

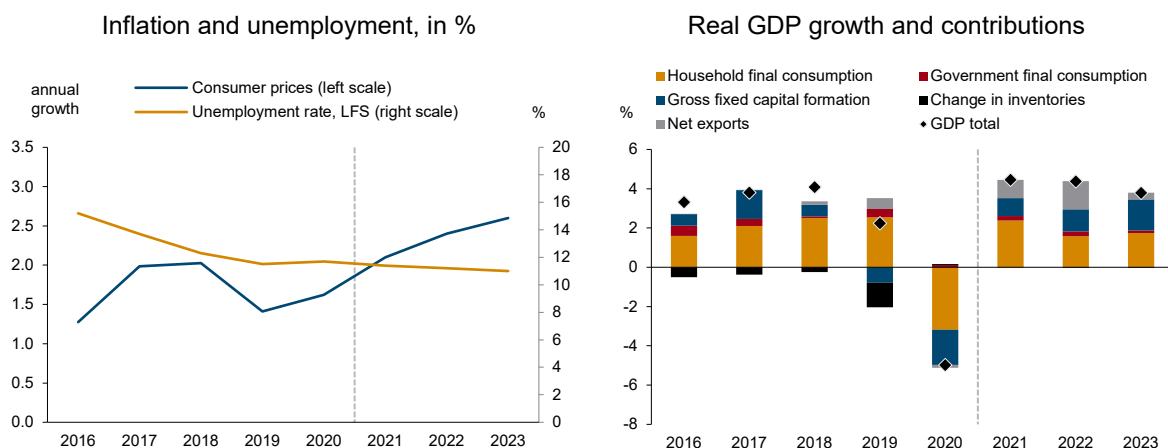


ALBANIA: Moderate recovery and mass vaccination against COVID-19 started

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Recovery will be slower than expected, as the pandemic is still weighing on economic activity. Domestic demand will support growth, but still at below pre-pandemic levels. External demand has improved somewhat, but will remain weak, as demand in the services and tourism sectors depends heavily on immunisation not only at home, but also in the EU countries. We expect the economy to grow by 4.5% over the medium term.

Figure 4.1 / Albania: Main macroeconomic indicators



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

The economy is expected to recover moderately in 2021. The adverse effects of the pandemic on the economy were felt particularly during the lockdown (second quarter of 2020), when the economy contracted by 10.2%. For the first three quarters of 2020, the pandemic adversely affected domestic demand, which fell by 4%. External demand weakened, while the trade deficit widened: exports – of both goods and services – fell by 30% and imports by 20%. All sectors of the economy have been negatively affected, with the exception of construction and agriculture. The decline in activity has been particularly pronounced in the manufacturing, trade and services sectors. The easing of the restrictions in the second half of 2020 saw economic activity pick up (albeit at below 2019 levels), mainly in the construction, public administration and manufacturing sectors. The construction sector recovered in the second half of 2020 partly reflecting the reconstruction works following the earthquake of November 2019, a real-estate bubble in the capital, Tirana, and a handful of infrastructure projects. Signs of recovery were also evident in retail trade and services, especially in the last quarter of 2020. The recovery is expected to be moderate in 2021, as the negative effects of the pandemic have been only partially mitigated.

There have been proactive vaccination efforts, but tangible results take time. With the onset of the pandemic, public health was prioritised over economic activity; but this trend was reversed in the second half of 2020. A rapid government response in the first half of 2020 helped to keep the number of COVID-19 infections and deaths low. However, in the second half of 2020 (particularly between October and December) and in February 2021, the number of infections and deaths increased dramatically. In February 2021, the infection rate was up to 30% – almost 1,100 daily infections, with 20 deaths a day (total deaths by end of March 2021 reached almost 0.1% per million inhabitants). The government has been negotiating with the various providers of anti-COVID-19 vaccines (including the Chinese and Russian vaccines). It has been announced that 1 million doses of the Chinese Sinovac vaccine will be received by end May 2021, and a large consignment of the Russian Sputnik V vaccine is expected in the coming months. The massive vaccination programme has been launched on 28 March 2021. In the second half of March, the vaccination of 500 Kosovo health workers got under way in Albania as no vaccine was available to Kosovo until 28 March 2021.

The unprecedented rise in government debt has increased uncertainty. General government budget revenue contracted by 7.5% in 2020, while expenditure increased by 9%. Tax revenues were rather low in 2020: at 26.4%, their share of GDP was close to 2015 levels. Meanwhile, spending rose to 33.5% of GDP – similar to the 2009 level, when the negative effects of the international financial crisis in Albania were being felt. The budget deficit stood at 7% and general government debt to GDP rose to an unprecedented 80%. The ongoing pandemic indicates that additional fiscal stimulus will be needed to support the economy. It is also an election year, and there is usually some redistribution of resources towards less productive activities. In May 2020, the government issued a Eurobond worth EUR 650 million, to mature in seven years and with a yield of 3.5%. The risks to the economic outlook are also on the downside. As a result, there is high uncertainty about how to improve the fiscal position if economic growth remains sluggish and below its potential.

The banking sector is well capitalised and monetary policy has continued to be accommodative. During 2020, despite the pandemic, demand for credit increased by 6.5%. Demand from the private sector increased by 10%, despite tighter credit standards for firms. Those sectors that saw increased credit demand were mainly retail, manufacturing, accommodation and food services, but also information and communication (in fact, demand for credit tripled in that sector). A boost to credit demand also came in the form of the guarantee scheme launched by the government to support companies during the pandemic. However, the demand for loans was mainly driven by liquidity needs, rather than investment. Non-performing loans continued their downward trend in 2020; however, in early 2021 that was reversed with a slight increase from 8.1% in January to 8.2% in February, which may reflect deterioration in the financial situation due to the pandemic and a less optimistic economic outlook. Monetary policy has continued to be accommodative. The central bank has kept the interest rate unchanged at 0.5%. The exchange rate gained stability in the second half of 2020. Meanwhile, the inflation rate fluctuated considerably in 2020. The volatility of consumer prices has also been evident in the first quarter of 2021, mainly due to food prices, but also to medical costs. Inflation is expected to rise to 1.8% in 2021 – below the central bank target of 3% – as the recovery will be slower than expected.

Domestic demand is still weak, but the outlook could improve for the second half of 2021. Domestic demand dropped due to a 4% fall in private consumption and an 8% decline in gross fixed capital formation over the first three quarters of 2020. The effects were rather strong in the second quarter of 2020 – under the lockdown regime – when consumption and investment contracted by 8%

and 16%, respectively. However, the end of the confinement measures saw investment pick up by 4% in the third quarter of 2020, year on year, while consumption remained weak. Consumption is expected to recover and support growth by the second half of 2021. However, there are downside risks stemming from the pace of vaccination, the revival of the tourism sector and employment prospects.

The risk of poverty for certain segments of the population is likely to increase, as inactivity rises.

The pandemic has had a negative impact on employment and has discouraged job searches. Unemployment rose to 11.8% in 2020 – an increase of 0.6 percentage points compared with 2019 – while employment fell by 22,000. Some 80% of those who lost their jobs moved to inactivity. The destabilising effects on employment were felt mainly among the older cohorts, with a strong shift in this category from employment to inactivity. Registered jobseekers receiving unemployment benefits more than doubled, while those receiving social assistance increased by 30%. Wages increased by 3%, while remittances, which are mainly destined for consumption, fell by 4% in 2020. The risk of poverty is likely to increase further, as a large segment of the population that works informally remains vulnerable and excluded from the social protection system.

The other side of the coin during the pandemic has been remote work. Remote work and online work platforms could offer better employment opportunities, especially among young people. The impact of the pandemic on youth employment – age cohorts 15-29 – seems to have been less severe. This could be explained by young people's greater flexibility and their better technical skills, allowing them to work remotely or adapt to teleworking. The share of workers using information and communication technologies in the workplace is increasing, although it is still smaller than in the EU: 25% of workers use computers in the workplace, compared to 55% in the EU. The pandemic has also boosted e-commerce: the proportion of businesses active in e-commerce has more than doubled, reaching 12.8%. For some other sectors, such as administration, support services, retail, and accommodation and food services, the expansion of e-commerce has been greater. Remote working and online work platforms have gained momentum – probably mainly among young people, given the technical skills required – and will continue to do so as the pandemic reshapes the world of work.

Demographic change in Albania has reached dramatic numbers and there is no short-term solution to the problem. The natural change in the Albanian population – the difference between the number of births and deaths – was unprecedented in 2020. Births exceeded deaths by only 470 – a net change which stands in sharp contrast to the figure of 10,345 in 2016. Of course, COVID-19 has contributed to the large number of deaths; but the main reason for the change is the low fertility rate joined with a high rate of emigration. Albania's population has fallen to the level of the early 1980s, but the picture is very different now: no longer does the country have either a buoyant fertility rate (3.4 in 1980, compared to 1.62 in 2015-2020) or zero emigration. The stock of Albanians abroad today corresponds to 57% of the current population. In the period 2011-2019 alone, it is estimated that 364,000 Albanians left the country (13% of the current population). New estimates also indicate that 39% of those who left between 2012 and 2019 have a high level of education. These demographic changes are affecting the structure of the population, but also human capital and labour market productivity.

External demand will return, but it might continue to be dampened. In 2019, exports of goods declined for all groups except food/beverage products. Exports from the textile and clothing industry fell by 14% and their share in exports declined to 37%, compared to 42% in 2016. The share of foodstuffs

and beverages in total exports is growing rapidly, and in 2020 was as important as that of minerals, fuels and electricity. The pandemic has severely affected exports of services and the tourism sector, but the effect has been less than expected. In 2020, the number of non-nationals entering Albania fell to 2.7 million – down from 6.4 million in 2019. Nights spent in tourist accommodation fell by 54% (65% among non-residents/foreigners and 28% among residents). With the lifting of mobility restrictions in the second half of 2020, the tourism sector returned to work, thanks both to domestic and neighbouring countries tourists, in particular Kosovo. This has generated some resilience in the sector, which is an important source of employment and exports of services. In 2021, the demand for tourism will depend on vaccine rollout. It is likely that this year, too, the sector will have to rely on tourist demand from Albanian nationals and their near neighbours. Therefore, further support from the government will be needed to strengthen the sector and bolster its recovery.

Foreign direct investment (FDI) has declined moderately, but the outlook is promising. In 2020, FDI inflows fell by 13%. It was announced in 2020 that the first solar power plant will be built by the French company Voltalia, in a project worth EUR 100 million. Preparatory work began in February 2021. Other important announcements also concern Vlora airport – in the southern coastal part of Albania: the Mabetex Group of Switzerland and the YDA Group of Turkey have won the tender and will invest EUR 104 million in construction of the airport over the next two years. In March 2021, the Albanian government and the United States signed a memorandum of understanding in the energy sector. This agreement provides for the conversion of the Vlora thermal power plant into a liquefied natural gas terminal. That will certainly increase US exporters' access to the European market and expand energy sources in Albania. However, it has already sparked some protests among ecologists, due to its environmental impact and its location in a coastal and tourist city.

The parliamentary elections scheduled for 25 April 2021 have been marked by the proactive engagement of civic movements. The start of the election campaign was marred by violent episodes. Few politicians that have dominated the scene for 30 years are also at the forefront of these elections. However, their leadership has stalled in the face of a high level of corruption, organised crime, the protracted EU integration process and the mass emigration of Albanians. The political manifestos in this election campaign are still based on past election commitments. EU integration is not high on the agenda in the campaign, given the very long prospects and the slowing of the process. The outstanding feature of these elections is the increased participation of civic movements: the Nisma Thurje civic movement is gaining in popularity, particularly among young people, and is being perceived as the Albanian equivalent of the Italian Five Star movement. Kosovo's Vetevendosje party has already opened a branch in Albania and has three candidates in the elections. Civic engagement and a bottom-up approach could be a game-changer in these parliamentary elections.

In a nutshell, the pace of recovery will be slower than expected, as the pandemic is still acting as a drag on economic activity. Domestic demand will support growth, but at below pre-pandemic levels. External demand will recover, but the downside risks remain high, as vaccination at home and abroad are progressing slowly. We forecast that the economy will expand at 4.5% over the medium term.

Table 4.1 / Albania: Selected economic indicators

	2017	2018	2019	2020 ¹⁾	2021	2022	2023
					Forecast		
Population, th pers., average	2,873	2,866	2,854	2,800	2,790	2,780	2,760
Gross domestic product, ALL bn, nom.	1,551	1,636	1,678	1,600	1,700	1,800	1,900
annual change in % (real)	3.8	4.1	2.2	-5.0	4.5	4.4	3.8
GDP/capita (EUR at PPP)	8,770	9,180	9,550	9,390	.	.	.
Consumption of households, ALL bn, nom.	1,224	1,277	1,333	1,300	.	.	.
annual change in % (real)	2.6	3.2	3.3	-4.0	3.0	2.0	2.2
Gross fixed capital form., ALL bn, nom.	381	391	378	300	.	.	.
annual change in % (real)	6.0	2.4	-3.3	-8.0	4.0	5.0	7.0
Gross industrial production							
annual change in % (real)	-0.8	18.7	-1.1	-6.3	4.0	1.0	1.0
Gross agricultural production ²⁾							
annual change in % (real)	0.9	1.9	5.0	3.0	.	.	.
Construction output total							
annual change in % (real)	19.6	5.6	-2.5	9.5	.	.	.
Employed persons, LFS, th, average	1,195	1,231	1,266	1,243	1,250	1,270	1,290
annual change in %	3.3	3.0	2.8	-1.8	0.5	1.6	1.6
Unemployed persons, LFS, th, average	190	173	165	165	160	160	160
Unemployment rate, LFS, in %, average	13.7	12.3	11.5	11.7	11.4	11.2	11.0
Reg. unemployment rate, in %, eop	7.2	5.4	5.8	7.4	7.3	7.2	7.0
Average monthly gross wages, ALL	48,967	50,589	52,380	53,787	57,100	60,200	63,600
annual change in % (real, gross)	1.0	1.3	2.1	1.0	4.0	3.0	3.0
Consumer prices, % p.a.	2.0	2.0	1.4	1.6	2.1	2.4	2.6
Producer prices in industry, % p.a.	2.6	1.7	-0.8	-3.0	1.0	0.5	0.5
General governm.budget, nat.def., % of GDP							
Revenues	27.8	27.5	27.4	26.5	27.0	27.5	28.0
Expenditures	29.8	29.1	29.3	33.5	32.0	31.0	30.0
Deficit (-) / surplus (+)	-2.0	-1.6	-1.9	-7.0	-5.0	-3.5	-2.0
General gov.gross debt, nat.def., % of GDP	70.2	67.7	66.3	80.0	77.0	76.0	75.0
Stock of loans of non-fin.private sector, % p.a.	0.7	-3.6	6.6	6.9	.	.	.
Non-performing loans (NPL), in %, eop	13.2	11.1	8.4	8.1	.	.	.
Central bank policy rate, % p.a., eop ³⁾	1.25	1.00	1.00	0.50	0.5	0.5	0.5
Current account, EUR m	-866	-866	-1,089	-1,155	-1,170	-1,060	-1,070
Current account, % of GDP	-7.5	-6.8	-8.0	-8.9	-8.5	-7.2	-6.9
Exports of goods, BOP, EUR m	797	986	907	794	830	880	920
annual change in %	11.7	23.7	-8.1	-12.5	4.5	5.5	4.5
Imports of goods, BOP, EUR m	3,621	3,857	4,050	3,776	3,910	3,950	4,030
annual change in %	9.2	6.5	5.0	-6.8	3.5	1.0	2.0
Exports of services, BOP, EUR m	2,856	3,073	3,405	2,231	2,440	2,620	2,750
annual change in %	19.2	7.6	10.8	-34.5	9.5	7.5	5.0
Imports of services, BOP, EUR m	1,774	1,962	2,141	1,174	1,260	1,310	1,380
annual change in %	11.0	10.6	9.1	-45.2	7.0	4.0	5.0
FDI liabilities, EUR m	900	1,020	1,072	933	.	.	.
FDI assets, EUR m	-94	-3	36	43	.	.	.
Gross reserves of CB excl. gold, EUR m	2,941	3,342	3,240	3,806	.	.	.
Gross external debt, EUR m	7,949	8,353	8,246	8,554	8,800	9,400	9,300
Gross external debt, % of GDP	68.8	65.2	60.4	66.2	64.0	64.0	60.0
Average exchange rate ALL/EUR	134.15	127.59	123.01	123.77	123.0	122.5	122.0

1) Preliminary and wiiw estimates. - 2) Based on UN-FAO data, wiiw estimate from 2019. - 3) One-week repo rate.

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