

FOREWORD BY THE GOVERNOR

The economic developments in the first six months have been, overall, in line with our expectations. Inflation progressively declined meanwhile economic activity, employment and wages continued to grow, while the country's overall economic and financial equilibriums improved.

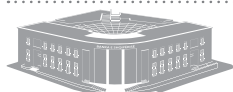
This is a positive development, especially in the context of the challenges we have faced as a result of the new economic reality that Russia's military aggression against Ukraine has created. Albania has had and continues to have one of the lowest rates of inflation and one of the highest rates of economic growth in the region.

This progress has reflected the flexibility of the private sector, the financial soundness of the economy, as well as the appropriate response of economic policies. In particular, in line with our legal goal, we have started a gradual and controlled normalization of our monetary policy stance. This process - formatted as a gradual increase of the policy interest rate towards its equilibrium level - aimed to create the appropriate conditions for the return of inflation to the target, within a reasonable time horizon and at the lowest possible costs for the Albanian economy.

Our monetary policy stance has also taken into account the rapid strengthening of the exchange rate of the lek against the euro and the fiscal consolidation by the public authorities. These factors have enabled us to maintain a lower level of the policy interest rate, providing lower financing costs for the Albanian economy, encouraging the expansion of consumption and investments and easing the financial burden on borrowers.

The insofar effects of our monetary policy are encouraging. The response of the monetary policy has helped to control inflationary expectations and has prevented the transmission of the external shock in the wage-inflation spiral, by creating the optimum premises for inflation to return to the target. At the same time, this reaction has helped the smooth functioning of financial markets and has maintained the positive trend of credit growth.

The forecast update suggests that the Albanian economy will continue to grow over the coming years, while inflation will return to our 3% target next year. This forecast factorises the further decrease of inflation in our trading partners, a more balanced development of demand and supply in the economy, as well as the strong exchange rate of the lek against the euro.



Based on the above, in the meeting on 2nd of August, we decided to keep the monetary policy stance unchanged.

However, our analysis shows that domestic inflationary pressures continue to be high. For this reason, we remain committed to work toward further normalising the stance of monetary policy in the future, if new data will make this action necessary.

As usual, we will make sure to reduce, as much as possible, the negative impact of our monetary policy on the economic activity and financial stability of the country. In particular, our monetary policy stance will continue to take into account the dynamics of the exchange rate and the stance of the fiscal policy, aiming to provide the best monetary conditions for the sustainable and long-term development of the country.

