

Bank of Albania

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2026/II

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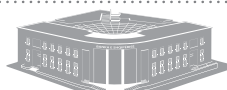
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INTRODUCTION¹

The primary objective of the monetary policy of the Bank of Albania is to achieve and maintain price stability. Price stability implies attaining low but positive inflation rates and maintaining them at these levels over a relatively long period of time. By safeguarding price stability, the Bank of Albania contributes to the establishment of a sustainable monetary environment and assists Albanian households and businesses in planning their consumption and investments.

In quantitative terms, the Bank of Albania defines price stability as maintaining a 3.0% annual inflation rate of consumer prices over the medium term.

To achieve its price stability objective, the Bank of Albania implements an inflation targeting regime and a free-floating exchange rate regime.

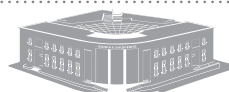
In compliance with these regimes, the monetary policy stance is expressed through the level and direction of changes in the policy rate, as determined by the Supervisory Council. Changes in the policy rate affect – with a time lag – liquidity conditions and other interest rates in the financial market, expectations regarding future developments, as well as the exchange rate. Subsequently, these factors influence the demand for goods and services, along with the dynamics of costs and consumer prices.

The Bank of Albania has developed macroeconomic models to forecast inflation developments over the medium term, which implies a time horizon of up to three years. If these forecasts indicate the presence of subdued inflationary pressures that may drive inflation below the 3.0% target, the Bank of Albania may consider reducing the policy rate, and vice versa. However, the formulation of monetary policy is not a mechanical process. Monetary policy decision-making takes into consideration the reasons causing inflation to deviate from the target, as well as the time required for the economy to respond to changes in interest rates.

The Supervisory Council of the Bank of Albania meets eight times a year to make monetary policy decisions aimed at achieving the price stability objective. The decisions of the Supervisory Council on monetary policy are based on a wide range of information, including assessments of economic developments, inflation forecasts, the performance of financial markets, and the risks and uncertainties surrounding these forecasts. The considerations and assessments regarding this information are presented in the Monetary Policy Report, which constitutes the main component of monetary policy decision-making. In pursuit of transparent communication of its monetary policy, the Bank of Albania regularly publishes this Report and makes it available to the public.

The Monetary Policy Report is published on a quarterly basis. It is prepared by the Monetary Policy Department at the Bank of Albania and is adopted by the Supervisory Council. The following Report contains data available up to 29 April 2026. It was reviewed and adopted by the Supervisory Council at its meeting held on 6 May 2026.

¹ The monetary policy framework at the Bank of Albania is outlined in the Monetary Policy Document, available at the official website of the Bank of Albania: https://www.bankofalbania.org/Politika_Monetare/Objektivi_dhe_strategjia/



FOREWORD BY THE GOVERNOR

Global economic developments are increasingly being shaped by the rise in fuel and other commodity prices as a consequence of the conflict in the Middle East. Naturally, the focus of this quarterly report has been both the assessment of its expected effects on the Albanian economy and the identification of the appropriate monetary policy response.

In broad terms, the analysis of the available information suggests that the Albanian economy is tackling this unexpected situation from relatively stronger positions compared with those during previous shocks, such as the pandemic and the conflict in Ukraine.

First, the Albanian economy has maintained a positive development trend, reflected in solid rates of economic growth, increasing employment in the non-agricultural private sector, and rising wages. This performance has been mirrored in improved financial balances of households and businesses, as well as in a favourable liquidity situation in the economy.

Second, the key indicators of economic and financial stability appear to be improved. Inflation, at present, continues to remain low and under control. Among other factors, the low levels of inflation also reflect the prudent and consistent monetary policy pursued by the Bank of Albania. In addition, external debt and public debt have declined significantly over the past three years, financial markets are calm and operational, the banking sector is liquid, profitable and well-capitalised, while the foreign exchange reserves of the Bank of Albania stand at historical record levels, sufficient to withstand serious shocks.

Third, and equally importantly, the Albanian economy has gained valuable experience in managing such shocks, both in terms of public policies and the individual decision-making of businesses and households, demonstrating admirable resilience and flexibility.

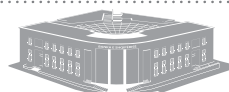
All these factors provide an encouraging premise for coping with the increase in fuel and other commodity prices resulting from the conflict in the Middle East. Nevertheless, they do not in any way eliminate the need for continuous monitoring and timely response from all stakeholders.

Under the current circumstances, accurately forecasting future developments is associated with elevated uncertainty. What is clear is that the consequences of the shock will take the form of higher inflation and lower economic growth compared with our previous projections.



However, our baseline scenario expectations, which incorporate a swift and low-cost resolution of the conflict, suggest that the impact on inflation and economic growth will be short-term and marginal. Based on these considerations, the Supervisory Council decided to maintain the monetary policy stance unchanged at its meeting of 6 May. This stance, similar to the response adopted by other central banks, provides an appropriate balance between the uncertainties and risks surrounding the outlook.

At the same time, the Bank of Albania remains committed to assessing other possible scenarios, with the aim of identifying in a timely manner any corrective monetary policy measures that may be required. In any case, I would like to assure you that the monetary policy of the Bank of Albania will seek to take the right decisions at the right time, in order to guarantee price stability with the lowest possible cost in terms of economic and financial volatility.



1. INFLATION AND MONETARY POLICY STANCE

The Albanian economy continues to remain on a positive development trajectory. Economic growth remained at solid levels throughout 2025 and in the first quarter of 2026. In parallel, inflation continues to remain at low levels and below the target of the Bank of Albania, while other indicators of economic and financial balances have improved.

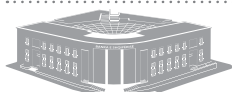
Monetary policy has made a positive contribution to this performance by generating appropriate monetary conditions for safeguarding price stability, supporting financial stability, and promoting the country's sustainable growth and long-term development.

The outlook for developments in the Albanian economy under the baseline scenario remains broadly positive. The scenario, which assumes a swift de-escalation of the conflict in the Middle East and a gradual normalisation of oil prices over the coming year, points to continued economic expansion, albeit at a more moderate pace in 2026. Likewise, inflation is expected to register somewhat higher levels compared with previous forecasts during 2026; however, it is not projected to exhibit significant upward deviations from the target. On the other hand, the materialisation of more adverse risk scenarios would be accompanied by a faster increase in inflation and a stronger slowdown in economic activity.

[In this context, at its meeting of 6 May 2026, the Supervisory Council decided to maintain the monetary policy stance unchanged. This decision preserves appropriate monetary conditions for achieving the inflation target.]

The Albanian economy recorded solid growth during 2025, supported by the sound balance sheets of the private sector, positive developments in the labour market, favourable confidence indicators, increased tourism revenues, and favourable financing conditions. Economic activity expanded by 3.8% during 2025, reflecting growth in consumption, investment, and tourism exports, while available indicators suggest that economic growth continued during the first months of 2026.

Economic expansion was accompanied by rising wages and employment in the non-agricultural private sector, while unemployment remained close to the historically low level of 8.3%. These factors were reflected in the expansion of household consumption through increased household income. On the other hand, the impact of wage growth on inflation was partially offset by productivity gains and partly by a reduction in business profit margins per unit.



Inflation increased during the first quarter of 2026, reaching 2.6% in March.

The rise in inflation reflects higher prices for certain food items, increases in rental prices since the middle of last year, and, more recently, higher oil prices as a consequence of developments in international markets. On the other hand, core inflation has remained relatively stable, fluctuating around the 3% level during this period.

Although increasing, inflation continues to remain below the target of the Bank of Albania.

Domestic inflationary pressures, driven by the sustained growth in demand for goods and services and by rising wages and production costs, remain in line with the price stability objective. Likewise, medium-term inflation expectations remain anchored close to the target. On the other hand, pressures from the external environment have remained low, though they are expected to increase going forward as a result of rising prices in international markets, particularly in the energy commodities category.

The prudent monetary policy pursued over the past two years has created a favourable financial environment for price stability and the support of economic growth.

The Bank of Albania reduced the level of the policy rate during 2025 and increased its presence in the foreign exchange market, enabling a better balance between demand and supply in that market. Reflecting this policy, financial markets have remained calm, the exchange rate has been more stable, risk premia and interest rates have remained at low levels, and the supply of credit continues to be abundant.

Under these circumstances, credit growth to the private sector remains high, recording a level of 13.7% in the first quarter of 2026.

This lending has continued to support the expansion of consumption and investment, while consistently being characterised by improving quality, a growing share of lek-denominated loans, and a stronger orientation toward financing investments.

However, the outlook for economic developments, both globally and in Albania, is beginning to be affected by the conflict in the Middle East and the swift increase in uncertainty and oil prices associated with it.

The direct effects of this shock have already begun to appear in rising global inflation. In particular, inflation in the euro area increased to 2.6% in March, from 1.9% one month earlier. Meanwhile, the indirect effects remain difficult to assess accurately, as they will depend on a range of factors, among which the duration and resolution of the conflict remain decisive.

Given such uncertainty, most central banks have chosen to maintain an unchanged monetary policy stance in their meetings in March and April.

Downside risks dominate the global economic growth outlook, although the degree of exposure differs across economies.

Nevertheless, the Albanian economy has encouraging premises to withstand this shock at low cost and without long-term damage.

First, the Albanian



economy has moderate direct exposure, owing to the relatively low weight of oil in the consumption basket and the increased efficiency in the use of energy resources. Second, it is facing this shock from a solid initial position, characterised by sound macroeconomic balances, strengthened financial safety nets, and more stable expectations regarding the future. These premises provide macroeconomic policies with greater room to deal with the shock.

Under the baseline scenario, built on the assumption of a swift resolution of the conflict, the Bank of Albania assesses that the impact of this shock on the Albanian economy will be moderate. Inflation is expected to remain close to target over the next three years, while economic growth is projected to slow somewhat during 2026, but remain near its medium-term trend in the following two years. In this scenario, the consequences of the shock are expected to be more visible in nominal variables than in real ones.

However, uncertainty surrounding this forecast remains high, conditioned by uncertainty in projecting geopolitical developments. In this context, the Bank of Albania is monitoring two alternative scenarios: (i) if the conflict persists and/or intensifies, causing significant disruptions to global supply chains, inflationary pressures would intensify, requiring a stronger monetary policy response, while economic growth could slow more markedly; and (ii) if the situation stabilises quickly and energy prices return close to pre-crisis levels, inflationary effects are expected to be temporary and the implications for the Albanian economy and monetary policy would remain marginal.

In this context, the Supervisory Council decided to maintain the monetary policy stance unchanged at its meeting of 6 May 2026. It assessed that, in line with the available information and the baseline scenario projections, the current monetary policy stance remains appropriate. The policy rate, at its current level of 2.5%, provides suitable monetary conditions for maintaining the price stability objective over the medium term.

The Bank of Albania will continue to closely monitor international developments and their implications for the Albanian economy. Any revision to the monetary policy stance will remain data-dependent and will be guided exclusively by the objective of price stability. The Bank's capacity to respond to different scenarios remains fully intact and will be activated as necessary, with transparency and clear communication with the public and financial markets.



BOX 1 EXPOSURE OF THE ALBANIAN ECONOMY TO THE OIL PRICE SHOCK

This box presents a concise assessment of the Albanian economy’s direct exposure to fluctuations in oil prices, as well as the indirect channels through which these developments may affect inflation and economic growth. The escalation of the conflict in the Middle East since the end of February 2026 has led to significant increases in prices and uncertainty in global energy markets, affecting oil and gas prices and increasing risks to the global economy. In this context, the Albanian economy also faces potential effects, the intensity of which depends on the magnitude and duration of this shock.

I. Exposure of the Albanian economy

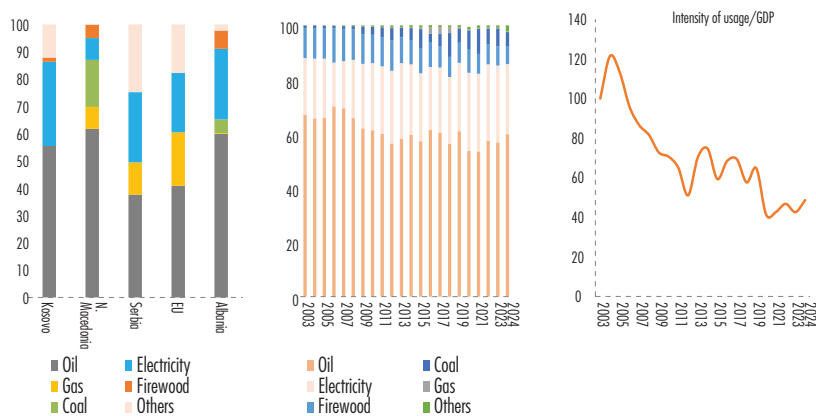
Importance of oil and the structure of the energy mix². Oil remains one of the main energy sources in Albania, accounting for around 61% of total consumption. This high share makes the economy relatively sensitive to fluctuations in international prices, which are reflected in production costs and, subsequently, in inflation.

However, developments over the years show a gradual improvement in the energy structure. The share of oil has declined, while the use of electricity and renewable energy sources has increased, reflecting improvements in energy efficiency and greater diversification of energy sources.

A significant indicator is the improvement in oil-use efficiency relative to GDP³, from a level of 100 in 2003 to 48.7 in 2024. In practical terms, this means that today the economy produces the same economic value using around half the amount of oil compared with two decades ago. This development is linked to the shift of economic activity toward the services sector, which is less intensive in oil use, technological improvements, and more efficient use of energy.

Chart 1 Box 1.

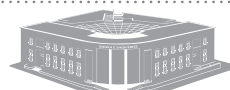
Energy mix (% of total) in Albania and the region, as well as oil-use intensity (2003=100)



Source: INSTAT and calculations of the Bank of Albania.

² The energy mix reflects the structure of energy consumption by source (including oil, electricity and gas), expressed in a common unit, namely kilotonne of oil equivalent.

³ This indicator is calculated as oil consumption, expressed in “kilotons of oil equivalent”, relative to gross domestic product in real terms.



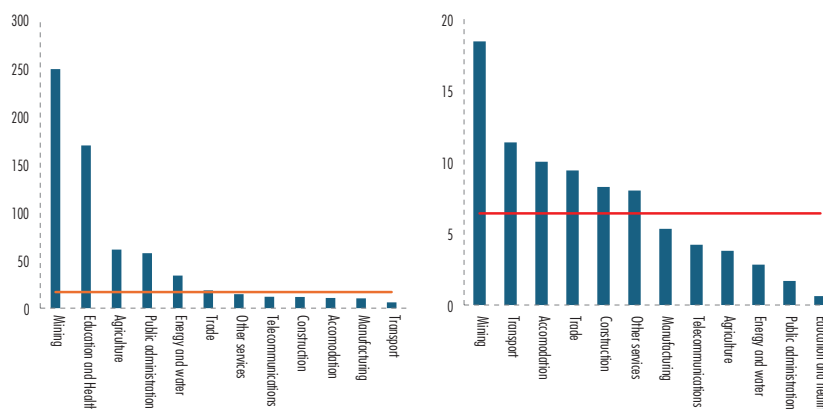
Dependence on imports. Despite considerable crude oil reserves, limited domestic refining capacities force Albania to meet almost all domestic demand through imports. In 2025, oil imports reached around 740 thousand tonnes, accounting for approximately 5.9% of total imports. These indicators underline the sensitivity of the trade balance to fluctuations in international energy markets. The 2022 episode clearly illustrated that sharp price increases can worsen the trade deficit and exert additional pressures on the balance of payments.

Consumption structure and sectoral intensity. Exposure to the shock is not uniform across economic sectors. Businesses account for the main share of oil consumption (around 78.3%), while households account for around 21.7%. Moreover, the weight of oil in the household consumption basket is low, at around 3.47%. Nevertheless, the impact of price increases on household budgets may also be felt through indirect channels arising from higher transport costs and higher prices of goods produced with high energy intensity.

Within the business sector, the sectors with the highest intensity of oil use and, consequently, the greatest exposure to price shocks are transport, manufacturing, accommodation, and construction. From a cost⁴ perspective, the share of oil expenditures is highest in transport, extractive industries, accommodation, trade, and construction. At the economy-wide level, fuel expenditures account for around 6.4% of total costs.

Chart 2 Box 1.

Oil-use intensity by sector and its share in sectoral cost structures



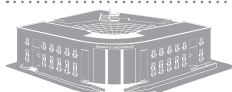
Source: INSTAT and calculations of the Bank of Albania.

II. Transmission Channels and Impact Assessment

An increase in oil prices constitutes a negative supply-side shock, which may be transmitted to the economy through both direct and indirect channels. The intensity and duration of the impact depend on the duration of the conflict, the restoration of production to pre-war levels, and the persistence of prices in international markets, making this process dependent on geopolitical developments and subject to continuous monitoring.

The transmission to inflation occurs through two main channels:

⁴ Input-output tables also allow for the analysis of cost structures. The latest available data refer to 2023.



- **the direct and immediate channel** reflects higher fuel prices for consumers in personal transportation.
- **the indirect channels, which operate more slowly but more persistently**, include several interacting mechanisms. First, the increase in costs for businesses is gradually transmitted into the prices of other goods and services, generating broader inflationary pressures. Second, the weakening of aggregate demand, given that demand for oil is relatively inelastic and higher prices translate into a deterioration of the terms of trade. Finally, there are the effects arising from slower economic activity and higher inflation among trading partners.

Although at this stage a full assessment of all the above channels with a high degree of precision remains difficult, two main conclusions can be highlighted. **First, regarding the direction of the impact**, the shock is expected to produce opposite effects on inflation and economic growth: a sustained increase in oil prices exerts upward pressure on inflation, while simultaneously slowing economic activity through reduced purchasing power, the diversion of income toward financing imports, and increased uncertainty. **Second, in terms of both duration and magnitude**, the shock is expected to be temporary and to have only transitional effects on inflation, whereas a prolonged and significant increase in energy prices – reflected in production costs and inflation expectations – may generate more persistent pressures, with more pronounced consequences for both inflation and economic growth.

III. Conclusion

The Albanian economy is exposed to fluctuations in global oil prices, but it currently demonstrates a stronger capacity to cope with them compared with previous shocks. In particular, direct exposure is assessed to be contained, while the economy's absorption capacity has improved significantly in recent years.

This position is supported by: (i) improvements in the economy's energy efficiency; (ii) limited consumer exposure, owing to the low share of fuel in the consumption basket; and (iii) an improved macroeconomic environment, which provides greater room for policy response. Nevertheless, the ultimate impact will depend on the duration of the shock and geopolitical developments.

The Bank of Albania is closely monitoring the situation and remains ready to respond in a timely and proportionate manner to safeguard price stability and macroeconomic sustainability.



2. EXTERNAL ENVIRONMENT

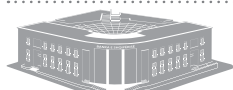
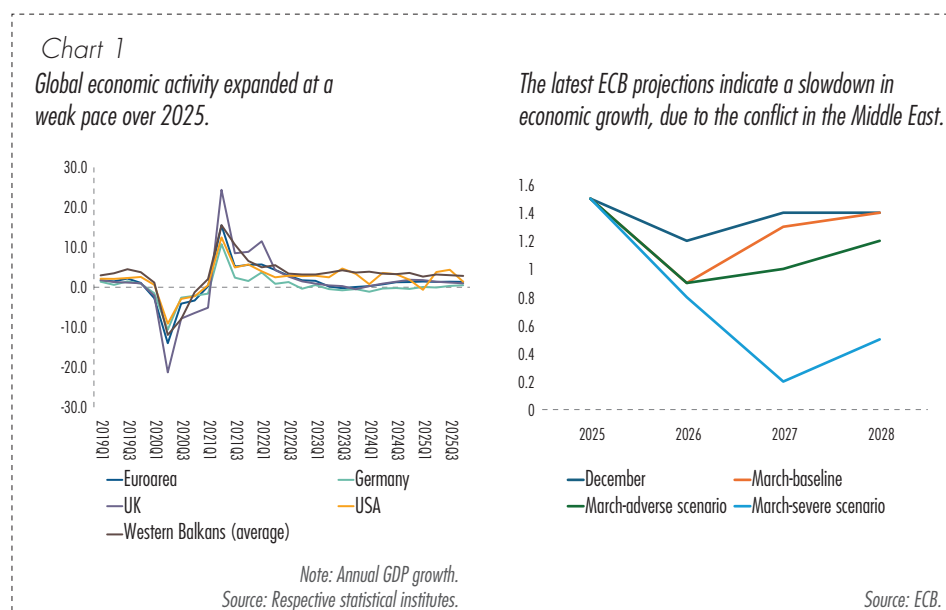
The global economy, and particularly the euro area economy, has followed a broadly positive trajectory in recent quarters, characterised by a gradual acceleration in growth, a decline in inflation, and a progressive easing of monetary conditions.

However, the rise in oil prices and the heightened uncertainty associated with the conflict in the Middle East have begun to exert initial effects, reflected in higher inflation in March and a deterioration in expectations for future economic growth and inflation. In particular, uncertainty regarding the outlook remains elevated, shaped by the dynamics and duration of the conflict, while the expected impact of this supply-side shock ranges from limited effects under more favourable scenarios to potentially more pronounced consequences under more adverse scenarios.

Under these circumstances, central banks have remained prudent in their adjustment towards a tighter monetary policy stance, while continuing to monitor the situation closely and on an ongoing basis.

2.1. ECONOMIC ENVIRONMENT

Global economic activity slowed to lower rates in the last quarter of 2025 (Chart 1, left). Although leading indicators suggest a faster pace of growth in the first quarter, the recent conflict in the Middle East has altered the expected trajectory of future economic growth. In this context, the ECB has revised down its projections for economic growth, with several risk scenarios pointing to notably subdued growth over the 2026–2028 period (Chart 1, left). Similarly, the IMF, in its latest World Economic Outlook (WEO) and the April 2026



Consensus Forecast, has reduced expected global growth for 2026 by 0.2 percentage points. Global inflation has also been revised upward by 0.5 percentage points. It is worth noting that these revisions have affected emerging economies more strongly, underlining their greater exposure to global shocks.

Also, global inflation projections were revised upward by 0.5 percentage points. The revisions were particularly pronounced in emerging market and developing economies, reflecting their higher vulnerability to external shocks.

Global inflation rates increased in March, reversing the disinflationary trend observed in the previous two months, due to rising energy prices. In the euro area, inflation reached 2.6% in March, a significant increase compared with the 1.8% average recorded in the first two months of the year. In particular, energy inflation rose to 5.1%, an increase of 8.7 percentage points compared with the first two months of the year. In the United States, inflation also rose to 3.3% in March, from an average of 2.4% in January–February, driven largely by higher energy price inflation.

These developments have prompted central banks to adopt a prudential approach to monetary policy. The ECB kept its policy rate unchanged at its March meeting, reflecting expectations of higher inflation and slower economic growth compared with previous projections, and increased geopolitical uncertainty. Similarly, the Federal Reserve did not proceed with a further reduction in the policy rate at its March meeting, a decision justified by expectations of higher future inflation. In the same direction, the Bank of England also refrained from cutting its policy rate in March, highlighting the presence of heightened inflationary pressures stemming from the conflict in the Middle East.

EURO AREA ECONOMY

The euro area economy recorded annual growth of 1.4% in the second half of 2025, broadly unchanged compared with the first half of the year. Until February, leading indicators pointed to stronger growth in the first quarter of 2026, a trend that reversed following the outbreak of the conflict in the Middle East. In response, the ECB revised downward its expected economic growth for 2026 and the following two years. Under the baseline scenario, which assumes a short-lived and geographically limited conflict, expected growth for 2026 was revised down by 0.3 percentage point to 0.9%. Under alternative scenarios, which factor in a longer duration of the conflict and deeper implications for the global economy, economic growth slows significantly, particularly in 2027, before recovering in 2028, although remaining below the end-2025 projections.

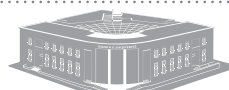
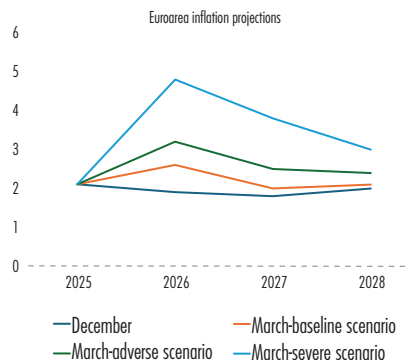
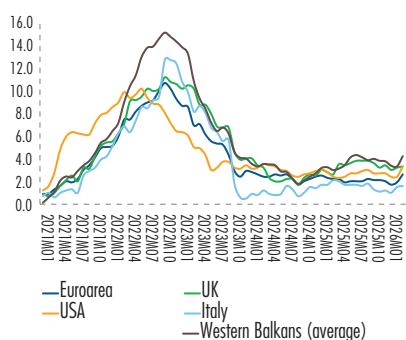


Chart 2

Inflation rates accelerated in March, reversing the disinflationary trend observed in the first two months of the year.

The ECB's inflation projections suggest higher rates over the 2026–2028 period.



Note: Survey indicators on enterprises which signal the progress of economic activity in the short-term.
Source: PMI indices.

Source: Eurostat, national statistics institute.

Inflation in the euro area reached 2.6% in March (Chart 2, left), reversing the disinflationary trend observed during the first two months of 2026. The main driver of this increase was rising energy inflation, an effect that was partially offset by slower inflation in food—particularly unprocessed food—and services.

Looking ahead, inflation is expected to increase to 2.6% in 2026, revised upward by 0.7 percentage point (Chart 2, right). Inflation projections have also been revised upward for 2027 and 2028, to 2.0% and 2.1% respectively, although the indicator is still expected to decline compared with the current year. Under alternative scenarios, inflation rates are expected to be significantly higher, particularly in 2026 and 2027.

MAIN TRADING PARTNER ECONOMIES

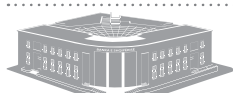
The upward trend in inflation in March has also been observed in Italy and Greece, two of Albania's key trading partners. In Italy, the acceleration has been more moderate; consumer price inflation increased to 1.6% in March, from an average of 1.3% in January–February. Unlike most other EU countries, energy inflation in Italy remained in negative territory, although of a lower magnitude.

On the other hand the upward trend of inflation was more notable in Greece. Inflation stood at 3.4% in March, from an average of 3.0% in January and February. The added contribution from energy group was partially offset by the declining effect of slower inflation in food and services.

REGIONAL ECONOMIES⁵

Regional economies also recorded higher inflation rates in March, reversing the disinflationary trend observed in January and February. In North Macedonia, inflation increased to 4.9% in March, from an average of 3.1%

⁵ Main trading partners outside the European Union are Kosovo, North Macedonia, and Serbia.



in the January–February period. This rise was mainly driven by higher food inflation, while energy inflation turned positive after a previously deflationary trend in earlier months. In Serbia, inflation accelerated to 2.8% in March, from 2.5% in January–February, with higher contributions from energy prices partially offset by still-negative food inflation. In Kosovo, the upward inflation trend has been ongoing since last year, reflecting increases in electricity prices. Inflation reached 6.2% in the first quarter of 2026, up from 5.2% in the final quarter of the previous year. In particular, a marked acceleration was recorded in March, when inflation rose to 6.7%.

Table 1 Economic indicators for main trading partner countries

	Annual change of GDP (%)			Annual inflation (%)	Unemployment (%)
	2025Q3	2025Q4	2025Q4	2026Q1	Latest publication
Italy*	0.8	0.9	1.2	1.4	4.9
Greece	2.1	2.5	2.4	3.1	8.7
Kosovo	3.1	3.9	5.2	6.2	10.9
North Macedonia	3.8	3.8	4.2	3.7	11.4
Serbia	2.0	2.2	2.8	2.6	8.9
Albania	3.9	3.8	2.2	2.5	8.3

Source: respective statistical institutes. *Inflation rates for February are estimates from Eurostat.

2.2. COMMODITY PRICES IN GLOBAL MARKETS

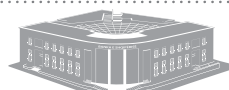
The **Commodity Prices Index**⁶ recorded an annual increase of 4.9% in the first quarter of 2026, marking a reversal compared with the previous quarter, when the index contracted by 8.4%. The decline in international commodity prices continued during January and February, but this trend reversed in March, leading to a sharp increase in the index over the quarter. The dynamics were primarily driven by a strong rise in the energy component of commodity prices, reflecting increases in oil, gas, and coal prices (*Chart 3, left*). In the first quarter, the index reached levels broadly comparable to those observed in February 2022, the period marking the onset of the war in Ukraine.

The **Brent oil price** averaged around USD 80.5 per barrel in the first quarter of 2026, recording annual and quarterly increases of 6.4% and 26.5% respectively (*Chart 3, right*). This increase was driven mainly by developments in March, when, as a result of the conflict in the Middle East and the blockade of the Strait of Hormuz, global oil supply was significantly reduced, despite the release of strategic reserves by IEA member countries⁷.

The **food price index** also recorded an increase of 0.6% in the first quarter of 2026, compared with a decline of 6.6% in the previous quarter (*Chart 3, left*). This development appears to represent a potential turning point in the trajectory of the indicator going forward. The increase in the index was directly influenced by higher energy commodity prices, reflecting the essential role of

⁶ A monthly frequency index published by the World Bank, composed of the energy commodity price index (coal, crude oil, and natural gas) and the non-energy commodity price index (agricultural products, chemical fertilisers, and metals).

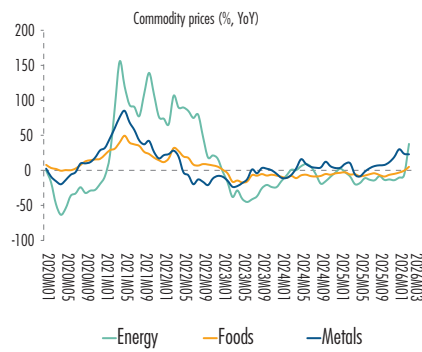
⁷ International Energy Agency – intergovernmental organization established in 1974 to help industrialised countries respond to major oil shocks.



these inputs in the food production cost chain. In particular, higher oil and gas prices increased transport costs as well as the cost of chemical fertilisers, thereby contributing to higher food prices.

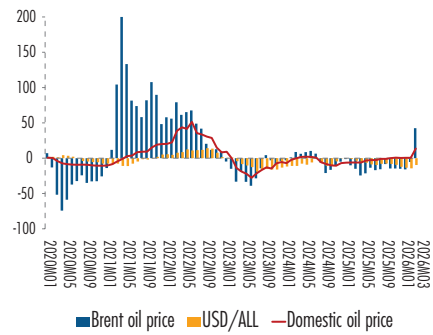
Chart 3

Foreign markets reflected the overall increase in commodity prices.



Note: Main commodity price indices, annual change (%)
Source: World Bank.

Domestic oil price dynamics were in line with developments in foreign markets.



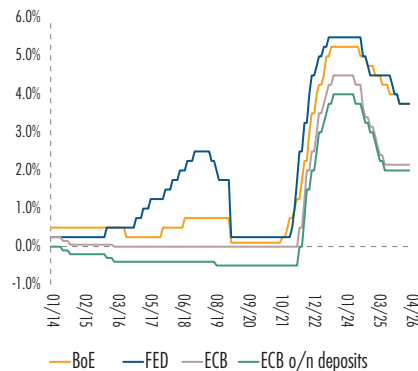
Note: Annual changes. Oil prices in the country are approximated using the consumer basket oil price index.
Source: INSTAT, staff estimates.

2.3. INTEREST RATES

Major central banks kept their policy rates unchanged during the first three months of the year. At its March meeting, the **Federal Reserve** maintained the federal funds target range at 3.50%–3.75%. **The Bank of England** and **the European Central Bank** also left their policy rates unchanged in March, at 3.75% and 2.15%, respectively. However, global financial conditions have tightened considerably since the beginning of March, driven by rising risk premia following the escalation of tensions in the Middle East. Developments in financial markets have also been reflected in bond yields, which have increased in recent months.

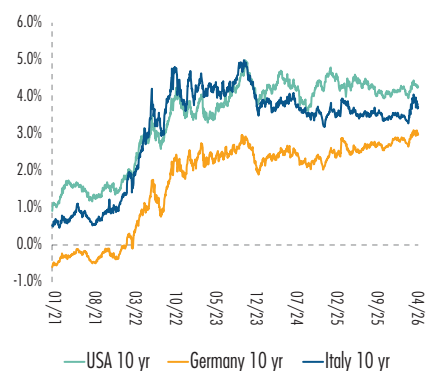
Chart 4

Major central banks have kept their policy rates unchanged.



Notes: Policy rates for main large central banks with impact on international markets.
Source: Respective central banks.

Government bond yields increased notably in March, particularly in the United States and the euro area.



Notes: 10-Year yields on government bonds.
Source: Respective central banks.



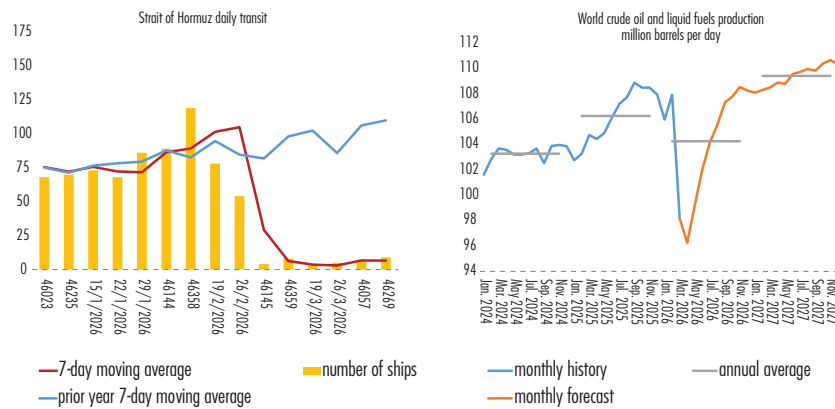
BOX 2 DEVELOPMENTS IN INTERNATIONAL ENERGY MARKETS

The escalation of the conflict in the Middle East constitutes a new supply shock to the global economy. Increased geopolitical uncertainty has been accompanied by immediate tensions in energy markets, driving up oil and gas prices and heightening global inflationary risks. The full effects are expected to materialize over the periods ahead.

The epicentre of these developments remains the Persian Gulf region, where uncertainty regarding the continuity of energy supplies has significantly affected market expectations. A key factor is the risk surrounding strategic transportation corridors, including the Strait of Hormuz, through which around 20% of global oil supplies and more than 30% of global liquefied natural gas trade pass. Any disruption or tension affecting this critical chokepoint is immediately reflected in higher risk premia across energy markets.

Chart 1 Box 2

Daily transit through the Strait of Hormuz and global production of oil and liquid fuels



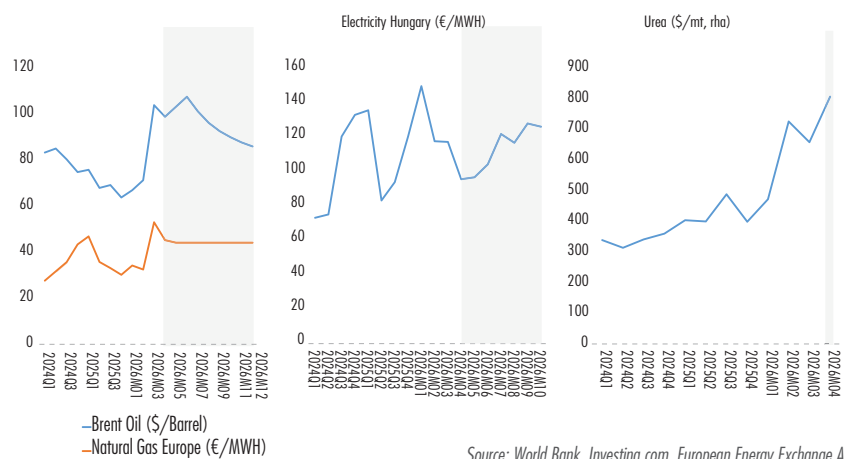
Source: Macromicro, IMF, IEA.

As a result of these developments, Brent crude oil prices have exhibited significant volatility. Prices increased from around USD 71–72 per barrel prior to the onset of the conflict to a range of USD 90–110 per barrel, reaching peaks of around USD 120 per barrel in early March 2026. Price movements have remained highly volatile, reflecting daily developments in the conflict as well as signals regarding the prospects for de-escalation or further escalation. On certain days in March, oil prices fell below USD 90 per barrel following indications of easing tensions, before rebounding in response to new developments on the ground and constraints affecting maritime transport. A summary of the main events is presented in the timeline below.



Chart 2 Box 2

Developments in the prices of oil, natural gas, electricity, and urea (used as a proxy for fertilizer prices)



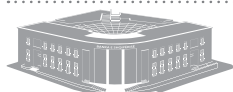
Over the longer term, developments in energy prices will depend on the duration and intensity of the conflict, as well as its impact on international energy trade flows. A short-lived conflict would mainly be reflected in a higher geopolitical risk premium, with only temporary effects on prices. By contrast, a prolonged disruption would lead to lower inventories, constraints on logistical capacities, and imbalances in global oil and gas supply, thereby exerting sustained upward pressure on energy prices. These pressures would subsequently be transmitted through cost channels to a broader range of commodities, including food products, metals, chemicals, and fertilizers.

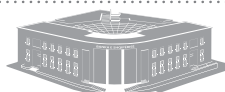
At present, market consensus points to a relatively short-lived conflict scenario. Nevertheless, even under this scenario, the expected moderation in oil prices would not be sufficient to return them to their pre-conflict levels, reflecting the persistence of an elevated risk premium in international energy markets.

From a global macroeconomic perspective, these developments are expected to weaken purchasing power and dampen demand, while increasing the complexity of monetary policy decision-making in major economies. Central banks have adopted a cautious and data-dependent approach, avoiding immediate responses to supply-side shocks that may prove temporary in nature. They remain focused on anchoring inflation expectations and assessing the extent to which higher energy prices pass through to core inflation.

This approach leaves open the possibility of policy intervention should inflationary pressures prove more persistent or if risks to macroeconomic stability intensify. In this context, the continuous monitoring of international energy markets remains essential for the timely assessment of risks and the appropriate calibration of monetary policy.

Timeline of the conflict in Iran and fluctuations in oil prices





3. FINANCIAL MARKETS AND CREDIT TERMS AND CONDITIONS

Financial markets remained calm during the first quarter of the year, characterized by ample liquidity, normal trading activity, low risk premia, and low interest rates. In particular, the foreign exchange market continued to exhibit an appreciating exchange rate, orderly trading conditions, and high trading volumes.

Overall, financial conditions remained accommodative, supporting the expansion of credit. Alongside these conditions, strong credit demand and supportive bank lending policies translated into rapid and broad-based growth in private sector credit. The deepening of financial intermediation contributed to the strong growth of lek-denominated deposits held by both households and businesses, providing a stable funding base for the banking sector.

3.1. DOMESTIC FINANCIAL MARKET

Interest rates and risk premia in financial markets remained low during the first quarter of the year. Interbank interest rates continued to be anchored close to the policy rate, while the yield on the 12-month Treasury bill declined further over the period, narrowing its spread with the policy rate and signalling low liquidity risk premia in the economy. Despite some monthly fluctuations in specific market segments, lending rates remained broadly stable and at low levels. Spreads between yields and lending rates relative to the repo rate remained contained, reflecting stable expectations and low levels of risk perceived by market participants.

Developments in the interbank market confirm favourable liquidity conditions and interest rates anchored close to the policy rate. Interbank rates in the first quarter remained unchanged from the levels observed at the end of last year, maintaining only minimal deviations from the policy rate. The Bank of Albania continued to inject liquidity through its main instrument, the one-week repo. The amount of liquidity injected during the quarter was lower than in the previous quarter. The banking system's liquidity needs were also lower in the first months of the year, reflecting reduced government borrowing and increased government expenditure disbursements in the domestic market during this period.

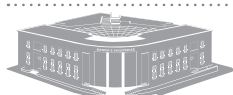
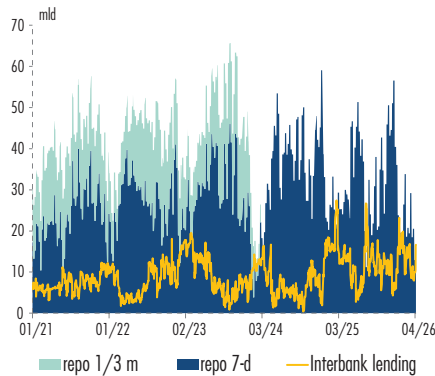


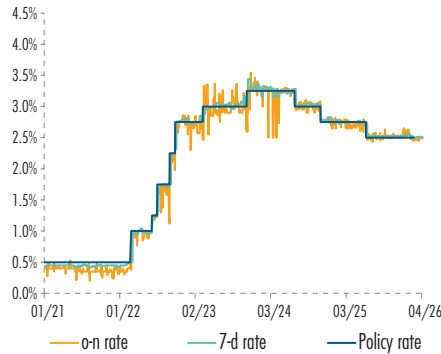
Chart 5

Banks' demand for liquidity declined during the first three months of the year.



Note: Daily performance of liquidity supplied by the Bank of Albania through one-week and 1-3-month repo and traded volume by banks in the money market. Source: Bank of Albania.

Interbank interest rates remained anchored close to the policy rate.

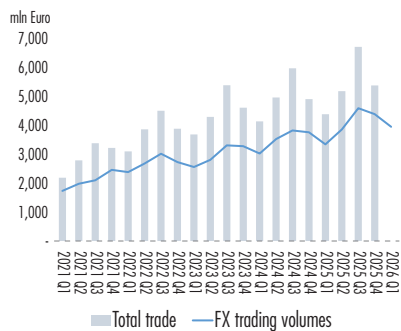


Note: Data show the daily performance of interest rates in the interbank market. Source: Bank of Albania.

The lek continued to appreciate gradually during the first quarter, while the foreign exchange market remained calm throughout the period. Exchange rate fluctuations stayed at low levels and quotation spreads remained close to their historical average (Chart 6, right). Annual growth in trading volumes remained strong at 18.4%, broadly in line with the pace recorded during the second half of last year.

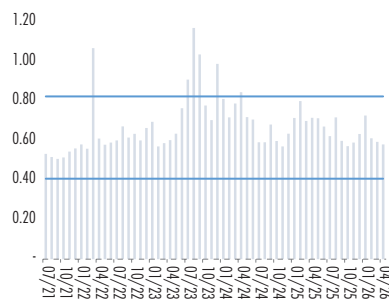
Chart 6

The growth of trading volumes in the foreign exchange market remained strong, consistent with the pace observed in the second half of last year.



Note: Data show quarterly trading volumes in the foreign exchange market and the value of trade in goods and services (imports + exports), in EUR million. Source: Bank of Albania.

Bid-ask spreads remained within their historical range.



Note: The chart shows the difference between the bid and ask quotations for the euro, expressed as a monthly average. The range is calculated as the mean \pm one standard deviation. Source: Bank of Albania.

In the first two months of the year, the **EUR/ALL exchange rate** fluctuated within a narrow range, averaging ALL 96.5, unchanged from December of the previous year. Appreciation pressures strengthened in March, when one euro was traded at an average of ALL 96.0. As a result, the annual appreciation of the lek increased to 3.2%, up from 2.3% in the first two months of the year. During April, the EUR/ALL exchange rate declined further to ALL/EUR 95.7, corresponding to an annual appreciation of the lek of 3.4%.



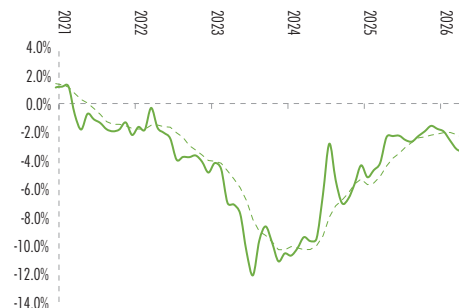
Chart 7

The lek has continued to appreciate at a moderate pace.



Note: Data show the daily performance of ALL exchange rate against Euro and US Dollar.
Source: Bank of Albania.

The annual appreciation of the lek against the euro increased slightly in the first months of the year.



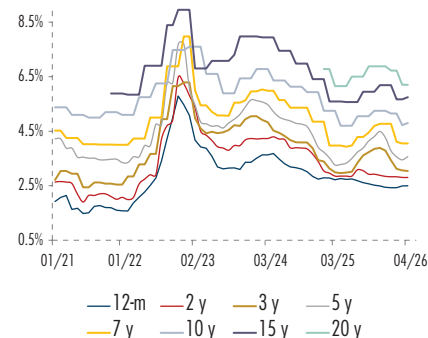
Note: The data show the annual change in the EUR/ALL exchange rate.
Source: Bank of Albania.

The exchange rate against the **US dollar** was volatile during the first quarter, but overall developments continued to favour an appreciation of the lek, reflecting movements of the US currency in international markets. The USD/ALL exchange rate declined to ALL 81.5 in February, from ALL 82.4 in December of the previous year. During March, however, the US dollar strengthened in international markets following the escalation of tensions in the Middle East, leading the USD/ALL exchange rate to increase to ALL 83.1 on average during the month. The annual appreciation of the lek against the US dollar remained high, averaging 12.6% in the first quarter. In the first weeks of April, the USD/ALL exchange rate resumed its downward trend, averaging ALL 81.8 per US dollar, or 7.4% below its average level in April of the previous year.

Overall developments in yields during the first quarter point to stable expectations and low risk premia in this market segment. Their spreads relative

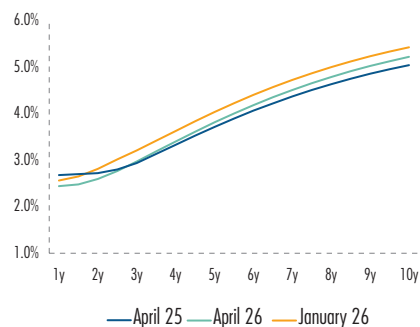
Chart 8

Yields on government securities in the primary market resumed their downward trend across long-term maturities during the first months of the year...

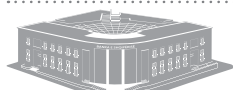


Note: Data show the interest rates (monthly average) on public T-bills and bonds issued in the primary market.
Source: Bank of Albania.

... resulting in a slight flattening of the yield curve compared with the beginning of the year.



Note: Data show the interest rates (monthly average) on Government debt securities by various maturities calculated according to the Nelson Siegel model.
Source: Bank of Albania.



to the policy rate, as well as across maturities, continued to fluctuate at low levels. Unlike the end of last year, the decline in yields during the first months of the year was observed across all maturities. In addition to the monetary policy stance and the generally favourable macro-financial environment, yield developments also reflected lower government financing needs amid strong investor demand⁸.

More specifically, the 12-month Treasury bill yield averaged 2.45% during the first quarter, compared with 2.48% and 2.62% in the fourth and third quarters of the previous year, respectively. Yields on government bonds with maturities of 3, 5, 7, 10, 15 and 20 years declined by around 0.6 percentage points⁹ over the quarter compared with their levels at the end of last year. The further reduction in long-term yields has also resulted in a slight flattening of the yield curve relative to the beginning of the year.

3.2. LENDING STANDARDS

Beyond short-term fluctuations in certain segments, interest rates on loans and deposits remained broadly stable and at low levels. This reflects low credit and liquidity risk premium, creating a supportive environment for credit expansion. The average interest rate on **new lek-denominated loans to enterprises** stood at 6.5% in the first quarter, slightly higher than the **6.3%** recorded in the previous quarter, but remaining close to the average observed over the past year. The increase in this quarter was mainly driven by developments in the segment of small loans (up to ALL 35 million), which stood at 7.8%, influenced by elevated and atypical values recorded in January and February of around 8.0%. In March, the average interest rate in this segment declined to 7.3%, a level broadly consistent with the range observed over the past two years. Meanwhile, interest rates on larger loans (above ALL 35 million) recorded a slight decline to 6.1%, from 6.3% in the previous three quarters.

Interest rates on loans to households continued to remain at low levels. The average mortgage interest rate stood at 3.9% in the first quarter, unchanged compared with the previous two quarters and consistent with its two-year average. The average interest rate on consumer loans declined to 8.4% in this quarter, from 8.6% in the second half of last year, reflecting the favourable lending stance adopted by banks in support of consumer financing during this period.

⁸ The bid-to-cover ratio in primary market auctions stood at 1.9 in the first three months of the year, up from 1.5 in the final quarter of 2025.

⁹ In 2025 Q4 yields on long-term bonds (3-5 years) increased by 0.3 percentage point from the third quarter and 0.55 percentage point from the first half of year.

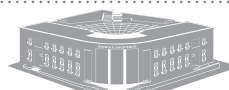
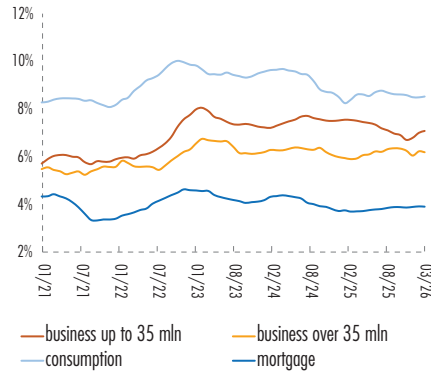


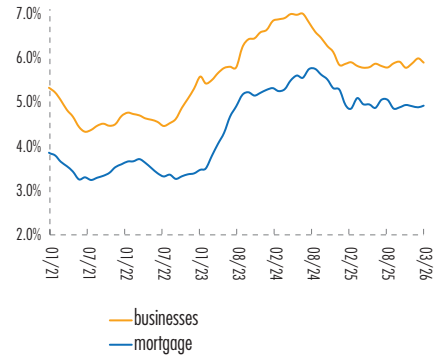
Chart 9

Interest rates on lek-denominated loans remained broadly stable or declined.



Note: Interest rates on new loans in lek as 6-month moving average. Source: Bank of Albania.

The average interest rate on euro-denominated loans increased slightly for enterprises and remained unchanged for mortgage loans.

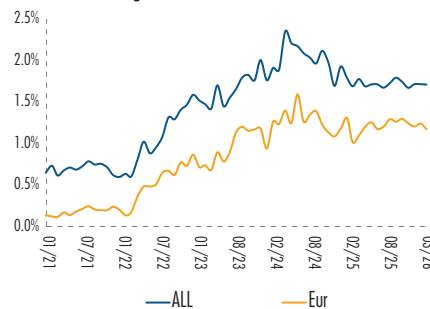


Note: Interest rates of new loans in euro as 6-months moving average. Source: Bank of Albania.

The average interest rate on euro-denominated loans to enterprises increased slightly in the first quarter of the year, reaching 6.0%, from 5.8% in the previous quarter and on average during 2025. As in the case of lek-denominated lending, the increase was concentrated in small loans (up to EUR 250,000), while the average interest rate on large loans remained stable at 5.8%. **The average interest rate on new euro-denominated mortgage loans** to households also remained unchanged at 4.9% during the quarter. The spread between average interest rates in lek and euro for both enterprise loans and household mortgages remained broadly unchanged, at 0.5 percentage points and -1.0 percentage points, respectively.

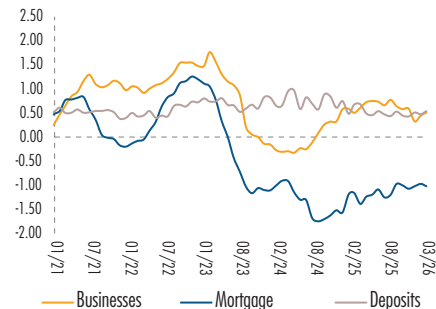
Chart 10

The average interest rate on time deposits in lek remained stable, while euro-denominated deposit rates recorded a marginal decline.



Note: The data show the interest rate applied on new time deposits in lek and euro, in %. Source: Bank of Albania.

The interest rate differentials between lek and euro for enterprise loans and mortgage loans remained unchanged.



Note: The data show the interest rate spread, in percentage points, between lek- and euro-denominated rates for business loans, mortgage loans, and deposits, presented as a six-month moving average. Source: Bank of Albania.



Average interest rates on time deposits remained broadly unchanged in the first quarter. For **lek-denominated deposits**, the average rate stood at 1.7%, unchanged from the previous quarter and in line with the 2025 average. **Euro-denominated time deposit rates** recorded a marginal decline to 1.2% this quarter, from 1.3% in the previous quarter, while remaining close to last year's average. Both in lek and euro deposits, interest rates on maturities above one year registered a slight decline. The interest rate spread between lek and euro deposits remained stable at 0.5 percentage points, consistent with the 2025 average.

BOX 3 SUPPLY CONDITIONS AND DEMAND FOR LOANS IN 2026 Q1¹⁰

In the first quarter, banks' credit policies remained unchanged for enterprises, but showed an easing in the consumer credit to households. Loan demand fluctuated, both in terms of market participants and in terms of loan usage.

Credit standards for loans to enterprises did not change in the first quarter, remaining in line with expectations for this period. They were reported as unchanged on loans to large enterprises and for financing planned investments, while they eased somewhat for loans aimed at meeting short-term liquidity needs and for small and medium-sized enterprises. Overall credit terms and conditions for loans to enterprises remained unchanged, despite an increase in margins applied on both average loans and riskier loans. The stability of supply conditions was reflected in a steady loan approval rate compared with the previous quarter. On the easing side of credit policies, banks reported the competitive environment in which they operate, lower funding accumulation costs, and fewer balance sheet constraints. At the same time, banks continued to remain vigilant in risk assessment and maintained a certain risk tolerance threshold.

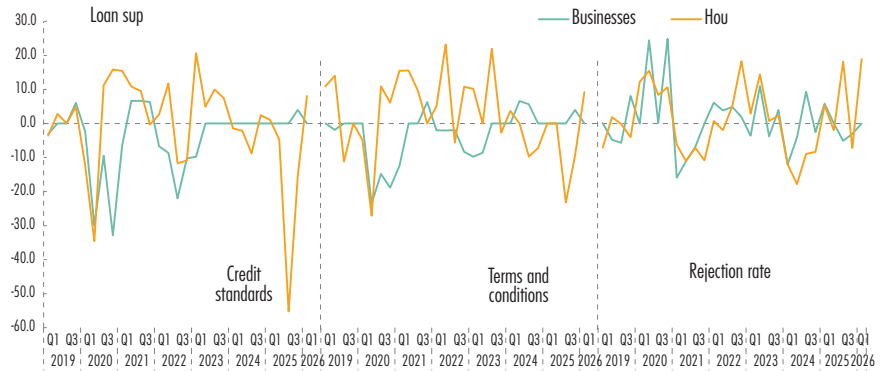
The credit policy framework for households was more favourable, contrary to banks' expectations from the previous quarter. Thus, credit standards, terms and conditions for new loans granted during this quarter were eased, driven by a favourable approach to consumer loans. In this segment, banks increased their risk tolerance under pressure from strong competition. The competitive environment also encouraged banks to reduce margins and extend loan maturities in the consumer credit segment. In terms of house purchase loans, banks followed credit policies similar to those of the previous quarter. Banks approved a lower ratio of loans relative to total applications from households, driven by the status of existing loans and individuals' credit history recorded in the credit registry.

¹⁰ The analysis is based on Bank Lending Survey, conducted on quarterly bases and is published at:
https://www.bankofalbania.org/Monetary_Policy/Surveys_11282/Bank_Lending_Survey/



Chart 1 Box 3

Supply conditions eased on loans to enterprises and tightened on loans to households.

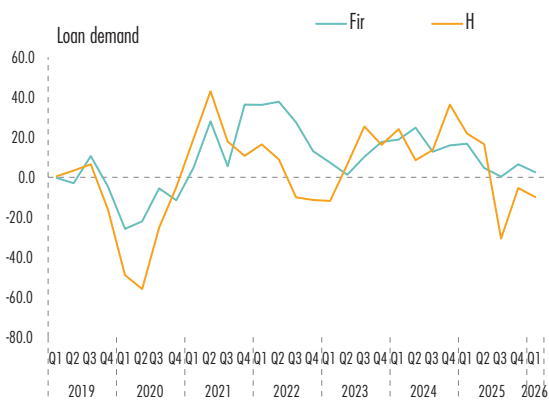


Source: Bank of Albania

Values on the chart represent net balances. Positive values indicate easing of terms and conditions and vice versa. Positive values indicate increase in the application refusal rate and vice versa.

Chart 2 Box 3

Credit demand was uneven across segments



Source: Bank of Albania.

Values on the chart represent net balances. Positive values indicate easing of terms and conditions and vice versa. Positive values indicate increase in the application refusal rate and vice versa.

Banks reported a high **loan demand** from large enterprises, mainly for loans used to meet short-term liquidity needs. In banks' view, stronger credit needs were driven by businesses' confidence in future. On the other hand, the use of internal funding sources, together with perceptions of the domestic economic situation and its outlook, discouraged overall corporate loan demand. Household loan demand was high in the consumer credit segment and low for house purchase loans. Strong demand for consumer loans was supported by higher consumption financing needs and by the overall level of interest rates in this segment.

3.3. CREDIT TO THE PRIVATE SECTOR¹¹

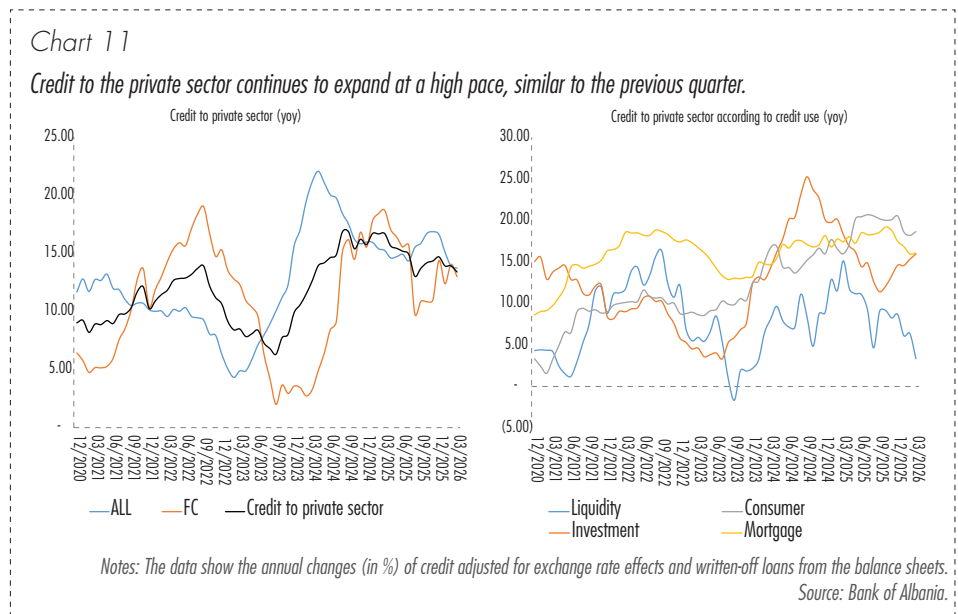
Credit to the private sector continued to record high growth rates, although these rates eased slightly compared with 2025. In the first quarter, average credit growth stood at 13.7%, similar to the previous quarter and above the average growth observed in the post-pandemic period. This performance suggests that demand for loans from the private sector remains strong, supported by the sound financial position of businesses and households, as well as by banks' accommodative lending policies. As a result, credit to the private sector

¹¹ Credit analysis is based on the new dataset in accordance with the ECB methodology on "real" credit flows, which excludes both the exchange rate effects and loans written off balance sheets.



reached 34.4% of GDP, increasing by around 2 percentage points year on year, illustrating the supportive role of the banking sector in economic growth.

The high growth rates of credit reflect positive and balanced developments across all major lending categories. **Credit to enterprises** grew by an average of 11.3%, maintaining rates akin to those observed in the second half of 2025. This expansion was driven mainly by investment loans, a segment that has shown continuous improvement since December, with annual growth rates reaching 15.3% in March. By contrast, loans for liquidity purposes slowed, growing by 3.4%, reflecting the improvement in businesses' liquidity position during this period.



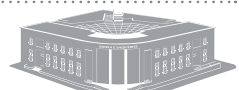
Another feature of credit to enterprises during this period was the increase in foreign currency-denominated loans, reflecting both the structure of demand for investment financing and the sectoral distribution of credit. From this perspective, the trade, energy, and construction sectors were the main beneficiaries of bank financing during the quarter, also reflecting the effects of geopolitical developments and uncertainties in commodity markets.

Table 2 Annual growth rates of credit by economic sector (end of period, %)

	Agriculture	Industry	Construction	Trade	Services
2020	15.8	8.2	8.1	9.4	17.8
2021	15.3	8.0	29.6	8.8	-8.0
2022	6.9	-3.0	22.1	10.5	7.8
2023	2.8	6.3	6.4	6.3	22.7
2024	-4.8	14.5	10.7	18.7	10.4
2025	10.3	15.1	4.7	16.0	7.7
2026-March	10.9	15.2	15.0*	10.9	5.4

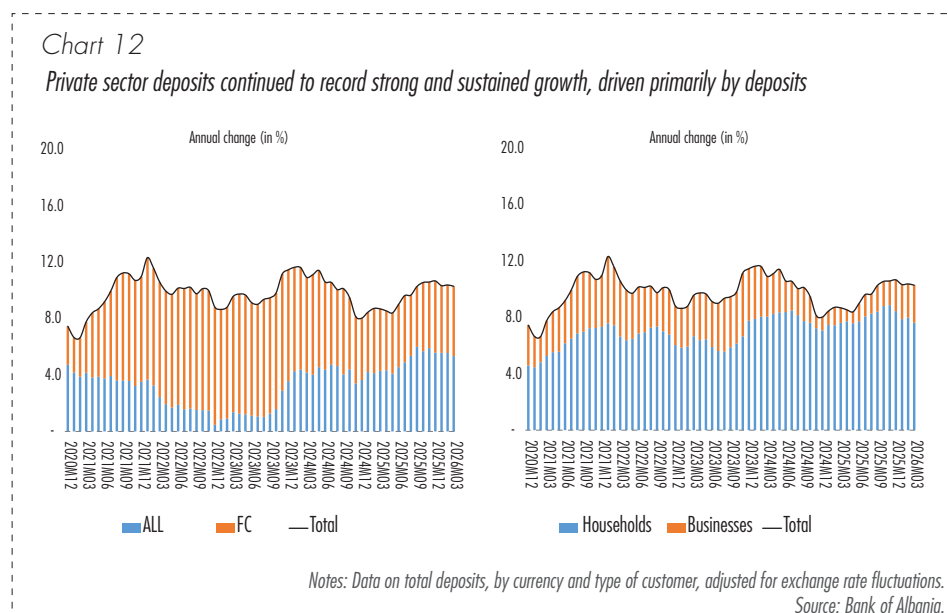
* The rapid annual growth of credit to the construction sector in the first quarter of 2026 reflects a base effect stemming from the high loan repayments recorded in this sector during the first quarter of the previous year.

Source: Bank of Albania.



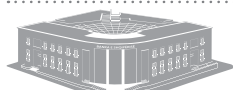
Credit to households continued to expand at high rates during the first quarter of the year, although the growth rate was somewhat lower compared with the previous period. Portfolio growth of 17.3% was 1.4 percentage points lower than in the previous quarter, reflecting a relative slowdown in lending across both main categories. This development was more pronounced in the segment of house purchase loans, which recorded an average annual growth rate of 16.3%, amid a gradual easing of demand and the impact of regulatory measures. Nevertheless, the monthly performance of this segment showed signs of improvement, particularly in March, supported in part by the positive effect of the implementation of the Council of Ministers' Decision¹² on the revaluation of real estate assets. A similar dynamic was observed in the consumer loan segment, where annual growth reached 18.2%.

An analysis of the loan portfolio by currency shows that **lek-denominated loans** grew by 14.2% during the first quarter, continuing to outpace foreign currency-denominated loans, which grew by 13.1%. This performance was reflected in an increase in the share of lek-denominated loans in the banking sector's credit portfolio to 58.2%, indicating further progress in reducing euroization, thereby supporting the monetary policy transmission mechanism and enhancing financial stability.

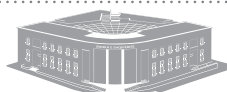


Bank deposits continued to grow at a steady pace during the first quarter of 2026, recording an annual expansion of 10.5%. Deposit growth was driven primarily by deposits in lek, which continued to register strong growth rates of 11.3%. The growth in deposits was supported by high liquidity levels in the economy, the stability of interest rates on bank deposits, and the gradual shift of household savings from other financial instruments towards bank deposits. Meanwhile, foreign currency deposits increased by around 9.4%, reflecting

¹² As resulted from banks' responses in the Bank Lending Survey for the first quarter 2026.



a slight acceleration, supported in part by stronger business activity in foreign currency. Overall, the deposit structure continued to shift in favour of lek-denominated deposits, pursuing the improving trend observed in this indicator for more than a year. Lek-denominated deposits accounted for 49.4% of total deposits at the end of the first quarter, 1.7 percentage points higher than at the end of 2024.



4. ECONOMIC GROWTH

The Albanian economy grew by 3.8% in 2025, maintaining the positive trajectory of the previous two years, and showing low volatility across quarters. This positive growth continued into the first quarter of 2026, although the future performance of economic activity is expected to become increasingly exposed to supply-side shocks stemming from rising prices in international markets.

From the perspective of the aggregate demand, economic growth was driven by the expansion of domestic demand, while foreign demand also contributed positively during the second half of the year. From the sectoral perspective, growth was mainly reflected in the expansion of activity of services and construction sectors, while the industry and agriculture sectors declined.

Economic activity expanded by 3.8% in 2025 Q4, and based on indirect indicators, this growth continued to be present in 2026 Q1.

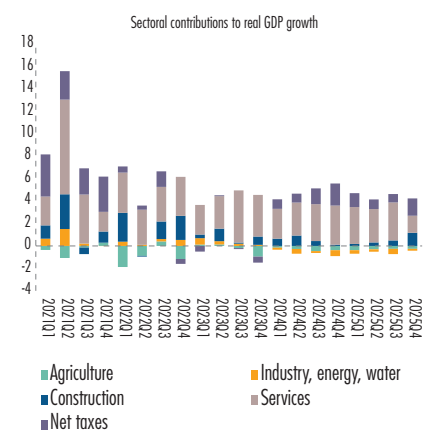
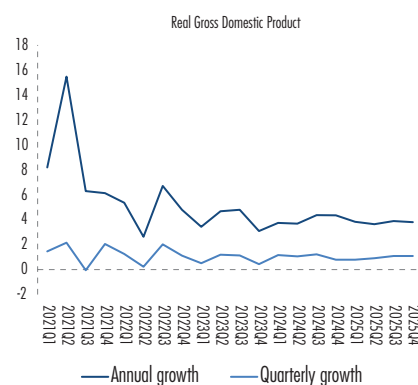
4.1. GROSS DOMESTIC PRODUCT

Gross domestic product (GDP) grew by 3.8% in 2025 Q4, slightly lower than the growth rate of the previous quarter (3.9%)¹³. Economic activity continued to be supported by the expansion of household consumption, investment, and services exports, reflecting sound financial balances, accommodative financial conditions, further growth in tourism revenues, and confidence in the future. This nature of demand continued to be reflected in the expansion of activity in

Chart 13

Economic growth in the last quarter of 2025 was slightly lower than in the previous quarter...

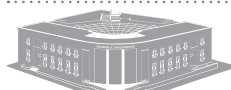
...continuing to be supported mainly by the services sector.



Source: INSTAT and Bank of Albania.

Source: INSTAT and Bank of Albania.

¹³ Economic growth in 2025 Q3 was revised upward in the publication of the fourth-quarter GDP data (INSTAT, 26 March 2026), to 3.9%, from 3.7% in the previous publication.



the services and construction sectors, while the agriculture and industry sectors continued to contract.

The services sector contributed by 1.5 percentage points to economic growth in the fourth quarter, although this contribution was lower than in the previous quarter (3.2 percentage points). This performance was mainly supported by the expansion of activity in the “Public administration, education and health” branch, followed by “Real estate activities”, while the remaining service branches recorded more moderate growth rates.

The construction sector continued to support the expansion of economic activity in the fourth quarter, expanding by 7.4% and contributing 1.2 percentage points to economic growth. This growth rate was higher both compared with the third quarter, when growth stood at 4.8%, and with 2025 H1.

Agricultural output continued its downward trajectory during the fourth quarter of the year. This sector contracted by 2.2%, declining even more compared with the previous quarter (-1.7%). As a result, its contribution remained in a negative territory.

Industrial activity continued to negatively perform, both in terms of growth rates (-1.6%) and its contribution to economic growth (-0.2 percentage point). However, the contraction of this sector was more moderate compared with the third quarter of the previous year (-4.7%), reflecting developments in the “Extractive industry”.

Lastly, “Net taxes” contributed 1.5 percentage points to economic growth, up from 0.8 percentage point in the third quarter.

4.2. AGGREGATE DEMAND

Domestic demand expanded at a faster pace in 2025 Q4, with its annual growth rate rising to 3.8%, from 2.6% in the previous quarter. On the other hand, **the positive contribution of foreign demand declined from the elevated levels recorded in the previous quarter**, constituting the main factor behind the moderation of the growth pace (*Chart 14, right*).

The faster growth of domestic demand reflected the positive contribution of both private consumption and investment. “Private consumption” grew by 3.0%, compared with 1.4% in the previous quarter. By contrast, the growth rate of “Public consumption” slowed significantly, falling from 7.7% to 1.8%, a development that is consistent with the slower pace of wage growth in the public sector. Lastly, total investment expanded by 6.7% – a considerably higher rate compared with the previous quarter (3.7%). This expansion was driven mainly by the increase in private investment, although public investment also provided positive contributions (*Chart 14, left*).

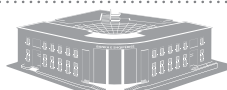
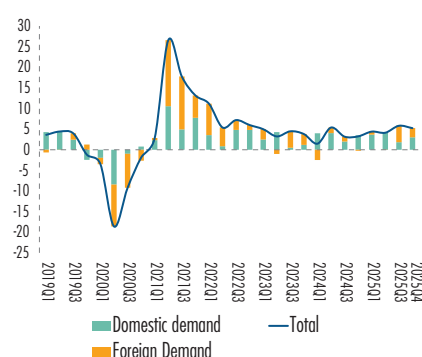
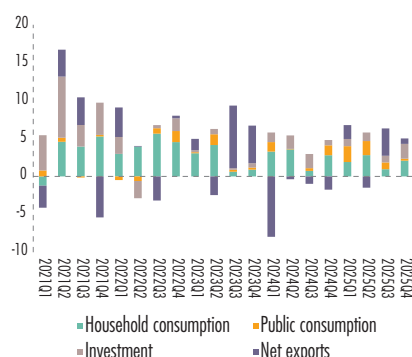


Chart 14

Domestic demand made a higher contribution to economic growth compared to the previous quarter.

Contributions from foreign demand were lower compared with the previous quarter.



Source: INSTAT and Bank of Albania.

Source: INSTAT and Bank of Albania.

Notes: Contribution of demand components in economic growth.

Notes: Contributions of domestic and foreign demand to annual aggregate demand growth.

Private consumption grew by 3.0% in the fourth quarter of 2025, supported by higher disposable income, reflecting increases in employment and wages, favourable financial conditions, expanding bank credit, and improved consumer confidence indicators. This growth was broad-based across all major categories, including food products, durable goods, and services¹⁴ (Chart 15).

According to available indirect indicators, private consumption is estimated to have recorded similar growth rates in the first quarter of the current year. The consumer confidence indicator continues to remain above its historical average, although it declined slightly compared with its level in the previous quarter. In addition, according to confidence survey results, consumers reported an improvement in major purchase conditions, while businesses in the trade and services sectors reported higher demand for goods and services in the first quarter. Lastly, quantitative data suggest that the growth of consumer credit continued to support the expansion of private consumption during this period.

On the other hand, the performance of private consumption in the coming quarters will be affected by higher oil prices and increased uncertainty stemming from the conflict in the Middle East. However, excluding extreme scenarios involving a prolonged and escalating conflict, the positive momentum of the labour market, sound financial balances, and favourable monetary conditions are expected to support a further expansion of this key component of aggregate demand and its positive contribution to economic growth.

¹⁴ The analysis of service consumption is based on the indirect indicator of value-added growth in the services sector, as measured by GDP using the production method. The analysis of consumption for both consumer goods and durable goods is based on data from the retail trade index.

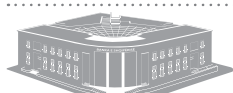
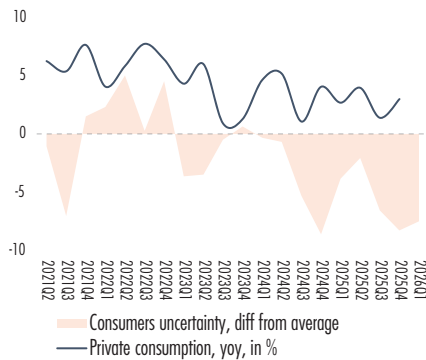
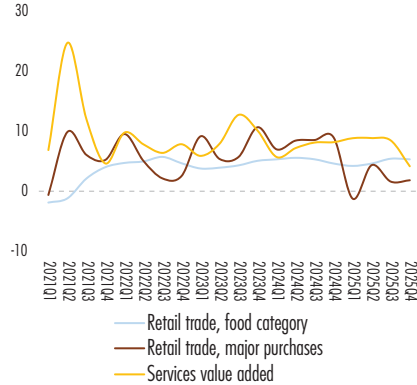


Chart 15

Private consumption recovered in the fourth quarter...



...with broad-based growth across its main categories.



Notes: Indicator of consumer uncertainty is measured from Consumer Confidence Survey and expressed as net balance in percentage points.
Source: INSTAT and Bank of Albania.

Notes: The indicators are net balances, expressed in percentage points, derived from business and consumer confidence surveys. The indicators are presented as derivations from their respective long-term averages.
Source: Bank of Albania.

Total investment increased by 6.7% in 2025 Q4, reflecting positive contributions from both private investment and public expenditure (Chart 16).

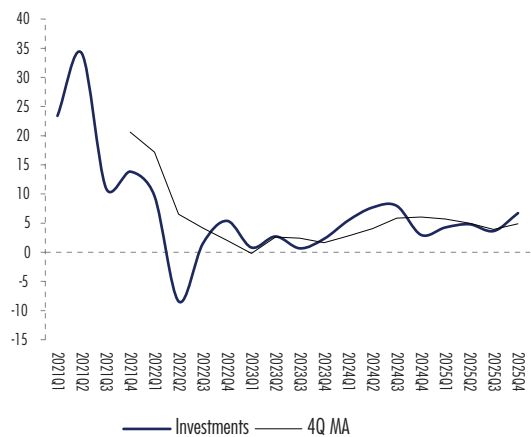
The growth of business investment was supported by a favourable confidence climate, improved financial situation, and eased lending conditions. Based on indirect indicators, these investments were primarily concentrated in construction during the quarter, while investment in machinery and equipment showed a slower performance.¹⁵ Public investments also provided a positive contribution during the quarter, although to a lesser extent.

According to indirect indicators, total investment is estimated to have continued to grow in the first quarter of 2026. In particular, quantitative data on imports of machinery and equipment suggest a positive turnaround in investment in this category, following two consecutive quarters of decline. Also, qualitative survey data point to a financial situation of business and a capacity utilisation rate above their respective historical averages, implying the need for further investment. Lastly, the increase of lending to enterprises during this quarter also suggest an increase in investment over the same period (Chart 17).

The performance of investment in the next quarters, as with the other components of aggregate demand, will depend on the magnitude and intensity of the supply shock that followed the conflict in the Middle East. This shock translates into higher fuel and commodity prices, as well as increased uncertainty. Historically,

Chart 16

Investments grew in the fourth quarter.



Source: INSTAT and Bank of Albania.

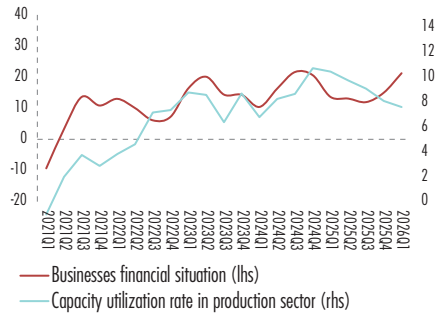
¹⁵ The analysis of investment by category is based on indirect indicators derived from imports and Gross Domestic Product, measured according to the production approach.



private sector investment has been more sensitive to turmoil and uncertainty. However, under the baseline scenario of a short-lived and contained conflict, investment is expected to grow, reflecting both the sound medium-term prospects of the Albanian economy and favourable financing conditions.

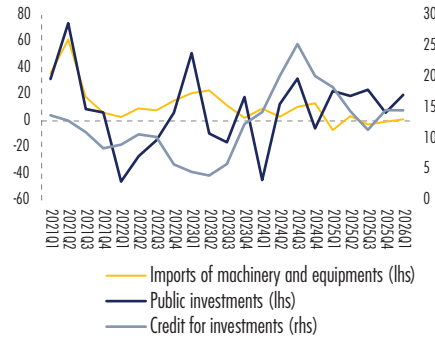
Chart 17

Capacity utilisation rate and the financial situation of business remained above their historical average during the first year.



Notes: Business financial situation is measured as a balance statistic from confidence surveys. The capacity utilisation rate is expressed as a percentage of full capacity. The indicator are differences from the long-term average. Source: INSTAT and Bank of Albania.

Indirect quantitative indicators suggest that investment continued to grow in the first quarter.



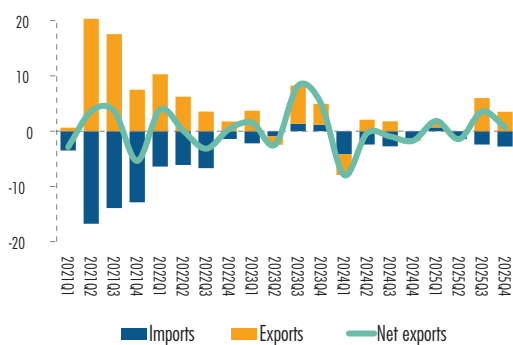
Notes: Indicators are annual changes in percentage. Public investments are evaluations. Source: INSTAT and Bank of Albania.

Real net exports of goods and services continued positively contribute to economic growth in the fourth quarter of last year, albeit to a lesser extent than in the previous quarter (Chart 18). The trade deficit in goods and services declined by 3.6%.

Exports of goods and services expanded by 10.65% in real terms, driven by a 12.8% increase in services export. Goods export also increased by 1.5%, albeit at a considerably lower rate.

Chart 18

Net exports made a positive contribution to economic growth in 2025 Q4.



Source: INSTAT and Bank of Albania's estimates. Notes: Contributions of imports and exports in economic growth.

Imports of goods and services increased by 6.6%, from 5.55% in the previous quarter. The growth in total imports was driven mainly by a 17.9% increase in services imports, as well as by a 1.6% increase in goods imports.

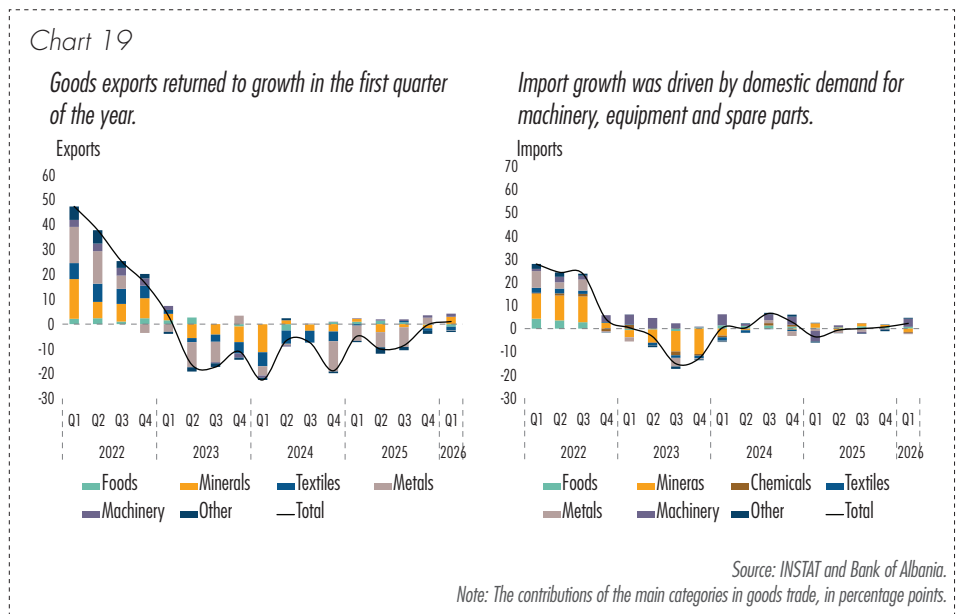
Nominal foreign trade data for goods showed an increase in trade activity during the first quarter of 2026, reflected in the expansion of both exports and imports. The trade deficit of goods increased by 3.3% annually, driven by the stronger growth contribution of imports.

Goods exports increased by 1.1% in the first quarter of 2026, following a prolonged downward trend. (Chart 19, left). This rate points to a modest improvement compared with the 0.4% contraction

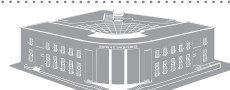


recorded in the previous quarter. This performance was supported by positive contributions from exports in the “Minerals, fuels and electricity” category, as well as by the continued growth of exports in the category “Machinery, equipment and spare parts”. Growth in the first category was mainly driven by higher volumes of electricity exports, reflecting increased domestic production. Other product categories contributed to the opposite direction, recording declines in export volumes.

Goods imports increased by 2.3% during the quarter, at higher rates than in the previous quarter (0.7%) (Chart 19, right). The main positive contributions came from the “Machinery, equipment and spare parts” and “Food, beverages and tobacco” categories. The negative contribution of the “Minerals, fuels and electricity” category reflects lower imports of oil and electricity, directly associated with the increase in domestic production.



The performance of the external trade balance in the coming quarters will largely depend on developments in tourism service exports. In this context, Albania’s competitive advantages in terms of costs, its proximity to regional and European countries, where most tourists originate, as well as its geographical distance from conflict-affected areas, provide a reasonable degree of confidence that the sector will continue to perform positively throughout 2026.



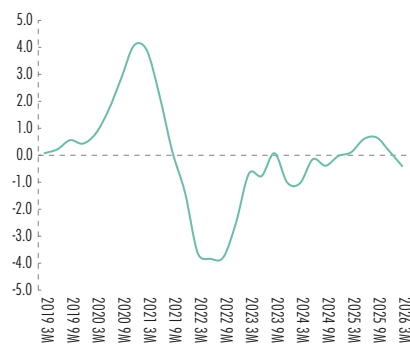
FISCAL POLICY AND PUBLIC DEMAND

Fiscal policy continued to reflect consolidating features during the first quarter of 2026.

The cumulative fiscal impulse at the end of the first quarter was estimated to be negative, at around 0.4 percentage points of GDP.¹⁶ The negative fiscal impulse reflected faster growth in revenues compared with expenditure during the period. The fiscal surplus was estimated at around 7.8% of GDP in the first quarter, the highest quarterly ratio recorded to date.

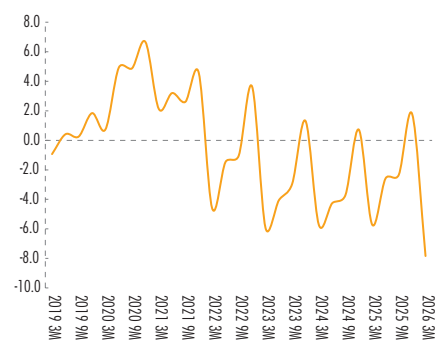
Chart 20

Fiscal impulse was negative.



Source: Ministry of Finance and Economy & MPD calculations.
 Notes: Change in the 12-month primary balance-to-GDP ratio compared to the previous year. Positive values of this indicator indicate an accommodating fiscal policy, while negative values indicate a consolidating fiscal policy.

The fiscal surplus was higher than a year earlier.



Source: Ministry of Finance.
 Notes: Budget deficit to GDP ratio. Calculations are based on quarterly flows. Positive values indicate a deficit, whereas negative values indicate a budget surplus.

Budget expenditure in the first quarter was around ALL 1 56 billion, reaching an annual increase of 5.9%. This increase was slower than the average recorded in 2025, mainly due to a contraction in public investment. In 2026 Q1, public investment declined by around 36% annually, reducing total expenditure growth by around 2 percentage points. The items with the higher contribution in pushing expenditure up were the higher expenses for: pension schemes (3.1 percentage points); for the payment of interests on public debt (1.5 percentage points); for the personnel; and for local government (1 percentage point each).

¹⁶ The fiscal impulse is measured as the difference between the ratio of the primary deficit accumulated over a 12-month period to GDP in the current year and the corresponding ratio recorded a year earlier. This calculation of primary deficit does not include temporary government measures, regarding both revenues and expenditures.

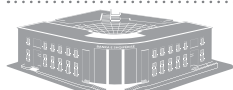
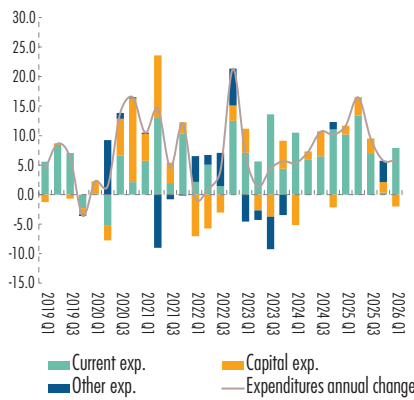


Chart 21

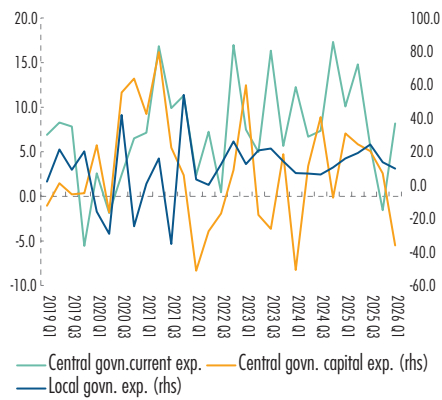
Expenditure grew at a slower pace...



Source: Ministry of Finance

Notes: Composition of expenditure growth by quarter.

...as a result of the contraction of investments.



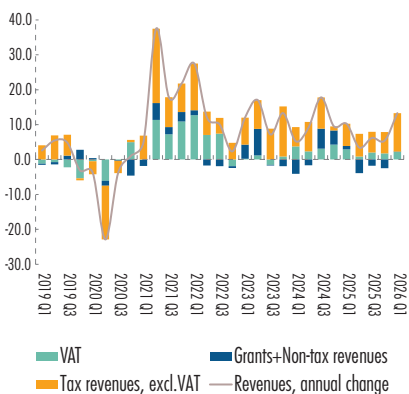
Source: Ministry of Finance

Notes: Quarterly annual growth, in % of main expenditure items.

Budget revenues were around ALL 205.2 billion in 2024 Q1, reaching an annual increase of 13.3% (Chart 22). They grew about 3.6 percentage points higher than the average recorded over the past three years. Half of this increase was driven by the expansion of local taxes, which contributed 6.7 percentage points to the growth of total revenues. Other major contributors were social security contributions and value-added tax (VAT) revenues, which contributed 2.5 and 2.1 percentage points, respectively. The increase in VAT revenues reflected higher revenues generated from the domestic production of goods and services, while VAT collected on imported goods made a negative contribution of 0.1 percentage point to the revenue growth.

Chart 22

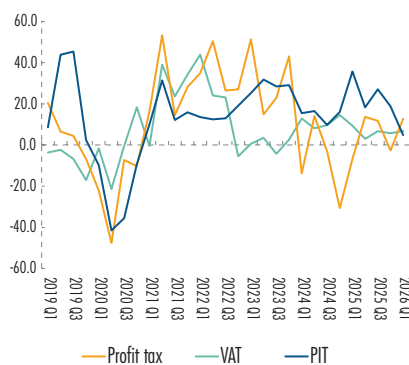
Revenues increased at a faster pace...



Source: Ministry of Finance.

Notes: Quarterly composition of revenue growth.

...mainly driven by local taxes.



Source: Ministry of Finance.

Notes: Annual growth in % of main tax items, by quarters.

The **budget balance** in the first quarter recorded a positive value of ALL 49.2 billion, or around 46% higher compared to the previous year. Net

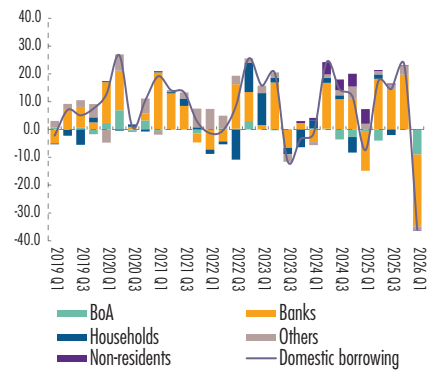
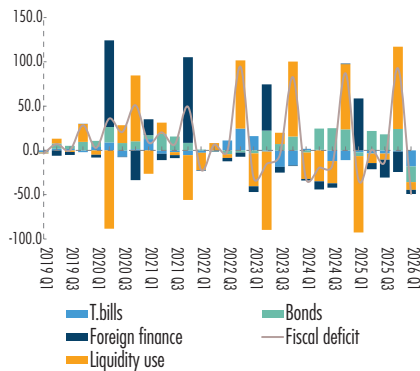


domestic borrowing declined by ALL 35.7 billion in the first three months of the year, mainly reflecting the maturity structure of the securities portfolio and the government’s strategy to move towards a more even borrowing structure throughout the year. As a result, borrowing in the form of bonds decreased by ALL 17.6 billion, due to the high volume of maturing 2-, 3-, 5-, and 10-year securities. T-bill borrowing declined by ALL 18.1 billion, in line with the Public Debt Management Strategy, which aims to extend the maturity period of domestic debt. The borrowing structure in the first quarter led to a lower exposure of all market participants to domestic government debt. Net foreign borrowing in the first three months of the year amounted to around ALL -4.6 billion, as external debt servicing payments exceeded foreign currency inflows during the period.

Chart 23

Borrowing in the domestic market declined...

...along with the banking sector’s exposure to public debt.

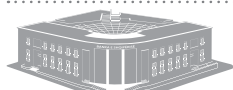


Source: Ministry of Finance.

Notes: Budget Deficit by Quarter and its Financing Sources (in ALL billion).

Source: Ministry of Finance and Bank of Albania.

Notes: Government Borrowing in Debt Securities, by Buyer (in ALL billion) by quarter.



5. INFLATION, PRICES, AND COSTS IN THE ECONOMY

Annual inflation averaged 2.5% in 2026 Q1, up from 2.2 percentage points compared to the average of the previous quarter. The increase in inflation was mainly driven by higher rental prices, rising fuel prices in March, and the fading of the downward effect of lower electricity prices for household consumers in the previous year.

In macroeconomic terms, inflation developments reflected stronger external inflationary pressures, driven by the sharp increase in fuel prices in March, as well as robust domestic demand, which kept domestic inflationary pressures broadly aligned with the inflation target.

Baseline scenario projections suggest a gradual increase in inflation towards the 3% target during 2026, supported by persistent domestic inflationary pressures and a rise in imported inflation. However, these projections are subject to heightened uncertainty stemming from the intensification of tensions in the Middle East and their impact on oil and other commodity prices.

5.1. CONSUMER PRICES

Annual inflation averaged 2.5% in the first quarter of 2026, at 0.3 percentage points higher than in the previous quarter (Chart 24, left). This performance reflected higher domestic inflation in January and February, as well as an increase in imported inflation in March. Higher oil and energy commodity prices, driven by the conflict in the Middle East, contributed to the rise in imported inflation.

The increase in inflation during the first two months of the year was driven by higher food and rental inflation, as well as by the fading of the downward effect of lower electricity tariffs for household consumers introduced last year. Inflation continued its upward trajectory in March, reflecting the rise in global energy commodity prices. However, these pressures remained confined, for the time being, to the fuel component, without generating significant spillover effects on other consumer prices. In contrast, prices of some food products and services declined in March, partly offsetting the sharp increase in fuel prices. From a broader geographical perspective, heightened uncertainty surrounding the global supply of energy commodities has been reflected in higher prices of raw materials and other commodities over the past two months, creating additional inflationary pressures¹⁷ (Chart 24, right).

¹⁷ Inflation in the euro area stood at 1.7% and 1.9% in the first two months of 2026, respectively, down from 2.1% at the end of 2025. Meanwhile, inflation increased to 2.6% in the euro area and 2.8% in the European Union in March.

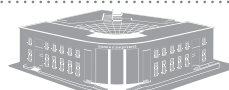
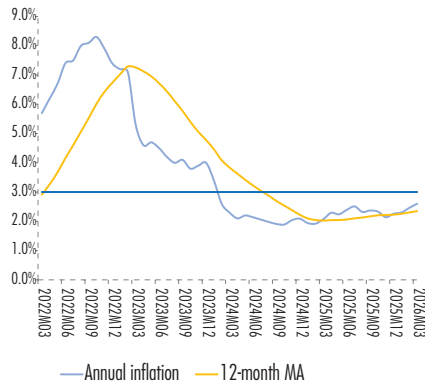


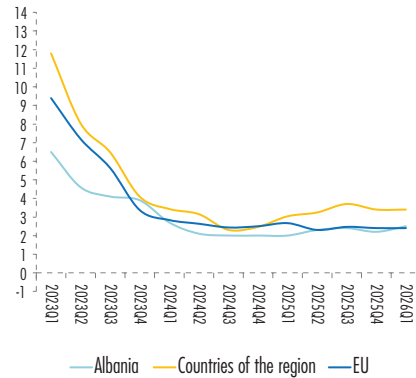
Chart 24

The acceleration of inflation started in 2026 Q1.

Higher fuel prices, the base effect related to electricity prices, and rising rents contributed to the increase in inflation in Albania.



Source: INSTAT, BoA's calculations.



Source: INSTAT, BoA's calculations.

On a quarterly basis, inflation of food category made a contribution broadly similar to that recorded in the previous quarter (0.7 percentage points). Within this group, the “processed food” category recorded a lower contribution, reflecting still subdued pressures from import prices. The “housing and rent” category continued to make the largest contribution to inflation. In particular, rental inflation increased to 7.5% in the first quarter of 2026, up from 7.1% in the previous quarter, contributing 1 percentage point to headline inflation. The increase in rental inflation was more pronounced in January and February, reaching a historical peak of 7.7%, before easing to 7.2% in March. Overall, food and rent categories accounted for around 70% of total inflation in the first quarter.

The “non-food goods” category contributed 0.1 percentage point more to inflation than in the previous quarter, driven by the contribution of fuel prices. Domestic fuel prices rose sharply in March, in line with developments in global markets, recording an inflation rate of 17%, up from 0.1% in January and February. As a result, their contribution to inflation in March reached 0.5 percentage point.

Lastly, the category of **regulated-price goods** increased its contribution to inflation by 0.1 percentage point in the first quarter, due to the offset of the downward effect stemming from the new electricity tariff for household consumers at the beginning of 2025.

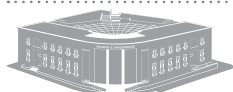


Table 3 Contribution of key categories to annual inflation (p.p.)*

	Q.1'24	Q.2'24	Q.3'24	Q.4'24	Q.1'25	Q.2'25	Q.3'25	Q.4'25	Q.1'26
Processed food	0.5	0.4	0.5	0.6	0.7	0.8	0.7	0.6	0.5
Bread and cereals	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Milk, cheese and eggs	0.3	0.2	0.3	0.3	0.2	0.3	0.2	0.2	0.2
Oils and fats	-0.2	-0.1	0.0	0.1	0.1	0.2	0.2	0.1	0.1
Unprocessed foods	0.9	0.3	0.4	0.7	0.5	0.6	0.3	0.1	0.2
Fruits	0.1	-0.2	-0.1	0.0	0.0	-0.1	0.0	0.0	0.0
Vegetables	0.5	0.3	0.3	0.4	0.2	0.4	0.1	-0.1	0.0
Meat	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Services	0.4	0.4	0.3	0.3	0.4	0.4	0.5	0.4	0.4
Goods with regulated prices	0.1	0.1	0.1	0.1	0.0	0.0	-0.1	-0.1	0.0
Housing (rent)	0.3	0.4	0.3	0.2	0.2	0.3	0.8	0.9	1.0
Non-food consumer goods	0.4	0.4	0.3	0.1	0.2	0.1	0.2	0.3	0.4
Fuel	-0.1	0.1	-0.2	-0.3	-0.2	-0.1	0.0	0.0	0.2
Durable consumer goods	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Inflation (%)	2.7	2.1	2.0	2.1	2.1	2.3	2.4	2.2	2.5

Source: INSTAT and Bank of Albania's estimates.

The above developments suggest that, despite the strong impact of higher oil prices in March, inflation remaining below target largely reflects historically low levels of imported inflation. At the same time, more persistent inflationary pressures appear to remain broadly aligned with our price stability objective (Chart 25).

5.2 DETERMINANTS OF INFLATION

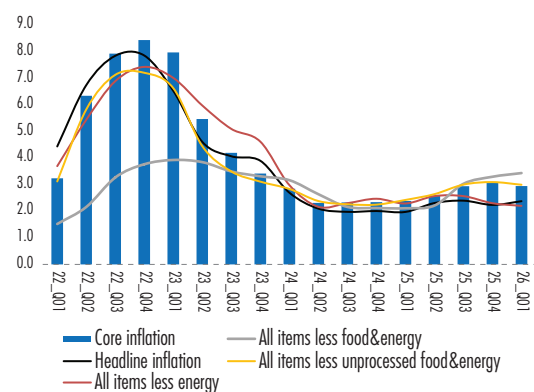
The cyclical position of the economy remained positive in the last quarter of 2025, reflected in both the high rate of capacity utilisation by businesses and the historically low unemployment rate. As a result, despite the slowdown in the fourth quarter, wage growth and production costs remained relatively elevated.

In line with cyclical indicators, domestic inflationary pressures remain the main driver of inflation. Although still subdued, imported inflationary pressures increased, reflecting higher oil prices in international markets as a result of developments in the Middle East.

The increase in inflation during the first quarter of 2026 became more broad-based, with the main contributions stemming from core and domestic inflation components, while short-term and imported inflation also recorded higher contributions in March.

Chart 25

Domestic inflationary pressures are reflected in the developments of core inflation and net inflation excluding food and energy.



Source: Bank of Albania.
* The average monthly contribution for January and February.

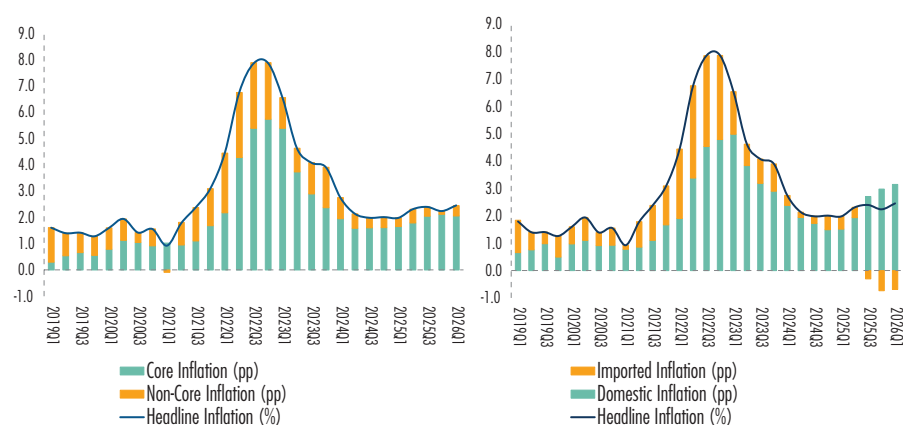


Core inflation, net core inflation and domestic inflation stood at 3%, 3.7% and 3.6%, respectively, in the first quarter of 2026, broadly unchanged from the previous quarter and above the level of headline inflation. The relatively high levels of core and domestic inflation were mainly driven by inflation in the rent sub-category, alongside positive, albeit moderating, contributions from several service categories, particularly those related to tourism activity.

Chart 26

Core inflation continued to be the dominant contributor to headline inflation...

...in line with stronger domestic inflationary pressures during the first quarter of 2026.



Source: INSTAT and Bank of Albania's estimations.

Source: INSTAT and Bank of Albania's estimations.

Non-core inflation increased to 1.3%, up from 0.4% in the previous quarter. This increase was driven by higher inflation in unprocessed food prices, the fading of the downward effect from electricity tariff reductions implemented a year earlier, higher prices of certain excisable goods, and the acceleration of fuel inflation in March. Meanwhile, imported inflation declined further during the quarter, averaging -4.7%, compared with -4.0% in the previous quarter. However, the performance of this indicator was volatile throughout the quarter. While its contraction deepened to -6.2% in the first two months of the year, reflecting lower prices of both basic and processed food products in foreign markets, imported inflation rose to -1.9% in March due to the global increase in oil prices.

Nevertheless, core inflation and domestic inflation remained the main contributors to headline inflation during the first quarter of 2026, contributing 2.05 and 3.15 percentage points, respectively, **and remain relatively stable.**

The economy continued its positive business cycle stance during 2025 Q4 and the first quarter of this year. This assessment is also supported by developments in the capacity utilisation rate, which, although declining, remained above its long-term average (*Chart 27*). The strong cyclical position of the economy was reflected in domestic and core inflation remaining broadly in line with the inflation target during this period.

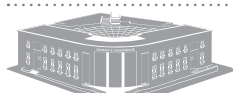
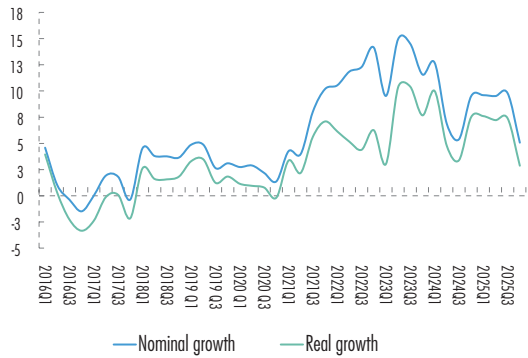


Chart 29

Wage growth in the private sector slowed in 2025 Q4.



Source: INSTAT and Bank of Albania.

in January 2026. So far, wage growth has not been fully transmitted to inflation, as its impact has been mitigated by higher productivity, lower profit margins per unit, and, to some extent, by the strong exchange rate. Nevertheless, wage growth remains a potential risk factor for future inflation performance.

Businesses and financial agents' expectations on inflation were revised up in the first quarter¹⁸.

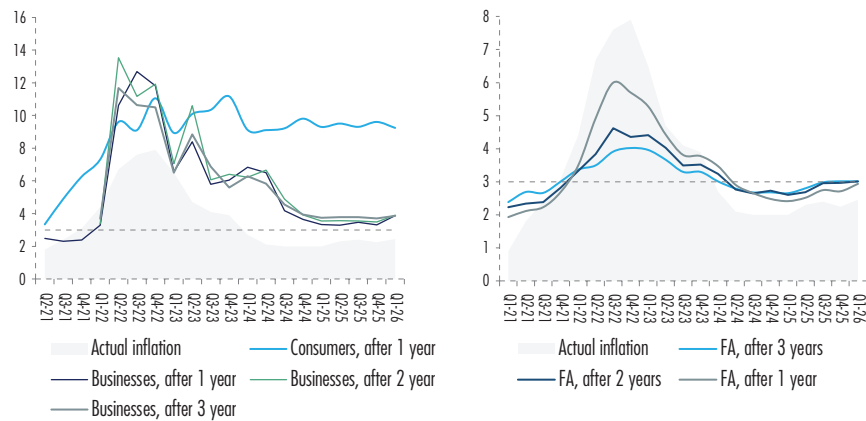
Businesses expect inflation to be 3.9% after one year, 0.6 percentage points higher than in the fourth quarter of 2025. Financial market agents expect inflation to stand at 2.9% in the next year, around 0.2 percentage points higher than the level expected in the previous quarter. By contrast, their longer-term inflation expectations (for two- and three-year horizons) remained unchanged compared to the fourth quarter, at 3%.

On the other hand, consumers' inflation expectations were revised slightly downwards in the first quarter. Nevertheless, they remain elevated, at around 9.2% (Chart 29).

Chart 30

Inflation Expectations of Businesses and Consumers

Inflation Expectations of Financial Market



Notes: Annual changes in %.
Source: INSTAT and Bank of Albania.

¹⁸ The analysis of inflation expectations is based on the results of the Consumer Confidence Survey and the Survey of Financial Agents' Expectations.

