

Gent Sejko: Albania's economic and financial developments in 2024

Address by Mr Gent Sejko, Governor of the Bank of Albania, to the Assembly of the Republic of Albania presenting the Annual Report of the Bank of Albania for 2024, Tirana, 31 October 2025.

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Honourable Speaker,

Honourable Members of the Parliament,

I would like to commence this public address by conveying my highest consideration for the process of annual institutional reporting to the Parliament of the Republic of Albania. Allow me to reaffirm that Bank of Albania considers this process a crucial component of its transparency and accountability.

Before proceeding further, I would like to highlight that the activity of the Bank of Albania has been, and continues to remain, firmly oriented toward fulfilling our legal responsibilities: safeguarding price stability, supporting financial stability, and promoting the development of financial markets and payment systems. At the same time, we have worked diligently to meeting our institutional commitments-particularly those related to the European integration process-and we have implemented all recommendations issued by the Parliament of Albania for the previous year.

Honourable Members of the Parliament,

Throughout 2024, the Bank of Albania conducted its activity within a broadly positive context of economic developments.

According to INSTAT data, the volume economic activity grew by 4%, wages in private sector increased by 8.6%, while unemployment rate dropped to a historical low of 8.8%. The expansion in both household consumption and private sector investment, coupled with the growth in service exports-particularly through tourism revenues-underpinned the economic growth. On the other hand, strong domestic demand contributed to an increase in imports, while goods exports experienced a slowdown, and fiscal policy maintained a consolidating stance. From the sectoral perspective, the expansion of activity in the services and construction sectors mirrored the economic growth, while the industry and agricultural sectors experienced a decline.

In parallel with these developments, inflation came down, moving closer to our target, falling to an average of 2.2% in 2024 from 4.8% in 2023. The reduction in inflation has been driven by declining prices in international markets, the strengthening of the exchange rate, and the implementation of a proactive and balanced monetary policy.

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Finally, and equally important, the domestic and external balances of the economy have improved, while the country's capacity to withstand potential shocks has been strengthened. In this context, I would like to highlight three important developments:

- *First*, the external position of the economy has been consolidated, due to the further growth in exports, remittances, and foreign direct investments. In 2024, total exports reached EUR 9.1 billion, up by 11% compared with the previous year, driven by tourism revenues amounting to EUR 5 billion. Also, remittances amounted to EUR 1 billion, while foreign direct investment inflows to EUR 1.6 billion. Overall, the balance of trade and financial exchanges with abroad has shown improvement over the past three years, recording minimums in the current account deficit and being reflected in the strengthening trend of the exchange rate. In reflection of these dynamics, external debt fell to 40.6% of GDP, while the foreign exchange reserves of the Bank of Albania have reached close to EUR 7 billion, providing increased assurance for the country's financial stability.
- *Second*, fiscal position has further improved, as shown by the reduced budget deficit and public debt, to 0.7% and 53.8% of GDP, respectively, as at end of 2024.
- *Third*, banking system has strengthened the sustainability indicators, expanded its deposit base and considerably increased the credit portfolio. These developments have led to an enhanced capacity of the banking system to provide the economy with stable, low-cost funding, and have enabled a broader use of modern payment instruments.

Albania - in reflection of these developments - experienced an improvement in sovereign debt risk rating from international specialised agencies, which in turn contributes to lowering the financing costs of the Albanian economy in foreign markets.

This landscape reflects- among other things- also the contribution of our monetary and macroprudential policies, the diligent supervision and regulation of the banking system, as well as the measures we have taken to boost the development of the financial market and payment systems.

In what follows, I will briefly address each of these aspects, starting with monetary policy.

Monetary Policy of the Bank of Albania

In line with the legal provisions that govern the activity of the Bank of Albania, our monetary policy is designed and implemented exclusively in pursuit of the objective of price stability. In this context, I would like to emphasise that the monetary policy we have implemented in recent years has enabled to maintain inflation contained, without undermining the positive trend of economic growth and the financial stability of Albania.

Following a normalization phase in 2022 and 2023, the monetary policy stance became more accommodative during the second half of 2024 and in 2025. This approach was dictated by the need to recalibrate monetary conditions in an environment of declining inflation. In this context, we undertook two reductions of the key interest rate, lowering it to 2.5% in July 2025, from 3.25% at the beginning of 2024. In parallel, we intensified our foreign currency purchases in the domestic market, withdrawing almost EUR 914

million during 2024 and continuing at a similar pace during 2025. The intensified presence in the foreign exchange market aims to curb the pace of lek exchange rate appreciation, stabilize market activity, and minimize potential adverse effects on the country's monetary and financial stability-effects that could arise from the formation of speculative positions or heightened exchange rate volatility.

These measures have significantly improved the financing conditions for households and enterprises. Interest rates on lek-denominated loans have reduced, while lending has also benefited from a more positive approach of banks in this regard. As a result, credit to the private sector recorded an annual growth of 15.7% at the end of 2024 and 14% in the third quarter of the current year. This credit has supported the consumption and investment of the private sector, while maintaining a sound currency composition and good quality of credit portfolio.

Honourable Members of Parliament,

The monetary policy pursued by the Bank of Albania during this period has aimed to, and successfully managed to, balance the fulfilment of its price stability objective with those of supporting economic growth and strengthening financial stability. As a result, Albania has experienced one of the lowest levels of both inflation and financing cost increases - in both the regional context and more broadly.

The current monetary policy framework, based on an inflation-targeting regime and a freely floating exchange rate, has proven to be both effective and successful in addressing the challenges we have faced. In particular, I find it important to emphasize that the free exchange rate regime provides several crucial advantages for the sustainable and long-term development of Albania. This regime: (i) enables the implementation of an independent monetary policy focused on controlling inflation; (ii) provides an automatic stabiliser for withstanding potential domestic or external shocks; (iii) strengthens the financial stability of the country, as it allows the full exercise of the lender-of-last-resort function; and (iv) enhances the flexibility and resilience of fiscal policy. For these reasons, this monetary policy framework-further developed and refined- will continue to guide our interventions in the monetary markets in the future.

[Allow me to shift your focus to the second pillar of the Bank of Albania's activity: banking supervision and financial stability.]

Banking supervision and financial stability

The positive performance of economy and Albanian financial markets was also reflected in the banking sector. This sector experienced increase of the activity and improvements of financial soundness indicators. As an example, the capitalization of the banking system remained high, at around 20.0%; liquidity indicators continued to be well above our regulatory requirements; and its financial profitability indicators remained satisfactory. Also, credit quality has continued to improve and non-performing loans ratio dropped close to 4.0%, recording the lowest rates since 2008. In parallel, our regular analyses suggest that systemic risk levels remain under control, while stress tests indicate that the banking system has a strong capacity to withstand potential macro-financial shocks.

In fulfilling its legal duties to ensure a sound and solid banking system, the work of the Bank of Albania during 2024 focused on three main areas: (i) ensuring an effective supervisory regulatory framework, aimed at the early identification and timely mitigation of risks in the activity of the institutions it licenses and supervises; (ii) designing and implementing an appropriate macro prudential policy to control and prevent systemic risks; and (iii) ensuring a functional framework for the recovery and resolution in banks.

I will address each of these areas more concretely, starting with our supervisory and regulatory activities.

- *First*, in order to strengthen consumer protection, over the past two years we have thoroughly revised the regulatory framework for non-bank financial institutions, particularly for micro credit institutions. Amendments consisted in introducing new criteria for the financial analysis of households by non-bank financial institutions, aiming to protect them from the insolvency risk. Furthermore, a series of regulatory amendments were introduced to strengthen consumer protection and enhance credit market efficiency. These measures lowered by nearly threefold the maximum permissible effective interest rate on consumer loans and established a cap on penalty charges applied by banks and non-bank financial institutions, set at 30% of the unpaid loan instalment or instalments.
- *Second*, within the framework of changes in financial reporting in accordance with the International Accounting Standards, we are thoroughly revising the credit risk management framework, adapting it to the new standards and the practices implemented by European institutions.
- *Third*, we approved the new regulation "On the operational risk management by banks, payment institutions and electronic money institutions", and the existing one for non-bank institutions and savings that of the associations was revised. Both regulations are based on the revised standards of Basel committee on operational risk management.
- *Fourth*, work continued throughout 2024 to complete the regulatory framework with the aim of aligning it with the EU Acquis, through the adoption of new acts or the revision of existing ones. Beyond the operational risk management, mentioned above, regulatory and methodological improvements have affected the activities of payment service providers and the licensing, supervisory, and risk management requirements in the operations of non-bank institutions.
- *Fifth*, during 2025, we enhanced the licensing and supervision requirements for foreign exchange bureaus, mainly regarding the good reputation and integrity of capital owners, including beneficial owners, in line with anti-money laundering and counter-terrorism financing legal requirements and international standards, aiming to meet the recommendations of Moneyval experts.
- *Sixth*, we have continued conducting examinations of banks, non-bank financial institutions, savings and loan associations, and foreign exchange bureaus. These examinations focused on risk management, in particular the credit risk, implementation of best governance practices, client transparency, and on the money laundering risks.

In the domain of macroprudential policy, the Bank of Albania has continued to work on monitoring systemic risks and implementing measures aimed at their mitigation and prevention. As of the end of 2024, all banks remain subject to the capital conservation

buffer at its maximum level of 2.5%. During the past year, for the first time, the Bank of Albania also implemented an increase in the countercyclical capital buffer.

Developments in the real estate market and in lending for this sector have also been a focus of our work. Building on several years of preparatory work, in June 2025 we implemented concrete measures to standardize the management of risks undertaken by banks in the mortgage lending process. This standardisation introduces to the Albanian market a standard instrument employed by central banks in advanced economies, aimed to control potential risks to the banking sector arising from exposure to mortgage loans.

Lastly, in the capacity of the Resolution Authority, our work focused on enhancing resolution capabilities, ensuring banks meet the minimum requirements for capital instruments, strengthening the regulatory and methodological framework, and developing banks' capacities to implement resolution.

[Next, I will briefly address some other aspects of the activity of the Bank of Albania]

Other activities

The year 2024 marked a historic milestone in the process of integrating the Albanian financial system into the European market. On 21 November 2024, Albania became part of the Single Euro Payments Area - SEPA. The inclusion in this area confirmed the high level of our legal alignment with that of the European Union in the areas of payments and financial supervision. All banks conducting their activity in Albania have been entered in the list of institutions that may operate under SEPA schemes. As of 7 October 2025, Albanian citizens and businesses may carry out cross-border transactions in euro with the 40 member countries of the SEPA area. Integration into SEPA, combined with the expansion of digital payments, is expected to generate savings of around EUR 20 million in the first year only, with progressive growth in the years to come. Also, the AIPS EURO system of the Bank of Albania, operational since January 2022, has saved the domestic market around EUR 140 million.

In this context, I would like to emphasize that the Bank of Albania has continued to work to ensure the safe operation of payment systems, as well as to advance several strategic projects of particular importance for the future of the payment system in Albania.

- *First*, the instant payment system, which will allow electronic payments to be settled in real time, 24/7, throughout the year.
- *Second*, the TIPS Clone project, which aims to implement the European Central Bank's TIPS payment system, adapted to the specifics of Western Balkan countries.
- *Third*, at the beginning of 2025, the first transactions took place under the open banking system, facilitating exchanges between banks and third parties;
- *Lastly*, in 2025, regulatory measures were adopted to significantly reduce fees and commissions applied to payments, thereby encouraging their use and promoting the formalization of the economy.

These projects will translate into faster, cheaper, and safer services for Albanian households and enterprises, thereby supporting the digitalization of the economy, reducing informality, and deepening regional and European financial integration.

In parallel with the above activities which account for the basic functions of the Bank of Albania, I would like to underscore that an important part of our work has been focused on the active support to the European integration process. As the chair of two Inter institutional Working Groups on European Integration for two Acquis chapters, and as a key contributor to six other chapters, the Bank of Albania has played an active role regarding the preparation of negotiating positions and drafting strategic documents to support the alignment of national legislation and policies with the EU Acquis.

Also, throughout 2024, the Bank of Albania successfully carried out its institutional responsibilities and commitments in the fields of financial statistics, scientific research, and the management of foreign reserves. Furthermore, important steps have been taken to strengthen institutional governance, human resources, and IT infrastructure. Particular attention has been paid to cyber security, through the implementation of technical and procedural measures aligned with the best international standards. These measures aim to ensure the operational resilience of the Bank of Albania and the safe functioning of the financial system.

Honourable Members of the Parliament,

In conclusion, I would like to assure you that the Bank of Albania will persist in its dedicated efforts to fulfil its core mission: safeguarding the monetary and financial stability of the country. In the same vein, I would like to reaffirm that this work is-and will continue to be-guided by the principles of professionalism, transparency, and accountability.

Thank you for your attention!