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## **Albania: you too my son?**

Originally one of the few countries in Europe with a still positive GDP growth forecast for 2009, recent data updates suggest that Albania too will face recession this year. Most importantly, first quarter data on remittances sent home by Albanian workers abroad register an 8% drop as compared to the same period of the previous year. This is much more than expected in earlier forecasts. Remittances are an important source of growth in the construction sector as well as in the private consumption of Albanians. Pre-election government overspending in the first half of 2009 will somewhat outweigh the loss of income. However, for the whole year we expect economic growth to drop by 1%.

Parliamentary elections are scheduled for 28 June 2009. For more than a year the current government of conservative Prime Minister Sali Berisha has been heavily investing in prestigious projects such as the national motorway from the main harbour of Durrës to the Kosovo border. In the latest polls the conservatives and the socialists are neck and neck. Government expenditures were financed, on the one hand, by recent privatization receipts from the state oil company ARMO and the mobile phone operator AMC, on the other hand by massive government lending. This has led to a strong increase in the monetary base and to speculations about the future payback of government debts. The Turkish rating agency JCR Eurasia Rating has therefore placed a 'negative outlook' on Albanian short- and long-term sovereign rating.

Moreover, the Economic Sentiment Indicator as calculated by the Bank of Albania, which is based on the results of a regular business and consumer survey, dropped by 33 percentage points during the first quarter of 2009. The strongest fall in confidence was recorded in the services and construction sector. At the same time, the Construction Cost Index is decelerating on a month-to-month basis; it increased by a mere 1% in the first quarter of 2009 as compared to the same quarter of the previous year. An additional crisis indicator is the fact that the Albanian banking system registered net losses in April 2009. These were mainly the result of massive write-offs. Problematic loans jumped to 8% of the total loans portfolio. Lost loans doubled on a year-to-year basis. The 3-month TRIBOR to 3-month EURIBOR spread tripled to some 6 percentage-points in April 2009 as compared to the same month last year.

Nevertheless, according to unofficial information, Albania still recorded some slightly positive GDP growth in the first quarter of 2009. This makes Albania one of the few European countries, together with Greece, Cyprus and Poland, to record positive first quarter growth. However, it is important to note that latest revised quarterly national accounts data from the Albanian Institute of Statistics

suggest that in the last three quarters of 2008 growth was exceptionally high. While previous quarters had shown real year-on-year increases of about 5% to 6%, growth in the second to fourth quarters of 2008 picked up to some 8% to 9%. This is mainly attributed to the government road-building programme. Thus, given the overall economic situation, the downturn of confidence of economic agents and the drop in government expenditures after the elections, it will be almost impossible to reach the same level of economic activity in the remaining quarters of 2009 as compared to the last three quarters of the previous year. By the end of 2009 at the latest, we expect Albania to technically enter recession.

Thus, a certain reduction of the high current account deficit by the end of the year appears to be inevitable. Lower imports will follow the drop in remittances and the decrease of domestic demand. However, in the first quarter of 2009 we still observe a substantial increase of the current account deficit by more than a quarter as compared to the same period of last year. The decline of remittances (-8%) as a source of financing of the trade deficit was more than absorbed by strong increases in net FDI inflows (+50%) and (mainly public sector) net credit growth (+38%). Lending of the public sector abroad for infrastructure investment is likely to decrease abruptly after the end of the parliamentary elections. The sole hope is that FDI inflow does not decline sharply.

The prospects for continuing FDI flows are not too bad. There are several investment projects in the mining and energy sector close to implementation. Austrian-Russian ACR announced additional investment in its main ferrochrome mine in Bulqiza. Three Italian firms plan to develop a liquid biomass power plant, a wind farm and a gas powered electricity plant. The three projects together are estimated to be worth about EUR 3 billion. If only a fraction of these investments could be realized in 2009 and 2010, the financing of Albania's current account deficit at the current level could be secured and slow growth of about 1% could start in 2010. By 2011 Albania should return to its lower range of medium-term average growth of about 5% to 6%.

Table AL

## Albania: Selected Economic Indicators

	2005	2006	2007	2008 <sup>1)</sup>	2008 1st quarter	2009	2009 Forecast	2010 Forecast	2011
Population, th pers., average	3149	3135	3170	3170	.	.	.	.	.
Gross domestic product, ALL bn, nom.	814.8	891.0	983.1	1100.0	250	.	1110	1140	1230
annual change in % (real) <sup>2)</sup>	5.7	5.5	6.2	8.0	5.7	.	-1	1	5
GDP/capita (EUR at exchange rate)	2100	2300	2500	2800	.	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	5000	5600	5900	6400	.	.	.	.	.
Consumption of households, ALL bn, nom.	634.5	696.5	728.8	.	.	.	.	.	.
annual change in % (real)	6.0	7.2	6.0	7	.	.	-1	1	4
Gross fixed capital form., ALL bn, nom.	301.4	313.2	380.2	.	.	.	.	.	.
annual change in % (real)	4.9	9.3	8.0	12	.	.	1	2	7
Gross industrial production									
annual change in % (real) <sup>3)</sup>	11.7	12.1	-11.4	2	4.4	.	-15	3	5
Gross agricultural production									
annual change in % (real) <sup>3)</sup>	0.9	3.0	1.1	1	0.4	.	1	2	3
Construction output total									
annual change in % (real) <sup>3)</sup>	6.3	11.0	6.2	7	1.3	.	0	1	11
Employed persons - LFS, th, June	.	.	1188.3	1230.0	.	.	.	.	.
annual change in %	.	.	.	3.5	.	.	.	.	.
Employment reg. total, th pers., end of period	932.1	935.1	965.5	974.1	.	.	.	.	.
annual change in %	0.1	0.3	3.3	0.9	.	.	.	.	.
Unemployed persons - LFS, th, June	.	.	185.0	180.0	.	.	.	.	.
Unemployment rate - LFS, in %, June	.	.	13.5	12.8	.	.	15	16	14
Reg. unemployment rate, in %, end of period	14.1	13.8	13.2	12.7	13.0	.	.	.	.
Average gross monthly wages, ALL <sup>4)</sup>	19993	21493	23234	25300	35800	.	.	.	.
annual change in % (real, gross) <sup>4)</sup>	2.5	5.0	15.3	8.9	12.4	.	.	.	.
Consumer prices, % p.a.	2.4	2.4	2.9	3.4	3.7	1.8	2	2	3
Producer prices in industry, % p.a.	4.9	0.8	3.5	6.5	7.4	-1.2	.	.	.
General governm.budget, nat.def., % GDP									
Revenues	25.1	25.8	25.6	26.4	.	.	.	.	.
Expenditures	28.5	29.0	29.1	31.6	.	.	.	.	.
Deficit (-) / surplus (+), % GDP	-3.5	-3.3	-3.5	-5.2	.	.	-4	-4	-3
Public debt in % of GDP <sup>5)</sup>	58.1	55.0	54.5	53.6	.	.	.	.	.
Base rate of NB, % p.a., end of period <sup>6)</sup>	5.0	5.5	6.3	6.3	6.3	5.8	.	.	.
Current account, EUR mn	-589.1	-471.0	-831.0	-1290.6	-267.3	-334.2	-1200	-1200	-1300
Current account in % of GDP	-9.0	-6.5	-10.5	-14.4	-13.2	.	-14.5	-13.7	-13.2
Exports of goods, BOP, EUR mn	530.2	630.6	786.3	915.9	206.5	176.1	730	750	930
annual growth rate in %	9.2	18.9	24.7	16.5	13.3	-14.7	-20	3	24
Imports of goods, BOP, EUR mn	2006.9	2289.6	2890.4	3331.4	733.9	692.5	2900	2800	3200
annual growth rate in %	13.9	14.1	26.2	15.3	17.4	-5.6	-13	-3	14
Exports of services, BOP, EUR mn	967.3	1156.6	1415.1	1524.0	351.9	303.2	1300	1350	1600
annual growth rate in %	19.8	19.6	22.3	7.7	32.7	-13.8	-15	4	19
Imports of services, BOP, EUR mn	1107.7	1188.0	1402.3	1538.7	355.2	330	1400	1400	1500
annual growth rate in %	30.6	7.2	18.0	9.7	21.4	-7.1	-9	0	7
FDI inflow, EUR mn	212.6	258.6	481.1	681.9	103.8	123.6	.	.	.
FDI outflow, EUR mn	1.7	8.2	11.0	62.6	22.4	1.4	.	.	.
Gross reserves of NB excl. gold, EUR mn	1171.6	1329.2	1415.9	1626.1	1352.8	1595.0	.	.	.
Gross external debt, EUR mn <sup>5)</sup>	1373.5	1445.4	1445.7	1700.0	.	.	.	.	.
Gross external debt in % of GDP	20.7	20.1	17.9	19.1	.	.	.	.	.
Average exchange rate ALL/EUR	124.2	123.1	123.6	122.8	123.6	128.2	134	130	125
Purchasing power parity ALL/EUR <sup>7)</sup>	52.1	51.2	52.6	54.4	.	.	.	.	.

1) Preliminary. - 2) Quarterly data refer to seasonally adjusted gross value added including FISIM. - 3) Gross value added. - 4) Quarterly data exclude private sector. - 5) Based on IMF data. - 6) One week repo rate. - 7) Benchmark results 2005 from Eurostat and wiiw estimates.

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