

## FOREWORD BY THE GOVERNOR

The analysis of the economic and financial situation of Albania, the discussions of the possible development scenarios in the future, and the identification of the reaction strategy of the monetary policy were dominated by the current and expected impact of the Covid-19 pandemic on Albania.

The health emergency caused by the spread of Covid-19 pandemic and the measures taken by the public authorities to control it, in Albania and globally, posed challenges to: the economic and financial stability of the country; the soundness of enterprises and households' finances; and the sustainability of the economic growth of Albania, both in the medium and long term.

The available information shows that Covid-19 pandemic will have a strong impact on all the economic and financial indicators of Albania.

Social distancing measures together with the heightened uncertainty have driven to an overall slowdown in almost all components of the aggregate demand: the export of goods and services; family consumption; and investments. In parallel, the temporary closure of some production and service activities triggered a further fall of output. This twofold shock, demand and supply, will be reflected in the downturn of the economic activity during 2020. Further, the drop in production is expected to trigger a fall of employment, increase of unemployment, decrease of household income and financial difficulties to firms.

The medium and long-term dynamics of economic development, in Albania, and globally, will depend on the duration of the pandemic.

In the positive scenario, a gradual reduction of social distancing measures during the second quarter, the economic activity - in Albania-, is expected to peak the slowdown in the second quarter, to continue to remain in negative territory in the next two quarters, and return to positive growth in 2021. This scenario forecasts a relatively stable inflation rate during 2020, and gradually converges to the target in the next two years. In this scenario, pandemic will have makeable traces, but transitional ones, on the economy and finances of the country. Above all, it will not affect the economic and financial equilibriums and the medium and long-term trends of the growth.

On the other hand, a potential extension of pandemic, beyond the third quarter, implies also a proportionally higher negative impact on the economic and



financial indicators of the country.

The primary objective of public policies and of the public sector reaction should be to take measures for dealing with the emergency, and the establishment of premises for a rather rapid recovery of economic growth in the future. This will require, first, the safeguarding of monetary and financial stability of Albania; and second, the containment of damages on the production capacities of the country.

In this context, the fiscal policy has a primary role in tackling the situation. The allocation of necessary funds to deal with the health emergency, the social aid for families in need, and the fiscal measures to improve the liquidity situation of firms, are necessary measures to address the situation. The increase of public debt is an acceptable cost for maintaining the economic and financial equilibriums of the country.

The private business should be: flexible in adopting the new business models; prudential in managing the liquidity situation; and far-sighted in distributing fairly the costs, for keeping both the production and service chain functional.

On its side, the Bank of Albania has taken a complete package of measures to address the situation.

- The easing of monetary policy stance implemented by the Bank of Albania, through the cut of the policy rate to 0.5%, and the unlimited supply with liquidity to the banking system; by promoting the smooth operation of the financial markets; and by enabling the increase of the volume and decrease of credit cost to private sector.
- The presentation of easing measures in the field of banking regulation has encouraged the temporary postponing of the credit payment, with one quarter, hence improving the liquidity situation of enterprises and households and their chances to endure this situation.
- In parallel, we have facilitated the operational cost of electronic payment system, by responding to the increasing needs for this type of activity, and we have taken care for the normal supply of economy with cash.

The Bank of Albania has taken the needed timely measures. In their response, the financial markets continue to conduct their activity within the limits of normality, notwithstanding the upward demand of public sector for funds and the heightened uncertainty about the economic and financial future of the country.

Judging on the projections of the scenario for a quick end of the pandemic, the current monetary policy stance will remain accommodative throughout the forecast horizon. The uncertainty surrounding the forecasts for this time is considerably high. This uncertainty shows a relatively high probability that the future developments result on the downside of our expectations. In particular,



the downside risks arise from:

- The possible extension of pandemic beyond the second quarter.
- Creation of problems in monetary policy transmission mechanism, in the form of: increased interest rates and financing costs to private sector; worsened credit supply; strong fluctuations of the other financial indicators.

The materialisation of these risks might dictate a further easing of the monetary policy stance. In line with our contingency plans, this easing may take the form of non-conventional instruments, always in compliance with the reality and needs of the Albanian financial market and the legal framework that regulates the activity of the Bank of Albania.

