

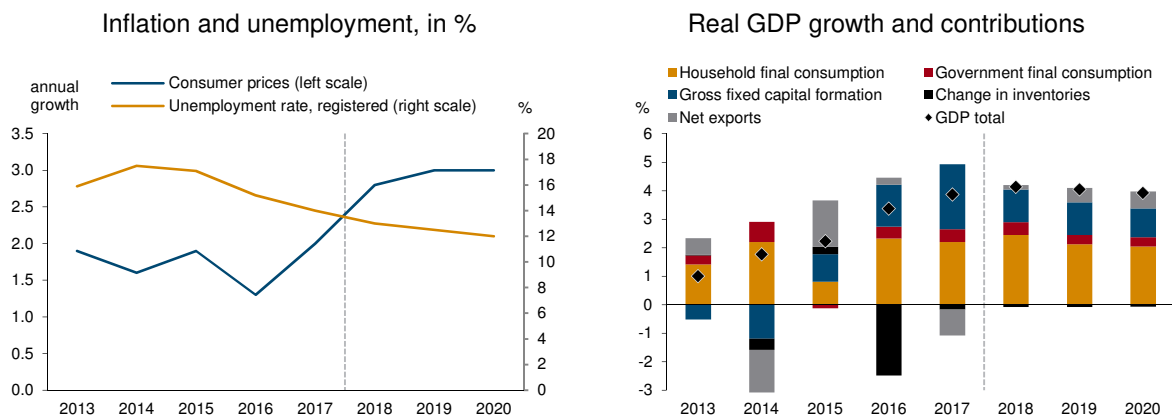


ALBANIA: High expectations for the commencement of EU membership negotiations

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The drivers of growth will continue to be consumption, big infrastructure projects and tourism. The investments in infrastructure will be channelled through public–private partnerships, which boost growth in the medium term, but pose certain risks in the longer run. There are high expectations that after five decades of self-imposed isolation and three decades of involuntary exclusion, Albania will become part of the EU by 2025.

Figure 40 / Albania: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

Albania aims to open EU accession talks in 2018. Democratically run parliamentary elections (held last June) and progress in judicial reform (apparently under way) were two of the preconditions imposed by the EU for opening negotiations on EU membership. However, political tensions exist and are expected to remain. The opposition has started another wave of protests, seeking the formation of a new government to combat organised crime and corruption. According to the IMF (2018)⁶², the shadow economy in Albania accounts for 28.5% of GDP. The high level of corruption, especially in the judiciary, has been one of the most persistent obstacles to investment over the past three decades. Therefore, Brussels expects reform of the judicial system which is simultaneously moving ahead both de jure and

⁶² Medina, L. and F. Schneider (2018), 'Shadow Economies Around the World: What Did We Learn Over the Last 20 Years?', *IMF Working Papers*, No. 18/17, International Monetary Fund, <https://EconPapers.repec.org/RePEc:imf:imfwpa:18/17>

de facto. EU membership 'by 2025' (mentioned in the Commission's new strategy) is an indicative date (not a target date). How realistic that timeframe is will depend on actual progress made and catching up in implementation of the structural reforms, especially of the judicial system.

In 2018, as in 2017, growth drivers are expected to be consumption, investments in infrastructure projects and export of services. On an annual basis, real GDP growth in the third quarter of 2017 stood at 3.55%, down from 3.95% in the first quarter and 4.06% in the second. This rate of growth was reflected in an increase in consumption of more than 3% for the third quarter of 2017, again on an annual basis. Gross fixed capital formation rose by 4% in the third quarter of 2017, compared to double-digit growth rates in the first and second quarters. Basically, all the sectors of the economy contributed positively to growth, but construction grew particularly strongly. A similar positive trend is forecast for 2018.

Consumption is expected to rise further, due to higher wages, improvements in the labour market and the creation of jobs via new infrastructure investment projects. Despite job creation having improved, employment opportunities for young people remain scarce. The period from the third quarter of 2016 to the third quarter of 2017 saw an increase in overall employed persons by 22 thousand, raising the overall employment rate from 49.3% to 50.7%. Nevertheless, only 400 of those jobs went to the age group 15-29, whose inactivity rose more than the drop in unemployment, while their employment rate was stuck at 33.5%. The government urgently needs to tackle youth employability. Proactive employment programmes specifically targeting young people should be introduced, otherwise emigration will intensify further. Dual vocational schemes – such as those run in Austria or Germany – could be the way to go.

Starting in 2018, the government launched a USD 1 billion programme for infrastructure projects. This involves the construction of a number of infrastructure projects in the form of public-private partnerships (PPPs) over the next four years. There is scepticism surrounding the transparency of this programme's implementation and monitoring, as well as its impact on public debt in the long run. Meanwhile, the EUR 1.5 billion infrastructure projects within the framework of the Trans Adriatic Pipeline and the Devoll Hydropower projects are on schedule and expected to be completed in 2019. The negotiations for the construction of the Arbri Highway – the first PPP project in the framework of the USD 1 billion programme – have closed. The local company Gjoka Construction will be in charge of building it. This highway (75 km long) will connect the north-east of the country with the west. With investment worth EUR 180 million, construction is expected to start in the first half of 2018. Towards the end of January 2018, an offer was submitted to the Albanian government for the construction of a new airport in southern Albania, close to the city of Vlora – an investment worth about EUR 100 million. The offer came from a consortium of three Turkish construction companies (Cengiz, Kalyon and Kolin) – the same consortium that is currently building Istanbul's third airport. If the negotiations are successfully concluded in the first half of 2018, construction work might start as early as June 2018, to last at least three years. Innovative investment projects with the support of international donors – EBRD and the World Bank – are expected to be launched in 2018. The chances are good that a first photovoltaic power plant will be built in the country at the end of 2018 or in early 2019. EBRD has confirmed that it will launch the tender process in 2018. Investments in this type of project are estimated to be around EUR 70 million.

During 2017, lending from the banking sector has been modest, but is expected to rise in 2018.

The central bank has kept the interest rate down and unchanged, at 1.25%. On an annual basis, by the end of 2017 the stock of loans to the non-financial private sector had dropped by 2.4%, and its share of overall loans had fallen to 60%. More than 53% of such loans are denominated in euros. The high level of credit (and of deposits) held in euros, and the predominance of transactions executed in euros, prompted the central bank to launch a package of measures targeting de-euroisation of the economy. The aim is to reduce the economy's dependence on foreign currency, by restraining the issuing of loans and deposits in euros. Non-performing loans dropped by a further 5 percentage points, down to 13.2% in December 2017, year on year. However, demand for credit remained weak. Nevertheless, for 2018, the demand for credit is expected to improve, thanks to the PPP projects. A number of local companies involved in the PPP projects will certainly have to rely on banking sector loans for their investment funding.

In 2018, exports of goods and services will continue on a positive and upward path. During the first three quarters of 2017, in nominal terms, exports experienced double-digit growth, year on year. For the same period, exports of goods recovered by 12%, emerging from the negative trend endured between 2014 and 2016. The garment industry continues to drive exports, with a 43% share in total goods exports in 2017. However, it is worth mentioning that exports of 'machinery, equipment and spare parts' saw a surge of 34%. This rise was mainly due to the export of cabling systems produced by the German company Forschner, which is rapidly expanding its activities in Albania. Export of agricultural products rose by 19%, jumping to a share of 11% of total exports. This sector is expected to keep surging forward. Thanks to IPARD (Instruments for Pre-Accession Assistance in Rural Development funding provided by the EU for the next three years, the investments planned for the agricultural sector amount to EUR 96 million. Tourism is another sector that is expected to continue its good performance in 2018. The government is aiming to expand it further by offering fiscal incentives for investments in 4- or 5-star hotels. In contrast, the export of 'fuels and minerals' dropped by 7% in 2017 (despite rising oil prices), falling to a share of 16% of total exports (compared to 40% in 2014). Since the acquisition of Albania's main oil drilling company Bankers Petroleum by the Chinese company Geo-Jade in 2016, foreign direct investment in this sector has been close to zero. Therefore, the expectations for this sector – in terms of investment and exports – are not very high.

Overall, in 2018 and the next two years, the drivers of growth will continue to be consumption, big infrastructure projects and tourism. Investments in infrastructure via PPPs will boost growth in the medium term, but they pose certain risks in the longer run. Political tensions and the uncooperative attitude of the opposition (especially over judicial system reform) might hamper not only the economy, but also progress on the structural reforms required by the process leading toward EU accession. The completion of the Trans Adriatic Pipeline and the Devoll infrastructure projects by 2019 might hint at a lower inflow of FDI during the coming years. So far, there is no indication of any reassuring signals about how this gap in FDI might be filled. But at least the signals from the external environment and the economies of the eurozone – Albania's main trading and investment partners – are positive, and so we expect the economy to continue to grow at close to 4% over the next three years.

Table 10 / Albania: Selected economic indicators

	2013	2014	2015	2016	2017 ¹⁾	2018	2019	2020
						Forecast		
Population, th pers., average	2,895	2,889	2,881	2,876	2,877	2,870	2,870	2,870
Gross domestic product, ALL bn, nom.	1,350	1,395	1,428	1,473	1,600	1,700	1,800	1,900
annual change in % (real)	1.0	1.8	2.2	3.4	3.9	4.1	4.0	3.9
GDP/capita (EUR at PPP)	7,800	8,300	8,500	8,500	8,900	.	.	.
Consumption of households, ALL bn, nom.	1,074	1,120	1,150	1,201	1,260	.	.	.
annual change in % (real)	1.8	2.8	1.0	2.9	2.7	3.0	2.6	2.5
Gross fixed capital form., ALL bn, nom.	352	337	352	373	420	.	.	.
annual change in % (real)	-2.0	-4.5	4.0	6.0	9.0	4.5	4.5	4.0
Gross industrial production								
annual change in % (real)	28.2	1.5	-2.1	-16.6	4.0	3.0	2.0	1.0
Gross agricultural production ²⁾								
annual change in % (real)	0.5	0.7	2.9	0.5	4.0	.	.	.
Construction output total								
annual change in % (real)	-13.0	5.0	19.3	5.1	12.0	.	.	.
Employed persons, LFS, th	1,024	1,037	1,087	1,157	1,195	1,220	1,240	1,260
annual change in %	-10.2	1.3	4.8	6.5	3.3	2.1	1.6	1.6
Unemployed persons, LFS, th	194	220	224	208	190	180	180	170
Unemployment rate, LFS, in %	15.9	17.5	17.1	15.2	14.0	13.0	12.5	12.0
Reg. unemployment rate, in %, eop	13.5	13.0	12.9	8.8	7.1	.	.	.
Average monthly gross wages, ALL ³⁾	36,332	45,539	46,829	45,845	49,840	53,000	56,800	60,800
annual change in % (real, gross)	-5.0	-0.7	0.9	-3.4	6.6	3.5	4.0	4.0
Consumer prices, % p.a.	1.9	1.6	1.9	1.3	2.0	2.8	3.0	3.0
Producer prices in industry, % p.a.	-0.4	-0.5	-2.1	-1.5	3.0	2.0	2.0	1.5
General governm.budget, nat.def., % of GDP								
Revenues	24.2	26.3	26.6	27.6	28.0	28.2	28.5	29.0
Expenditures	29.2	31.4	30.6	29.4	28.2	30.0	30.5	31.0
Deficit (-) / surplus (+)	-5.0	-5.2	-4.1	-1.8	-0.2	-1.8	-2.0	-2.0
General gov.gross debt, nat.def., % of GDP	65.6	70.1	73.1	72.4	71.0	69.0	67.0	65.0
Stock of loans of non-fin.private sector, % p.a.	-1.2	2.4	-2.6	0.2	0.7	.	.	.
Non-performing loans (NPL), in %, eop	23.2	22.8	18.2	18.3	13.2	.	.	.
Central bank policy rate, % p.a., eop ⁴⁾	3.00	2.25	1.75	1.25	1.25	1.3	1.5	1.5
Current account, EUR mn	-891	-1,076	-884	-812	-1,030	-1,010	-1,010	-1,070
Current account, % of GDP	-9.3	-10.8	-8.6	-7.6	-8.6	-7.9	-7.5	-7.5
Exports of goods, BOP, EUR mn	1,067	932	771	714	800	870	930	990
annual change in %	21.9	-12.7	-17.2	-7.4	12.1	8.5	6.5	6.5
Imports of goods, BOP, EUR mn	3,030	3,147	3,070	3,317	3,760	4,070	4,310	4,530
annual change in %	-2.3	3.9	-2.5	8.0	13.4	8.3	6.0	5.0
Exports of services, BOP, EUR mn	1,715	1,881	2,028	2,396	2,790	3,120	3,400	3,670
annual change in %	-9.7	9.7	7.8	18.1	16.5	12.0	9.0	8.0
Imports of services, BOP, EUR mn	1,489	1,558	1,503	1,599	1,780	1,940	2,060	2,200
annual change in %	2.0	4.6	-3.5	6.4	11.3	9.0	6.0	7.0
FDI liabilities, EUR mn	945	869	890	943	900	.	.	.
FDI assets, EUR mn	22	58	72	6	7	.	.	.
Gross reserves of NB excl. gold, EUR mn	1,971	2,142	2,831	2,889	2,941	.	.	.
Gross external debt, EUR mn	6,368	6,927	7,634	7,882	7,990	8,700	9,100	9,600
Gross external debt, % of GDP	66.2	69.5	74.7	73.5	67.0	68.0	67.0	67.0
Average exchange rate ALL/EUR	140.26	139.97	139.74	137.36	134.15	133.0	133.2	133.2

1) Preliminary and wiiw estimates. - 2) Based on UN-FAO data, from 2015 wiiw estimate. - 3) From 2014 based on data of General Directorate of Taxation, Structural Business Statistics (market producers) used before. - 4) One-week repo rate.

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