

## Examination of Major Factors Affecting Exchange Rate in Albania and its Influence on Inflation and Real Economy (Period 2004 - 2014)

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### Abstract

The aim of this research is to provide statistical evidence of major determinants of Euro/Albanian Lek exchange rate levels and its consequences on inflation and real economy. The method used for this purposes is empirical research, Granger Causality Test has been applied in order to provide answers to the objectives of the research. Statistical examination provided major evidence of Granger Causality of inflation, foreign direct investments, industrial production, and foreign debt on Euro/ALL exchange rate levels. In addition the research provides statistical evidence that Euro/ALL exchange rate fluctuations in long run cause Savings in Domestic Currency and in short run Savings in Foreign Currency. Moreover, there is also found the existence of Granger Causality between export and interest rates with a minimum four months delay and Granger Causality of interest rates on inflation with two months delay. Whereas, based on examined variables there could not be found any significant finding of long run influence of Euro/ALL exchange rate levels on inflation and real economy.

**Keywords:** Euro/Albanian Lek Exchange Rate, Inflation, Real Economy, Granger Causality, Vector Error Correlation Model.

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