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Statement by the Hon. **GENT SEJKO,**
Governor of the Fund for **ALBANIA**

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Central banks today operate in an increasingly complex and demanding environment, shaped by persistent geopolitical tensions, trade disruptions, demographic shifts, climate change, and rapid technological transformation. Navigating these challenges is particularly difficult for small, open economies, which are more vulnerable to external shocks and often face limitations in institutional capacity and financial market depth.

In this context, I would like to share some reflections on our experience in meeting these challenges.

First, central banks should retain their focus on monetary and financial stability objectives as their ultimate goal. Experience shows achieving these objectives provides a solid foundation for sustainable economic growth and prosperity. Furthermore, monetary and financial stability are mutually reinforcing. Therefore, central banks should show enhanced flexibility in the policy tools they deploy in order to achieve them.

In today's world of heightened volatility, more frequent and persistent supply shocks, and elevated uncertainty stemming from geopolitical tensions, structural transformations, and climate-related risks, the achievement of these objectives is increasingly difficult. In such a complex environment, central banks need to be vigilant and flexible in detecting emerging vulnerabilities and responding swiftly to changing circumstances. To this end, strengthening the analytical and policy frameworks, enhancing policy coordination and refining their policy toolkit remains paramount. Equally important is clear and consistent communication, which anchors expectations, strengthens credibility, and thereby supports price and financial stability.

Faced with a prolonged disinflation episode following the first and limited second round effects of the global energy price shock of 2022, a strong aggregate demand, tight labor markets and a rapid exchange rate appreciation stemming from rapidly increasing tourism inflows, the Bank of Albania has sought to carefully coordinate and employ its policy levers: monetary policy, exchange rate intervention and macroprudential tools.

Our monetary policy has remained focused on our price stability target, aiming to steer CPI inflation to target through our main policy instrument: short term interest money market interest rates. Our monetary policy decisions have been both informed and coordinated with the ongoing fiscal consolidation and exchange rate appreciation.

Concurrently, in the presence of strong exchange rate appreciation, shallow domestic markets and large financial sector euroisation, we have employed judicious interventions in the domestic foreign exchange market. These intervention were aimed at tempering the rapid pace of exchange rate appreciation and reducing excessive exchange rate volatility, which could negatively impact price and financial stability.

Finally, policy tightening through macroprudential measures – such as introducing loan-to-value ratios for mortgages and raising capital adequacy and systemic risk buffers – was aimed at strengthening the balance sheets of banking sector during this positive phase of Albania's business and financial cycle.

Second, in a rapidly evolving financial and technological landscape, central banks must carefully embrace innovation while safeguarding resilience, stability, and trust. Technological advances, from digital payments to central bank digital currencies, present opportunities to improve efficiency and promote financial inclusion. Yet, they also introduce new risks like cyber threats, operational vulnerabilities, and potential disruptions to traditional intermediation. To manage these risks, central banks should responsibly innovate by strengthening digital infrastructure, building analytical and supervisory capacity, and fostering close cooperation with domestic and international partners.

In this regard, the Bank of Albania has launched several initiatives to enhance financial sector efficiency, promote inclusion, and advance economic integration into the EU. Since 2022, it has introduced the Albanian Interbank Payment System for euro payments and adopted the European framework for payment services (PSD2). These steps have improved efficiency – through cost savings, faster settlements, and better liquidity – and fostered competition by enabling new financial technologies.

Albania's admission to the Single Euro Area Payments last year, with formal access in October, marks a significant step toward timely, cost-effective cross-border payments and positions Albania as an integral part of the broader EU payment system, facilitating instant payments and economic integration. A final stride toward aligning payment standards with the EU is the implementation of the TIPS Clone payment platform—a replica of the ECB's system—that will enable real-time instant payments to and from the EU. Scheduled to become operational in 2026, this platform will spur new financial services, encourage competition, and foster innovation.

Third, safeguarding financial stability, promoting financial innovation, and managing cross-border risks demand continuous policy coordination and broad cooperation, building trust through partnerships and shared expertise. Greater integration offers both benefits and risks for small, open economies. While it promotes trade, investment, innovation, and efficiency, it also increases exposure to external economic and financial shocks.

On the benefits side, cooperation with the ECB and the Bank of Italy has facilitated implementing the TIPS Clone payment system in Albania, creating incentives for EU investors to explore new opportunities in the Western Balkans. Cooperation with the European Investment Bank supports sustainable growth and strengthens Albania's financial system by integrating climate risks into regulatory frameworks, helping align Albanian banking standards with the EU.

On the risk side, efficient cooperation and information exchange are vital to minimize cross-border risks and maintain financial stability in the region. A cooperation agreement between the Bank of Albania and the Single Resolution Board facilitates information sharing and resolution planning to reduce uncertainty during financial distress. Regionally, the Vienna Initiative Annual Forum provides a platform to share information across Central, Eastern, and South-Eastern Europe, contributing to financial stability.

In conclusion, central banks are anchors of stability in uncertain times. For small, open economies, this role is indispensable. By safeguarding price stability, vigilantly monitoring financial stability, and embracing structural changes, central banks can protect the present and build resilience for the future.

In these efforts, the IMF's role is essential. By strengthening monetary and financial frameworks, building institutional capacity, and providing clear but flexible policy guidelines for navigating upcoming challenges, the Fund provides crucial support to central banks.