

ECONOMIC AND MONETARY POLICY IN ALBANIA

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Abstract: This paper analyses Albania's monetary policy in terms of the Albanian economic policy and monetary market, determining the effects of monetary policy and its consequences for some of the key macroeconomic indicators. The analysis concludes that the policy of the Albanian Central Bank, is applied in an unequal monetary market, since the money market is divided almost equally between foreign currency and the local currency, the Albanian lek (ALL). Fiscal consolidation is still necessary to safeguard debt sustainability. Rebuilding the fiscal space is particularly important because the Albanian economy lacks other stabilisation tools, and an independent monetary policy in particular. More effort should be made to shift budgets towards a more growth-oriented composition. In last year's dialogue between the EU and the Western Balkans and Turkey, special attention was paid to the importance of fiscal rules and frameworks in improving fiscal governance.

Keywords: economic policy, fiscal policy, GDP growth, inflation, monetary policy, trade balance, Albania

Introduction

The primary objective of this paper is to provide a comprehensive overview of the main economic and monetary characteristics of Albania, as well as the objectives and challenges of its economic and monetary policy. In doing so, several areas are examined more closely, such as macroeconomic stability, the current main drivers of GDP growth in Albania, the main

characteristics of budget financing in the country, and the evolution of inflation and prices. A separate section evaluates the main components of the monetary policy of the country and the current structure of the operation of financial institutions. In addition, the structure of the Albanian banking system is examined, focusing on its defining characteristics, the monetary strategy of the Albanian Central Bank, and its main changes in recent years. The instruments and effectiveness of monetary policy, and the need for further reforms in general are also evaluated.

The main goal with this is to examine the extent to which these instruments have contributed to Albania catching up with the EU average in development, primarily focusing on the reduction of differences in income levels. Growing well-being can have additional financial and environmental components that determine way of life. The infrastructure and the devices that use it can contribute to the fulfilment of well-being through the expansion of income-earning opportunities, and the time savings achieved by getting to places faster (i.e. more free time) due to the development of transport can also be interpreted as having a positive effect on well-being.

This analysis is based on a broader interpretation of well-being. On the one hand, wealth acquired through higher income (infrastructure, energy efficiency, digital devices) can have a long-term welfare effect. On the other hand, the fact that some investments improve the environment (environmental protection, energy) is also a welfare factor, while a third factor is the digital prosperity achieved through telecommunications and IT investments. The present analysis examines a narrower interpretation and uses an exclusively macroeconomic approach to see whether catching up with the European Union average economically can be observed in the case of Albania.

Economic Policy in Albania

Although six Western Balkan countries (Serbia, Montenegro, Albania, North Macedonia, Bosnia and Herzegovina, and Kosovo) have expressed their intention to join the European Union, owing to the turbulent period that has characterized the region in recent decades, they are currently in different

phases of the accession process. Serbia and Montenegro have already started accession negotiations, North Macedonia and Albania have candidate status, while Bosnia and Herzegovina and Kosovo are waiting for candidate status. In assessing the progress made by Albania in the EU integration process and the challenges facing the country, let us first look at the most important determinants of Albanian economic policy. European Union regulations require that central banks be independent, and they prohibit that central banks finance the public sector directly. Member states coordinate their economic policies and their taxation, economy, and financial supervision. Albania is moderately prepared in terms of its economic and monetary policy. There has been limited progress regarding the reports on the procedures to be followed for national accounts and excessive deficits, and there is still significant progress to be made to fully adhere to the European System of Accounts (ESA 2010) (European Commission, 2021a).

A 2014 report by the IMF determined that the Albanian economy was weak, the macroeconomic imbalances were great, and that the financial sector was facing several risks, including low bank profitability and rapidly rising Non Performing Loans (NPLs). The IMF identified high financial euroization, strong systemic links between investment funds, banks, and the sovereign, a significant foreign bank presence (IMF, 2014), and the rapidly rising stock of Public-Private Partnerships (PPPs) (IMF, 2021). These findings are still valid today. At the same time, it can also be said that these findings are true for several EU member states, including member states of the Eurozone, primarily countries in the Mediterranean region. All this is exemplified by the European Commission's Macroeconomic Imbalance Procedure (MIP) report from 2021, which determined that imbalance and excessive imbalance affects 12 member states. The report found an imbalance in nine member states (Croatia, France, Germany, Ireland, the Netherlands, Portugal, Romania, Spain, and Sweden) and excessive imbalance in Cyprus, Greece, and Italy (European Commission, 2020). All this clearly confirms the inadequacy of the typical, often disparaging way of thinking and language in European Commission documents that is often encountered in the assessment of non-core countries, non-euro area countries, and candidate countries, completely ignoring the fact the financial, economic, and competitiveness situation of the core countries is currently far from being an example for other countries to follow.

According to ESA 2010, detailed in Eurostat's 2013 publication, the main challenges facing Albania include:

- coordinating the legal provisions regarding the independence of the Bank of Albania and its accountability towards the Albanian Parliament with the *acquis* of the European Union,
- the government's policy coordination and consultation mechanism must be improved when implementing sectoral policies and economic reforms;
- increasing the reporting capacity of EU-appropriate financial statistics and ensuring that standards are continuously monitored (Eurostat, 2013).

In the area of economic policy, there is further need for legislation to be coordinated with the *acquis* in terms of the requirements related to budgetary frameworks. Albania has adhered to these fiscal regulations since it accepted them in 2016, except in 2020 and 2021, due to the COVID-19 pandemic. The organic budgetary rules modified in June 2020 prescribed new fiscal rules and made it their goal to reach a positive balance by 2023. The implementation of this goal was postponed to 2024 to allow the Albanian government to fiscally support the economy in 2021 while temporarily suspending the goals related to the budget deficit and national debt.

The excessive deficit procedure notification tables are now regularly submitted to Eurostat, although they are not currently coordinated with the requirements of the European System of National and Regional Accounts (ESA 2010). Following a pilot project in 2019 regarding the source data necessary to calculate the indicators of the Macroeconomic Imbalance Procedure, Albania frequently sends reports to Eurostat, and it has shared the metadata from the 14 available results tables with the European Statistical Office (Eurostat). At the same time, further steps need to be taken, for example, in calculating nominal unit labour costs and the deflated housing price index (European Commission, 2021a).

According to IMF experts, Albania needs to make a coordinated effort to better monitor and handle the increasing budgetary risks. Budgetary risks have increased, and the lack of clear data regarding government exposure makes it more difficult to effectively evaluate and handle these risks. The evaluation of real risks related to Public-Private Partnership programs is a key challenge due to the limited availability of information. The state

guarantee schemes granted to the private sector, as well as the dependence of government-owned corporations, especially in the utilities sector, on guarantees and periodic budget support entail further fiscal risks. In this context, according to the IMF, it would be important to boost reforms regarding electricity-related water sectors, which have been postponed during the past few years, in order to decrease the existing climate-related budgetary risks and vulnerability (IMF, 2014). At present, the development of the water sector is important for two reasons: the use of water energy is particularly important due to the global energy crisis, and adequate water supply to the population and the food sector is a priority in the face of increasing droughts. In this area, there are significant risks due to persistent energy price increases, insufficient rainfall and insufficient domestic hydropower production, as was already experienced in the first quarter of 2022. For this reason, Albania's electricity imports may increase significantly in the future, increasing the country's foreign trade balance deficit and may even overburden the Albanian public finances, which until now has been able to cover the differences between the ever-higher import prices and the regulated domestic prices for households and small and medium-sized enterprises. in the case of companies (European Commission, 2022).

The strong economic growth that began in Albania in 2017 is mostly propelled by private investments in significant infrastructural projects. Between 1 February, 2019 and 31 January, 2021, according to the Bertelsmann Stiftung, various large-scale projects were launched, several of which have been completed (e.g. the Tirana–Elbasan road, the construction of Arber Road, the rehabilitation of the Durrës–Tirana railway, and the construction of the new railway branch to Mother Teresa (Rinas) International Airport (Ministry of Infrastructure and Energy, 2020)). However, the country was hit by an earthquake that caused over EUR 1 billion worth of damage. In 2019, the country only recorded a 2% increase in GDP. The economic performance, which had already been hampered, decreased even further during the COVID-19 pandemic due to the important role that the tourism sector plays in the Albanian economy (approximately 20% of the GDP).

The international and domestic restrictions had a significant effect on local consumption as well. Sectors within tourism registered a 16.1% decrease in income in 2020. As a result, the decrease in GDP during the first half

of 2020 was 6.6% based on an annual comparison, and there was an 11% decrease in GDP during 2020 when estimated for the whole year. Based on this, Bertelsmann Stiftung found the 4.5% projected by the Albanian government too generous of an estimation considering the continued effects of COVID-19 (Bertelsmann Stiftung, 2022).

Table 1.
Annual Real Growth of Gross Domestic Product by Economic Activity

Economic activity	2016	2017	2018	2019	2020
Agriculture, forestry, and fishing	2.05	0.84	1.18	0.63	1.35
Mining and quarrying industry	-12.09	4.46	7.62	10.63	-29.42
Manufacturing industry	4.54	12.43	6.26	5.60	-6.12
Electricity, gas, steam, and air conditioning supply	9.86	-32.59	57.57	-11.32	9.56
Water supply; sewerage, waste management, and remediation activities	1.31	13.82	11.98	7.59	-12.64
Construction	2.50	6.62	2.50	-1.94	1.81
Wholesale and retail trade; repair of motor vehicles and motorcycles	2.03	2.03	2.90	2.79	-3.11
Transportation and storage	5.81	5.01	2.72	1.69	-18.22
Accommodation and food service activities	11.68	14.54	14.29	15.22	-25.13
Information and communication	5.89	4.34	-4.49	4.94	-1.57
Financial and insurance activities	8.74	11.10	2.93	5.00	0.25
Real estate activities	1.09	1.53	-0.07	4.42	5.47
Professional, scientific, and technical activities	-0.82	14.68	12.18	1.70	-11.25

Economic activity	2016	2017	2018	2019	2020
Administrative and support service activities	12.91	9.12	1.65	10.44	-8.61
Public administration and defence; compulsory social security	5.27	7.76	0.10	2.13	2.71
Education	-2.56	8.17	0.09	2.71	1.29
Human health and social work activities	5.82	8.39	6.05	9.30	2.24
Arts, entertainment, and recreation	-0.70	-1.58	-0.23	-49.52	-11.42
Other service activities	24.09	7.25	8.38	11.37	-8.98
GVA at basic prices	3.19	3.83	4.11	2.37	-3.13
Net taxes on products	4.21	3.61	3.41	0.09	-5.90
GDP at market prices	3.31	3.80	4.02	2.09	-3.48

Adapted from: Instat, 2022

Unemployment also followed a positive trend during this period, reaching an all-time low at 12% in 2019. Several critics believe this was a result of the high emigration rate among Albanians, although the Bertelsmann Stiftung projected that the unemployment rate could again reach a record high in 2021 (Bertelsmann Stiftung, 2022). Other forecasters, such as those of the European Commission, do not share this pessimistic view and have projected a further decrease in the unemployment rate for 2021 and 2022 (European Commission, 2021b).

In addition, the execution of court orders could result in further budgetary costs according to experts, which means that they should be identified as contingent liabilities and monitored as such (IMF, 2021).

Table 2.
Medium-Term Fiscal Paths (Percent of GDP)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Projection					
Tax revenues	25.6	25.2	24.6	25.6	26.2	27.0	27.5	27.8	27.8
Primary expenditure	26.6	27.2	31.0	31.9	30.4	28.7	27.8	28.2	28.5
Overall balance	-1.3	-2.0	-6.8	-6.8	-4.6	-2.2	-0.8	-0.9	-1.4
Primary balance	0.9	0.1	-4.7	-4.5	-2.4	0.0	1.5	1.4	1.0
Structural primary balance	0.9	0.6	-2.8	-2.3	-1.3	0.0	1.5	1.4	1.0
Public debt	69.5	67.3	77.2	80.6	78.0	76.1	73.4	69.3	66.2

Adapted from: IMF, 2021, p.10.

Albania's national debt and deficit increased significantly due to the 2020 COVID-19 pandemic (up to 76.1% of GDP), and it remained at a high level in 2021 (74.9% of GDP). As a reaction to the shock of both the earthquake in November and the pandemic, the 2020 budget was modified four times and resulted in the increase of debt and budget deficit. In 2020, the Albanian government declared a state of emergency and employed the tax exemption and deficit ceiling clause from the original budget act to allow for the GDP ratio increase of debt and deficit. In July 2021, the government modified the 2021 budget on three more occasions, primarily in order to increase investment expenditures and budget deficits. The tax exemption and deficit ceiling clause was extended to 2021 without extending the state of emergency, and the planned primary balances rule was also postponed to 2024.

To fund the increased external and budget financing needs, including the rapid but moderate support of companies and households, the Albanian government requested financial support both from the IMF, from where they received EUR 174 million from the “fast-start” funds, as well as the European Union. The first instalment of EUR 90 million of a macro-financial assistance of EUR 180 million provided by the EU was granted on 31 March, 2021, and the second instalment could be requested if the necessary policy conditions were met before November 2021. Additionally, in June 2020, Albania issued EUR 650 million worth of bonds and prepared to issue an additional EUR 500 million worth of bonds in 2021 (European Commission, 2021a).

Macroeconomic Stability

The economy decreased by 3.84% in 2020 as a result of the COVID-19 pandemic, which is a lower rate than additionally planned (-3.3%). The economy increased at an average of 3.1% between 2015 and 2019, driven by export, especially tourism, and private consumption, which in turn was driven by the employment growth rate in the thriving service sector and the processing industry. In 2020, the pandemic affected these growth factors, and private consumption fell by 2.3%. Export decreased significantly (25.6%), while import decreased by 20%, primarily because international travel restrictions caused significant losses in tourism. Nevertheless, in the beginning the economy proved more resilient than expected due to the increase in agriculture, rebuilding following the earthquake, regional tourism, as well as the timely support of businesses and households.

The second half of 2020 saw a moderate recovery, and the GDP strengthened by 5.5% during the first quarter of 2021, supported by the high degree of hydropower production and the recovery of the building and processing industry. Short-term indicators show that the recovery of services related to tourism strengthened the overall recovery during the second quarter as a result of an upsurge in domestic tourism (European Commission 2021a). Following this, Albania’s GDP increased by 7.0% during the third quarter of 2021, which, as expected, showed a deceleration in the annual growth rate compared to the second quarter of 2021. The economic

increase was broadly based, mirroring the increase in all the components of aggregate demand, and it was present in all branches of the economy. The increase in external demand, trust, and the stimulation of monetary and fiscal politics encouraged the increase of economic activity.

These factors are also likely to contribute to the increase in economic activity during 2022. The proxy data suggests a decrease in economic growth during the fourth quarter of 2022, which further mirrors the moderate base effects and harmonizes them with the economic growth potential (Bank of Albania, 2022). The earlier projections do not yet include the effects of the Russian-Ukrainian war and its consequences, including the rise in the price of food, oil, gas, and other goods and services. For 2022 and 2023, growth is expected to be 2.7% and 3.1 %, respectively, mainly due to the impact of Russia's invasion of Ukraine, although this effect is only indirect, as Albania has little direct exposure to either country. Increasing food and energy prices have prompted the government to provide additional support to households and SMEs, which is set to postpone a more significant improvement in government finances to 2023 (European Commission, 2022).

A further key requirement for macroeconomic sustainability is the development of the private sector. Up to this point, Albania's development has been characterised by critical setbacks (earthquakes and the COVID-19 pandemic, as well as the financial crisis of 2008-2014). The economic development of the EU (especially Italy and Greece) has also had a significant impact on the country. It has always taken years for the private sector to strengthen again after these losses. At the same time, Albania's economic policy environment is expected to change further, as Albania's economy continues to open to international trade and investment, but exports and FDI have remained narrow, which makes entrepreneurs uncertain regarding business conditions in the future and discourages long-term investments. One of the major challenges of economic stability today is high national debt. Based on the 2019 Global Competitiveness Index of the World Economic Forum, Albania ranks 114th from 140 countries regarding debt dynamics. Key conditions for growth include an increase in state revenues through the expansion of the tax revenue base, increasing expenditure efficiency, and reducing the fiscal risks outside the budget (World Bank, 2020).

Real GDP Growth and Contributions

The ambitious public investment plans and goods exports are supported by an increase in demand for raw materials, which, through the strong base effects, supported the moderate economic recovery during the fourth quarter of 2020. These factors resulted in a further 4% increase in 2021. In the fourth quarter of 2021, Albania's gross domestic product increased by more than 5.5 percent in volume compared to the fourth quarter of 2020. To which the following sectors contributed, based on the statements of the Albanian statistical analysis company: the construction industry by 1.82 percent, trade, transport, accommodation and food services by 1.03 percent, real estate activities by 0.73 percent, agriculture, forestry and fishing by 0.27 percent, public administration, education and healthcare by 0.26 percent, the information and communication sector by 0.19 percent, arts, entertainment and recreation services and other services by 0.15 percent, while financial and insurance services by 0.01 percent. On the other hand, economic branches such as professional services and administrative services reduced the growth of the gross domestic product by 0.29 percent, and the industry, electricity and water sectors by 0.02 percent. At the same time, net product taxes increased its value by 1.36 percent in this examined period (Instat, 2022).

A moderate recovery in the service export sector is expected due to regional tourism to Albania, where travel restrictions are less severe than in the EU. Polish tourists discovered Albania in 2020-21; when there were still quite serious closures in the EU, Albania was relatively open. In addition to the Poles, Ukrainian and Russian tourists also visited Albania, which Albanian tourism can now bid farewell, likely causing another setback. During the same year, the projected increase in international travel will lead to the strong recovery of tourism, which could be supported by the continuous development of infrastructure such as airports (e.g. upgrading Kukes airport to operational readiness and the development of southern airports to enhance air transport operations in Albania and to promote growth in tourism) and roads (e.g. the construction of the Fieri by-pass, the construction of the Qukës-Qafë Ploçë road, the construction of the Vlora by-pass, and the construction of the Skrapar-Permet road). The large increase in

investments will likely lead to an increase in the import of goods. In 2022, the projected recovery of service exports will also increase the contribution of net exports towards the increase in foreign trade. Thanks to the recovery, an increase in the employment rate is expected in 2022, which will decrease the unemployment rate to below 11% (European Commission, 2021b).

The Albanian economy is still open to international trade and investments, although export and FDI remain tight. Between 1992 and 2014, goods and service exports increased from 12.5% of GDP to 28.2%, while the net influx of foreign direct investments (FDI) increased from 3.1% of GDP to 8.7%, which shows that trade between Albania and the rest of the world increased significantly. It should be noted here that Albania's foreign trade began to develop from an extremely low level, as until 1991 it had essentially no trade relations with the outside world. This positive tendency continued only in part: although exports reached 31.7% by 2018, foreign direct investments remained at 8.0% of GDP. In spite of their important role within the economy, Albanian exports remain simple, and they are restricted to a few products and destinations (fruits, vegetables, textile, and footwear products to Italy, Greece, Serbia, and Montenegro), while foreign direct investments still concentrate on a few large energy-related projects (World Bank, 2020).

The GDP increased by 7.0% during the third quarter of 2021 on an annual basis. As expected, the annual increase slowed down, mirroring the moderate base effect of the previous year. The GDP shrinkage in the third quarter of 2020 was -3.5%. Economic increase was realized on a broad basis. The production sector contributed to the increase by 1.5 percent, while the service sector contributed 4.2%. This dynamic meant that the volume of economic activities surpassed pre-pandemic levels in all sectors. Aggregate demand increased further during the third quarter. The main contributor to the increase in the export of tourism services was foreign demand. In contrast, the contribution of domestic demand decreased, given that foreign demand began recovery at an earlier date. Domestic demand increased by 3.8% during the third quarter of 2021 on an annual basis. Consumption and investment also show a slowing increase on an annual basis, mirroring the base effect. Household consumption increased by 3.3% during the third quarter of 2021, investments by 3.8%, and public consumption by 7.6% (Bank of Albania, 2022).

Although the rate of economic growth can be said to be high compared to previous years, it is far from sufficient for the country to catch up quickly with the average of the European Union. This is what the World Bank study points to. Albania's GDP per capita is still only about a third of the EU average, and based on the current growth rates, it may take more than a generation for Albania to catch up with the EU average, and the GDP per capita of the Albanian economy will only catch up in 2071 the average level of EU member states at earliest. Therefore, the World Bank recommends that Albania should update its current development strategy to accelerate economic growth (World Bank, 2020).

Public Finances

The European Commission's condition that Albania decrease their national debt to 45% of GDP, as well as the Albanian government's undertaking to decrease the government debt ratio to 60% by 2021 was not met due to the COVID-19 pandemic. In contrast, the Albanian national debt saw a steep increase of 10% on an annual level, which in 2020 came close to 80% of the country's GDP. The Albanian government took out significant loans from the European Central Bank and the IMF, and it also issued EUR 650 million worth of bonds in June 2020. The new debts were justified as financing for the support packages aiming to combat the economic effects of the COVID-19 pandemic; however, the Albanian government's support packages (budgetary expenditures, state guarantees, and tax deferrals) meant for households affected by the pandemic only made up 3% of the country's GDP. All this was not enough justification for the 14% increase in national debt in 2020. At the same time, the support packages remained significantly below the regional average. For example, similar support packages in Montenegro made up 8% of GDP (Bertelsmann Stiftung, 2022).

Public expenditure supported the expansion of economic activities in Albania during 2021. Both investments and the increase in public consumption positively affected the increase in aggregate demand. Nevertheless, fiscal incentives decreased moderately during the fourth quarter. Thereafter their composition also changed, so direct transfers

to households, which was a key component of the increase in overall expenditure in 2020, were replaced by the increase in public consumption expenditures. The budget deficit during the first 11 months of 2021 made up ALL 32.1 billion, which meant an ALL 4.8 billion decrease compared to the values at the end of September. This value falls significantly behind the value measured at the same time the previous year (2020), which was ALL 72.2 billion. The bonds issued in November 2020 worth EUR 650 billion increased the assets of the budgetary reserve to EUR 1.8 billion. The issuing of the euro bonds significantly increased the liquidity surplus in foreign currency against the Albanian lek, therefore most of it was transferred to be used during 2022 (Bank of Albania, 2022).

The deficit of Albania's consolidated budget deficit was ALL 85.8 billion (EUR 701 million) in 2021, which is lower than the ALL 110.6 billion budget deficit of the previous year, as well as the 2021 budget estimate, according to the provisional data published in February 2022 (Jonuzaj, 2022).

As a result of relatively high GDP growth and lower-than-planned public investments, the public household deficit ended up being lower than expected and despite the euro bond issues previously used for pre-financing. The reduction of the budget deficit to 2.7% of GDP and the further reduction of the debt ratio may be significantly delayed due to the increasing costs of state subsidies and the constantly increasing social subsidies (European Commission, 2022).

Inflation, Prices, and Costs in the Economy

In the period between 2019 and 2021, the inflation rate in Albania was 1.4% in 2019 and 1.6% in 2020. The sharp rise in food prices during the first half of 2020 brought into question the achievability of the eight-year inflation rate goal of 3%. The attempts of the Bank of Albania to manage inflation through continuous interest cuts had little effect due to the euroization of the financial sector, low raw material prices, and the underperformance of the economy. This meant that by the end of March 2020, the Bank decreased its interest rates with 50 basis points to a record of 0.5% in order to combat the effects of COVID-19. The continuous strengthening

of the domestic currency against the euro stabilized to a certain extent in 2019, but the COVID-19 crisis interrupted this process yet again. The crisis contributed to the domestic currency value decreasing by 7% against the euro in the first quarter of 2020. The Bank of Albania acted quickly and improved the supply of foreign currencies to domestic markets in order to stabilize the lek exchange rate of the country (Bertelsmann Stiftung, 2022).

Annual inflation rose to 3.1% on average during the fourth quarter of 2021 from the 2.4% of the previous quarter. The rising trend of inflation mirrored the gradual increase of domestic inflationary pressure as a response to the increase in demand, the improvements made in the labour market, and wage increases. On the other hand, the acceleration in inflation during the fourth quarter was greatly influenced by the increase in the imported inflationary pressures, high raw material and food prices in foreign markets, increase in transportation costs, and frequent difficulties in production chains. Short-term inflationary expectations also rose, but they remained close to the 3% inflation goal in the medium term (Bank of Albania, 2022).

Main Features of Country Forecast

Since the fourth quarter of 2020, the Albanian economy has been on a path to recovery, which has been supported by increasing government expenditure for the rebuilding after the earthquake. Investments, recovery of the export of goods, and an increase in private consumption provided further momentum to this increase in 2021. Although mobility restrictions within the EU restricted the export of services and foreign direct investment, economic performance and inbound tourism will likely soon return to pre-pandemic levels. Public finances are likely to improve following the reduction in costs, but debt and deficit ratios will not return to pre-pandemic levels within the forecasting horizon. According to Ecofin, public finances are likely to continuously improve. Regarding the pandemic and post-earthquake rebuilding, the 9% increase in public expenditure for support measures and the 7.5% decrease in revenues increased the budget deficit to 6.9% of GDP and the debt-to-GDP ratio to 76.1% in 2020. The increase in expenditure towards the education and

healthcare sectors, and the ambitions rebuilding plans are delaying the decrease of the budget deficit. According to previous plans, the deficit needed to decrease by 2022, close to the end of the rebuilding efforts, when alongside a strong recovery, the costs must also decrease. Based on this, experts expect a 2.5% decrease in the budget deficit and a 1.7% decrease in the debt-to-GDP ratio (European Commission, 2021b). Overall, economic growth is forecast at 2.7% in 2022 and 3.1% in 2023. This slowdown, as well as increasing wages, are likely to moderate employment growth in 2023. However, driven by recent labour shortages, the unemployment rate is expected to decline to below 11% by 2023 (European Commission, 2022).

Table 3.
Main Features of Country Forecast

	Annual percentage change						
	2002-17	2018	2019	2020	2021	2022	2023
GDP	4.0	4.0	2.1	-3.5	8.4	2.7	3.1
Gross fixed capital formation	2.6	2.3	-3.6	-1.1	19.9	3.1	3.4
Exports	8.9	4.0	2.7	-27.7	46.6	4.8	5.4
Imports	5.1	2.4	2.3	-19.2	31.6	2.9	3.2
GNI	3.8	3.6	0.9	-3.8	8.7	2.7	3.1
Employment		2.1	2.4	-1.9	1.5	1.8	1.6
Unemployment rate^a	16.5	12.8	12.0	12.2	11.9	11.5	10.8
Consumer price index	2.6	2.0	1.4	1.6	2.0	4.9	3.5
Trade balance^b	-24.5	-22.3	-22.8	-22.5	-24.8	-26.1	-26.4
Current-account balance^b	-10.9	-6.8	-7.9	-8.6	-7.7	-8.3	-7.9
General government balance^b	-7.0	-1.7	-1.9	-6.8	-4.6	-4.2	-2.7
General government gross debt^c	64.5	67.7	65.8	74.5	73.1	72.4	70.9

^a as % of total labour force, ^b as % of GDP, ^c as % of potential GDP.

Adapted from: European Commission, 2022, p.121.

Table 1 indicates that the experts at IMF are more pessimistic regarding the expected development of the Albanian budget than the EU experts (Table 2.). Comparing the forecasts of the IMF and EU experts, it is striking that the IMF experts assess the development of Albania's future fiscal trajectory significantly more negatively than the EU experts. For example, when forecasting Albania's public debt, while EU experts forecast a public debt ratio of 70.9 percent of GDP, the IMF predicts a much higher level of 76.1 percent for 2023.

Monetary Policy in Albania

Financial crises usually result from internal imbalances even in the most powerful countries. The effects of global crises frequently spill over to the Albanian economy, as Albania's most important trade partners are Italy and Greece, two countries within the Eurozone that have been in a debt crisis for many years. On the other hand, this effect is often attributed to the periodic scarcity of liquidity and loans in the international market.

In 2009, the Albanian economy also felt the effects of the financial crisis. Due to the balanced economy during the period of 2009–2011, Albania's economic growth exceeded that of several other countries in the Balkans and in Europe. During 2011, the effects of the crisis became more visible, and the national debt increased. In order to prevent this, the Bank of Albania took several contradictory measures. In 2011, the Bank of Albania produced moderate growth, despite the unpredictable and difficult foreign environment, especially the imbalance in the financial markets. Fluctuations in external markets increased the risk related to the internal and external financial markets. The rise in oil prices impacted Albania's import costs negatively, which meant a high degree of inflationary pressure. In this context, the fiscal policies implemented by the Albanian government could not reach their goals due to the increase in debt. In order to ensure economic stability, the Bank of Albania focused on prudential policy, the primary goal of which was to increase the competitiveness of Albanian products and services towards external markets. In 2012, as a result of the changes in the environment, Albania suffered a domestic and foreign

supply shock, which significantly affected economic growth, decreasing its extent. Foreign demand decreased while risk margins increased, which was mirrored in the decrease in consumption and investments. The fiscal incentives were also lower than they were earlier, which had a negative impact on aggregate demand. At the same time, the Bank of Albania was able to reach its primary goal, as the average recorded inflation was 2.7% in 2012. This subdued inflation was the result of shortage of domestic and foreign products, as well as the balanced exchange rate (Madhi, 2015).

A lower demand for money caused a low demand in the banking sector. Money supply was also low, as the decrease in customer portfolio quality resulted in bankers becoming stricter when rating loan risks. The Bank of Albania decided that the banking sector was sufficiently capitalised and possessed enough liquidity to support the banking sector, the private sector, and economic development. In 2013, the Albanian economy was characterized by a slow, 1.1% increase, caused by the low private demand for consumption and investments, even though several fiscal policy facilitations had been introduced. Albania introduced several measures after 2013 to encourage payment stability and economic development. Among other things, it rationalized tax payment, introduced electronic payment at customs, made it easier to start a business by reducing registration fees, streamlined building permits by reducing the time, costs and procedures for assessing permit applications, as well as by introducing new construction regulations, introducing effective deadlines and real estate by digitizing records, as well as shortened the adjudication procedures for commercial disputes (World Bank, 2015).

Foreign demand was also low due to the economic difficulties Albania's trade partners were facing. The increasing uncertainty within the market prompted economic operators to decrease their investment demand, and the loan sector to restrict personal and private financing. During 2014, the data relating to economic growth showed a temporary decreasing tendency, mostly due to the declining tendency in the real estate sector. Decreasing economic activity was indicated by the decrease in Albanian added value. Inflation also remained low due to the unexpected supply shock. The Central Bank expected predictable economic changes for the medium term, supported by monetary policy urging consumption and investment. As

a result, in 2015 economic growth and aggregate demand showed a tendency to increase thanks to the rise in economic activity and strengthening inflationary pressure. Because the seasonal supply shock resulted in an increase in prices, the Central Bank deemed these effects temporary. On the other hand, the rise in oil prices had a negative effect, which was balanced out by the dollar strengthening against the lek. In conclusion, the Bank of Albania did an exceptional job during these years, despite the market fluctuations, by maintaining economic growth, incentivizing consumption and investments, and facilitating monetary policy (Madhi, 2015).

Monetary Policy Framework in Albania

Economic governance during the past few years has been a key aspect of the EU's expansion process. The conversation is based on countries' annual submission of their medium-term Economic Reform Programs (ERPs), which contain macroeconomic and structural reform plans that aim to increase competitiveness and foster long-term growth. They contain clear guidelines to achieve macroeconomic stability, budgetary sustainability, as well as reforms regarding long-term growth and competitiveness (European Commission, 2019).

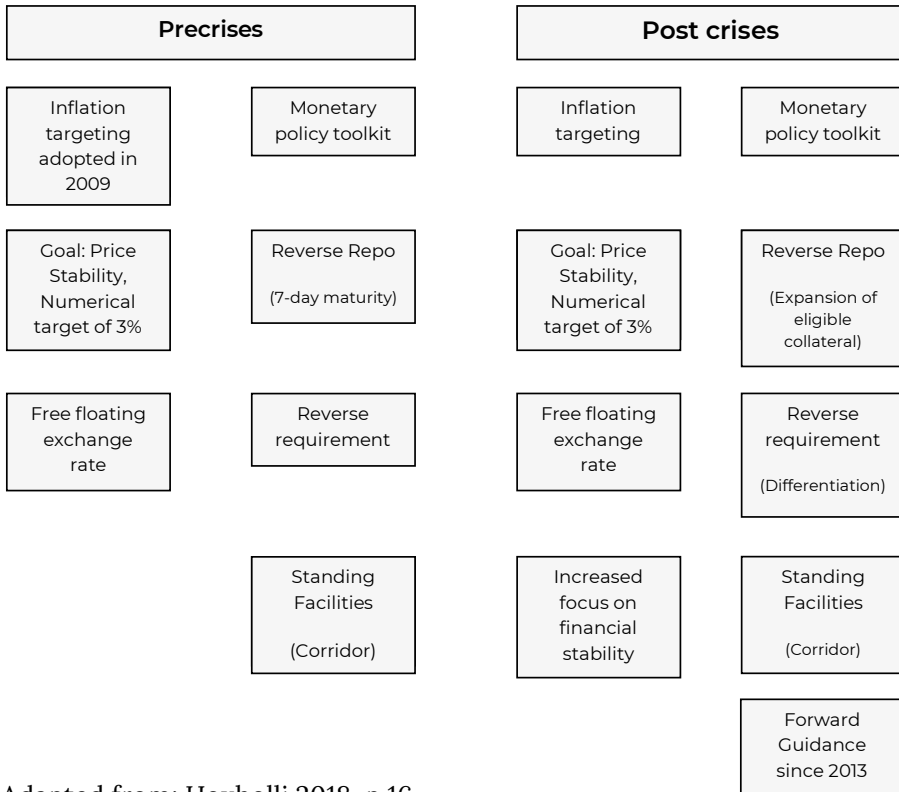
Albania is one of the few Western Balkan countries that have had a framework specifically for tracking inflation for a long time. The Bank of Albania is performing a wide-scale structural reform to improve financial transactions and decrease Albania's financial vulnerability. The main steps for the monetary reform processes within the medium-term Albanian reform program are the following:

- Developing the domestic financial market in order to improve liquidity, effectiveness, and to promote flexibility
- Implementing the Non-Performing Loan (NPL) resolution strategy to decrease loan risk and improve the financial situation
- Aiding the use of the national currency. In 2018, the following measures were taken:
 - Separating the minimum reserves requirement, lek and foreign exchange obligations

- Differentiating between the regulatory liquidity indicators of lek and foreign currency obligations
- Increasing the mindfulness of loan borrowers regarding the risks related to foreign currency loans (Hoxholli, 2018).

The main goal of this reform process is to completely transform the monetary policy framework system according to the following (Figure 1):

Figure 1.
Monetary Policy Framework in Albania Before and After the Financial Crisis in 2008-2014



Adapted from: Hoxholli 2018, p.16.

As a result of the crisis, fiscal stability became the focus of monetary policy and forward guidance was introduced.

The Albanian Banking System

In Albania, the financial sector is mostly comprised of banks that make up close to 90% of the assets of the financial sector. The share of non-bank financial institutions, investment funds, and pension funds is negligible. To understand the state of the financial system and the trends of the recent past, we must focus on commercial banks.

There are currently 16 banks in operation in Albania, most of which do not possess resident properties according to 2014 data (Table 4). Domestic shareholders hold less than 15% of the shares within the entirety of bank sector assets. The remaining 85% is owned by non-residents, with approximately 75% of the owners originating from EU countries and 22.4% from non-EU countries. The concentration of the banking sector is not very high. 80% of all the assets of the banking sector is comprised of six banks. The market share of these banks is somewhere between 10-30%, meaning that there is no single bank that has a dominant position on the market. These six banks are treated by the Bank of Albania as systemic banks. As a result, the Herfindahl-Hirschman Index (HHI) is relatively low, indicating the low concentration of the banking system.

Table 4.
Structure of the Albanian Banking System

Bank	Year established	Total Assets		Ownership structure %		Nationality
		bn lek	%	Foreign	Domestic	
Raffaisen Bank	1992	301	25.0	100	0	Austria
National Commercial Bank <i>Banka Kombetare Tregtare</i>	1992	258	21.4	100	0	Turkey

Bank	Year established	Total Assets		Ownership structure %		Nationality
Intesa Sanpaolo Bank Albania	1998	132	11.0	100	0	Italy
Credins Bank	2003	101	8.4	23	77	Albania, Netherlands
Tirana Bank	1996	89	7.4	100	0	Greece
Alpha Bank Albania	1998	71	5.9	100	0	Greece
Societe Generale Bank Albania	2004	64	5.3	89	11	France, Albania
NBG Bank Albania	1996	40	3.3	100	0	Greece
Procredit Bank	1999	39	3.2	100	0	Germany
Credit Agricole Bank Albania	1999	32	2.6	100	0	France
Union Bank	2006	29	2.4	13	87	Albania
Veneto Bank	1994	19	1.6	100	0	Italy
First Investment Bank Albania	1999	14	1.1	100	0	Bulgaria
International Commercial Bank	1997	8	0.7	100	0	Malaysia
United Bank of Albania	1994	6	0.5	100	0	Saudi Arabia
Credit Bank of Albania	2002	2	0.1	100	0	Kuwait

Adapted from: IMF 2014, p. 32

Since 2014, many new banks have started to operate in the Albanian financial sector, and the ownership structure of several financial institutions has changed. Of these, the following deserve the most mention. Bank of Albania has, among other things, approved the following major banking transactions since then, according to the report of the Supervisory Board of the Bank of Albania:

- the transfer of 100 percent of the shares of International Commercial Bank to Union Bank and the merger of the two banks,
- the voluntary liquidation of Credit Bank of Albania,
- Bank of Albania granted permission to transfer 88.89 percent of the shares of Société Générale Albania Bank to OTP Bank Nyrt,
- to transfer ownership of 98.83 percent of the shares of Tirana Bank to Balfin Albania,
- the merger of Credins Bank with more than 20 percent of its equity into Amryta Capital LLP.

More details about these changes can be found in the 2019 supervisory board report of the Bank of Albania (Bank of Albania, 2019).

As a result, the total share capital of the banks operating in Albania reached ALL 164.34 billion by 2020. At the same time, the main ownership structure of the Albanian banking system has not changed fundamentally, and foreign ownership is still dominant. Foreign capital continues to dominate the capital structure, which, at the end of 2020, accounted for around 76.04 percent of paid-in capital in the banking system, down by around 1.12 percentage points from the end of 2019 (Bank of Albania, 2020).

One of the major challenges for the Albanian banking sector is the high degree of dollarization (or euroization) of loans. More than half of the total loan stock is mostly denominated in foreign currencies, mostly in euros. Another important challenge for the Albanian banking sector is the high level of non-performing loans. In 2014, the rate of non-performing loans reached 25 percent of the total loan stock, although this level has since continuously decreased, reaching 8 percent by the end of 2020 (Black Sea Trade & Development Bank, 2021). From the point of view of the sustainability of financial stability, the two most

important risks are the high dollarization/euroization and the high rate of non-performing loans. Both significantly increase the uncertainty of financing and exposure to changes in the external environment.

According to the World Bank, Albania should allow greater access to the resources necessary for the effective financing of investments, as Albania's financial sector is ranked 102nd out of 141 countries in the 2019 Global Competitiveness Report of the World Economic Forum. Loans given to the domestic private sector make up only 35 percent of GDP, in contrast to regional partners, which make up over 50 percent. This showcases the very low loan-to-deposit ratio of the Albanian banks. Micro, small, and medium enterprises (MSME), the backbone of the Albanian economy, must face serious obstacles regarding their access to financing. 21.2 percent of companies report that access to financing is a substantial problem in Albania.

The financial sector is ruled by banks that are best described by a high liquidity level, strong avoidance following financial crises, and a lack of appropriate motivators or capacity for exploring new and innovative approaches to financing. Outside of banks, the financial sector is still relatively undeveloped and lacks diversification. According to the 2019 Competitiveness Report, Albania is ranked 81st out of 141 countries regarding the availability of venture capital (World Bank, 2020).

The Monetary Policy Strategy of the Bank of Albania

The primary goal of the Central Bank regarding monetary policy is to achieve and maintain price stability, as recorded in the law on the Bank of Albania. The Bank of Albania is financially independent, with the appropriate assets, competencies, and administrative capacity to ensure effective operation and implementation of monetary policy. Monetary policy is implemented using the standard tools used worldwide, through (European Commission, 2021b):

1. open market operations;
2. available facilities;
3. within the framework of required minimum reserves and free-floating exchange rates.

The Bank of Albania states that the primary goal of monetary policy is to maintain price stability, but positive inflation rates must be maintained for a relatively long period. From a quantity perspective, in addition to price stability, the Bank of Albania has also set the goal of maintaining inflation below 3.0%, with a ± 1 fluctuation (Law 8269/1997). In order to achieve the primary goal of the monetary policy, such as is the case with the European Central Bank, the Bank of Albania pursues a policy in which the monetary aggregate of widespread money, M3 served as an intermediary goal in order to measure the pressure of monetary policy and economic inflation. According to this approach, the increase in money supply is an indication and also a prerequisite of rising inflation outside of the economy. According to the Bank of Albania,

1. at the end of the day, inflation is a long-term monetary phenomenon and as such is most influenced by the increase in monetary money supply within the economy
2. maintaining price stability directly contributes to maintaining macroeconomic balance in Albania through the decrease in mutual funds through the stable long-term increase in the economy and welfare, as well as supporting the stability of the financial system. (Shijaku, 2016).

From this perspective, the Bank of Albania must maintain stable prices on all levels, and all this can be best achieved through comprehensive economic and financial indicators. These indicators make it possible for inflationary pressures and the appropriate reactions of the monetary policy to be identified in time. The analysis of economic indicators should primarily focus on short and long-term inflation processes, and its focus must be related to the indicators of production and the financial situation of the country. This aspect considers that the inflationary pressure during this period is mostly affected by the interaction between the supply and demand in the goods and service markets. At the same time, the examination of the monetary indicators must focus on the long term in order to explore the long-term relationship between money and inflationary pressure (Shijaku, 2016).

Thus, the monetary strategy of the Bank of Albania shows the effects of Milton Friedman's research from the 1950s and 1960s (Table 3). In another sense, in contrast with the monetary policy strategy of the US Federal Reserve and

other central banks with inflationary goals that do not allocate a special role to monetary aggregations, the strategy of the Bank of Albania is closer to a two-pillar approach that is similar to the framework of the ECB’s monetary policy nowadays (Shijaku, 2016).

The medium-term development strategy of the Bank of Albania between 2020 and 2022 envisages the adherence of Albanian basic law to the charter of the European System of Central Banks. Albania’s alignment to the *acquis* of the European Union is incomplete from the perspective of the independence of its members and the accountability of the Bank of Albania. As a response to the economic effects of COVID-19, the Bank of Albania set the reference interest rates to a record low of 0.5%. The interest of overnight loan was decreased from 1.9% to 0.9% on 25 March, 2020, and it was maintained for the total duration of the reported period. This provided unlimited liquidity for the banking system in order to maintain the private sector, increasing its capacity to provide appropriate cash supply to the economy and easing electronic payments. The macroprudential measures that were introduced until December 2020, and the legislation allowing for the restructuring of bank loans were extended until March 2021. At the same time, a new law was accepted in December 2020, which increased transparency and introduced new tools regarding intervention in domestic exchange markets (European Commission, 2021b).

Table 5.
A Comparison of Friedman’s and ECB’s Principle
and Bank of Albania’s Policies

Friedman	ECB	Bank of Albania
Policy objective: Price stability (not precisely defined)	Policy objective: Price Stability, defined as an inflation rate below, but close to, 2 percent in the medium term	Policy objective: Price stability, defined as a year-on-year increase in the CPI for Albania of 3.0% with a tolerance band of ± 1 percentage point around this central numerical figure.

Friedman	ECB	Bank of Albania
Policy implementation: increase the money supply (M2) by 3 to 5 percent annually	Policy implementation: “Two pillar” – “economic analysis” and “monetary analysis” – are used to assess the risks to price stability	Policy implementation: a comprehensive analysis of economic and financial indicators is used to assess the risks to price stability
Long-run money demand is stable.	Money demand was found to be stable through early 2000s and unstable thereafter. The role of reference value was, therefore, diminished.	Money demand was found to be stable after 1998.
The central bank can control is often destabilizing.	Policy focuses on controlling the price level, a nominal magnitude.	Policy focuses on controlling the price level, a nominal magnitude.
It is important to maintain a clear separation of monetary policy from fiscal policy.	Article 123 of the Treaty on the Functioning of the EU (the Treaty) prohibits the monetary financing of fiscal actions.	Pursuant to Article 30, paragraph 1 of the Law No. 8269, (1997), “On the Bank of Albania”, prohibits the monetary financing of fiscal actions, except as otherwise specifically authorized by this Law

From: Shijaku, 2016, p.45.

The Monetary Policy Instrument of the Bank of Albania

Until the end of the year 2000, the Bank of Albania performed direct asset policies through two administrative decisions:

- a. down limits in order to increase the loan stock of commercial banks;
- b. determining commitments for banks owned by the state and banks with state holdings, so that they adhere to the minimum interest rate for fixed-term deposits in lek by the Bank of Albania.

As the financial market was unable to react to these limits, the Bank of Albania changed the direction of its activities and decided to involve market instruments to a greater extent during its implementation of the monetary

policy (Bank of Albania, 2001). Since then, the implementation of Albanian monetary policy occurs through direct monetary assets, according to the following:

- Open market operations.

Depending on the goals of their use, open market operations can be separated into three categories: market, regulatory, and structural operational actions. According to the Bank of Albania, repurchase and reverse repurchase agreements are used as market and regulatory operations, while final placement is only used in structural actions. The goal of repurchase agreements is to decrease the liquidity of the banking system, during which the Bank of Albania sells and repurchases securities. Repurchase agreements are open market operations with the goal of temporarily increasing the liquidity of the banking system. As the main tools for implementing monetary policy, the Bank of Albania repurchases seven-day maturing (reverse) agreements. The goal of this tool is the short-term handling of the liquidity of the banking system in order to stabilize the market interest rate. Determining the interest rates on these weekly maturing tools determines the position of monetary policy. The Bank of Albania includes immediate sales that have a long-lasting effect on the financial market among open market operations (Balla, 2019)

- Preparedness instruments.

Preparedness instruments are instruments that under normal circumstances are available to banks without restriction, at their own initiative. They are comprised of daily liquidity providing and absorbing assets. The interest on these assets ensures the corridor in which the interest rates of the financial market can fluctuate. Permanent loan instruments are instruments that aid banks in tackling temporary liquidity problems by investing excess liquidity through overnight deposits. These assets are always exclusively done at the behest of the banks by the Bank of Albania, by providing overnight liquidity (Balla, 2019). The European Central Bank employs two types of preparedness instruments within the framework of the euro system. The first is the marginal lending facility, in order to receive overnight liquidity against the

assets that the Central Bank accepts. The second is the deposit facility, in order to be able to deposit overnight deposits in the Central Bank (European Central Bank, 2022).

- Minimum reserve requirement.

Required reserves include funds that banks must keep within the Bank of Albania in lek or other foreign currencies. For a long time, the interest on minimum reserve was 10 percent, but since 24 July, 2018 the interest on required reserves in foreign currencies has increased, while the interest has decreased in the case of the lek (Bank of Albania, 2022).

The main goals of implementing monetary policy with the above tools are:

- The effective handling of the liquidity shortage within the banking system;
- Predicting the liquidity requirements of the banking system;
- Performing open market operations (Bank of Albania, 2001).

Factors Influencing Monetary Policy Effectiveness in Albania

The following are some of the factors that are most likely to influence the effectiveness of monetary policy and determine the measures of the Bank of Albania (Balla, 2019):

1. A high degree of use of the euro. High euro use within the economy directly influences the effectiveness of the monetary policy. Because commercial entities are more sensitive to fluctuations in the exchange rate, free exchange rates do not stabilize the economy. Fiscal policies are affected by the potential price increase in the outstanding debt stock that is in foreign currencies. The effects extend to the external exposure of the current financial system, as a result of which the Central Bank must maintain the foreign currency reserve levels at a continuously high level. In order to increase the usage of domestic currencies, an agreement was made according to which the Bank of Albania, the Ministry of

Finance, and the Albanian Financial Supervisory Authority must take all necessary measures in order to prevent the frequent use of the euro as a currency. The following measures have already been implemented:

- a) The differentiation of foreign exchange obligations and increasing the minimum reserves requirement. The increase in foreign currency reserves raise the price of deposits for banks. To balance out the extra costs, the banks are required to decrease the interest paid after savings in euros, or they must increase the interest of loans in this currency so that these products become less attractive.
 - b) Increasing the value of liquid assets in foreign currencies according to the minimum regulatory standards. In the case of short-term foreign currency obligations, liquid assets in foreign currencies must be kept at a minimum of 20% (this was previously 15%), while liquid assets in the Albanian currency should be at least 15%.
 - c) Loan borrowers have to be informed of the risks involved with borrowing in a foreign currency, and banks are required to offer alternative loans to borrowers in the Albanian currency.
 - d) The goal of the package for decreasing the use of foreign currency is to increase the use of the Albanian national currency and gradually reduce foreign currency use within the economy.
2. Timing the political transmission of monetary policy. The chosen monetary policy will always orient itself towards the future by predicting the expected inflation rate. Financial markets, however, will not always react immediately, and major economic operators' expectations on interests and liquidity may change the transmission mechanism of monetary policy from one year to up to three years. This means that the effects of monetary policy processes may only appear within the economy after a delay. As a result, the Central Bank must continuously analyse the relevant information and revise its predictions in order to ensure the effective operation of the monetary policy.
 3. The development of external sectors

4. Regarding the high degree of non-performing loans, the banking sector pursues an exceptionally careful lending policy, which is based on the problems present within various sectors of the economy as well as the policies of foreign central banks (Table 5) (Balla, 2019).

The Effectiveness of the Albanian Monetary Policy and the Need for Further Reform

Monetary stability in the past was one of the pillars of the developmental success of the Albanian economy. Measured through inflation, it was extremely successful regarding the low fluctuation of the exchange rates. The inflation of consumer prices decreased from over 40% to 3% after 1997. The exchange rate remained stable, the Albanian currency continuously increased in value against the euro, and this tendency was even stronger against the American dollar. The trust placed in the monetary policy and the stability within the banking system resulted in a stable inflation rate and reliable inflation expectations. If these are implemented, further steps may be taken towards strengthening inflation targeting. Michael Bolle and Thomas Meyer, experts at the Jean Monet Centres of Excellence, believe that further reforms must be implemented in order to achieve this goal, and focus should be placed on four areas:

- (i) decreasing the extent of dollarization, as the majority of business connections are traced to Europe,
- (ii) the levels of financial intermediation must be improved, taking care to avoid an unsustainable loaning boom,
- (iii) the cash-based economy must be transformed into a bank-based economy;
- (iv) the quality of financial institutions must be developed (Bolle–Meyer, 2004)

The significant changes within the Albanian economy and the development of economic thinking invites debate, and the challenging nature of Albanian monetary policy and its goals require the implementation of new policies and strategies in which money will play an integral role. In truth, current

monetary statistics are one of the most reliable and most precise statistical information sources available in Albania. Empirical analyses indicate that monetary aggregates could provide useful information regarding the long-term effects of inflation for cross-checking purposes, and therefore monetary aggregates should play a primary role. As a result, the approach of the Bank of Albania towards inflation and economic activity development would go through significant changes. The most important challenge will be to decide how to implement an all-encompassing strategy where new and relevant information is not lost during the decision-making process, and where data can be structured in a way that data necessary for adhering to legal requirements and maintaining price stability can be identified in time and on a consistent basis (Shijaku, 2016).

Conclusion

The past few years have proved challenging for the entire world, including Albania, as before the pandemic it also had to face the negative consequences of the earthquake in November 2019. The shock of the past few years has greatly affected the Albanian society and posed a challenge for Albania's economic, monetary, and financial stability, as well as the stability of its sources of growth. It has shown that maintaining economic and financial stability is mostly dependent on the work done at monetary institutions, as well as the ability of the society to adapt quickly and effectively to the pandemic. In light of this, vaccinations and appropriate treatments became effective tools at moderating the economic and financial effects of the pandemic. It is a significant result that based on the latest analyses, economic recovery, achieving price stability and financial stability may be achieved according to the optimistic predictions of the Bank of Albania. All this shows that the current monetary and fiscal policies guarantee the monetary and financial stability of Albania, and it has strengthened the low loan costs of economic activities and moderated the burdens on the private sector and households that the prolonged pandemic had brought upon them (Sejko, 2021).

There is no doubt that Albania has done a great deal to strengthen the

crisis resistance of the country, although there are many issues that remain unsolved, including the problem of handling the COVID-19 epidemic, as the fact that the country has one of the lowest vaccination rates in the region creates additional risks for the future. This is especially true when the country wishes to build its economic development largely on increasing tourism. Another important issue is the underdevelopment of the functioning of the internal financial markets. Financial markets based on foreign banks and foreign currencies pose many risks because the question of crediting domestic enterprises, especially SMEs, has not been resolved, and the external exposure and vulnerability of the country is high as a result.

At the same time, it is not yet clear to what extent Albania's economic and monetary policy will be able to cope with constantly new challenges in the world economy, such as the energy crisis and the price increases caused by the Russian-Ukrainian war. The biggest problem is that it is even less visible how Albania will be able to accelerate the development and catching up of the country, at least compared to the EU average, and overcome its significant gap in GDP per capita.

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