

Monetary Policy Credibility and Economic Convergence toward the European Union: Evidence From, Albania

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Abstract: - This study examines the relationship between monetary policy credibility and Albania’s economic convergence toward the European Union. The research investigates how key monetary policy indicators contribute to macroeconomic stability and support the country’s alignment with EU economic standards. The empirical analysis is based on annual macroeconomic data covering the period 2005–2025, obtained from the Bank of Albania, INSTAT, the World Bank, and Eurostat. A multiple linear regression model is employed to evaluate the effects of inflation, the policy interest rate, and the ALL/EUR exchange rate on GDP growth. The findings suggest that maintaining low inflation and exchange rate stability contributes to a more predictable macroeconomic environment, while institutional independence, transparency, and policy consistency strengthen monetary policy credibility. The study contributes to the literature by providing empirical evidence on the role of credible monetary policy in supporting macroeconomic stability and Albania’s European integration process.

Key-Words: - Monetary Policy; Monetary Policy Credibility; European Integration; Macroeconomic Stability; Albania; EU Candidate Countries.

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1 Introduction

Monetary policy is one of the most important tools of macroeconomic management used by central banks to maintain a price-stable market, contribute to sustainable economic growth, as well as help stabilize the entire financial system. The credibility of monetary policy is now a crucial factor that affects the degree to which policy decisions are carried out effectively on the part of the policy agent and expectations of policy agents in modern economic systems [1], [2]. If a monetary authority is perceived as credible, then policy decisions can be influenced by investors and the market, will reduce uncertainty and contribute to macroeconomic stability [3], [4]. With the recent events of high inflation and macroeconomic instability in several economies over recent years, monetary policy credibility has gained increasing attention in economic

literature. Credibility refers to the extent to which economic agents believe that central banks are devoted to serving their policy objectives, especially by controlling price stability [5], [6]. A solid monetary policy framework grounds expectations of inflation, increases stability in financial markets, and makes the efficacy of monetary policy tools greater [2], [7]. For countries in transition and experiencing structural reform, the value of monetary policies will become ever more apparent. Transitions are susceptible to institutional weakness, structural imbalances, and excessive macroeconomic uncertainty. In these situations, it is important to create a stable and predictable monetary policy framework for ensuring confidence in the minds of investors, firms, and households [1], [8]. Emerging research also highlights that the credibility of the central bank is essential for keeping inflation expectations stable and also increasing

the transmission mechanism of monetary policies [9], [10]. Beyond its function to support macroeconomic stability, monetary policy is also an important part of the general process of economic integration. For those entering the stage of the EU, macroeconomic balance and credible economic authorities are the precondition for effective integration [11], [12]. The European integration project has therefore led candidate countries to bring their economic policy into line with that of the European Union as well as to secure for the first time the stabilization of the indicators of a stable macroeconomic system, such as inflation, exchange rates, and fiscal balances [13], [14]. Under the European system of economic governance, the independence of the central bank and a sound monetary policy are central to macroeconomic stability. Maastricht convergence criteria underline that low inflation, stable exchange rates, and sound fiscal policy are necessary [11], [15]. Hence, candidate countries must show the capability to perform a credible and consistent economic policy if they want to get EU membership [13]. Albania has transformed its economy and institutions since the early 1990s, from a centrally planned economy towards a market-oriented model. This transition has encompassed profound changes in the structure that have been driven by radical reform with a view to stabilizing all sorts of macroeconomic conditions, expanding financial institutions, building up the strength of financial institutions, and involving the country in the global economy [16]. During this time, monetary policy has been central as a driver for inflation stabilization, financial system development, and economic-sector growth and development. The Bank of Albania's Monetary Policy Report documents the monetary policy response to inflationary pressures and evolving macroeconomic conditions [17]. The Bank of Albania's Annual Report also provides evidence on monetary policy implementation, financial stability, and institutional developments [18]. As the monetary authority of the country's central bank, the Bank of Albania creates and conducts monetary policy with the aim of achieving the main aim of ensuring price stability in the market and maintains its central control over price stability. During the last twenty years, the Bank of Albania has introduced a number of policy measures to enhance monetary credibility, transparency, and

dialogue with markets and the public [19]. Notwithstanding these achievements, Albania still has to confront a number of macroeconomic and structural challenges which could influence the credibility and effectiveness of the monetary policy. Albania is a small open economy and was particularly exposed to external shocks, including the rate of change of global financial markets and the degree of global instability [16], [20]. International events, e.g., the global financial crisis, natural disasters, and disruptions brought forth by the COVID-19 pandemic, with the economic disruptions and economic troubles, have reinforced the need for sound macroeconomic policies, which have proved crucial to maintain macroeconomic policy stability. At the same time, the gradual transition of Albania to European Union integration underlines, in addition to this, an important fact that also highlights the importance of macroeconomic discipline and institutional credibility is more important to keep of scale, in the economy, macroeconomic discipline and institutional capacity is the significant importance of an are essential to achieving it. The European integration process calls for the liberalization and reform of the national economic policy, which needs to be driven by economic reforms (e.g., financial management, governance improvement, financial stability and re-institutional credibility as well as economic alignment between the EU Member states and the EU economy [13], [14]) as well as European-level economic integration needs to be a priority [13]. Despite some research addressing various factors of Albania's macroeconomic and monetary development context, relatively limited research has addressed the monetary policy credibility-European integration process relationship in particular. The majority of the existing studies treat macroeconomic indicators or institutional reforms as separable without examining whether credible monetary policy impacts the progress of the country towards European Union integration. Consequently, few studies concern the interdependence of the credibility of monetary policy, the stability of macroeconomic systems, and the process of European integration in Albania. Closing this gap is thus especially relevant because credible monetary policy is a crucial determinant for economic consistency and institutional stability in candidate countries aspiring to join the

European Union [21], [22], [23]. It is especially true for small open economies like Albania. Hence, the purpose of this study is to focus on the relationship between the credibility of monetary policy and the EU accreditation process in Albania in a policy sense, as it is a central theme with interest rate credibility, given the macroeconomic stability that is relevant to national conditions that may help in the final EU application of policy. The research is done by evaluating important macroeconomic variables for economic stability and the extent to which a credible monetary policy enhances the convergence of the country to the EU's economic norms. By tackling these problems, the study adds to extant analysis by empirically profiling Albania's experience and providing constructive feedback that can influence future reforms of economic policy. As there are few such quantitative measures of confidence in monetary policy for Albania directly within this period, this paper takes the credibility of monetary policy directly, but indirectly via important monetary performance macroeconomic indicators like inflation stability, interest rates, and exchange rate movements in general that have been related to the performance of monetary policy by empirical review.

2 Literature Review

Monetary policy credibility has been widely explored in the economic literature, especially concerning central bank policy effectiveness in maintaining price stability and macroeconomic equilibrium. Contemporary views on the role of credible monetary policy according to macroeconomic theory have emphasized its importance in shaping the expectations of economic agents and in the enhancement of the efficiency of policy instruments [1], [2]. In a world where economic agents believe that central banks will ensure that prices remain stable, there is more stability in inflation expectations, where monetary policy's transmission in turn results in more effective monetary policy [3], [4]. Early theoretical contributions focused on the time inconsistency issue of monetary policy. Discretionary monetary policy, on the other hand, can result in higher inflation without improvement in economic performance when there are incentives for policymakers to relax or abandon the policy stance articulated previously, [5]

argued. In the same vein, [6] showed that the credibility of monetary policy does not prevail; hence, the inflation bias leads to the absence of macroeconomic stability. Theoretical insights provided by these works illuminated the need to build credible and rule-based monetary policy frameworks. Subsequent studies emphasized the role of central bank autonomy in buttressing the credibility of monetary policy. According to [23], independent central banking is less prone to political pressures and therefore more successful at sustaining long-run price stability. Indeed, empirical evidence has indicated that countries characterized by higher degrees of central bank independence have lower and less fluctuating inflation. Moreover, these indicators underscore the importance of openness and communication strategies adopted by central banks, which strengthen the credibility of policies and the efficacy of monetary policy [7]. [2] argues that inflation targeting works by anchoring inflation expectations, hence improving the transparency and accountability of monetary authorities. A variety of countries – especially emerging and transitional economies – have put in place inflation-targeting frameworks to lend more credibility to their monetary policy and buttress their macroeconomic stability. Mishkin further discusses the applicability and challenges of inflation targeting in emerging market economies [24]. Emerging research emphasizes that the credibility of policy, as well as its effect on macroeconomic stability, is still the main factor that will lead to macroeconomic stability in the developed and emerging economies. In fact, studies have demonstrated credible central bank policies anchoring inflation expectations and dampening macroeconomic volatility [9]. And, also, empirical studies indicate monetary policies that carry stronger central bank credibility work better, which also improves financial market stability [10]. Recent literature also touches on the role of monetary policy spillovers and international financial conditions in the development of emerging economies. In economies that are quite close to the European Union, these monetary policy choices could impact domestic macroeconomic performance on channels of finance and trade [20]. Furthermore, research studies concentrating on emerging-market economies stress that monetary policy regimes and institutional frameworks are key determinants in sustaining

macroeconomic stability and financial robustness [25]. Cukierman emphasizes the role of central bank strategy, credibility, and independence in monetary policy performance [26]. Svensson identifies inflation targeting as a monetary policy rule designed to support price stability and policy credibility [27]. The IMF also highlights the importance of coherent monetary policy frameworks in emerging economies [28]. Eurostat provides harmonized European economic indicators that support the assessment of macroeconomic developments and convergence [29]. The European Central Bank's monetary policy framework emphasizes price stability and the consistent transmission of policy across the euro area [30]. INSTAT provides official national indicators that document Albania's macroeconomic developments [31]. A number of studies have investigated the development of monetary policy of Albania and emphasized the impact of the Bank of Albania on the stabilization of prices and the support of the development of the financial industry. In the process of Euro-integration, there is an emerging literature on macroeconomic convergence and institutional credibility [12]. The European integration process demands that candidate countries comply with the principles and institutional norms stipulated in the European Union and follow the standards in that regard. The Maastricht convergence criteria explicitly highlight the need to maintain a stable inflation level, a sustainable level of public debt, and stability in exchange rate systems [15]. There have been some studies that have looked at macroeconomic stability and the European integration of transition countries. [11] claims that credible economic institutions paired with consistent macroeconomic policies are the key to facilitating successful economic convergence with the European Union. Similarly, [12] argue that economic integration should encompass structural as well as credible economic reform schemes to help guarantee long-term stability. In the case of the Western Balkans, most recent research reports indicate the difficulties faced by transition economies in attaining macroeconomic stability with the structural changes that accompany European integration. Stable monetary and fiscal measures would be necessary to improve the stability of institutions, to increase the chances for economic convergence with EU norms, and to promote sound fiscal and monetary policies

[13], [16]. And there are recent studies on the Western Balkans regionally which report that the effectiveness of monetary policy and macroeconomic stability are both substantially influenced by structural reforms, euroization, external financing, and the quality of institutions of transition economies. In fact, recent empirical findings reinforce the importance of institutional credibility and macroeconomic stability for successful economic integration [32]. The credibility of central banks and their importance in stabilizing inflation expectations and financial markets is well established in structural transformation economies [21]. Moreover, research also suggests that credible monetary policy frameworks can affect exchange rate stability, financial market performance, and overall economic resilience [22], [23]. Furthermore, according to recent studies on European economic convergence, the institution quality, macroeconomic discipline, and credibility of policies play a crucial role in the support for the adoption of the European Union and long-run economic development within the EU [14]. Notwithstanding the expanding literature connecting the credibility of monetary policy with macroeconomic stability, very few studies have concentrated on analyzing the relationship between the credibility of monetary policy and the process of European integration in Albania. A majority of existing studies, however (a related subject of review), separately analyze macroeconomic data, fiscal developments, or institutional reforms but without considering specifically measures of how credible monetary policy impacts the nation's evolution towards European Union membership. Thus, additional research is required to establish the interrelations between monetary policy credibility, macroeconomic stability, and the process of European integration in Albania. This study aims to add to and supplement existing literature to better understand the influence of credible monetary policy on Albania's economic convergence to the standards of the European Union by investigating macroeconomic indicators and institutional developments. Based on these theoretical contributions and empirical knowledge, the Methodological Framework is described in the following section to evaluate the relationship between the indicators of monetary policy and Albania's macroeconomic performance.

3 Purpose of the Study

This study aims to investigate the relationship between monetary policy credibility and the process of European integration in Albania. The research mainly examines the contribution of a range of macroeconomic indicators, including inflation, interest rates, exchange rates, and economic growth, in reflecting the effectiveness of monetary policy and its contribution to macroeconomic stability. Secondly, the research seeks to analyze how a credible monetary policy may support Albania's economic convergence with European Union standards by maintaining stable macroeconomic conditions and strengthening institutional credibility. The study therefore aims to empirically inform on the role of monetary policy in Albania's economic stability and integration process through this analysis.

4 Study Hypotheses

Taking theoretical and empirical studies on the credibility of monetary policy and macroeconomic stability, this study creates multiple research hypotheses for the relationship between monetary policy indicators and economic performance in Albania.

H1: Stable conditions for monetary policy contribute to better macroeconomic stability in Albania.

H2: Stability in inflation is one of the pillars of macroeconomic stability and of Albania's economic convergence with the EU. It is generally recognized that low and stable inflation should be an indicator of the efficiency of monetary policy and a central condition for the progress of macroeconomic convergence in the European integration process.

H3: Exchange rate stability plays a positive role in financial stability and economic performance in Albania.

In a small open economy setting like Albania's, exchange rate dynamics are closely tied to macroeconomic stability, impacting inflation, financial stability, and economic performance in general. We empirically test these hypotheses with a multiple linear regression model to assess the impact of many of the crucial monetary policy factors (inflation, interest rates, and exchange rate movements) on Albania's economic growth.

5 Methodology

Therefore, a quantitative research method is implemented to achieve the objectives of this piece of research. The empirical study aims to investigate the relationship between the monetary policy indicators and macroeconomic performance in Albania.

The research is based on secondary macroeconomic information from official national and international institutions like the Bank of Albania, the Albanian Institute of Statistics (INSTAT), the World Bank, and Eurostat. It makes it possible to have reliable and consistent statistics that will enable the study of macroeconomic development over time.

The empirical investigation is carried out from 2005–2025, a period that is critical for Albania's economic progress and its pursuit of harmonizing macroeconomic policies in line with the European Union. It incorporates a number of important macroeconomic events in the economy, namely the global financial crisis, structural economic adjustment, and economy-wide disruptions due to the COVID-19 crisis during this period.

This study examines a handful of macroeconomic measures commonly utilized in empirical studies of monetary policy transmission in order to assess monetary policy efficacy.

- Inflation rate, representing the primary objective of monetary policy and reflecting price stability.
- Interest rates are the principal tool for the central bank to influence economic activity and control inflation.

- Exchange rate (ALL/EUR) shows the stability of the national currency and the external position of the economy.

- Gross Domestic Product (GDP growth), representing overall economic performance.

In evaluating the relationship among these variables, the study uses a multiple linear regression model that tests the influence of monetary policy indicators on economic growth in Albania.

The econometric model is defined as:

$$\text{GDP}_t = \beta_0 + \beta_1 \text{Inflation}_t + \beta_2 \text{InterestRate}_t + \beta_3 \text{ExchangeRate}_t + \varepsilon_t \quad (1)$$

where:

GDP_t – GDP growth at time t

Inflation_t – inflation rate

InterestRate_t – policy interest rate

ExchangeRate_t – exchange rate (ALL/EUR)

β_0 – constant term

$\beta_1, \beta_2, \beta_3$ – regression coefficients

ε_t – error term

The estimated coefficients provide information on the direction and magnitude of the relationship between monetary policy indicators and economic growth. The findings of the econometric estimation are presented by traditional statistical features such as the coefficient of determination (R^2), t-statistics, p-values and the Durbin–Watson statistic for the purpose of evaluating the explanatory power of the model and the statistical significance of the estimated relationships. Furthermore, a correlation matrix and variance inflation factor (VIF) analysis is employed to check the potential for multicollinearity among the explanatory variables. Since the analysis is based on time-series macroeconomic data, stationarity tests were conducted in order to verify the suitability of the variables for regression analysis. The Augmented Dickey–Fuller (ADF) test was applied to examine whether the variables contain unit roots. The results indicate that the variables are sufficiently stationary for the purposes of the empirical analysis. Furthermore, regression model reliability checks by several diagnostic tests, from the Breusch–Pagan test for heteroskedasticity to the Jarque–Bera test for residual normality, were conducted. It is also through this empirical, methodological framework that the research seeks its empirical verification regarding the function of monetary policy indicators in the stabilization of the macroeconomic system in Albania and contributing to the economic convergence of Albania to European Union standards. To check the econometric outcomes, these diagnostic tests are used. The Durbin–Watson statistic is also used to identify the possible autocorrelation within the residuals of the regression model. In addition, the VIF is used to detect multicollinearity among the explanatory variables. A correlation matrix is also calculated to evaluate the relationships among the core macroeconomic factors included in the modeling. These diagnostic tests guarantee the robustness and credibility of the estimated econometric model.

6 Data Analysis and Findings

The empirical examination investigates the linkage between some indicators of monetary policy and the macroeconomic performance of

Albania during 2005–2025. The examination is geared at macroeconomic variables such as GDP growth, inflation, interest rates, and exchange rate (ALL/EUR) that are universally accepted measures in assessing the effectiveness of monetary policy and its spillover into the real economy. Model-estimated regression results for monetary policy indicators and economic growth are shown in Table 1 (Appendix). The main model statistics are reported in Table 2 (Appendix). The coefficient of determination ($R^2 = 0.22$) means that the explanatory variables considered in the model account for around 22% of the variation in GDP growth. The relatively low explanatory rate available for the model implies that much of the variation in the GDP growth is the result of other macroeconomic and structural factors which are not a part of the model. Still, the extent of this explanatory prowess is quite typical with respect to macro econometric time series studies for small sample sizes and complex economic relationships. The regression results indicate that the coefficients of inflation and interest rates are positive but weak, as a result of a very low coefficient in relation to economic growth in the analysis country. This observation may represent structural features of the Albanian economy, with economic growth affected not only by monetary policy but also by fiscal policy, external demand, and other structural economic reforms. For economic results, the exchange rate coefficient is negatively correlated with GDP growth, which means the devaluation of a national currency affects the country's economic growth. Uncertainties within the financial markets are typically boosted by foreign exchange rates, and changes in exchange rates can affect the dynamics of inflation, which can in turn impact the economic situation. With a Durbin–Watson statistic of 2.40, the regression model does not have any serious autocorrelation problems, providing further evidence in favor of the stability of the estimated relationships. And VIF values provided in Table 5 (Appendix) are far below a widely accepted threshold for VIF levels of 5, indicating that no multicollinearity is clearly to blame for the variable differences. The correlation matrix of the main macroeconomic variables included in the analysis is indicated in Table 3 (Appendix). These conclusions reveal a stable upward correlation between the growth of GDPs, inflation, and interest rates - individually but to

a moderate degree – and the inverse correlation between exchange rate or value fluctuation and GDP growth. These linkages furnish first-of-its-kind insights into macroeconomic processes and support the empirical estimation outcomes yielded by the regression model. As shown in Figure 1 (Appendix), GDP growth in Albania for the period 2005–2025 shows significant fluctuations in economic performance, especially when external economic shocks like the global financial crisis and the COVID-19 pandemic are experienced. Data also show slow economic recovery and stabilization over the past few years. As shown in Figure 2 (Appendix), inflation trends in Albania were generally stable during the period analyzed, although slight increases were noted during times of economic uncertainty and external price pressures. It seems that keeping inflation low and stable has been a key focus for monetary policy in Albania. Figure 3 (Appendix) shows the change in exchange rate dynamics with the increased exchange of the Albanian lek against the euro (ALL/EUR) in recent years, which has become more pronounced in uncertain financial conditions. Exchange rate stability remains a crucial factor affecting inflation, external competitiveness, and the general economic situation in Albania. Figure 4 (Appendix), suggests that higher inflation levels are related to larger macroeconomic variations and worse economic performance. Times with modestly stable inflation generally coincide with milder economic growth and so indicate a very healthy relationship between price stability (which in turn generates both social stability and a stable external environment) and sustainable macroeconomic conditions. As Figure 5 (Appendix) indicates, the higher interest rates are also typically associated with less economic activity and more economic growth. This result is consistent with the classical transmission of monetary policies in which higher borrowing costs raise the cost of credit, which in turn lowers investment and consumption and eventually slows up economic growth. The trend also shows that monetary policies can exert an effect on short-run economic activities via the alteration in the financing process. The diagnostic tests presented in Table 6 (Appendix) can further strengthen the reliability of the estimated regression model. The Durbin–Watson statistic confirms the removal of serious autocorrelation issues, and the Breusch–Pagan

and Jarque–Bera tests show that heteroskedasticity and residual normality are insignificant concerns for the empirical characterization. Moreover, the ADF stationarity test shows that the variables could be used within the period and are good for regression analysis. Taken as a whole, the empirical evidence indicates that indicators of the monetary policy may exert some impact on macroeconomic aspects in Albania. It is assumed that stable inflation, appropriate interest rate strategies, and exchange rate stability create a predictable macroeconomic environment conducive to stable exchange rate conditions for sustainable economic growth and sound financial stability in an economy. Table 4 (Appendix) summarizes the results that empirically prove the hypotheses that we have generated in this study. According to the analysis, inflation stability, as well as exchange rate stability, is decisive in the support of macroeconomic stability in Albania. Moreover, credible and consistent monetary policy frameworks may act to enhance the economic performance and the economic convergence of the economy with the European Union standard. The coefficients are nonsignificant in traditional measures, but useful insights into the correlation between macroeconomic variables can still be obtained based on the study.

7 Discussion

The results of this investigation can be applied directly to the policy credibility of monetary policy in the context of macroeconomic stability in Albania. These empirical results suggest that some of the most important monetary policy indicators, such as inflation, interest rates, and exchange rate stability, are of concern for influencing the macroeconomic process. The identified relationship between inflation and economic growth echoes the broader theoretical and empirical literature on macroeconomic stability. In this context, high and erratic inflation tends to heighten uncertainty in the economy, decrease purchasing power, and deter long-term investment. The results are in line with previous research that identifies low and stable inflation as an important condition for sustainable economic growth and macroeconomic stability [2], [3]. The findings also suggest interest rate shifts have an impact on economic performance via the classic monetary policy transmission mechanisms.

Elevated interest rates raise the cost of borrowing for business — and the price of the commodity — which discourages investment and consumption in the short term. Yet proper interest rate policies are still required to curb inflation and sustain financial stability among small open countries [1], [4]. A second interesting conclusion is tied to the contribution of exchange rate stability to underlying macroeconomic output. The exchange rate can have an impact on an economy's inflation, external competitiveness and financial sector stability. In those economies like Albania, which are relatively liberalized and connected to regional markets, exchange rate volatility might carry over external shocks that can exert pressure on the national economy [20], [25]. The analysis provided from the viewpoint of the integration perspective emphasizes the need for credible and consistent macroeconomic policies if European Union economic integration is to be developed. The European Union attaches great importance to discipline in macro, price stability and institutional credibility — as key conditions for economic convergence between macroeconomic policy-makers and the average European country. It is, therefore, crucial for candidate countries striving to engage in European integration activities to maintain macroeconomic conditions in order to progress in a sound manner [11], [13] in that sense. Within this framework, the credibility and independence of the central bank form the bedrock of stable monetary policy. Transparent communication, predictable policy, and institutional independence both enhance the anchoring of inflation expectations and reinforce financial market confidence [7]. However, the empirical results should be cautiously interpreted in view of the low, statistically insignificant coefficient estimates and the relatively low, but highly variable power of the regression model in explaining the observed results. This indicates that Albania's economic performance also might be influenced by other structural and external influences in the macroeconomic context like fiscal policy, remittances, foreign direct investment and institutional reform. As a whole, these findings endorse the idea that credible monetary policy frameworks could help maintain macroeconomic stability and strengthen overall resilience. The credibility of monetary policy and transparency of institutions remain of paramount importance to Albania's long-term

economic growth and its journey from developing towards European Union membership [21], [22], [23].

8 Conclusions

Central to this study was the examination of monetary policy credibility and macroeconomic stability in Albania within the broader context of Albania's European integration process. Assessing macroeconomic data from 2005–2025, this report took an overall perspective of how these indicators (inflation, interest rates and exchange rate stability) impact economic performance and macroeconomic stability. According to empirical results, the indicators of monetary policy may help to contribute to macroeconomic outcomes in Albania. Stable inflation, reasonable interest rate policies, and exchange rate stability help to create a stable macroeconomic environment and sustain economic growth and financial stability. Open communication, continuous implementation of policies, and a consistent monetary policy framework can aid in building confidence in economic institutions and enhancing the effectiveness of monetary policy transmission mechanisms. From the perspective of Albania's European integration process, macroeconomic discipline and stable economic institutions are crucial conditions for economic convergence to European Union standards. Candidate countries should prove the ability to sustain stable macroeconomic conditions and enact credible economic policies consistent with European institutional frameworks. The strengthening of monetary policy credibility is still an important goal of Albania's long-term development. Further efforts to increase institutional transparency, to sustain price stability, and to strengthen coordination of macroeconomic policy will help the country navigate towards European integration and contribute to strengthening the resilience of the national economy. In conclusion, our study results suggest that robust and consistent monetary policy frameworks could facilitate macroeconomic stability and economic convergence towards European Union benchmarks in Albania.

9 Policy Implications

The results of the study also suggest some policy implications for economic policymakers in Albania. Establishing credibility and transparency for monetary policy are still important to maintain macroeconomic stability and to assist the nation in moving closer to European Union integration. Policymakers need to strengthen the institutional independence of the Bank of Albania, better explain the objectives of the monetary policy, and communicate and support the monetary policy framework through consistent policies that favor price stability. This could also aid in the promotion of enhanced investor confidence, the promotion of financial stability, and contribute to stable economic growth in the long run.

10 Limitations of the Study

Although we acknowledge these findings, some challenges can be raised. First, the empirical examination depends on the use of a narrow range of macroeconomic variables such as inflation, interest rates, exchange rates, and GDP growth. While these are indispensable in monetary policy analysis, some other variables, such as fiscal policy indicators, public debt dynamics, financial market development, and institutional quality, can also affect macroeconomic stability and the rate of economic growth. Second, the study uses a quite straightforward, simple econometric model based on a linear equation. Although such an analysis can offer informative information about the link between monetary policy variables and economic performance, more advanced econometric approaches will help to explore dynamically interacting phenomena between variables. The small sample size, however, may have reduced the extent of study-level generalization. Furthermore, the research indirectly assesses monetary policy credibility using macroeconomic indicators because direct quantitative credibility assessment for Albania is limited during the analysis era. Third, it is limited to the case of Albania. While this model provides an in-depth look at the national economic context, the findings cannot possibly reflect regional dynamics, which influence monetary policy as well as economic convergence in the Western Balkans. Last but not least, the dataset is collected from 2005 to

2025 and thus accounts for certain forms of economic conditions and structural changes that take place in this span of time. Monetary policy credibility and macroeconomic stability will impact future economic shocks, including whether it is affected by such future shocks or structural reform or not, but that may relate differently from one to the other.

11 Future Research Directions

Future research could expand and deepen this analysis in a number of key ways. First of all, many macroeconomic and financial variables, including fiscal policy indicators, public debt levels, banking sector stability, and financial market development, could be incorporated into future studies. Adding these as variables would provide a more detailed examination of the determinants of macroeconomic stability. Second, future research might consider adopting innovative, more sophisticated econometric methods like vector autoregression (VAR) models, panel data analysis, or structural models to better reflect evolving interactions between monetary policy tools and macroeconomic outcomes. Third, a comparative work with other jurisdictions on the Western Balkans could be useful to determine the extent to which monetary policy credibility facilitates economic integration at the EU level. Such cross-country comparisons might point to shared and diverging macroeconomic performance among potential countries, to some extent. This could be further explored using cointegration methodologies, vector autoregression (VAR) models, and dynamic estimation techniques in future work to enhance our understanding of the long-run interaction between macroeconomic factors and monetary policy credibility.

Declaration of Generative AI and AI-assisted Technologies in the Writing Process

The authors composed, read, and revised the paper as required, and AI-based language tools were applied only for more delicate language adjustment and grammar validation. The conceptual development, analysis and concluding work are all the work of the authors.

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APPENDIX

Appendix A. Macroeconomic Data Used in the Regression Analysis (Albania, 2005–2025)

Year	GDP Growth %	Inflation %	Interest Rate %	Exchange Rate ALL/EUR
2005	5.7	2.4	5.25	124
2006	5.4	2.3	5.25	123
2007	5.9	2.9	6.25	122
2008	7.5	3.4	6.25	123
2009	3.3	2.3	5.25	137
2010	3.7	3.6	5.00	138
2011	2.5	3.5	4.75	140
2012	1.4	2.0	4.00	140
2013	1.0	1.9	3.00	140
2014	1.8	1.6	2.25	140
2015	2.2	1.9	1.75	139
2016	3.3	1.3	1.25	137
2017	3.8	2.0	1.25	134
2018	4.1	2.0	1.00	127
2019	2.2	1.4	1.00	123
2020	-3.5	1.6	0.50	123
2021	8.9	2.0	0.50	122
2022	4.8	6.7	2.75	117
2023	3.9	4.8	3.25	108
2024	4.0	2.2	3.25	104
2025	3.8	2.5	3.25	103

Source: World Bank / IMF / Bank of Albania

Table 1. Regression Results

Variable	Coefficient	Std. Error	t-Statistic	p-value
Constant	9.03	6.57	1.38	0.187
Inflation	0.20	0.49	0.40	0.692
Interest Rate	0.42	0.31	1.37	0.189
Exchange Rate (ALL/EUR)	-0.06	0.05	-1.19	0.251

Source: Bank of Albania, INSTAT, World Bank, Eurostat

Table 2. Model Statistics

Statistic	Value
R ²	0.22
Adjusted R ²	0.08
F-Statistic	1.61
Observations	21
Durbin–Watson	2.40

Source: Author's calculations

Table 3. Correlation Matrix of the Main Variables

Variable	GDP Growth	Inflation	Interest Rate	Exchange Rate
GDP Growth	1.00	0.29	0.35	-0.30
Inflation	0.29	1.00	0.35	-0.32
Interest Rate	0.35	0.35	1.00	0.00
Exchange Rate	-0.30	-0.32	0.00	1.00

Source: Bank of Albania, INSTAT, World Bank and Eurostat.

Table 4. Summary of Hypotheses Testing

Hypothesis	Description	Expected Relationship	Empirical Evidence	Result
H1	Stable monetary policy conditions contribute to improved macroeconomic stability in Albania	Positive relationship between monetary policy indicators and economic performance	Regression results indicate weak relationships between monetary policy variables and GDP growth, while exchange rate stability appears to support economic performance	Partially Supported
H2	Inflation stability supports macroeconomic stability and Albania's convergence with EU standards	Negative relationship between inflation and GDP growth	Empirical findings show that higher inflation is associated with lower economic growth	Weakly Supported
H3	Exchange rate stability positively influences economic performance and supports financial stability and broader economic performance in Albania.	Positive relationship between exchange rate stability and GDP growth	Empirical analysis indicates a positive association between exchange rate stability and economic growth	Partially Supported

Source: Author's interpretation based on regression results.

Table 5. Variance Inflation Factor (VIF)

Variable	VIF	Tolerance
Inflation	1.32	0.76
Interest Rate	1.35	0.74
Exchange Rate (ALL/EUR)	1.11	0.90

Source: Author's calculations

Table 6. Diagnostic Tests

Test	Result	Interpretation
Durbin-Watson	2.40	No serious autocorrelation
Breusch-Pagan	$p > 0.05$	No heteroskedasticity problem
Jarque-Bera	$p > 0.05$	Residuals approximately normal
ADF Test	Stationarity confirmed	Variables suitable for regression

Source: Author's calculations



Fig. 1: GDP Growth in Albania 2005 - 2025

Source: World Bank, INSTAT

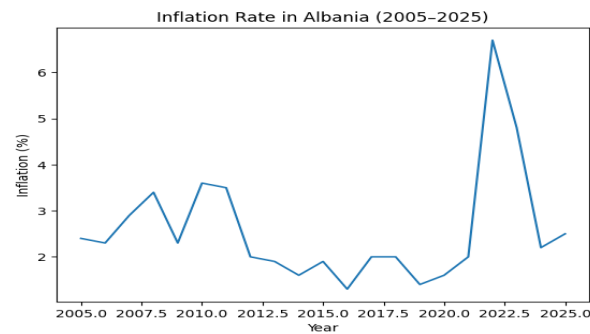


Fig. 2: Inflation Rate in Albania 2005 - 2025
Source: INSTAT, Bank of Albania.

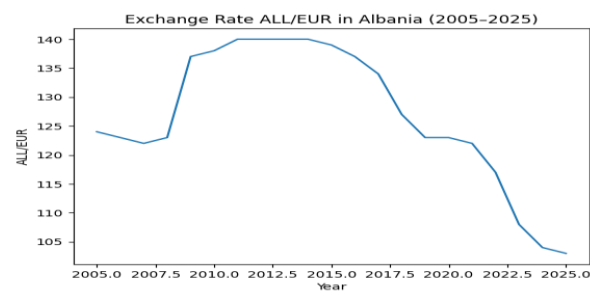


Fig. 3: Exchange Rate ALL/EUR in Albania 2005 - 2025
Source: Bank of Albania, Eurostat.

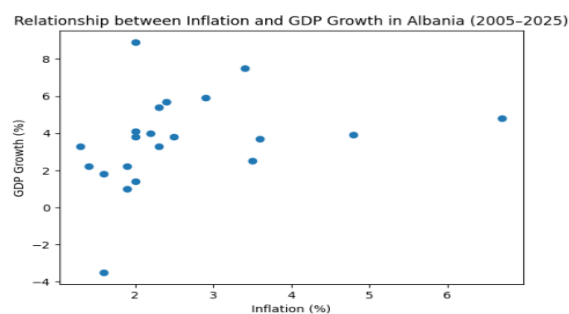


Fig. 4: Relationship between Inflation and GDP growth in Albania 2005 - 2025
Source: Author's calculations, Bank of Albania, INSTAT, World Bank, Eurostat.

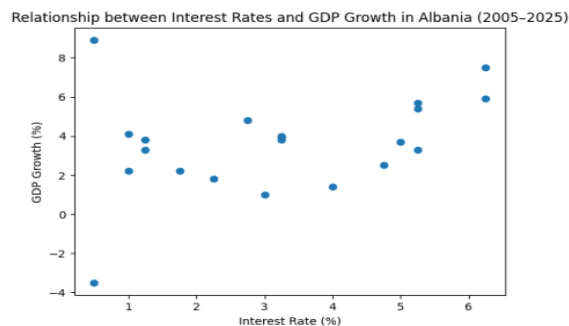


Fig. 5: Relationship between Interest Rates and GDP Growth in Albania 2005 - 2025
Source: Author's calculations, Bank of Albania, INSTAT, World Bank, Eurostat.

Contribution of Individual Authors to the Creation of a Scientific Article (Ghostwriting Policy)

- M.Sc. Rovena BEGA contributed to the conceptualization of the research, data collection, econometric analysis, and preparation of the manuscript.
- Prof. Dr. Ines DIKA contributed to the supervision of the research, methodological guidance, and the review and improvement of the final manuscript.

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