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Statement by the Hon. **GENT SEJKO,**
Governor of the Fund for **ALBANIA**

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The global economy has hitherto exhibited an admirable resilience to the strong adverse shocks initially originating from Russia's war of aggression in Ukraine. The ripple effects of this aggression led to accelerated inflationary pressures, prompting rapid monetary policy tightening which, in turn lead to subdued growth and either exposed or exacerbated existing vulnerabilities.

Global inflation has been on a downward trend over the past few quarters. However, the future remains uncertain. While the monetary policy tightening cycle appears to be nearing its peak, core inflation rates remain stubbornly high, labor markets are tight, wage growth is unprecedentedly high and there is a nascent growth momentum in commodity prices. On the other hand, global growth remains subdued and uneven amongst countries and economic and social resistance to additional shocks is greatly diminished.

This complicated picture requires the pursuit of a delicate balancing-act from economic policy makers and – especially central banks. We need to continue to prioritize price stability through determined policy actions, while also being mindful of its detrimental cyclical and structural impact as well as its adverse impact on financial stability. The financial system appears to be broadly resilient so far, benefiting from a decade of structural and vulnerability reducing reforms. Nevertheless, continued vigilance is needed, both on a global and on a country-specific level, to avoid any systemic issue. This is all the more relevant at a time when fiscal buffers are already low, after a determined countercyclical effort in the aftermath of the pandemic.

Against this backdrop, I am fully supportive of the Fund's current assessment and policy prescription. Furthermore, I fully endorse the Fund's renewed push towards strengthening the Global Financial Safety Net (GFSN). I believe it will prove to be instrumental to restraining unwelcome economic and financial instabilities at a global level. Reprioritizing the public debt reduction agenda is an important element and the correct first move towards mitigating these potential weaknesses.

Albania has not been immune to the recent adverse global economic trends. Inflation started to increase in the end of 2021, accelerated fast after Russia's aggression in Ukraine, peaked in October 2022 and started to decelerate gradually thereafter. In a macroeconomic environment characterized by a cyclical upturn, a tight labor market reflected in a low unemployment rate and a fast wage growth, the initial price shock trickled down to all price categories and core inflation increased to unprecedented levels.

The Bank of Albania embarked in a monetary policy normalization drive, starting from March 2022, increasing the base rate from a minimum of 0.50% to 3.00% as of March 2023. The latter was fully data-driven, transparent and efficiently communicated to local stakeholders. Our current policy rate level is comparatively low compared to a regional and even EU panel of countries, but it is does reflect a lower overall inflation rate, averaging 6.7% in 2022 and 5.2% so far in 2023. Differences in inflation levels are the result of a fixed electricity price for household consumers and a fast appreciation of the local currency, by 2.8% in 2022 and 8.0% so far in 2023. Albania's external balances have improved markedly, especially in 2023, as a result of a strong tourism performance and a steady inflow of FDIs. The currency appreciation has allowed more room for a gradual approach to monetary policy tightening with the currency appreciation cushioning the foreign inflationary impact. Our most recent forecasts point to a gradual reduction of inflation, with a return to our 3 percent target expected by mid-2024. This trajectory factors in a more gradual easing of underlying inflationary pressures and a more subdued growth trajectory of the economy.

Macroeconomic policies are expected to remain harmonized and work in tandem to ensure a stable medium-term growth and a low and predictable inflation environment. Fiscal policy should strive to avoid adding to already high demand pressures and maintain its consolidation drive. The financial system has shown remarkable resilience, owing to prior reform drives that have improved the regulatory framework and reduced vulnerabilities. Despite this, we are attentive to potential vulnerabilities that could arise due to an elevated interest rate environment, reduced household purchasing power and muted activity.

The importance of policy harmonization and coordination at a local and international level is paramount in ensuring an optimal environment for a green, equal and prosperous global economy for the benefit of all, today's and future generations.

For this, I would like to reiterate the pivotal role of the Fund and the Bank, as they help channel our focus away from immediate challenges on our backyard to existential global issues that will affect us all if not properly pre-empted and tackled.