

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.

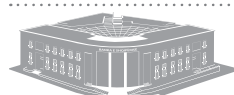
A complex of factors are illustrated by this dynamic. First, the Albanian economy entered 2022 with a positive development momentum and sound financial balance sheets, following the fast and comprehensive rebound of 2021. Second, both private and banking sectors showed a high degree of flexibility and 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 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