

FOREWORD BY THE GOVERNOR

The Albanian economy has shown a positive performance in the first half of the year.

Available data suggest that the volume of economic activity grew by 3.4% in the first quarter, driven by the increase in household consumption, public and private investments, as well as in the exports of goods and services. This performance was reflected in: further growth of employment in the non-agricultural private sector; the rise in wages; and the fall in the unemployment rate to historically low levels. Available indirect data suggest similar development trends in the second quarter as well.

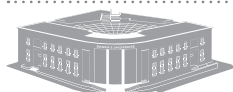
Inflation of consumer prices continued remaining at low levels. Inflation rate averaged 2.3% in the second quarter, slightly up from the first quarter's figures, but continuing to remain below the Bank of Albania's 3% target.

The growth in employment and wages, along with low inflation levels, has enabled the income of Albanian households to edge up.

The Bank of Albania's monetary policy remained focused on establishing a favourable financial environment for achieving our inflation target. The stable economic performance and low inflation levels led to a further easing of the monetary policy stance at the beginning of July. The policy interest rate reduced to 2.5% from 2.75%. It has begun to be transmitted to financial markets and is expected to bring an overall reduction in interest rates on loans and deposits in lek, further bolstering lending, consumption, and investment.

Overall monetary conditions continue to remain at appropriate levels for controlling inflation and ensuring sustainable economic growth. In particular, low interest rates, positive expectations for the economy's performance, the sound balance sheets of the banking system, and increased competition within it have led to rapid and broad-based credit growth. On the other hand, the exchange rate performance has been more stable during 2025, driven both by a balanced trend in demand and supply for foreign currency and by the enhanced presence of the Bank of Albania in domestic foreign exchange markets.

Based on current trends, our forecasts for the future remain positive. The Albanian economy is expected to grow at a stable pace, around 3.5–4%, over the next three years. Inflation is projected to gradually converge to our 3% target within the first half of next year, while the country's domestic and external balances, including the soundness of the banking system, are expected to further improve.



However, the economic outlook is surrounded by heightened uncertainties, primarily stemming from geopolitical tensions and heightened economic and trade tensions in the external environment. The materialization of these risks could yield potentially negative consequences for economic performance and the inflation rate in Albania.

Under these circumstances, at its meeting on 6 August 2025, the Bank of Albania kept the monetary policy stance and the policy rate unchanged. This decision serves to preserve price stability and support the country's sustainable development over the medium term.

