

## **ALBANIA ECONOMY REPORT**

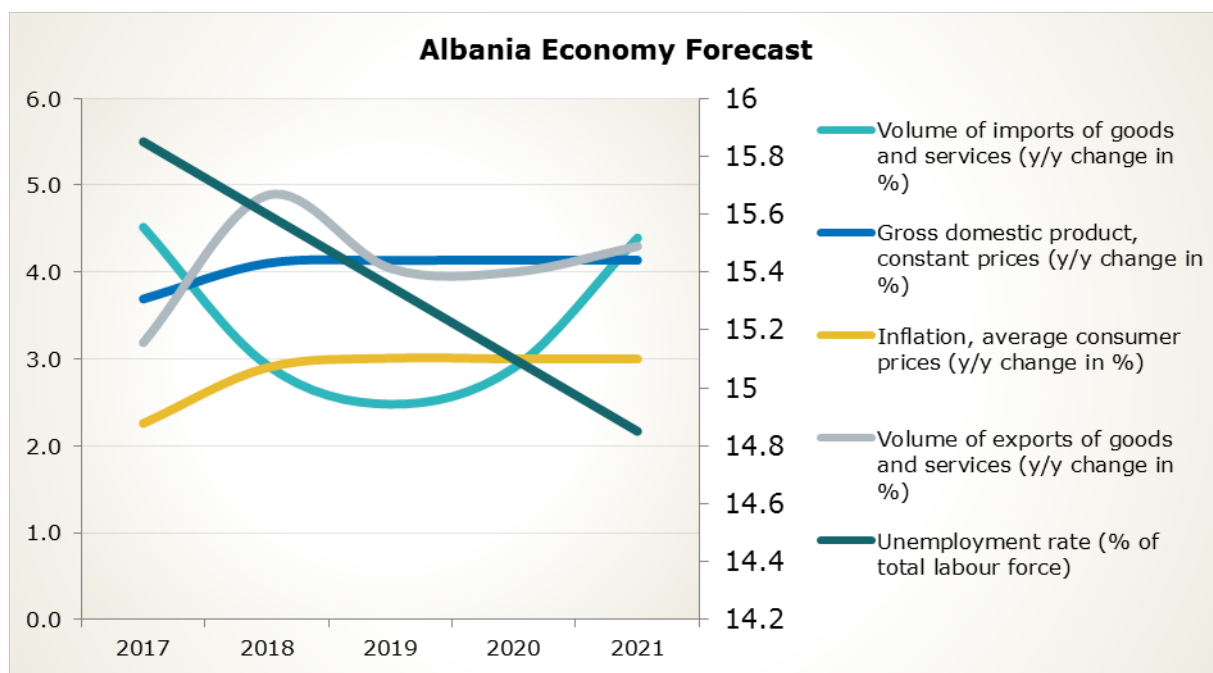
### Q1 2017

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

ALBANIA – MACROECONOMIC SNAPSHOT AS OF Q1 2017	
<b>GDP Growth</b>	3.94% y/y
<b>Business confidence indicator</b>	20.4 pp q/q
<b>Industrial output</b>	13.45% y/y
<b>Industrial sales</b>	9.4% y/y
<b>Retail sales</b>	2.5% y/y
<b>Annual inflation</b>	2.2%
<b>Unemployment rate</b>	14.2%
<b>Number of building permits</b>	101
<b>Money supply growth</b>	3.0% y/y
<b>Household loans</b>	9.8% y/y
<b>Gross external debt</b>	EUR 7.958 bln
<b>Current account deficit</b>	EUR 179 mln
<b>FDI inflow</b>	EUR 167.9 mln
<b>Foreign trade deficit</b>	ALL 70.5 bln

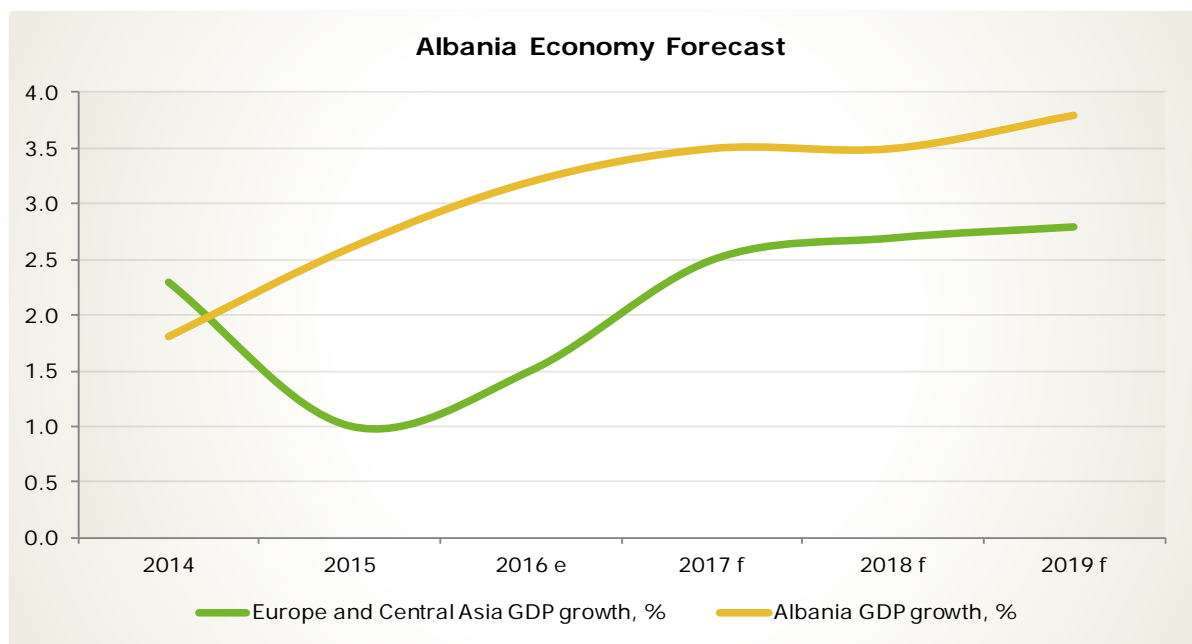


Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2017

The Albanian economy is expected to rise by 3.7% y/y in 2017, up from 3.5% in 2016, according to recent IMF forecasts. Growth will be sustained largely by large energy-related FDI projects and a gradual recovery of domestic demand. As a result, inflation will rise to 2.2 to 2.6% from current levels of around 2%, according to the fund.

In the medium term, GDP growth shall stay strong at 4.1% in 2018-2021, according to IMF. The economy will be supported by a flexible labour market, a pickup in investment, and a boost to investor confidence as Albania advances through the EU accession process and implements reforms to improve the business climate.

Risks to the IMF outlook include political tensions ahead of the 2017 general election, a possible weakening of the EU growth, failures to implement structural reforms and corruption fighting could erode investors' confidence and undermine medium-term growth potential.



Source: World Bank, Europe and Central Asia Economic Update, May 2017

The World Bank expects annual GDP growth in Albania of 3.5% in 2017-2018 and to further expand to 3.8% in 2019. Private investments in the two large ongoing energy projects – the Trans Adriatic Pipeline and the Statkraft/Devoll hydropower project, will continue to support the economic growth in Albania. As the labor market tightens and wage growth persists, private consumption will support the GDP growth in the short to medium term. In addition, foreign demand coming from the EU will support net exports and will be another key driver of the economic growth, according to the bank.

Risks to the World Bank outlook include uncertain global market conditions, which could reduce Albania's exports and FDI inflows and lower tax revenues. The faster pace of normalization of global interest rates also poses a risk, according to the bank.

## 2. REAL SECTOR

## 2.1. GROSS DOMESTIC PRODUCT (GDP)

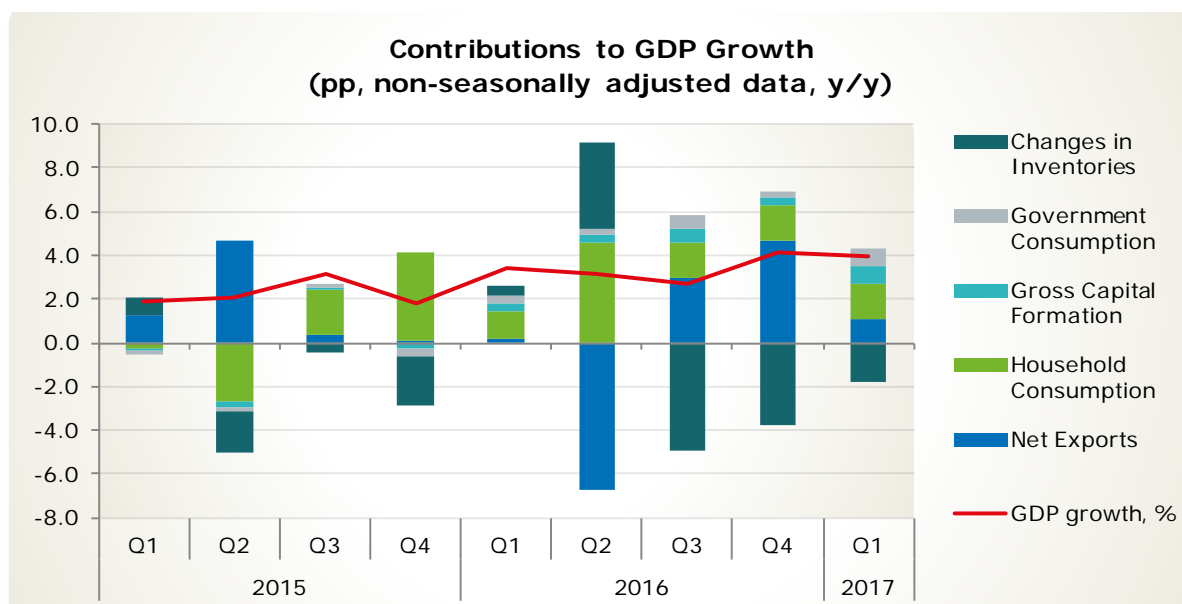
*GDP annual growth at 3.9% in Q1 2017 boosted by capital investments and construction of energy related projects*

In Q1 2017, the Albanian economy kept its rapid pace of growth achieved in the last quarter of 2016. Country's GDP increased by 3.9% y/y and totalled ALL 329 bln in Q1 2017, according to the Institute of Statistics (INSTAT). In Q4 2016, GDP went up by 4.1% y/y.

The economy expanded on capital investments and construction of two ongoing large energy related projects. The Trans Adriatic Pipeline bringing Caspian gas to Europe and the Devoll Hydropower plant are already in their peak construction stage, being the main source of foreign direct investments (FDIs) in Albania. Capital investments contributed with 2.3 pp to the y/y growth in the first quarter while the construction contributed with 1.1 pp.

The household consumption contributed with 1.6 pp to the y/y GDP growth in the first quarter.

Final consumption, which took 89% share in the GDP, went up by 2.5% y/y. Gross capital formation increased by 10.9%, slicing 22.2% of the GDP. Exports and imports grew by 12.4% and 5.0%, respectively.

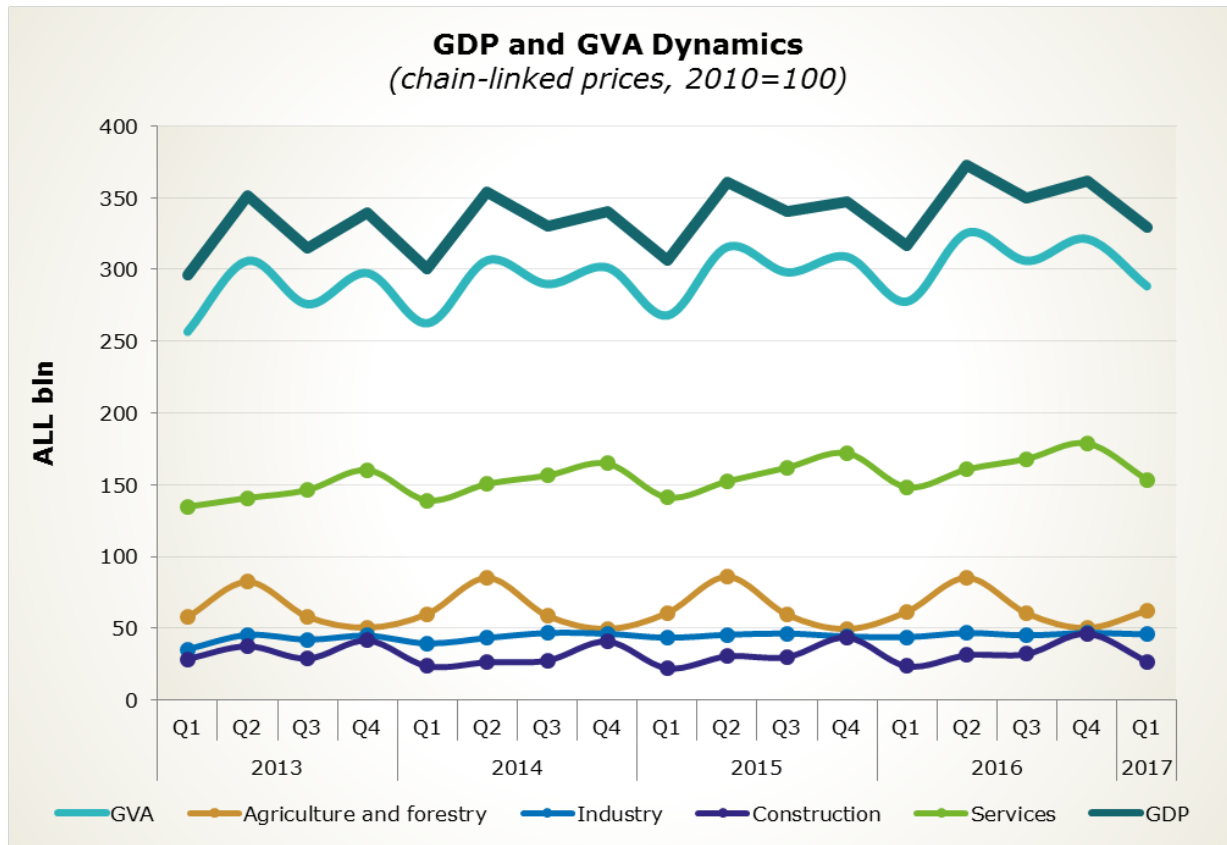


Source: INSTAT; SeeNews calculations

Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

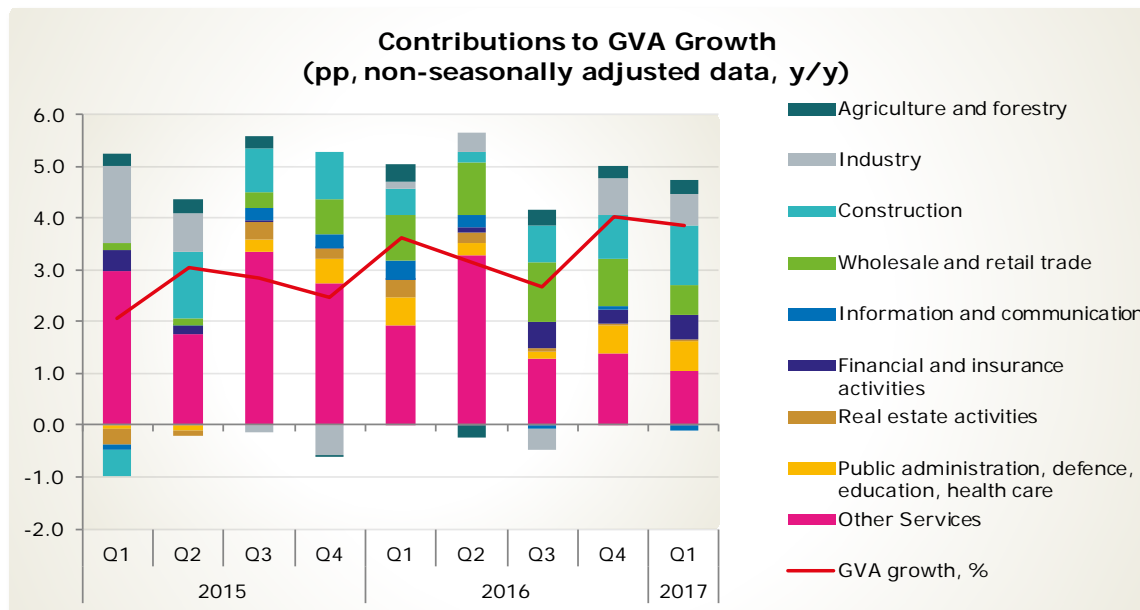
The country's non-seasonally adjusted GVA increased in value by 3.9% y/y and totalled ALL 288.4 bln in Q1 2017. The industrial sector inched up by 4.3% y/y and took 15.8% share in the total GVA. The services sector recorded a 3.6% annual rise, slicing a 53.3% share in the GVA.

Construction surged by 14.1% y/y and its share in GVA went up to 9.3% from 8.5% a year earlier. The agricultural sector marked an increase of 1.1% accounting for 21.6% share in the total GVA.



Source: INSTAT

In terms of sector contributions, the economic growth was balanced during the quarter. The construction sector was the largest growth driver as it added 1.1 pp to the overall y/y GVA growth. The wholesale/retail trade and the industrial sectors each contributed with 0.6 pp to the GVA increase while the financial and insurance sector contributed with 0.4 pp to the GVA growth.



Source: INSTAT; SeeNews Calculations

Note: Non-additive data due to direct chain-linking of GDP and its components.

## 2.2. BUSINESS CLIMATE

### Business Confidence Indicator increased by 20.4 percentage points q/q in Q1 2017

In the first quarter of 2017, the average business confidence indicator went up by 20.4 percentage points q/q, according to Bank of Albania.

Services confidence indicator reported the strongest growth among all sectors, by 10.1 pp q/q. The higher level of the services confidence is attributed to the growth of its two component balances, business situation and demand, which increased by 7.6 and 12.7 pp, respectively. Firms operating in the services sector showed better financial situation while there was a decrease in the balance related to employment, according to the Bank of Albania survey. Expectations for demand and employment for Q2 2017 were grimmer. Meanwhile, the capacity utilisation rate is assessed at 79.8% on average, remaining about 2.0 pp higher compared to the level registered in the previous quarter.

Construction confidence indicator went up by 5.9 pp, fuelled mainly by improvement of the balance of order books, of 10.8 pp. The contribution of construction activity was positive at 1.1 pp. Capacity utilisation rate in the sector was at 61.6% in 2017 Q1, about 3.4 pp higher than in Q4 2016.

Industry confidence indicator increased by 4.3 pp in Q1 2017, reflecting mainly the positive developments in the balance of industrial production (+14.8 pp). The assessment of industrial firms on order books improved in this quarter, but less than the production balance, which added 6.9 pp. The stock of inventories balance, gave a negative contribution to the

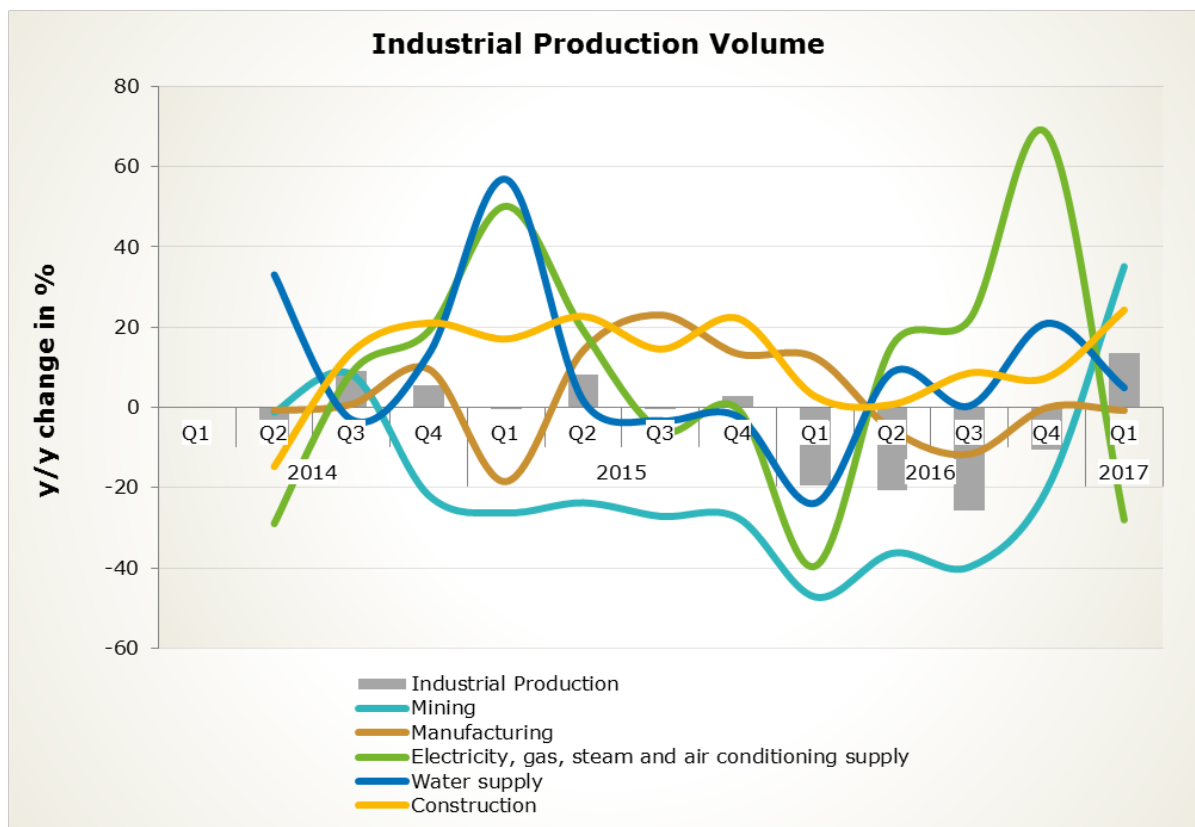
calculation of the aggregate indicator, of -8.8 pp. Capacity utilisation rate of firms operating in the industry sector stood at 75.0% in Q1 2017, or 6.8 pp higher than in the previous quarter.

## 2.3. INDUSTRIAL OUTPUT

### *Industrial output increased by 13.5% y/y in Q1 2017 on mining and construction sectors*

Industrial output surged by 13.5% in Q1 2017, according to INSTAT.

The output of the mining sector registered the sharpest annual jump, of 35% y/y, followed by the construction sector with 24.2%. In the same time the sector of electricity, gas, steam and air conditioning supply slumped by 28% y/y.



Source: INSTAT

Editor's note: Data for Q1 2014 was not available

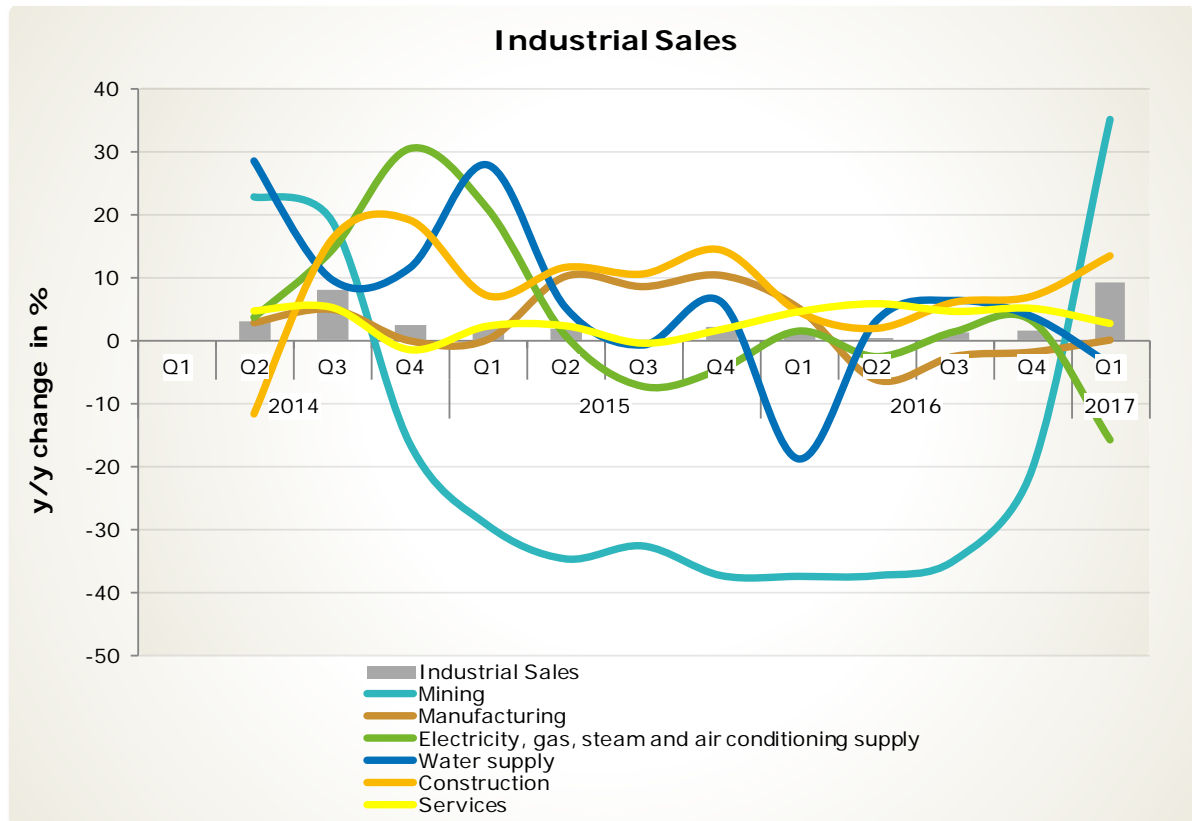
## 2.4. INDUSTRIAL SALES

### *Industrial sales grew by 9.4% y/y in Q1 2017*

Industrial sales went up by 9.4% y/y in the first quarter of 2017 thanks to the 13.6% growth of the construction sector and the rise in the turnover of the mining sector, by 35.1%. The electricity, gas, steam and air conditioning supply went down by 15.8%.



Sales in the manufacturing sector inched up by 0.15% y/y, while the services sector's sales went up by 2.75% y/y.



Source: INSTAT

Editor's note: Data for Q1 2014 was not available

## 2.5. RETAIL SALES

### Retail sales growth slowed to 2.5% y/y in Q1 2017

Retail sales went up by 2.5% y/y in Q1 2017, according to INSTAT. This is down compared to Q4 2016 when retail sales increased by 8.6% y/y.

Retail sale of motor fuel registered the highest annual rise, of 3.8%. Retail sale of food, beverages and tobacco in both specialized and non-specialized stores marked a decrease of 0.2% y/y. In Q1 2017, the retail sales of non-food products in specialized and non-specialized stores went up by 3.3% y/y.



Source: INSTAT

## 2.6. INFLATION

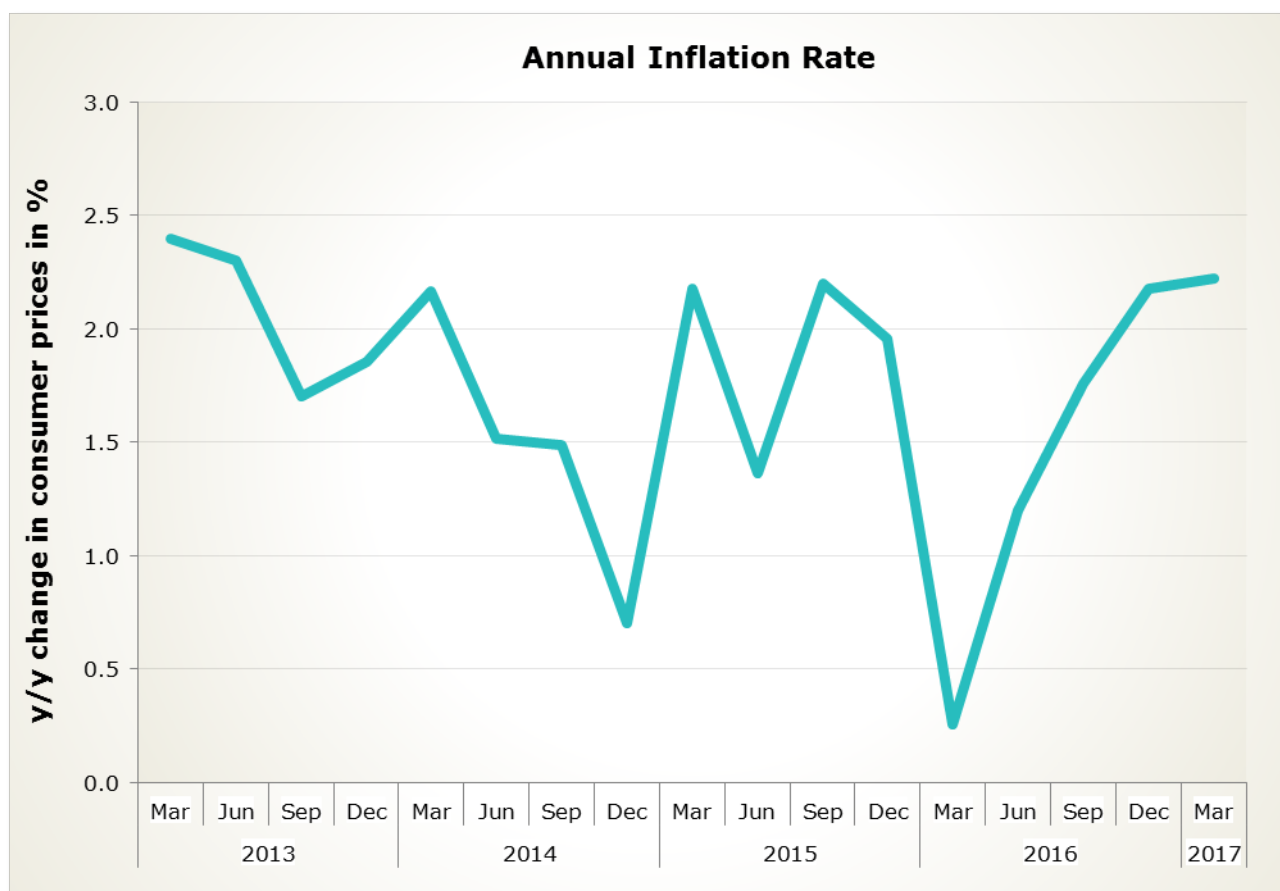
### *Annual inflation of 2.2% in Q1 2017, accelerated on adverse weather conditions*

The annual inflation in Albania continues accelerating during the first quarter. On average, prices rose by 2.22% y/y in Q1 2017 from 2.17% in Q4 2016 and 1.8% in the third quarter of last year, according to INSTAT data.

Inflation pickup was due to price pressure on the group of food, and non-alcoholic beverages which saw an annual increase of 3.3% in Q1. In January, adverse weather conditions in Albania, coupled with food price increases in foreign markets lifted food inflation by 5.8% y/y and contributed to the overall inflation during the quarter.

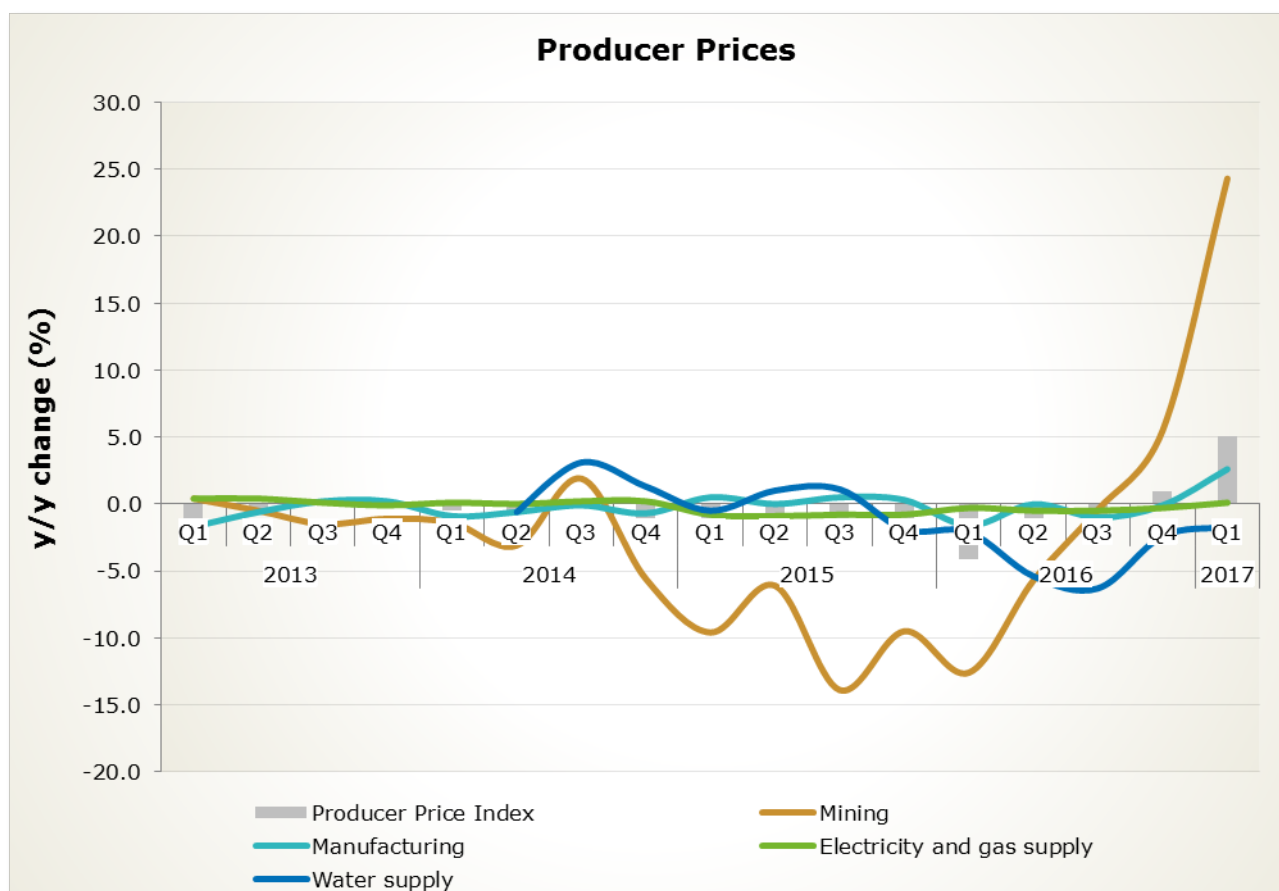
The highest increase in consumer prices, of 12.3%, was registered in vegetables included potatoes, followed by sugar, jam honey, syrup, chocolates and sweets with 5.3% and milk, cheese, and eggs with 5.2%.

The products and services, which registered the sharpest deflation, were purchase of transport vehicles with 7.5% y/y and footwear clothing with 2.9% y/y.



Source: INSTAT

Producer prices went up by 5.1% y/y in Q1 2017. The mining sector prices shot up by 24%, and the manufacturing producer inflation came in at 2.6%. The water supply sector recorded the highest annual drop, of 1.7%, while producer prices at the electricity and gas supply sector stayed on the side lines.



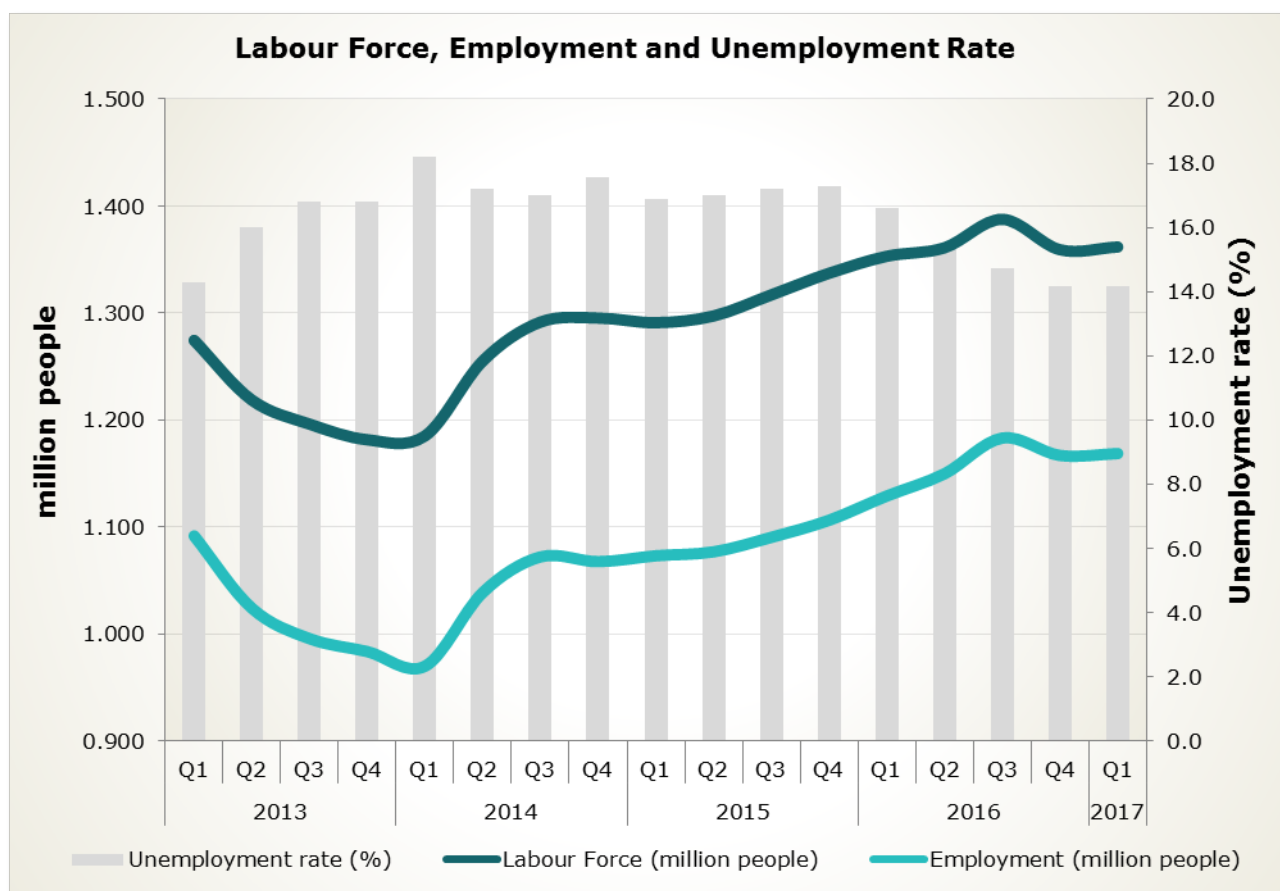
Source: INSTAT

### 3. LABOUR MARKET

*Unemployment rate went down during the quarter but remains high at 14.2%*

Unemployment in Albania narrowed to 14.2% of the total labour force in Q1 2017 from 16.6% in Q1 2016, according to data of INSTAT. The employed population aged 15 years and older was 1.169 mln as of March 2017, up by 3.5% y/y.

The youth (population aged 15-29) unemployment rate went down to 26.6% from 30.4% in Q1 2016.



Source: INSTAT

## 4. CONSTRUCTION AND REAL ESTATE

### *The number of building permits was 101 in Q1 2017*

The number of building permits issued in Albania in Q1 2017 totalled 101, compared to 65 in the same period of the previous year, according to INSTAT data.

Permits for construction of non-residential buildings stood at 25, down from 22 while permits for housing projects jumped to 76 from 38 in Q1 2016.

The total area, covered by permits for non-residential buildings amounted to 30,000 sq m. The total area of the housing projects, covered by the permits, stood at 62,000 sq m.

## 5. MONEY SUPPLY AND BANKING SYSTEM

### 5.1. ALL EXCHANGE RATE

The average annual exchange rate of the ALL against the EUR decreased to ALL 135.8 in Q1 2017 from ALL 138.3 in the same period of 2016, according to Bank of Albania. The strengthening of the domestic currency reflected the improvement of the external position of the economy in the face of the narrowing of the current account deficit and the increase of net inflows of the capital and financial account. In addition, according to the central bank, foreign currency inflows into the economy have been significantly higher than outflows, and some of them have been translated as foreign exchange surpluses in the market.

Average Quarterly ALL Exchange Rate			
Foreign Currency	Q1 2017	Q4 2016	Q1 2016
EUR	135.8	136.1	138.3
USD	127.5	126.0	125.5
GBP	157.9	156.5	179.5
CHF	127.1	126.0	126.2

### 5.2. MONETARY POLICY

#### *Policy rate at 1.25% as of Q1 2017*

The monetary policy stance of the Central Bank of Albania remained accommodative as inflation remained within the bank's target of 3%. The policy rate has been lowered gradually and currently stands at the minimum historic level of 1.25%. During the quarter, the Bank of Albania continued to supply the needed liquidity to the banking sector to ensure intermediation activity and the stability of interest rates in the money market.

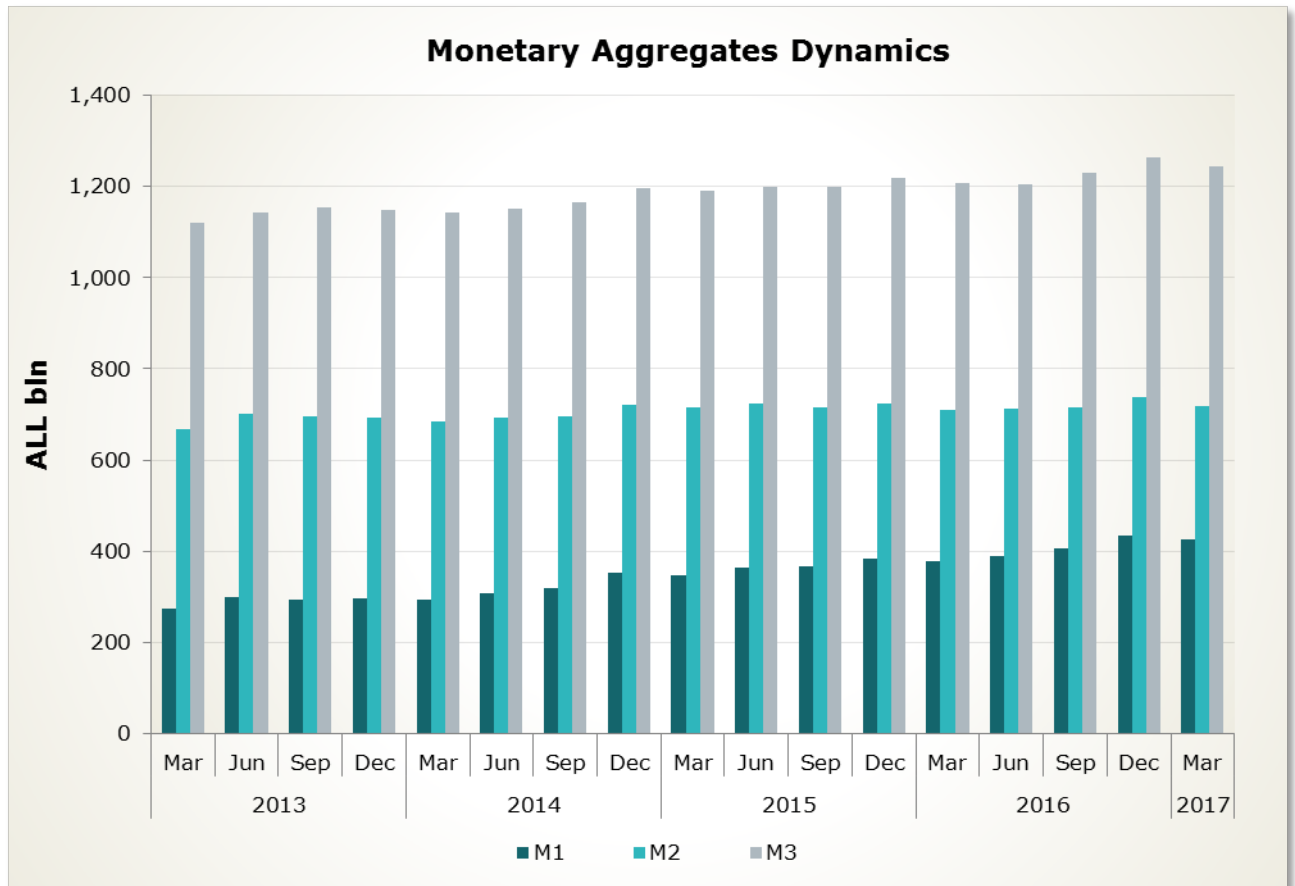
### 5.3. MONETARY AGGREGATES

#### *Money supply growth was 3.7% y/y in 2016*

Broad money (money aggregate M3) increased by 3.0% y/y and reached ALL 1,243.3 bln in March 2017, according to data provided by Bank of Albania. Net foreign assets of the banking system continued to provide the main contribution to the expansion of the monetary stock. The latter is also supported by the positive contribution of the public sector, according to the bank.

The M2 money supply went up by 1.4% y/y to ALL 719.02 bln and shows expansion and concentration of lending in domestic currency.

Money aggregate M1 jumped by 12.6% y/y to ALL 425 bln and reflects the preference of economic agents to keep deposits in liquid form.



Source: Bank of Albania

## 5.4. BANKING AND INSURANCE

*Non-government sector loans decreased by 1.0% y/y in Q1 2017 on tightened credit standards for businesses*

Loans to the non-government sector totalled ALL 530.2 bln in March 2017, down by 1.0% y/y, according to Bank of Albania.

According to the central bank's Q1 2017 bank lending survey, credit standards tightened on loans to enterprises for fourth consecutive quarter. Lending standards were tightened on loans for investments and liquidity, mainly through increased collateral requirements, and, at a lesser extent, through decreasing credit loans size. In the same time lending standards to households continued to ease on both consumer and mortgage loans through decreasing collateral requirements and improvement of instalment-to-income ratio.

As a result, loans to businesses fell, while those for households went up. Loans to non-financial corporations fell by 5.1% y/y to ALL 368 bln, while household loans rose by 9.8% to ALL 162.15 bln. House purchasing loans amounted to ALL 104.6 bln, up from ALL 102.5 bln in March 2016.



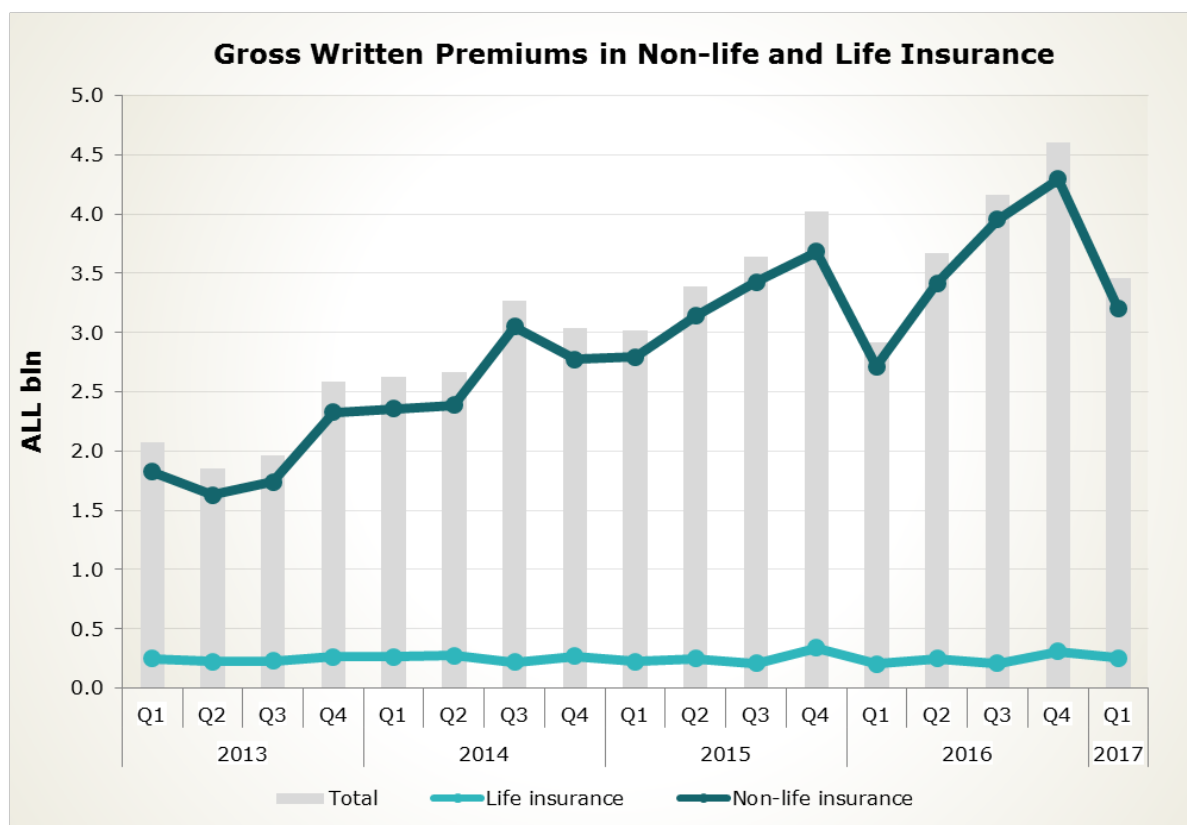
Source: Bank of Albania

## Insurance premium income up 18.3% y/y in Q1 2017

The total gross written premiums of the non-life and life insurance companies, excluding reinsurance, stood at ALL 3.457 bln, up 18.3% y/y in Q1 2017, according to the Albanian Financial Supervisory Authority (AMF).

The rise was fuelled by the 18% increase of the non-life insurance sector, which posted gross written premiums of ALL 3.204 bln in Q1 2017. The premiums in the life insurance segment inched up by 23.3% on the year to ALL 253 mln.





Source: AMF

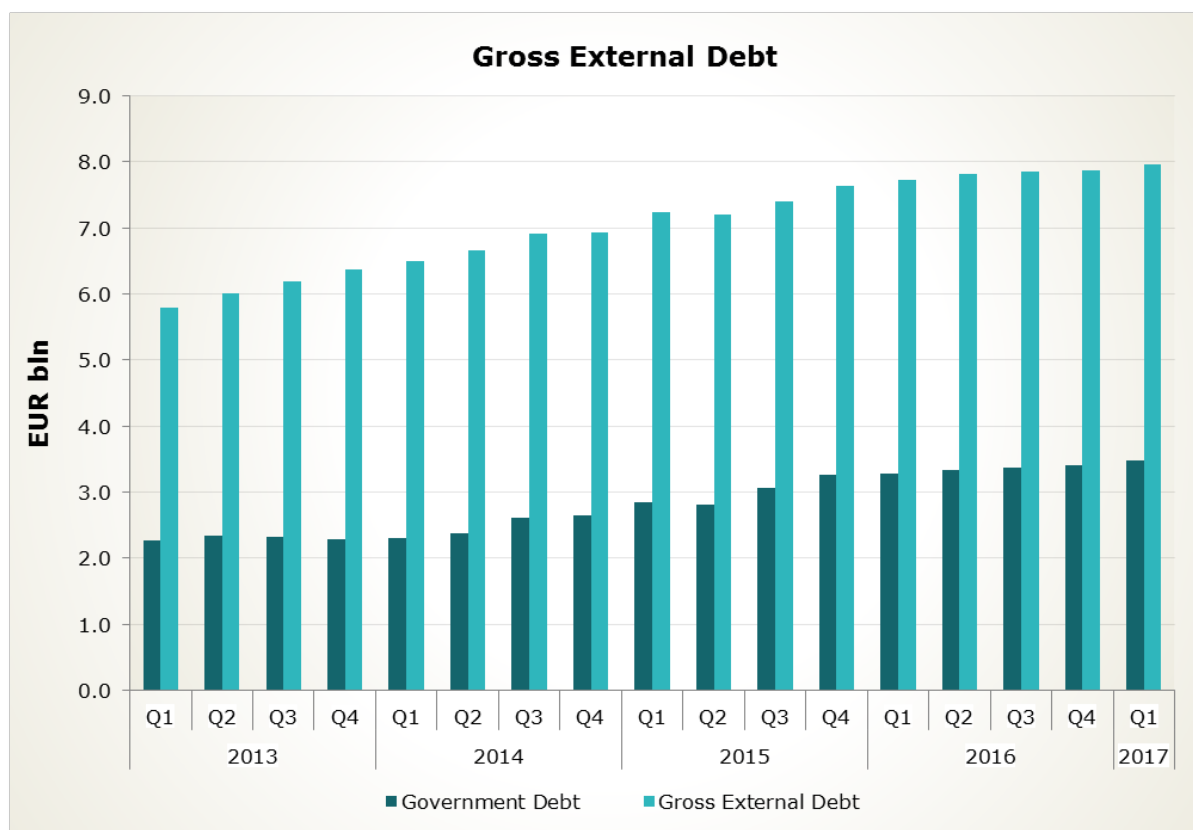
## 6. EXTERNAL SECTOR

### 6.1. FOREIGN DEBT

*The gross external debt grew 3.1% y/y to EUR 7.958 bln in Q1 2017*

The gross external debt totalled EUR 7.958 bln, up by 3.1% on the year in the first quarter of 2017, according to Bank of Albania. In comparison to Q4 2016 the gross external debt increased by EUR 96 mln.

In Q4 2016, long-term liabilities amounted to EUR 4.610 bln, or 57.9% of the total debt, and short-term liabilities totalled EUR 1.603 bln, equal to 20.1% of the total debt.



Source: Bank of Albania

## 6.2. BALANCE OF PAYMENTS

*Current account deficit narrowed to EUR 179.0 mln in Q1 2017 on increased services trade surplus*

The current account deficit narrowed to EUR 179.0 mln in Q1 2017 from EUR 224.0 mln in Q1 2016, according to central bank statistics data. The deficit on the current account stood at 6.9% of the GDP.

This was mainly a result of increased surplus on the trade of services by 55.7% y/y to EUR 274.0 mln in Q1 2017. The negative trade balance on goods went up by 1.4% y/y to EUR 587.0 mln, while the income account was in surplus of EUR 134 mln, down from EUR 179 mln a year ago.

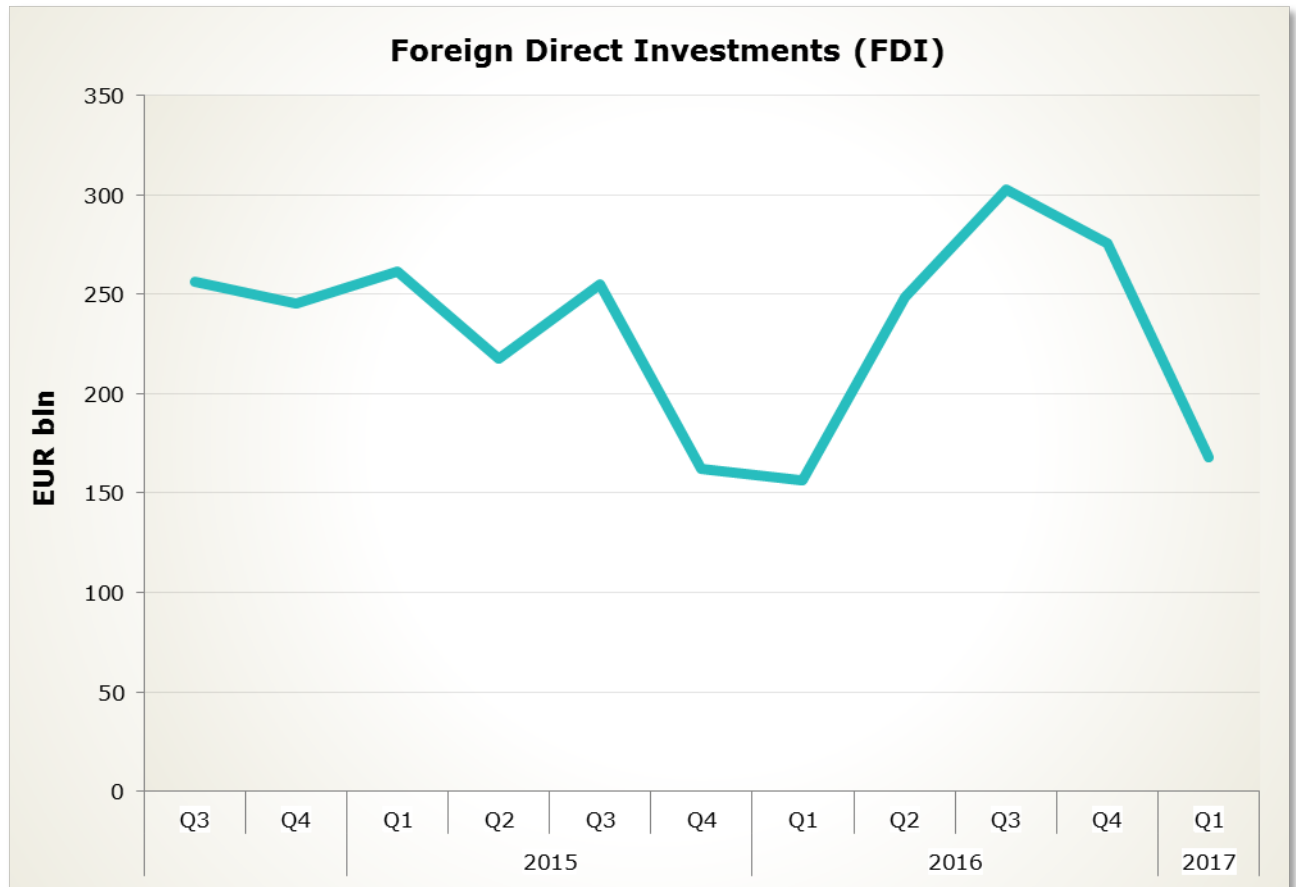


Source: Bank of Albania

## 6.3. FDI

### FDI in Albania at EUR 167.9 mln in Q1 2017

Foreign Direct Investments (FDI) in Albania amounted to EUR 167.9 mln in the first three months of the year, according to Bank of Albania. In annual terms, the FDI inflow increased by 7.5%, or EUR 11.7 mln. FDIs covered 94% of the current account deficit in Q1.



Source: Bank of Albania

#### 6.4. FOREIGN TRADE

##### *Foreign trade deficit unchanged y/y at ALL 70.483 bln in Q1 2017*

The trade deficit stood at ALL 70.483 bln in the first quarter of 2017, unchanged compared to Q1 2016, according to INSTAT.

Exports of goods increased by 17.5% to ALL 62.642 bln, while imports of goods went up by 7.7% y/y to ALL 133.1 bln.

Albania's most exported products groups were textile and footwear – 45.1% of the total exports, and minerals, fuels and electricity – 19.1%. The export group of minerals, fuels and electricity jumped by 49.7% y/y in Q1 2017, driven by the higher export prices of the oil on the international markets. The group of the construction materials and metals increased exports by 48.4% y/y, while textile and footwear exports went up by 7.7% y/y.

The most imported product groups in Albania in Q1 2017 were machinery, equipment and spare parts - 21.7% of the total exports, and food, beverages and tobacco - 17.3%. In Q1 2017, imports of chemical and plastic products increased the most, by 18.1% y/y. Imports of

textile and footwear went up by 9.9% y/y, while the imports of the group of food, beverages, tobacco increased by 4.6%.

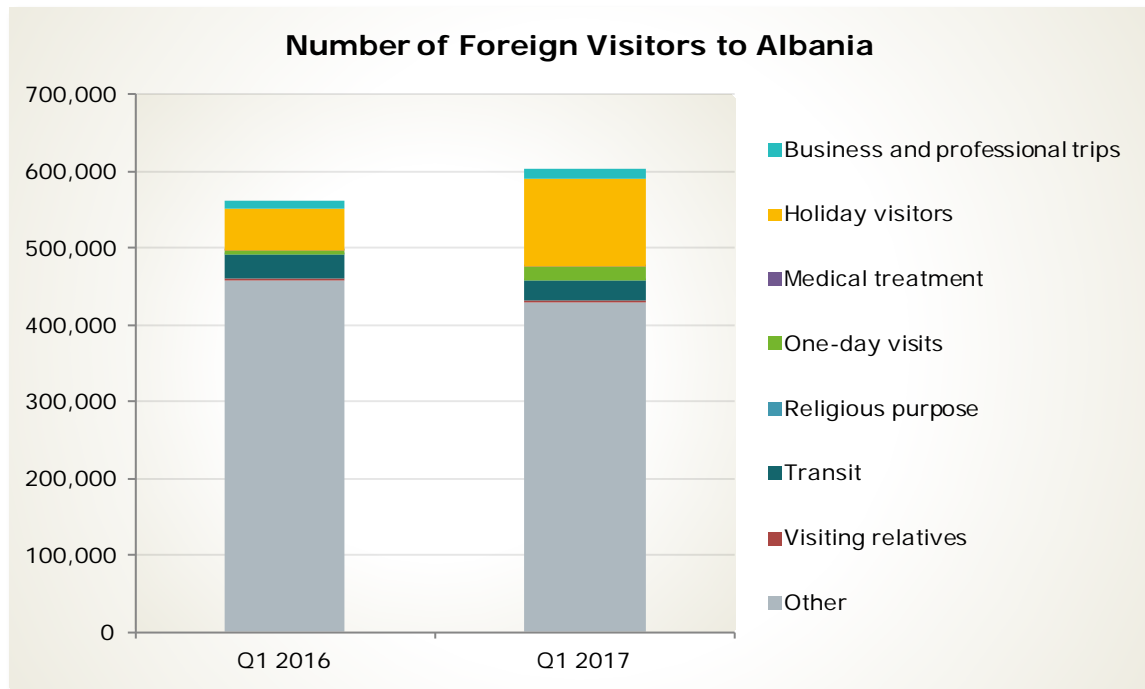


## 6.5. TOURISM

### *Number of foreign visitors to Albania up 7.1% y/y in Q1 2017*

The number of foreign nationals who visited Albania in the first quarter of 2017 rose 7.1% y/y to 601,940, according to INSTAT.

Visitors who entered the country for the purpose of recreation represented 19.1% of all foreign nationals, or 114,858. By comparison, 53,394 foreign nationals visited Albania for recreational purposes in Q1 2016, or 9.5% of the total number of foreign visitors.



## 7. MAJOR DEVELOPMENTS

### ***World Bank approves USD 100 mln loan to back reforms in Albania's financial sector***

Mar 14, 2017

The World Bank said it has approved a loan of USD 100 mln (EUR 94 mln) aimed at strengthening the resilience of the banking sector and the regulation and supervision of non-bank financial institutions in Albania.

[Read the full story here](#)

### ***IMF approves loan tranches worth total EUR 73.2 mln to Albania***

Feb 27, 2017

IMF announced it has completed the last ninth and tenth reviews of Albania's economic performance, which allows the authorities to draw a loan of XDR 57.3 mln (EUR 73.2 mln).

[Read the full story here](#)

### ***Albania to pardon ALL 91 bln (EUR 673.8 mln) in fiscal obligations***

Feb 24, 2017

Albania's government approved a draft law under which fiscal obligations of individuals and businesses amounting to ALL 91 bln (EUR 673.8 mln) will be pardoned. The government believes that this step would significantly improve the business climate in the country.

[Read the full story here](#)

### ***Businesses in Albania stumble over inefficient judiciary - Heritage Foundation***

Feb 16, 2017

Albania's judicial system remains inefficient and vulnerable to political interference, and corruption is still perceived as widespread, according to U.S.-based think-tank The Heritage Foundation. The country ranked 65th in the foundation's Economic Freedom Index, with an overall score of 64.4, declining from last year's 63rd position. The Heritage Foundation evaluated Albania as moderately free.

[Read the full story here](#)

***TAP project to bring 400 mln euro investments to Albania in 2017***

*Feb 7, 2017*

Investments into Albania under the Trans Adriatic Pipeline (TAP) gas project will come in at around EUR 400 mln in 2017, according to Shkelqim Bozgo, TAP Albania country manager. The pipeline, which is designed to carry Azeri gas to Europe, will have an initial capacity of 10 billion cubic metres of gas per year, which could double further on.

[Read the full story here](#)

***World Bank extends USD 70 mln loan to Albania to improve business climate***

*Feb 1, 2017*

The World Bank said it approved a USD 70 mln (EUR 65.2 mln) loan to Albania aimed at improving the country's investment policy framework, making it easier to do business and facilitating trade.

[Read the full story here](#)

***Albania improves ranking in Transparency Intl 2016 Corruption Perceptions Index***

*Jan 25, 2017*

Albania climbed five positions in Transparency International's global Corruption Perceptions Index (CPI) 2016 survey published on Jan 25, 2017, sustaining a trend toward improvement.

[Read the full story here](#)

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