

FOREWORD BY THE GOVERNOR

The Albanian economy is showing recovery signs, although the pandemic effects on the economic activity still remain present. The available data indicate that economic growth has jumped into positive territory, in 2020 Q4 and during the first quarter of 2021, fuelled by the expansion in consumption, investments and exports. Their growth has benefited from: the improved business and consumer's confidence; the stimulating monetary and financial environment; expansion of public investments; and ultimately, from the relaxation of containment measures undertaken to control the pandemic.

Although the aggregate demand volume is trending upwards, it still remains insufficient to ensure an employment level which would enable the rise of wages and profit margins, in line with our inflation target of 3%. This indicator continued to undershoot the target during the first quarter of year, by showing increased fluctuations, due to the performance of food prices.

In face of a recession and the weak inflationary pressures, the Bank of Albania further eased the monetary policy during the previous year. This accommodation took the shape of cutting the policy rate at 0.5% and increasing the liquidity injections in the banking sector. The strong monetary stimulus has continued to be present during the first quarter of 2021 as well. In coordination with our regulatory measures - which enabled the moratorium and urged the restructuring of loans - it aims at supporting the increase of consumption and investments of the private sector, through the reduction of borrowing costs and growth of lending to economy.

The analysis of financial market suggests that the Bank of Albania has succeeded in this regard. Financial markets appear calm and are characterised by low interest rates, stable exchange rate and normal circulation of liquidity. In parallel, lending to private sector has continued to record a relatively fast growth, by supporting the needs for funds to Albanian enterprises and households, while banking sector shows strong and sound balance sheets.

Our projections for the outlook remain positive. The continuation of vaccination process in Albania and globally, the monetary and fiscal stimuli, and the return of confidence at historical levels, will pave the way to the progressive expansion of economic activity in the next years. In their response, both employment and wages are expected to trend upwards, thus enabling the return of inflation to target within 2022.



Against this backdrop, the Supervisory Council assessed that the current monetary policy stance is adequate for underpinning both the further economic recovery and inflation converge to target. In this view, the Supervisory Council decided to keep the policy rate unchanged, and confirmed maintaining the current form of unlimited liquidity injections at fixed price to the banking sector, at least during the third quarter of the current year.

Deeming that the factors of economic growth still do not appear consolidated - something that would result in negative consequences in meeting our inflation target - the Supervisory Council assessed that the monetary policy stance will continue to remain accommodative throughout the medium-term horizon, and the eventual normalisation of monetary policy will be a gradual and careful process.

