



Mario Holzner

Albania: Arcane setback in growth

For Albania, we expect GDP growth of 1.9% in 2011 and 2.2% in 2012 respectively and a stronger increase to 2.6% in 2013 and 3.4% in 2014, the latter due to the election cycle and induced populist government spending. The assumption is that the government has no problems financing fiscal expansion, that heavy rainfall in early 2012 will bring the vital electricity production back to normal and that export growth will continue despite the eurozone crisis (also with the help of further increasing crude oil export production capacities); remittances will tend to stabilize or at least fall at a slower pace as further unemployment in Greece might rather hit the public sector, where Albanians are not employed. Obviously, the risks are on the downside, very much so.

Contradictory and piecemeal information make it difficult to evaluate the current state of the Albanian economy and even more difficult to talk about forecasting future developments. In the second quarter of 2011 – GDP data have only been released in December – real growth was almost stagnant. The release of this bad news was delayed by more than four months. Speculations about the trustworthiness and political instrumentalization of Albanian national accounts data have in the meantime been fuelled by a recent decision putting the country's national institute of statistics (INSTAT) under the exclusive control of Prime Minister Sali Berisha's office. Expectations regarding the economic performance of future quarters are low although the most recent publication of third-quarter GDP data shows a return of growth.

However, Albania's export performance in 2011 was exceptionally good. This is notwithstanding the severe drought in the Balkans in 2011 and the subsequent massive drop in Albanian hydro-power electricity production by about 50%, which under normal circumstances is a major source of export revenue. Even Albania's exports to its ailing principal trading partners Italy and Greece increased by 28% and 16% respectively. In particular, minerals and fuels exports rose strongly, but also textiles and footwear as well as construction materials exports expanded. It might be that Albanian goods have a marked price advantage on shrinking markets in the neighbourhood and can thus profit

from the eurozone crisis. However, it could also be that the crises of Italy and Greece have not yet hit the export figures but might show up strongly in the following quarters.

Remittances from Albanian emigrants working mostly in Italy and Greece showed a significant drop of about 9% year-on-year in the first three quarters of 2011. This coincides with anecdotal evidence of thousands of Albanians moving back from Greece where they have lost their jobs. One supposed consequence of this development is a fall in construction output. Data on new loans to construction businesses show a drop of more than 16% year-on-year for the first eleven months of 2011. Also the construction confidence indicator marks an all-time low.

Yet by the end of 2011 the consumer confidence indicator displayed an all-time high. Also new loans to households increased by almost 15% year-on-year over the first eleven months of 2011. Moreover sales, maintenance and repair of motor vehicles performed extremely well by mid-2011, which is seen as a positive forward-looking indicator for household demand. Still, the mostly foreign-owned banking sector continues to tighten credit standards to both the household and the business sector. The growth of new loans to the total economy fell to less than 4% in 2011. This is most likely a reaction to the strong rise in non-performing loans to 18.1% in the third quarter 2011, up from 13.5% a year earlier. The banking sector's capital adequacy ratio remained constant at about 15%.

In order to keep up liquidity, the Bank of Albania injected some lek 280 billion (euro 2 billion) into the banking system in the third quarter of 2011. Due to falling inflationary expectations and for the purpose of boosting the banks' willingness to increase lending to the economy, the central bank cut its policy interest rate by 25 bp to 4.5% by the end of January 2012. This is the lowest level in the past decade and it can be expected that the interest rate will be cut further during 2012.

While government revenues stagnated, expenditures increased by more than 5% year-on-year in the first eleven months of 2011. Public capital expenditures increased above average with major infrastructural works under way. This is probably one of the reasons why the unemployment rate remains stable below 14%. However, public debt is on the rise and will most likely surpass the legal limit of 60% of GDP in 2012. Given the government's unrealistically high expectations of GDP growth of above 4% and the fact that the country's next parliamentary elections are scheduled for 2013, public debt will probably increase further in the years to come.

There are still a few government assets to be privatized as well. The state-owned oil company Albpetrol, five small and medium-sized hydro power plants and remaining minority stakes in the fixed line operator Albtelecom and the Armo oil refinery are the key remaining assets the government plans to privatize in 2012. This has the potential to increase FDI in 2012 as compared to 2011, when foreign direct investment dropped by about a quarter as against a year earlier.

Our rather optimistic forecast expects GDP growth of 1.9% in 2011 and 2.2% in 2012 respectively and a stronger increase to 2.6% in 2013 and 3.4% in 2014, the latter due to the election cycle and induced populist government spending. The assumption is that the government has no problems financing fiscal expansion, that heavy rainfall in early 2012 will bring the vital electricity production back to normal and that export growth will continue despite the eurozone crisis (also with the help of further increasing crude oil export production capacities); remittances will tend to stabilize or at least fall at a slower pace as further unemployment in Greece might rather hit the public sector, where Albanians are not employed. Obviously, the risks are on the downside, very much so.

Table AL

Albania: Selected Economic Indicators

	2006	2007	2008	2009	2010	2011 ¹⁾	2012	2013	2014
	Forecast								
Population, th pers., average	3146.8	3161.3	3182.0	3194.4	3210	3220	3240	3260	3280
Gross domestic product, ALL bn, nom. ²⁾	882.2	967.7	1089.3	1151.0	1220	1290	1360	1450	1560
annual change in % (real) ²⁾	5.4	5.9	7.5	3.3	3.6	1.9	2.2	2.6	3.4
GDP/capita (EUR at exchange rate)	2300	2500	2800	2700	2800	2900	.	.	.
GDP/capita (EUR at PPP - wiiw)	5500	5800	6400	6500	6600	6800	.	.	.
Consumption of households, ALL bn, nom. ²⁾	680.3	775.1	861.9	910	970	1030	.	.	.
annual change in % (real) ²⁾	4.7	10.7	6.7	3	3	3	3	4	5
Gross fixed capital form., ALL bn, nom. ²⁾	343.9	374.1	415.1	430	400	420	.	.	.
annual change in % (real) ²⁾	13.0	5.5	9.5	5	-7	2	1	4	6
Gross industrial production ³⁾									
annual change in % (real)	12.1	-9.7	8.7	7.2	20	2	6	4	7
Gross agricultural production ⁴⁾									
annual change in % (real)	3.1	2.7	7.1	2.0	9	3	3	2	3
Construction output total ⁵⁾									
annual change in % (real)	10.5	12.2	10.9	0.4	-25	1	1	5	4
Employed persons - LFS, th ⁵⁾	.	1197.7	1123.3	1160.5	1200	1200	1180	1200	1220
annual change in %	.	.	-6.2	3.3	3.4	0	-2	2	2
Employment reg. total, th pers., end of period	935.1	965.5	974.1	899.3	916.9	930.0	910	930	950
annual change in %	0.3	3.3	0.9	-7.7	2.0	1.4	-2	2	2
Unemployed persons - LFS, th ⁵⁾	.	184.8	168.6	185.0	190	200	210	200	190
Unemployment rate - LFS, in % ⁵⁾	.	13.5	13.0	13.8	13.7	14	15	14	13
Unemployment rate, reg., in %, end of period	13.8	12.9	12.7	13.9	13.5	13.3	14	13	12
Average gross monthly wages, ALL	21842	27350	34277	36075	38492	41030	.	.	.
annual change in % (real, gross)	6.7	21.6	21.2	2.9	3.1	3.0	3	8	4
Consumer prices, % p.a.	2.4	2.9	3.4	2.3	3.5	3.5	3	4	4
Producer prices in industry, % p.a.	0.8	3.5	6.5	-1.6	0.3	2.5	2	4	4
General governm. budget, nat. def., % GDP									
Revenues	26.0	26.0	26.7	26.0	26.6	25	26	27	28
Expenditures	29.3	29.5	32.3	33.0	29.7	30	31	35	34
Deficit (-) / surplus (+)	-3.3	-3.5	-5.5	-7.0	-3.1	-5	-5	-8	-6
Public debt, nat. def., in % of GDP ⁶⁾	56.0	53.9	55.2	59.7	58.2	60	62	66	67
Central bank policy rate, % p.a., end of period ⁷⁾	5.50	6.25	6.25	5.25	5.00	4.75	4	3.8	4.3
Current account, EUR mn	-471.0	-824.2	-1381.2	-1321.4	-1040.5	-1300	-1300	-1400	-1550
Current account in % of GDP	-6.6	-10.5	-15.6	-15.2	-11.8	-14.1	-13.1	-12.7	-12.9
Exports of goods, BOP, EUR mn	630.6	786.3	917.5	750.7	1171.5	1400	1550	1650	1750
annual growth rate in %	18.9	24.7	16.7	-18.2	56.1	19.5	11	6	6
Imports of goods, BOP, EUR mn	2289.6	2890.4	3348.9	3054.4	3254.2	3500	3700	3900	4100
annual growth rate in %	14.1	26.2	15.9	-8.8	6.5	7.6	6	5	5
Exports of services, BOP, EUR mn	1156.6	1421.3	1687.8	1771.4	1702.4	1700	1900	2000	2100
annual growth rate in %	19.6	22.9	18.7	5.0	-3.9	-0.1	12	5	5
Imports of services, BOP, EUR mn	1188.1	1402.3	1618.3	1597.5	1520.7	1600	1700	1800	1900
annual growth rate in %	7.3	18.0	15.4	-1.3	-4.8	5.2	6	6	6
FDI inflow, EUR mn	258.6	481.1	665.2	696.4	831.5	650	700	800	900
FDI outflow, EUR mn	8.3	17.5	55.4	28.2	8.9	10	20	30	40
Gross reserves of NB excl. gold, EUR mn ⁸⁾	1329.2	1415.9	1626.1	1607.8	1842.1	1853.1	.	.	.
Gross external debt, EUR mn	1878.4	2220.6	3212.1	3372.0	3750.6	4300	.	.	.
Gross external debt in % of GDP	26.2	28.4	36.2	38.7	42.4	46.8	.	.	.
Exchange rate ALL/EUR, average	123.08	123.63	122.80	132.06	137.79	140.33	137	132	130
Purchasing power parity ALL/EUR ⁹⁾	51.22	52.39	53.48	55.39	57.83	59.06	.	.	.

1) Preliminary and wiiw estimates. - 2) According to ESA/95 (including non-observed economy, real growth rates based on previous year prices). - 3) Gross value added. - 4) Gross value added of agriculture, forestry and fishing. - 5) Survey once a year (June or September-October), wiiw estimate in 2010 and 2011. - 6) Based on IMF data. - 7) One-week repo rate. - 8) From 2009 international reserves (foreign assets of NB before). - 9) wiiw estimates based on the 2005 International Comparison Project benchmark and Eurostat.

Source: wiiw Database incorporating national statistics and IMF. Forecasts by wiiw.