

Mario Holzner

Albania: Something is rotten

After the killing of three persons during a violent anti-government demonstration in January 2011, it once again became clear that something is rotten in the state of Albania. The political class does not seem to act in a mature and responsible way. Communication with the political opponent is rude and uncompromising. This has already cost the country an opportunity to receive EU candidate status. However, in economic terms Albania is doing fairly well. In 2010, the estimated GDP growth of about 4% surpassed previously expected forecasts by some 1.5 percentage points, largely due to a spectacular export boom. In 2011, a similar export growth is unlikely to be maintained. The political stalemate is not expected to have a major economic impact in the short run; the GDP growth will accelerate in the coming 2-3 years.

While not meeting the highest standards for democratic elections, the June 2009 parliamentary elections marked tangible progress with respect to earlier elections. Still, the socialist opposition led by Edi Rama, the mayor of Tirana, is still questioning the lawfulness of the elections. Since then, in regular demonstrations the opposition demands new elections. After a recent case of blatant corruption in the government of conservative Prime Minister Sali Berisha, anti-governmental demonstrations flared up. On January 21st 2011 three protestors were shot dead at an opposition rally in Tirana in a melee close to the prime minister's office. The suspects are assumed to be members of the Republican Guard that was protecting the prime minister's office. However, Berisha rejected an order by the general prosecutor for the arrest of six high-ranking Republican Guard officers suspected of ordering the use of firearms against protesters. As a consequence, the political polarization is further growing and starts to bear strange fruits. The Prime Minister has declared that he was the victim of a failed coup attempt, organized by the opposition with the help of the general prosecutor, the president (paradoxically both close to the Prime Minister's conservative Democratic Party), as well as the secret service and the media. As a response Berisha has ordered the Ministry of Culture to organize a concert with Lady Gaga or some other top pop star in order to restore the country's image as 'Miss World for tourists from all over the world', as he put it. The representatives of the EU and the US are trying to calm the political actors. For the sake of Albania's EU integration process it can be

hoped that the political conflict becomes defanged and stays under control until the next parliamentary elections which are scheduled for 2013 at the latest.

The political calamities, if not further escalating, should not be too damaging for the economy, at least in the short run. Foreign companies investing in Albania are well aware of the political risks and the wide spread corruption. For 2010 FDI inflows will most likely mark an all-time high of about EUR 740 million. However, if the political system remains characterized by personal animosities among the main political leaders reflecting particulate interests of clans and single provinces while disregarding the interests of the broad majority of population, the economy will be damaged in the medium and long run. Especially this might become a major stumbling block on the path to EU membership and subsequent EU transfers and integration into European production networks.

At the moment economic growth is mostly driven by the booming export sector. Main driver is the export of electricity due to exceptionally high water levels in Albania's hydro power stations. Only the energy exports from June to November 2010 are equal to the 2009 full year exports in this sector. However, latest export data for manufactured products and raw materials are equally exciting. Certainly the international trade rebound and a slight devaluation of the Albanian lek vis-à-vis the euro during 2010 was helpful in this respect. Cumulated exports until November 2010 have increased by more than 50% year-on-year (voy), imports only by a few percentage points. Consequently it's the industry, the trade and the transport sectors that have most contributed to economic growth in 2010. Lately, domestic demand has developed quite sluggish. The construction sector has sharply decreased. Government demand is falling. In the third quarter of 2010 the sale of household equipment and the sale, maintenance and repair of motor vehicles has been declining by 5% and 7%, respectively. Especially the latter item is a good indicator for the future development of domestic demand. In addition, the consumer confidence indicator, although on a high level, was falling slightly in the third guarter of 2010. For 2011 this will result in a lower GDP growth rate. All the more that it will be impossible to increase exports much further in the short run. Rising energy prices might be helpful (with regard to second round growth effects) but one cannot expect a similar high level of rainfall as in 2010 to boost electricity production once again. The financing of a higher trade deficit should still be possible. In the first three quarters of 2010 data of remittances inflows shows a slight increase yoy. If this trend continues and if the government stops further expenditure cuts (which is guite likely due to local elections in May 2011), we can expect a growth rate of 3.2% in 2011. For 2012 and 2013 we forecast an improvement in economic growth to 4% and 5% respectively. Needless to say, that this depends on a further recovery of the European economy and an improvement of the political climate in Albania.

Table AL

Albania: Selected Economic Indicators

Population, th pers., average 3142 3147 3161 3162 3194 3210 3220 3240 3260 Gross domestic product, ALL bn, nom. ²¹ 814.8 882.2 667.7 108.1 114.8 120.0 1300 1300 1520 GDP/capta [CUR at exchange rate) 2100 2500 2600 6400 6600 6600 . . . GDP/capta [CUR at exchange rate) 2100 2500 2600 6800 6800 6800 . . . Consumption of households, ALL bn, nom. ²¹ 60 4.7 10.7 6.7 3 3 5 7 . 5 12 Gross finde captal form, ALL bn, nom. ²¹ 6.0 4.7 10.7 6.7 3 3 9 2 3 3 Gross finde captal form, ALL bn, nom. ²¹ 31.0 7.7 3 3 9 2 3 3 Gross finde captal form, ALL bn, nom. ²¹ 31.0 7.1 10.7 12.7		2005	2006	2007	2008	2009	2010 ¹⁾	2011	2012 Forecast	2013
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Employment reg. total, th pers., end of period 932.1 935.1 965.5 974.1 899.3 916.9 900 930 970 annual change in % 0.1 0.3 3.3 0.9 7.7 2.0 -2 3 4 Unemployment rate. LFS, th, Oct . 184.8 186.6 185.0 13.5 13 1	Employed persons - LFS, th, Oct			1197.7	1123.3	1160.0	1100	1060	1100	1150
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annual change in % (real, gross) 2.6 6.7 21.6 -1.1 11.7 3 3 5 10 Consumer prices, % p.a. 2.4 2.4 2.9 3.4 2.3 3.5 3 3 4 Producer prices in industry, % p.a. 4.9 0.8 3.5 6.5 -1.6 0.1 3 4 6 General governm. budget, nat.def., % GDP Revenues 25.1 26.0 26.8 26.2 26.6 26 27 28 Expenditures 28.5 29.3 29.6 32.3 33.2 29.7 29 30 35 Deficit (-) / surplus (+) .3.5 -5.5 7.0 -3.0 -3 -7 Public debt, nat. def., in % of GDP 5.0 5.5 6.3 6.3 5.0 5.0 5.3 5.5 Current account, EUR mn -589.0 -470.9 -831.1 -1370.2 -1345.5 -900 -1200 -1500 -2000 Current account in % of GDP -9.0 -6.6 -10.6 -15.5 -15.5 -10.2 12.6 -13.7	Average gross monthly wages, ALL	19993	21842	27350	27951	31900	33870			
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Producer prices in industry, % p.a. 4.9 0.8 3.5 6.5 -1.6 0.1 3 4 6 General governm.budget, nat.def., % GDP 28.5 29.3 29.6 32.3 33.2 29.7 29 30 35 Deficit (-) / surplus (+) -3.5 -3.3 -3.5 -5.5 -7.0 -3.0 -3 -3 -7 Public debt, nat. def., in % of GDP ⁵¹ 58.1 56.0 53.9 55.2 61.6 61 61 60 62 Central bank policy rate, % p.a., end of period ⁶¹ 5.0 5.5 6.3 6.3 5.3 5.0 5.0 5.3 5.5 Current account, EUR mn -589.0 -470.9 -831.1 -1370.2 -1345.5 -900 -160.0 -100 100 1000 1000 <td>Consumer prices, % p.a.</td> <td>2.4</td> <td>2.4</td> <td>2.9</td> <td>3.4</td> <td>2.3</td> <td>3.5</td> <td>3</td> <td>3</td> <td>4</td>	Consumer prices, % p.a.	2.4	2.4	2.9	3.4	2.3	3.5	3	3	4
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Exports of goods, BOP, EUR mn530.2630.6786.3917.5750.71150120014001600annual growth rate in %9.218.924.716.7-18.253.241714Imports of goods, BOP, EUR mn2006.92289.62890.43348.93054.43150360042005000annual growth rate in %13.914.126.215.9-8.83.1141719Exports of services, BOP, EUR mn967.31156.61415.11687.81718.41680190022002400annual growth rate in %19.819.622.319.31.8-2.213169Imports of services, BOP, EUR mn1107.71188.01402.31618.41597.51480160018002100annual growth rate in %30.67.218.015.4-1.3-7.481317FDI inflow, EUR mn212.6258.6481.1675.4706.4740600700800FDI outflow, EUR mn3.38.311.155.426.1-10203040Gross external debt, EUR mn ⁷¹ 1647.11874.2209.93078.93314.43600Gross external debt in % of GDP24.826.326.335.040.040.9Average exchange rate ALL/EUR124.19123.08123.63122.801										
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Imports of services, BOP, EUR mn 1107.7 1188.0 1402.3 1618.4 1597.5 1480 1600 1800 2100 annual growth rate in % 30.6 7.2 18.0 15.4 -1.3 -7.4 8 13 17 FDI inflow, EUR mn 212.6 258.6 481.1 675.4 706.4 740 600 700 800 FDI outflow, EUR mn 3.3 8.3 11.1 55.4 26.1 -10 20 30 40 Gross reserves of NB excl. gold, EUR mn 1171.6 1329.2 1415.9 1626.1 1607.8 1842.1 . <t< td=""><td>Exports of services, BOP, EUR mn</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>2400</td></t<>	Exports of services, BOP, EUR mn									2400
annual growth rate in % 30.6 7.2 18.0 15.4 -1.3 -7.4 8 13 17 FDI inflow, EUR mn 212.6 258.6 481.1 675.4 706.4 740 600 700 800 FDI outflow, EUR mn 3.3 8.3 11.1 55.4 26.1 -10 20 30 40 Gross reserves of NB excl. gold, EUR mn 1171.6 1329.2 1415.9 1626.1 1607.8 1842.1 .	annual growth rate in %	19.8	19.6	22.3	19.3	1.8	-2.2	13	16	9
FDI inflow, EUR mn 212.6 258.6 481.1 675.4 706.4 740 600 700 800 FDI outflow, EUR mn 3.3 8.3 11.1 55.4 26.1 -10 20 30 40 Gross reserves of NB excl. gold, EUR mn 1171.6 1329.2 1415.9 1626.1 1607.8 1842.1 .										2100
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Gross external debt, EUR mn ⁷¹ 1647.1 1874.2 2090.9 3078.9 3314.4 3600 .	FDI outflow, EUR mn	3.3	8.3	11.1	55.4	26.1	-10	20	30	40
Gross external debt, EUR mn ⁷¹ 1647.1 1874.2 2090.9 3078.9 3314.4 3600 .	Gross reserves of NB excl. gold, EUR mn	1171.6	1329.2	1415.9	1626.1	1607.8	1842.1			
Gross external debt in % of GDP 24.8 26.3 26.3 35.0 40.0 40.9 . <th< td=""><td></td><td>1647.1</td><td></td><td></td><td></td><td></td><td></td><td>······</td><td></td><td></td></th<>		1647.1						······		
Average exchange rate ALL/EUR 124.19 123.08 123.63 122.80 132.06 137.79 137 127 122 Purchasing power parity ALL/EUR ⁸⁾ 52.11 51.21 52.38 53.07 55.30 56.17 								-		
Purchasing power parity ALL/EUR ⁸⁾ 52.11 51.21 52.38 53.07 55.30 56.17	Average exchange rate ALL/FLIR	124 10	123 08	123.63	122 80	132.06	137 79	137	127	122
	Purchasing power parity ALL/EUR ⁸⁾									

1) Preliminary and wiw 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) Based on IMF data. - 6) One-week repo rate. - 7) Until 2007 based on IMF data. - 8) Benchmark results 2005 from Eurostat and wiw estimates.

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