

## FOREWORD BY THE GOVERNOR

The Albanian economy has exhibited a good resilience to the adverse shocks caused by the rapid upsurge in prices in global markets, originating from the war in Ukraine.

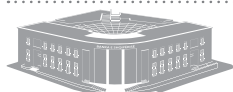
Economic activity has been growing in the first half of the year, enabling an increase in employment and wages and an improvement in the financial position of enterprises. In parallel, both public debt and the foreign debt of the Albanian economy have been reduced, the lek exchange rate against foreign currencies has appreciated, the non-performing loans ratio has remained at low levels, and the overall financial situation of the banking sector appears sound.

On the other hand, inflation continued to come down during the third quarter of the year, recording an average rate of 4.1%. However, this decline was slower than the rates recorded in the first half of the year and lower than our expectations. In particular, domestic inflationary pressures continue to remain relatively strong, fuelled by the high demand for goods and services and the rapid growth in production costs.

Against this backdrop, the Bank of Albania decided to continue the normalisation drive of the monetary policy stance, by rising the policy rate to 3.25%. This increase aims, first of all, to create the necessary preconditions for the return of inflation to the target, in a reasonable time and at the lowest possible costs for the economy. It is consistent with the previous communications of the Bank of Albania, as well as with the stabilization of the exchange rate in the third quarter. The latter has been an important factor underpinning the reduction of inflation in Albania during 2023, but it is not sufficient for its sustainable return to the target.

For this reason, the Bank of Albania decided to further reduce the monetary stimulus, while further shifting the overall stance of monetary policy towards a neutral position.

Our forecasts for the outlook remain positive. We expect the Albanian economy to further grow in the coming years, by factoring the context of the external economic environment, the favourable trends of economic developments in Albania coupled with the reaction of our monetary policy. This growth will continue to be accompanied by a growth in consumption and investments, as well as an increase in employment and wages. On the other hand, the reaction of our monetary policy will ensure that this growth does not translate into



inflation, protecting the purchasing power of Albanian households and helping the overall financial soundness of the economy. According to our forecasts, inflation is expected to return to the target in the second half of next year.

We deem that the monetary policy will continue to maintain its crucial role for bolstering the overall well-being of the Albanian society, through both guaranteeing price stability and enhancing the financial soundness of the economy.

This philosophy has guided and will continue to guide our policies and measures in the future.

