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## **Albania: Something is rotten**

After the killing of three persons during a violent anti-government demonstration in January 2011, it once again became clear that something is rotten in the state of Albania. The political class does not seem to act in a mature and responsible way. Communication with the political opponent is rude and uncompromising. This has already cost the country an opportunity to receive EU candidate status. However, in economic terms Albania is doing fairly well. In 2010, the estimated GDP growth of about 4% surpassed previously expected forecasts by some 1.5 percentage points, largely due to a spectacular export boom. In 2011, a similar export growth is unlikely to be maintained. The political stalemate is not expected to have a major economic impact in the short run; the GDP growth will accelerate in the coming 2-3 years.

While not meeting the highest standards for democratic elections, the June 2009 parliamentary elections marked tangible progress with respect to earlier elections. Still, the socialist opposition led by Edi Rama, the mayor of Tirana, is still questioning the lawfulness of the elections. Since then, in regular demonstrations the opposition demands new elections. After a recent case of blatant corruption in the government of conservative Prime Minister Sali Berisha, anti-governmental demonstrations flared up. On January 21st 2011 three protestors were shot dead at an opposition rally in Tirana in a melee close to the prime minister's office. The suspects are assumed to be members of the Republican Guard that was protecting the prime minister's office. However, Berisha rejected an order by the general prosecutor for the arrest of six high-ranking Republican Guard officers suspected of ordering the use of firearms against protestors. As a consequence, the political polarization is further growing and starts to bear strange fruits. The Prime Minister has declared that he was the victim of a failed coup attempt, organized by the opposition with the help of the general prosecutor, the president (paradoxically both close to the Prime Minister's conservative Democratic Party), as well as the secret service and the media. As a response Berisha has ordered the Ministry of Culture to organize a concert with Lady Gaga or some other top pop star in order to restore the country's image as 'Miss World for tourists from all over the world', as he put it. The representatives of the EU and the US are trying to calm the political actors. For the sake of Albania's EU integration process it can be

hoped that the political conflict becomes defanged and stays under control until the next parliamentary elections which are scheduled for 2013 at the latest.

The political calamities, if not further escalating, should not be too damaging for the economy, at least in the short run. Foreign companies investing in Albania are well aware of the political risks and the wide spread corruption. For 2010 FDI inflows will most likely mark an all-time high of about EUR 740 million. However, if the political system remains characterized by personal animosities among the main political leaders reflecting particulate interests of clans and single provinces while disregarding the interests of the broad majority of population, the economy will be damaged in the medium and long run. Especially this might become a major stumbling block on the path to EU membership and subsequent EU transfers and integration into European production networks.

At the moment economic growth is mostly driven by the booming export sector. Main driver is the export of electricity due to exceptionally high water levels in Albania's hydro power stations. Only the energy exports from June to November 2010 are equal to the 2009 full year exports in this sector. However, latest export data for manufactured products and raw materials are equally exciting. Certainly the international trade rebound and a slight devaluation of the Albanian lek vis-à-vis the euro during 2010 was helpful in this respect. Cumulated exports until November 2010 have increased by more than 50% year-on-year (yoy), imports only by a few percentage points. Consequently it's the industry, the trade and the transport sectors that have most contributed to economic growth in 2010. Lately, domestic demand has developed quite sluggish. The construction sector has sharply decreased. Government demand is falling. In the third quarter of 2010 the sale of household equipment and the sale, maintenance and repair of motor vehicles has been declining by 5% and 7%, respectively. Especially the latter item is a good indicator for the future development of domestic demand. In addition, the consumer confidence indicator, although on a high level, was falling slightly in the third quarter of 2010. For 2011 this will result in a lower GDP growth rate. All the more that it will be impossible to increase exports much further in the short run. Rising energy prices might be helpful (with regard to second round growth effects) but one cannot expect a similar high level of rainfall as in 2010 to boost electricity production once again. The financing of a higher trade deficit should still be possible. In the first three quarters of 2010 data of remittances inflows shows a slight increase yoy. If this trend continues and if the government stops further expenditure cuts (which is quite likely due to local elections in May 2011), we can expect a growth rate of 3.2% in 2011. For 2012 and 2013 we forecast an improvement in economic growth to 4% and 5% respectively. Needless to say, that this depends on a further recovery of the European economy and an improvement of the political climate in Albania.

Table AL

## Albania: Selected Economic Indicators

	2005	2006	2007	2008	2009	2010 <sup>1)</sup>	2011	2012	2013
	Forecast								
Population, th pers., average	3142	3147	3161	3182	3194	3210	3220	3240	3260
Gross domestic product, ALL bn, nom. <sup>2)</sup>	814.8	882.2	967.7	1088.1	1143.6	1220.0	1300	1390	1520
annual change in % (real) <sup>2)</sup>	5.7	5.4	5.9	7.7	3.3	4.0	3.2	4	5
GDP/capita (EUR at exchange rate)	2100	2300	2500	2800	2700	2800	.	.	.
GDP/capita (EUR at PPP - wiiw)	5000	5500	5800	6400	6500	6800	.	.	.
Consumption of households, ALL bn, nom. <sup>2)</sup>	634.5	680.3	775.1	861.9	910	909	.	.	.
annual change in % (real) <sup>2)</sup>	6.0	4.7	10.7	6.7	3	3	5	7	9
Gross fixed capital form., ALL bn, nom. <sup>2)</sup>	301.4	343.9	374.1	415.1	430	400	.	.	.
annual change in % (real) <sup>2)</sup>	4.9	13.0	5.5	9.5	5	-7	1	5	12
Gross industrial production <sup>3)</sup>									
annual change in % (real)	11.7	12.1	-9.7	9.4	0.6	20	5	15	7
Gross agricultural production <sup>4)</sup>									
annual change in % (real)	0.9	3.1	2.7	7.3	3.3	9	2	3	3
Construction output total <sup>3)</sup>									
annual change in % (real)	6.3	10.5	12.2	10.7	0.2	-25	1	3	8
Employed persons - LFS, th, Oct	.	.	1197.7	1123.3	1160.0	1100	1060	1100	1150
annual change in %	.	.	.	-6.2	3.3	-5	-4	4	5
Employment reg. total, th pers., end of period	932.1	935.1	965.5	974.1	899.3	916.9	900	930	970
annual change in %	0.1	0.3	3.3	0.9	-7.7	-2.0	-2	3	4
Unemployed persons - LFS, th, Oct	.	.	184.8	168.6	185.0	210	200	190	180
Unemployment rate - LFS, in %, Oct	.	.	13.5	13.0	13.8	15	15	14	13
Reg. unemployment rate, in %, end of period	14.1	13.8	12.9	12.7	13.9	13.5	13	13	12
Average gross monthly wages, ALL	19993	21842	27350	27951	31900	33870	.	.	.
annual change in % (real, gross)	2.6	6.7	21.6	-1.1	11.7	3	3	5	10
Consumer prices, % p.a.	2.4	2.4	2.9	3.4	2.3	3.5	3	3	4
Producer prices in industry, % p.a.	4.9	0.8	3.5	6.5	-1.6	0.1	3	4	6
General government budget, nat. def., % GDP									
Revenues	25.1	26.0	26.0	26.8	26.2	26.6	26	27	28
Expenditures	28.5	29.3	29.6	32.3	33.2	29.7	29	30	35
Deficit (-) / surplus (+)	-3.5	-3.3	-3.5	-5.5	-7.0	-3.0	-3	-3	-7
Public debt, nat. def., in % of GDP <sup>5)</sup>	58.1	56.0	53.9	55.2	61.6	61	61	60	62
Central bank policy rate, % p.a., end of period <sup>6)</sup>	5.0	5.5	6.3	6.3	5.3	5.0	5.0	5.3	5.5
Current account, EUR mn	-589.0	-470.9	-831.1	-1370.2	-1345.5	-900	-1200	-1500	-2000
Current account in % of GDP	-9.0	-6.6	-10.6	-15.5	-15.5	-10.2	-12.6	-13.7	-16.1
Exports of goods, BOP, EUR mn	530.2	630.6	786.3	917.5	750.7	1150	1200	1400	1600
annual growth rate in %	9.2	18.9	24.7	16.7	-18.2	53.2	4	17	14
Imports of goods, BOP, EUR mn	2006.9	2289.6	2890.4	3348.9	3054.4	3150	3600	4200	5000
annual growth rate in %	13.9	14.1	26.2	15.9	-8.8	3.1	14	17	19
Exports of services, BOP, EUR mn	967.3	1156.6	1415.1	1687.8	1718.4	1680	1900	2200	2400
annual growth rate in %	19.8	19.6	22.3	19.3	1.8	-2.2	13	16	9
Imports of services, BOP, EUR mn	1107.7	1188.0	1402.3	1618.4	1597.5	1480	1600	1800	2100
annual growth rate in %	30.6	7.2	18.0	15.4	-1.3	-7.4	8	13	17
FDI inflow, EUR mn	212.6	258.6	481.1	675.4	706.4	740	600	700	800
FDI outflow, EUR mn	3.3	8.3	11.1	55.4	26.1	-10	20	30	40
Gross reserves of NB excl. gold, EUR mn	1171.6	1329.2	1415.9	1626.1	1607.8	1842.1	.	.	.
Gross external debt, EUR mn <sup>7)</sup>	1647.1	1874.2	2090.9	3078.9	3314.4	3600	.	.	.
Gross external debt in % of GDP	24.8	26.3	26.3	35.0	40.0	40.9	.	.	.
Average exchange rate ALL/EUR	124.19	123.08	123.63	122.80	132.06	137.79	137	127	122
Purchasing power parity ALL/EUR <sup>8)</sup>	52.11	51.21	52.38	53.07	55.30	56.17	.	.	.

1) Preliminary and wiiw estimates. - 2) According to ESA'95 (including non-observed economy, real growth rates based on previous year prices). - 3) Gross value added. - 4) Gross value added of agriculture, forestry and fishing. - 5) Based on IMF data. - 6) One-week repo rate. - 7) Until 2007 based on IMF data. - 8) Benchmark results 2005 from Eurostat and wiiw estimates.

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