

Bank of Albania

# QUARTERLY MONETARY POLICY REPORT

2021/IV

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Sheshi "Skënderbej", Nr.1, Tirana, Albania

Tel.: + 355 4 2419301/2/3; + 355 4 2419401/2/3

Fax: + 355 4 2419408

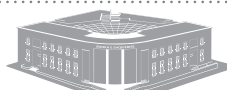
E-mail: [public@bankofalbania.org](mailto:public@bankofalbania.org)

[www.bankofalbania.org](http://www.bankofalbania.org)



# C O N T E N T S

INTRODUCTION	5
FOREWORD BY THE GOVERNOR	6
1. INFLATION AND MONETARY POLICY STANCE	8
2. EXTERNAL ENVIRONMENT	11
2.1. Economic growth	11
2.2. Commodity prices in global markets	13
2.3. Global financial markets	14
3. FINANCIAL MARKETS AND LENDING CONDITIONS	18
3.1. Domestic financial market	18
3.2. Lending conditions	21
3.3. Credit to the private sector	23
4. ECONOMIC GROWTH	26
4.1. Gross Domestic Product	26
4.2. Aggregate demand	27
5. INFLATION, PRICES AND COSTS IN THE ECONOMY	36
5.1. Consumption prices	36
5.2. Determinants of inflation	38





## INTRODUCTION<sup>1</sup>

The main objective of the BoA's monetary policy is to achieve and maintain price stability. Price stability implies reaching low rates with positive inflation, and maintaining these for a relatively long period. In quantitative terms, the Bank of Albania has defined price stability as maintaining a 3.0% annual inflation rate of consumer prices in the medium term. By preserving price stability, the Bank of Albania helps establish a sustainable monetary environment and assists Albanian households and enterprises in planning their own consumption and investments.

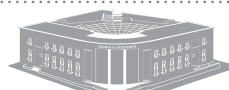
The Supervisory Council of the Bank of Albania holds 8 meetings each year to decide on monetary policy, aimed at achieving the price stability objective. The Supervisory Council sets the key interest rate. Changes in the key interest rate affect, with a time lag, other interest rates in the financial market, for example, yields on government's securities and the interest rates on loans. Following, these changes drive to the increase or decrease of the demand for goods and services through a chain known as "transmission mechanism". Changes in the demand for goods and services bring about increases or decreases in the prices of these goods and services.

Transmission mechanism encompasses various channels through which prices may change, for example: the exchange rate channel; the inflationary expectations channel; and the foreign assets channel. The Bank of Albania has constructed models to forecast changes in all elements which affect prices and to forecast inflation up to three years. When forecasts show a dominance of low inflationary pressures, which may drive inflation below the 3.0% target, this is a signal that the monetary policy should be accommodative - interest rates should stay at low levels. The opposite also is valuable. However, drafting a monetary policy is not a mechanical process. The monetary policy decision-making considers the reasons that cause the deviation of inflation from target and the time needed to economy to react against the changes in the interest rates.

The Supervisory Council makes decisions on the monetary policy based on a variety of information, including estimations regarding economic developments, forecasts in relation to inflation, the performance of financial markets, risks and uncertainties surrounding forecasts. The Monetary Policy Report - which is the main component of the monetary policy- includes these considerations and assessments on this information. With the aim of communicating its monetary policy in a transparent manner, the Bank of Albania regularly publishes this Report and makes it available to citizens.

The Monetary Policy Report is published on a quarterly basis. This Report is compiled by the Monetary Policy Department at the Bank of Albania and it is adopted by the Supervisory Council. The current report contains data as at 22 October 2021. The Supervisory Council reviewed and adopted this Report at its meeting of 3 November 2021.

<sup>1</sup> Monetary Policy Documents delineates the monetary policy framework at the Bank of Albania. This Document is available at [https://www.bankofalbania.org/Monetary\\_Policy/Objective\\_and\\_Strategy/](https://www.bankofalbania.org/Monetary_Policy/Objective_and_Strategy/)



## FOREWORD BY THE GOVERNOR

The Albanian economy continued to recover during the first nine months of 2021.

According to the data provided by INSTAT, economic activity in Albania recorded an annual growth of 17.9% in the second quarter. This rapid growth pace goes beyond the impact produced by the low comparative base of the same quarter in the previous year. On one hand, it reflects the fast recovery of aggregate demand and, on the other hand, the relatively low impact of both the earthquake and the pandemic on the production capacities in Albania. The data available show a further growth of the economy in the second half of the year.

Economic rebound is supported by a broad range of factors. The easing of containment measures, the increased confidence as well as the supportive monetary and fiscal policies have fuelled the rapid expansion in the Albanian consumption, investments, and exports.

The monetary policy stance has continued to remain accommodative. This accommodation, which was transmitted through the lowest policy rate in history and increasing injection of liquidity into the system, has created the favourable financing conditions for Albanian enterprises and households. In particular, lending to the private sector has shown a stable growth, by reflecting both an improvement in the demand and ease of supply for bank loans. This credit has bolstered an expansion in consumption and investments, providing encouraging signals for a stable recovery in the future.

This mix of factors is expected to continue to nourish economic growth in the future as well.

Inflation increased in the third quarter, averaging 2.4%. Its increase reflects the effect of the higher prices of food, oil and energy in the global markets. International market monitoring suggests that these shocks are expected to be transitory and, as a result, their impact on inflation is expected to be transient. On the other hand, the domestic pushing factors on inflation - the performance of employment, wages and production costs - show an improvement, but are still insufficient to guarantee the stable convergence of inflation to target.

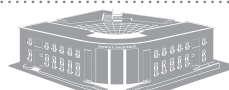
Our projections for the future continue to remain positive. In absence of further shocks, the economic activity will continue to grow in the medium-term horizon, although it is natural that the growth pace is expected to be slow. The expansion



in the demand for goods and services will underpin the overall recovery from the crisis caused by the pandemic, provide a faster increase in employment and wages, and create the premises for the convergence of inflation to target within 2022.

Against this backdrop, the Supervisory Council assesses that the current monetary policy stance remains adequate. In this view, the Supervisory Council decided to keep the policy rate unchanged, at 0.5%, as well as support the current operational framework of liquidity injections during the next quarter.

Also, the Supervisory Council deems that the continuous progress of economic recovery will require a gradual withdrawal of the monetary stimulus in the future, providing an adequate balance between the need to support economic growth and our inflation target. Last, the Bank of Albania will continue to carefully monitor the impact of the shock caused by the surging prices in international markets. In case this shock is assessed to pose a risk to our price stability objective, we are ready to revise our monetary policy stance.



## 1. INFLATION AND MONETARY POLICY STANCE

*The Supervisory Council of the Bank of Albania decided to keep the policy rate unchanged, at 0.50%, at its meeting on 3 November 2021. The Supervisory Council deems the current supply-side shocks to have transitory effects, while the current monetary stimulus is adequate in bolstering demand and for the stable increase of inflation towards its 3.0% target in 2022. The confirmation of our expectations and achievement of inflation target will drive to a reduction of the monetary stimulus in the following quarters. However, the Bank of Albania will keep a close eye on future developments and, in particular, on the materialisation of risk scenarios in order to assess the monetary policy stance.*

The global and euro area economy continues to recover its economic activity, whereas inflation has accelerated. A wide range of factors such as: the easing of containment measures, the optimism of economic agents; and the continuous support of economic policies, has contributed to the global economic recovery at a pace faster than expected. On the other hand, the faster increase of demand has faced supply-side bottlenecks and logistical issues, driving to an increase in both the prices of raw materials and the costs of intermediate goods. In parallel to the stable increase of inflationary pressures, these shocks are expected to drive inflation above the target of central banks in the short run. Furthermore, as their effects wanes, inflation is anticipated to slow down.

Overall, the external environment will support economic recovery, but it will generate inflationary pressures on the performance of prices in Albania.

The Albanian economy is showing an upward trend and the volume of economic activity has returned close to the pre-pandemic and pre-earthquake levels. Economic growth accelerated at 17.9% in 2021 Q2, registering a positive growth rate for the third consecutive quarter. Gross domestic product reached a level comparable to that of 2019 Q3, recording a solid progress in the economic recovery after the experienced shocks.

The economic growth in the second quarter reflects the broad-based growth of the economic sectors and the components of demand. The easing of restrictions, improvement of confidence, the recovery of partner economies and stimulating fiscal and monetary policies enabled Albanian enterprises to increase production and households to increase demand for goods and services. Assessments show that despite the lack of the statistical effect from the comparison with the deep economic contraction one year ago, the expansion of the economic activity in this period is around 4.7%. Available data point to rapid growth rates for the third quarter.





**Economic growth is followed by the increase of employment and reduction of the unemployment rate.** Employment increased by 13,000 people in the 2021 Q2 compared with the previous year, whereas the unemployment rate fell to 11.6%. However, despite the trend of improvement, the rates of employment and unemployment have not been restored to the pre-pandemic levels. Also, pressures for higher wages are moderate, which is illustrated in their slow growth. In the contrary, other production costs have accelerated the growth pace.

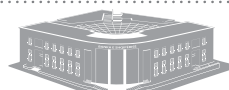
**In 2021 Q3, inflation rose rapidly registering an average value of 2.4%, from 1.4% in the second half of the year.** This performance was driven by the gradual increase of inflationary pressures which accompany demand recovery and, partially, by the additional shocks caused by the sharp upsurge of food and energy prices in international markets.

**In macroeconomic prospect, the upswing in inflation mainly reflected the increase of imported inflation.** On the other side, the increase of domestic inflationary pressures continues to remain gradual and contained, reflecting the still inadequate rise in employment and wages, as well as the inflationary expectations, which are still below the target.

**The Bank of Albania expects the Albanian economy to grow in the medium term, and inflation, driven by demand, to return to the 3.0% target within 2022.** Economic activity is expected to grow more rapidly during 2021, and expand at a stable pace in the medium term. The increase in both consumption and private investments, as well as the increase in the export of goods and services will underpin the economic growth. This performance will reflect the improvement in business and consumer's confidence, the full normalisation of economic activity in partner countries, and the favourable financial environment in Albania. Fiscal stimulus is assessed to provide a strong positive impact during 2021, and it will be reduced in the upcoming years in accordance with the government's objectives in consolidating fiscal policy.

**The increase of aggregate demand will provide a more dynamic rise in employment and wages, which will ensure the necessary preconditions for a stable return of inflation to target in 2022 and beyond.**

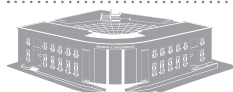
**In the upcoming months, the increase of inflation will continue to reflect the activity of two factors.** The first one is the increase of inflationary pressures engendered by an improvement in demand, wages and inflationary expectations. The second factor is the increase of inflationary pressures driven by the shock in the prices of food and energy products in international markets. The current forecasts on these prices converge to the expectation on their normalisation in the next year. This means that their increase will be a temporary shift in the price level, which will also have a transitory effect on inflation. However, the Bank of Albania remains alert towards the performance and the consequences that these shocks will have on inflation.



**Risks to this forecast are balanced.** Downside risks to the performance of the economy and inflation originated from the worsening of the epidemiological situation and the long-term marks that the pandemic might leave as regards the hesitation of households and enterprises to spend and invest. Upside risks to the performance of inflation arise from the slower fiscal consolidation and a more stable increase than the current assessments of global inflation.

**Against this backdrop, the Supervisory Council decided to keep the key interest rate unchanged, at 0.5%.** The Supervisory Council deems that the monetary stimulus has been effectively transmitted to the financial markets and the increase of credit. The financial market is calm, the interest rates to both the public and private sectors have maintained low levels, and risk premia have been more contained. Lek has shown a slight appreciation during the summer months akin to its seasonal behaviour. Loans to private sector recorded an average increase by 8.9% at the end of the third quarter, continuing to reflect a relatively stable growth of loans in lek, loans for investment purposes and house purchases. The reported growth of loan demand in the fourth quarter and the easing of lending conditions provide a continuous funding to meet consumption and investment needs. The improved balance sheets of Albanian enterprises have played an important role in this regard. They have been reflected in the 6.5% fall of non-performing loans ration in September.

**The consolidation of the sustained economic growth and the convergence of inflation to target will create a gradual normalisation of the monetary policy in the following quarters.** If the economic performance progresses as per the above-mentioned forecasts, the policy rate will increase gradually. Regardless of the growth, the policy rate and the interest rates in international markets will remain below the equilibrium levels. This signifies that the monetary policy will remain supportive in the medium term. On the other hand, the materialisation of risk scenarios will require a reassessment of the monetary policy stance.



## 2. EXTERNAL ENVIRONMENT

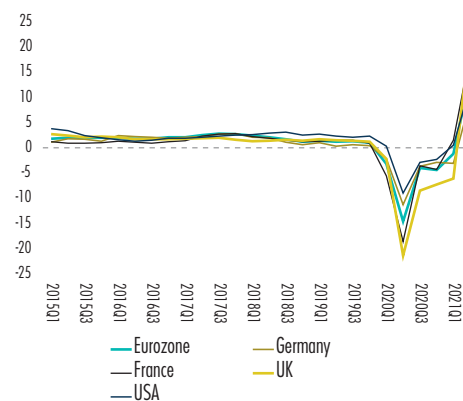
*External environment has continued to improve in 2021 Q3, albeit at a slower pace than in the second quarter. The removal of the containment measures coupled with the fiscal stimuli have nourished consumption and investments. The economy of the euro area is expected to continue to grow in the fourth quarter as well, although there are still risks on the downside. They are related to the spread of the pandemic, as well as the lengthy duration of the increase in commodity prices. Financial markets operate at low interest rates, but the increase of inflation risk has caused a higher volatility of indicators. Inflation rate has increased in the past months, driven by the sharp upsurge in commodity prices and transportation costs. If these factors extend over a long period of time, they may generate increasing pressures which are more stable in the level of consumption prices.*

### 2.1. ECONOMIC GROWTH

**Global economy** has continued to recover in 2021 Q3, although at a more moderate pace than the previous quarter. The effect of the low comparative base in the previous year, which brought about double digit growth rates in the second quarter, is expected to wane in the third quarter. Economic activity has benefited from the removal of the containment measures and the monetary and fiscal stimuli, which have helped the increase of consumption and investments. Economic growth is observed across all countries, but at uneven speeds. Global trade activity continues to improve, although supply-chain issues have increased transportation costs and have caused shortages in the market.

Chart 1

Global economic activity has improved in 2021 H1



Note: Annual GDP growth.  
Source: OECD.

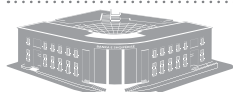
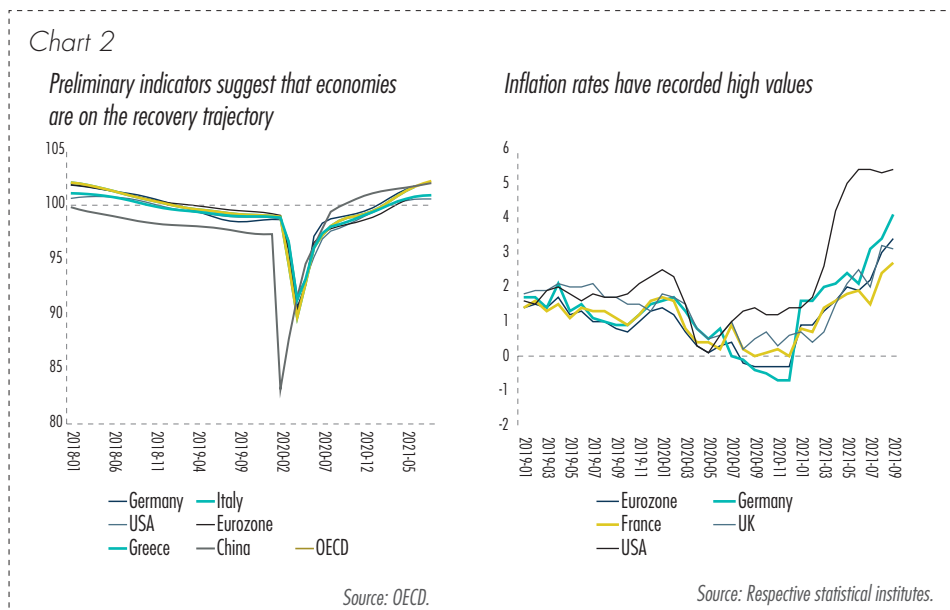
The performance of economic activity remains tied to the spread of Covid-19 and the measures undertaken to suppress it. In emerging markets there is a deceleration of the economic activity due to shortages in the labour market, which have hindered growth in the production and transportation sectors. In advanced economies, the progress of the vaccination roll out has removed the risk of imposing restrictions once again, improving thus the economic environment.



Inflation rates have gone upwards in almost all countries, with the combined effect of the increase in energy prices, the fast increase of demand uncovered by supply, but also the low comparison basis of the previous year. These effects are expected to fade in the next year, but the forecast is still surrounded by uncertainties, especially on the upside. Expectations on economic growth show that the global economic activity will continue to register positive growth rates in the upcoming period, but the pace of growth will slightly slowdown in the following year. This forecast remains surrounded by uncertainties, particularly on the downside.

### EURO AREA ECONOMY

Euro area economy grew at a rapid pace in 2021 Q2. The low comparative base of the previous year has caused annual changes to reach double-digit values for most of member countries. Growth is supported by all demand components and with the lifting of restrictions from countries, both consumption and investments have recovered. According to the preliminary indicators, economic growth, in the third quarter as well increased with positive values, albeit lower than the previous quarter. Economic growth was supported by the higher volume of global trade, which has increased the demand for goods produced in the region. The production sector suffered higher prices of commodities and supply chain disruptions. The unemployment rate has continued to follow the downward trajectory of the last two quarters, reaching at 7.5% in August. Inflation has continued to pick up, registering the highest value in the past ten years, and standing above the target rate of the European Central Bank. This performance was defined by the increase of food and energy prices, but also by a higher market demand than supply. Although these factors are deemed transitory, their continuation may drive inflationary expectations and generate longer pressures on prices.



The European Central Bank forecasts that economic growth will continue during 2021 and will slightly slowdown in the following year. Inflation rate will continue to register values above the ECB's target, and will turn moderate in 2022<sup>2</sup>.

### REGIONAL ECONOMIES<sup>3</sup>

Across the regional countries the economic activity has improved considerably in 2021 Q2. Similar to the countries partnered with the euro area, annual growth has recorded double-digit values, has been broad-based and was affected by the low comparative base of the previous year. The removal of the restrictive measures has bolstered consumption and investments. Also, the positive performance of key trading partners has increased foreign demand. Indirect data show that the positive developments in the region have continued also in the following period, although annual growth rates will record lower values. Forecasts suggest that the economic growth in the current year will register higher values, and will remain in the positive territory in 2022, as well, although in slightly more moderate terms.

Inflation rate has increased in the last months, by reflecting the rise in the prices of transport, energy and the food items. The factors that have driven prices up have been transitory and are expected to fade in the next year. Risks to these forecasts are on the upside.

Table 1 Economic indicators for countries in the region

	Annual change of GDP		Annual inflation	Unemployment
	Q1 2020	Q2 2021	September 2021	Q2 2021
Italy	-0.7	17.3	2.9	9.3*
Greece	-2.3	16.2	1.9	13.2*
North Macedonia	-1.9	13.1	3.7	15.9
Serbia, Republic of	1.8	13.7	5.7	11.1
Kosovo	5.6	16.3	4.9	25.8†
Albania	5.5	17.9	2.5	11.6

Source: Respective statistical institutes.

\*August 2021, †2021 Q1.

## 2.2 COMMODITY PRICES IN GLOBAL MARKETS

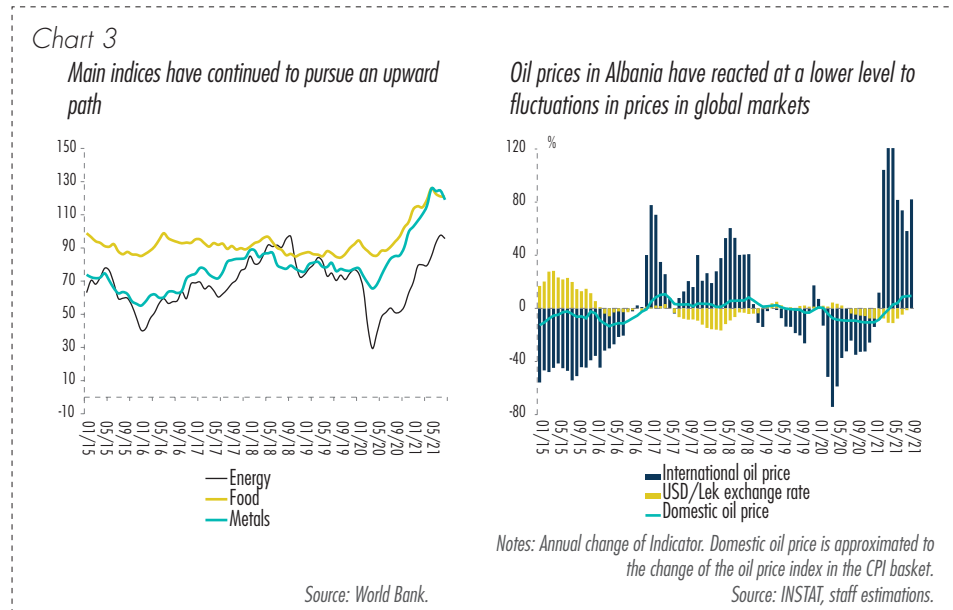
Commodity prices in global markets have continued to increase sharply in the third quarter of the year, with a similar performance in all indices. The contraction of supply due to the pandemic and the restrictions to curtail its spread, as well as the higher global demand after lifting these restrictions, have led to demand and supply imbalance, which in turn has been transmitted into an overall increase in prices. The price of crude oil reached 74.5 USD

<sup>2</sup> According to ECB projections for September, economic growth is expected to be 5.0% in 2021 and will moderate to 4.6% in 2022. The annual inflation rate is expected to reach 2.2% during the current year, and fall to 1.7% in the following one.

<sup>3</sup> Main trading partners outside the European Union (Kosovo, North Macedonia, Serbia).



a barrel in September, or around 82.1% higher than the same period in the previous year. The contraction of supply from producing countries coupled with the augmented demand from countries with a positive economic performance, have continued to exert increasing pressure on the oil price. In the upcoming period, the price is expected to follow a slightly downward trajectory<sup>4</sup>, since OPEC+ countries have conceded to increase production. The increase in oil prices was reflected only marginally in the domestic market, with single-digit positive rates of increase.



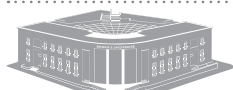
Price indices of other groups have behaved in a similar fashion. Food prices continue to register a double-digit annual increase, although at a slower pace. The recovery of the economic activity in the emerging markets has increased demand for metal, exerting upward pressures on the metal price index.

### 2.3. GLOBAL FINANCIAL MARKETS

**Financial conditions in international markets remain eased, overall, but they have experienced increasing volatility in the third quarter.** Interest rates continue to remain at low levels and capital flows circulate normally, supporting the funding of the economies. In September-October, investors' sentiment and risk assessment in financial markets were conditioned by the increase of inflation in advanced countries and the pandemic, where certain regions are experiencing the fourth wave of Covid-19 infections.

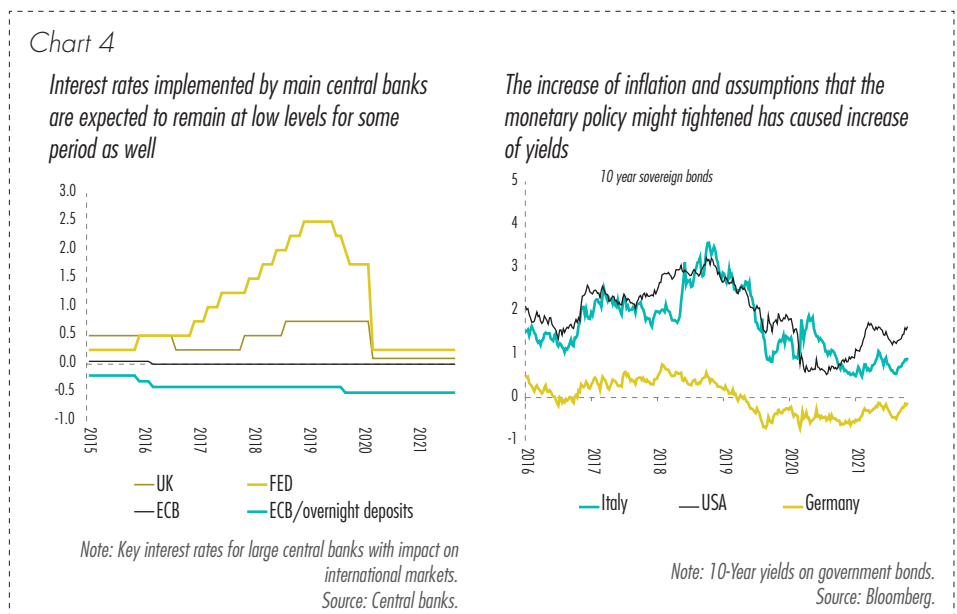
The high rates of inflation have originated upward inflationary expectations, which are incorporated into higher yields on the future contracts financial

<sup>4</sup> US Energy Information Administration, *Short term energy Outlook, September 2021*.



instruments. The continuous rise in the prices of commodities, supply disruptions and high transportation costs have increased the risk that the high prices will affect many production chains, causing higher inflation of consumer goods prices for a longer period of time. On the other hand, the increase in prices may decelerate both the demand and economic growth in the long term, driving the long-terms yields to remain anchored.

The communication of central banks on the monetary policy stance has appeared in different directions. The Bank of England has declared its readiness to increase interest rates as a response to the high inflation; Federal Reserve has signalled that it may tighten the quantitative easing programmes; ECB has ensured the market that it will keep the monetary stimulus intensity unchanged. The European Central Bank, which has a close commercial and financial relationship with Albania, deems that high inflation rates are transitory, and it will maintain the accommodative stance of monetary policy in order to bolster demand and increase domestic inflationary pressures.



The short-term interest rates in the euro area remained at low and stable levels. In the contrary, medium-term sovereign bonds have increased in the beginning of October. The economic outlook of the euro area is assessed as positive, which has kept the performance of stock indexes in the upward trajectory.

BOX 1 COMMODITY PRICES IN GLOBAL MARKETS

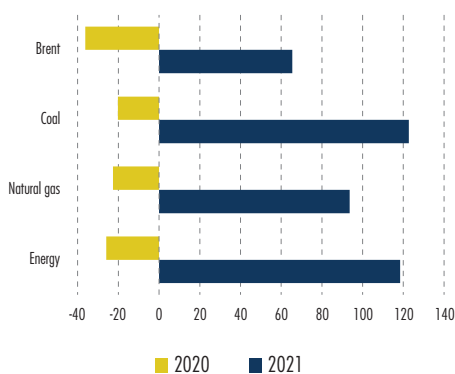
In recent months, prices in international markets<sup>1</sup> have pursued an upward trajectory. This increase, although unequal in size and distributed amid groups of goods, has been at a broad base, notably returning inflation on the upside. In the USA, in September (2021) inflation exceeded 5% for the fifth consecutive month. Also, the same performance is observed in the euro area, where Eurostat reports an inflation rate of 3.4% in September, from 1.0% in the beginning of the year (the inflation rates of Germany stand out particularly, at 3.9% and 4.1% in August and September, respectively).

Price dynamics in international markets was affected twofold by both the demand and supply factors. On the demand side, the lifting of almost all restrictive measures in most of the countries, together with the fiscal and monetary stimulus, has significantly increased the demand for consumption and investments. On the other hand, the most of sectors were affected by a contraction of supply during last year. The combination of these two factors has produced a sharp increase in prices, which appears uneven across sectors, and is affected by demand elasticity, the ability to increase production capacities, the scale of the pandemic spread and the measures undertaken to restrain it.

In the energy market, higher price reflects the combination of several factors which are considered transitory. Oil, which accounts for the main share in this category, recorded a continuous increase of prices during 2021, reaching to around 75 USD per barrel in September. This dynamic came as a result of the reduction of supply from the main oil producing countries (OPEC+), as a response to the strong contraction of demand over the last year. The fast economic recovery during this year caused a jump in the demand for oil in international markets, thus exacerbating pressures on prices increase.

Chart 1 Box 1

Energy prices increased in the 9-months of 2021, while they contracted in the preceding year



Source: International Energy Agency (IEA), Hungarian Power Exchange (HUPX).

The other components of the energy group have followed a similar trend. The price of electrical energy, particularly in Europe, has pursued an upward trajectory in 2021. Over the first 9 months of the year, the annual growth in energy stock markets was on average 120%<sup>11</sup>. The “green transition” and a lower demand for environmentally harmful energy has reduced the use of coal and nuclear as sources of energy, driving upwards the demand for natural gas. At the same time, the supply of gas has diminished. Last winter, which was colder than usual, reduced the level of natural gas reserves in the countries of the European Union. The high price made these countries reluctant to refill their scarcities during the summer period. The reduction in the volume of gas extracted by Russia and Norway created an upward effect in the prices of natural gas, which is one of the main sources in the production of electrical energy in the West. The price of natural gas in September was around 90% higher than at the beginning of the year, or around 130% higher than in the same month of the previous year.

The upsurge in metal prices reflects the impact of the higher demand and costs of intercontinental transportation. The return of investments to emerging markets and



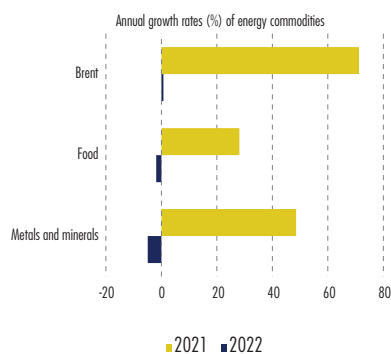


a higher request for digital equipment has caused an increase in the demand for iron, copper and precious metals. This effect is coupled by higher transportation costs given that the economic rebound vigorously engages sectors supported by marine, air and rail transportation, which are almost at the limits of their capacity. The price of transportation services<sup>iii</sup> from Asia to other continents has become 66% more expensive compared with the beginning of the year, and four times higher compared with the pre-pandemic period.

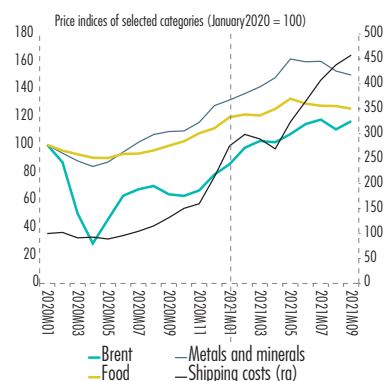
**The forecasts regarding future prices suggest that the increase of prices will be temporary.** The main factors that have exerted upward pressures will dissipate in the medium-term period. As regards prices of raw materials, the upward curve seems to have reached its zenith, and the high annual growth rates in the upcoming months will mainly reflect the impact of the low comparative base of the previous year. The situation regarding energy sources appears different, as their supply from producing countries (OPEC+) may favour a fall in prices over the medium-term. These forecasts are engulfed by risk factors mainly of the upper side. The said factors are mostly related to the trade battle between USA and China, the running of the global production chain, and the full transmission of the effects of the digital and green transitions, presenting thus more uncertainties to the scene.

Chart 2 Box 1

Group of goods prices have followed an upward trend



Factors that drive up prices will falter in 2022



Source: World Bank, International Energy Agency, OECD.

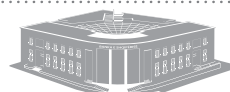
Source: International Energy Agency, October 2021; World Bank, October 2021.

**The future inflation trend is still uncertain and is closely related with the recovery rates of the economic activity.** If the upward trend of prices in the global markets will dissipate in the short run, it may bring a stabilizing effect in the chain of price formation. These effects will generate pressures on inflationary expectations and the level of wages, which may drive inflation rates above the central banks' targets, for a longer period of time. As this situation takes shape, central banks will steer towards the direction that has high chance of tightening their monetary policies.

<sup>i</sup> At the end of September 2021, The Bloomberg Commodities Spot index (which measures the prices of 22 main goods) stood at +30% compared to January 2021 and +78% compared to March 2020.

<sup>ii</sup> Power Exchange (HUPX).

<sup>iii</sup> Shanghai Containerised Freight Index (SCFI).



### 3. FINANCIAL MARKETS AND LENDING CONDITIONS

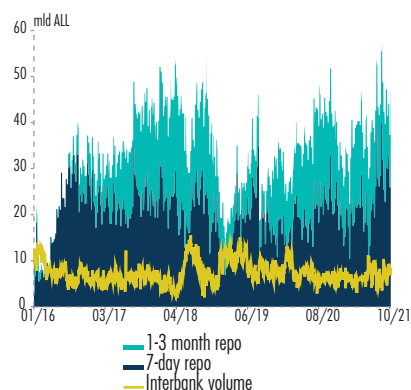
Developments in the financial market resulted positive during 2021 Q3. Interest rates in all its segments have fluctuated at low levels, factorising contained risk premia and the improvement of confidence for the future. The banking system operates in satisfactory conditions of liquidity and financial soundness, which has covered the needs for funding to both the private and public sectors. The foreign exchange market was calm and characterised by trading within the normal parameters of foreign currencies. The improvement of the economic and monetary conditions and the positive expectations for the future have enabled banks to have a more positive approach towards the demands of the economy for funding and increase financial intermediation.

#### 3.1. DOMESTIC FINANCIAL MARKET<sup>5</sup>

Interest rates in the interbank market remain anchored close to the policy rate<sup>6</sup>, in accordance with the operational target of the monetary policy. The banks' interest rates of interbank fund trading have not changed during the third quarter; they have mainly fluctuated below the policy rate and volatility indicators registered low levels. The Bank of Albania has continued the operations of liquidity injections, through its main instrument of one-week repo. In addition, three-month repo has been also used. The injected amount in this quarter was slightly higher

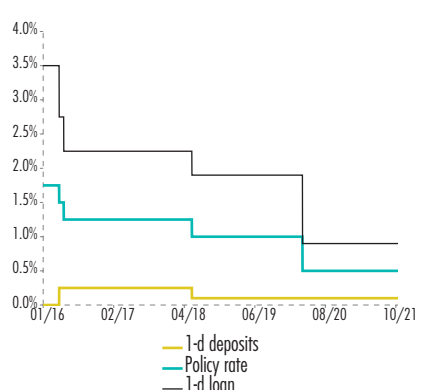
Chart 5

*The liquidity situation of banks has remained calm in the course of the third quarter*



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.

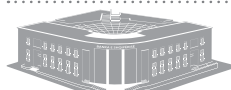
*Interest rates in interbank market remain anchored close to the policy rate*



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

<sup>5</sup> The following analysis is based on the data available up to 21 October.

<sup>6</sup> In 2021 Q3, the standard deviation of the overnight and weekly interbank rates was 0.016 and 0.017, respectively, from 0.013 and 0.031, in 2021 Q2.



than in the second quarter<sup>7</sup>, in accordance with the increased funding of the economy by the banking sector. One-week repo auctions continue to take place at fixed price and unlimited amount, by contributing to the maintaining of low risk premia of liquidity in the banking system.

The foreign exchange market appeared calm during the third quarter of 2021, characterised by the seasonal appreciation of lek against euro, and a depreciation of the lek against the US dollar. The euro/lek exchange rate strengthened gradually during the third quarter, falling to 121.6 euro/lek in August and September, from the average of 123.0 lek/euro in 2021 Q2. Developments during the first half of October show that the euro/lek exchange rate fluctuated close to the average of September. The current euro/lek exchange rate represents an annual appreciation of lek by around 2.0%. The performance of lek during this period is in line with its seasonal behaviour. Compared to the pre-pandemic years, it is observed a shift of this behaviour from the second quarter year to the third quarter of the year, reflecting the facilitation on movement during this period. Stress indicators for the euro/lek exchange rate – volatility, quotation spreads, the appreciation/depreciation bias<sup>8</sup> – remain at normal levels. In particular, short-term volatilities on the appreciating side of the euro/lek exchange rate have declined and the positions of economic agents in the market remain balanced in the medium-term horizon.

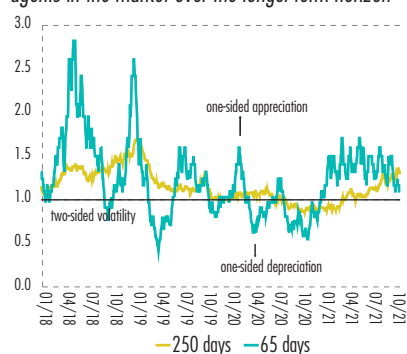
Chart 6

Lek has appreciated against the euro and has remained unchanged on average against the US dollar



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

Short-term volatilities of the euro/lek exchange rate have not affected the balance of position of economic agents in the market over the longer-term horizon



Note: Data show the exchange rate appreciation/depreciation ratio. For more details see footnote 7.  
Source: Bank of Albania.

<sup>7</sup> The average liquidity injected in 2021 Q3 was ALL 44 billion, from ALL 37 billion in the second quarter, increasing mainly for one-week repos.

<sup>8</sup> The appreciation/depreciation bias is calculated as the ratio of the number of days when the exchange rate is appreciated against the number of days when the exchange rate is depreciated, over a moving time horizon that may vary, e.g. from 22 days (one calendar month) up to 250 days (one calendar year). The value of this indicator near 1 indicates an equal number of cases of appreciation and depreciation and it shows that there are no one-sided pressures for appreciation or depreciation. If the value of this indicator is above 1 (below 1), then in the market there are signals for one-sided expectations for exchange rate appreciation (depreciation).

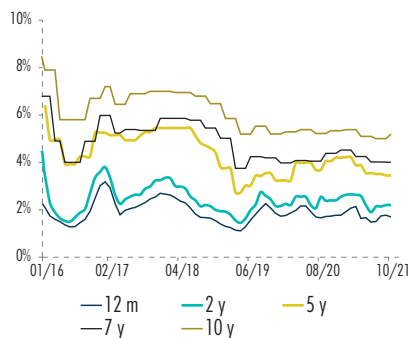


The appreciation of lek against the US dollar in the second quarter was followed by its depreciation during the third quarter. The **USD/ALL** exchange rate averaged 103.3 lek/usd in July-September, from 102.0 lek/usd in the second quarter. Lek has continued to depreciate against the US dollar during most of October, as the USD/ALL exchange rate increased to 104.8 lek/usd. This level is very close to the one from the previous year. These developments are in line with the performance of the exchange rate of the US dollar against the euro in the international market.

**Yields on T-bills and bonds in the primary market have been stable in the third quarter, remaining lower than in the beginning of the year and the previous year.** Their monthly dynamic demonstrates that yields have become more volatile mainly as regards the short-term and long-term maturity, realizing marginal changes and often in the opposite direction. Yields on 5-year and 7-year maturities bonds had a different behaviour, as their performance was more uniform and characterised by minimal drops. In detail, in the latest auction of October, yield on 12-month T-bill was 1.7%, down by 0.1 p.p. from the average of September. Meanwhile, the 10-year yield on bonds increased approximately by 0.2 p.p., to 5.2%, from the latest respective value. The current level of yields is lower than those in the beginning of the year and the previous year. The financial market appears calm in adapting to the dynamics of the Government's bid. The coverage ratio of government debt securities auctions, particularly regarding the medium- and long-term maturities of bonds, has remained high, confirming the interest of the banking system and contained risk and inflation premia.

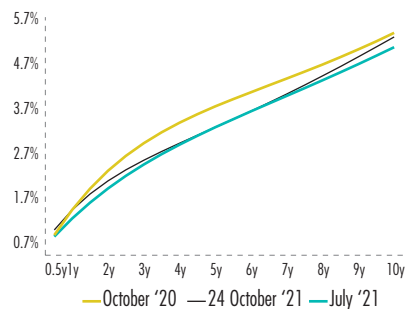
Chart 7

*Yields in primary market appeared stable in the third quarter*



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

*Yields curve has flattened and has shifted more downwards in the medium-term segment compared to the previous year*



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



### 3.2. LENDING CONDITIONS

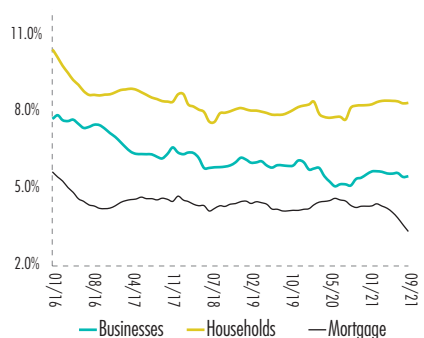
The interest rates on loans remain at low levels, supporting the growth of consumption and investments by the private sector. This performance factored in the good liquidity situation of the banking system, contained credit risk premia and a more positive approach of banks regarding lending. The average interest rate on new loans to enterprises in ALL stood at 5.6% in 2021 Q3, close to the average level recorded in 2021 H1. Looking beyond the monthly volatility that characterises interest rates on loans, this stability is noted across all sizes of loans to enterprises. The contained credit risk, the fast broadly-based recovery of the economy, and the positive expectations on its future performance have dictated the relevant bank policies in financing enterprises.

Households have benefited from continuously lower interest rates to finance real estate purchases during the year. The increase in the demand to this credit segment was in line with easier lending conditions for several quarters. The interest rate on mortgages dropped to 3.2% in 2021 Q3, from 3.5% and 4.7%, respectively, in 2021 Q2 and 2021 Q1. On the other hand, consumer credit continues to have more stable interest rates; in this quarter they recorded 8.3% on average, remaining close to the levels noted in the first half of the year and the previous one.

In 2021 Q3, interest rates on loans in euro to enterprises remained unchanged from the 4.4% average of the first half of the year. This level is around 1.0 p.p. lower than a year earlier. Interest rates on loans in euro to households have also remained almost the same, for both consumption (4.5%) and house purchase financing (3.4%). The latter are around 0.7 p.p. lower from the previous year.

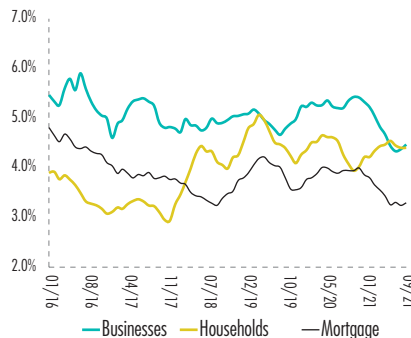
Chart 8

*Interest rates remained stable for loans in lek to enterprises and decreased further for mortgage loans to households*



Note: The data indicate the monthly interest rates of new loans in lek in %, 6-months moving average. Source: Bank of Albania.

*Interest rates for loans to enterprises in euro have remained stable, on average, and have decreased for mortgage loans to households*



Note: The data indicate the monthly interest rates of new loans in euro in %, 6-months moving average. Source: Bank of Albania.

Interest rates on deposits in lek recorded a marginal increase in the third quarter, as well similar to the two previous quarters. It stood at 0.75%, from 0.68% in



2021 H1. The increase is manifested in interest rates on deposits with longer maturities, whereas interests on short-term deposits - with up to 1 year maturity - remain stable. This dynamic reflects banks stimulating policy with a view to guiding households' savings towards long-term maturities in exchange for a more profitable return.

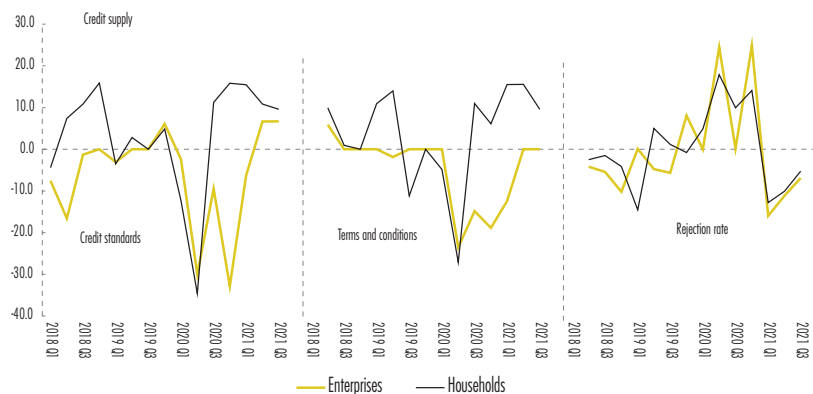
**BOX 2 SUPPLY CONDITIONS AND DEMAND FOR LOANS IN 2021 Q3<sup>1</sup>**

Supply conditions on loans continued to improve in 2021 Q3 as well. In parallel, economic agents' demand for bank credit was assessed as higher.

Banks have further relaxed their policies on loans to enterprises, adapting to the improvement of the key microeconomic indicators in Albania. Thus, in the third quarter, banks eased their credit standards, in particular for large enterprises, as a result of the lower risk perceived regarding their solvency. Although the lending terms and conditions were unchanged, overall, banks preferred to facilitate lending for their clients offering them more favourable margins as well as larger loans. In line with the easing of standards on loans to enterprises, banks approved a larger number of applications in relation to the total credit applications from enterprises. This performance reflects the improvement of the financial situation of enterprises and the status of current loans.

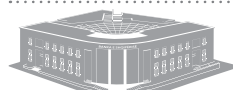
Chart 1 Box 2

*Credit supply conditions improved for both enterprises and households*



Values on the chart are calculated as net percentage. Positive values indicate easing of terms and conditions and vice-versa. Positive values indicate increase of the scale of application refusal and vice-versa.  
Source: Bank of Albania.

A similar situation was observed regarding the supply conditions of loans to households. Therefore, in the third quarter, banks eased their standards on loans granted for house purchases in particular. In the segment of house purchases, the accommodative policies of lending to households were accompanied by other more favourable conditions related to both price and non-price factors such as: the increase of the loan size, its maturity and lower collateral requirements. The more eased households' lending conditions seem to be led, for the most part, by the strengthened competition pressures in the banking system. The third indicator that approximates the easing of credit supply, i.e. the loan rejection rate was reported downwards in the third quarter of the year, reflecting mainly the perception of banks on the improved households' solvency.



Loan demand from enterprises was high in the third quarter, concentrated on large enterprises. The expansion of loan demand from enterprises reflected the higher needs for financing investments and liquidity needs, to further support the macroeconomic and financial background in Albania.

Higher loan demand was observed also from households, which concentrated on house purchase loans. In addition to the higher demand for credit financing, particularly for mortgages, the increased demand for loans from households was supported by the current expected developments in the housing market, the improved consumers' confidence indicator and the current level of interest rates.

For the last quarter of the year, banks' expectations are the same for both the supply conditions and demand for loans.

Chart 2 Box 2

Loan demand was perceived as upwards for both enterprises and households



Values on the chart are calculated as net percentage. Positive values show increase of credit demand, while negative values show its decrease. Source: Bank of Albania.

<sup>1</sup> The analysis is based on Bank Lending Survey and conducted on a quarterly bases and is published at: [www.bankofalbania.org/](http://www.bankofalbania.org/)

### 3.3. CREDIT TO THE PRIVATE SECTOR<sup>9</sup>

The improvement of the economic activity and the more positive approach of banks towards lending were reflected in higher growth rates of the lending activity. The annual growth rate of credit to the private sector was 8.9% at the end of the third quarter, or 1.2 p.p. higher than in the previous quarter. In terms of GDP, credit to the private sector was 39.6%, returning to the pre-pandemic level. The acceleration of lending to the private sector was driven by lending in foreign currency. Credit in foreign currency registered high annual growth rates of 8.5%, while it slightly slowed down to 9.3% in the domestic currency. This deceleration was also driven by the effect of the comparative base in the previous year, where credit in lek increased significantly in the third quarter due to the measures undertaken by the authorities to dealing with the pandemic.

**Enterprises** increased the demand for bank financing, driving to the acceleration of the growth pace of this portfolio to 8%, y-o-y. Enterprises demand for financing was mainly in the form of credit for liquidity, which recorded a significantly accelerated annual rate of 6.2%. This performance seems to be affected mainly by enterprises of the construction and trade sectors, which demanded financing in order to fulfil immediate needs due to their increased level of activity and

<sup>9</sup> Credit analysis refers to the monetary data adjusted to account for the effect of exchange rates and write-off loans of balance sheet.

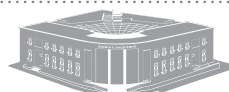
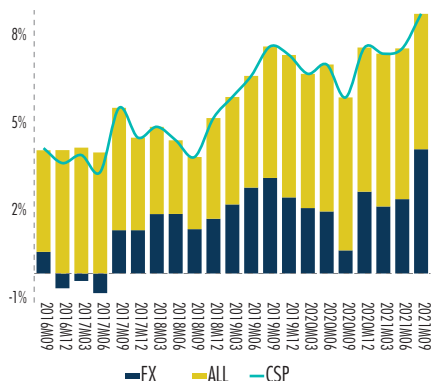




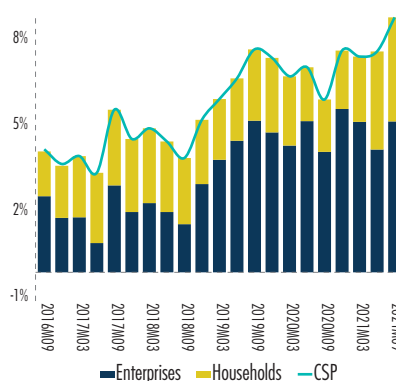
Chart 9

*The increase of credit to the private sector expanded, affected by higher lending in foreign currency*



Note: The data indicate the annual changes of lending by currency to the private sector.  
Source: Bank of Albania.

*The increase of credit in 2021 Q3 is supported by lending to enterprises*



Note: The data indicate the annual changes of lending by agents to the private sector.  
Source: Bank of Albania.

prices in the international market. On the other hand, credit for investments shows lower growth rates of 9.3%.

**Credit to households** has further improved its growth rates to 10.6% y-o-y, slightly higher than in the second quarter. This performance was driven by the improvement in the growth rates of both consumer loans and mortgages. Consumer credit recorded an annual growth rate of 8.5% in the third quarter, slightly higher than the growth rate in the second quarter. Meanwhile, credit for house purchases has maintained the double-digit annual growth rate, affected by both performance of prices in the housing market and improvements in the labour market, as well as the favourable lending conditions provided by banks for some quarters now.

In parallel to the improvement of credit, **bank deposits** expanded with high rates in the third quarter. Their annual growth rate recorded 10.3%, compared to 8.3% in the previous quarter. This growth reflected mainly the expansion by 13.2% of deposits in foreign currency, which recorded one of the highest pace of growth in the recent years. The acceleration of the growth pace in this segment reflects the high level of foreign currency entering Albania from tourism<sup>10</sup>, remittances and business activity, as well as the higher intermediation of banks in foreign currency. In terms of the time structure, the expansion of deposits continues to be supported by the liquid component, but in contrast with the previous year, there is a slight increase of time deposits.

<sup>10</sup> Indirect data on the third quarter suggest a high number of passengers travelling by air and sea.

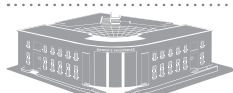
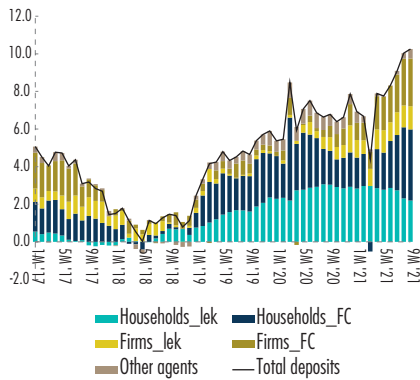




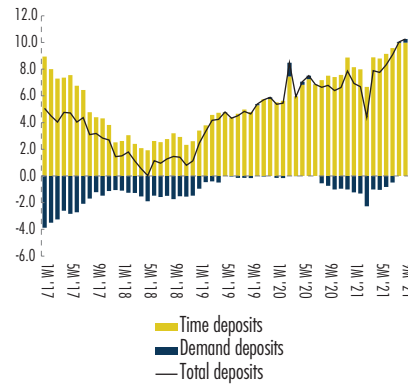
Chart 10

*The acceleration of the deposit growth is driven mainly by the enterprises' deposits*



Note: The data represent the annual contribution in % of deposits by currency and economic agents.  
Source: Bank of Albania.

*Time deposits gave a positive contribution driven by deposits in foreign currency*



Note: The data represent the annual contribution in % of deposits by currency.  
Source: Bank of Albania.

From the economic agents' perspective, the acceleration in the growth pace of deposits was mainly driven by the 27.5% increase of **enterprises' deposits**. This performance reflects the rapid economic recovery, the formalisation of the economy and the higher inflows related to the public sector activity - both in the form of higher VAT refunds as well as spending related to the Reconstruction Fund. Consequently, most of these deposits are current demand deposits, which continue to dominate the growth in deposits and the structure thereof.

**Households' deposits** recorded an annual growth of 7.2%, compared to 6.4% in the second quarter. This growth reflects the improvement in the growth pace of deposits in foreign currency, which has offset the deceleration in the growth rates of deposits in lek. The deceleration registered in the latter was also driven by households' preference to hold their savings in government securities. Also, in this quarter, it is noted the households' preference to deposit their savings in foreign currency with 2 years maturity, which expanded considerably due to the widely promoted banks' offers as well.



## 4. ECONOMIC GROWTH

The GDP growth accelerated to 17.9% in 2021 Q2, following the removal of internal restrictions and the opening of partner economies. Both the domestic and foreign demand had a positive contribution to the economic recovery. The expansion of demand was reflected in the upward trend of production and services activities. Under the conditions of tightening the restriction measures on the international movement of travellers since September of this year, economic uncertainties related to the pandemic are still present. Indirect data suggest that the economic performance will remain positive during the rest of the year as well. The economic growth during 2021 Q3 and Q4 is expected to continue at a slower pace.

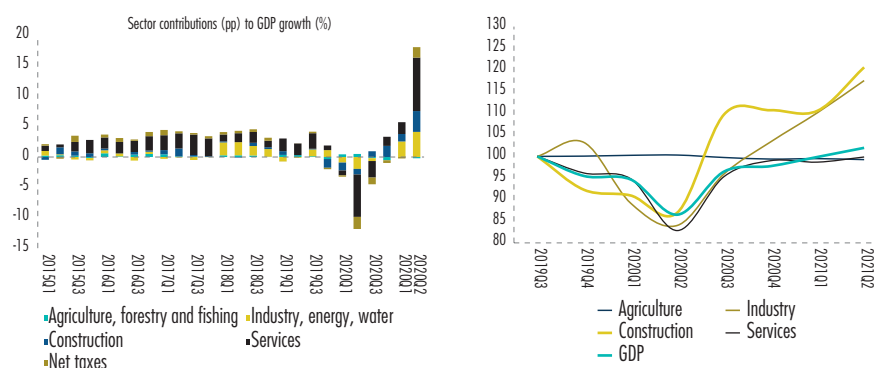
### 4.1. GROSS DOMESTIC PRODUCT

GDP notably accelerated its recovery pace, standing at 17.9% in 2021 Q2. This high level of growth partially reflects the low comparative base of the previous year, when the economy contracted by 11.3%. However, with a few exceptions, all the sectors of the economy have exceeded both the statistical effect and the value added levels of the pre-pandemic<sup>11</sup>. This performance suggests that the long-term impact of the pandemic has been low. The production sector and services sector contributed by 7.4 and 8.8 percentage points, respectively, to the economic growth (Chart 11, left).

Chart 11

Economic growth has accelerated significantly supported by both "production" and "services"

Almost all the sectors of the economic activity have returned to the levels of the pre-pandemic and earthquake period

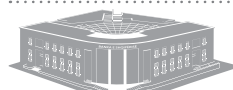


Source: INSTAT and Bank of Albania.

Note: The value added of the economic sectors adjusted seasonally and turned into an index based on the 2019 Q3.

Source: Bank of Albania.

<sup>11</sup> Compared to 2019 Q2, economic growth is calculated at 4.5%. Based on assessments, the impact of the low comparative base, including part of the positive shock from the branch of electrical energy, stands at 13.0%, from -13.5%. Thus, the growth, without the impact of the low comparative base and the high energy production, would have stood at around 4.4%-4.9%.



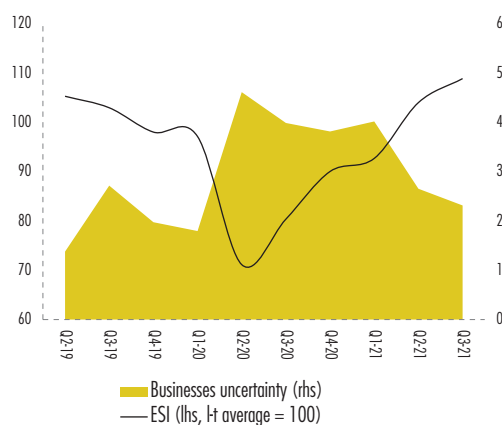
The production sector expanded by around 18.2% compared to the previous year, with a strong impact from the construction activity. Its contribution to the economic growth accelerated to 3.4 percentage points, from 1.2 percentage points in 2021 Q1. Assessments show how both the private and private components had a positive impact on the growth of construction. The activities in industry contributed by 2.5 percentage points to the economic growth. The contribution of the manufacturing industry<sup>12</sup> was 1.8 percentage points, accelerating from the previous quarter. Also, the increase of production from the branch of electrical energy was significant to the economic growth during the second quarter, as well, contributing 1.4 percentage points compared to the previous quarter. Whereas, activities in agriculture, forests and fishing contracted by 0.6%, affirming the specifics of the sector and the lack of effect of the comparative base.

The added value of the services sector increased by 20.5% in the second quarter, accelerating from the previous quarter (4.5%). The activities of "Public administration, health and education", "Real estate", "Health", "Education" provided significant contributions, like in the previous quarters as well. "Trade, transport, accommodation and food services" also provided high positive contributions. In addition to "Trade", the branch of "Accommodation" returned to positive rates, supported by the strong increase of tourism during this quarter<sup>13</sup>.

Economic growth is assessed to have remained in high levels in the third quarter as well, but at a lower rate compared to the second quarter. This slowdown reflects a lower base effect from the previous year<sup>14</sup> and partially the intensity of the fiscal stimuli in this period. The assessment on the positive performance of the economy is confirmed by the quantitative indicators such as increase in exports & imports, the movement of citizens and fiscal statistics. Also, the qualitative data of the surveys testify about the improvement of economic sentiment and the gradual decline in uncertainty (Chart 12).

Chart 12

Economic sentiment and uncertainty indicators improved significantly in the second quarter and more gradually in the third one



Source: Bank of Albania.

## 4.2 AGGREGATE DEMAND

The growth of aggregate demand accelerated considerably in the second quarter of 2021. Contributions are assessed as balanced from both domestic and external components. The domestic demand has started to rebound earlier and accelerated this quarter, with a particularly high positive contribution from foreign demand to economic growth. The expansion of foreign demand mainly relates to the high increase in services export, driven by the recovery of tourism.

<sup>12</sup> The more improved performance of the manufacturing industry is assessed to have been supported mainly by the growth of exports related to the output of metal and mineral products.

<sup>13</sup> Based on the data on travel services exports in the Balance of Payments for 2021 Q2.

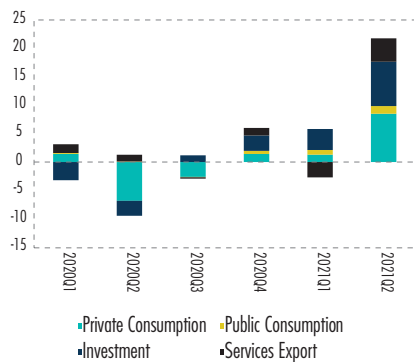
<sup>14</sup> The economic contraction was -11.3% in 2020 Q2 and -3.5% in 2020 Q3.



Domestic demand expanded at an annual pace 14.7% in 2021 Q2, from 4.9% in the previous quarter. Both consumption and investments provided strong impacts on this growth. Annual increase of Population Consumption reached at 9.8%, from 1.4% in the previous quarter. Meanwhile, the annual growth of Investments accelerated considerably to 35.7% in 2021 Q2, from 21.6% in the previous quarter. Public Consumption with an annual growth of 11.0% is assessed to have provided positive contributions in this regard.

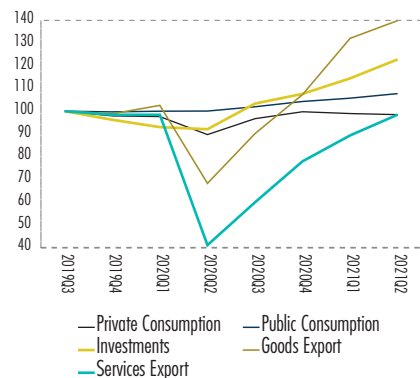
Chart 13

*Economic growth was supported by both domestic and foreign demand*



Note: Contributions of demand components in the economic growth (in percentage points).  
Source: INSTAT and BoA's estimations.

*Components of aggregate demand have accelerated the growth pace, expanding above the 2019 levels*

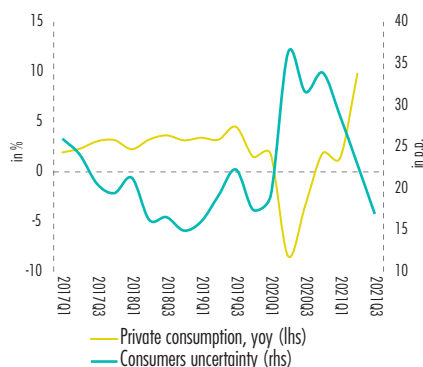


Note: Aggregate demand components, seasonally adjusted, turned in index with 2019 Q3 as a base.  
Source: Bank of Albania.

Private consumption became the main determinant of aggregate demand expansion. Its growth was mainly driven by expenses in the sub-categories of durable goods and services, by reflecting also a low base effect of a year earlier. On the other hand, consumer goods spending fell during the first two quarters of year, after the growth recorded in the previous year (Chart 14, right).

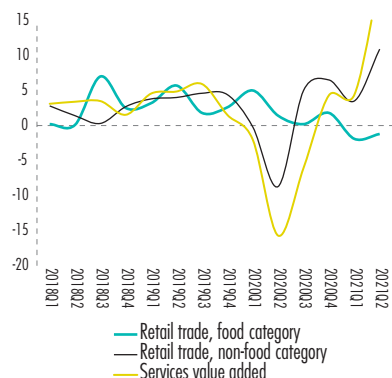
Chart 14

*Private consumption accelerated the growth in the second quarter, in reflection of consumers' reduced uncertainty*

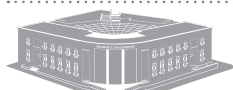


Note: Indicator of consumer uncertainty is measured from Consumer Confidence Survey and expressed as net balance in percentage points.  
Source: INSTAT and Bank of Albania.

*The growth of consumer spending for long-term durables lead consumption*



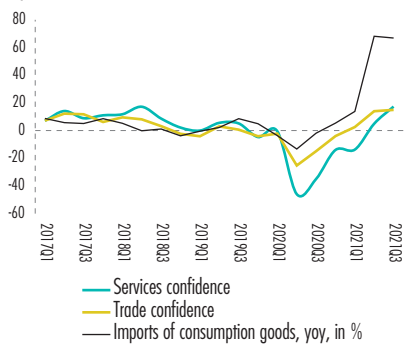
Note: All indicators are expressed in annual changes.  
Source: INSTAT and Bank of Albania.



The easing of restrictive measures and reduction of uncertainty are the main factors driving the recovery of consumer demand (Chart 14, left)<sup>15</sup>. In addition, both the growth of loans to households and in remittances has supported the expansion of private consumption in this quarter.

Chart 15

*Growth of import of consumer goods and improved confidence in trade and service sectors provide positive signals for private consumption in the third quarter*



Note: Import of goods for consumption is annual change and confidence indicators are balances average in percentage points. Source: INSTAT and Bank of Albania.

*Increasing trend for consumption and savings of consumers in the third quarter*



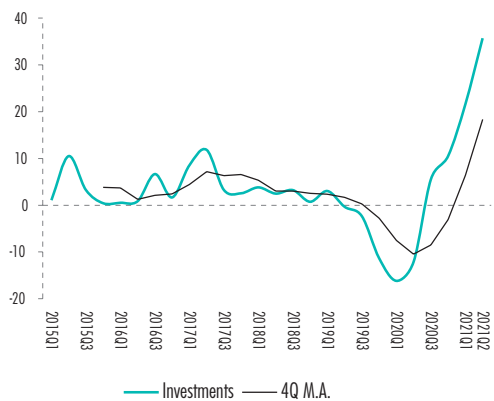
Note: Indicators are based on consumer confidence survey and are expressed in percentage points. Source: INSTAT and Bank of Albania.

Private consumption is expected to grow in the third quarter as well. The performance of indirect indicators supports the assessment on the continuation of the positive dynamics of private consumption in this period. Thus, import of consumption goods, in July and August, recorded an annual growth similar to the second quarter of year (Chart 15, left). Also, confidence indicator in both sectors of services and trade continued to improve in the third quarter.

Total investments in economy continued to trend strongly upwards (Chart 16). Public component provided the main contribution to the growth of investments in this quarter. Private investments also provided a positive contribution, similar to the one in the previous quarter.

Chart 16

*Total investments in economy accelerated the growth in 2021 Q2*



Source: INSTAT and Bank of Albania.

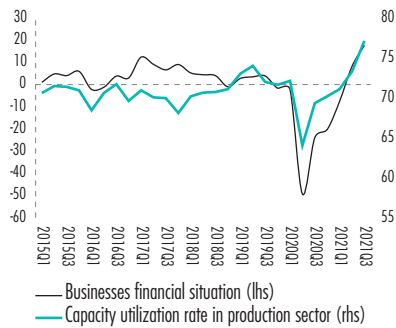
**Investments** are expected to pursue the increasing dynamics in the third quarter as well, but at more reduced rates, due also to a lower base effect. The strengthening of demand has bolstered the activity of businesses, driving to their improved financial situation in this quarter, and establishing more spaces for investment financing (Chart 17, left).

<sup>15</sup> Analysis of family expenditure by various consumption categories is based on the retail trade index and measurements of GDP from production.



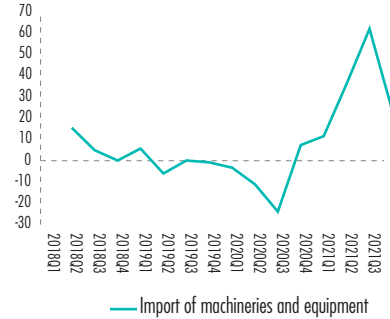
Chart 17

Capacity utilisation rate and enterprises' financial situation continued to improve in the third quarter



Note: Financial situation of enterprises is an average of balances from confidence survey. Capacity utilisation rate is in percent of total capacity.  
Source: INSTAT and Bank of Albania.

Import indicators suggest growth of investments in machineries and equipment in the third quarter



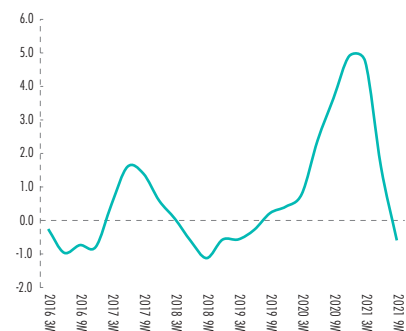
Note: Indicators are annual changes in percentage points.  
Source: INSTAT and Bank of Albania.

Fiscal policy has kept the accommodative nature, but the intensity of fiscal stimulus has been reducing. Primary deficit was assessed at around 0.6% of GDP, at the end of September, compared to 3% in the previous year.

The performance of primary deficit shows a declining curve of fiscal impulse after the first half of year (Chart 18).

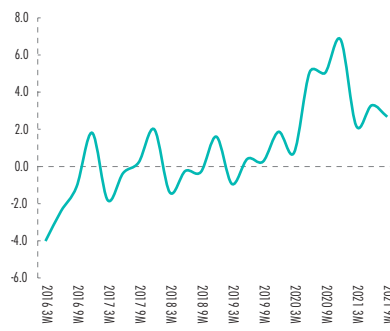
Chart 18

Fiscal impulse shifts into negative...



Note: Change in primary deficit ratio to GDP for 12 months, from the previous year. Positive values of this indicator show that fiscal policy has generated increased impulse into the economy.  
Source: Ministry of Finance and Economy and MPD calculations.

...due to a lower deficit compared with the previous year



Note: Budget deficit to GDP. Calculations based on quarterly flows. Positive values show deficit, negative values show budget surplus.  
Source: Ministry of Finance and Economy.

The downward trajectory of fiscal impulse is attributable to the fast growth in revenues and the lower intensity in performing spending in the third quarter. In 2021, fiscal policy is forecasted to provide a positive direct impact on the aggregate demand. The easing features of fiscal policy - from expenditures channel - were more pronounced in the second quarter, along with faster



activation of these expenditures. Public sector is expected to have again a high presence on the growth of aggregate demand in the fourth quarter.

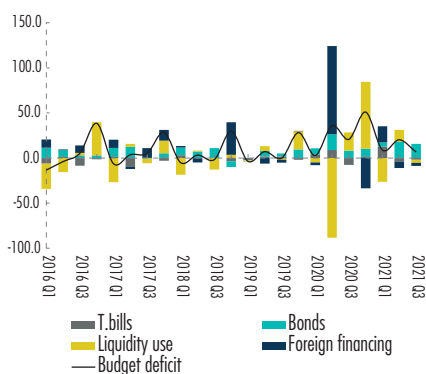
**Budget deficit** was around ALL 36 billion at the end of September (Chart 18, left). In terms of GDIP, it was assessed at around 2.7%, or around 2.4 percentage points lower than the same period in the previous year. The fast expansion of revenues (a contribution of 1.3 percentage points) and a slower growth pace of expenditures (a contribution of 1.1 percentage points) drove to the narrowing of budget deficit.

Budget deficit expanded by ALL 6.7 billion in the third quarter. The expansion of deficit in this quarter was financed only by the increase in the borrowing with bonds (ALL 15.6 billion), which served, at a larger extent, for the payments of debt and creation of liquidity, by not impacting on the deficit.

The increase in bonds with maturity 2 to 10 years in this quarter, served to be exposed at a lower degree to short-term securities (by around ALL 2 billion). Commercial banks remain the main owners of securities issued by the government in the domestic market. They held around 60% of securities stock as at end of September 2021. In the third quarter, households reactivated the participation in government securities market, by expanding their portfolio by around ALL 3 billion, the highest value in the last three years.

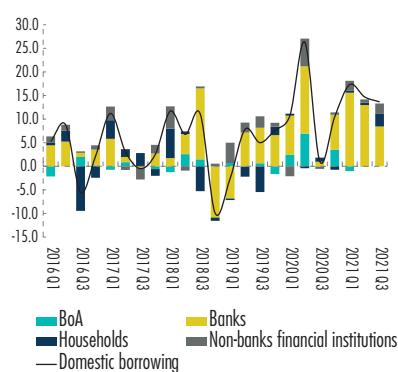
Chart 19

*In this quarter, deficit was financed by the issue of bonds...*



Note: Budget deficit and its financing, in ALL billion.  
Source: Ministry of Finance and Economy.

*...where, households and other financial institutions played a role in purchasing securities*



Note: Government borrowing in debt securities, in ALL billion, quarterly flows.  
Source: Ministry of Finance and Economy.

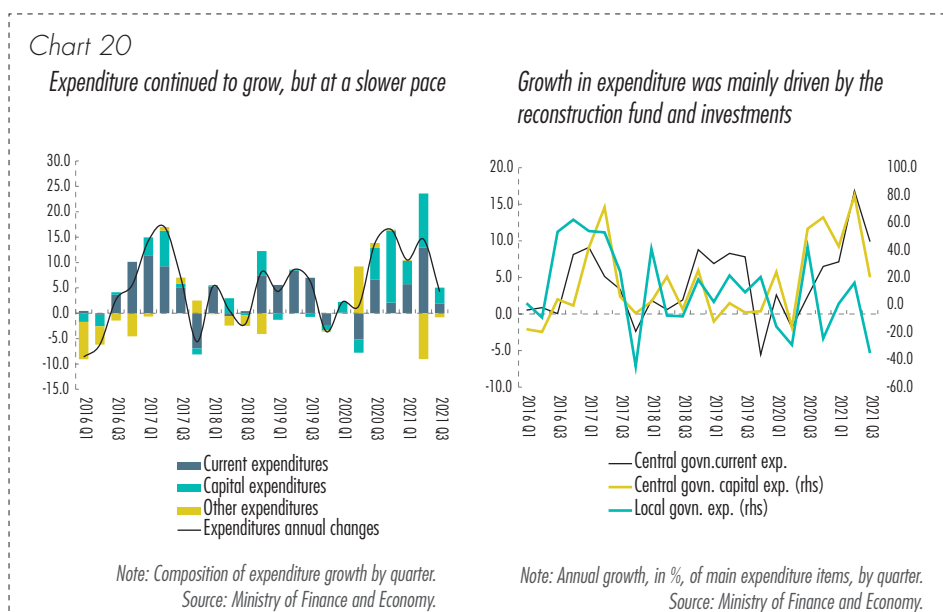
**Public debt** was assessed around 73.3% of GDP<sup>16</sup> at the end of 2021 H1, from 75.5% at the end of 2020. Debt in foreign currency accounts for around 48% of total public debt. This ratio is almost similar to the ratios recorded at the end of years 2019 and 2020.

<sup>16</sup> This value presents the debt stock ratio, including guarantees, as at end of 2021 Q2 (according to MoFE) to cumulative nominal GDP of last four quarters (2020 Q3 – 2021 Q2), according to INSTAT publications.



**Public expenditure** has amounted ALL 139.6 billion in the third quarter, or around 4.2% higher than in the same quarter of the previous year. The increase in expenditure in this period relates to current expenditures - with a contribution of 1.9 percentage points - capital expenditures and the reconstruction fund. The expansion in capital expenditures, coupled with the reconstruction fund, accounted for around 70% of the total growth of expenditure in this quarter.

Total public spending amounted around ALL 403 billion from the beginning of year to September. This level is 9.6% higher in annual terms (Chart 20). The profile of expenditure growth for the entire period does not change from the one in the first half of year, more pronounced the role of reconstruction fund, public investments and expenditures for social and health insurances fund.



Public expenditure related to the purchasing of goods and services as well as infrastructure expenditure have continued to grow in the third quarter, but at a moderate pace compared to the first half of year. The developments, so far, on the expenditure side suggest that the direct impact of public sector on the growth of aggregate demand will be more moderate compared with the first half of year, both in the form of consumption and public investments.

In 2021 Q3, **budget revenues** amounted to around ALL 133 billion, or 17.4% higher compared to the same period a year ago. VAT revenues on the import of goods<sup>17</sup> (6.3 percentage points), social insurances revenues (3 percentage points) and revenues from excise provided the main contribution to this growth (Chart 21).

<sup>17</sup> Domestic VAT also provided a positive impact, by 1 percentage point on the total revenues growth in the third quarter.

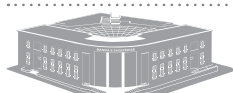
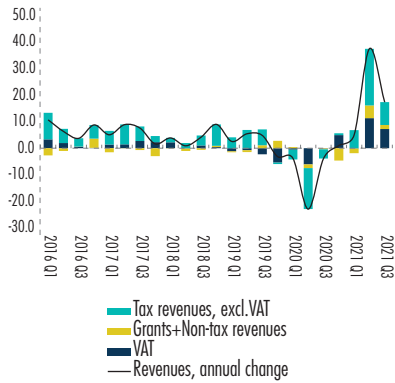




Chart 21

Revenues continued the fast growth...



Note: Composition of revenues growth by quarter.  
Source: Ministry of Finance and Economy.

...driven by all tax components



Note: Annual growth, in %, of main tax items, by quarter.  
Source: Ministry of Finance and Economy.

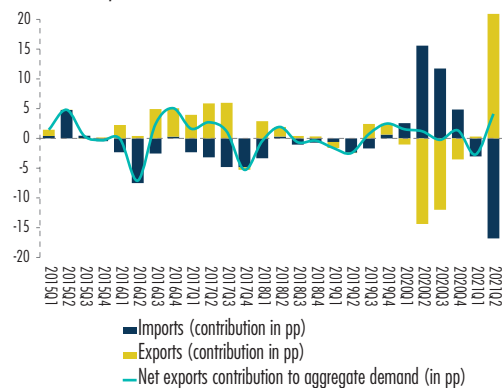
Budget revenue amounted to around ALL 367 billion, in the first three quarters of 2021, or 19% higher than in the previous year. The growth profile in revenues, over the course of this year, has shown no change from one quarter to the other. VAT on the import of goods, social insurances and revenues from excises and taxes have supported the high growth pace of revenues. VAT on the import of goods, during this year, has provided the highest contribution the total growth of revenues, in the last ten 10 years. The higher volume of imports, the higher prices of commodities in international markets, and the base effect of the previous year have driven this performance<sup>18</sup>.

Developments in tax revenues, so far, suggest that consumption, economic activity and labour markets indicators will continue to improve in the third quarter of 2021.

**Net exports provided a high positive contribution in 2021 Q2** (Chart 22). The trade deficit in goods and services narrowed by 23.6%, in response to the swift growth of exports (130.5%). The expansion in services export (153.0%), supported by the performance of tourism, which has returned to the positive trend after some quarter, determined this dynamic. Goods item, expanding by 88.4%, also supported exports. Both items have been affected by the strong base effect of the previous year.

Chart 22

The quite higher growth of exports against imports resulted in a positive contribution of net exports to the economic growth for the second quarter of 2021



Note: Contributions of exports and imports in economic growth.  
Source: INSTAT and estimations of the Bank of Albania.

<sup>18</sup> The fall in VAT revenues on imports in 2020 formed around 20% of the decline in total revenues throughout the year.



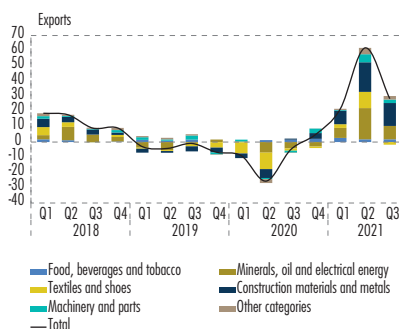
Also, imports recorded a high annual growth (53.6%), mainly driven by the 40.2% increase in the import of goods. Like in exports, services import recorded a rapid surge (115.7%) driven by the tourism, but the recovery of this flow results slower compared with exports. This shows the asymmetry in eliminating the restrictions on the travellers' movement to Albania for foreigners, and across the world for Albanians. Movement restrictions on Albanians used to be stricter.

Data on foreign trade of goods, in 2021 Q3, show a continuation of recovery trend, but a slower pace compared with the second quarter. Beyond the positive effects from both domestic and foreign demand, a surging trend of prices is noted, which has also affected the values of both exports and imports. The annual growth rates have resulted close, but the higher share of imports drove the trade balance expanding by 27.5% in annual terms.

In 2021 Q3, exports of goods grew by 28.5% in annual terms (Chart 22, left). This growth was mostly dictated by the categories "Minerals, fuels, electricity" and "Construction materials and metals". Alongside the recovery started earlier by this category, the acceleration was also driven by the rise of respective prices in international markets. On the other hand, the category "Textile and shoes" is showing difficulties in recovering from the pandemic, appearing downwards in annual terms in this quarter.

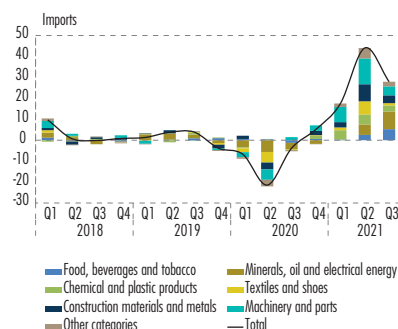
Chart 23

*The increase in commodity prices and the continuation of recovery from the pandemic have determined the growth in the export of goods*



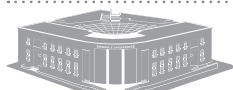
Note: Contributions of main categories in the trade of goods, in percentage points.  
Source: INSTAT and Bank of Albania's calculations.

*Growth of imports is of a broad base, affected also by the surge in international prices of oil and grains*

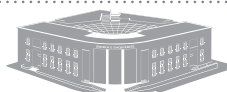


Note: Contributions of main categories in the trade of goods, in percentage points.  
Source: INSTAT and Bank of Albania's calculations.

In 2021 Q3, imports of goods grew by 28.0 % in annual terms (Chart 23, right). The positive contributions were broadly-based, and were led by the categories of "Minerals, fuels and electricity", and "Food, beverages and tobacco". Also in this case, the international increase in oil, energy and food prices is assessed to have considerably affected this dynamics, beyond the further recovery of the domestic demand. The categories related to construction sector and pharmaceuticals products also provided positive contribution to the import of goods, like in the two previous quarters.



In terms of trading partners, Italy, followed by Kosovo, Greece and China provided the highest contributions to the annual growth of exports in 2021 Q3. In terms of imports, Italy, Turkey, the USA and Germany provided the main contribution to the annual growth of imports.

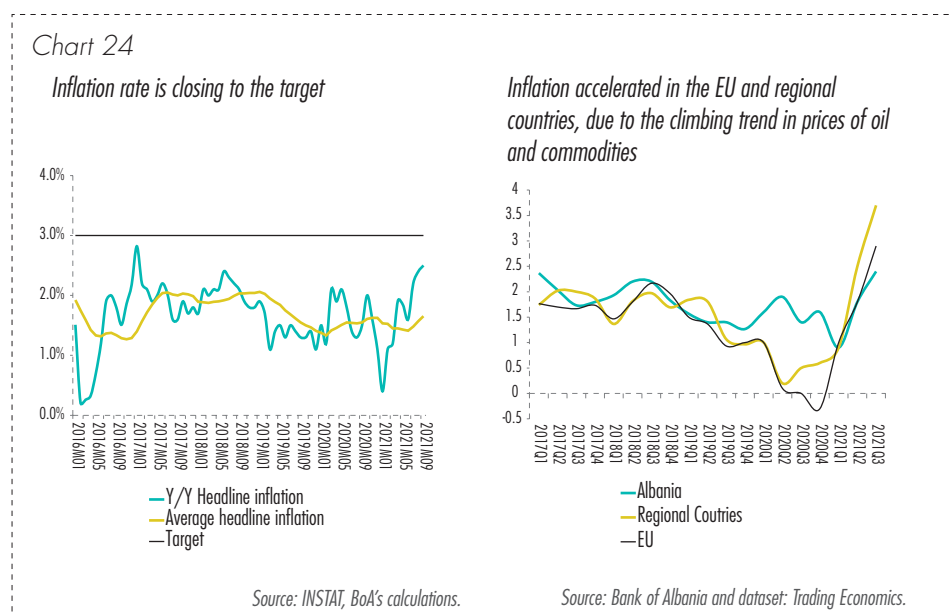


## 5. INFLATION, PRICES AND COSTS IN THE ECONOMY

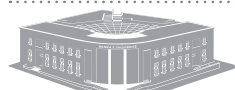
The average inflation increased to 2.4% in 2021 Q3, from 1.8% in the previous quarter. On one side, this increase has reflected the improved demand, and on the other side, the strengthened pressures on the supply side. The upsurge in commodity prices across international markets has directly affected the consumer prices, and has provided a low impact in the early stages on production chain and prices formation. Meanwhile, inflationary pressures from wages remain low, but stable, given the presence of spare capacities in labour market.

### 5.1. CONSUMPTION PRICES

Annual inflation resulted at 2.4% in 2021 Q3. Average inflation was around 0.6 percentage point higher compared with the previous quarter, by approaching to the target of the Bank of Albania<sup>19</sup> (Chart 24, left). The upswing in inflation, over the course of 2021, has mainly reflected the impact of supply-side effects, related to the rise in commodity prices in international markets. The novelty in this quarter relates to the acceleration of inflation at global level, particularly in August and September. The climbing in prices of both base agricultural products and fuels generated high surging inflation rates in European Union members and regional countries, by strengthening the external inflationary pressures on our economy (Chart 24, right).



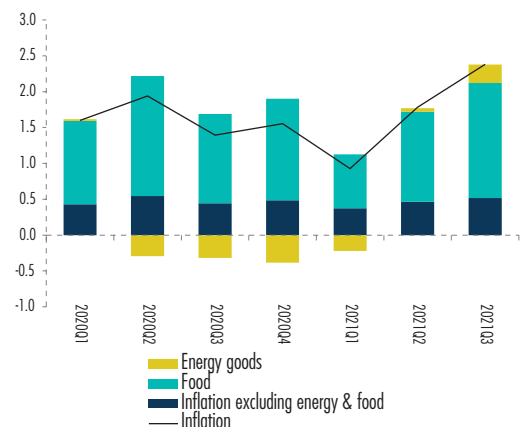
<sup>19</sup> Inflation rate in September compared with that in January 2021, increased by 2.1 percentage points.



By category of the CPI basket, prices in food and non-food items group provided almost an equal contribution to inflation increase in the third quarter. "Unprocessed foods" provided the highest contribution in the category of food items. The sub group "Bread and grains" - significantly affected by the lifting conjuncture of commodity prices across international markets - dominated the growth of this category contribution. Also, category "Non-processed foods" provided an upward contribution to headline inflation, by around 0.1 percentage point (Table 2). The increased contribution of prices in this category was higher in July (0.4 percentage point), while in the next two months, this contribution fluctuated at lower values (Chart 25, Table 2). This development was caused mainly by the performance of inflation in the "Vegetables" subgroup.

The increases in prices of oil products and gas in global market affected the category of "non-food goods". Since May 2021, their direct contribution returned to positive values, and as expected, it continued to increase in the third quarter. The contribution of this category to headline inflation was around 0.2 percentage point higher than in the previous quarter. The prices of more stable components of inflation – such as services, housing and long-term consumer goods – provided an added contribution by 0.1 percentage point to inflation in the third quarter, due to the increase in rent prices (Table 2). Also, the sub-groups "Transport", "Health" and "Communication" recorded a slight increase of prices. The sub-groups of services "Entertainment and culture" and "Hotels and restaurants" originated positive contributions. The respective inflations were upwards in the third quarter, in reflection of an increased demand for entertaining activities and vacations.

Chart 25  
Food items group and energy items increased the contribution in the formation of inflation in the third quarter



Source: INSTAT, BoA's calculations.

Table 2 Contribution of key items to annual inflation (p.p)\*

	Q3 '19	Q4 '19	Q1 '20	Q2 '20	Q3 '20	Q4 '20	Q1 '21	Q2 '21	Q3 '21	Inf. Q3 '21 (%)
<b>Processed foods</b>	<b>0.3</b>	<b>0.3</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.6</b>	<b>0.4</b>	<b>0.6</b>	<b>3.0</b>
Bread and corn	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	2.5
<b>Unprocessed foods</b>	<b>0.7</b>	<b>0.8</b>	<b>0.8</b>	<b>1.2</b>	<b>0.8</b>	<b>1.0</b>	<b>0.3</b>	<b>0.9</b>	<b>1.0</b>	<b>6.0</b>
Fruits	0.1	0.4	0.7	0.7	0.5	0.2	0.2	0.1	0.1	3.0
Vegetables	0.6	0.4	0.2	0.4	0.2	0.6	0.0	0.6	0.8	14.0
<b>Services</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>1.3</b>
Regulated prices	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Housing (rent)	0.1	0.0	0.2	0.3	0.3	0.2	0.0	0.1	0.2	1.0
<b>Non-food consumer goods</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.4</b>	<b>-0.3</b>	<b>0.1</b>	<b>0.3</b>	<b>2.1</b>
Fuel	0	-0.1	0.0	-0.3	-0.3	-0.4	-0.3	0.0	0.2	9.1
<b>Durable consumer goods</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>0.9</b>
<b>Inflation (%)</b>	<b>1.4</b>	<b>1.3</b>	<b>1.6</b>	<b>1.9</b>	<b>1.4</b>	<b>1.6</b>	<b>0.9</b>	<b>1.8</b>	<b>2.4</b>	<b>1.8</b>

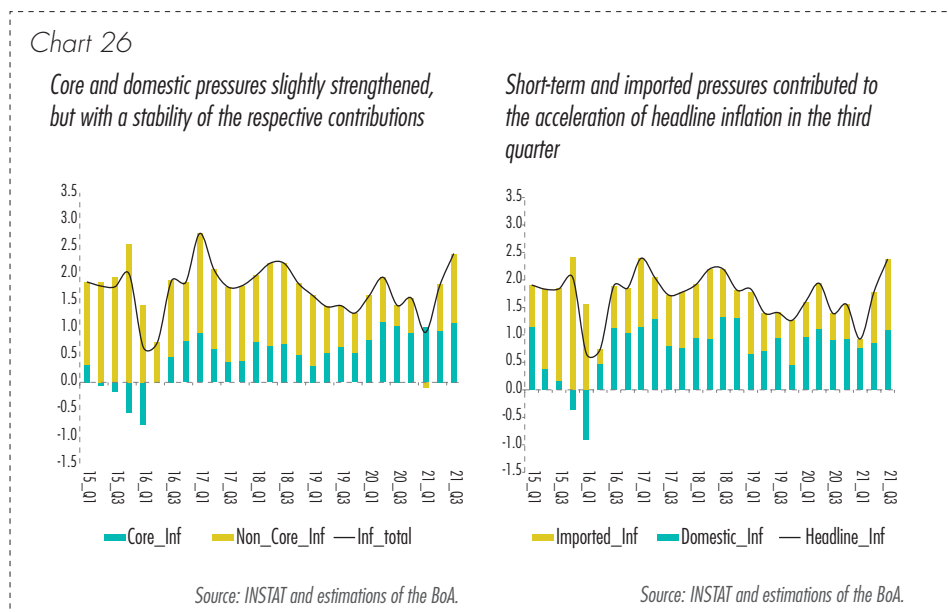
Source: INSTAT and BoA's calculations. \* Source: INSTAT. \*The table shows some of the main groups of items.



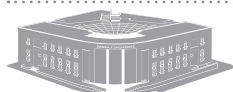
## 5.2. DETERMINANTS OF INFLATION

Core and domestic components coupled with non-core and imported components drove to the upswing in inflation in the third quarter. The increase in prices of oil, commodities and food in international markets, impacted on the acceleration of short-term components of inflation. In addition, core and domestic components of consumer prices did not result “immune” to these developments. Core inflation and non-tradable inflation of CPI basket items converged at around 1.5%, slightly up from the previous quarter. They formed around 46% of average inflation, by preserving the stability achieved over the last 18 months. Core inflation in the first nine months of 2021, resulted almost equal with the one of the same period in the previous year (1.4%) (Chart 26, left), with a more pronounced increase in September (1.75%). This acceleration reflected the increase of prices in the sub-group “Bread and grains”, with a historically significant share in the CPI basket, but with a low volatility of prices in years.

Slight increases were also recorded from inflations of some items with a long term use, which are components of core and domestic inflation. Compared with the above-cited components, non-core inflation and non-tradable inflation of CPI basket items resulted at notably accelerating rates, by 4.4% and 3.3%, respectively, where supply-side factors were the main determinants. The above-stated developments have established an inflation profile edging up.



**Cyclical position.** Our assessments suggest that cyclical position of the economy has been improving. The growth of aggregate demand and the increased utilization of production capacities have succeeded to transmitting the recovery signal into the labour market. The slight increasing trend of core inflation -



although below the long-term one - shows the presence of strengthened domestic inflationary pressures in reflection of the gradual narrowing of the negative output gap (Chart 27<sup>20</sup>).

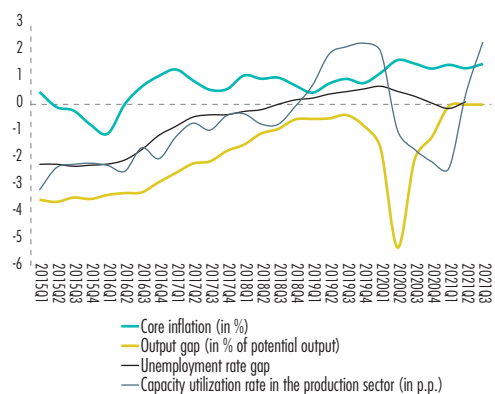
The capacity utilisation rate in economy stood at around 78.7% in 2021 Q1, slightly above its historical average. Enterprises operating in both production and services sectors reported higher utilisation of the production capacities in the economy, by signalling an expansion of the economic activity in the third quarter as well. The more intensive utilisation of production capacities, particularly during the third quarter, is in line with the assessments on a positive incentive generated by the increased tourist activity, which has considerably recovered since the second quarter of year.

**Employment and unemployment.** Employment has returned to the increasing rates after the negative dynamics of some quarters in a row. As expected, labour market has reacted at a time lag to the positive developments of real economy. Employment expanded by 1.1% in 2021 Q2, supported by both industry and services sectors.

Employment growth impacted on the decline of unemployment rate to 11.6% in 2021 Q2, from 11.9% in the previous quarter. At the same time, the participation rate in labour force was up while inactivity level was down (Chart 28). This development, in contrast side with the one in the previous year and at the beginning of 2021, best illustrates and supports the economic recovery. In addition, enterprises and households' expectations by survey indicators, suggests that labour market will further improve in the third quarter.

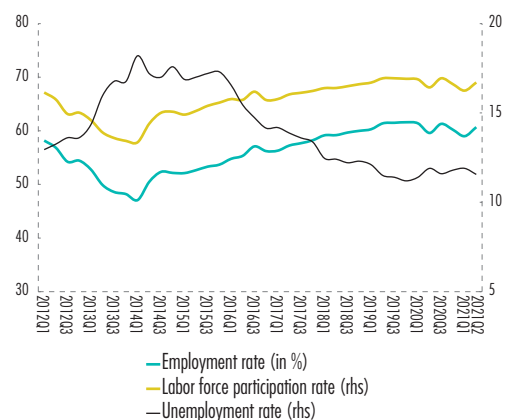
**Wages, productivity and labour costs.** In 2021 Q2, the gross average monthly wage per employee expanded by 4.7% and 2.9%, respectively, in nominal and real terms, (Chart 29, left). Positive dynamics of this indicator slowed compared with the previous quarter. "Trade, transport,

Chart 27  
Cyclical position of economy continued to improve in 2021 Q3



Note: Cyclical position is estimated by the indicators of: output gap; unemployment gap and production capacity utilisation.  
Source: INSTAT and estimations of the BoA.

Chart 28  
Labour market reflected a slight increase in employment rate in 2021 Q1



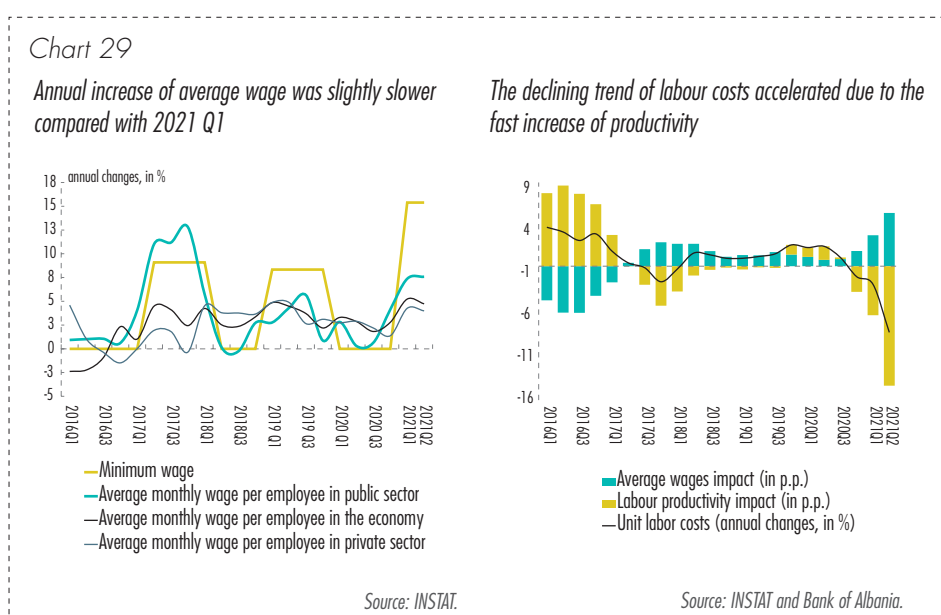
Source: INSTAT and estimations of the BoA.

<sup>20</sup> The output gap is the average of several measurements on which the method of moving average is applied. The capacity utilisation rate gap is assessed as a deviation of the current value from the relevant historical average, and finally is applied the method of the moving average. The unemployment rate gap is assessed as an average of unemployment gaps according to three methods, which assess the equilibrium unemployment rate. The unemployment rate gap is stated as the difference of equilibrium unemployment rate to actual unemployment rate and then the method of the four terms moving average is applied.



accommodation and food service” provided the main contribution, followed by “Industry” and “Real estate and support service activities”.

The unit labour costs<sup>21</sup> strengthened the slowing trend in 2021 Q2. The annual decline of the indicator resulted 7.9%, from 2.2% in the first quarter. The growth in labour productivity was determinant to the performance of this indicator (Chart 29, right). The latter’s fast expansion is related to the strong recovery of the economic activity, given that the employment pace is slower and with a time lag reaction.

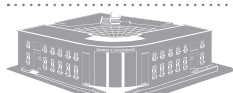


Other output costs has shifted to an expanding trend after some quarters in a row of contraction in annual terms. The industrial producer prices increased by 1.6% and prices in the domestic market expanded by 1.4%. Export prices accelerated to 4.0%. For the same quarter, by the Construction Cost Index (CCI), production cost in construction recorded an annual growth rate of 1.3%, accelerating compared with the previous quarter.

**Imported inflation.** The imported inflationary pressure index (IIPI)<sup>22</sup> expanded by 9.3% in annual terms during 2021 Q3 (Chart 30). The increase in this indicator has notably accelerated compared with the previous quarter (0.8%), mainly driven by the strong expansion in foreign prices (around 12.6% in annual terms). This phenomenon was pronounced mainly in August and September. The expansion in terms of trading partner is of a broad base. On the other hand, the appreciating dynamics of exchange rate appears slightly slower compared with the second quarter of year. In annual terms, the appreciation of the nominal

<sup>21</sup> Proxy indicators of labour productivity and unit labour costs and average wage by short-term statistics are calculated by the Bank of Albania using the total series of Short-Term Statistics (SHTS, INSTAT, 2021 Q2).

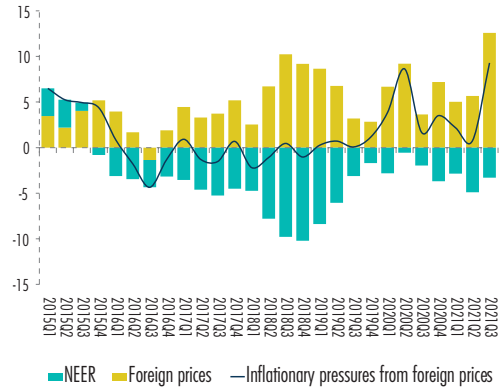
<sup>22</sup> IIPI is calculated as the annual growth of IPI and NEER for the respective period. The correlative analyses of composing components at various time lags, IIPI are assessed to precede developments in imported inflation component with 3-5 months.





effective exchange rate (NEER) is assessed at 3.3%, from 4.9% in the second quarter of year. The rise in the imported inflationary pressure index (IIPi) is transmitted more intensively to headline inflation through its imported component, in the third quarter. Its contribution to headline inflation was 54%, from the high volatility around an average of 40% in both previous quarters of year (Chart 30, right). In a close perspective, the increased inflationary pressures from foreign prices are foreseen to be present on our inflation in the following 2 and 3 quarters, to gradually calm down in the next year.

Chart 30  
Fast climbing of foreign prices affected the acceleration of IIPi in the third quarter

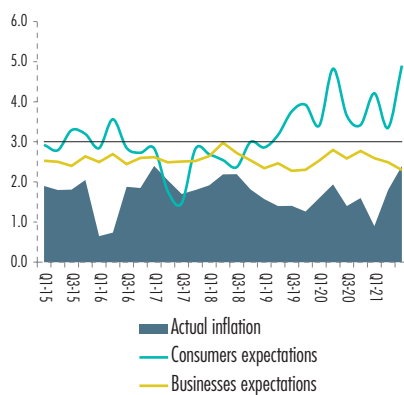


Source: INSTAT, Eurostat and estimations of the Bank of Albania.

**Inflation expectations**<sup>23</sup> of economic agents in third quarter fluctuate at different directions for the medium-term horizon. Meanwhile, medium-term expectations for inflation have remained almost unchanged compared with those in the previous quarter. Consumers' expectations show the highest fluctuations in this regard. Consumers' expectations for inflation have been revised upwards, to 4.9%, after one year, up by 1.6 percentage points from the second quarter. On the other side, enterprises' expectations for inflation have been revised downwards, by 0.2 percentage point, after one year, to 2.3% (Chart 31, left). Financial agents' expectations for inflation have been revised slightly upwards after one year (2.2% from 2.1% in the second quarter). Financial agents expect no change of inflation in the medium term. Their expectations for inflation in the medium-term period are stable at the level of those in the second quarter, close to 2.4% for inflation after two years, and 2.7% for inflation after three years (Chart 31, right).

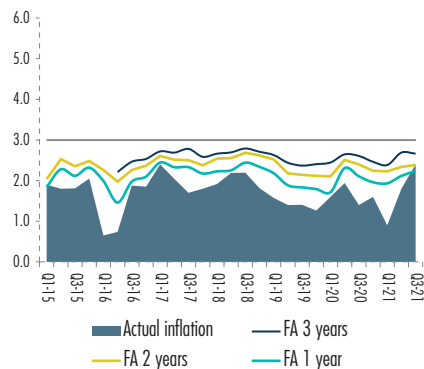
Chart 31

Inflation expectations after one year of enterprises and consumers



Note: Annual changes in percent.  
Source: INSTAT and Bank of Albania.

Inflation expectations of financial agents by three time horizons



Note: Annual changes in percent.  
Source: INSTAT and Bank of Albania.

<sup>23</sup> The analysis on inflation expectations is based on the results of the business and consumer confidence survey, as well as on the financial agents' expectations survey.



**BOX 3 CURRENT AND EXPECTED IMPACTS OF COMMODITY PRICES ON INFLATION**

**Inflationary pressures have been increased after 2021 Q2, mostly affected by a global conjecture on commodity prices edging up.**<sup>1</sup> A small and open economy like Albania has not remained immune to these developments. The purpose of this box is to provide an assessment of the pass through impact and those expected to be transmitted in the short run, from some of commodity prices from international markets to headline inflation in Albania.

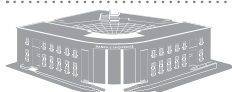
**Assessment methodology** aims at assessing the respective impacts on inflation at a decomposing manner, in terms of both direct and indirect effects. Assessments give orienting information on the intensity of direct channel to headline inflation, through daily family consumption, and the indirect one through producing cost chain in economy. **Direct effects** on inflation depend considerably on the share that an item has in CPI basket. Also, they are defined if prices are determined by market demand-supply or if they are regulated. In case of electricity prices for family consumers, is the one of regulated or fixed price by the Energy Regulator Authority (ERA), notwithstanding the level and fluctuations in electricity price in international power and energy exchanges. **Indirect effects** on inflation are assessed through Input-Output tables. Their size depends on the movement in the price of respective item, the share the latter has in producing cost, and its importance to other branches of economy. The structure of intermediate consumption in our economy shows that electricity and oil are used on a broadly-based by branches of economy, where oil is more important than power. Meanwhile, the intermediate purchases of “Unprocessed foods” are concentrated only in some branches of economy. **The methodology provides** for comparison of effects intensity on inflation, in a timely manner, and by goods/categories analysed. The methodology does not allow for the summation of effects of two or more categories to obtain aggregate effects on inflation, as this action drove to a superposition of impacts. Both direct and indirect effects may be summed as a total effect on inflation only for each category.

**Performance of inflation in Albania suggests its high sentiment against increasing pressures from prices in international markets.** Our analysis will focus on the results of direct and indirect effects on inflation from the increase in prices of oil, commodities and electricity during 2021. In this light, Table 1 presents information on the share these categories have in family consumer spending and purchases of intermediate consumption of goods under review. Electricity has a share of around 2.6 times higher in consumption expenditure compared with the share it has in terms of production costs or in purchases of intermediate consumption. The opposite appears for oil, whose share is around 2.6 times higher in purchases for intermediate consumption compared with the respective share in family consumption expenditure. Last, the share of processed foods in CPI basket is 4.3 times higher share than the share in the respective purchases.

Table 1 Shares by some categories of commodities in family and intermediate consumption

Commodities/services category	Expenditure inn family consumption (in % by CPI basket, shares of 2021)	Expenditure for intermediate consumption purchases (in % by Input Output Tables, 2018)
Payments for electricity	4.3	1.6
Oil/fuels	2.3	5.9
Processed foods	21.0	4.9

Source: INSTAT and calculations of the Bank of Albania.

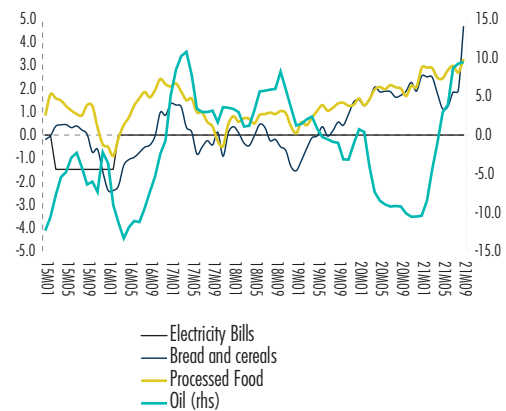


Estimations on the impacts of these three categories on headline inflation for the period 2020 Q1 - 2021 Q3 are realised based on CPI data on inflation and multipliers calculated from input-output tables (Table 2). Direct impact of electricity results zero, due to the “regulated” price (Chart 1, fixed since March 2015). In case of oil, the sharp fall of prices in international markets over the course of 2020, was reflected in the domestic market alongside the direct and indirect negative effects on headline inflation (Chart 1). Significant positive impacts on headline inflation of Albania responded to the recovery of oil prices in international markets, mainly after 2021 Q2. In case of processed foods, inflation has been gradually picking up during 2021 (Chart 1) with always positive impacts and mainly concentrated on direct effect (Table 2).

According to the same approach, both direct and indirect impacts are estimated across the forecast horizon from 2021 Q4 to 2022 Q4. Forecasts on the developments in oil and foods prices, across the horizon of next 5 quarters, are based on the technical assessments of experts performed on the data of future contracts and shares of the respective commodity groups (World Bank<sup>11</sup>). The forecasting models consider the size and time lags in the pass-through of pressures from foreign prices to the domestic ones. Related to electricity, for easing calculations, an increase of prices to enterprises by 10% is assumed. Direct effects are zero, taking for granted the fact that there would be no change in the price to family consumers. The rise will pass through the indirect channels of production and service costs. Results in Table 2, show that the impact of inflation - due to the assumed 10% increase in electricity price to enterprises, would be around 0.13 percentage point, affected by the small share that electricity has in purchases for intermediate consumption. The effect will be proportional to the degree of increase to become actual since the first quarter of 2022. The upsurge in oil price would result in around 0.5 percentage point effect on inflation in both 2021 Q4 and 2022 Q1. The indirect contribution is estimated to be higher considering the higher share that oil has on production costs compared with the share in family consumer expenditure. Starting from 2022 Q2, the impact on inflation will be fading, affected by the forecasts on slower increase of oil prices in Albania. The impact of processed food prices is estimated to peak in the fourth quarter (0.8 percentage point) and then to be reducing. In this case, the direct impact through consumer price is assessed to be higher. The impact through costs channel is assessed to be lower due to the concentration of the intermediate consumption of this category on a few sectors of economy.

Chart 1 Box 3

Annual inflations of some commodities (%)



Source: INSTAT.



Table 2 Decomposing effects on inflation by category (2021Q4-2022Q4 is the forecast)\*

	Electricity (assumption on 10% increase)			Oil			Processed foods		
	Direct	Indirect	Total	Direct	Indirect	Total	Direct	Indirect	Total
2020Q1	0.00	0.00	0.00	-0.03	-0.03	-0.06	0.37	0.06	0.42
2020Q2	0.00	0.00	0.00	-0.28	-0.28	-0.56	0.50	0.09	0.59
2020Q3	0.00	0.00	0.00	-0.31	-0.31	-0.62	0.50	0.09	0.59
2020Q4	0.00	0.00	0.00	-0.35	-0.35	-0.70	0.47	0.08	0.55
2021Q1	0.00	0.00	0.00	-0.30	-0.26	-0.56	0.60	0.12	0.72
2021Q2	0.00	0.00	0.00	0.01	0.07	0.08	0.43	0.11	0.54
2021Q3	0.00	0.00	0.00	0.20	0.31	0.51	0.59	0.12	0.71
2021Q4	0.00	0.00	0.00	0.20	0.29	0.49	0.67	0.13	0.80
2022Q1	0.00	0.13	0.13	0.22	0.32	0.54	0.56	0.11	0.67
2022Q2	0.00	0.13	0.13	0.17	0.25	0.43	0.42	0.08	0.50
2022Q3	0.00	0.13	0.13	0.11	0.16	0.28	0.29	0.06	0.35
2022Q4	0.00	0.13	0.13	0.07	0.10	0.17	0.25	0.05	0.30

Source: Estimations based on CPI data and the technique of Input-Output Tables.

Note: \*Effects to be individually addressed for each category. Their summation drives double calculation of effects on inflation.

Global projections on energy, oil and commodity prices suggest a decelerating trend after the second quarter of 2022. Overall, assessments of central banks, and those of the European Central Bank, in particular, converge in the option that, the phenomenon of inflation picking up will be transitory. Prices of oil, gas and energy have the highest share in this global trend. Meanwhile, grains, as a crucial consumption product across many emerging economies, are expected to drive the increase in commodity prices. In terms of the Albanian economy, the effects from prices of oil and commodities are expected to be transitory, as direct effects. Meanwhile, the indirect effects, mainly from energy, depend on the degree of prices rise to large enterprises, fields of their activity, and on the fact how much they will translate this increase of prices to final prices.

<sup>1</sup> For more details see Box 1 in this Report.

<sup>2</sup> Data on futures for foods and grains in CME group (downloaded on 14 October 2021) and data up to September 21, at: <https://www.worldbank.org/en/research/commodity-markets#1>

