

FOREWORD BY THE GOVERNOR

The Albanian economy recovered swiftly and thoroughly in 2021. The expansion in the demand for goods and services drove to the growth of output, wages and employment, and to the improvement of the financial balances of both enterprises and households. In parallel, inflation increased steady in the last year, by gradually shifting close to our 3% target.

Overall, Albanian economy carried over the positive development momentum into early 2022.

Nevertheless, the military attack of Russia on Ukraine has unfolded a new economic and geopolitical reality. In economic background, the sanctions imposed on Russia and the global trade headwinds have driven to a sharp rise in prices, and the aggressive response of central banks in terms of tightening the monetary policy stance. At the same time, the heightened uncertainty, the curtailed purchasing power and the increased debt servicing costs, have curbed the economic growth.

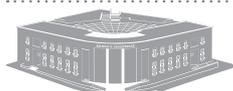
Albania, as a small open economy, is not an exception from these global trends.

The analyse and forecast of these factors, as well as the identification of a more adequate monetary policy stance, lies at the heart of this report.

Our analyses suggest that the surging global prices will continue to generate high inflation rates in the following period. The combination of external supply shock with the sound domestic demand is expected to keep consumer price inflation close to the current levels in the course of 2022. Further, inflation is expected to gradually decrease in 2023, and converge to the target at the end of 2024.

This forecast takes into account the supply shock fading in the next year and a gradual normalization of monetary policy in the medium term.

Against this backdrop, the Albanian economy is expected to grow during 2022. This forecast takes into account the positive momentum the Albanian economy entered the 2022, the overall monetary and financial stability in Albania, as well as the continuous lending for consumption and investment. The increase in both demand and output are expected to maintain the positive trend of employment and help to wages rise.



However, the economic growth pace is expected to be notably lower than in the previous year and lower than our forecasts at the beginning of year, in reflection of the base effect fading and the assessment of the shock impact originating from international markets.

Based on these assessments, the Supervisory Council decided to keep the monetary policy stance unchanged. After the increase of policy rate in March, the Supervisory Council deems that this stance provides an adequate balance between the risks for accelerated inflation with the decelerated economic growth.

In the light of the new information, the monetary policy stance will be regularly assessed in the future. In any case, the Bank of Albania will take all the measures to accomplish our 3% inflation target in the medium term.

