FOREWORD BY THE GOVERNOR

The Albanian economy continues to recover at a rapid pace, supported by a broad gamma of factors. Projections about the future remain positive, but the increase in prices in international markets drove to a swift upswing of inflation in Albania and heightened uncertainty about the future.

The Albanian economy grew by 10.4% in the first three quarters of year, fuelled by: the relaxation of restrictions taken for curbing the pandemic; enhancement of foreign demand; improved business and households’ confidence, increase of public expenditure; and the favourable financing conditions. Our assessments suggest economy has continued to grow in the fourth quarter as well.

The increase in the demand for goods and services is reflected in the expansion of activity across all sectors of economy. Since 2021 Q3, both the entire economy and its individual sectors have exceeded the production and revenues levels of the pre-pandemic period.

Economic growth is accompanied by increase of employment, which now is close to the pre-shock levels and of wages, which rose across all sectors of economy. The rise in wages has driven to the increase of Albanian households’ income and has allocated the recovery fruits on a broader base.

Against this positive dynamic, inflation rose sharply in the fourth quarter, to 3.7% in December.

Our analyses suggest this increase is dictated by two factors. First, the progressive growth in the demand for goods and services, which drives to the rise in employment, wages, production costs and profit margins of enterprises. This factor has been present throughout 2021. Second, the sharp upswing in the prices of food, energy, transportation and goods costs in global markets. The second factor was particularly present over the last quarter, and has considerably pushed up inflation.

Our forecasts for the outlook remain positive. The Bank of Albania expects economic growth to continue in the next years. Nevertheless, this growth is expected to return closer to the historical average rates of the last decade. In parallel, we expect inflation rate continue to remain slightly above our 3% target in the course of 2022, owing to the developments in international markets. Inflation is expected to return to target in 2023, once surpassing these shocks.

In reflection of them, in the meeting of 2 February 2022, we decided to maintain the simulating monetary policy stance. This policy used to be and will remain a supportive factor to economic rebound. Nevertheless, we expect this stimulus to gradually reduce in the future. This return of monetary policy to normality will aim at establishing the premises towards the observation of our inflation target, for a sustained economic growth over the medium term and long term, and for a good balancing of risks.