

FOREWORD BY THE GOVERNOR

Economic activity, in Albania and globally, has been and continues to be experiencing the negative effects of the Covid-19 pandemic. The measures taken to contain it and an overall increase in uncertainty has driven a fall in both domestic and foreign demand, as well as restriction in production over the second half of the year. Thus, the Albanian economy experienced a marked recession, the unemployment rate trended upward, enterprises and households experienced financial difficulties, and the premises for an increase in wages and the return of inflation to target faded.

Addressing this situation triggered a coordinated easing of fiscal, monetary and financial policies. These measures helped mitigate the impact of the pandemic on the Albanian economy.

Analysis of available information suggests economic activity in Albania has shown recovery trends during the second half of 2020. Economic activity in the third quarter was almost 10% higher than in the second quarter, although remaining 3.5% lower than the same period in the previous year. Also, the Albanian economy produced nearly 34 000 jobs in the third quarter, recovering around 2/3 of losses recorded in the previous quarter. Available data show a further improvement in economic activity in the fourth quarter. Exports of Albanian goods have been increasing, lending to the private sector jumped to 7.7% at the end of December, while the situation of enterprises has been improving.

Demand for goods and services, although improving has not provided for a sufficient increase in employment, wages and profit margins, which would enable the return of inflation to target. This performance has been reflected, as well, in the low and fluctuated values of inflation during the last quarter of year.

Looking ahead, the Bank of Albania expects economic activity to continue recovering over the next two years. Growth in demand for goods and services will back an increase in demand for both jobs and employment, leading to an increase in wages and a gradual return of inflation to target within 2022.

These projections are based on the assumption that there will be a progressive reduction in the spread of the pandemic in 2021. In addition, they take into account current economic development trends in Albania, and a more positive outlook for the global economy. These projections also propose maintaining a simulating monetary and fiscal environment over the next two years.



Based on the above, after reviewing this Report, the Supervisory Council has decided to maintain the accommodative stance of the monetary policy, by keeping the policy rate unchanged, at 0.5%, and to signal our willingness to continue simulating monetary conditions over the next two years.

Low interest rates and provision of sufficient liquidity to the market will boost economic growth and establish the premises for a return of inflation to our 3.0% target, in line with our forecasts.

