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## **Albania: Rainfall export growth**

The rainy first half of 2010 made the Albanian hydro power stations generate electricity for export at full throttle. While domestic consumption and investment have turned depressed, the unexpected export rebound to pre-crisis levels has slightly improved GDP growth prospects for 2010. However, for the whole forecasting period 2010-2012 we expect economic growth rates far below potential.

A showery spring 2010 has caused an electricity export miracle for Albania as the Albanian electricity corporation is overwhelmingly relying on hydro power. In the first quarter of 2010 total energy exports tripled on a year-on-year basis to more than EUR 50 million. Though a small value in international comparison, this accounts for more than a fifth of overall first quarter exports of goods. Total goods exports increased by a staggering 45%. This increase was also supported by a substantial growth of exports of raw materials and minerals as well as manufactures classified by material, which might be due to increased commodity prices. Especially the latter increase may have been supported by the 10% depreciation of the Albanian nominal and real exchange rate as compared to its peak in late 2008. Given the weather conditions in the second quarter of 2010, it can be expected that electricity exports will grow even more.

However, trade data reveal growth-dampening evidence as well. While overall imports in the first quarter of 2010 remained fairly stable year-on-year, imports of machinery and equipment dropped by more than 20%. This is the continuation of a trend that started already in the third quarter of 2009 and which reflects a substantial deceleration of gross fixed capital formation growth. This development is coherent with the slowdown in the growth of bank loans to the non-financial private sector. In March 2009 these loans were still growing by more than 30%, while the latest data from March 2010 show a meagre growth rate of some 6% only. Latest GDP data from the fourth quarter of 2009 exhibit, for the first time in years, a negative growth rate of 0.8%. The main cause for this slump is a 14% fall in the construction sector.

The most recent official bank lending survey results seem to confirm that this trend is continuing in the first and second quarter of 2010 too. Banking experts expect for the second quarter of 2010 a decrease in businesses' demand. In particular demand for investment loans has already been falling for several consecutive quarters. Interestingly enough, demand for household loans turned positive in the first quarter and is expected to grow further in the second quarter as well. The main driving force of this increase in credit demand are households' needs to finance consumption rather than to invest in real estate. It seems that households feel the need to smooth their consumption over the business cycle as the crisis starts curbing income and employment is being reduced. Latest data from the fourth quarter of 2009 indicate a drop in total employment of nearly 8% year-on-year.

However, given the expected tightening of loan standards, dissaving to keep up household consumption will not be a viable solution for the period to come. Nevertheless one source of households' income compensation might be the increasing trend in remittances. While the first three quarters of 2009 exhibited a decline in private transfers of about 2% year-on-year, the latest available data from the fourth quarter of 2009 show a remarkable increase of 6.5%, which also increases the overall year 2009 inflow. Thus it appears that remittances act countercyclically. This is even more remarkable if one considers the long-term trend of declining remittances over the last couple of years as well as the economic situation in the two most important host countries for Albanian workers abroad, namely Greece and Italy. As rumour has it, a first wave of return migration from Greece has hit Albania but no official data are available. Nonetheless it is fair to expect household final consumption at least to stagnate in 2010 on average.

Finally, government consumption will not be a driving force for GDP in the foreseeable future either. Data on first quarter government expenditures indicate stagnation as compared to the same period of 2009. Moreover, the financing of the deficit is becoming more difficult. The government has been trying for several months, in a second attempt, to emit the country's first Eurobond ever. So far, however, it was not possible to raise the planned EUR 400 million with a maturity of up to 5 years and an interest rate of up to 7.5%. In the end it will most likely be possible to emit the bond at higher interest or to receive funds from the international financial organizations. Still, the deficit as a share in GDP will most probably drop or at least stagnate at around 6% in 2010. If international financial markets remain as risk averted as is currently the case, the Albanian government will have to drastically reduce the budget deficit in the years to come in order to keep the public debt share below 60% of GDP.

Overall we expect for the year 2010 stagnating final consumption and at best only a tiny increase in investment. This tiny increase may be following the rainfall increase in energy exports as well as an increase in manufactures exports due to exchange rate depreciation. It is that improvement of the current account that makes us forecast a GDP growth rate of 1.7% for 2010. Under the assumption that the international environment starts to improve slightly in the years 2011 and 2012 we can expect a very modest improvement of household consumption and private investment. Thus we forecast a growth rate of around 2% in 2011 and 3% in 2012. These rates are only about half of the medium-run potential growth rate of Albania.

Table AL

**Albania: Selected Economic Indicators**

	2006	2007	2008	2009 <sup>1)</sup>	2009 1st quarter	2010 1st quarter	2010	2011 Forecast	2012 Forecast
Population, th pers., average	3135	3161	3177	3190	.	.	3210	3220	3240
Gross domestic product, ALL bn, nom.	882.2	966.7	1087.9	1180.0	300	300	1230	1280	1350
annual change in % (real)	5.4	6.0	7.8	4.2	3.8	-1.5	1.7	2.2	3
GDP/capita (EUR at exchange rate)	2300	2500	2800	2800	.	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	5500	5800	6500	6600	.	.	.	.	.
Consumption of households, ALL bn, nom.	680.3	775.1	844.0	890.0	.	.	.	.	.
annual change in % (real)	4.7	10.7	6.7	1.0	.	.	0	2	3
Gross fixed capital form., ALL bn, nom.	343.9	374.9	431.7	450.0	.	.	.	.	.
annual change in % (real)	13.0	5.8	10.0	3.5	.	.	1	3	8
Gross industrial production <sup>2)</sup>									
annual change in % (real)	12.1	-10.3	9.4	4.3	6.5	.	10	2	7
Gross agricultural production <sup>3)</sup>									
annual change in % (real)	3.1	2.6	7.7	3.0	3.1	.	1	3	3
Construction output total <sup>2)</sup>									
annual change in % (real)	10.5	10.1	4.8	7.0	-3.9	.	0	2	4
Employed persons - LFS, th, June	.	1197.7	1103.0	1110.0	1114.2	.	1050	1060	1080
annual change in %	.	.	-7.9	0.6	3.2	.	-5	1	2
Employment reg. total, th pers., end of period	935.1	965.5	974.1	970.0	972.9	.	910	920	940
annual change in %	0.3	3.3	0.9	-0.4	3.6	.	.	.	.
Unemployed persons - LFS, th, June	.	184.8	166.0	167.0	.	.	190	180	170
Unemployment rate - LFS, in %, June	.	13.5	13.1	13.1	.	.	15	14	14
Reg. unemployment rate, in %, end of period	13.8	13.2	12.7	12.8	12.7	15	14	13	13
Average gross monthly wages, ALL	21842	27350	29000	31900	39396	.	.	.	.
annual change in % (real, gross)	6.7	21.6	2.6	7.6	10	.	.	.	.
Consumer prices, % p.a.	2.4	2.9	3.4	2.2	1.8	4.1	3	2	2
Producer prices in industry, % p.a.	0.8	3.5	6.5	-1.6	-1.2	.	-1	1	3
General governm.budget, nat.def., % GDP									
Revenues	26.0	26.0	26.8	25.4	.	.	23	24	25
Expenditures	29.3	29.6	32.3	32.2	.	.	29	26	27
Deficit (-) / surplus (+)	-3.3	-3.5	-5.5	-6.8	.	.	-6	-2	-2
Public debt, nat. def., in % of GDP <sup>4)</sup>	56.0	52.8	52.6	55.0	.	.	59	59	58
Base rate of NB, % p.a., end of period <sup>5)</sup>	5.5	6.3	6.3	5.3	5.8	5.3	5.3	5.3	6
Current account, EUR mn	-471.0	-831.0	-1370.3	-1345.5	-326.5	-246.6	-1120	-1210	-1400
Current account in % of GDP	-6.6	-10.6	-15.5	-15.1	-14.0	-11.4	-12.7	-13.0	-13.2
Exports of goods, BOP, EUR mn	630.6	786.3	917.5	750.7	175.7	255.0	970	1000	1110
annual growth rate in %	18.9	24.7	16.7	-18.2	-14.9	45.1	29	3	11
Imports of goods, BOP, EUR mn	2289.6	2890.4	3348.9	3054.4	692.5	674.0	3500	3600	4100
annual growth rate in %	14.1	26.2	15.9	-8.8	-5.6	-2.7	15	3	14
Exports of services, BOP, EUR mn	1156.6	1415.1	1687.8	1718.4	303.0	253.1	1800	2000	2200
annual growth rate in %	19.6	22.3	19.3	1.8	-13.9	-16.5	5	11	10
Imports of services, BOP, EUR mn	1188.0	1402.3	1618.4	1597.5	324.2	272.4	1700	1800	2100
annual growth rate in %	7.2	18.0	15.4	-1.3	-8.7	-16.0	6	6	17
FDI inflow, EUR mn	258.6	481.1	675.4	706.4	123.4	155.2	400	500	600
FDI outflow, EUR mn	8.3	11.1	55.4	26.1	4.0	1.5	10	20	30
Gross reserves of NB excl. gold, EUR mn	1329.2	1415.9	1626.1	1500.0	1593.2	.	.	.	.
Gross external debt, EUR mn <sup>6)</sup>	1445.4	1445.7	2624.3	3000.0	2701.41	.	.	.	.
Gross external debt in % of GDP	20.3	18.2	29.9	35.1	31.6	.	.	.	.
Average exchange rate ALL/EUR	123.1	123.6	122.8	132.1	128.2	138.6	140	137	127
Purchasing power parity ALL/EUR <sup>7)</sup>	51.2	52.7	52.9	55.9	.	.	.	.	.

1) Preliminary. - 2) Gross value-added. - 3) Gross value-added of agriculture, forestry and fishing. - 4) Based on IMF data. - 5) One week repo rate. - 6) Until 2007 based on IMF data. - 7) Benchmark results 2005 from Eurostat and wiiw estimates.

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