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## **Albania: periodic evils**

The end of the year 2006 and early 2007 was again marked by the two periodic evils that Albania is facing every now and then: energy and political crises. While the first is still continuing the latter at least has been solved for the moment. These two crises are the reason for reduced economic growth prospects for 2006 and 2007. For both years the real GDP growth rate is not expected to exceed 5%. Given more favourable conditions in 2008 the growth rate may approach the average mid-term target of 6%. Still due to the lasting shortcomings in physical and institutional infrastructure, Albania is missing out on an even higher potential growth path. This is given its kick-off from very low levels of economic activity.

The political crisis that shook the country for the past months was based on a recurring pattern of political agitation with changed roles. Now that the left-wing parties are in opposition and the right-wing parties in government, they still behave in the same non-cooperative manner as at the time when it was the other way around. This time the bone of contention was the electoral reform in view of the forthcoming local elections. A massive lack of will for consensus over fundamental democratic rules blocked the political process. The political deadlock peaked when the opposition decided to boycott the upcoming local elections. Only thanks to the effort made by the president of the republic and representatives of the European Commission, the US State Department and the OSCE that, finally, in mid-January 2007, a compromise was reached and the path to local elections was opened. Against the background of Albania's will for integration both the EU and NATO were irritated by the surprisingly severe dispute of the country's political elites. Also the blatant immaturity of the Albanian political agents was unhelpful in furthering the much-needed process of addressing the country's major economic obstacles: ailing physical and institutional infrastructure. It is also due to this that FDI is trickling in only slowly.

The energy crisis which re-appeared in late 2006 is a repetition of similar events at the end of 2005 and earlier years. Once again a drought hitting the purely hydropower-dependent country caused electricity cuts of up to 12 hours a day in the cities and 20 hours a day in the rural areas. Electricity imports are limited due to the weak state of the domestic power grid, as well as because of shortages in power supply in other countries of the region. With the accession of Bulgaria to the EU, that country had to close down most units of its nuclear power plant in Kozloduj due to security issues. This also affects electricity supply in Albania. Allegedly the current electricity crisis in Albania is the worst in the past 16 years.

As a consequence GDP growth for 2006 is expected to drop below 5%, which is about one percentage point lower as compared to the expectations a year ago. The energy crisis has

also its impact on the current account. The deficit is widening strongly and is expected to rise above 10% of GDP due to heavy increases particularly in fuel and electricity imports. Provided more favourable weather conditions for hydropower generation and an improvement in the technical condition of the electricity transmission facilities occur, the economic situation in 2007 and 2008 should gradually improve. GDP is expected to grow by 5% and 5.5% respectively. The current account deficit may somewhat decrease, to levels below 9% and 7% of GDP respectively. It is encouraging that negotiations on the construction of a thermopower plant near the town of Vlora have been completed. The value of investment is USD 120 million with a capacity of generating 120 MWh per year. The project will be co-financed by the World Bank and the EBRD. The facility is expected to be completed within the next 18 months. Once in operation, the power plant is envisaged to reduce electricity imports by 30%. Other thermopower projects are expected to be completed by the end of the decade. By then Albania should have overcome this severe bottleneck for economic growth.

Summing up, the overall growth prospects of the Albanian economy appear to be favourable given the expected improvements in physical and institutional infrastructure. Strong growth of domestic demand and a vibrant construction sector – both fuelled by remittances from Albanians working abroad – are at the core of the country's economic performance. However, an improved business climate should also attract more FDI to the export sector, making this sector an engine of economic growth as well.

Table AL

## Albania: Selected Economic Indicators

	2000	2001	2002	2003	2004	2005	2006 <sup>1)</sup>	2007 forecast	2008 forecast
Population, th pers., end of period	3063.3	3084.1	3102.8	3119.5	3135.0	3150.0	3150	.	.
Gross domestic product, ALL mn, nom.	532977	590282	628527	694018	752367	822035	880000	950000	1030000
annual change in % (real)	6.5	7.1	4.3	5.8	6.2	5.6	4.8	5	5.5
GDP/capita (EUR at exchange rate)	1316	1496	1535	1622	1884	2106	2270	.	.
GDP/capita (EUR at PPP - wiiw)	3310	3580	3740	3940	4100	4420	4610	.	.
Gross industrial production									
annual change in % (real) <sup>2)</sup>	1.3	6.1	-5.1	29.0	14.1	1.3	1.5	2	3
Gross agricultural production									
annual change in % (real) <sup>2)</sup>	6.6	2.7	2.1	3.2	6.2	0.9	3.5	3.5	3
Construction output total									
annual change in % (real) <sup>2)</sup>	46.5	32.7	21.5	23.6	7.7	15.1	10	11	12
Consumption of households, ALL mn, nom.	371522	422651	455952	508108	.	.	.	.	.
in % of GDP	69.7	71.6	72.2	72.9	.	.	.	.	.
Gross fixed capital form., ALL mn, nom.	112958	151156	143914	160210	.	.	.	.	.
in % of GDP	21.2	25.6	22.8	23.0	.	.	.	.	.
Reg. employment total, th pers., end of per. <sup>3)</sup>	1068.2	1063.0	920.1	926.2	931.2	932.0	932	.	.
annual change in % <sup>3)</sup>	0.3	-0.5	0.1	0.7	0.5	0.1	0	.	.
Reg. unemployed, th pers., end of period	215.1	180.5	172.4	163.0	157.0	155.0	150	.	.
Reg. unemployment rate in %, end of period	16.8	16.4	15.8	15.0	14.4	14.2	13.9	14	14
Average gross monthly wages, ALL <sup>4)</sup>	14963	17218	19659	21325	24393	26808	27900	.	.
annual change in % (real, gross) <sup>4)</sup>	17.7	11.6	8.1	6.0	11.2	7.3	2.6 <sup>HX</sup>	.	.
Consumer prices, % p.a.	0.1	3.1	5.2	2.2	3.0	2.4	2.3	2	2
Producer prices in manufacturing ind., % p.a.	6.5	-7.2	5.1	1.8	12.2	4.9	0.4 <sup>HX</sup>	.	.
General governm. budget, nat.def., % GDP									
Revenues	24.5	24.7	24.6	24.1	24.5	24.8	.	.	.
Expenditures	32.0	31.5	30.6	29.0	29.6	28.3	.	.	.
Deficit (-) / surplus (+), % GDP	-7.5	-6.9	-6.0	-4.9	-5.1	-3.4	-3	-3	-4
Public debt in % of GDP	42.6	41.0	41.4	40.4	37.8	38.1	.	.	.
Refinancing base rate, % p.a., end of period	10.8	7.0	8.5	6.5	5.3	5.0	5.5 <sup>XI</sup>	.	.
Current account, EUR mn <sup>5)</sup>	-176.8	-243.3	-445.6	-400.0	-287.8	-492.0	-750	-660	-550
Current account in % of GDP	-4.4	-5.3	-9.4	-7.9	-4.9	-7.4	-10.5	-8.5	-6.5
Gross reserves of BoA incl. gold, EUR mn <sup>6)</sup>	691.5	863.5	813.0	812.7	1005.2	1201.6	1290 <sup>XI</sup>	.	.
Gross external debt, EUR mn	1321.0	1391.0	1140.0	1122.0	1169.0	1200.0	.	.	.
Gross external debt in % of GDP	32.9	30.3	24.0	22.2	19.8	18.1	.	.	.
FDI inflow, EUR mn <sup>5)</sup>	155.0	231.5	142.9	157.8	278.4	224.2	270	.	.
Exports of goods, BOP, EUR mn <sup>5)</sup>	277.5	340.2	350.5	397.9	485.6	530.2	620	700	800
annual growth rate in %	7.3	22.6	3.0	13.5	22.0	9.2	17	13	14
Imports of goods, BOP, EUR mn <sup>5)</sup>	1166.8	1486.5	1574.5	1578.3	1762.3	2006.9	2350	2400	2450
annual growth rate in %	32.6	27.4	5.9	0.2	11.7	13.9	17	2	2
Exports of services, BOP, EUR mn <sup>5)</sup>	485.8	595.9	619.6	637.8	807.5	967.3	1210	1400	1600
annual growth rate in %	94.3	22.7	4.0	2.9	26.6	19.8	25	16	14
Imports of services, BOP, EUR mn <sup>5)</sup>	466.1	496.2	624.9	711.8	848.0	1107.7	1320	1450	1600
annual growth rate in %	200.1	6.5	25.9	13.9	19.1	30.6	19	10	10
Average exchange rate ALL/USD	143.7	143.5	140.2	121.9	102.8	99.9	98.1	.	.
Average exchange rate ALL/EUR (ECU)	132.6	128.5	132.4	137.5	127.7	124.2	123.1	122	122
Purchasing power parity ALL/USD, wiiw <sup>7)</sup>	46.2	46.9	46.9	47.9	49.5	49.7	49.3	.	.
Purchasing power parity ALL/EUR, wiiw <sup>7)</sup>	52.6	53.7	54.3	56.6	58.7	59.3	60.6	.	.

1) Preliminary. - 2) According to gross value-added. - 3) From 2002 according to census April 2001. - 4) Public sector only. - 5) Until 2003 calculated from USD. - 6) Refer to total foreign assets of Bank of Albania. - 7) wiiw estimates incorporating data of World Development Indicators 2006.

Source: wiiw Database incorporating national statistics; wiiw forecasts.