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Albania: High heels sans Achilles

End-of-year balance of payments data for 2011 suggest that remittances from Albanian migrants (mostly located in crisis-shattered Greece and Italy) did not drop as much as expected; on the contrary, they increased slightly. The inflow of remittances thus accounted for about 8% of GDP, almost as much as the inflow of FDI. Given the positive developments in potentially weak areas of the Albanian economy, we have revised upwards our previous GDP growth rate estimate for 2011 by one percentage point to 2.9% and our GDP growth rate forecast for 2012 by 10 basis points to 2.3%.

Customs trade-data for the first four months of 2012 reveal that a surprising trend continues unabated. While overall exports denominated in Albanian leks are even falling slightly, exports to crisis-shattered Italy, Greece and Spain are increasing on average by about 20%. The latter group of countries are among Albania's most important trading partners and were thus deemed to be the country's Achilles heel, yet similarly high growth rates for exports to those very same countries were also recorded throughout 2011. The main items exported to that group of countries were textiles and footwear. The key reason for this strange trade development might be the substitution of low-priced Albanian goods for high-priced domestic textiles and footwear in Italy, Greece and Spain, as well as a further outsourcing of production to Albania.

Similarly, end-of-year balance of payments data for 2011 suggest that remittances from Albanian migrants (mostly located in Greece and Italy) did not drop as much as expected; on the contrary, they increased slightly. The inflow of remittances thus accounted for EUR 700 million (8% of GDP), almost as much as the inflow of FDI. Given the positive developments in potentially weak areas of the Albanian economy, we have revised upwards our previous GDP growth rate estimate for 2011 by one percentage point to 2.9% and our GDP growth rate forecast for 2012 by 10 basis points to 2.3%.

However, positive developments in an unexpected segment of the economy have been unable to prevent the overall deceleration of economic growth since 2008. Should both exports and imports continue to decline throughout 2012, neither foreign nor domestic

private-sector demand will lend the Albanian economy any substantial growth impetus. In the first quarter of 2012, Albania's overall economic sentiment indicator recorded its lowest value since the all-time low in the first quarter of 2009. The construction confidence indicator, in particular, has hit rock bottom. Despite displaying a negative trend, consumer confidence is still close to the long-term average. Retail data for the fourth quarter of 2011 confirm this trend; they show complete stagnation as compared to the same period in the previous year. However, one forward-looking indicator, the sale, maintenance and repair of motor vehicles, increased by more than 30% year-on-year (but dropped by about 10% as against the previous quarter).

In the light of the lower demand for credit and an ever-higher share of non-performing loans (20% in the first quarter 2012 as against 15% a year earlier), banks have continued to tighten their lending standards, especially for households and large enterprises. This has led to a deceleration in the growth rate of total new loans to the economy to 8% for the first quarter 2012 as compared to the same period a year earlier. New loans to households slumped by almost a quarter, while new loans to businesses increased by 15%. However, the latter growth was quite unevenly distributed. New loans to the manufacturing (-33%) and construction sectors (-18%) dropped markedly. On the other hand, loans to trade and repair services increased palpably (53%), as did those to business services (294%).

Despite some disconcerting signals, the financial sector appears to be pretty sound. Return-to-assets as well as return-to-equity figures (although at low levels) are improving, as is the capital adequacy ratio, which stood as high as 16% in the first quarter 2012. Provided the inflation rate continues to drop, the Bank of Albania is expected to reduce its policy rate to about 4% or even less. This should help to dampen the deleveraging process and to avert appreciation of the domestic currency.

For want of momentum in the private sector, a continuation of government deficit spending will be of crucial importance to economic growth. Whereas data for the first quarter 2012 show both government revenues and expenditures increasing in equal measure, a mere one percentage point (year on year) each, the dynamics of the situation will in all likelihood pick up speed by the end of the year. The main reason for the acceleration is the parliamentary election scheduled for 2013. The government has announced that the major road works on the Tirana-Elbasan motorway will be completed by May 2013 - just before the parliamentary elections.

The Albanian election cycle is expected to keep economic growth rates at a level ranging between 2% and 3% for both 2012 and 2013. This will most likely be achieved at the

expense of violating the legal limit set for public debt: 60% of GDP. This is a relatively high value compared to other countries in Central, East and South-east Europe. However, Albania's external debt levels are very low; short-term external debt is almost non-existent. This makes Albania less vulnerable to speculative financial forays and bolsters the government's confidence in pursuing its pro-growth investment activity that is of such vital significance for a country with enormous gaps in its public infrastructure.

As for domestic politics, the performance of Prime Minister Sali Berisha's conservative government is small-minded and could well jeopardise Albania's European integration ambitions. Political infighting is hampering the selection of a compromise candidate for the current presidential election that requires a two-thirds majority in parliament. This, in tandem with the persistent delay in adopting an electoral bill that meets European standards, is the main reason for Albania most likely celebrating its centenary of independence (from the Ottoman Empire) without, however, acquiring EU candidate status this autumn.

Table AL

Albania: Selected Economic Indicators

	2008	2009	2010	2011 ¹⁾	2011 1st quarter	2012	2012 Forecast	2013 Forecast	2014
Population, th pers., average	3182.0	3194.4	3210	3220	.	.	3240	3260	3280
Gross domestic product, ALL bn, nom. ²⁾	1089.3	1151.0	1220	1290	.	.	1340	1430	1540
annual change in % (real) ²⁾	7.5	3.3	3.0	2.9	4.8	.	2.3	2.8	3.3
GDP/capita (EUR at exchange rate)	2800	2700	2800	2900	.	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	6400	6500	6600	6800	.	.	.	.	.
Consumption of households, ALL bn, nom. ²⁾	861.9	910	970	1030	.	.	.	.	.
annual change in % (real) ²⁾	6.7	3	2.5	3	.	.	2	4	5
Gross fixed capital form., ALL bn, nom. ²⁾	415.1	430	400	420	.	.	.	.	.
annual change in % (real) ²⁾	9.5	5	-7	4.8	.	.	2	4	6
Gross industrial production ³⁾									
annual change in % (real)	8.7	7.2	20	10	15.7	.	3	4	7
Gross agricultural production ⁴⁾									
annual change in % (real)	7.1	2.0	6	3	3.4	.	4	2	3
Construction output total ³⁾									
annual change in % (real)	10.9	0.4	-25	1	5.4	.	1	5	4
Employed persons - LFS, th ⁵⁾	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	974.1	899.3	916.9	928.1	920.4	933.3	920	930	950
annual change in %	3.7	-7.7	2.0	1.2	2.2	1.4	-1	1	2
Unemployed persons - LFS, th ⁵⁾	168.6	185.0	190	200	.	.	210	200	190
Unemployment rate - LFS, in % ⁵⁾	13.0	13.8	13.7	14	.	.	15	14	13
Unemployment rate, reg., in %, end of period	12.7	13.9	13.5	13.3	13.5	13.3	14	13	12
Average gross monthly wages, ALL ⁶⁾	34277	36075	38492	41030	45500	48800	.	.	.
annual change in % (real, gross) ⁶⁾	21.2	2.9	3.1	3.0	4.1	6.1	6	8	4
Consumer prices, % p.a.	3.4	2.3	3.5	3.5	4	1.1	1.5	4	4
Producer prices in industry, % p.a.	6.5	-1.6	0.3	2.5	3.1	2.5	2	4	4
General governm.budget, nat.def., % GDP									
Revenues	26.7	26.0	26.6	25	.	.	26	27	28
Expenditures	32.3	33.0	29.7	30	.	.	31	35	34
Deficit (-) / surplus (+)	-5.5	-7.0	-3.1	-5	.	.	-5	-8	-6
Public debt, nat. def., in % of GDP ⁷⁾	55.2	59.7	58.2	60	.	.	62	66	67
Central bank policy rate, % p.a., end of period ⁸⁾	6.25	5.25	5.00	4.75	5.30	4.25	4.00	3.75	4.25
Current account, EUR mn	-1381.2	-1329.8	-1018.5	-1145.4	-220.9	-259.2	-1200	-1450	-1700
Current account in % of GDP	-15.6	-15.3	-11.5	-12.5	.	.	-12.5	-13.8	-14.7
Exports of goods, BOP, EUR mn	917.5	750.7	1171.5	1405.5	370.6	325.8	1330	1400	1600
annual growth rate in %	16.7	-18.2	56.1	20.0	45.4	-12.1	-5	5	14
Imports of goods, BOP, EUR mn	3348.9	3054.4	3254.2	3647.1	779.1	791.2	3610	3850	4300
annual growth rate in %	15.9	-8.8	6.5	12.1	15.6	1.6	-1	7	12
Exports of services, BOP, EUR mn	1687.8	1771.4	1750.7	1747.4	312.3	293.8	1750	1850	2050
annual growth rate in %	18.7	5.0	-1.2	-0.2	15.3	-5.9	0	6	11
Imports of services, BOP, EUR mn	1618.3	1597.5	1518.8	1612.7	329.3	285.4	1600	1700	1850
annual growth rate in %	15.4	-1.3	-4.9	6.2	20.9	-13.3	-1	6	9
FDI inflow, EUR mn	665.2	716.9	793.3	741.9	83.3	185.9	700	800	900
FDI outflow, EUR mn	55.4	28.2	4.8	30.1	4.7	4.1	20	30	40
Gross reserves of NB excl. gold, EUR mn ⁹⁾	1626.1	1607.8	1842.1	1853.1	1733.7	1825.3	.	.	.
Gross external debt, EUR mn	3313.5	3567.5	3919.1	4534.0	3993.4	4600.5	.	.	.
Gross external debt in % of GDP	37.4	40.9	44.3	49.3	43.4	48.1	.	.	.
Exchange rate ALL/EUR, average	122.80	132.06	137.79	140.33	139.46	139.23	140	136	133
Purchasing power parity ALL/EUR ¹⁰⁾	53.48	55.39	57.83	58.55	.	.	.	.	.

1) Preliminary. - 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) Quarterly data refer to public sector. - 7) Based on IMF data. - 8) One-week repo rate. - 9) From 2009 international reserves (foreign assets of NB before). - 10) wiiw estimates based on the 2005 International Comparison Project benchmark and wiiw Eurostat.

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