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Albania: power issues

Albania is currently struck by power issues – those related to the political sphere as well as concerning the domestic electricity supply. Both have important implications for the development of the country.

In fulfilling its number one election campaign promise of fighting corruption, the new conservative government also ‘takes revenge’ on the socialist party after the years spent in opposition. In this respect a number of international contracts that the previous socialist government had signed were cancelled.

For instance, the government suspended a deal to sell the state-owned fixed-line telephone company Albtelecom to a Turkish consortium. In May 2005 the consortium of Turk Telekom and Calik Enerji had offered EUR 120 million to buy 76% of Albtelecom. The former socialist government considered this deal as one of their most successful privatizations. However, the new economy minister Genc Ruli declared the deal to have violated Albanian law and announced a corruption investigation. It is intended to open an international tender to select a consultant for the privatization of Albtelecom.

Also, a high speed rail line project linking the capital Tirana and the second biggest city and main port of Durrës was cancelled. The USD 83 million deal had been agreed between the US-based General Electric and the former government. Minister Ruli declared that this state-funded project was too high a burden to place on the debt of the Albanian state. Similarly, a big road construction project was put on hold. These moves are likely to raise concerns on the part of international investors with regard to the contract constancy of Albanian governments.

A more direct clash started over the decision of the National Council of Territory Adjustment on the demolition of an overpass in the socialist-run municipality of Tirana. Tirana Mayor and head of the socialist party Edi Rama communicates with the central government via the courts. A rally organized by the socialists has further fuelled the dispute. The political climate in the country has once again hit rock bottom. This has even made the Council of Europe to arbitrate between the parties in order to help resolve the deadlock.

Given that the Albanian government wishes to sign the Stabilization and Association Agreement (SAA) with the EU in the first half of 2006 (during Austria’s EU presidency) it will be of utmost importance to settle the differences soon and thereby prove democratic maturity and the functioning of the constitutional state.

Meanwhile the electricity crisis continues. Heavy flooding has led to further electricity shortages in the centre and south of the country, in addition to those caused by the previous drought. Albania mainly relies on national hydro power generation. However, the worst part of the crisis with its peak in late 2005 seems to be over. The capital Tirana reports almost no power cuts although other major cities such as Vlora and Shkodra still face up to eight hours of regular power cuts.

The lack of electric power made the Albanian economy suffer. It is reported that some of Albania's main export branches such as manufacturing of textiles, shoes and processed foods experienced up to double-digit export drops in October. Although the exact impact of the electricity shortage on overall growth cannot yet be assessed, it may be expected that the economy will expand by 'only' 5.5% in both 2005 and 2006. This is about half a percentage point below the medium-term growth path of 6% which might be achieved again in 2007. While this does not appear to be too dramatic an effect, it has to be borne in mind that the original expectations for the 2005 real GDP growth rate were above 6%.

In reaction to the electricity crisis the government held an international tender to purchase electricity in order to secure enough imported energy for 2006. However, the tender has been cancelled as well. It was officially argued that the companies participating in the tender were not able to meet the minimum legal terms and conditions. In turn the government decided to authorize the state-owned electricity monopolist KESH to buy electricity for the first quarter of 2006 directly from foreign providers. According to the Albanian government, in the long run the only way to overcome the pathological energy crisis is to invest about EUR 1.5 billion in constructing a set of new thermo-electric power plants.

However, it might be argued that also a more market-based approach including the establishment of property rights (i.e. the fight against the wide-spread electricity theft) could improve the secure supply of electricity to the customers. In any case, it is one of the main tasks of the government to assure proper energy supply, which is vital for the Albanian economy as well as the living standard of the population.

Overall stability in both power issues – the political as well as the electric – are decisive for Albania's development. A stable political environment is the precondition for the aspired European integration. This, together with a functioning energy infrastructure, is essential for attracting foreign direct investment and achieving, eventually, economic prosperity as well. However, at present the outlook for attaining stability in both power issues is rather dim.

Table AL

Albania: Selected Economic Indicators

	1999	2000	2001	2002	2003	2004	2005 ¹⁾	2006	2007
	forecast								
Population, th pers., end of period ²⁾	3058.5	3063.3	3084.1	3102.8	3119.5	3135.0	3150	.	.
Gross domestic product, ALL mn, nom.	474291	530907	587717	624718	682669	780100	836900	910000	980000
annual change in % (real)	10.1	7.3	7.0	2.9	5.7	6.0	5.5	5.5	6.0
GDP/capita (EUR at exchange rate)	1057	1308	1488	1526	1596	1955	2140	.	.
GDP/capita (EUR at PPP - wiiw)	3100	3540	3820	3930	4160	4490	4710	.	.
Gross industrial production									
annual change in % (real) ³⁾	34.2	0.5	7.1	1.8	2.7	3.1	2	2	3
Gross agricultural production									
annual change in % (real) ³⁾	0.4	4.5	2.2	2.1	3.0	3.1	3	3.5	3.5
Construction output total									
annual change in % (real) ³⁾	17.8	37.2	49.3	8.7	11.3	10.6	10	10	11
Consumption of households, ALL mn, nom.	334801	371522	422651	455952	508108	.	.	.	.
in % of GDP	70.6	70.0	71.9	73.0	74.4	.	.	.	.
Gross fixed capital form., ALL mn, nom.	81633	112958	151156	143914	160210	.	.	.	.
in % of GDP	17.2	21.3	25.7	23.0	23.5	.	.	.	.
Reg. employment total, th pers., end of period ⁴⁾	1065.1	1068.2	920.6	920.1	926.2	931.0	931	.	.
annual change in %	-1.8	0.3	-13.8	0.0	0.7	0.5	0	.	.
Reg. unemployed, th pers., end of period ⁴⁾	239.8	215.1	180.5	172.4	163.0	157.0	155	.	.
Reg. unemployment rate in %, end of period	18.2	16.8	16.4	15.8	15.0	14.4	14	14	14
Average gross monthly wages, ALL ⁵⁾	12708	14963	17218	19659	21325	24393	27000	.	.
annual change in % (real, gross) ⁵⁾	9.9	17.7	11.6	8.1	6.1	11.2	11	.	.
Consumer prices, % p.a.	0.4	0.1	3.1	5.3	2.4	2.9	2.4	2.5	2
Producer prices in manufacturing ind., % p.a.	2.8	6.5	-7.2	5.1	1.8	12.2	.	.	.
General governm.budget, nat.def., % GDP									
Revenues	26.0	24.6	24.8	24.7	24.5	23.6	.	.	.
Expenditures	34.9	32.1	31.7	30.8	29.5	28.5	.	.	.
Deficit (-) / surplus (+), % GDP	-9.0	-7.5	-6.9	-6.1	-5.0	-4.9	-4	-3	-3
Public debt in % of GDP	37.0	43.0	41.0	41.4	40.3	37.8	.	.	.
Refinancing base rate, % p.a., end of period	18.0	10.8	7.0	8.5	6.5	5.3	5.0 ^{ix}	.	.
Current account, EUR mn ⁶⁾	-125.5	-175.6	-243.5	-433.1	-360.7	-286.2	-400	-370	-360
Current account in % of GDP	-3.9	-4.4	-5.3	-9.2	-7.3	-4.7	-5.9	-5.0	-4.5
Gross reserves of BoA incl. gold, EUR mn ⁷⁾	518.2	691.5	863.5	813.0	812.7	1005.2	1142.8 ^x	.	.
Gross external debt, EUR mn	1103.0	1262.0	1355.0	1135.0	1118.0	1165.0	.	.	.
FDI inflow, EUR mn ⁶⁾	36.5	156.1	231.2	151.4	157.8	278.4	200	.	.
Exports of goods, BOP, EUR mn ⁶⁾	258.6	277.5	340.2	350.5	397.9	485.6	540	560	650
annual growth rate in %	39.3	7.3	22.6	3.0	13.5	22.0	11	4	16
Imports of goods, BOP, EUR mn ⁶⁾	879.8	1166.8	1486.5	1574.5	1578.3	1762.3	2000	2020	2100
annual growth rate in %	21.2	32.6	27.4	5.9	0.2	11.7	13	1	4
Exports of services, BOP, EUR mn ⁶⁾	250.2	485.6	595.3	618.4	638.1	807.5	920	950	1050
annual growth rate in %	225.8	94.1	22.6	3.9	3.2	26.6	14	3	11
Imports of services, BOP, EUR mn ⁶⁾	154.6	467.2	494.8	623.7	709.8	848.0	1060	1100	1150
annual growth rate in %	32.1	202.2	5.9	26.1	13.8	19.5	25	4	5
Average exchange rate ALL/USD	137.7	143.7	143.5	140.2	121.9	102.8	99.9	.	.
Average exchange rate ALL/EUR (ECU)	147.0	132.6	128.5	132.4	137.5	127.6	124.2	123	122
Purchasing power parity ALL/USD, wiiw ⁸⁾	43.8	43.2	43.6	44.3	45.0	47.5	47.1	.	.
Purchasing power parity ALL/EUR, wiiw ⁸⁾	50.2	49.1	50.0	51.3	52.7	55.6	56.6	.	.

Note: ALL: ISO-Code for the Albanian lek.

1) Preliminary. - 2) Based on combined censuses 1989 and April 2001. - 3) According to gross value added. - 4) From 2001 according to census April 2001. - 5) Public sector only. - 6) Until 2003 calculated from USD. - 7) Refer to total foreign assets of Bank of Albania. - 8) wiiw estimates incorporating data of World Penn Tables.

Source: wiiw Database incorporating national statistics; wiiw forecasts.