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## **Albania: SAA 2005? EU 2014?**

In 2004 Albania remained on the previous year's high average growth path of 6%. At the same time the country has recorded low inflation and falling unemployment rates. Still, with a real GDP per capita at PPP significantly below EUR 5000, it is one of the poorest countries in Europe, pressing for EU integration and longing for better living conditions.

Recently, at a visit to France, Albanian Prime Minister Fatos Nano expressed his hope that the country will be able to conclude the Stabilization and Association Agreement (SAA) with the EU in 2005 and targeted the year 2014 as the desired date for full EU membership. However, EU Enlargement Commissioner Olli Rehn has dampened the optimism by indicating that, although the SAA negotiations with Albania are continuing, progress will depend on the parliamentary elections (due before July 2005) and the pace of reforms. He also emphasized his concern about the political climate in Albania being currently not conducive to reform.

This latter points not only to the embittered atmosphere between the ruling Socialist Party and the opposition but also to the long-lasting political infight within the Socialist Party. In this context it is indicative that Prime Minister Nano publicly criticized the work of two members of his cabinet at the end of January 2005: he blamed his Minister of Education for the lack of transparency in tenders organized by the ministry, and he assessed his Labour Minister to have failed to achieve any positive results. Thus, doubts about the time schedule for Albania's EU integration steps as put forward by the Prime Minister seem justified.

Nevertheless, Albania has reason to be pleased with its continued high economic growth. In 2004 the Albanian economy appears to have managed a precision landing at a 6.0% GDP growth rate, as was the case in 2003. On the one hand this might point to the deplorable state of the national accounts statistics, which are still in their fledgling stages. On the other hand it is widely observable that the Albanian economy is in fact booming. Here the construction sector is in the forefront. Huge and growing inflows of remittances from Albanian expatriates (at about 12% of GDP in 2004) boost e.g. gross fixed capital formation through private housebuilding. Furthermore agriculture did better than expected because of favourable weather conditions in 2004. However, inflation remained below 3% in 2004, also due to a lower than expected budget deficit. At the same time the current account deficit is expected to shrink (based on the first nine months' balance of payments data for 2004) below EUR 300 million (less than 5% of GDP) facilitated by double-digit export growth rates.

Growth prospects for 2005 and 2006 appear to be even more encouraging. Real GDP growth in both years is forecast at 6% to 7%. Other things being equal, one may expect an increasing budget deficit in the run-up to the 2005 parliamentary elections to act as a growth momentum in 2005. This could drive inflation to the upper bound of the 2-4% inflation range targeted by the Albanian Central Bank and put additional pressure on the current account deficit.

In 2006 we may expect a switchback to fiscal prudence and easing inflation. Given an economic recovery in the eurozone, which is Albania's most important export market, increased foreign demand may be a stimulus for domestic GDP growth. Also, increased international economic presence in Albania might yield first results in enhanced productivity.

After the takeover of the main Albanian bank by the Austrian RZB in 2004, further substantial FDI inflows can be expected for 2005. Albania is privatizing its oil processing and trading company ARMO. Reportedly the list of potential bidders includes Croatia's INA, Italy's ENI, Greece's Motor Oil and a consortium of Samsung and the South Korean state oil corporation. The privatization revenue for ARMO is expected to reach USD 58 million. Similarly the privatization of the Albanian fixed telephony company Albtelekom is expected for 2005.

Overall, the short- and long-run prospects for the Albanian economy appear to be very favourable. However, political risk is the main threat to the medium-term development. Fair and democratic parliamentary elections in 2005 will be decisive.

Table AL

## Albania: Selected Economic Indicators

	1998	1999	2000	2001	2002	2003	2004 <sup>1)</sup>	2005	2006
	forecast								
Population, th pers., end of period <sup>2)</sup>	3373.4	3401.2	3418.1	3112.4	3145.4	3190	.	.	.
Gross domestic product, ALL mn, nom.	412326	474291	530906	610426	677684	744974	835448	940000	1050000
annual change in % (real)	12.7	10.1	7.3	7.6	4.7	6.0	6.0	6.5	6.5
GDP/capita (EUR at exchange rate)	726	953	1174	1539	1636	1710	2046	.	.
GDP/capita (EUR at PPP - wiiw)	2380	2790	3180	3860	4080	4270	4570	.	.
Gross industrial production									
annual change in % (real) <sup>3)</sup>	26.1	34.2	0.5	7.1	1.8	2.7	3.1	4	5
Gross agricultural production									
annual change in % (real) <sup>3)</sup>	4.8	0.4	4.5	2.2	2.1	3.0	3.0	3.5	3.5
Construction output total									
annual change in % (real) <sup>3)</sup>	18.0	17.8	37.2	49.3	8.7	11.3	10.6	11	10
Consumption of households, ALL mn, nom.	346775	334801	350038	359016	363864	.	.	.	.
Consumption of households, in % of GDP	84.1	70.6	65.9	58.8	53.7	.	.	.	.
Gross fixed capital form., ALL mn, nom.	58184	81633	112958	151327	145920	.	.	.	.
Gross fixed capital form., in % of GDP	14.1	17.2	21.3	24.8	21.5	.	.	.	.
Employment total, th pers., end of period	1085.1	1065.1	1068.2	920.6	920.1	926.2	924.5	.	.
annual change in %	-2.0	-1.8	0.3	-13.8	0.0	0.7	-0.2	.	.
Reg. unemployed, th pers., end of period	235.0	240.0	215.0	181.0	172.0	164.0	155.5	.	.
Reg. unemployment rate in %, end of period	17.8	18.2	16.8	16.4	15.8	15.0	14.4	14	13.5
Average gross monthly wages, ALL <sup>4)</sup>	11509	12708	14963	17218	19659	21325	24000	.	.
annual change in % (real, gross) <sup>4)</sup>	-0.2	9.9	17.7	11.6	8.1	6.0	9.4	.	.
Consumer prices, % p.a.	20.9	0.4	0.1	3.1	5.2	2.3	2.9	4	3
Producer prices in manufacturing industry, % p.a.	.	2.8	6.5	-7.2	5.1	1.8	.	.	.
Consolidated budget, nat.def., % GDP									
Revenues	24.9	26.0	24.6	23.9	22.8	22.4	22.3	.	.
Expenditures	34.3	34.9	32.1	30.5	28.4	27.0	27.5	.	.
Deficit (-) / surplus (+), % GDP	-9.5	-9.0	-7.5	-6.9	-6.0	-4.6	-5.2	-7	-5
Public debt in % of GDP	35.1	36.3	41.0	39.4	38.5	37.7	.	.	.
Interest rate, % p.a., end of year <sup>5)</sup>	16.6	9.5	6.9	6.9	8.0	5.5	4.7	.	.
Current account, EUR mn <sup>6)</sup>	-58.0	-124.5	-176.8	-243.3	-445.6	-360.4	-279.0	-450	-420
Current account in % of GDP	-2.4	-3.9	-4.4	-5.1	-8.7	-6.7	-4.3	-6	-5
Gross reserves of BoA incl. gold, EUR mn <sup>6)7)</sup>	385.5	518.2	691.5	863.5	813.0	812.7	991.5 <sup>XI</sup>	.	.
Gross external debt, EUR mn <sup>6)</sup>	604.0	1103.0	1262.0	1356.0	1124.0	1117.0	.	.	.
FDI net inflow, EUR mn <sup>6)</sup>	40	39	155	232	143	158	400 <sup>8)</sup>	.	.
Exports of goods, BOP, EUR mn <sup>6)</sup>	185.7	257.7	276.8	340.2	349.6	396.3	490.0	550	600
annual growth rate in %	32.7	38.8	7.4	22.9	2.8	13.4	23.6	12	9
Imports of goods, BOP, EUR mn <sup>6)</sup>	724.7	878.7	1166.8	1487.1	1572.8	1580.5	1704.0	1950	2020
annual growth rate in %	18.5	21.3	32.8	27.5	5.8	0.5	7.8	14	4
Exports of services, BOP, EUR mn <sup>6)</sup>	77.3	249.8	485.7	595.9	619.4	637.8	766.0	850	950
annual growth rate in %	29.3	223.2	94.4	22.7	3.9	3.0	20.1	11	12
Imports of services, BOP, EUR mn <sup>6)</sup>	119.3	155.0	466.1	496.1	625.0	711.1	762.0	900	950
annual growth rate in %	33.6	29.9	200.7	6.4	26.0	13.8	7.2	18	6
Average exchange rate ALL/USD	150.6	137.7	143.7	143.5	140.2	121.9	102.8	.	.
Average exchange rate ALL/EUR (ECU)	168.7	147.0	132.6	128.5	132.4	137.5	127.6	125	126
Purchasing power parity ALL/USD, wiiw	44.7	43.8	43.2	45.0	47.1	48.0	49.8	.	.
Purchasing power parity ALL/EUR, wiiw	51.5	50.1	48.9	51.3	53.2	55.1	57.2	.	.

Notes: ALL: ISO code for the Albanian lek. - 1) Preliminary. - 2) Until 2000: population estimates; 2001: census data; thereafter: projection. - 3) According to gross value-added. - 4) Public sector only. - 5) 3-month deposit rate. - 6) wiiw calculated from USD. - 7) Refer to total foreign assets of Bank of Albania. - 8) wiiw estimate.

Source: wiiw Database incorporating national statistics; wiiw forecasts.