

ALBANIA ECONOMY REPORT

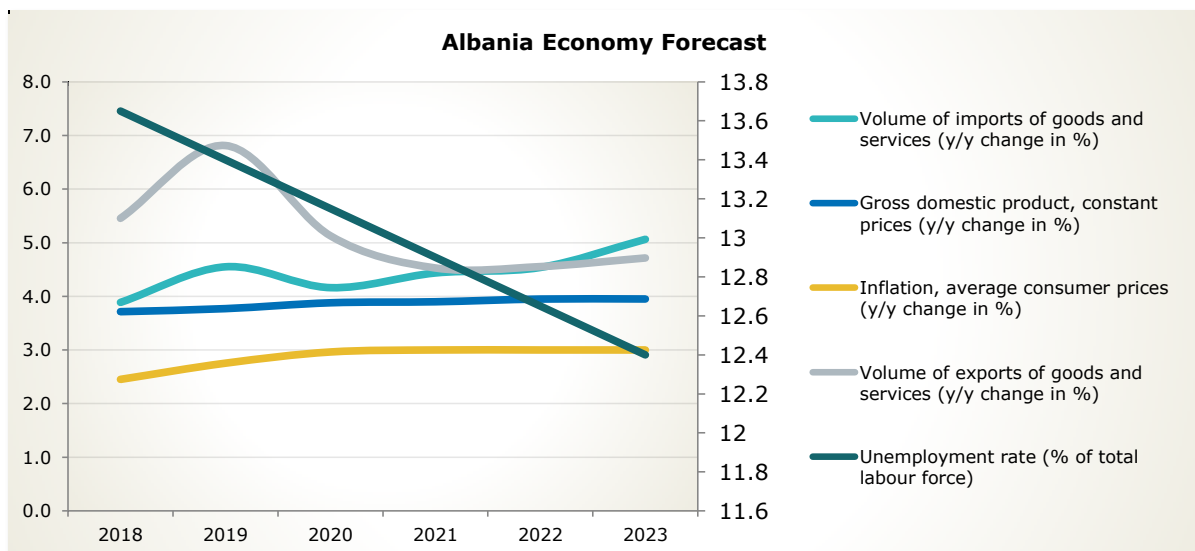
Q1 2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

ALBANIA – MACROECONOMIC SNAPSHOT AS OF Q1 2018	
GDP Growth	4.4% y/y
Business confidence indicator	3.7 pp q/q
Manufacturing output	9.4% y/y
Retail sales	1.5% y/y
Annual inflation	2.0%
Unemployment rate	12.5%
Number of building permits	119% y/y
Money supply decline	0.4% y/y
Household loans	5.2% y/y
Gross external debt	EUR 7.906 bln
Current account deficit	EUR 165.0 mln
FDI inflow	EUR 291.0 mln
Foreign trade deficit	ALL 71.5 bln
Arrivals of foreign citizens	12.5% y/y

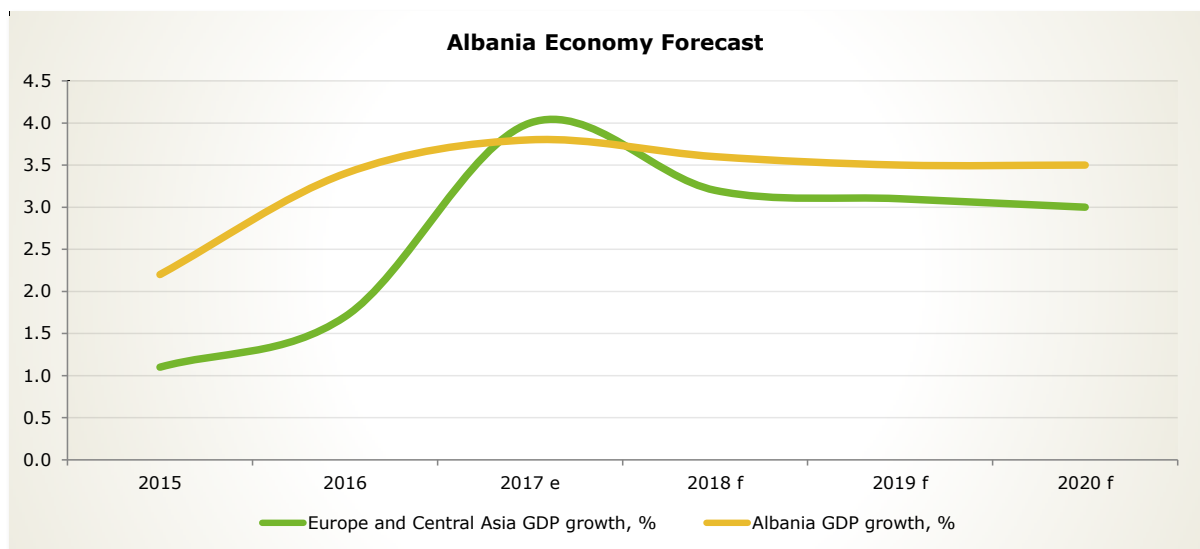


Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2018

According to the International Monetary Fund (IMF), the Albanian economy has continued to strengthen, with real GDP growth at 3.8% in 2017, reflecting strong domestic demand driven by a revival in construction, recovery in the labor market and household credit, and large energy-related FDI projects. While the public debt to GDP ratio declined, the pace of fiscal consolidation has slowed post-program, with arrears accumulating. The current account deficit narrowed to 6.9% of GDP, supported by tourism and other services exports, and the level of FX reserves remains

comfortable. Inflation is low and although credit growth is weak, banks are liquid and stable.

Despite the favorable environment and positive short-term outlook, risks and vulnerabilities remain, emanating from high public debt, non-performing loans in the financial sector, and weaknesses in public institutions and the judicial system. A slowdown in reforms or spillovers from external shocks could undermine growth prospects and confidence, adversely affecting debt dynamics and creating financing pressures on the government. On the upside, the opening of EU accession negotiations can provide a window of opportunity to lift implementation of the reform agenda, leading to higher investment and GDP growth.



Source: World Bank, *Europe and Central Asia Economic Update*, January 2018

According to the World Bank estimates from June 2018, GDP growth of Albania is likely to come in at 3.6% in 2018, down from 3.8% in 2017. This will be higher than the projected growth for Europe and Central Asia, of 3.2% in 2018.

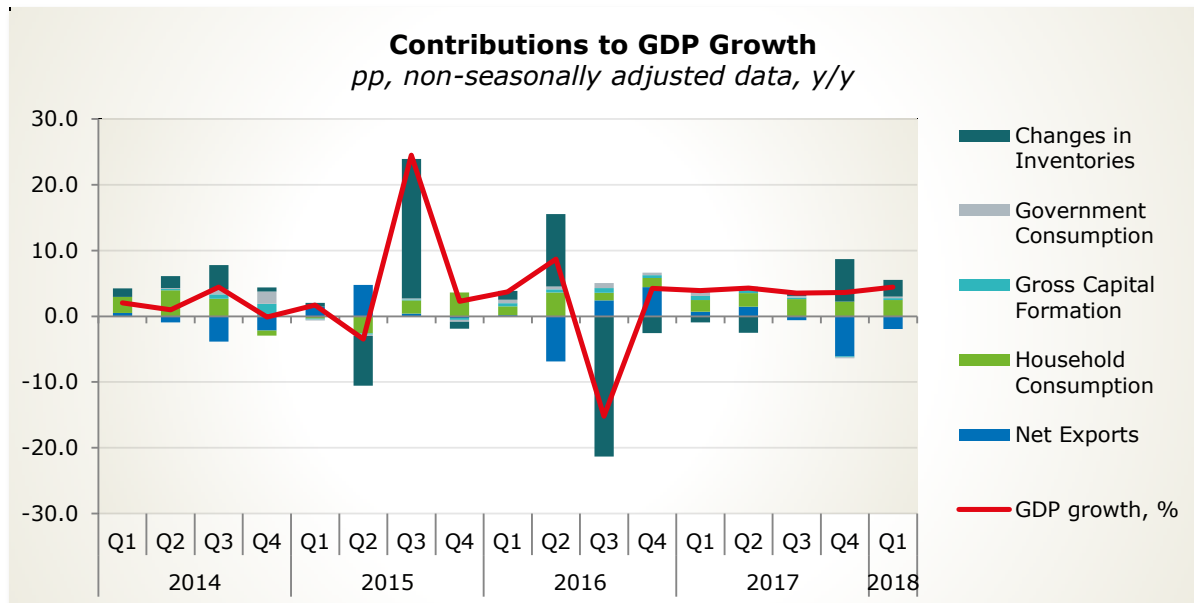
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth speeded up to 4.4% y/y in Q1 2018, up from 3.6% y/y in Q4 2017

The Albanian GDP increased by 4.4% in Q1 2018 in real terms compared to 3.6% y/y growth in Q4 2017. The main reason for the growth speed-up was the household consumption which advanced by 3.0% y/y and added 2.4 pp to the overall GDP growth in the first quarter.

Gross capital formation increased by 5.4% y/y and contributed to 1.1 pp to the total GDP growth. In the same time, the net exports took away 1.9 pp from the economic growth in Q1 2018.

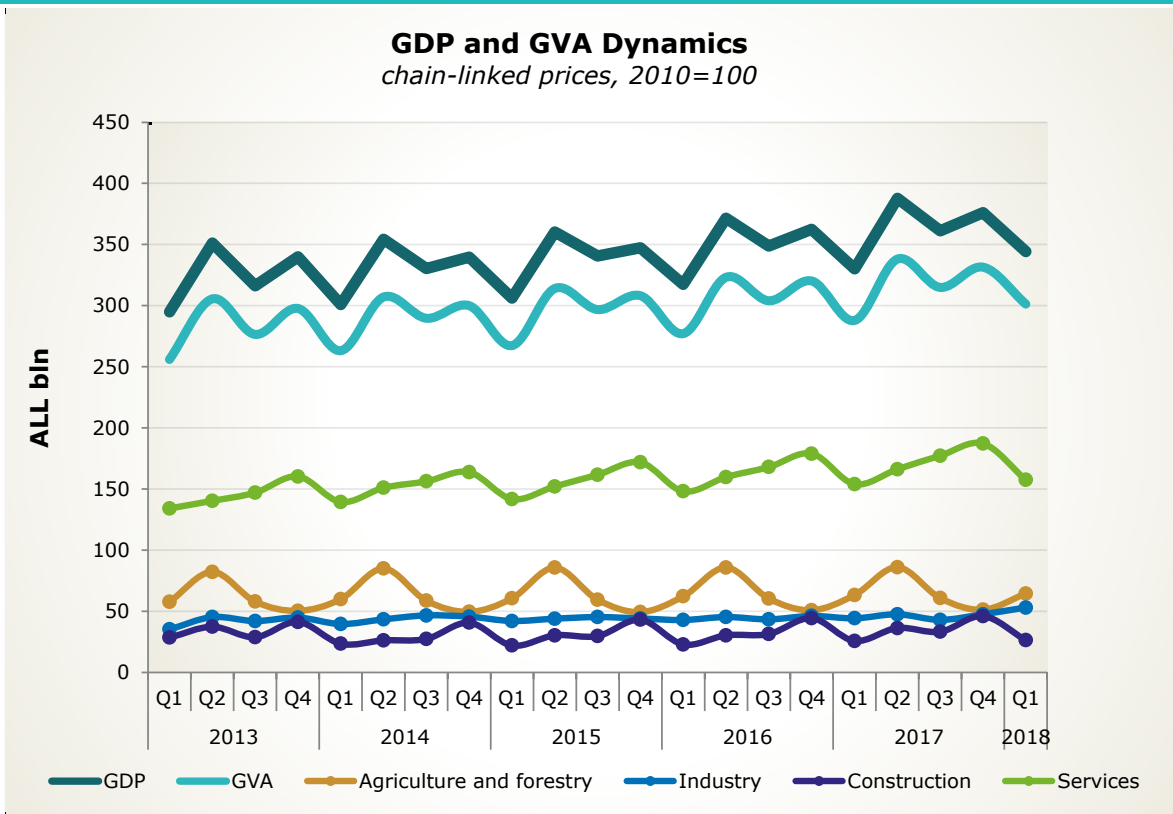


Source: INSTAT; SeeNews calculations

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.

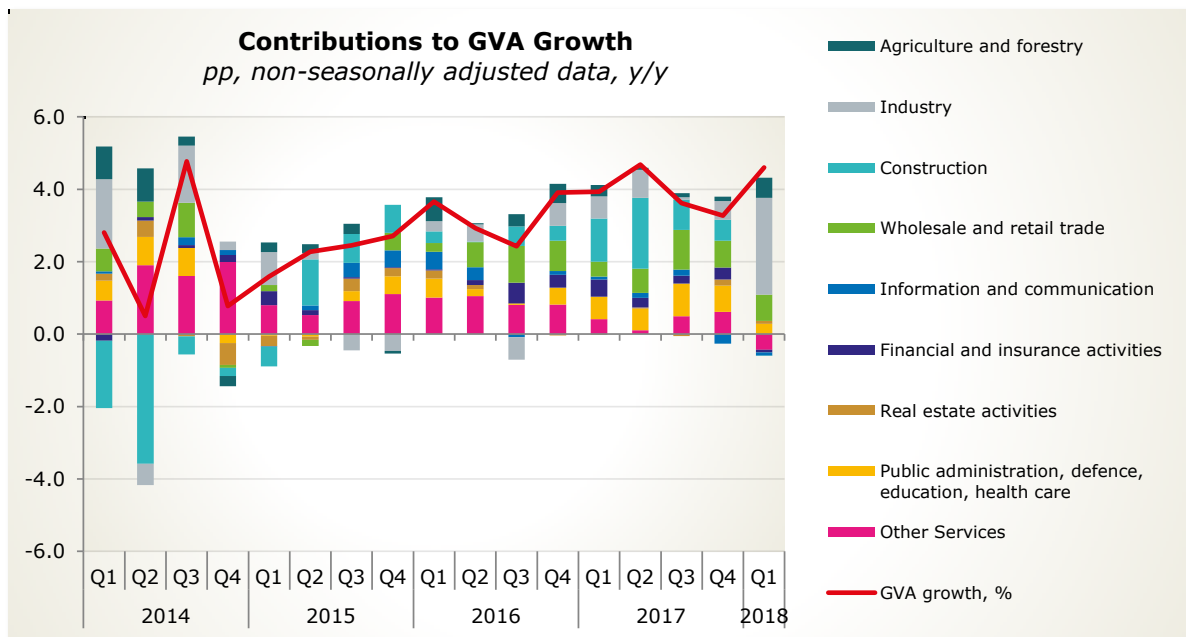
The country's non-seasonally adjusted GVA increased in value by 4.7% y/y and totalled ALL 301.3 bln in Q1 2018. The industrial sector went up by 19.9% y/y and took 17.6% share in GVA, while the services sector recorded a 2.3% annual increase, slicing a 52.3% share in the GVA.

Construction grew by 2.1% and its share in GVA came in at 8.8%. The agricultural sector marked a modest increase, of 1.9% y/y, accounting for 21.4% of the total GVA.



Source: INSTAT

In terms of sector contributions, the industry sector contributed to 2.7 pp to the GVA expansion, while the total services sector contributed to 0.4 pp to growth. The retail and wholesale sector contributed with 0.7 pp.



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 3.7 percentage points q/q in Q1 2018

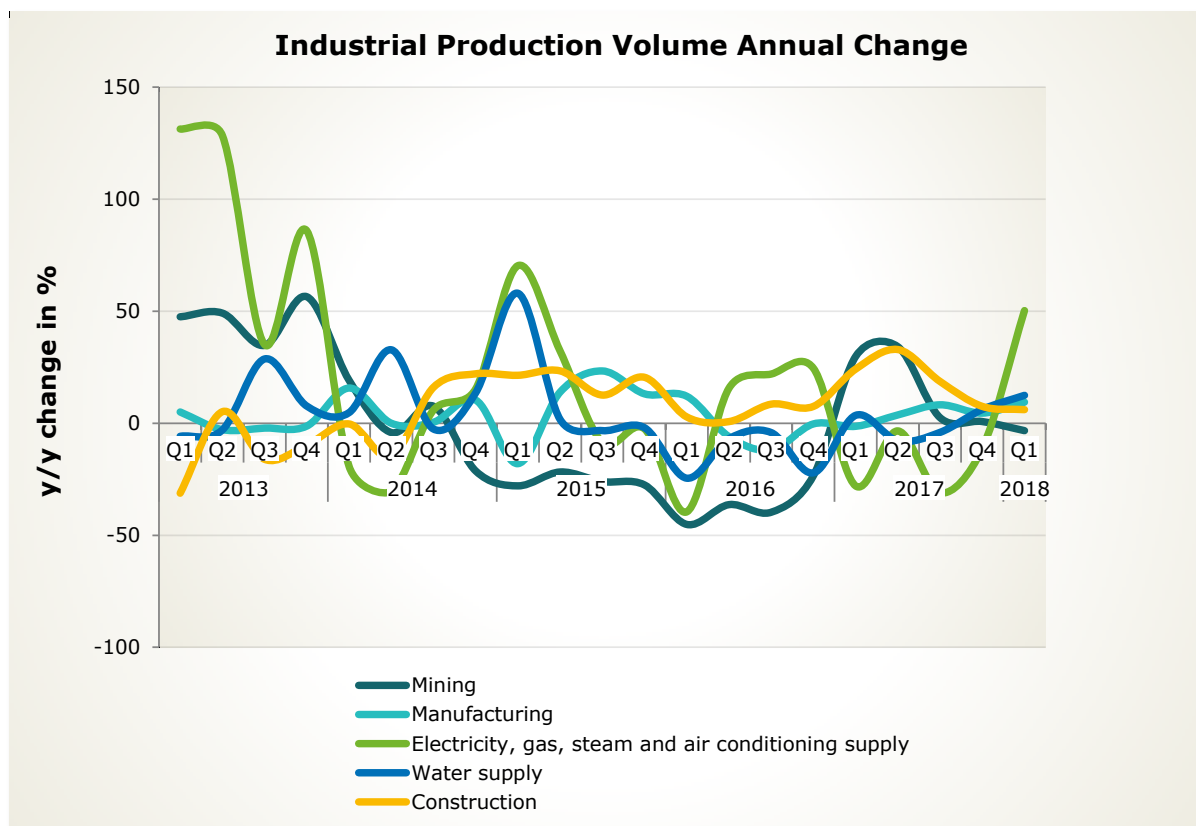
In the first quarter of 2018, the average business confidence indicator up up by 3.7 percentage points q/q, according to Bank of Albania. In Q4 2017, the business confidence indicator declined by 3.9 pp q/q.

2.3. INDUSTRIAL OUTPUT

Manufacturing output increased by 9.4% y/y in Q1 2018

Manufacturing output surged up by 9.4% in Q1 2018, while the construction output advanced by 6.1% y/y, according to INSTAT.

The water supply sector increased by 12.5% y/y while the output of the electricity, gas, steam and air conditioning supply output jumped by 50.3% and the mining sector shrank by 3.3% y/y.



Source: INSTAT

2.4. RETAIL SALES

Retail sales growth picked up to 1.5% y/y in Q1 2018, up from 1.3% y/y growth in Q4 2017

In the first quarter of 2018, the turnover volume index increased by 1.5% compared with the same quarter of 2017, according to the data from INSTAT. The seasonally adjusted retail sales decreased by 3.2% compared to the previous quarter.

Retail sales, excluding the retail sales of motor fuel, increased by 1.7% y/y in Q1 2018, while the retail sales of food, beverages and tobacco increased by 0.2% y/y.

In Q1 2018, retail sales of non-food products, excluding motor fuels increased by 2.8% y/y. The turnover volume index of the group of motor fuels increased 0.7%, compared with the same quarter of the previous year.



Source: INSTAT

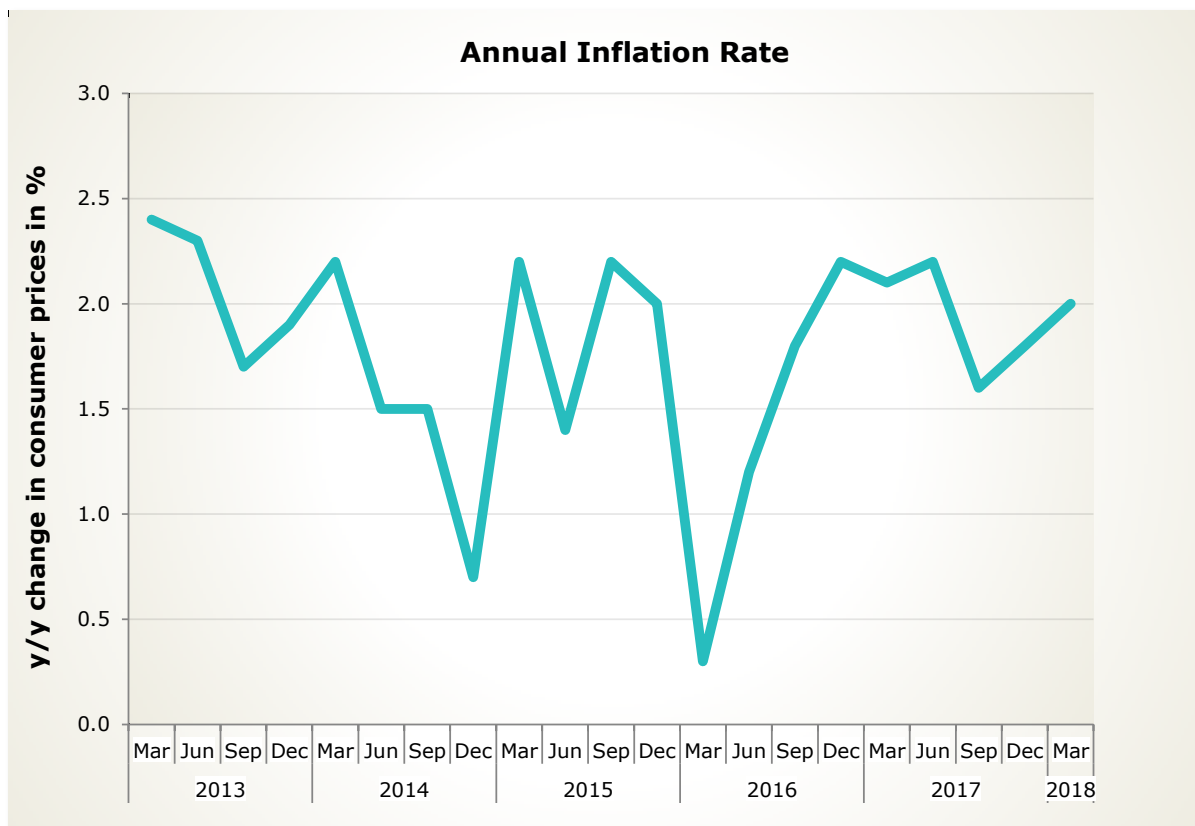
2.5. INFLATION

Annual inflation of 2.0% in March 2018, as prices of foods and non-alcoholic beverages advanced the most

The annual inflation in Albania came in at around 2.0% in March 2018, according to INSTAT. This is up compared to December 2017 when the annual inflation reading was at 1.8%.

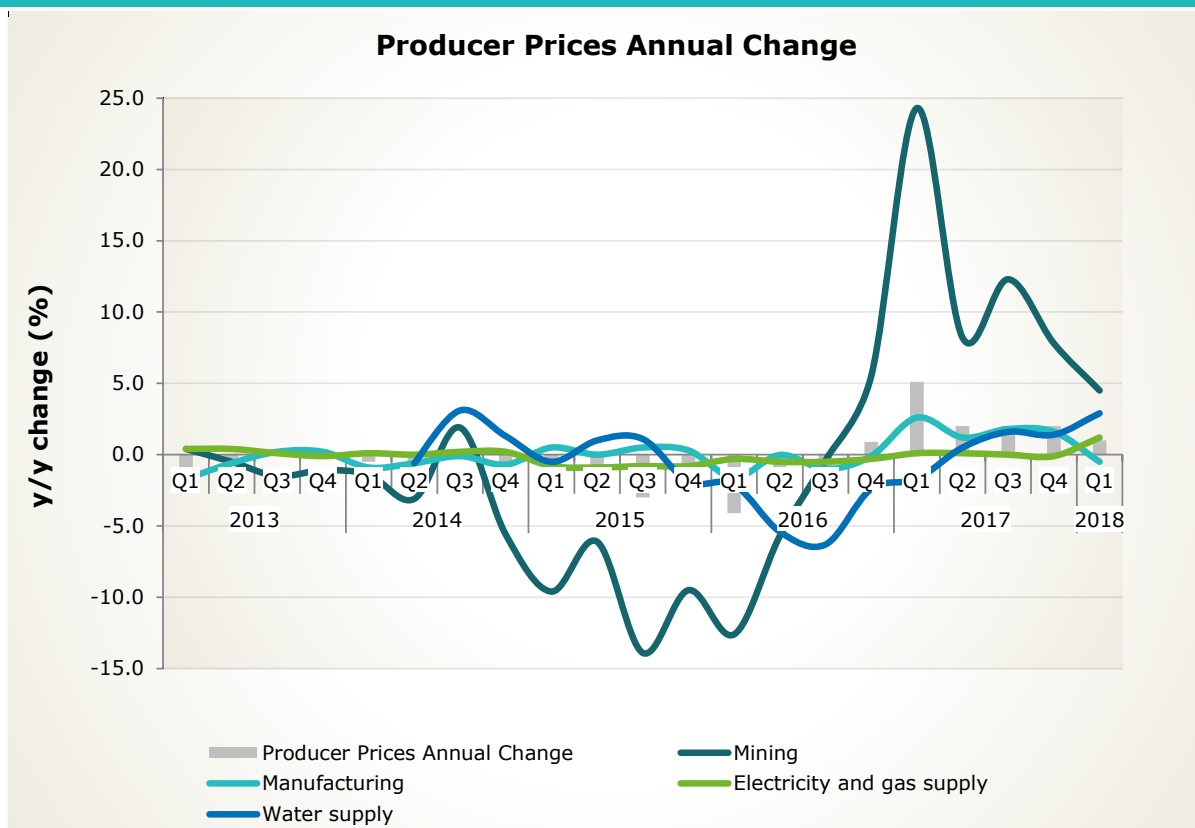
Compared with February 2018, the monthly change of Consumer Price Index in March 2018 was 0.3%.

In March 2018, the average prices of food and non-alcoholic beverages advanced by 3.1% y/y, while the inflation at the group of housing, water, electricity and other fuel came in at 2.2%. The group of alcoholic beverages and tobacco had an 1.9% increase of prices on average, while the inflation reading of the group of clothing and footwear was 1.8%. The transport services rose by 1.3% on average in March 2018 compared to March 2017, while communication services saw inflation of 1.0%. The group of Hotels, coffee-house and restaurants lifted price by 0.7% and the group of education service had an inflation of 0.6%.



Source: INSTAT

Producer prices went up by 1.0% y/y in Q1 2018, INSTAT data showed. Producer prices in the mining sector grew by 4.5%. In the manufacturing industry they decreased by 0.5% and inched up by 2.9% in the water supply sector. Producer prices advanced by 1.2% y/y in the electricity and gas supply sector.



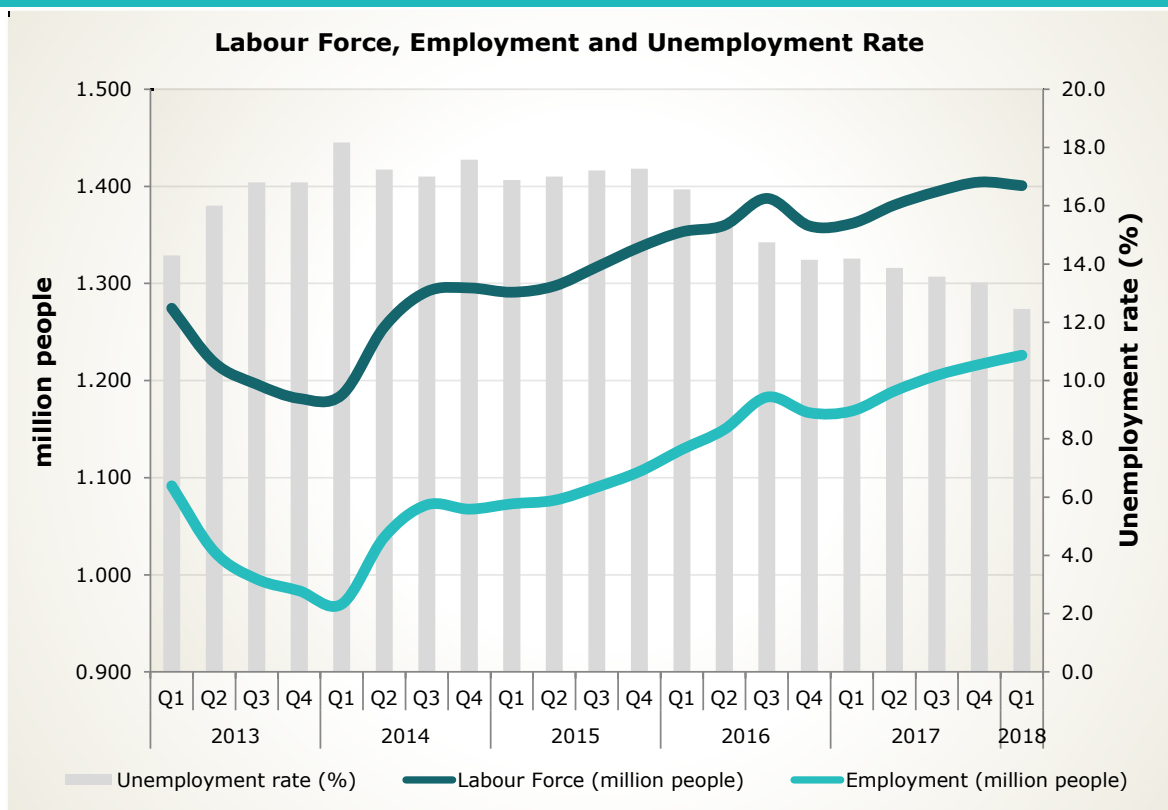
Source: INSTAT

3. LABOUR MARKET

Unemployment rate went down to 12.5%

The unemployment rate in Albania crawled down to 12.5% of the total labour force in March 2018, down from 13.4% in Q4 2017 and 14.2% in Q1 2017, according to data of INSTAT. The employed population aged 15 years and older was 1.226 million as of March 2018 up by 4.9% y/y.

The youth (population aged 15-29) unemployment rate inched down to 24.5% in Q1 2018 from 24.6% in Q4 2017.



Source: INSTAT

4. CONSTRUCTION AND REAL ESTATE

The number of building permits more than doubled in Q1 2018

The number of building permits issued in Albania in Q1 2018 totalled 221, compared to 101 in the same quarter of the previous year, according to INSTAT data.

Permits for construction of non-residential buildings came in at 94, up from 25 in Q1 2017, while permits for housing projects jumped to 127 from 76 in Q1 2017.

The total area, covered by permits for non-residential buildings jumped four times to 110,159 sq m in Q1 2018, compared to a year earlier. The total area of the housing projects shot up by 46.4% on the year to 90,785 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 132.54 in Q1 2018 from ALL 133.47 in Q4 2017, according to Bank of Albania. The average annual exchange rate of the ALL against the USD came down to 107.81 in Q1 2018 from 113.44 in Q4 2017.

Average Annual ALL Exchange Rate			
Foreign Currency	Q1 2018	Q4 2017	Q1 2017
EUR	132.54	133.47	135.84
USD	107.81	113.44	127.51
GBP	150.05	150.46	157.89
CHF	113.79	114.92	127.05

5.2. MONETARY POLICY

Policy rate at 1.25% as of February 2018

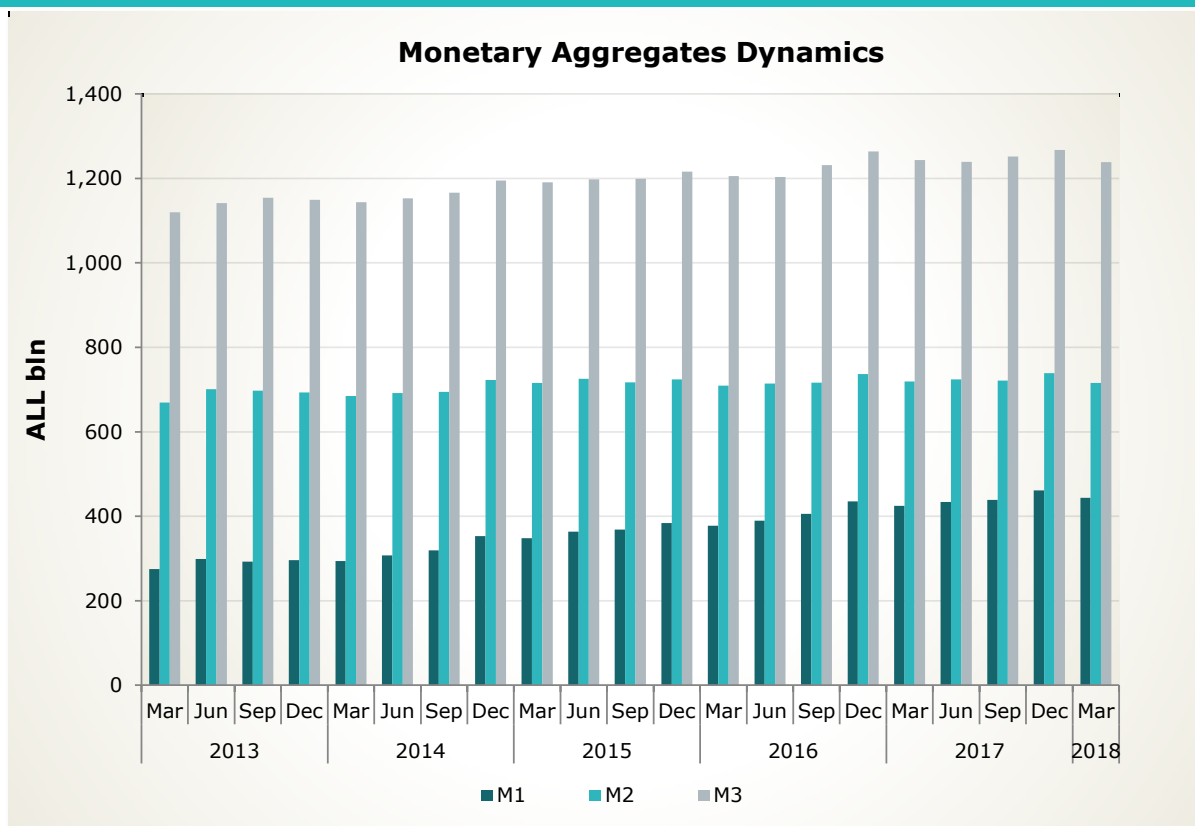
The monetary policy stance of the Central Bank of Albania in February 2018 remained accommodative as inflation remained within the bank's target of 3.0%. The policy rate stands unchanged at the minimum historic level of 1.25% since May 2016. During the quarter, the Bank of Albania continued to supply the needed liquidity to the banking sector to ensure intermediation activity and the stability of interest rates in the money market. Additionally, the Supervisory Council decided to keep unchanged the interest rate for the overnight deposit facility and the interest rate for the overnight lending facility, respectively at 0.25% and 2.25%.

5.3. MONETARY AGGREGATES

Monetary supply in the economy remains at moderate levels

According to the Bank of Albania, the annual rate of the M3 broad money aggregate when adjusted for exchange rate effects advanced by around 2.0% y/y in Q1 2018. In terms of liabilities, the largest contributor to money supply growth was deposits with two-year maturities. In terms of assets, the money supply growth in Q1 2018 was supported by the foreign currency component, as well as by credit to the economy.

The M2 aggregate was somewhat unchanged in Q1 2018 while the liquid money indicator, M1, slowed down its annual growth rates to 5.4%, around 2 pp lower than in the previous quarter. The ratio of currency outside banks against the adjusted M2 aggregate¹² declined at 27.3% at the end of March, after the seasonal growth at the end of 2017, at 28%.



Source: Bank of Albania

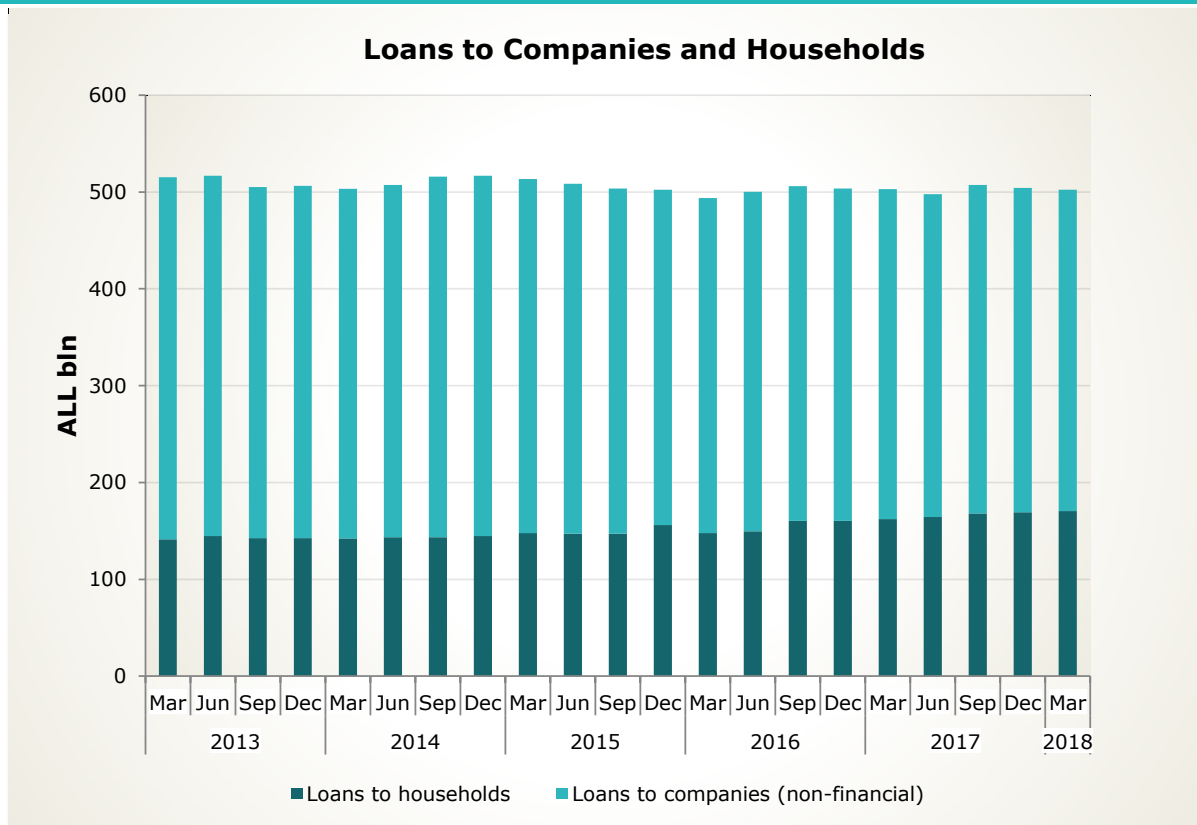
5.4. BANKING AND INSURANCE

Non-government sector loans growth grew by 3.3% in Q1 2018

The growth of credit to the private sector remained unchanged in Q1 2017 compared to the same quarter a year earlier at ALL 502.2 bln, data from the Bank of Albania showed.

However, when adjusted for the non-performing loans (NPLs), credit to the economy grew 3.3% on average, during the first quarter of the year, fuelled, to a large extent, by the 7% growth in the lek loans portfolio. NPLs ratio stood at 13.4% in March 2017, down from 17.4% a year earlier, reflecting the diminishing credit risk.

Loans to households increased by 8.4% y/y in Q1 2018. Loans to enterprises went up by 4.3% y/y in Q1 2018. By purpose of use, demand growth was broadly based in both liquidity and the investments segments recording an annual average growth of 2.5% and 5.9%, respectively.

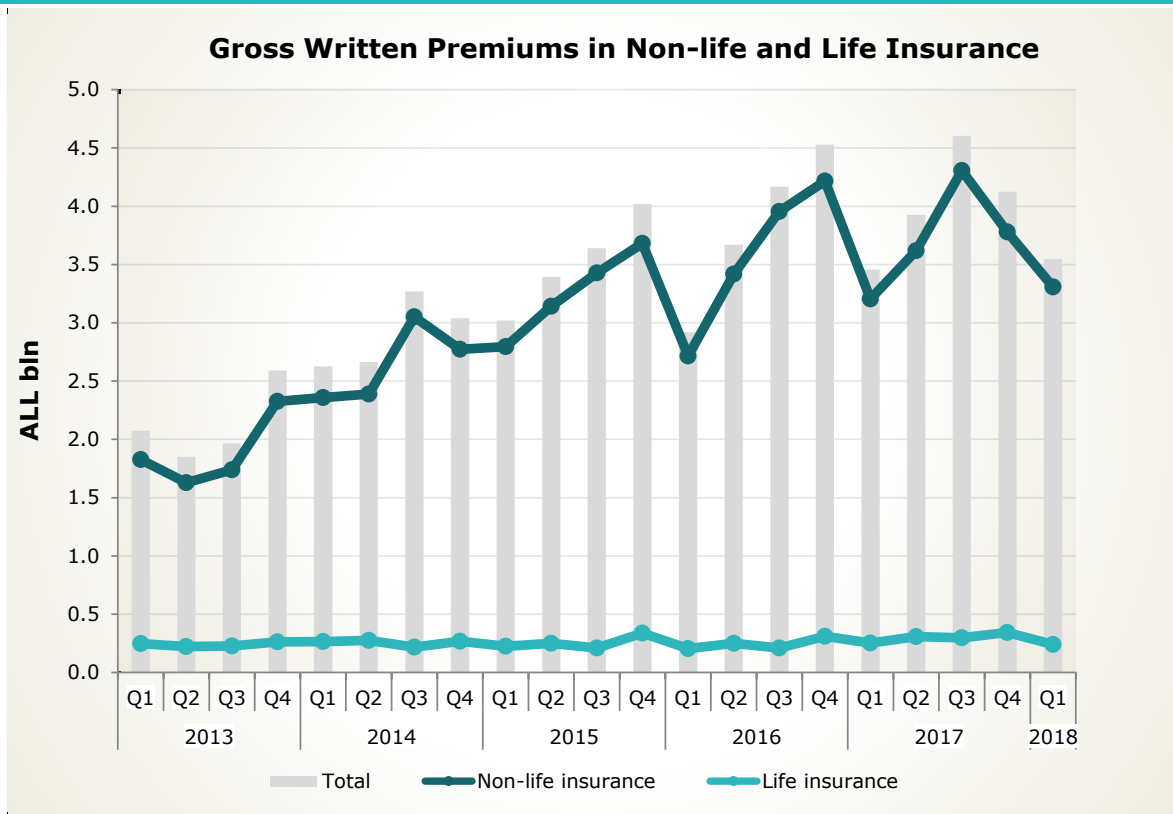


Source: Bank of Albania

Insurance premium income up by 2.6% y/y in Q1 2018

The total gross written premiums of the Albanian non-life and life insurance companies, excluding reinsurance, stood at ALL 3.548 bln, up by 2.6% y/y in Q1 2017, according to the Albanian Financial Supervisory Authority (AMF).

The increase was fuelled by the 3.2% surge of non-life insurance sector, which posted gross written premiums of ALL 3.306 bln in Q1 2018. The premiums in the life insurance segment decreased by 4.4% to ALL 242 mln.



Source: AMF

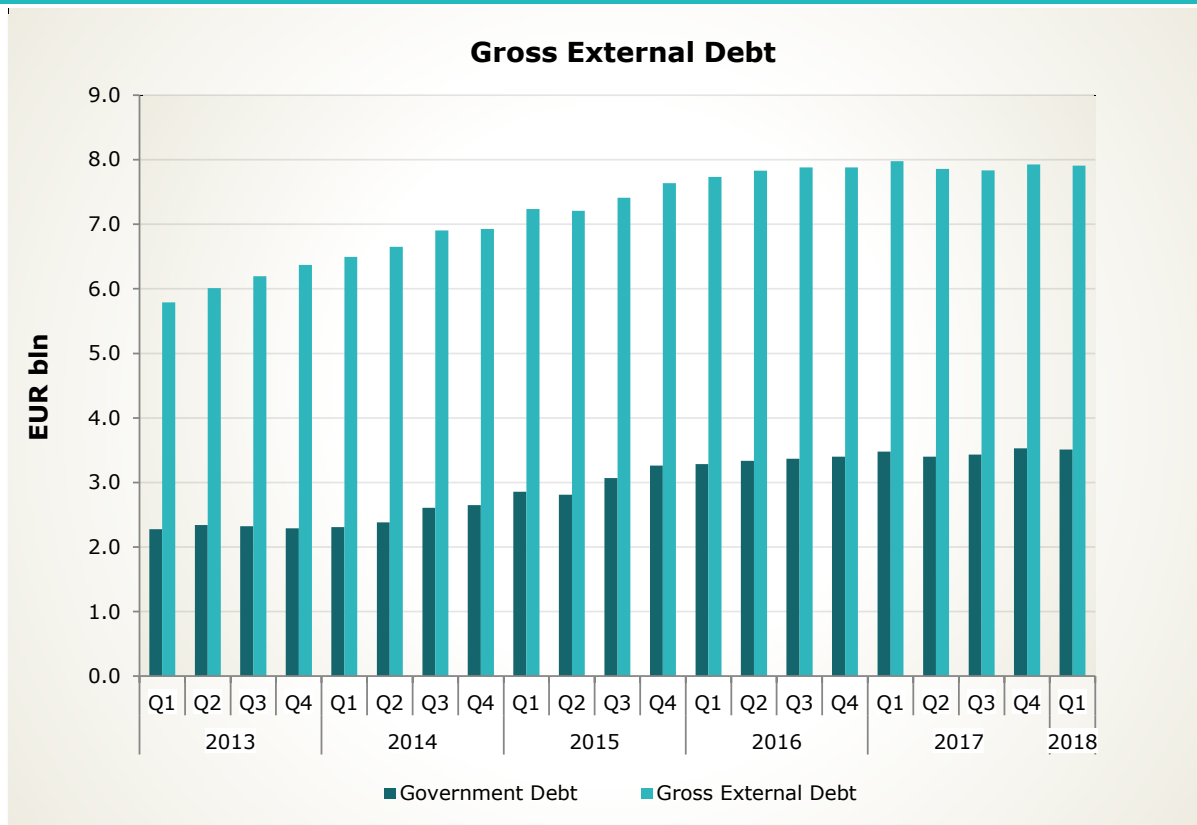
6. EXTERNAL SECTOR

6.1. FOREIGN DEBT

The gross external debt inched down by 0.9% y/y to EUR 7.906 bln as of March 2018

The gross external debt totalled EUR 7.906 bln as of March 2018, down by 0.9%, according to Bank of Albania. In comparison to Q4 2017 the gross external debt decreased by 0.3%.

In Q1 2018, long-term liabilities amounted to EUR 4.605 bln, or 58.2% of the total debt, and short-term liabilities totalled EUR 1.615 bln, equal to 20.4% of the total debt.



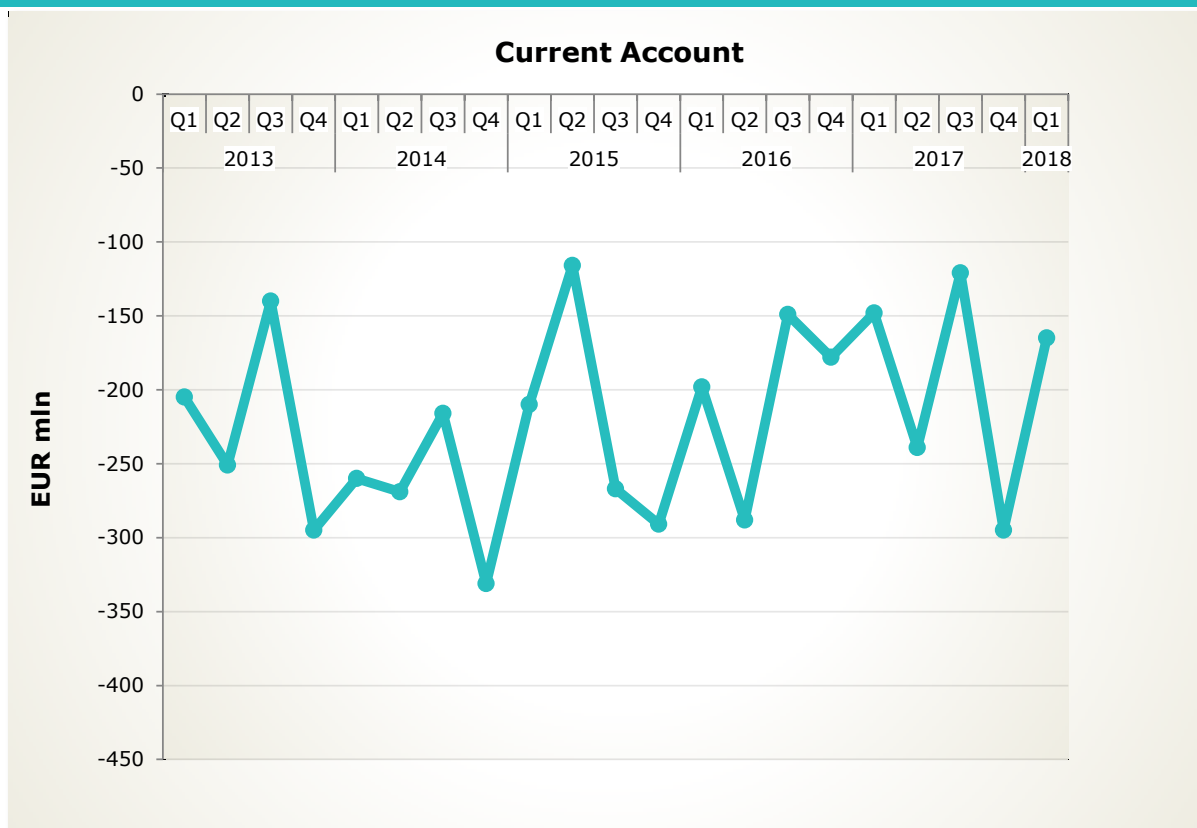
Source: Bank of Albania

6.2. BALANCE OF PAYMENTS

Current account deficit widened to EUR 165.0 mln in Q1 2018

The current account deficit widened to EUR 165.0 mln in Q1 2018, up 11.5% y/y from EUR 148.0 mln in Q1 2017, according to central bank statistics data. The current account gap increase was mainly a result of widening deficit on the income account and to a lesser extent on the foreign trade of goods and services.

The trade deficit on the goods and services account came in at ALL 71.53 bln, up by 1.5% y/y. The surplus on the income account increased by 18.9% y/y to EUR 201.0 mln.

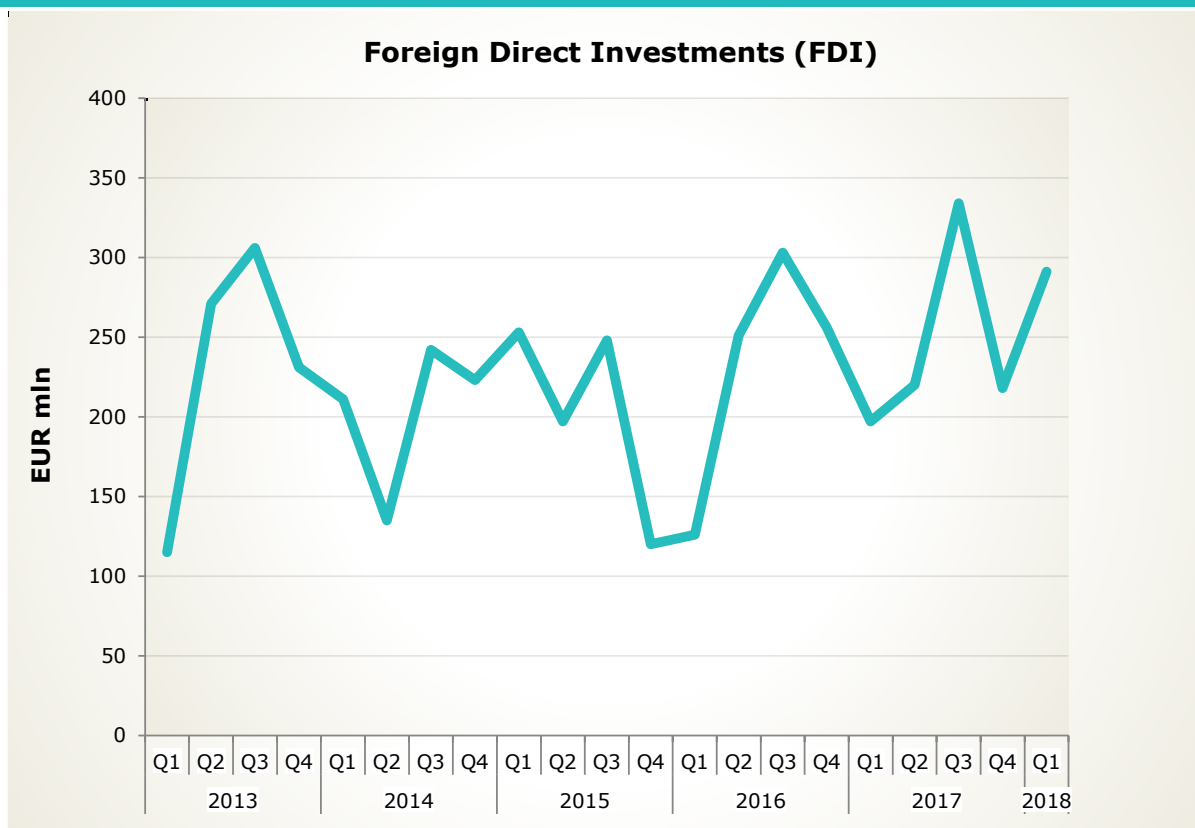


Source: Bank of Albania

6.3. FDI

FDI in Albania at EUR 291.0 mln in Q1 2018

Foreign Direct Investments (FDI) in Albania amounted to EUR 291.0 mln in the first quarter of 2018, according to Bank of Albania. In annual terms, the FDI inflow surged by 47.7%, or EUR 94.0 mln. FDIs covered 180% of the current account deficit in Q1 2018.



Source: Bank of Albania

6.4. FOREIGN TRADE

Foreign trade deficit up by 1.5% y/y at ALL 71.5 bln in Q1 2018

The trade deficit stood at ALL 71.5 bln in Q1 2018, up by 1.5% compared to Q1 2017, according to INSTAT.

Exports of goods increased by 18.9% to ALL 74.5 bln, while imports went up by 9.7% y/y to ALL 146.0 bln. Exports of foods and beverages advanced by 23.9% y/y to ALL 6.002 bln, exports of textile and footwear increased by 11.6% y/y to ALL 31.5 bln, exports of construction materials and metals went up by 35.8% y/y to ALL 13.2 bln, while shipments abroad of chemical and plastical products surged by 23.0% y/y to ALL 1.178 bln.

Imports of machinery and equipment increased by 15.3% y/y to ALL 33.3 bln, imports of minerals and fuels advanced by 26.4% y/y to ALL 15.7 bln, imports of textile and footwear inched up by 8.0% y/y to ALL 20.7 bln, while imports of food, beverages, tobacco advanced by 6.6% y/y to ALL 24.5 bln.



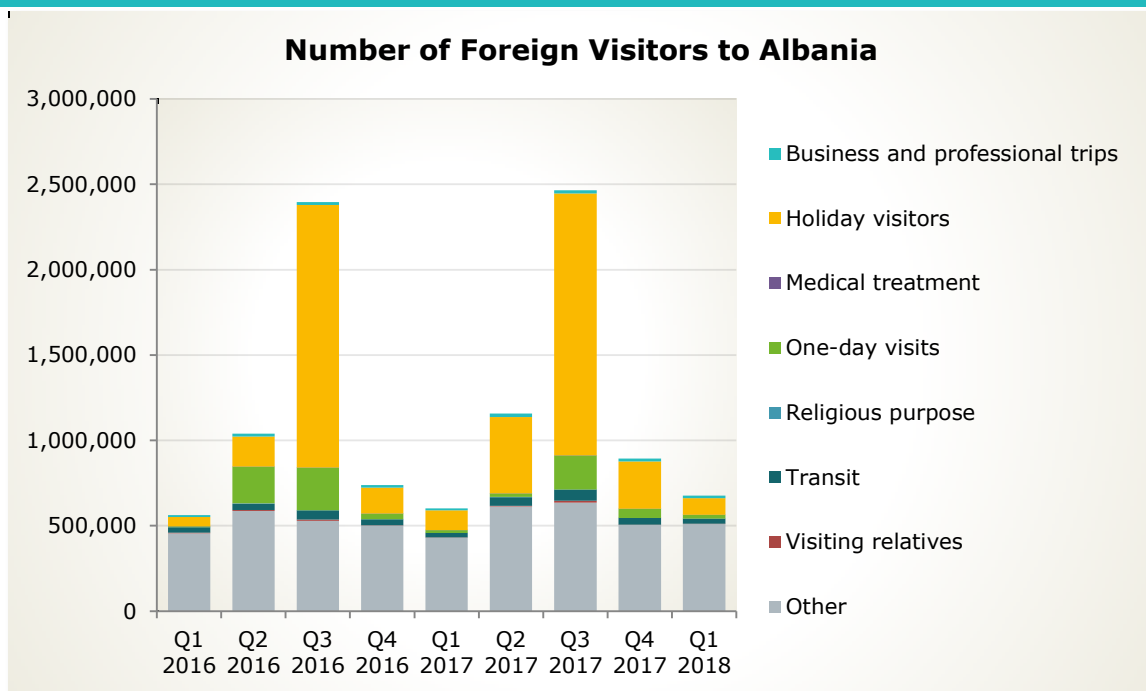
Source: INSTAT

6.5. TOURISM

Number of foreign visitors to Albania up 12.5% y/y in Q1 2018

The number of foreign nationals who visited Albania in Q1 2018 rose by 12.5% y/y to 676,888 people, according to INSTAT.

Visitors who entered the country in the first quarter of 2018 for the purpose of recreation represented 75.2% of all foreign nationals, or 509,052 people. People who visited Albania for the purpose of business and professional engagements represented 2.3% of the total in the quarter.



Source: INSTAT

7. MAJOR DEVELOPMENTS

Albania's securities exchange can help attract foreign investors - AmCham head

Mar 30, 2018

The Albanian Securities Exchange (ALSE) is expected to help attract foreign investors and improve the business climate in the country, according to the American Chamber of Commerce in Albania. ALSE is a joint stock company licensed by the Albanian Financial Supervisory Authority (AFSA) in July 2017 as the first private securities exchange in Albania. In the first year of activity, the ALSE transactions will focus only on the trading of government securities.

[Read the full story here](#)

Albania to fully liberalise power market by 2025 – energy min

Mar 26, 2018

Albania will achieve full liberalisation of its power market by 2025, according to energy and infrastructure minister Damian Gjiknuri. Albania and Kosovo, supported by the US Agency for International Development (USAID) and the Energy Community Secretariat, are working for the integration of the two electricity markets and the establishment of a joint power exchange with long-term objective of integration into the European market.

[Read the full story here](#)

Foreign remittances to Albania pick up in 2017

Mar 26, 2018

Foreign remittances to Albania increased to EUR 635.7 mln in 2017 from EUR 614.5 mln in 2016, according to central bank data. According to data from the Department of Economic and Social Affairs of the United Nations, migrants from Albania totalled 1.12 million in 2015.

[Read the full story here](#)

IMF urges Albania to step up reforms to reduce risks

Mar 22, 2018

The Albanian government should push for reforms to mitigate risks arising from high public debt, non-performing loans (NPLs) in the financial sector, difficult investment climate and weak rule of law, according to the International Monetary Fund (IMF).

[Read the full story here](#)

Albania signs oil exploration deal with Shell on Block 4 - energy ministry

Feb 21, 2018

Albania's ministry of energy and infrastructure signed an oil exploration agreement with Shell Upstream Albania, a wholly-owned subsidiary of Royal Dutch Shell, for block 4 in the southern Albanian mountain of Shpirag.

[Read the full story here](#)

Two-thirds of TAP gas pipeline project now completed – managing director

Feb 17, 2018

The Trans Adriatic Pipeline (TAP) project is two-thirds completed, including engineering, procurement and construction, according to TAP managing director Luca Schieppati. The total investment of the consortium in Albania will amount to EUR 400 mln in each of 2017 and 2018

[Read the full story here](#)

Corruption in judiciary, tax burden hinder economic freedom in Albania - Heritage Foundation

Feb 2, 2018

Endemic corruption, most apparent in the judiciary, increase of tax burden and a sharp worsening of business freedom weigh on Albania's economy, according to 2018 Index of Economic Freedom report published by The Heritage Foundation.

[Read the full story here](#)

Albanian parl gives green light to talks on Vlora airport construction project

Feb 2, 2018

Albania's parliament approved the decision of the government to start negotiations with a Turkish consortium on a project for construction of an airport in the southwestern city of Vlora. Vlora is Albania's second largest seaport after Durres. Currently, Albania's only operational airport is Tirana International Airport Mother Teresa.

[Read the full story here](#)

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