

Albania Watch: February inflation lull or long-term trend?

Inflation took a surprise **tumble** in February, hitting a 2-year low! But **net core inflation remains sticky**, and rising wages threaten to reignite price pressures. The central bank is taking a wait-and-see approach, keeping rates steady for now. However, we expect them to hike again later this year as inflation potentially heats up again. The **battle against inflation is far from over**. Will BoA be able to navigate this economic rollercoaster?



February inflation dips to a 2-year low, but is it here to stay? **1**

Main drivers of the change in headline CPI (%) **2**

February lull or long-term trend? **2**

Base rate freeze: the central bank holds the line and navigates uncertain inflation path **3**

Conclusions **3**

Disclaimer **4**

Analyst **8**

February inflation dips to a 2-year low, but is it here to stay?

Data released for February revealed inflation was running **cooler** than anticipated. The figures, which fell below our forecasts, mark a welcome reprieve for consumers who have been grappling with rising prices in recent months. This **unexpected slowdown** offers a glimmer of hope that inflationary pressures might be **easing**, potentially paving the way for a more **stable monetary policy**.

In February headline inflation clocked in at just **2.6%** yoy, down from **3.4%** the previous month. In mom terms, the prices went up by **0.3%** compared to January. At the same time, core inflation rose by only **0.01% mom**, suggesting that price pressures were markedly lower among items included in the **core basket**. **Transportation** costs are leading the yoy deceleration in headline inflation, dropping by **1.6%** yoy, helping bring down the overall inflation rate. In addition, lower price increases were also seen in **food & beverages**, furniture, entertainment, and hospitality, while food prices remain a key factor, although they are rising at a slower pace (2.7% yoy). However, we expect the comparison base to **ease** in the coming months, followed by two **reflation rounds** during the year.

Fjorent RRUSHI

Analyst

+355 4 2381000-2504

Fjorent.Rrushi@raiffeisen.al

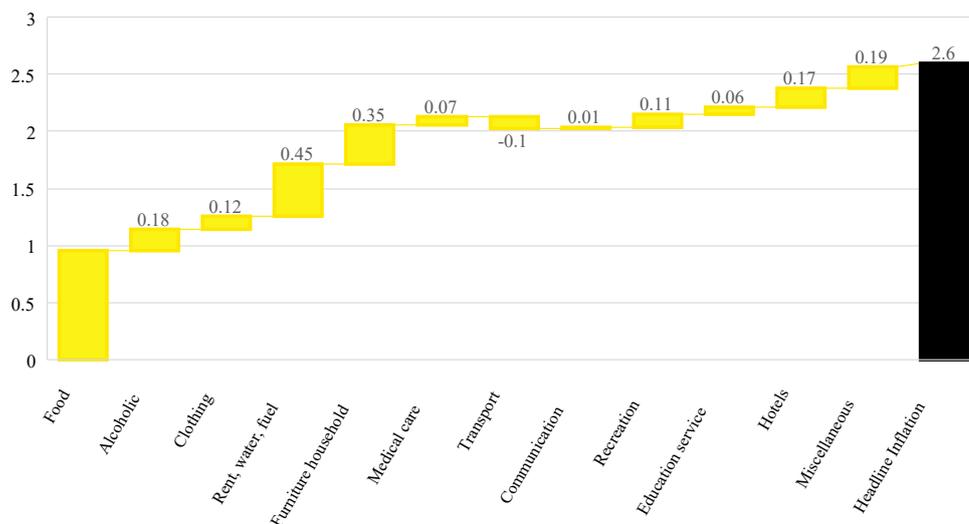
Aristea VLLAHU

Analyst

+355 697881313

Aristea.Vllahu@raiffeisen.al

Main drivers of the change in headline CPI (%)

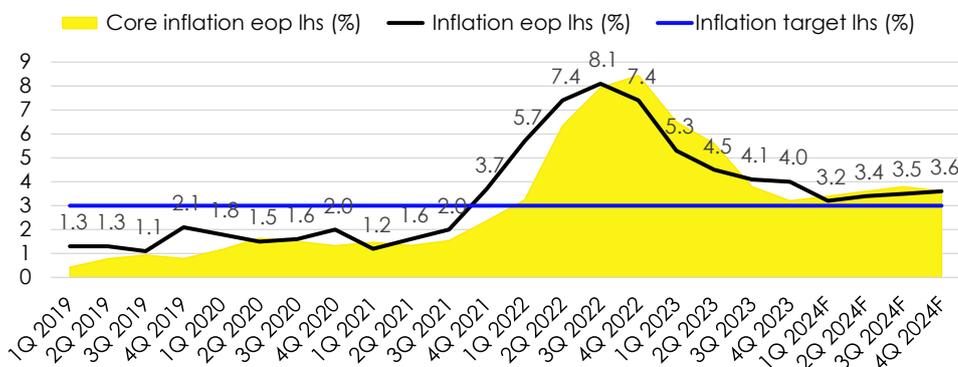


Source: Instat

February lull or long-term trend?

Core inflation remained nearly **flat** in February, rising only 0.01%. BoA's latest estimates showed a continued moderation in core CPI inflation, which reached 2.9% and 2.91% yoy in January and February. This represents a further **easing from the 3.2%** yoy increase observed in Dec 2023. Potential factors contributing to the yoy slowdown likely include external influences with declining foreign market prices and the Lek's **significant appreciation**, in our view. Another factor is the **high base effect**, as core inflation accelerated rapidly in late 2022, peaking at **8.5%** yoy in Q4.

Despite the downward movement in both inflation and core inflation, we project **inflationary pressures will persist**, considering that the labour market continued to strengthen in Q4 2023, with unemployment remaining steady at **10.7%** and the employment rate increasing by 0.2% percentage point to a robust **66.7%** versus the same quarter of last year. In addition, average gross monthly **salaries** saw a substantial **increase of 13.7%** yoy, reaching ALL 75,025 in Q4 2023. In line with these developments, the continued, fast and double-digit growth of wages continues to be flagged as a major **pro-inflationary factor**. We also expect the high base effect to diminish in the coming periods, hence two inflationary rounds during the year take our inflation expectations around **3.5% and 3.6%**, with **BoA potentially falling short** of its year-end inflation target.



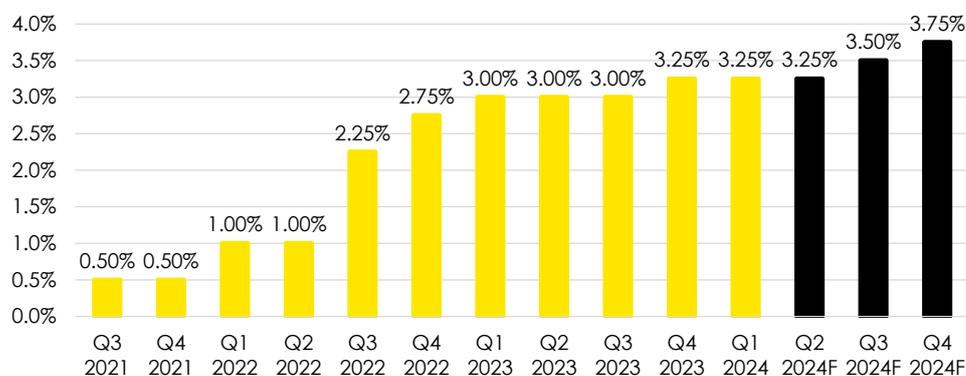
Source: Instat, BoA, RBI/Raiffeisen Research

This report is intended for replaceme@bluematrix.com. Unauthorized distribution of this report is prohibited.

Base rate freeze: the central bank holds the line and navigates uncertain inflation path

BoA **hit the brakes** this month, keeping the base rate at **3.25%**, citing that despite internal inflationary pressures remaining elevated, inflation is expected to converge to target throughout 2024 and reach the **3.0% target by the end of the year**. Looking at the bigger picture, inflation has dipped thanks to lower import costs. However, domestic inflation, though decreasing slightly, remains more **persistent**. Net core inflation (which excludes volatile items and provides a clearer picture of mid-term inflation trends) held steady at around **3.3%, according to BoA**, the same as the previous quarter. This suggests ongoing domestic price pressures due to strong demand for goods and services, as well as factors related to the labour market.

While BoA is taking a wait-and-see approach, we expect them to slam on the brakes twice more later this year—once in Q3 and again in Q4. We project **hotter** inflation during the summer months, mainly due to the **strong tourism season** ahead, further wage increases, and higher oil prices in the international market. However, the inflation **deceleration is happening faster than expected** at the beginning of the year. Hence, we adjusted our projections and now forecast the **base rate to reach 3.75% by the year's end, instead of 4.5% previously** projected.



Source: BoA, RBI/Raiffeisen Research

Conclusions

In the bottom line, the BoA's pause on interest rates doesn't signal the end of the inflationary rollercoaster, in our view. Despite a welcome February cool-down in headline inflation, the Bank of Albania (BoA) maintains a cautious outlook. While lower import costs and a strong Lek contribute to the current slowdown, **persistent domestic price pressures** fueled by a **robust labour market and wage growth** raise concerns about future inflation. With the high base effect from late 2022 fading, we anticipate **two reflationary rounds this year**. Although BoA is currently holding the line on interest rates, we expect them to raise rates twice later in 2024 to combat inflation, with the projected **base rate reaching 3.75% by year-end**. The fight against inflation appears to be a marathon, not a sprint, and BoA will need to navigate this inflationary rollercoaster carefully in the coming months.

Disclosure

Risk notifications and explanations

Warnings:

- Figures on performance refer to the past. Past performance is not a reliable indicator for future results and the development of a financial instrument, a financial index or a securities service. This is particularly true in cases when the financial instrument, financial index or securities service has been offered for less than 12 months. In particular, this very short comparison period is not a reliable indicator for future results.
- Performance of a financial instrument, a financial index or a securities service is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment in a financial instrument, a financial or securities service can rise or fall due to exchange rate fluctuations.
- Forecasts of future performance are based purely on estimates and assumptions. Actual future performance may deviate from the forecast. Consequently, forecasts are not a reliable indicator for future results and the development of a financial instrument, a financial index or a securities service.

A description of the concepts and methods used in the preparation of financial analyses is available under: www.raiffeisenresearch.com/concept_and_methods.

Detailed information on sensitivity analyses (procedure for checking the stability of potential assumptions made in the context of financial analyses) is available under: www.raiffeisenresearch.com/sensitivity_analysis.

Disclosure of circumstances and interests which may jeopardise the objectivity of RBI: www.raiffeisenresearch.com/disclosuresobjectivity.

Detailed information on recommendations concerning financial instruments or issuers disseminated during a period of 12 month prior to this publication (acc. to Art. 4 (1) i) Commission Delegated Regulation (EU) 2016/958 of 9.3.2016) is available under: https://raiffeisenresearch.com/web/rbi-research-portal/recommendation_history.

History of short term recommendations			
Symbol	Date	Recommendation	Company
AL	20.12.2023	Under Revision	Albania
AL	25.07.2023	Under Revision	Albania
AL	20.04.2023	Under Revision	Albania

History of long term recommendations			
Symbol	Date	Recommendation	Company
AL	20.12.2023	Not rated	Albania
AL	25.07.2023	Not rated	Albania
AL	20.04.2023	Not rated	Albania

The distribution of all recommendations relating to the 12 months prior to the publications date (column A), as well as the distribution of recommendations in the context of which services of investment firms set out in Sections A (investment services and activities) and B (ancillary services) of Annex I of Directive 2014/65/EU of the European Parliament and of the Council ("special services") have been provided in the past 12 months (column B).

	Column A	Column B
Investment recommendation	Basis: All recommendations for all financial instruments (last 12 months)	Basis: Recommendations for financial instruments of all issuers, for which special services were rendered in the last 12 months
Buy recommendations	57.1%	54.7%
Hold recommendations	27.9%	27.9%
Sell recommendations	15.0%	17.4%

The distribution of all recommendations relating to the 3 months prior to the publications date (column A), as well as the distribution of recommendations in the context of which services of investment firms set out in Sections A (investment services and activities) and B (ancillary services) of Annex I of Directive 2014/65/EU of the European Parliament and of the Council ("special services") have been provided in the past 3 months (column B).

	Column A	Column B
Investment recommendation	Basis: All recommendations for all financial instruments (last 3 months)	Basis: Recommendations for financial instruments of all issuers, for which special services were rendered in the last 3 months
Buy recommendations	38.5%	38.7%
Hold recommendations	43.6%	41.9%
Sell recommendations	17.9%	19.4%

IMPORTANT LEGAL NOTICE

By opening and/or using the information, services, links, functions, applications or programmes (hereinafter: "contents") offered on this website, the user hereby agrees to be bound by the terms and conditions set out below:

Copyright law

The contents offered on this website and subsites (hereinafter: the "RBI Research-Website") are protected by copyright law. The downloading or storage of applications or programmes contained on the RBI Research-Website and the (complete or partial) reproduction, transmission, modification or linking of the contents of the RBI Research-Website shall only be permitted with the express and written consent of Raiffeisen Bank International AG ("RBI").

Information content, timeliness of information

The contents of the RBI Research-Website you are seeking to access is for information only and does neither qualify as investment advice nor constitute or form part of any offer to buy or sell any securities or other financial instruments as defined in Article 5 para 1 number 15 of EU Directive 2014/65 ("MiFID II") in any jurisdiction or jurisdictions, (and must not be considered in any way as an offer or sale in relation to any securities or other financial instrument). In particular, no securities have been or will be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and no such securities may be offered or sold in the United States absent registration or exemption from registration under the Securities Act.

RBI has made every effort to ensure reliability in researching the information published on the RBI Research-Website or sent via RBI Research-Website as well as in selecting the source of information used. Nonetheless, RBI does not assume any liability whatsoever for the correctness, completeness, timeliness or uninterrupted availability of the information made available on the RBI Research-Website or as regards the sources of information used.

The information contained on the RBI Research-Website as well as forecasts published on the RBI Research-Website are based on the information available and the market assessment at the point in time stated in the respective publications. Certain information on this website constitutes forward-looking statements. RBI does not assume and hereby as far as possible expressly excludes any liability for the correctness, completeness or actual occurrence of the events described in the forward-looking statements. Such statements are not guarantees of future performance and involve a number of risks, uncertainties and assumptions. Certain financial data (e.g. stock exchange prices) may in some cases only be published after a certain interval of time has lapsed as defined by the data vendor (usually about 15 minutes or previous day end-of-day quotes). Furthermore, please note that many of the times are given in Greenwich Mean Time (GMT).

You agree and acknowledge that the information and statements contained in the materials you are accessing on the RBI Research-Website speak only as of the date of such document and such information and statements will become inaccurate, stale and/or out-of-date thereafter. These materials should not be relied upon at any time for any investment decision.

RBI assumes no responsibility to maintain documents posted on the RBI Research-Website or to update any documents. Therefore, users of the RBI Research-Website acknowledge that the content of documents available on the RBI Research-Website may not show the most recent scenarios, analysis or conclusions.

Restricted access due to local regulations

Users of the RBI Research-Website can access some documents and information without registration requirements and without further barriers (the respective area on the RBI Research-Website is hereinafter referred to as "Unrestricted Area"). By accessing the Unrestricted Area, you agree and acknowledge that the materials on the RBI Research-Website may lawfully be made available in accordance with the laws of the jurisdiction in which you are located.

Other documents are only available to persons who have registered themselves in accordance with the required procedure. The part of the RBI Research-Website which can only be accessed by way of registration is hereinafter referred to as "Restricted Area").

Due to the laws applicable in some jurisdictions or regulations imposed by capital market or securities authorities, some of the information published on the RBI Research-Website (e.g. stock analyses) is not addressed to private individuals. In order to ensure the enforcement of such local access restrictions, RBI retains the right to take any (technical) measures it may deem suitable for restricting such information or segments of information subject to the aforementioned restrictions. The passing on of information contained on the RBI Research-Website, which is subject to local access restrictions valid in certain countries, to the persons stated in the relevant restrictions may constitute a breach of securities law or of other laws of said countries.

The distribution or dissemination of information published on the RBI Research-Website as well as the purchase and offering of the respective products in certain jurisdictions may be subject to restrictions or additional requirements. Persons who retrieve such information from the RBI Research-Website or into whose possession such information comes are required to inform themselves about and to observe such restrictions. In particular, the products to which such information published on the RBI Research-Website refers, may generally not be purchased or held by U.S. persons (the term "U.S. person" refers to any legal/natural person having its seat/residence in the U.S.A and any other person within the meaning given to it by Regulation S under the Securities Act 1933 as amended).

Users of the Unrestricted Area should be aware that the documents available on this part of the RBI Research-Website are not made available on the basis that any customer relationship is created between RBI and such user solely on the basis of such user having access to the respective documents. The documents available in the Unrestricted Area are intended to be available to users in the European Economic Area and in the United Kingdom.

Links to websites or URLs of third-party providers

With the exception of the cases regulated under § 17 of the Austrian E-Commerce Act, RBI does not assume any liability for the content of websites or URLs of other providers to which links are provided. Neither does RBI assume any liability for the uninterrupted availability or full functionality of the links to websites or URLs of third parties.

Exclusion of liability

RBI makes no warranty and will accept no liability for any damages whatsoever (including consequential or indirect damages, or lost profits) relating to the access to the RBI Research-Website, the opening, use or querying of the contents on the RBI Research-Website or relating to the links set up on the RBI Research-Website to websites or URLs of third parties. This applies also in cases in which RBI points out the possibility of incurring such damages.

Furthermore, RBI shall not be liable for technical disruptions such as server breakdowns, operating disruptions or failures of the telecommunications links and other similar events, which could lead to the (temporary) unavailability of the RBI Research-Website as a whole or parts of it.

Storage of registration data

The content in the Restricted Area of the RBI Research-Website is only available to registered users. By sending the completed online registration form, the user confirms the completeness and correctness of the data given and also confirms having truthfully

answered the questions asked. Furthermore, by sending the completed online form, the user hereby declares his or her consent to the electronic processing of his or her registration data by RBI for both internal banking organisational purposes and for transmission to other credit institutions within the Raiffeisen Banking Group, which may in turn also process, pass on or use such data.

Changes to the RBI Research-Website

RBI retains the right to change and to remove the RBI Research-Website at any time (if necessary also without prior notice), in particular as regards changing existing contents (in full or in part) and adding new contents.

General terms and conditions of business

For (authorised) users who use the services of RBI provided on the RBI Research-Website, the General Terms and Conditions of Business, as amended, of RBI shall apply in addition to the terms and conditions of this Disclaimer.

Please also take note of the general information provided pursuant to § 5 of the E-Commerce Act!

Thomas Sternbach
Legal and Compliance
Raiffeisen Bank International AG
Am Stadtpark 9, 1030 Wien
Tel: +43-1-71707-1541
Fax: +43-1-71707-761541
thomas.sternbach@rbinternational.com

IF YOU CANNOT SO CERTIFY, YOU MUST CLICK THE BUTTON LABELLED "I DECLINE" OR OTHERWISE EXIT THIS WEBSITE.

BY ACCESSING THE MATERIALS ON THIS WEBSITE, YOU SHALL BE DEEMED TO HAVE MADE THE ABOVE REPRESENTATIONS AND CONSENTED TO DELIVERY BY ELECTRONIC TRANSMISSION.

This document is a marketing communication.

FABIAN BLASCH

📍 Austria  ,
 ✉ fabian.blasch@rbinternational.com

AMADEA HIESS

📍 Austria  ,
 ✉ amadea.hiess@rbinternational.com

MARKUS TSCHAPECK

📍 Austria  ,
 ✉ markus.tschapeck@rbinternational.com

VALBONA GJEKA

📍 Albania  ,
 ✉ valbona.gjeka@raiffeisen.al

OLGA ZHEGULO

📍 Belarus  ,
 ✉ olga.zhegulo@priorbank.by

MIRZA ZORNIC

📍 Bosnia Herzegovina  ,
 ✉ mirza.zornic@raiffeisengroup.ba

HELENA HORSKA

📍 Czech Republic  ,
 ✉ Helena.Horska@rb.cz

ZOLTÁN TÖRÖK

📍 Hungary  ,
 ✉ torok.zoltan@raiffeisen.hu

ANDREEA-ELENA DRAGHIA

📍 Romania  ,
 ✉ Andreea-Elena.DRAGHIA@raiffeisen.ro

GREGORY CHEPKOV

📍 Russia  ,
 ✉ grigory.chepkov@raiffeisen.ru

TIBOR LORINCZ

📍 Slovakia  ,
 ✉ tibor_lorincz@tatrabanka.sk

GUNTER DEUBER

📍 Austria  ,
 ✉ gunter.deuber@rbinternational.com

MATTHIAS REITH

📍 Austria  ,
 ✉ matthias.reith@rbinternational.com

FRANZ ZOBL

📍 Austria  ,
 ✉ franz.zobl@rbinternational.com

FJORENT RRUSHI

📍 Albania  ,
 ✉ Fjorent.Rrushi@raiffeisen.al

ASJA GRDJO

📍 Bosnia Herzegovina  ,
 ✉ asja.grdjo@raiffeisengroup.ba

ELIZABETA SABOLEK-RESANOVIC

📍 Croatia  ,
 ✉ elizabetha.sabolek-resanovic@rba.hr

LEVENTE BLAHÓ

📍 Hungary  ,
 ✉ levente.blaho@raiffeisen.hu

DOROTA STRAUCH

📍 Poland  ,
 ✉ dorota.strauch@raiffeisen.pl

IONUT DUMITRU

📍 Romania  ,
 ✉ Ionut.Dumitru@raiffeisen.ro

STANISLAV MURASHOV

📍 Russia  ,
 ✉ stanislav.murashov@raiffeisen.ru

SERHII KOLODII

📍 Ukraine  ,
 ✉ serhii.kolodii@raiffeisen.ua

CASPER ENGELEN

📍 Austria  ,
 ✉ casper.engelen@rbinternational.com

GOTTFRIED STEINDL

📍 Austria  ,
 ✉ gottfried.steindl@rbinternational.com

BRISIDA BUZI

📍 Albania  ,
 ✉ Brisida.BUZI@raiffeisen.al

ARISTEA VLLAHU

📍 Albania  ,
 ✉ Aristea.Vllahu@raiffeisen.al

IVONA ZAMETICA

📍 Bosnia Herzegovina  ,
 ✉ ivona.zametica@raiffeisengroup.ba

ZRINKA ZIVKOVIC-MATIJEVIC

📍 Croatia  ,
 ✉ zrinka.zivkovic-matijevic@rba.hr

GERGELY PÁLFFY

📍 Hungary  ,
 ✉ gergely.palfy@raiffeisen.hu

NICOLAE COVRIG

📍 Romania  ,
 ✉ Nicolae.Covrig@raiffeisen.ro

ANASTASIA BAYKOVA

📍 Russia  ,
 ✉ ABAIKOVA@raiffeisen.ru

LJILJANA GRUBIC

📍 Serbia  ,
 ✉ ljiljana.grubic@raiffeisenbank.rs

OLEKSANDR PECHERYTSYN

📍 Ukraine  ,
 ✉ oleksandr.pecherytsyn@raiffeisen.ua

Imprint

Information requirements pursuant to the Austrian E-Commerce Act

Raiffeisen Bank International AG Registered Office: Am Stadtpark 9, 1030 Vienna Postal address: 1010 Vienna, Postfach 50 Phone: +43-1-71707-1846 Fax: +43-1-71707-1848

Creation time of this publication: 21/03/2024 13:57 P.M. (CET);

First Dissemination of this publication: 21/03/2024 13:57 P.M. (CET)

This report is intended for replaceme@bluematrix.com. Unauthorized distribution of this report is prohibited.

Company Register Number: FN 122119m at the Commercial Court of Vienna VAT Identification Number: UID ATU 57531200 Austrian Data Processing Register: Data processing register number (DVR): 4002771S.W.I.F.T.-Code: RZBA AT WW

Supervisory Authorities: As a credit institution (acc. to § 1 Austrian Banking Act; Bankwesengesetz) Raiffeisen Bank International AG is subject to the supervision by the Austrian Financial Market Authority (FMA, Finanzmarktaufsicht) and the National Bank of Austria (OeNB, Oesterreichische Nationalbank). Additionally, RBI is subject to the supervision by the European Central Bank (ECB), which undertakes such supervision within the Single Supervisory Mechanism (SSM), which consists of the ECB and the national responsible authorities (Council Regulation (EU) No 1024/2013 - SSM Regulation). Unless set out herein explicitly otherwise, references to legal norms refer to norms enacted by the Republic of Austria.

Membership: Austrian Federal Economic Chamber, Federal Bank and Insurance Sector, Raiffeisen Association.

Statement pursuant to the Austrian Media Act

Publisher and editorial office of this publication Raiffeisen Bank International AG Am Stadtpark 9, A-1030 Vienna **Media Owner of this publication** Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen Am Stadtpark 9, A-1030 Vienna **Executive Committee of Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen:** Mag. Gunter Deuber (Chairman), Mag. Helge Rechberger (Vice-Chairman) Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen is constituted as state-registered society. Purpose and activity are (inter alia), the distribution of analysis, data, forecasts and reports and similar publications related to the Austrian and international economy as well as financial markets. **Basic tendency of the content of this publication**

- Presentation of activities of Raiffeisen Bank International AG and its subsidiaries in the area of conducting analysis related to the Austrian and international economy as well as the financial markets.
- Publishing of analysis according to various methods of analyses covering economics, interest rates and currencies, government and corporate bonds, equities as well as commodities with a regional focus on the euro area and Central and Eastern Europe under consideration of the global markets.

Producer of this publication Raiffeisen Bank International AG Am Stadtpark 9, A-1030 Vienna