

FOREWORD BY THE GOVERNOR

Inflation continued to remain high in the Albanian economy in the fourth quarter of 2022 as well, by: feeding the uncertainties of enterprises for the future; dampening the purchasing power of households; and conditioning every aspect of economic life in Albania.

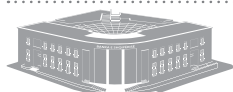
However, the new information attained over this quarter has been overall better than our expectations.

First, consumer price inflation declined in November and December 2022, for the first time after almost 12 months. This is an encouraging signal that the inflation trajectory has reached a turning point in this period. Inflation declined mainly on the back of lower oil price, and we believe this indicator will continue to fall in the next months.

The stability of prices in international markets, the good performance of the exchange rate, the downward revision of inflation expectations, coupled with the effects from the normalisation stance of monetary policy will underpin the fall of inflation in Albania. This normalisation, as transmitted through a gradual raise of policy rate, has established the premises for a better demand and supply balance in the economy. Thus, based on the current trends, inflation is expected to return to our 3.0% target within the first half of next year.

Second, the Albanian economy has proved quite resilient against foreign supply shocks and tighter monetary conditions in both Albania and the world. Economic growth in 2022, fuelled by the dynamism of private sector, is expected to reach around 4%, while having a good allocation across sectors. In addition, employment and wages increased rapidly, while unemployment rate has remained at its historical low. The Albanian economy will continue to create new jobs and generate positive growth rates in 2023, despite the growth rate is expected to edge up slightly.

Third, financial markets remain relatively calm, even in presence of globally tighter financing conditions, while banks' balance sheets appear sound. Our monetary policy pass-through has been more complete in financial markets. The credit flow continues to remain positive and banking sector continues to provide the necessary funding to the Albanian economy for both the expansion of the activity and the covering of liquidity needs. In parallel, lek exchange rate remains strong, by supporting the overall economic and financial stability of Albania.



Based on these conclusions, which are elaborated in this Report, the Supervisory Council decided to maintain the monetary policy stance in the meeting of 1 February 2023. The Supervisory Council deems that the monetary conditions remain adequate for the return of inflation to the target, at the lowest costs on the economic activity.

Nevertheless, the Supervisory Council emphasised once again the need for continuing the normalisation of monetary policy stance in the course of 2023, and its willingness to continue in this regard.

