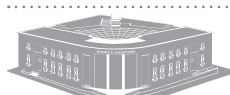
The investment strategy often results in sales activity that is significant in value. The Bank considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. See accounting policies in Note 7(A)(ii).

- (c) Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. This category includes derivative instruments and trading assets administrated by "IBRD".

The following table provides reconciliation between line items in the statement of financial position and categories of financial instruments.

31 December 2022	FVTPL	FVOCI – debt instruments	Amortised cost	Total carrying Amount
<b>ASSETS</b>				
Cash and balances with banks	-	-	90,273	90,273
Trading assets	14,313	-	-	14,313
Accounts with the International Monetary Fund	-	-	47,697	47,697
Loans to banks	-	-	51,088	51,088
Investment securities FVOCI	-	485,221	-	485,221
Other assets	-	-	2,298	2,298
<b>Total financial assets</b>	<b>14,313</b>	<b>485,221</b>	<b>191,356</b>	<b>690,890</b>
<b>LIABILITIES</b>				
Currency in circulation	-	-	401,129	401,129
Due to banks	-	-	217,692	217,692
Deposits and borrowings from third parties	-	-	2,007	2,007
Due to Government and state institutions	-	-	63,491	63,491
Due to the International Monetary Fund	-	-	41,932	41,932
Other liabilities	-	-	921	921
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>727,172</b>	<b>727,172</b>

31 December 2021	FVTPL	FVOCI – debt instruments	Amortised cost	Total carrying Amount
<b>ASSETS</b>				
Cash and balances with banks	-	-	274,725	274,725
Trading assets	14,767	-	-	14,767
Accounts with the International Monetary Fund	-	-	58,141	58,141
Loans to banks	-	-	41,583	41,583
Investment securities at FVOCI	-	318,478	-	318,478
Other assets	-	-	2,180	2,180
<b>Total financial assets</b>	<b>14,767</b>	<b>318,478</b>	<b>376,629</b>	<b>709,874</b>
<b>LIABILITIES</b>				
Currency in circulation	-	-	378,142	378,142
Due to banks	-	-	186,733	186,733
Deposits and borrowings from third parties	-	-	2,772	2,772
Due to Government and state institutions	-	-	106,510	106,510
Due to the International Monetary Fund	-	-	43,723	43,723
Other liabilities	-	-	1,207	1,207
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>719,087</b>	<b>719,087</b>



## B. Risk management framework

The financial instruments of the Bank are mainly used for the purposes of the foreign reserve management and monetary policy implementation. The Bank has exposure to the liquidity risk, credit risk, market risk, legal risk and operational risk from investments in financial instruments.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk.

Pursuant to the legal requirements, the Bank holds and manages the foreign reserves of the Republic of Albania. The Supervisory Council has the overall responsibility for the establishment of the risk management framework and reserve management policies.

The Supervisory Council has approved the regulation 'On the functions of the management structure in the decision-making process of the management of the reserves'. This regulation defines the responsibilities of: the management; the Supervisory Council; the Governor; the Investment Committee; and the Monetary Operations Department, in managing the foreign reserves.

The Supervisory Council is responsible for approving the regulation 'On the policy and management of the foreign reserve'; the Investment Committee is responsible for approving the document 'Operational Guidelines for Investment'; while the Governor approves other guidelines to ensure a more comprehensive regulation of the reserve management function.

The regulation 'On the policy and management of the foreign reserve' defines the objectives of the portfolio management ranked by priority, and the principles and qualitative criteria used as the basis of the risk management.

The Investment Committee approves the quantitative criteria based on the limits set forth by the Supervisory Council and monitors the compliance with the restrictions for permitted level of risk and foreign reserve investment portfolio performance.

In accordance with the decisions of the Supervisory Council on the eligible instruments, the reserve is invested in fixed or floating income securities, in deposits or certificates of deposit, and in derivative instruments related with these instruments.

The remaining foreign reserves are held in Special Drawing Rights ("SDR") and in monetary gold. Monetary gold is managed in accordance with the regulation 'On the policy and the management of gold', approved by the Supervisory Council.



Following the review of the accounting policy for monetary gold (see Notes 5(A) and 7(G)) in 2016, the Bank concluded that monetary gold is not a financial instrument.

### C. Liquidity risk

Liquidity risk is the risk that:

- a) the Bank will encounter difficulty in meeting obligations associated with its financial liabilities in due time; and
- b) the Bank will not be able to sell a financial instrument within a specific time frame without causing significant loss compared to the market value.

Liquidity is amongst the primary objectives of the foreign reserve management and is defined as the goal to insure the availability at all times of sufficient funds to meet the liquidity needs associated with:

- implementing the monetary policy and the exchange rate policy of the Bank; and
- maintaining financial stability and meeting the needs of the country in periods of crisis.

The implementation of these objectives is performed through the breakdown of the foreign reserve in certain tranches that, within the context of a prudent management of the liquidity risk, serve specific purposes and carry specific features.

The foreign currency liability tranche represents investments in assets that are financed by the liabilities in foreign currency, which are mainly composed by the funds deposited by commercial banks as part of the reserve requirement and by the government.

The net reserve is composed of:

1. the working capital tranche: designed to meet the monthly liquidity needs arising within one month;
2. the liquidity tranche: designed to meet the liquidity needs arising within one year;
3. the investment tranche: it represents the remaining balance as surplus and is designed to meet the liquidity needs arising beyond the timeframes described in the first two tranches.

The selection of the financial instruments in which the majority of each tranche is invested, (the 'benchmark portfolios') and the duration of each benchmark portfolio are determined in line with the use of each tranche to meet the liquidity needs of the Bank and with the objectives determined by the Supervisory Council.



The tables below set out the remaining contractual maturities of the Bank's financial liabilities and financial assets. The Bank's expected cash flows on these instruments may vary from the contractual cash flows.

31 December 2022	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 12 months	1 to 5 years	Over 5 years	Undefined maturity	Total
<b>Financial assets</b>								
<b>Non-derivative assets</b>								
Cash and balances with banks	90,273	-	-	-	-	-	-	90,273
Trading assets	20	-	969	1,500	11,822	-	-	14,311
Account with the IMF	27,818	-	-	-	-	-	19,879	47,697
Loans to banks	40,262	10,826	-	-	-	-	-	51,088
Investment securities	9,167	29,866	65,919	95,381	278,281	6,607	-	485,221
Other assets (note 16)	2	-	-	-	27	2,269	-	2,298
	167,542	40,692	66,888	96,881	290,130	8,876	19,879	690,888
<b>Derivative assets</b>								
Exchange rate future contracts	-	1	-	1	-	-	-	2
Interest rate future contracts	-	-	-	-	-	-	-	-
<b>Total financial assets</b>	<b>167,542</b>	<b>40,693</b>	<b>66,888</b>	<b>96,882</b>	<b>290,130</b>	<b>8,876</b>	<b>19,879</b>	<b>690,890</b>
<b>Financial liabilities</b>								
<b>Non-derivative liabilities</b>								
Currency in circulation	-	-	-	-	-	-	401,129	401,129
Due to banks	205,252	-	12,440	-	-	-	-	217,692
Deposits and borrowings from third parties	2,007	-	-	-	-	-	-	2,007
Due to Government and state institutions	62,991	-	-	-	-	-	500	63,491
Due to the IMF	16,174	-	-	-	-	-	25,757	41,932
Other liabilities	921	-	-	-	-	-	-	921
<b>Total financial liabilities</b>	<b>287,345</b>	<b>-</b>	<b>12,440</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>427,386</b>	<b>727,172</b>
<b>Asset-liability maturity mismatch as at 31 December 2022</b>	<b>(119,803)</b>	<b>40,693</b>	<b>54,448</b>	<b>96,882</b>	<b>290,130</b>	<b>8,876</b>	<b>(407,507)</b>	<b>(36,282)</b>

31 December 2021	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 12 months	1 to 5 years	Over 5 years	Undefined maturity	Total
<b>Financial assets</b>								
<b>Non-derivative assets</b>								
Cash and balances with banks	264,463	10,262	-	-	-	-	-	274,725
Trading assets		371	54	797	13,521	-	-	14,743
Account with the IMF	37,378	-	-	-	-	-	20,763	58,141
Loans to banks	33,816	7,767	-	-	-	-	-	41,583
Investment securities	5,495	17,807	8,378	33,588	216,200	37,010	-	318,478
Other assets (note 16)	2	-	0	-	18	2,160	-	2,180
	341,155	36,207	8,432	34,385	229,739	39,170	20,763	709,851
<b>Derivative assets</b>								
Exchange rate forward contracts	-	18	2	2	-	-	-	22
Interest rate future contracts	-	1	-	-	-	-	-	1
<b>Total financial assets</b>	<b>341,155</b>	<b>36,226</b>	<b>8,434</b>	<b>34,387</b>	<b>229,739</b>	<b>39,170</b>	<b>20,763</b>	<b>709,874</b>
<b>Financial liabilities</b>								
<b>Non-derivative liabilities</b>								
Currency in circulation	-	-	-	-	-	-	378,142	378,142
Due to banks	186,733	-	-	-	-	-	-	186,733
Deposits and borrowings from third parties	2,772	-	-	-	-	-	-	2,772
Due to Government and state institutions	106,010	-	-	-	-	-	500	106,510
Due to the IMF	16,887	-	-	-	-	-	26,836	43,723
Other liabilities	1,207	-	-	-	-	-	-	1,207
<b>Total financial liabilities</b>	<b>313,609</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>405,478</b>	<b>719,087</b>
<b>Asset-liability maturity mismatch as at 31 December 2021</b>	<b>27,546</b>	<b>36,226</b>	<b>8,434</b>	<b>34,387</b>	<b>229,739</b>	<b>39,170</b>	<b>(384,715)</b>	<b>(9,213)</b>



## D. Credit risk

Credit risk is the risk of financial loss to the Bank, if counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector's risks).

The risk in respect of changes in value in trading assets arising from changes in market spreads applied to debt securities and derivatives is managed as a component of market risk (see ( D) below).

### (i) Settlement risk

Foreign reserve management activity may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed. The Bank minimizes settlement risk through implementation of best practices for the recognition and ongoing monitoring of settlement procedures and conditions.

### (ii) Custody risk

Custody risk is the risk of a loss of assets placed in custody in the case of insolvency, negligence, fraud, mismanagement or inadequate portfolio maintenance practices by the custodian. The Bank minimizes this risk by selecting for securities' custody services reputable international financial institutions with a minimum of USD 1,000 billion in assets under custody.

### (iii) Management of credit risk

The following table sets out the carrying amounts of the financial assets that are exposed to credit risk as at 31 December 2022 and 31 December 2021:

	31 December 2022	31 December 2021
<b>Assets</b>		
Cash and balances with banks (excluding cash on hand -Note 9)	90,254	274,698
Accounts with the IMF (Note 11)	47,697	58,141
Loans to banks (Note 12)	51,088	41,583
Trading assets (Note 13)	14,313	14,767
Investment securities (Note 14)	485,221	318,478
Other financial assets (loans to employees) (Note 16)	2,298	2,180
<b>Total</b>	<b>690,871</b>	<b>709,847</b>

*Assets denominated in foreign currencies* - For the management of credit risk related to foreign exchange reserve exposures the Supervisory Council



has established base criteria of exposure to counterparties, and by type of investment, issuer, credit rating band, market liquidity, with the governments and central banks issues prioritized. The evaluation and monitoring process of the credit rating of the eligible issuers is based on the analysis and the rating determined by the principal rating agencies, including Standard & Poor's, Moody's and Fitch, as well as in the reviewing processes, on a daily basis, of the performance of several market indicators of the quality of the credit rating of the issuer. In accordance with the limits imposed by the Supervisory Council, the Investment Committee and then the Director of the Monetary Operations Department are authorized to establish other qualitative and/or quantitative limits on the exposure level for the issuer/financial institution on an individual basis, category, or combined category and instrument basis. Depending on the market environment and conditions, the Bank may decide to adapt even more conservative limits for an issuer/financial institution.

Assets denominated in foreign currency that are part of the foreign exchange reserve, include cash and balances with banks (excluding cash on hand), trading assets, account with the IMF and investment securities denominated in foreign currency. The investment of the foreign exchange reserve is limited to: government/central bank issues with minimum credit ratings of A- (BBB- for governments of the euro area); sovereign agencies, multilateral institutions and public entities with a minimum credit rating of AA-; and banks and other financial institutions with a minimum credit rating of A-.

The credit rating refers to the credit rating of an issuer/financial institution, and if such rating is not provided, the credit rating of the long-term debt of the financial institution is used. For the purpose of the reserve management implementation operations and for payments, the Bank may operate through current accounts opened with banks with a minimum credit rating of BBB.

For the purpose of the management of foreign reserves portfolio, as a first step the Bank monitors economic developments in the economies in which Bank is exposed through investments in securities. The extent of monitoring and the level of management input vary. For the major currencies, the Bank considers that the rating agencies' credit ratings and other public information are reflected in the prices and data for Expected Credit Losses (ECLs). In addition, the portfolio manager and the risk unit monitor the creditworthiness of each borrower using market research and other sources such as public financial statements. The PDs associated with each grade are determined based on long time historical realized default rates updated on an annual basis, as published by the rating agency.

The global economy during 2022 was characterized by a very high degree of uncertainty. Events such as the military conflict between Russia and Ukraine, the unprecedented rise of inflation and the continuity of the pandemic in China have resulted in a highly unusual volatility of interest rates in main global economies. The challenges faced due to the start of the military conflict as well



as the pandemic situation in China have had a negative impact on commercial chains, by further increasing costs and consequently inflation on a global level. This has resulted in many central banks increasing significantly the base interest rates in order to contain inflation.

As a result of the significant increase in interest rates there has been a decrease in the value of debt investment assets (inverse bond-yield relationship). However in terms of potential losses from credit risk Bank of Albania's well diversified and high quality portfolio has been neutral.

### *Assets denominated in domestic currency*

Assets denominated in domestic currency include loans to banks, investment debt securities issued by the Albanian Government and loans to employees included in other financial assets.

The Bank does not actively manage the credit risk for assets denominated in domestic currency, as they are largely originated for the purposes of the monetary policy implementation operations. For the monitoring of credit risk for these assets the Bank uses both external and internally developed analysis and information, which includes also information available to the Bank due to its role as regulator and Central Bank.

For loans to domestic commercial banks (overnight loans and reverse repo transactions), the Bank mitigates the credit risk through the collateral, which consists of debt securities issued by the Albanian Government. The collateral value for each transaction is not lower than the value of the granted loan plus a certain margin. If the value of the security placed as collateral drops under a defined level, Bank of Albania asks commercial banks to place additional collateral, based on the revaluation of the securities.

The risk grading model used by the Bank for the assessment of ECLs for loans to domestic commercial banks is based on criteria that are similar to those used for supervisory purposes, such as the capital adequacy, credit growth, liquidity and profitability of the counterparties. The risk grades and the methodology are subject to regular reviews by the Bank. Investment securities denominated in domestic currency consist of Treasury Bills issued by the Albanian Government, with maturity of up to one year. This portfolio is originated as the Bank of Albania intervenes in the money market through outright transactions, intended to manage the liquidity structure of the banking system with potential impact in the short-term interest rates in this market.

The credit risk of the portfolio of investment securities denominated in domestic currency is assessed based on historical data and assessment of the ability of the Albanian Government to meet its contractual cash flows obligations in domestic currency in the near term. For loans to employees the Bank assesses ECLs based on historic loss ratios, adjusted for forward-looking macroeconomic information.



*(iv) Credit quality analysis*

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. Explanation of the terms: 'Stage 1', 'Stage 2' and 'Stage 3' are included in Note 7(A)(vii). The credit ratings show the second best rating amongst Standard & Poor's, Moody's and Fitch.

	2022				2021
	Stage 1	Stage 2	Stage 3	Total	Total
<b>Cash and balances with banks at amortised cost</b>					
Rated AAA	50,946	-	-	50,946	82,789
Rated AA- to AA+	25,616	-	-	25,616	145,402
Rated A- to A+	10,799	-	-	10,799	42,031
Rated BBB+ and below	-	-	-	-	-
Albanian Government B+ <sup>1</sup>	-	-	-	-	9
BIS Basel	2,899	-	-	2,899	4,482
	<b>90,260</b>	-	-	<b>90,260</b>	<b>274,713</b>
Loss allowance	(6)	-	-	(6)	(15)
<b>Carrying amount</b>	<b>90,254</b>	-	-	<b>90,254</b>	<b>274,698</b>
<b>Accounts with the IMF<sup>2</sup></b>					
Unrated	47,697	-	-	47,697	58,141
	<b>47,697</b>	-	-	<b>47,697</b>	<b>58,141</b>
Loss allowance	-	-	-	-	-
<b>Carrying amount</b>	<b>47,697</b>	-	-	<b>47,697</b>	<b>58,141</b>
<b>Loans to banks at amortised cost</b>					
Grade: Low-fair risk	-	-	-	-	-
Grade: Low risk	51,088	-	-	51,088	41,583
Grade: Average risk	-	-	-	-	-
Grade: Moderately high risk	-	-	-	-	-
Grade: High risk	-	-	-	-	-
	<b>51,088</b>	-	-	<b>51,088</b>	<b>41,583</b>
Loss allowance	-	-	-	-	-
<b>Carrying amount</b>	<b>51,088</b>	-	-	<b>51,088</b>	<b>41,583</b>
<b>Debt investment securities at FVOCI</b>					
Rated AAA	157,025	-	-	157,025	106,666
Rated AA- to AA+	155,931	-	-	155,931	89,841
Rated A- to A+	33,338	-	-	33,338	24,088
Rated BBB+ and below	8,144	-	-	8,144	17,452
Albanian Government (B+)*	74,065	-	-	74,065	65,268
BIS Basel	56,718	-	-	56,718	15,163
<b>Carrying amount – fair value</b>	<b>485,221</b>	-	-	<b>485,221</b>	<b>318,478</b>
Loss allowance	(47)	-	-	(47)	(22)
<b>Carrying amount – fair value</b>	<b>485,221</b>	-	-	<b>485,221</b>	<b>318,478</b>
<b>Other financial assets at amortised cost</b>					
Unrated	2,304	-	-	2,304	2,185
	<b>2,304</b>	-	-	<b>2,304</b>	<b>2,185</b>
Loss allowance	(6)	-	-	(6)	(6)
<b>Carrying amount</b>	<b>2,298</b>	-	-	<b>2,298</b>	<b>2,180</b>

<sup>1</sup> The Albanian Government is rated as B+, stable, based on the credit rating of Standard & Poor's and B1, stable, based on the credit rating of Moody's.

<sup>2</sup> The currency value of the SDR is determined by summing the values in the US dollar, based on market exchange rates, of a basket of major currencies (US dollar, Euro, Pound sterling, Chinese yuan and Japanese yen). The SDR currency value is calculated daily and the valuation basket is reviewed and adjusted every five years.





The following table sets out the credit quality of trading debt securities. The analysis has been based on the second best rating amongst Standard & Poor's, Moody's and Fitch ratings.

	2022	2021
<b>Bonds of foreign agencies</b>		
Rated AAA	776	828
Rated AA- to AA+	2,350	2,821
	<b>3,126</b>	<b>3,649</b>
<b>Bonds of foreign governments and multilateral institutions</b>		
Rated AAA	10,015	9,548
Rated AA- to AA+	1,170	1,546
	<b>11,185</b>	<b>11,094</b>
<b>Total trading debt securities</b>	<b>14,311</b>	<b>14,743</b>

(v) *Collateral held and other credit enhancements*

The Bank holds collateral and other credit enhancements against certain credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

	Note	Percentage of exposure that is subject to collateral requirements		Principal type of collateral held
		31 December 2022	31 December 2021	
<b>Loans to banks</b>				
Reverse repurchase agreements and overnight loans	12	100	100	Albanian Government debt securities
<b>Other financial assets</b>				
Loans to employees	16	100	100	Mortgage or contract guarantees

At 31 December 2022, the Bank held loans to banks of ALL 51,088 million (31 December 2021: ALL 41,583 million), for which no loss allowance is recognised because of full collateral coverage.

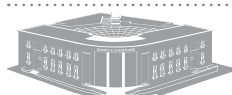
(vi) *Amounts arising from ECLs*

(a) *Inputs, assumptions and techniques used for estimating impairment*

For more details refer to accounting policy in Note 7(A)(vii).

**Significant increase in credit risk**

When determining whether the risk of default of the invested amount on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and credit risk specialists assessment and including forward-looking information.



The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

### *Credit risk grades/ratings*

For assessing the risk of default, at initial recognition, the Bank assigns to each exposure in foreign currency the second best rating amongst Standard & Poor's, Moody's and Fitch for that particular counterparty.

The Bank, at initial recognition, allocates each exposure to banks to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade/rating. The monitoring typically involves use of the following data.

Foreign currency exposures	Domestic currency exposures	Other assets
<ul style="list-style-type: none"> <li>– Data from credit rating agencies, press articles, changes in external credit ratings</li> </ul>	<ul style="list-style-type: none"> <li>– Internally collected data on banks and supervisory indicators</li> </ul>	<ul style="list-style-type: none"> <li>– Repayment history – this includes overdue status and financial situation of the borrower.</li> </ul>
<ul style="list-style-type: none"> <li>– Quoted bond prices for the counterparty, where available</li> </ul>	<ul style="list-style-type: none"> <li>– Existing and forecast changes in business, financial and economic conditions</li> </ul>	<ul style="list-style-type: none"> <li>– Existing and forecast changes in financial and economic conditions</li> </ul>
<ul style="list-style-type: none"> <li>– Actual and expected significant changes in the political, regulatory and technological environment of the counterparty or in its business activities</li> </ul>	<ul style="list-style-type: none"> <li>– Affordability metrics</li> </ul>	

### *Generating the term structure of probability of default "PD"*

Credit risk grades/ratings are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by counterparty as well as by credit risk grading/ratings.



The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. The methodology for determining PDs for investments in domestic commercial banks is based on the main risk indicators used for supervisory purposes whereas the areas considered by this system include the capital adequacy, credit risk, liquidity and profitability of the counterparty. This analysis includes the identification and calibration of relationships between changes in country's key macro-economic factors and the capital resilience of the domestic institution. Key macro-economic indicators include: GDP growth, exchange rates, benchmark interest rates and credit growth. The PDs are calculated as the average weighted PDs for each factor, where the weights are determined based on the importance of the factor.

For assets denominated in foreign currency, Bank uses 12-month PDs for sovereign and non-sovereign issuances, estimated based on transition matrices published by S&P which indicate a possibility of bankruptcy over 12 months for issuers per each respective rating category. For the sovereign issuance, a long-term transition matrix is used.

For non-sovereign issuance, two matrices are used, a long-term transition matrix of financial institutions (base scenario) and the transition matrix of a financial crisis year (alternative recession scenario), weighted against respective probabilities of the different scenarios happening in the future.

For exposures to the Albanian Government in domestic currency, the estimated PD considers the short-term maturity of such exposures, the absence of historical defaults and detailed assessments of the ability of the Albanian Government to fulfil its contractual cash flow obligations in the short-term which consider also the macroeconomic indicators over the assessment period.

### *Determining whether credit risk has increased significantly*

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure in foreign currency is deemed to have increased significantly since initial recognition if:

- the credit rating from all the three rating agencies (Standard & Poor's, Moody's and Fitch) falls below BBB- (or its' equivalent); or
- the credit rating from one of the above agencies is downgraded to BB-; or
- there is a delay in the repayment of an obligation to the Bank by more than or equal to 30 days. In this case the credit risk will be deemed to have significantly increased for all exposures to that issuer.



The credit risk of a particular exposure in domestic currency for commercial banks is deemed to have increased significantly since initial recognition if one of the following criteria is met:

- a commercial bank receives Emergency Liquidity Assistance (ELA) loan and the PD is over 30%;
- the PD is higher than 40% in the reporting period;
- the PD is higher than 25%, and it has increased by more than 5 percentage points in the reporting period compared to the initial recognition period; or
- there is a delay in the repayment of an obligation (excluding ELA) to the Bank by more than or equal to 30 days. In this case the credit risk will be deemed to have significantly increased for all exposures to that counterparty.

Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which due instalment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

For exposures toward Albanian Government the credit risk is considered to be increased significantly since initial recognition if there is delay of 30 days or more in the repayment of an obligation to the Bank.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that the criteria are capable of identifying significant increases in credit risk before an exposure is in default.

### ***Definition of default***

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative – e.g. breaches of covenants;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.



Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

### *Incorporation of forward-looking information*

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECLs.

For exposures in domestic currency, the Bank formulates a 'baseline scenario' view of the future direction of relevant economic variables (GDP growth, exchange rates, benchmark interest rates and credit growth) as well as a representative range of other possible forecast scenarios "moderate scenario", considering the relative probabilities of each outcome by comparing the results of previous stress tests with financial agents' economic indicators during the reference period. The base scenario represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and forecasting. The other scenarios "moderate scenario" represents more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

For non-sovereign issuances in foreign currency, forward-looking information is incorporated in the assessment of the probability of defaults, as the probability of the normal scenario and alternative scenario is calculated based on the probability of recession of major economies (as one of the main indicators of increased probability of default for non-sovereign issuers), to which additional quality factors may be applied. For sovereign issuances in foreign currency forward-looking economic variable are incorporated in the determination of the PD through respective rating in transition matrices published by external rating agencies. These variables are reviewed periodically and in case of significant market changes by the credit rating agencies.

### *Modified financial assets*

The contractual terms of a financial asset may be modified for a number of reasons, including changing market conditions and other factors not related to a current or potential credit deterioration of the counterparty. An existing asset whose terms have been modified may be derecognised and the renegotiated asset recognised as a new one at fair value in accordance with the accounting policy set out in Note 7(A)(iv).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:



- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

### ***Measurement of ECLS***

The key inputs into the measurement of ECLs are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

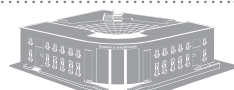
These parameters are derived from internally developed statistical models, globally recognized external developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Transition matrixes data are used to derive the PD for foreign counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates, or parameters calculated by rating agencies and regulatory institutions such as BIS Basel, of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. EAD estimates are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an



advance. Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. For the portfolios in foreign currency based on bank's investment policy are used the ratings of the three main rating agencies as a key input to evaluate portfolios.

The portfolios for which external benchmark information represents a significant input into measurement of ECL comprise financial assets in foreign currency as follows:

In ALL Million	Exposure	External benchmarks used	
		PD	LGD
Cash and balances with banks (current accounts and deposits)	89,688	2nd Best Rating (from: S&P, Moody's and Fitch)	Moody's recovery studies
Investment securities in foreign currency	411,156	2nd Best Rating (from: S&P, Moody's and Fitch)	Moody's recovery studies

#### **(b) Loss allowance**

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Explanation of the terms: 'Stage 1', 'Stage 2' and 'Stage 3' and credit-impaired assets are included in Note 7(A)(vii).



	2022				2021
	Stage 1	Stage 2	Stage 3	Total	Total
<b>Cash and balances with banks</b>					
Balance at 1 January	15	-	-	15	12
Net remeasurement of loss allowance	(9)	-	-	(9)	3
<b>Balance at end of the period</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>15</b>
<b>Other assets at amortised cost</b>					
Balance at 1 January	6	-	-	6	6
Net remeasurement of loss allowance	-	-	-	-	-
<b>Balance at end of the period</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>6</b>
<b>Investment debt securities at FVOCI</b>					
Balance at the beginning of the period	22	-	-	22	24
Net remeasurement of loss allowance	25	-	-	25	(2)
<b>Balance at end of the period</b>	<b>47</b>	<b>-</b>	<b>-</b>	<b>47</b>	<b>22</b>
<b>Total</b>					
Balance at the beginning of the period	43	-	-	43	43
Net remeasurement of loss allowance	16	-	-	16	1
<b>Balance at end of the period</b>	<b>59</b>	<b>-</b>	<b>-</b>	<b>59</b>	<b>43</b>

For debt investment securities measured at FVOCI, the allowance for ECL does not reduce the carrying amount in the financial statement position, which remains at fair value.

### (c) Credit-impaired financial assets

For more details refer to accounting policy in Note 7(A)(vii).

As at 31 December 2022 and 31 December 2021, the Bank had no credit-impaired financial assets.

### (vii) Concentrations of credit risk

The Bank monitors concentrations of credit risk by geographic location and by counterparty type. An analysis of concentrations of credit risk is shown below. Concentration by location for investment securities is based on the country of domicile of the issuer of the security. Concentration by counterparty type is based on the customer's country of domicile.





A segregation of the financial assets by geography is set out below:

31 December 2022	Germany	France	Other EU countries	Switzerland	United States of America	Republic of Albania	Other	Total
Accounts and deposits with financial institutions (Note 9)	40,297	9,064	55	2,899	10,647	-	27,292	90,254
Trading assets	972	1,007	1,361	73	9,428	2	1,470	14,313
Accounts with the IMF	-	-	-	-	-	-	47,697	47,697
Loans to banks	-	-	-	-	-	51,088	-	51,088
Investment securities	71,262	57,188	140,861	56,718	56,309	74,064	28,819	485,221
Other assets (Note 16)	-	-	-	-	-	2,298	-	2,298
<b>Total</b>	<b>112,531</b>	<b>67,259</b>	<b>142,277</b>	<b>59,690</b>	<b>76,384</b>	<b>127,452</b>	<b>105,278</b>	<b>690,871</b>

31 December 2021	Germany	France	Other EU countries	Switzerland	United States of America	Republic of Albania	Other	Total
Accounts and deposits with financial institutions (Note 9)	68,998	130,612	29,899	4,481	15,173	9	25,526	274,698
Trading assets	1,308	1,307	1,854	-	8,413	22	1,863	14,767
Accounts with the IMF	-	-	-	-	-	-	58,141	58,141
Loans to banks	-	-	-	-	-	41,583	-	41,583
Investment securities	23,648	17,776	104,977	27,309	51,080	65,268	28,420	318,478
Other assets (Note 16)	-	-	-	-	-	2,180	-	2,180
<b>Total</b>	<b>93,954</b>	<b>149,695</b>	<b>136,730</b>	<b>31,790</b>	<b>74,666</b>	<b>109,062</b>	<b>113,950</b>	<b>709,847</b>



A segregation of the financial assets by counterparty type is set out below:

31 December 2022	Accounts and deposits with financial institutions	Trading assets	Accounts with the IMF	Loans to banks	Investment securities	Other assets	Total
Central Banks	70,846	9,461	47,697	-	-	-	128,004
Bank for International Settlements ("BIS Basel")	2,898	-	-	-	56,718	-	59,616
Foreign governments and multilateral institutions	-	667	-	-	280,893	-	281,560
Foreign agencies	-	3,358	-	-	34,502	-	37,860
Commercial Banks	16,510	825	-	51,088	39,044	-	107,467
Albanian Government	-	2	-	-	74,064	-	74,066
Other assets	-	-	-	-	-	2,298	2,298
<b>Total</b>	<b>90,254</b>	<b>14,313</b>	<b>47,697</b>	<b>51,088</b>	<b>485,221</b>	<b>2,298</b>	<b>690,871</b>

31 December 2021	Accounts and deposits with financial institutions	Trading assets	Accounts with the IMF	Loans to banks	Investments securities	Other assets	Total
Central Banks	259,248	8,349	58,141	-	-	-	325,738
Bank for International Settlements ("BIS Basel")	4,481	-	-	-	15,163	-	19,644
Foreign governments and multilateral institutions	-	1,785	-	-	154,381	-	156,166
Foreign agencies	-	3,790	-	-	50,659	-	54,449
Commercial Banks	10,969	820	-	41,583	30,666	-	84,038
Albanian Government	-	23	-	-	65,268	-	65,291
Other assets	-	-	-	-	-	2,180	2,180
<b>Total</b>	<b>274,698</b>	<b>14,767</b>	<b>58,141</b>	<b>41,583</b>	<b>318,478</b>	<b>2,180</b>	<b>709,847</b>



## E. *Market risk*

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank of Albania's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The key elements of price risk affecting the Bank are:

- Interest rate risk associated with fluctuations in the fair value of financial instruments due to changes in market interest rates; and
- Currency risk associated with fluctuations in the fair value of financial instruments due to changes in foreign exchange rates.

The Bank's exposure to currency risk is monitored on a continuous basis. Financial assets and liabilities denominated in foreign currencies are disclosed in the relevant notes of the financial statements.

For the purpose of foreign reserve management, function performed by the Monetary Operations Department, Supervisory Council has established a set of criteria for the currency composition of the foreign reserve, in accordance with the objectives of holding the reserves. This serves as a reference for the management of the exchange rate risk. As a result, the Bank is passive in the management of the exchange rate risk. The Investment Committee defines a set of narrow ranges of the currency composition of some of the tranches of the foreign exchange reserve. The limits are monitored by the Monetary Operations Department, which carries out the necessary rebalancing operations in order to preserve the required weights of the currencies' composition.

### (i) *Interest rate risk*

The Bank's operations are subject to the risk of interest rate fluctuations, which affect the prices of interest-earning assets (including investments) and interest-bearing liabilities.

The Monetary Operations Department of the Bank monitors the interest rate risk. The Bank mitigates such risks by maintaining a significant excess of interest-bearing assets over liabilities. The Bank maintains a portfolio of interest-bearing financial assets and liabilities, in such a manner, that the net interest income is significantly higher than operating needs, in order to minimize the potential adverse effects of interest rate fluctuations. Interest rates applicable to financial assets and liabilities are disclosed in the relevant notes to the financial statements.



The interest rate risk management, for the purpose of foreign reserve management, in its core process includes the selection of the portfolio/duration benchmark for each market (currency) in which the foreign reserves are held. The benchmark selection is reviewed at least annually or whenever changes in market conditions require a reassessment. Besides determining the benchmark portfolio, the Investment Committee, in accordance with the limits imposed by the Supervisory Council, determines limits for active management at the tranche level. The limits for active management at portfolio level are established by the Director of the Monetary Operations Department.

The principal tools used to measure the interest rate risk for individual portfolios within the foreign exchange reserve are Duration and Value at Risk ("VaR").

- Duration measures the sensitivity of the price of a fixed-income security due to the volatility of the interest rates in the market.
- The VaR is defined as the estimated maximum loss that will arise on a portfolio over a specified time horizon due to its exposure to the risk factors with a specified confidence interval.

For the purposes of foreign reserve management, the calculated VaR includes only the exposure to the risk of changes in interest rates for all positions, including benchmark instruments and non-benchmark instruments.

For benchmark instruments, the data used encompasses changes in interest rates for treasury issues or high quality agency issues, depending on the specific benchmark for each currency and for non-benchmark instruments the data used encompasses changes in interest rates for issues rated as AA, given that this rating constitutes the major share of non-benchmark instruments of the reserve portfolios.

The following is a summary of the VaR (95%) position of the Bank's portfolios at 31 December 2022 and 2021:

	31 December 2022	31 December 2021
VaR (95%) in ALL million	(10,592)	(2,680)

Furthermore, an important method to measure market risk is the sensitivity analysis of the value of the reserve to hypothetical changes in market factors. The data used in the sensitivity analysis calculations include the duration of portfolios and weight of each currency. The duration of the portfolio shows the degree of change in the market value of the portfolio, assuming a parallel shift of the yield curve based on interest rates for all the instruments within the portfolio.

Assuming an immediate parallel increase (decrease) in interest rates by 50 basis points and 100 basis points and a correlation equal to 1 between the curves, and based on the duration of the aggregate foreign exchange reserves, the estimated loss (gain) in OCI for each scenario is as follows:



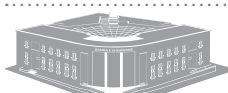
	2022		2021	
Estimated effect on OCI ALL million	100 bp	50 bp	100 bp	50 bp
Increase	(7,859)	(3,930)	(6,012)	(3,006)
Decrease	7,859	3,930	6,012	3,006

Assets and liabilities with variable interest rates carry the risk of changing the base that serves to determine interest rates.

The position of the Bank's sensitivity to interest rate by contractual repricing is presented in the following table, showing the carrying amounts of financial instruments classified by contractual repricing or maturity date.

31 December 2022	Total	Floating rate instruments	Fixed rate instruments			Non-interest bearing instruments
			Up to 1 month	From 1 to 3 months	Over 3 months	
<b>Interest-earning assets</b>						
Cash and balances with banks	90,273	79,636	10,054	-	-	583
Trading assets	14,313	-	20	-	14,292	1
Accounts with the IMF	47,697	27,819	-	-	-	19,879
Loans to banks	51,088	-	40,262	10,826	-	-
Investment securities	485,221	-	9,167	29,866	446,188	-
Other assets (Note 16)	2,298	-	2	-	2,296	-
<b>Total</b>	<b>690,890</b>	<b>107,454</b>	<b>59,505</b>	<b>40,692</b>	<b>462,776</b>	<b>20,463</b>
<b>Interest-bearing liabilities</b>						
Currency in circulation	401,129	-	-	-	-	401,129
Due to banks	217,692	-	205,252	-	12,440	-
Deposits and borrowings from third parties	2,007	-	2,007	-	-	-
Due to Government and state institutions	63,491	500	-	-	-	62,991
Due to the IMF	41,932	25,757	-	-	-	16,175
Other liabilities	921	-	-	-	-	921
<b>Total</b>	<b>727,172</b>	<b>26,257</b>	<b>207,259</b>	<b>-</b>	<b>12,440</b>	<b>481,216</b>
<b>Interest-bearing financial instruments gap</b>	<b>(36,282)</b>	<b>81,197</b>	<b>(147,754)</b>	<b>40,692</b>	<b>450,336</b>	<b>(460,753)</b>

31 December 2021	Total	Floating rate instruments	Fixed rate instruments			Non-interest bearing instruments
			Up to 1 month	From 1 to 3 months	Over 3 months	
<b>Interest-earning assets</b>						
Cash and balances with banks	274,725	249,288	14,478	10,262	-	697
Trading assets	14,767	-	41	219	14,484	23
Accounts with the IMF	58,141	37,378	-	-	-	20,763
Loans to banks	41,583	-	33,816	7,767	-	-
Investment securities	318,478	1,449	9,019	29,074	278,936	-
Other assets (Note 16)	2,180	-	2	-	2,178	-
<b>Total</b>	<b>709,874</b>	<b>288,115</b>	<b>57,356</b>	<b>47,322</b>	<b>295,598</b>	<b>21,483</b>
<b>Interest-bearing liabilities</b>						
Currency in circulation	378,142	-	-	-	-	378,142
Due to banks	186,733	-	186,733	-	-	-
Deposits and borrowings from third parties	2,772	-	2,772	-	-	-
Due to Government and state institutions	106,510	500	-	-	-	106,010
Due to the IMF	43,723	26,837	-	-	-	16,886
Other liabilities	1,207	-	-	-	-	1,207
<b>Total</b>	<b>719,087</b>	<b>27,337</b>	<b>189,505</b>	<b>-</b>	<b>-</b>	<b>502,245</b>
<b>Interest-bearing financial instruments gap</b>	<b>(9,213)</b>	<b>260,778</b>	<b>(132,149)</b>	<b>47,322</b>	<b>295,598</b>	<b>(480,762)</b>



### Future contracts

A future contract is a standardized contract to buy or sell a financial or non-financial asset, at a certain date in the future and at a market determined price. To minimize the credit risk, depending on the type of instrument, the investor should post a margin to the clearing house. This margin or performance bond is valued every day according to the prices in the market (mark to market), which means that every change in value is shown in the account of investor at the end of each trading day until the expiry day.

The net fair value of future contracts as at 31 December 2022 is ALL 0 million (2021: ALL 1 million) (see Note 13).

The nominal value of these contracts as at 31 December 2022 is composed by the following:

- buy contracts in the amount of ALL 0 million (2021: ALL 666 million); and
- sell contracts in the amount of ALL 0 million (2021: ALL 512 million).

### (i) Exchange rate risk

Exchange rate risk results from the difference between the currency structure of assets and liabilities. From an accounting point of view, the Bank is exposed to currency risk due to its principal central bank functions.

This risk can affect the size of its capital. In order to manage this type of exposure, over the years, action is taken to increase capital, inflow of funds and, in exceptional cases, when the balance of the revaluation reserve is negative, debt instruments of the Republic of Albania were issued in compliance with the provisions of the law 'On the Bank of Albania' (Note (7(N) , 14 and 22).

### Forward contracts

Trading derivatives include forward exchange contracts that are entered into by the Bank with the Albanian Government. These instruments are not usually closed out before contractual maturity.

The fair value of foreign exchange forward contracts at 31 December 2022 is ALL 2 million (2021: 22 million) (see Note 13).

The following significant exchange rates have been applied.

	Average		Year-end spot rate	
ALL	2022	2021	2022	2021
United States Dollar (USD)	113.04	103.52	107.05	106.54
European Union Currency Unit (EUR)	118.98	122.46	114.23	120.76
British Pound (GBP)	139.60	142.41	128.92	143.95
Special Drawing Rights (SDR)	151.2	147.48	142.47	149.11
Japanese Yen (JPY)	0.86	0.94	0.81	0.92
Chinese Yuan (offshore) (CNH)	19.79	16.05	15.46	16.8



### Sensitivity analysis

A reasonably possible strengthening (weakening) of the EUR, USD, GBP or other currencies by 10% against ALL at 31 December 2022 would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

The Bank's exposure to foreign currency risk as at 31 December 2022 and 31 December 2021 is as follows:

31 December 2022	ALL	USD	EUR	GBP	SDR	Other	Total
<b>Assets</b>							
Cash and balances with banks	-	11,312	66,759	764	-	11,438	90,273
Trading assets	2	14,311	-	-	-	-	14,313
Accounts with the IMF	16,174	-	-	-	31,523	-	47,697
Loans to banks	51,088	-	-	-	-	-	51,088
Investment securities	74,064	74,483	307,902	11,063	-	17,709	485,221
Other assets	2,298	-	-	-	-	-	2,298
<b>Total assets</b>	<b>143,626</b>	<b>100,106</b>	<b>374,661</b>	<b>11,827</b>	<b>31,523</b>	<b>29,147</b>	<b>690,890</b>
<b>Liabilities</b>							
Currency in circulation	401,129	-	-	-	-	-	401,129
Due to banks	71,231	18,391	128,070	-	-	-	217,692
Deposits and borrowings from third parties	2,000	-	7	-	-	-	2,007
Due to Government and state institutions	28,542	250	33,744	-	955	-	63,491
Due to the IMF	-	-	-	-	41,932	-	41,932
Other liabilities	259	580	82	-	-	-	921
<b>Total liabilities</b>	<b>503,161</b>	<b>19,221</b>	<b>161,903</b>	<b>-</b>	<b>42,887</b>	<b>-</b>	<b>727,172</b>
<b>Net statement of financial position exposure</b>	<b>(359,535)</b>	<b>80,885</b>	<b>212,758</b>	<b>11,827</b>	<b>(11,364)</b>	<b>29,147</b>	<b>(36,282)</b>
<b>Sensitivity analysis</b>							
Profit/(loss) effect: Strengthening (10%)		8,088	21,276	1,183	(1,136)	2,915	
Weakening (10%)		(8,088)	(21,276)	(1,183)	1,136	(2,915)	

31 December 2021	ALL	USD	EUR	GBP	SDR	Other	Total
<b>Assets</b>							
Cash and balances with banks	9	16,752	240,066	5,589	-	12,309	274,725
Trading assets	22	14,744	-	-	-	-	14,767
Accounts with the IMF	16,887	-	-	-	41,255	-	58,141
Loans to banks	41,583	-	-	-	-	-	41,583
Investment securities	65,268	70,939	158,621	7,294	-	16,356	318,478
Other assets	2,180	-	-	-	-	-	2,180
<b>Total assets</b>	<b>125,949</b>	<b>102,435</b>	<b>398,687</b>	<b>12,883</b>	<b>41,255</b>	<b>28,665</b>	<b>709,874</b>
<b>Liabilities</b>							
Currency in circulation	378,142	-	-	-	-	-	378,142
Due to banks	72,419	20,598	93,716	-	-	-	186,733
Deposits and borrowings from third parties	1,982	-	790	-	-	-	2,772
Due to Government and state institutions	19,509	326	81,670	-	5,004	-	106,510
Due to the IMF	-	-	-	-	43,723	-	43,723
Other liabilities	549	658	-	-	-	-	1,207
<b>Total liabilities</b>	<b>472,602</b>	<b>21,582</b>	<b>176,176</b>	<b>-</b>	<b>48,727</b>	<b>-</b>	<b>719,087</b>
<b>Net currency position</b>	<b>(346,653)</b>	<b>80,854</b>	<b>222,511</b>	<b>12,883</b>	<b>(7,473)</b>	<b>28,665</b>	<b>(9,213)</b>
<b>Sensitivity analysis</b>							
Profit/(loss) effect: Strengthening (10%)	-	8,085	22,251	1,288	(747)	2,866	-
Weakening (10%)	-	(8,085)	(22,251)	(1,288)	747	(2,866)	-



## F. Fair value of financial instruments

### *i) Determination of fair values*

The determination of fair values of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques described in the accounting policy. For financial instruments that are traded infrequently and whose price is not transparent, the fair value is less objective and requires an expert's judgement depending on liquidity, concentration, market factors uncertainty, pricing assumptions, and other risks affecting the particular instrument.

### *ii) Valuation of financial instruments*

The Bank measures the fair value of financial instruments using the following hierarchy of methods:

- Level 1: Quoted market price or closing price for positions for which there is a reliable market.
- Level 2: Valuation techniques based on observable market information about the yield curve. This category of methods is used to measure debt securities for which there is no reliable market.
- Level 3: Valuation techniques, where inputs on financial assets and liabilities are not based on observable market data.

The fair values of financial assets and liabilities traded in international financial markets for which there is available market information are based on market quotations or closing market prices. The use of observable market prices and information reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. The availability of actual market prices and information varies depending on products and markets and changes because of specific events and the general conditions of financial markets.

The Bank determines the fair values of all other financial instruments for which there are no current market quotes by using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The net present value is computed by means of market yield curves and credit spreads, where necessary, for the relevant instrument. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.





The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty where appropriate. Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and yields ranges of possible inputs and estimates of fair value, and management judgment is required to select the most appropriate point in the range. For all other financial instruments, the Bank determines fair values using valuation techniques.

Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

### *Financial instruments measured at fair value – Fair value hierarchy*

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the statement of financial position.

31 December 2022	Note	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>					
Non-derivative trading assets	13	14,311	-	-	14,311
Derivative trading assets	13	-	-	2	2
Investments in securities	14	369,774	115,447	-	485,221
<b>Total</b>		<b>384,085</b>	<b>115,447</b>	<b>2</b>	<b>499,534</b>

31 December 2021	Note	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>					
Non-derivative trading assets	13	14,744	-	-	14,744
Derivative trading assets	13	1	-	22	23
Investments in securities	14	217,504	100,973	-	318,478
<b>Total</b>		<b>232,249</b>	<b>100,973</b>	<b>22</b>	<b>333,245</b>

### *Financial instruments not measured at fair value*

The fair value of balances with/due to banks balances with/due to the IMF, liabilities to banks and other financial institutions and of liabilities to government



institutions is approximately equal to the reporting value as they are short-term. The following table sets out the fair values of certain financial instruments not measured at fair value by the level in the fair value hierarchy into which each fair value measurement is categorised. Other financial assets consist of loans granted to employees (see note 16) pursuant to Article 4 point (b) of the Law No. 8269 "On the Bank of Albania", as amended.

	Note	31 December 2022		31 December 2021	
		Fair value Level 2	Carrying amount	Fair value Level 2	Carrying amount
<b>Assets</b>					
Balances with banks	9	90,254	90,254	274,698	274,698
Loans to banks	12	51,088	51,088	41,583	41,583
Accounts with the IMF	11	47,697	47,697	58,141	58,141
<b>Liabilities</b>					
Due to the IMF	11	41,932	41,932	43,723	43,723
Due to banks	18	217,692	217,692	186,733	186,733
Deposits and borrowings from third parties	19	2,007	2,007	2,772	2,772
Due to Government and state institutions	20	63,491	63,491	106,510	106,510
Other liabilities	21	921	921	1,207	1,207

## G. Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations. Operational risk management is supported by the internal control systems on several activities of the Bank of Albania and standards for the management of operational risk and a wide range of common policies, staff management regulations and obligatory requirements.

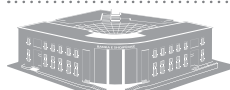
## H. Maturity analysis of assets and liabilities

The Bank's assets and liabilities, analysed by residual term to maturity from the date of the statement of financial position to the date of any subsequent agreement or contractual maturity, are as follows:



31 December 2022	< 12 months	>12 months	Undefined maturity	Total
<b>ASSETS</b>				
Cash and balances with banks	90,273	-	-	90,273
Trading assets	2,491	11,822	-	14,313
Monetary gold	-	-	18,900	18,900
Accounts with the International Monetary Fund	27,818	-	19,879	47,697
Loans to banks	51,088	-	-	51,088
Investment securities	200,333	284,888	-	485,221
Property, equipment, right-of-use and intangible assets	-	-	21,376	21,376
Other assets	2	2,296	1,204	3,502
<b>TOTAL ASSETS</b>	<b>372,005</b>	<b>299,006</b>	<b>61,359</b>	<b>732,370</b>
<b>LIABILITIES</b>				
Currency in circulation	-	-	401,129	401,129
Due to banks	217,692	-	-	217,692
Deposits and borrowings from third parties	2,007	-	-	2,007
Due to Government and state institutions	62,991	-	500	63,491
Due to the International Monetary Fund	16,175	-	25,757	41,932
Other liabilities	1,021	-	-	1,021
<b>TOTAL LIABILITIES</b>	<b>299,886</b>	<b>-</b>	<b>427,386</b>	<b>727,272</b>
<b>Net</b>	<b>72,119</b>	<b>299,066</b>	<b>(366,027)</b>	<b>5,098</b>

31 December 2021	< 12 months	>12 months	Undefined maturity	Total
<b>ASSETS</b>				
Cash and balances with banks	274,725	-	-	274,725
Trading assets	1,134	13,633	-	14,767
Monetary gold	-	-	17,101	17,101
Accounts with the International Monetary Fund	37,378	-	20,763	58,141
Loans to banks	41,583	-	-	41,583
Investment securities	159,008	159,470	-	318,478
Property, equipment, right-of-use and intangible assets	-	-	21,031	21,031
Other assets	2	2,178	1,503	3,683
<b>TOTAL ASSETS</b>	<b>513,830</b>	<b>175,281</b>	<b>60,398</b>	<b>749,509</b>
<b>LIABILITIES</b>				
Currency in circulation	-	-	378,142	378,142
Due to banks	186,733	-	-	186,733
Deposits and borrowings from third parties	2,772	-	-	2,772
Due to Government and state institutions	106,010	-	500	106,510
Due to the International Monetary Fund	16,886	-	26,837	43,723
Other liabilities	1,333	-	-	1,333
<b>TOTAL LIABILITIES</b>	<b>313,734</b>	<b>-</b>	<b>405,479</b>	<b>719,213</b>
<b>Net</b>	<b>200,096</b>	<b>175,281</b>	<b>(345,081)</b>	<b>30,296</b>



## I. Capital Management

The Bank of Albania is accountable to the Assembly of the Republic of Albania and its paid-up capital of ALL 2.500 million is owned exclusively by the State of Albania. The paid-up capital may be increased by the proposal of the Bank of Albania and approval by the Ministry of Finance and Economy. The entire paid-up capital shall be subscribed and owned exclusively by the State of Albania. This paid-up capital shall not be transferable or subject to encumbrance. The profit allocation policy is described in Note 7 G),N),P) and Note 22.

As provisioned in Article 7 of the Law "On the Bank of Albania", whenever on the balance sheet of the Bank of Albania the value of its assets falls below the sum of its liabilities and paid-up capital, the Minister of Finance and Economy shall transfer to the Bank of Albania negotiable government securities, bearing interest at market rates, in such an amount as shall be necessary to remedy the deficiency.

### 9. CASH AND BALANCES WITH BANKS

	31 December 2022	31 December 2021
Cash	18	27
Current accounts	80,206	249,971
Deposits maturing within three months	10,054	24,741
Less impairment loss allowance	(6)	(15)
<b>Cash and cash equivalents</b>	<b>90,273</b>	<b>274,725</b>
Deposits with maturity over 3 months	-	-
<b>Total</b>	<b>90,273</b>	<b>274,725</b>

The interest rates for current accounts are as follows:

In %	EUR	USD	GBP	AUD	JPY	CNY	CNH
31 Dec 2022	0.00 – 2.00	0.00 – 4.30	2.25 – 3.32	0.20 – 2.85	(0.35) – 0.00	0.70 – 1.20	0.30 – 1.80
31 Dec 2021	0.00 – (0.67)	0.00 – 0.05	0.00 – 0.00	0.00 – 0.00	0.00 – (0.35)	0.00 – 2.1	0.00 – 2.1

The annual interest rates for short-term deposits are as follows:

In %	EUR	USD	CNH
31 December 2022	-	4.30	-
31 December 2021	(0.53)	0.05	-

### 10. MONETARY GOLD

	31 December 2022	31 December 2021
Deposits	18,900	-
Current Account	-	17,101
<b>Total</b>	<b>18,900</b>	<b>17,101</b>

The monetary gold is placed in deposits (2021: current account) with foreign banks. The increase of ALL 1,799 million compared to the previous year is a result of buying of the monetary gold (ALL 1,701 million) during February



and April 2022 as well as revaluation of monetary gold with market price at the reporting date (ALL 98 million), which is recognized in profit or loss, and accumulated to the revaluation reserve (see Note 22).

## 11. ACCOUNTS WITH/DUE TO THE INTERNATIONAL MONETARY FUND (IMF)

Accounts with the IMF	31 December 2022	31 December 2021
Quotas with IMF	19,879	20,763
Special Drawing Rights ("SDR") held	27,818	37,378
<b>Total assets</b>	<b>47,697</b>	<b>58,141</b>
Due to the IMF	31 December 2022	31 December 2021
SDR allocations	25,639	26,834
IMF securities account	14,083	14,703
IMF account No.1	2,091	2,184
IMF account No.2	1	1
Accrued interest	118	2
<b>Total liabilities</b>	<b>41,932</b>	<b>43,723</b>

Quotas with the IMF of ALL 19,879 million or SDR 139 million (2021: ALL 20,763 million or SDR 139 million) originate from the membership of the Republic of Albania in the IMF, according to the Law No.8269, dated 23 December 1997 'On the Bank of Albania', as amended.

The SDR holdings of ALL 27,818 million or SDR 195 million (2021: ALL 37,378 million or SDR 251 million) represent deposits with the IMF.

During 2020, in response to the two events, the earthquake that hit the country and the Covid – 19 pandemic situation, the government of Albania requested and obtained an emergency financing from the IMF in the amount of SDR 139 million, corresponding to the purchase of 100% of Albania's quota under the Rapid Financing Instrument (RFI). The SDR holdings bear interest, which is determined on a weekly basis. The interest rate at 31 December 2022 is 2.916% p.a. (2021: 0.077% p.a.).

SDR Allocations of ALL 25,639 million or SDR 180 million (2021: ALL 26,834 million or SDR 180 million) represent amounts borrowed from the IMF with two tranches in August and September 2009, whose purpose is to provide immediate response to the short-term and long-term liquidity needs of the member countries. The SDR Allocations bear interest, which is determined on a weekly basis and is payable on a quarterly basis.

The IMF pays remuneration to members with remunerated reserve tranche positions, at 2.916% p.a. (2021: 0.077% p.a.). The reserve tranche position is calculated as the difference between Quotas in the IMF and the currency holdings in the IMF accounts, excluding holdings acquired as a result of the use of the Fund credit and holdings in the IMF account No.2. In August 2021, the IMF decided to have a SDR allocation to all Fund members to help build reserve



buffers, smooth adjustments, and mitigate the risks of economic stagnation in global growth. The allocation of SDRs was distributed in proportion to members' paid Fund quota shares. To Albania, were allocated an amount of SDR 133 million or ALL 19,640 million. Based on the concept of SDR allocation the member has a high degree of flexibility of using it. If the member decide to use (Bank of Albania or the Ministry of Finance and Economy), will bear the cost of using it (normally interest rate and not principal).

### *Direct budget support provided by the IMF*

Funds provided for direct budget support by the IMF to the Government of Albania which are initially deposited in the Government accounts at the Bank, are not recognised as a liability of the Bank to the IMF. The Government assumes the obligation to repay the funds to IMF whereas the Bank processes such repayments on behalf of the Government. The IMF disbursed such funds in tranches during the years 2014 - 2017, as part of the EFF facility program approved by the IMF in favour of Albania and in the year 2020 in one payment, as part of RFI facility due to the Covid-19 pandemic situation. These tranches are used to provide direct budget financing to the Government of Albania represented by the Ministry of Finance and Economy. The borrowing is repayable within 3 years, by the Albanian Government through the accounts of the Bank with the IMF. The Albanian Government shall deposit in its accounts at the Bank sufficient funds to repay all principal, interest and any other expenses associated with the above tranches as such repayments fall due. In relation to this borrowing, the Ministry of Finance and Economy issued promissory notes in favour of the IMF. The Government started to repay the facility in October 2018. As at 31 December 2022, the facility amounted to ALL 42,143 million (2021: ALL 51,336 million).

## 12. LOANS TO BANKS

In strengthening the accommodative monetary policy stance, so far implemented by the Bank, starting from middle of March 2020, the auction for the weekly injection of liquidity has changed from limited amount to fixed price auction. This change provides room to commercial banks to take from the Bank of Albania liquidity with no limit, at the cost of the policy rate set out by the Bank. Also, the Bank of Albania has increased the size of liquidity injection beyond the one-week period. No overnight loans to Banks as at 31 December 2022 and 2021.

	31 December 2022	31 December 2021
Reverse repurchase agreements	51,088	41,583
<b>Total</b>	<b>51,088</b>	<b>41,583</b>

At 31 December 2022 and 2021, reverse repurchase agreements between the Bank and commercial banks have original maturities from one week to three months (2021: from one week to three months).



### 13. TRADING ASSETS

Trading assets	31 December 2022	31 December 2021
<b>Non-derivatives:</b>		
Bonds of foreign agencies	3,127	3,649
Bonds of foreign governments and multilateral institutions	11,184	11,094
<b>Derivatives:</b>		
Interest rate future contracts	-	1
Foreign exchange forwards	2	22
<b>Total</b>	<b>14,313</b>	<b>14,767</b>

Trading assets are administrated by the International Bank for Reconstruction and Development ('IBRD') as stated in the agreement 'On the administration and technical assistance on investing the foreign reserve of the Bank of Albania' (Reserves and Advisory Management Program) signed between the Bank of Albania and IBRD on 23 September 2005. Investments in this portfolio are denominated in USD.

The annual interest rates for non-derivative assets as at 31 December 2022 and 31 December 2021 are as follows:

In %	31 December 2022	31 December 2021
USD	0.125 – 4.750	0.125 - 3.375

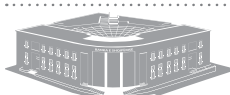
### 14. INVESTMENT SECURITIES

	31 December 2022	31 December 2021
Investment securities measured at FVOCI	485,221	318,478
<b>Total</b>	<b>485,221</b>	<b>318,478</b>
Expected Credit Losses (ECL)	(47)	(22)

Investment securities by type of issuer and security are presented as follows:

	31 December 2022	31 December 2021
Treasury Bills of foreign governments and multi-lateral institutions	27,519	967
Certificate of Deposit	6,225	21,718
Bonds of foreign banks and other institutions	35,953	24,476
Bonds of foreign agencies	33,441	41,922
Bonds of foreign governments and multilateral institutions	308,019	164,127
Treasury Bills of the Albanian Government	74,064	65,268
<b>Total</b>	<b>485,221</b>	<b>318,478</b>

Expected Credit Losses (ECL) by type of issuer and security are presented below:



	31 December 2022	31 December 2021
Treasury Bills of foreign governments and multi-lateral institutions	(1)	-
Certificate of Deposit	(17)	(3)
Bonds of banks and other institutions	(7)	(5)
Bonds of foreign agencies	(5)	(6)
Bonds of foreign governments and multilateral institutions	(17)	(9)
Treasury Bills of the Albanian Government	-	-
<b>Total</b>	<b>(47)</b>	<b>(22)</b>

The annual yields for each currency at 31 December 2022 and 2021 are as follows:

In %	ALL	USD	GBP	AUD	CNH	EUR
31 December 2022	2.75 – 5.46	3.86 – 6.09	2.41 – 4.47	3.30 – 4.40	1.67 – 2.81	1.83 – 3.93
31 December 2021	0.50 – 1.56	0.12 – 1.45	0.59 – 1.07	0.22 – 1.33	2.46 – 2.8	(0.85 – 1.96)

Investment securities in ALL at 31 December 2022, represent Albanian Government treasury bills with a maturity period up to 12 months (2021: up to 12 months). As a result of further relaxing monetary policies of certain central banks during 2015 and onward, the return rates of the main part of foreign reserve portfolio in EUR are negative.

On December 31, 2022 the Bank has registered a security issued by the Ministry of the Finance and Economy with a nominal value of ALL 6,020 million, because as of 31 December 2022, the Bank's total of paid up capital and liabilities of the bank exceeds the assets by ALL 3,433 million. The security is transferred from the Ministry of Finance and Economy, on 22.12.2022, for the purpose of the revaluation reserve.

This transaction is done based on Article 7 of the Law No. 8269, dated 23 December 1997 'On the Bank of Albania', as amended, requiring the Bank and the Ministry of Finance and Economy to transfer negotiable securities to the Bank whenever the assets of the Bank decrease below its liabilities and Paid-in Capital. These securities were already transferred to the Bank during 2022 and held off balance sheet to secure its negative foreign currency revaluation reserve accumulated due to the strengthening of the local currency, which was the principal reason of the decrease of the Bank's equity during the year.





## 15. PROPERTY, EQUIPMENT, RIGHT-OF-USE AND INTANGIBLE ASSETS

	Land, buildings and installations	Furniture and equipment	Vehicles	Work in progress	Numismatic coins and objects	Total property and equipment	Buildings	Repeater	Right of Use Total Right-of-use	Computer Software	Work in progress	Total intangible assets	Total
<b>Cost or deemed cost</b>													
At 1 January 2021	9,415	2,672	291	674	10,532	23,584	93	7	100	818	-	818	24,502
Additions	-	41	-	1,005	-	1,046	-	-	-	1	-	1	1,047
Transfers	1	186	-	(187)	-	-	-	-	-	-	-	-	-
Disposal	-	(31)	-	-	-	(31)	-	-	-	-	-	-	(31)
At 31 December 2021	9,416	2,868	291	1,492	10,532	24,599	93	7	100	819	-	819	25,518
Additions	3	133	-	565	-	701	-	-	-	18	-	18	719
Transfers	-	-	-	(18)	-	(18)	-	-	-	(139)	-	(139)	(157)
Disposal	-	(46)	-	-	-	(46)	-	-	-	-	-	-	(146)
At 31 December 2022	9,419	2,955	291	2,039	10,532	25,236	-	-	-	698	-	698	25,934
<b>Accumulated depreciation/amortization</b>													
At 1 January 2021	870	2,280	252	-	-	3,402	62	4	66	670	-	670	4,138
Depreciation/amortization	145	129	14	-	-	288	31	3	34	58	-	58	380
Disposal	-	(31)	-	-	-	(31)	-	-	-	-	-	-	(31)
At 31 December 2021	1,015	2,378	266	-	-	3,659	93	7	100	728	-	728	4,487
Depreciation/amortization	145	158	9	-	-	312	-	-	-	44	-	44	356
Disposal	-	(46)	-	-	-	(46)	-	-	-	(139)	-	(139)	(285)
At 31 December 2022	1,160	2,490	275	-	-	3,925	-	-	-	633	-	633	4,558
<b>Carrying amounts</b>													
At 31 December 2021	8,401	490	25	1,492	10,532	20,940	-	-	-	91	-	91	21,031
At 31 December 2022	8,259	465	16	2,039	10,532	21,311	-	-	-	65	-	65	21,376



## 16. OTHER ASSETS

	31 December 2022	31 December 2021
<b>Financial assets</b>		
Loans to employees, net	2,298	2,180
	<b>2,298</b>	<b>2,180</b>
<b>Non-financial –assets</b>		
Numismatics (banknotes and coins)	348	352
Printing and minting costs	787	1,035
Inventory	22	21
Other	47	95
	<b>1,204</b>	<b>1,503</b>
<b>Total</b>	<b>3,502</b>	<b>3,683</b>

Loans to employees at 31 December 2022 are net of allowance for impairment of ALL 6 million (2021: ALL 6 million) (see Note 8(E)(vi)(b)).

## 17. CURRENCY IN CIRCULATION

The Bank is vested with the exclusive right of issuing Albanian currency. Currency in circulation comprises domestic banknotes and coins in circulation issued by the Bank.

The Bank has increased the operating capacities to guarantee the uninterrupted supply with coins and banknotes to economy. It has taken all the necessary decisions and has engaged all its structures to meet the market requests for cash, by simultaneously providing a sufficient stock with the purpose to counter the increasing needs of the economy. The following banknotes and coins were in circulation as at 31 December 2022 and 2021:

Nominal value ALL	31 December 2022		31 December 2021	
	Number in thousand	Total ALL (million)	Number in thousand	Total ALL (million)
Notes:				
100	3,399	340	3,399	340
200	15,920	3,184	15,560	3,112
500	20,176	10,088	18,969	9,485
1,000	31,261	31,261	31,202	31,202
2,000	38,813	77,626	34,105	68,210
5,000	48,890	244,450	49,079	245,395
10,000	2,774	27,740	1,444	14,440
Coins (1-100)		6,440		5,958
		<b>401,129</b>		<b>378,142</b>

## 18. DUE TO BANKS

	31 December 2022	31 December 2021
Reserve requirement and current accounts	189,602	174,198
Deposits	15,650	12,535
Reserve requirement – cash on custody	12,440	-
<b>Total</b>	<b>217,692</b>	<b>186,733</b>



In accordance with the Decision of the Supervisory Council No. 39, dated 25.06.2014, amended with Decision No. 11, dated 07.02.2018, the remuneration rate for the reserve requirement in ALL is 100% of the rate of the repurchase and reverse repurchase agreements, approved by the Supervisory Council as on the last day of the base period.

As at 31 December 2022, the interest rate is 2.75% (2021: 100% of the base rate or 0.5%).

Based on the Decision No. 11, dated 07.02.2018 the remuneration rate for the reserve requirement in EUR held in EUR is equal to the deposit rate defined by the European Central Bank (ECB). As at 31 December 2022, the remuneration rate is 0% (2021: negative at 0.5%). The reserve requirement in EUR held in ALL is not remunerated.

As at 31 December 2022 the reserve requirement in USD held in USD and in ALL is not remunerated (2021: not remunerated). Based on the Decision of the Supervisory Council, No. 29, dated 16 May 2012, 'On the minimum reserve requirement held at the Bank of Albania by commercial banks', amended by the Decision No. 75, dated 06 July 2016, the Bank allows the commercial banks to maintain the reserve requirement in the form of cash in custody with the Bank.

## 19. DEPOSITS AND BORROWINGS FROM THIRD PARTIES

	31 December 2022	31 December 2021
Deposits from the Deposit Insurance Agency	1,974	2,509
Deposits from the pension fund	18	247
Deposits from individuals for participation in Treasury Bills auctions	15	16
<b>Total</b>	<b>2,007</b>	<b>2,772</b>

Deposits from the pension fund relate to the pension plan scheme, which is based on employees' contributions and employer's contributions. Based on the Decision No. 17, dated 26 February 2014 of the Supervisory Council the pension fund reports its financial statements separately from the Bank.

## 20. DUE TO GOVERNMENT AND PUBLIC INSTITUTIONS

	31 December 2022	31 December 2021
Profit to be distributed to the Government	-	-
Accounts and deposits of the Government	59,769	102,134
Due to state institutions	3,722	4,376
<b>Total</b>	<b>63,491</b>	<b>106,510</b>

Based on the agreement between the Bank and the Ministry of Finance and Economy, the Bank of Albania pays interest only for the time deposits placed by the Government of Albania, as well as for a guarantee deposit of ALL 500



million (2021: ALL 500 million) for which the interest rate is based on the decisions of the Supervisory Council. For these deposits the remuneration rate on 31 December 2022 is 1% (2021: 1%).

Profit to be distributed to the Government of Albania is detailed as follows:

	Note	31 December 2022	31 December 2021
Net result for the period		(17,650)	560
Transfer to reserves	22	14,571	(909)
<b>(Loss) / Distribution from profit of year</b>		<b>(3,079)</b>	<b>(349)</b>
Distribution from other reserves	22	53	52
<b>Total to be distributed to the Government</b>		<b>-</b>	<b>-</b>
<b>Total to be transferred to the Retained earnings/(Accumulated losses)</b>		<b>(3,026)</b>	<b>(296)</b>

## 21. OTHER LIABILITIES

	31 December 2022	31 December 2021
<b>Financial liabilities</b>		
Due to international financial institutions	603	698
Due to third parties	290	496
Accrued expenses	28	13
<b>Total financial liabilities</b>	<b>921</b>	<b>1,207</b>
<b>Non-financial liabilities</b>		
Provisions for claims and litigations	97	125
Grants	3	2
<b>Total non-financial liabilities</b>	<b>100</b>	<b>127</b>
<b>Total</b>	<b>1,021</b>	<b>1,333</b>

Balances due to international financial institutions include amounts payable to IBRD, International Development Agency ('IDA'), Multilateral Investment Guarantee Agency ('MIGA'), and Islamic Development Bank ('IDB').

## 22. RESERVES

	31 December 2022	31 December 2021
Legal reserve	12,500	12,500
Revaluation reserve	(20,566)	(5,995)
Fair value reserve (investment securities)	(13,922)	(355)
Other reserves	27,909	21,942
<b>Total</b>	<b>5,921</b>	<b>28,092</b>

The legal reserve is created based on the requirements of Article 9 of the Law 'On the Bank of Albania', according to which, the Bank sets aside 25% of the net profit for the year into a Legal Reserve until the reserve amounts to 500% of the capital. The Bank achieved compliance with this requirement as at 31 December 2011 with its legal reserve amounting to ALL 12,500 million.

Based on the point "a" and "c", Article 64 of the Law "On the Bank of Albania", the movement in revaluation reserve results from the following items, which are



initially recognized in profit or loss and then transferred to revaluation reserves:

	2022	2021
<b>Opening at 1 January</b>	<b>(5,995)</b>	<b>(6,904)</b>
Net foreign exchange losses, other than from trading assets and liabilities	(14,566)	794
Net foreign exchange losses from trading assets and liabilities	93	(169)
Net loss from changes in the fair value of monetary gold (Note 10)	(98)	284
<b>Closing at 31 December</b>	<b>(20,566)</b>	<b>(5,995)</b>

The decrease of ALL 14,571 million (2021: increase ALL 909 million) in revaluation reserve is a result of the depreciation of the foreign currencies EUR, USD, GBP, and the monetary gold versus the functional currency (see Note 8(E)(ii)).

### *Negative revaluation reserve*

Given the negative balance of the revaluation reserve at 31 December 2022 and, pursuant to the requirements of clause "b", Article 64 of the Law 'On the Bank of Albania' (Note 7(N)) and a bilateral agreement with the Government of Albania, the latter shall issue debt securities to cover the negative balance of the revaluation reserve within April 2023 and upon issuance of the external auditors' report on these financial statements.

Movements in Fair value reserve are reflected as below:

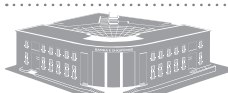
	31 December 2022	31 December 2021
<b>Balance at 1 January</b>	<b>(355)</b>	<b>2,126</b>
Change in Fair Value of Securities	(13,567)	(2,481)
<b>Balance at 31 December</b>	<b>(13,922)</b>	<b>(355)</b>

Other reserves include the following:

	31 December 2022	31 December 2021
Reserve for the Balance of Payments	7,209	7,209
Reserve for capital deficit (Note 14 )	6,020	-
Reserve of gold and precious metals	7,042	7,042
Reserve for property and equipment	7,638	7,691
<b>Total</b>	<b>27,909</b>	<b>21,942</b>

Reserve for the Balance of Payments represents financial assistance provided by the European Community during the years 1992 and 1993. There have been no movements in such reserve since 1995.

The reserve for capital deficit represent a security issued by the Ministry of the Finance and Economy with a nominal value of ALL 6,020 million, because as of 31 December 2022, the Bank's total of paid up capital and liabilities of the bank exceeds the assets by ALL 3,433 million.



The reserve of gold and precious metals represents the reserve created based on the Law No. 9862, dated 24 January 2008 'On the transfer of ownership of gold and other precious metals from the Albanian Council of Ministers to the Bank of Albania'.

The reserve for property and equipment of ALL 7,638 million (2021: ALL 7,691 million) was originally created based on the Decisions of the Supervisory Council of the Bank of Albania No. 19 and No. 20, dated 15 March 2018, as a result of the reallocation and allocation of the transition reserve of ALL 5,619 million, created as a result of the first-time adoption of IFRSs, and other reserves of ALL 2,297 million created through the years.

From the total reserve for property and equipment, an amount of ALL 2,188 million (2021: ALL 2,241 million) is distributable in the future and such distributions are subject to point 4 of the Decision No. 19, dated 15 March 2018 of the Supervisory Council of the Bank of Albania. For the year 2022, the amount of ALL 53 million is added to the year 2022 result and transferred to the "Losses carried forward" (2021: the amount of ALL 53 million was added on reducing the accumulated losses).

The remaining part of the reserve of for property and equipment is not distributable.

## 23. NET INTEREST INCOME

	2022	2021
<b>Interest income calculated using the effective interest method</b>		
Investment securities	3,243	1,648
Loans to banks	565	197
Deposits and current accounts with banks	268	13
Accounts with the IMF	415	17
Negative remuneration for reserve requirement	46	34
Negative remuneration for excess reserve requirement	274	379
Other	13	12
Negative remuneration for settlement account in AIPS EUR	33	-
<b>Total interest income</b>	<b>4,857</b>	<b>2,300</b>
<b>Interest expense</b>		
Reserve requirements	375	188
Due to the International Monetary Fund	321	8
Due to the Albanian Government	10	4
Deposits from third parties	99	14
Negative interest from deposits and current accounts with Banks	454	909
Other	-	2
<b>Total interest expense</b>	<b>1,259</b>	<b>1,125</b>
<b>Net interest income</b>	<b>3,598</b>	<b>1,175</b>

Interest income from investment securities includes ALL 1,307 million (2021: ALL 1,192 million) of income from treasury bills issued by the Albanian Government and ALL 1,936 million (2021: ALL 456 million) of income from security lending



and foreign reserve investment securities after accounting for the amortization of premium/discount.

Starting from January 2022, the Bank of Albania has implemented the system for the settlement of interbank customer payment orders in Euro currency. Negative remuneration for settlement account in AIPS EUR represent the remuneration of the participant for the remaining funds at the end of each working day in there settlement account in Euro currency.

Negative interest from deposits and current accounts with banks of ALL 454 million (2021: ALL 909 million) represents charges arising from negative yielding deposits and accounts placed with foreign banks.

## 24. NET TRADING INCOME

	2022	2021
Interest income from trading assets	145	183
Gain on sales from the trading assets	12	47
Loss on sales from the trading assets	(372)	(75)
Unrealized fair value changes	(335)	(224)
Net profit from forward and future contracts	585	686
<b>Total</b>	<b>35</b>	<b>617</b>

## 25. NET INCOME FROM SALES OF FINANCIAL ASSETS AT FVOCI

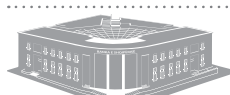
See accounting policies in Notes 7(A)(iii) and 7(E).

	2022	2021
Gain on sale of FVOCI debt investment securities	274	715
(Loss) on sale of FVOCI debt investment securities	(4,439)	(434)
<b>Net other income</b>	<b>(4,165)</b>	<b>281</b>

## 26. EMPLOYEE BENEFIT EXPENSES

	2022	2021
Employee salaries and compensations	1,254	1,264
Contributions for health and social security	124	122
Contribution for pension fund (see Note 19)	129	131
<b>Total</b>	<b>1,507</b>	<b>1,517</b>

As at 31 December 2022, the Bank had 609 employees (2021: 609 employees).



## 27. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	2022	2021
Repair and maintenance expenses	205	190
Amortization of currency printing and minting costs	248	173
Information expenses	114	110
Fees for third-party services	133	94
Other staff expenses	46	34
Transportation fees	25	13
Publication and membership expenses	13	11
Other expenses	11	23
<b>Total</b>	<b>795</b>	<b>648</b>

## 28. CONTINGENCIES AND COMMITMENTS

### (i) Reverse repurchase agreements

Reverse repurchase agreements, as at 31 December 2022, represented collateralized loans (see Note 12). The nominal value of the securities used as collateral as at 31 December 2022, was ALL 62,000 million (2021: ALL 43,900 million).

### (ii) Capital commitments

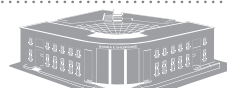
As at 31 December 2022, the Bank has entered into capital commitments of ALL 135 million (2021: ALL 682 million) for the reconstruction of one of its buildings.

### (iii) Credit commitments and collaterals received from employees

The total value of registered collateral for long-term loans extended to employees (see Note 16) at 31 December 2022 is ALL 3,164 million (2021: ALL 2,978 million). At 31 December 2022, unused credit commitments for employees amount to ALL 98 million (2021: ALL 94 million).

### (iv) Legal proceedings

Claims against the Bank may be raised in the normal course of business. In two cases brought by third parties, although liability is not admitted, if the defence is unsuccessful, then certain amounts and legal costs would be paid by the Bank. The outcome of these actions and the amounts claimed by third parties has not yet been determined. The Bank estimates that no material losses will be incurred in respect of claims, in excess of provisions that have been made in these financial statements (see Note 21).





## 29. MANAGED ASSETS

At 31 December 2022, the Bank acts as custodian for short-term treasury bills with maturities from 3 to 12 months, with total nominal value of ALL 242 billion (2021: ALL 206 billion) and for long-term securities with maturities varying between 2 and 15 years, with nominal value of ALL 478 billion (2021: ALL 482 billion). These securities are issued by the Albanian Government.

## 30. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial and other decisions.

Considering each possible related party relationship, attention is directed to the substance of the relationship and not merely to the legal form.

The related parties of the Bank of Albania include the directors and members of the Supervisory Council.

As at 31 December 2022 and 2021, balances with related parties comprised:

	2022	2021
<b>Loans to directors</b>		
Directors	123	129
<b>Total</b>	<b>123</b>	<b>129</b>

Loans to directors follow the terms and conditions applied to all employees of the Bank based on the policy and regulations in force. The mortgage loans are collateralized.

	2022	2021
<b>Administrative expenses</b>		
<i>Directors and Supervisory Council members:</i>		
Telephone expenses	5	4
Salaries and bonuses	154	156
Per diems	3	6
<i>Directors:</i>		
Fuel compensation	3	3
Contribution to pension plan scheme	14	14
<b>Total of administrative expenses for related parties</b>	<b>179</b>	<b>183</b>

Balances with/(due to) the Albanian Government and public institutions are disclosed in Notes 14 and 20, and related interest income from securities and interest expenses are included in Note 23. Promissory notes issued by the Albanian Government in favour of the IMF are detailed in Note 11, whilst securities issued by the Albanian Government and managed by the Bank are detailed in Note 28.



### 31. SUBSEQUENT EVENTS

The Bank has informed the Ministry of Finance and Economy that the securities granted during 2022 for offsetting negative foreign currency reserves were transferred into the Bank's equity reserves as of December 31, 2022. The Ministry of Finance and Economy acknowledge without objection.

There are no other significant events after the reporting date that may require adjustment or disclosure in the financial statements.

