

FOREWORD BY THE GOVERNOR

Global economic developments are increasingly being shaped by the rise in fuel and other commodity prices as a consequence of the conflict in the Middle East. Naturally, the focus of this quarterly report has been both the assessment of its expected effects on the Albanian economy and the identification of the appropriate monetary policy response.

In broad terms, the analysis of the available information suggests that the Albanian economy is tackling this unexpected situation from relatively stronger positions compared with those during previous shocks, such as the pandemic and the conflict in Ukraine.

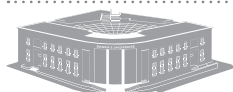
First, the Albanian economy has maintained a positive development trend, reflected in solid rates of economic growth, increasing employment in the non-agricultural private sector, and rising wages. This performance has been mirrored in improved financial balances of households and businesses, as well as in a favourable liquidity situation in the economy.

Second, the key indicators of economic and financial stability appear to be improved. Inflation, at present, continues to remain low and under control. Among other factors, the low levels of inflation also reflect the prudent and consistent monetary policy pursued by the Bank of Albania. In addition, external debt and public debt have declined significantly over the past three years, financial markets are calm and operational, the banking sector is liquid, profitable and well-capitalised, while the foreign exchange reserves of the Bank of Albania stand at historical record levels, sufficient to withstand serious shocks.

Third, and equally importantly, the Albanian economy has gained valuable experience in managing such shocks, both in terms of public policies and the individual decision-making of businesses and households, demonstrating admirable resilience and flexibility.

All these factors provide an encouraging premise for coping with the increase in fuel and other commodity prices resulting from the conflict in the Middle East. Nevertheless, they do not in any way eliminate the need for continuous monitoring and timely response from all stakeholders.

Under the current circumstances, accurately forecasting future developments is associated with elevated uncertainty. What is clear is that the consequences of the shock will take the form of higher inflation and lower economic growth compared with our previous projections.



However, our baseline scenario expectations, which incorporate a swift and low-cost resolution of the conflict, suggest that the impact on inflation and economic growth will be short-term and marginal. Based on these considerations, the Supervisory Council decided to maintain the monetary policy stance unchanged at its meeting of 6 May. This stance, similar to the response adopted by other central banks, provides an appropriate balance between the uncertainties and risks surrounding the outlook.

At the same time, the Bank of Albania remains committed to assessing other possible scenarios, with the aim of identifying in a timely manner any corrective monetary policy measures that may be required. In any case, I would like to assure you that the monetary policy of the Bank of Albania will seek to take the right decisions at the right time, in order to guarantee price stability with the lowest possible cost in terms of economic and financial volatility.

