

## **ALBANIA ECONOMY REPORT**

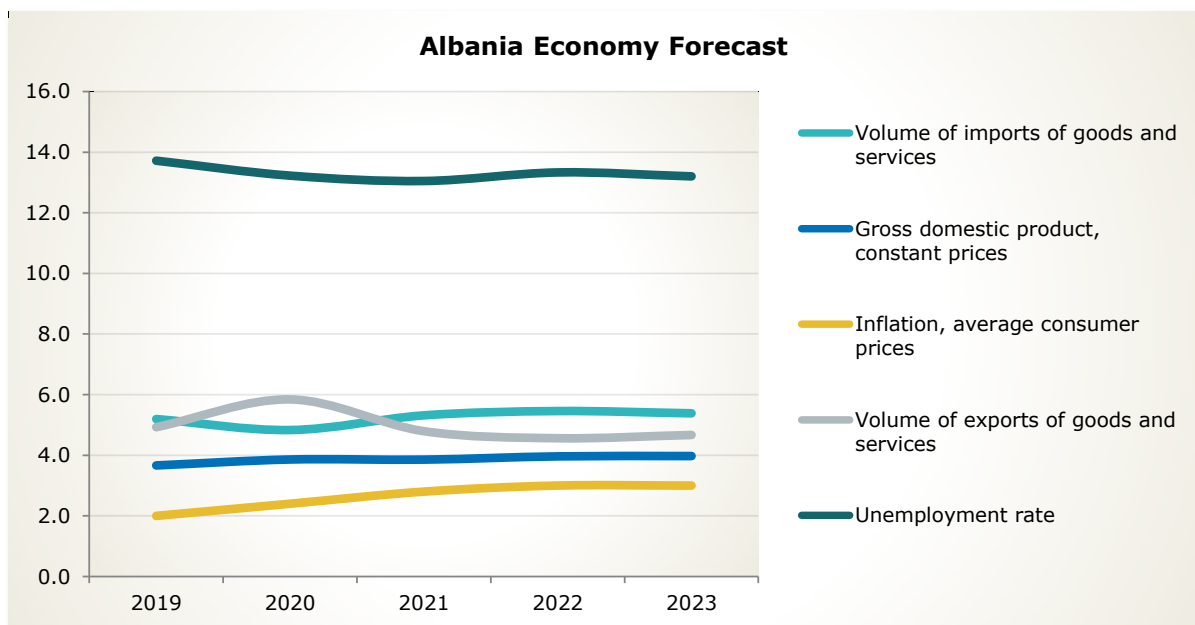
Q1 2019

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

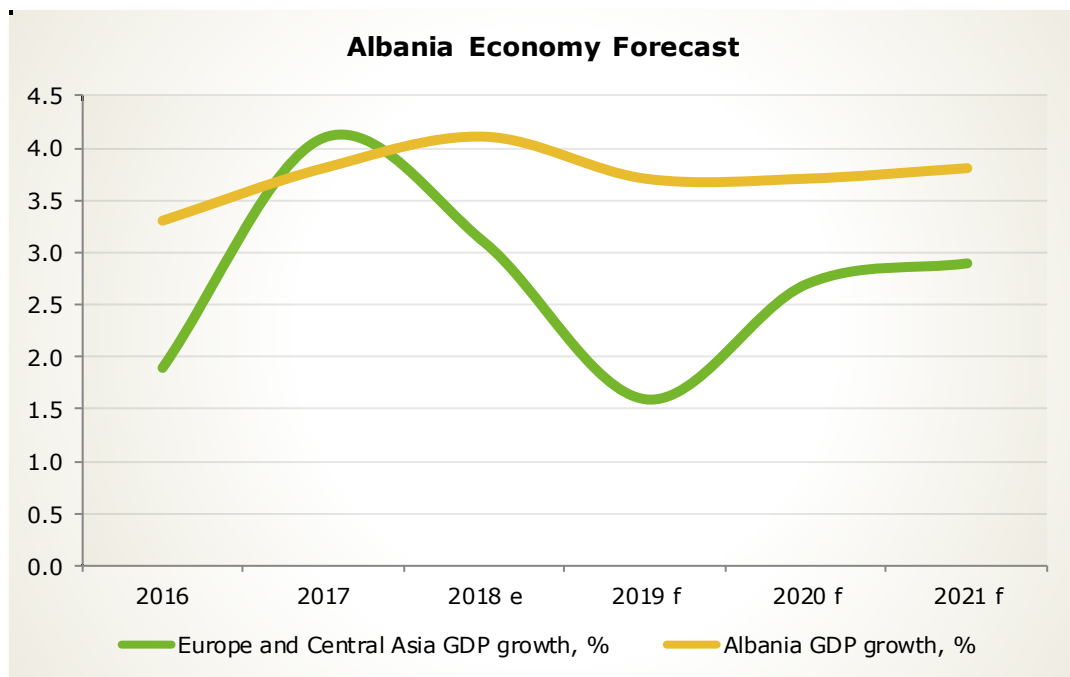
ALBANIA – MACROECONOMIC SNAPSHOT AS OF Q1 2019	
<b>GDP Growth</b>	2.2% y/y
<b>Business confidence indicator</b>	4.6 pp q/q
<b>Manufacturing output</b>	7.1% y/y
<b>Retail sales</b>	3.2% y/y
<b>Annual inflation</b>	1.1%
<b>Unemployment rate</b>	12.1%
<b>Number of building permits</b>	10.9% y/y
<b>Money supply growth</b>	3.2% y/y
<b>Household loans</b>	3.0% y/y
<b>Gross external debt</b>	EUR 8.411 bln
<b>Current account deficit</b>	EUR 243.0 mln
<b>FDI inflow</b>	EUR 279.0 mln
<b>Foreign trade deficit</b>	ALL 75.7 mln
<b>Arrivals of foreign citizens</b>	2.7% y/y



Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2019

According to the International Monetary Fund (IMF), the Albanian economy has continued to strengthen, with real GDP growth seen at about 3.9% in 2019-2023, reflecting stronger domestic demand driven by a gradual revival in exports and large infrastructure and energy-related FDI projects.

IMF expects the Albania's current account deficit to narrow to below 6.0% of GDP in 2019-2023, supported by tourism and other services exports. Inflation will stabilise at 3.0% in the period under review. Despite the favourable 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. On the upside, the opening of EU accession negotiations, scheduled for June 2019, can provide a window of opportunity to lift implementation of the reform agenda, leading to higher investment and GDP growth.



Source: World Bank's Global Economic Prospects, June 2019

According to the World Bank estimates from June 2019, GDP growth of Albania is likely to come in at 3.7% in 2019, down from 4.1% in 2018. This will be higher than the projected growth for Europe and Central Asia, of 1.6% in 2019.

**Albania – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)**

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices, y/y change in %	3.4	3.8	4.2	3.8	3.6	3.6
Private Consumption	2.6	3.1	2.6	3.6	3.6	3.2
Government Consumption	4.7	2.5	1.1	6.3	-0.7	4.1
Gross Fixed Capital Investment	3.2	6.8	3.3	4.1	3	3.1
Exports, Goods and Services	11.4	8.5	5.3	5.8	5.8	5.9
Imports, Goods and Services	6.9	8.2	2.5	5.3	4.8	4.7
Real GDP growth, at constant factor prices (by sectors)	3.2	3.8	4.3	3.8	3.6	3.6
Agriculture	1.7	0.6	1.4	2.1	2.2	2.2
Industry	2.1	6.8	8.3	4.2	4.4	4.4
Services	4.8	4.2	3.9	4.6	3.9	4.0
Inflation (Consumer Price Index)	1.3	2.0	2.1	2.5	2.9	3.0
Current Account Balance (% of GDP)	-7.6	-7.5	-6.3	-6.4	-6.1	-5.7
Net Foreign Direct Investment (% of GDP)	8.7	8.6	7.8	6.8	6.8	6.9

Source: World Bank, Europe and Central Asia Economic Update, April 2019

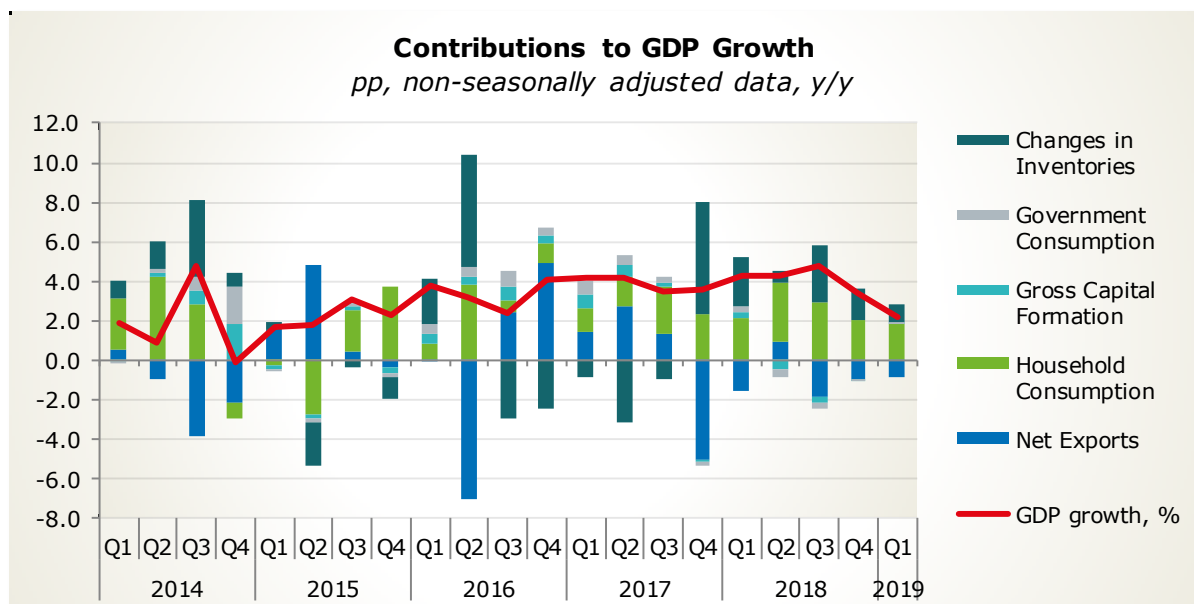
## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

#### GDP growth to 2.2% y/y in Q1 2019, down from 3.2% y/y in Q4 2018

The Albanian GDP decreased in real terms by 2.2% y/y in Q1 2019, compared to a 3.2% y/y growth in Q4 2018, according to data from Albania's Institute of Statistics (INSTAT).

In Q1 2019, household consumption rose by 4.2% and added 1.8 pp to the overall GDP growth, while government consumption increased by 1.4%, contributing with 0.1 pp. Gross capital formation rose by 3.1% y/y and adding 0.4 pp to the total GDP growth. In the same time, the imports took away 1.0 pp from the economic growth in Q1 2019, while export contributed only 0.1 pp.

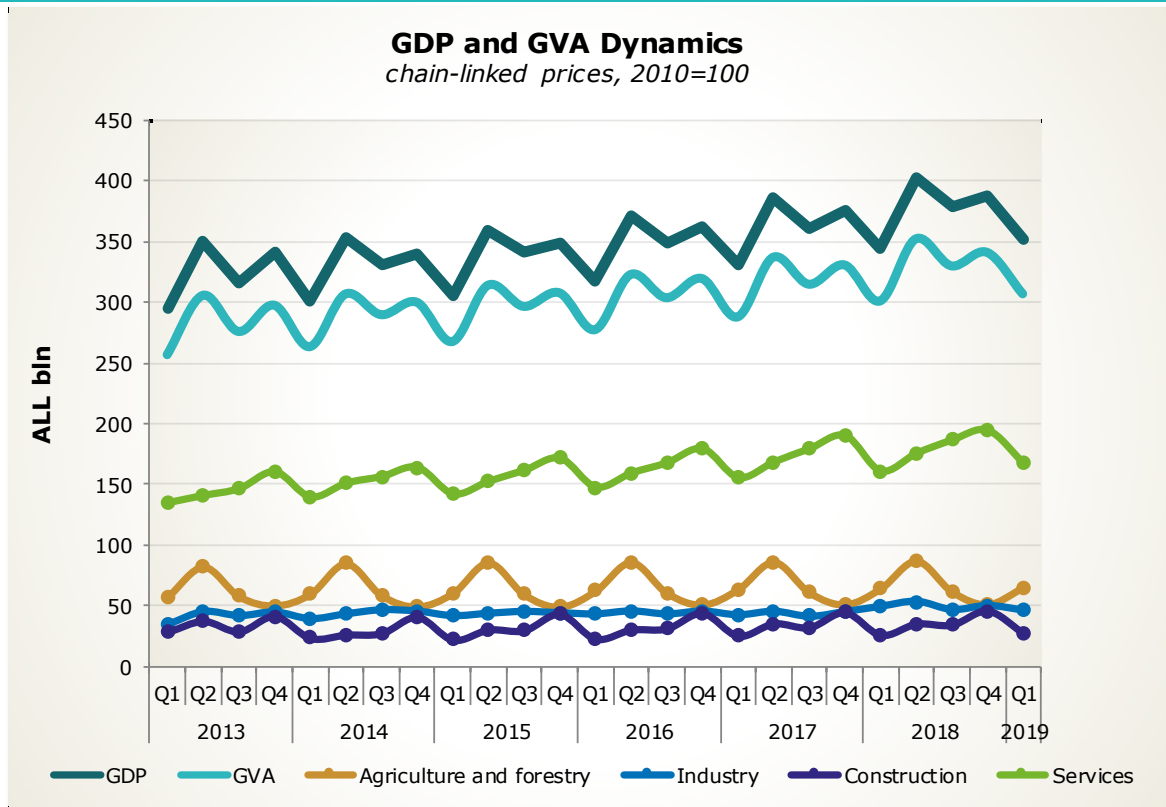


Source: INSTAT; SeeNews calculations

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.

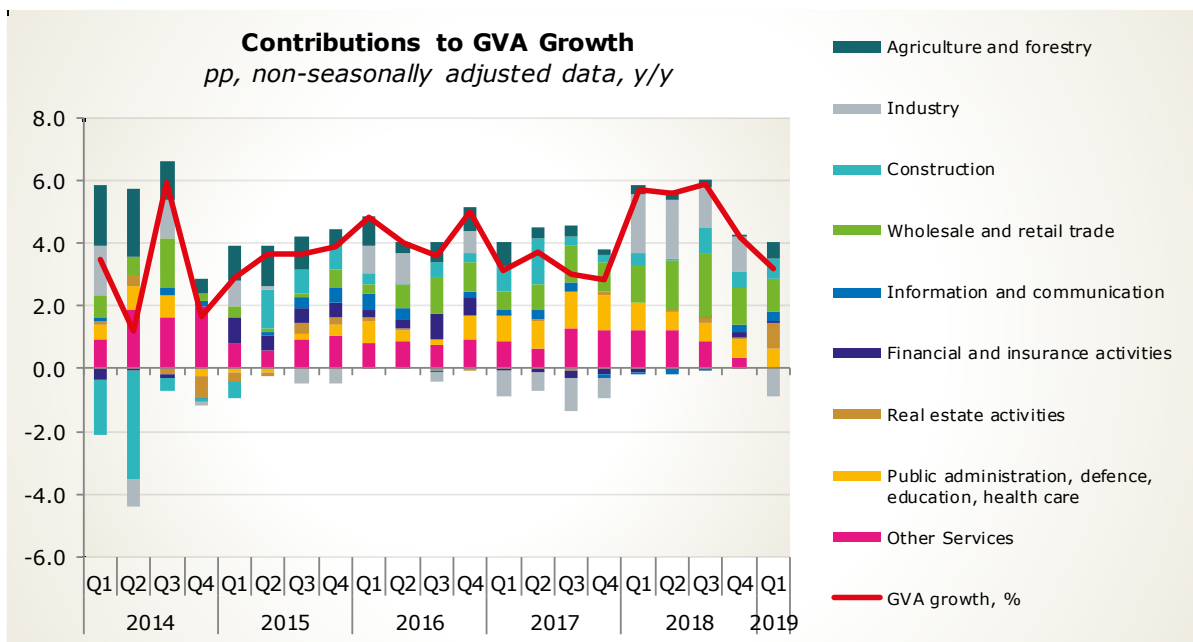
The country's non-seasonally adjusted GVA increased in value by 2.0% y/y and totalled ALL 307.2 mln in Q1 2019. The industrial sector went down by 6.1% y/y and took 15.1% share in GVA, while the services sector recorded a 4.1% annual increase, slicing a 54.6% share in the GVA.

Construction grew by 5.9% and its share in GVA came in at 9.0%. The agricultural sector marked an increase of 1.3% y/y, accounting for 21.3% of the total GVA.



Source: INSTAT

In terms of sector contributions, the retail and wholesale sector added 1.0 pp to the GVA expansion in Q1 2019, while the real estate sector contributed with 0.8 pp to the growth. The public administration, defence, education and health care sector alone added another 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 4.6 percentage points q/q in Q1 2019*

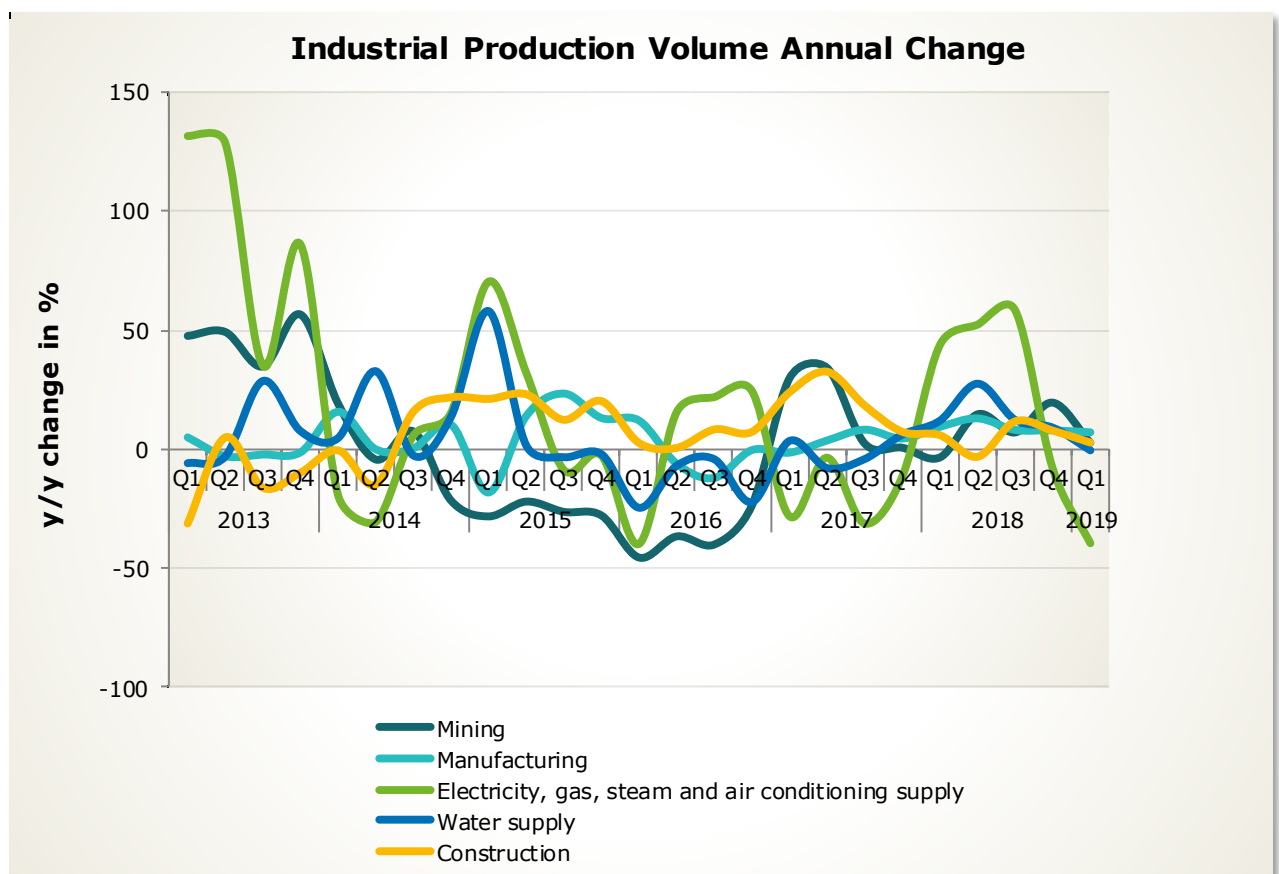
In the first quarter of 2019, the average business confidence indicator up by 3.7 percentage points q/q, according to Bank of Albania. In Q4 2018, the business confidence indicator declined by 1.2 pp q/q.

## 2.3. INDUSTRIAL OUTPUT

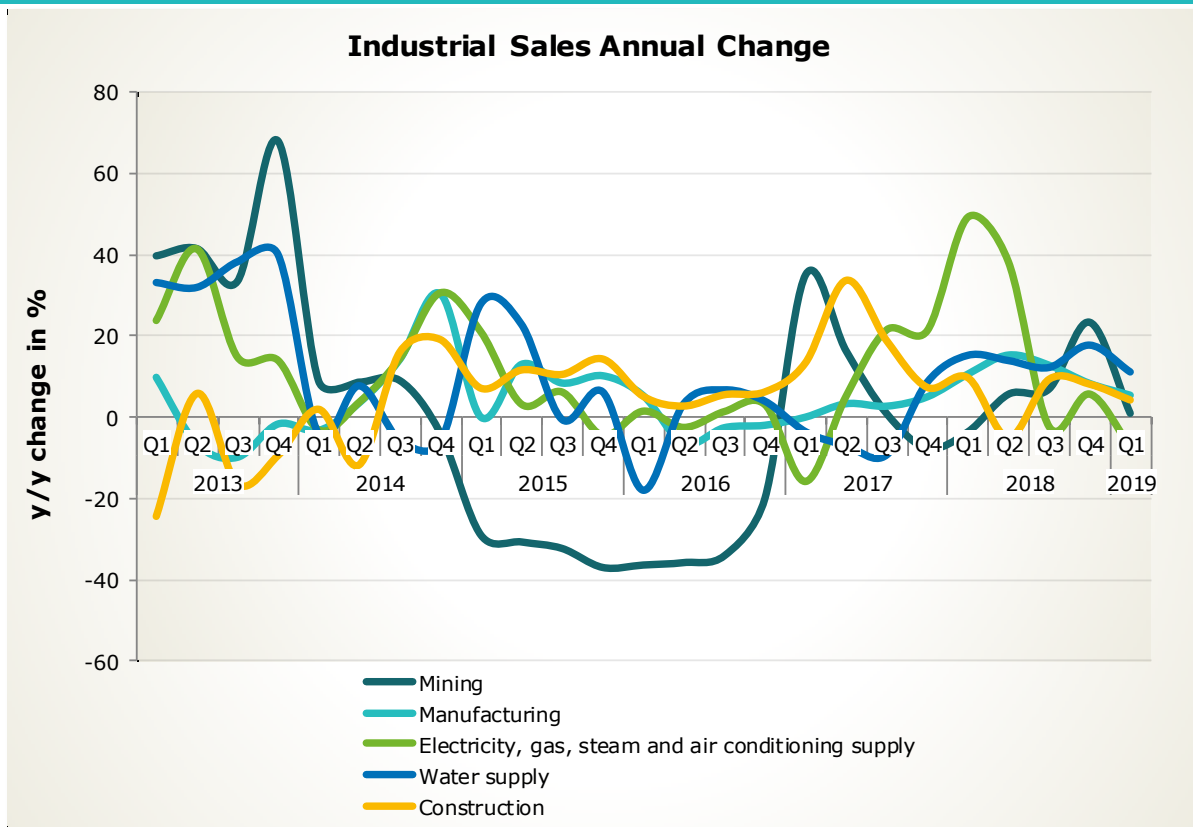
### *Manufacturing output increased by 7.1% y/y in Q1 2019*

Manufacturing output surged up by 7.1% in Q1 2019, while the construction and mining sectors output advanced by 3.0% y/y and 2.8% y/y, respectively, according to INSTAT.

The water supply sector decreased by 0.4% y/y, while the output of the electricity, gas, steam and air conditioning supply output dropped by 39.3%.



Source: INSTAT



Source: INSTAT

## 2.4. RETAIL SALES

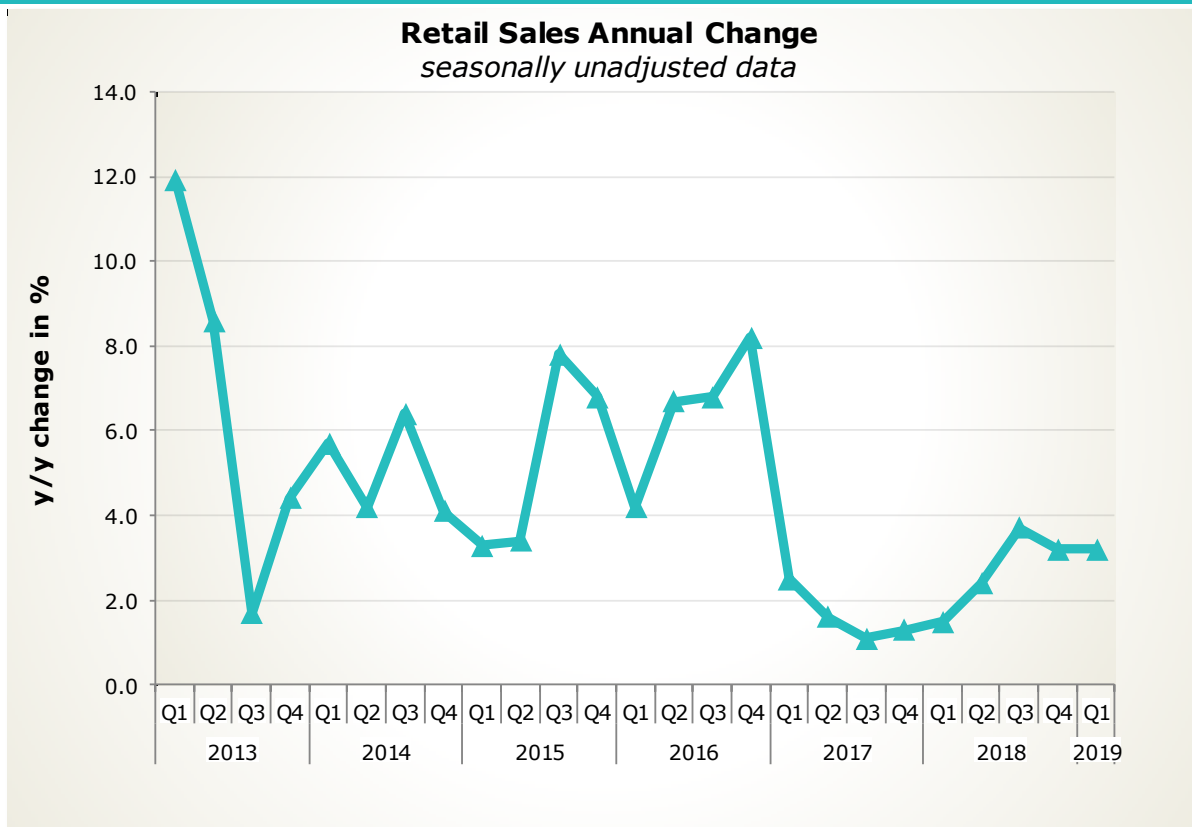
### Retail sales growth at 3.2% y/y in Q1 2019, unchanged from Q4 2018

In the first quarter of 2019, the turnover volume index stood at 3.2%, unchanged from the same quarter of 2018, according to the data from INSTAT.

Retail sales, excluding the retail sales of motor fuel, increased by 3.5% y/y in Q1 2019, while the retail sales of food, beverages and tobacco increased by 3.2% y/y.

In Q1 2019, retail sales of non-food products, excluding motor fuels increased by 3.8% y/y. The turnover volume index of the group of motor fuels increased 2.3%, compared with the same quarter of the previous year.





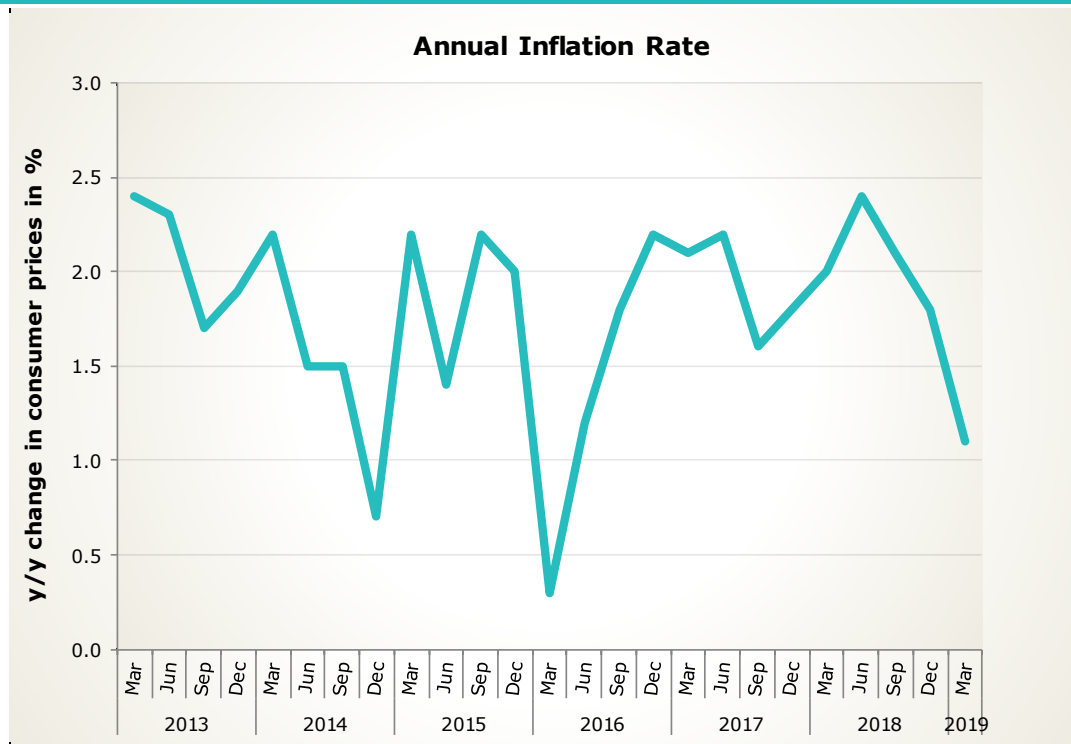
Source: INSTAT

## 2.5. INFLATION

### *Annual inflation of 1.1% in March 2019*

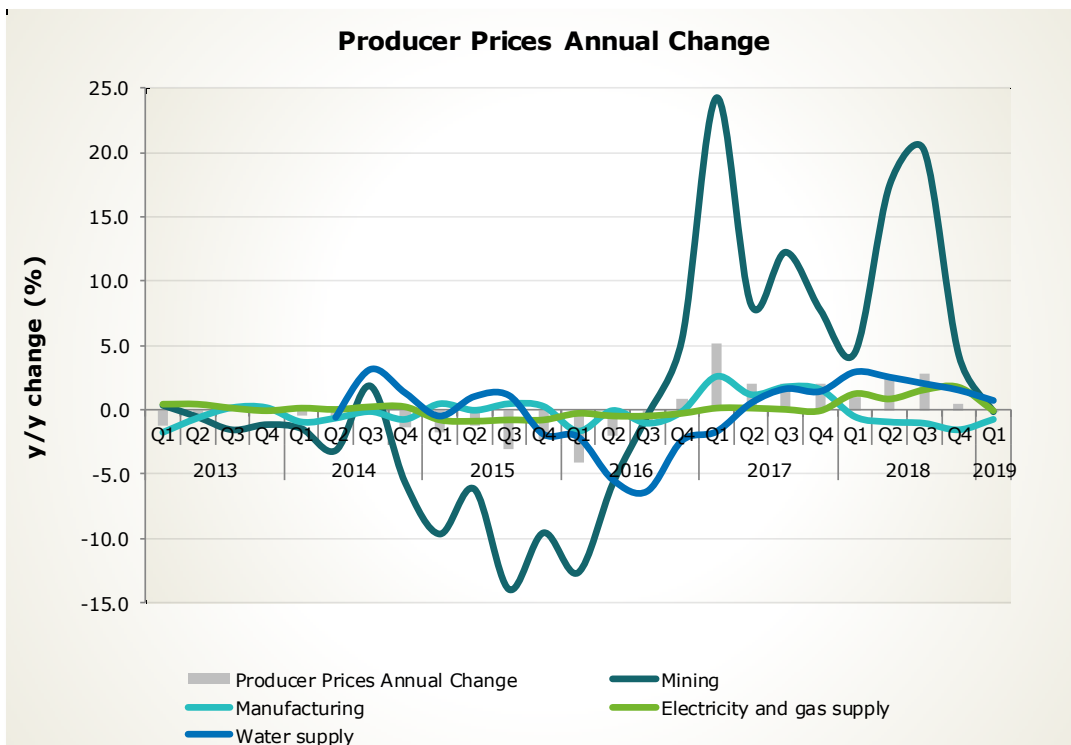
The annual inflation in Albania came in at 1.1% in March 2019, according to INSTAT. This is down compared to December 2018 when the annual inflation reading was at 1.8%.

In March 2019, the average prices of food and non-alcoholic beverages advanced by 2.0% y/y, while the inflation at the group of hotels, coffee-houses and restaurants came in at 1.2%. The group of recreation and culture had a 1.1% increase of prices on average, while the inflation reading of the groups of housing, water, electricity, gas and other fuels, as well as alcoholic beverages and tobacco increased with 1.0% each. The education services rose by 0.7% on average in March 2019 compared to March 2018, while transport services and furniture household and maintenance saw inflation of 0.5% each.



Source: INSTAT

Producer prices went down by 0.2% y/y in Q1 2019, INSTAT data showed. Producer prices in all sectors, registered a decrease, except water supply where they inched up by 0.7%. The manufacturing sector was on top in terms of annual drop – 0.7%, followed by electricity and gas supply and mining with 0.1% each.



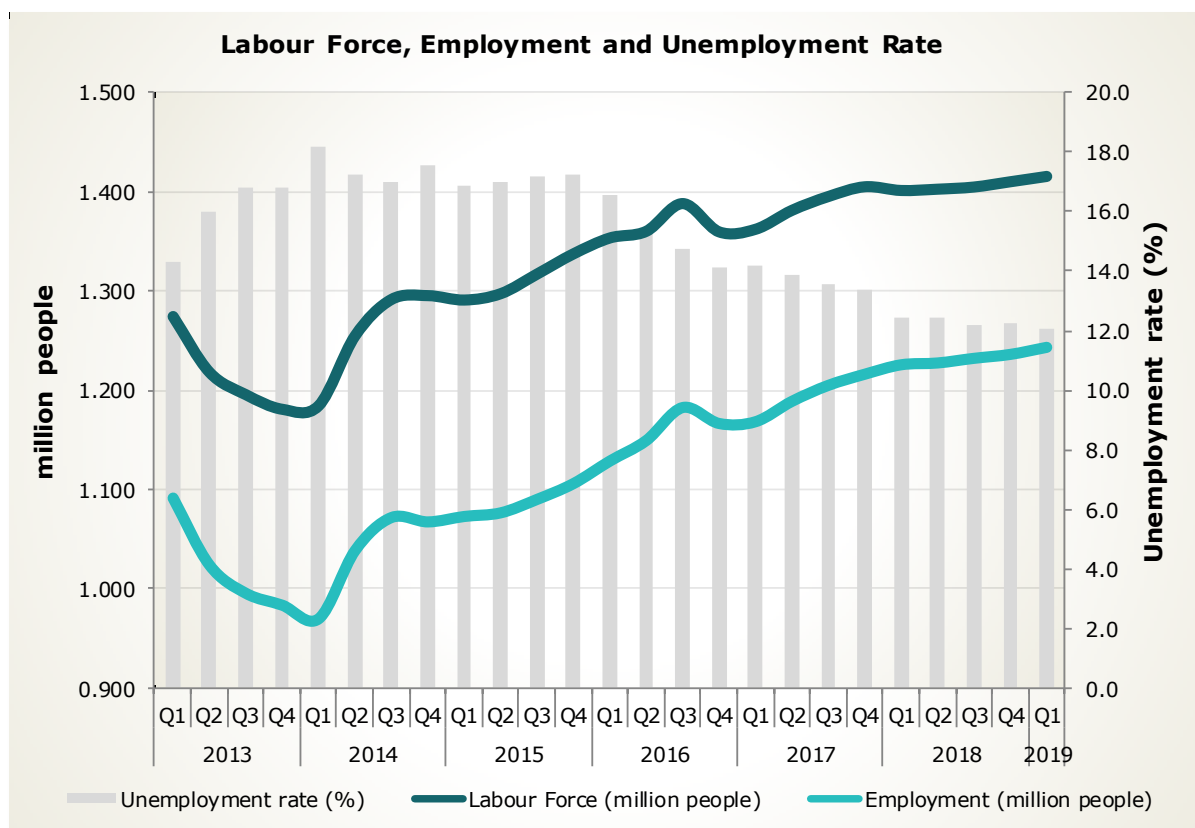
Source: INSTAT

### 3. LABOUR MARKET

#### Unemployment rate continued to fall in Q1 2019

The unemployment rate in Albania crawled down to 12.1% of the total labour force in March 2019, down from 12.3% in Q4 2018 and 12.5% in Q1 2018, according to data of INSTAT. The employed population aged 15 years and older was 1.244 million as of March 2019 up by 1.4% y/y.

The youth (population aged 15-29) unemployment rate inched down to 22.2% in Q1 2019 from 22.3% in Q4 2018.



Source: INSTAT

### 4. CONSTRUCTION AND REAL ESTATE

#### The number of building permits grew by 10.9% y/y in Q1 2019

The number of building permits issued in Albania in Q1 2019 totalled 245, compared to 221 in the same quarter of the previous year, according to INSTAT data.

Permits for construction of non-residential buildings came in at 84, down from 94 in Q1 2018, while permits for housing projects jumped to 161 from 127 in Q1 2018.

The total area, covered by permits for non-residential buildings jumped more than three times to 362,981 sq m in Q1 2019, compared to a year earlier. The total area of the housing projects doubled its increase on the year to 218,256 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 124.64 in Q1 2019 from ALL 132.54 in Q1 2018, according to Bank of Albania. The average annual exchange rate of the ALL against the USD came to 109.70 in Q1 2019 from 107.81 in Q1 2018.

Average Annual ALL Exchange Rate			
Foreign Currency	Q1 2019	Q4 2018	Q1 2018
EUR	124.64	124.48	132.54
USD	109.70	109.01	107.81
GBP	142.81	140.38	150.05
CHF	110.05	109.51	113.79

### 5.2. MONETARY POLICY

#### *Policy rate at 1.0% as of June 2019*

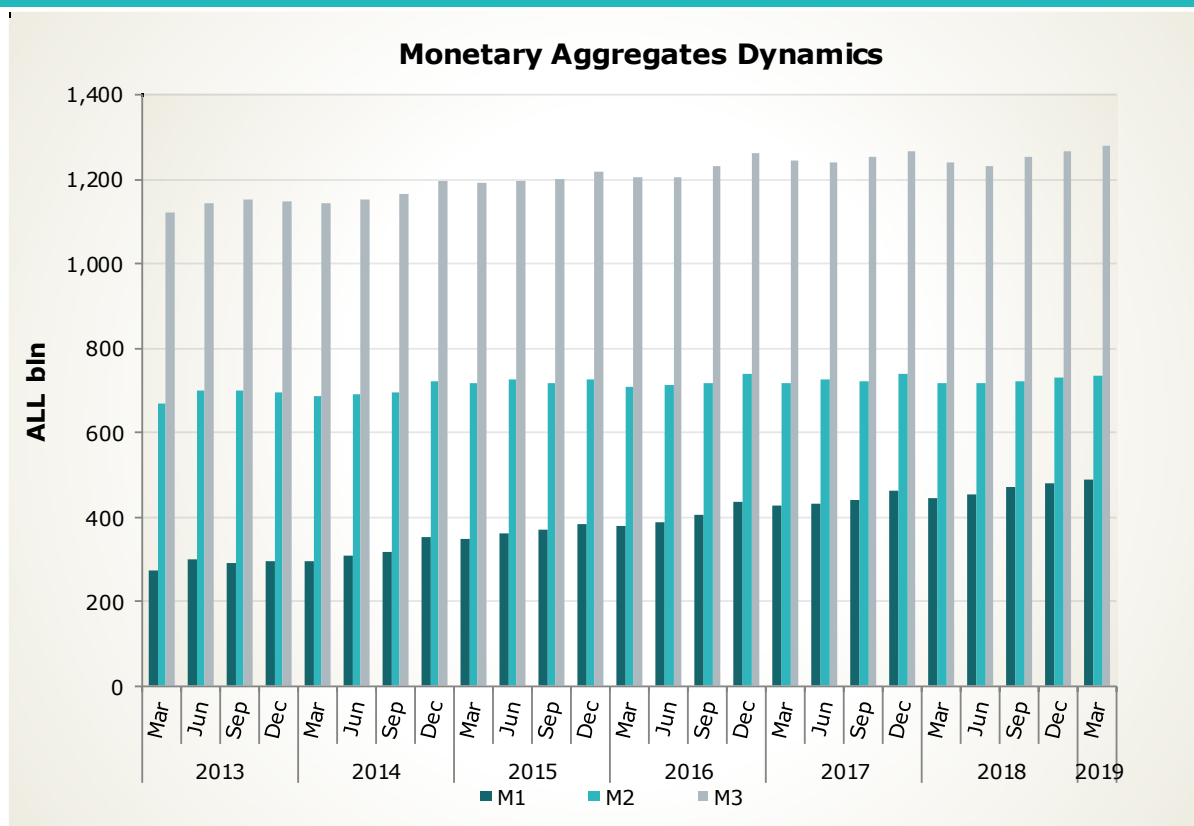
In June 2018, the Central Bank of Albania lowered the monetary policy rate by 0.25 pp to 1.0%, its minimum historical level. During the first quarter of 2019, the Bank of Albania continued to supply the needed liquidity to the banking sector to ensure intermediation activity and the stability of interest rates in the money market. As of July 2019, the interest rate for the overnight deposit facility and the interest rate for the overnight lending facility, stood unchanged at 0.10% and 1.90%, respectively.

### 5.3. MONETARY AGGREGATES

#### *Monetary supply up 3.2% y/y in March 2019*

Broad money M3 inched up by 3.2% y/y in Q1 2019 to ALL 1,278.0 bln, according to the Central Bank of Albania.

The M2 aggregate increased by 2.9% y/y in March 2019, while the liquid money indicator, M1, rose by 9.9%.



Source: Bank of Albania

## 5.4. BANKING AND INSURANCE

### Non-government sector loans up by 0.2% y/y in Q1 2019

Loans to the private sector inched up by 0.2% y/y to ALL 326.9 bln in Q1 2019, data from the Bank of Albania showed. The household loans registered a 3.0% annual increase, totalling ALL 175.7 bln.

Loans for house purchase continued to grow annually – by 3.9% in Q1 2019, reaching ALL 111.7 bln.

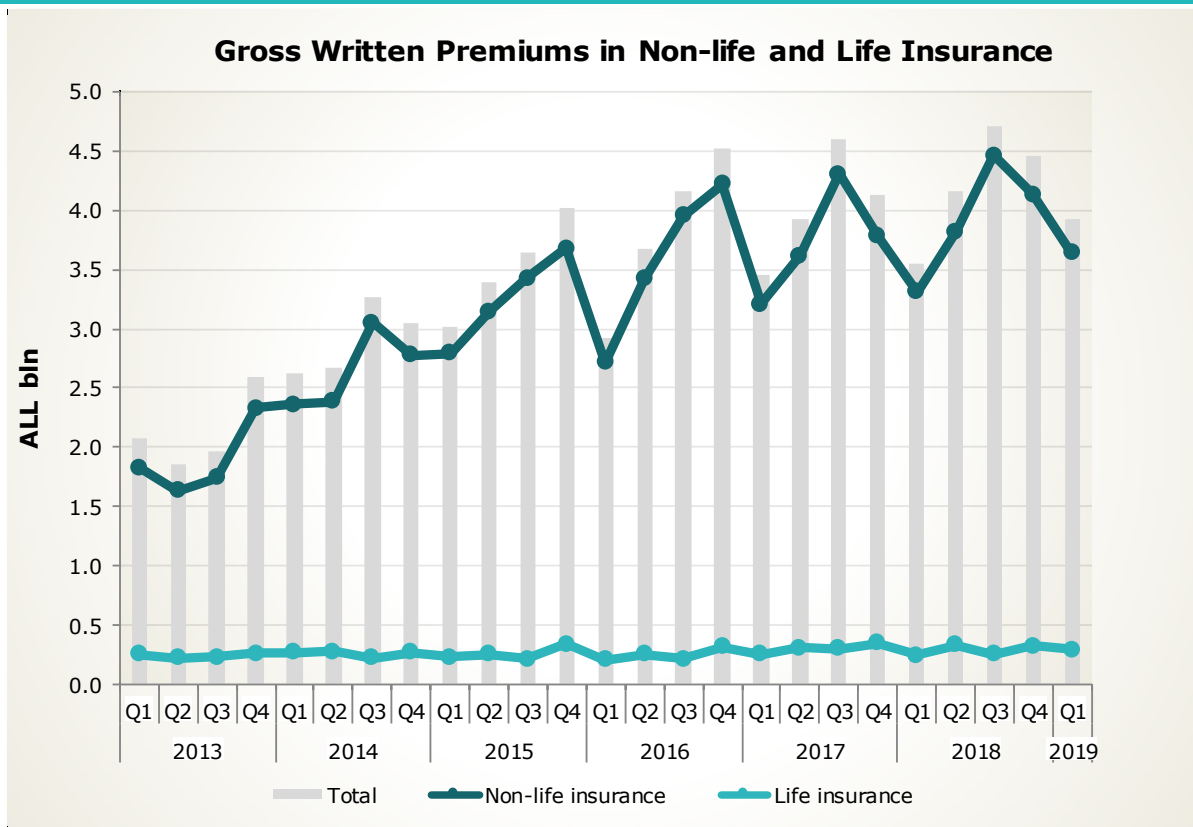


Source: Bank of Albania

### Insurance premium income up by 10.8% y/y in Q1 2019

The total gross written premiums of the Albanian non-life and life insurance companies, excluding reinsurance, stood at ALL 3.931 bln, up by 10.8% y/y in Q1 2019, according to the Albanian Financial Supervisory Authority (AMF).

The increase was fuelled by the 19.1% surge of life insurance sector, which posted gross written premiums of ALL 287.6 mln in Q1 2019. The premiums in the non-life insurance segment increased by 10.2% to ALL 3.643 bln.



Source: AMF

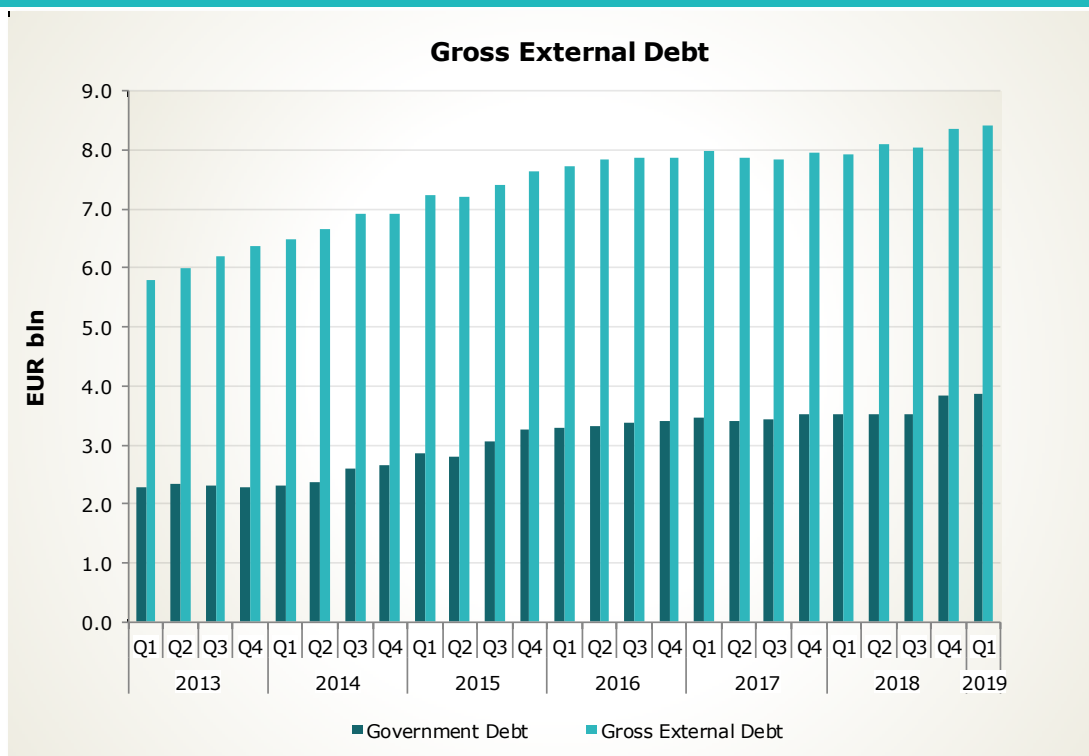
## 6. EXTERNAL SECTOR

### 6.1. FOREIGN DEBT

*The gross external debt up by 6.1% y/y to EUR 8.411 bln as of March 2019*

The gross external debt totalled EUR 8.411 bln as of March 2019, up by 6.1%, according to Bank of Albania. In comparison to Q4 2018 the gross external debt increased by 0.8%.

In Q1 2019, long-term liabilities amounted to EUR 5.014 bln, or 59.6% of the total debt, and short-term liabilities totalled EUR 1.678 bln, equal to 20.0% of the total debt.

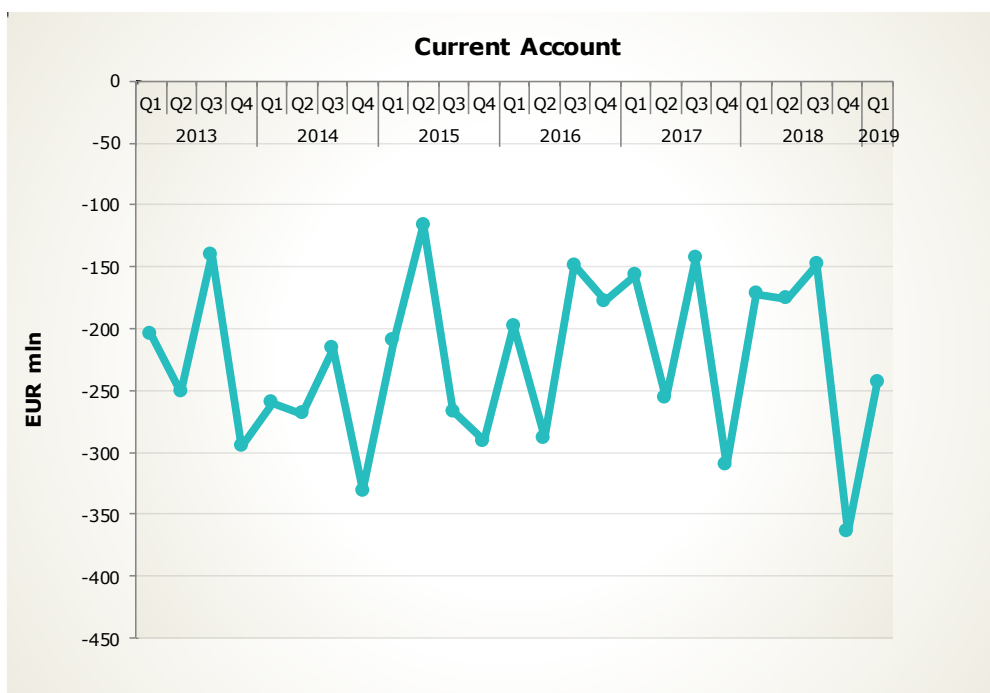


Source: Bank of Albania

## 6.2. BALANCE OF PAYMENTS

### Current account deficit narrowed y/y to EUR 243.0 mln in Q1 2019

The current account deficit narrowed by 41.3% y/y to EUR 243.0 mln in Q1 2019, according to central bank statistics data.



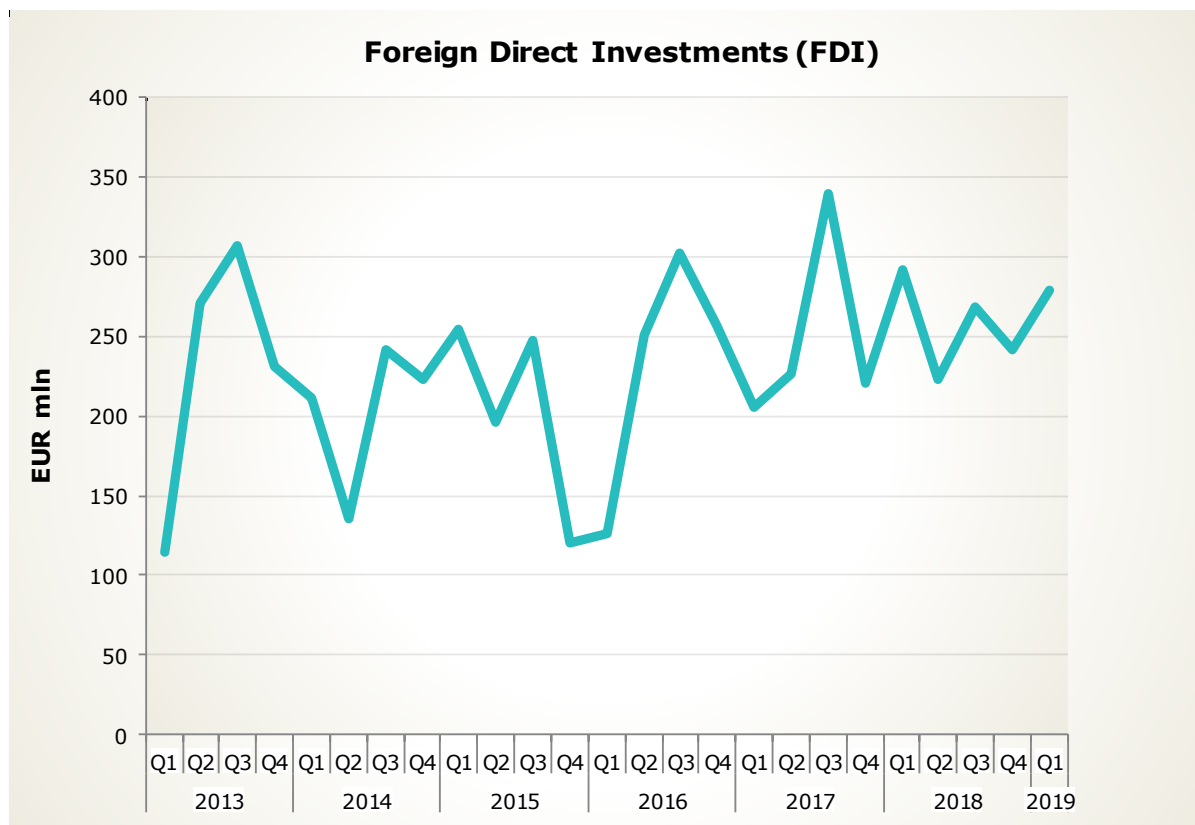
Source: Bank of Albania



## 6.3. FDI

### FDI in Albania at EUR 279.0 mln in Q1 2019

Foreign Direct Investments (FDI) in Albania amounted to EUR 279.0 mln in the first quarter of 2019, according to Bank of Albania. In annual terms, the FDI inflow decreased by 4.5% or EUR 13.0 mln.



Source: Bank of Albania

## 6.4. FOREIGN TRADE

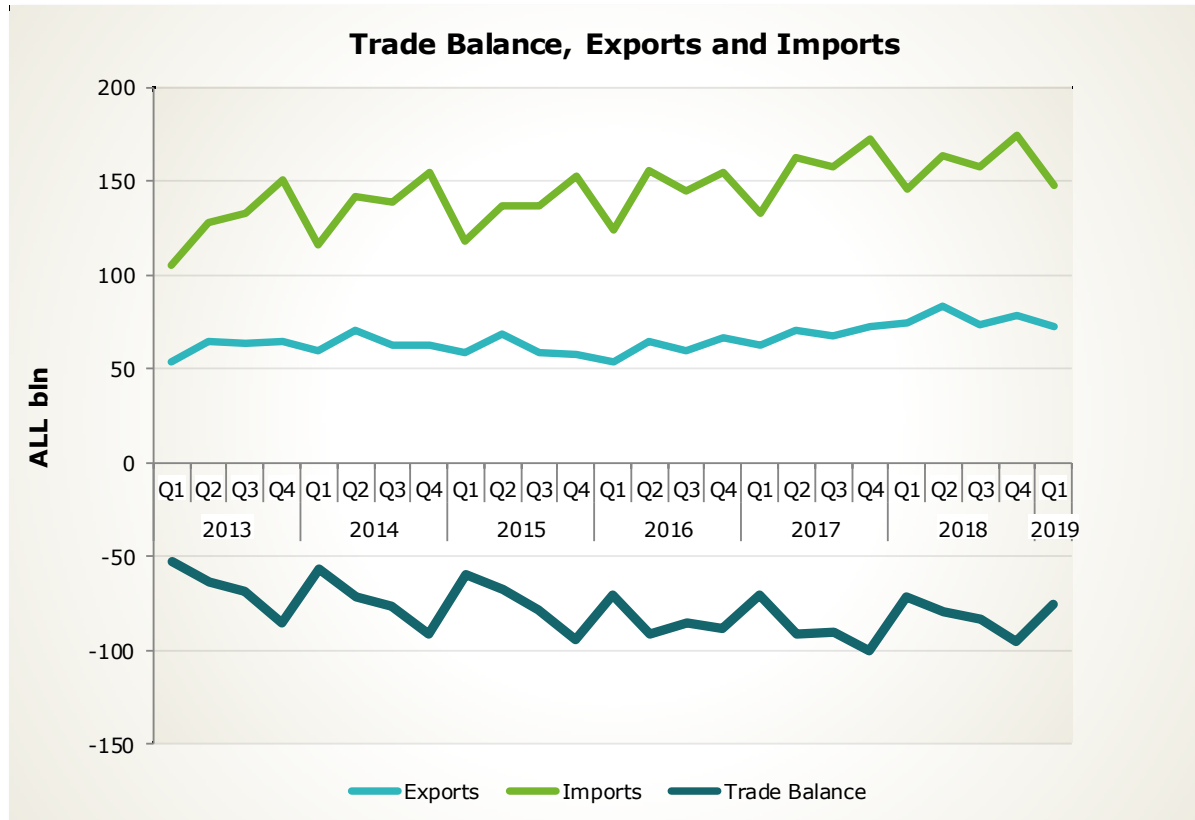
### Foreign trade deficit up by 5.8% y/y to ALL 75.7 bln in Q1 2019

The trade deficit stood at ALL 75.7 bln in Q1 2019, up by 5.8% compared to Q1 2018, according to INSTAT.

Exports of goods decreased by 3.0% to ALL 72.3 bln, while imports inched up by 1.3% y/y to ALL 148.0 bln.

The groups to report the largest annual rises of exports were chemical and plastic products – 35.7%, machineries, equipment and spare parts – 31.5% and food, beverages, tobacco – 18.2%.

In Q1 2019, minerals, fuels, electricity was the leading product group in terms of annual growth of imports with 24.7% followed by wood manufactures and articles of paper – 5.1% and chemical and plastic products – 2.3%.



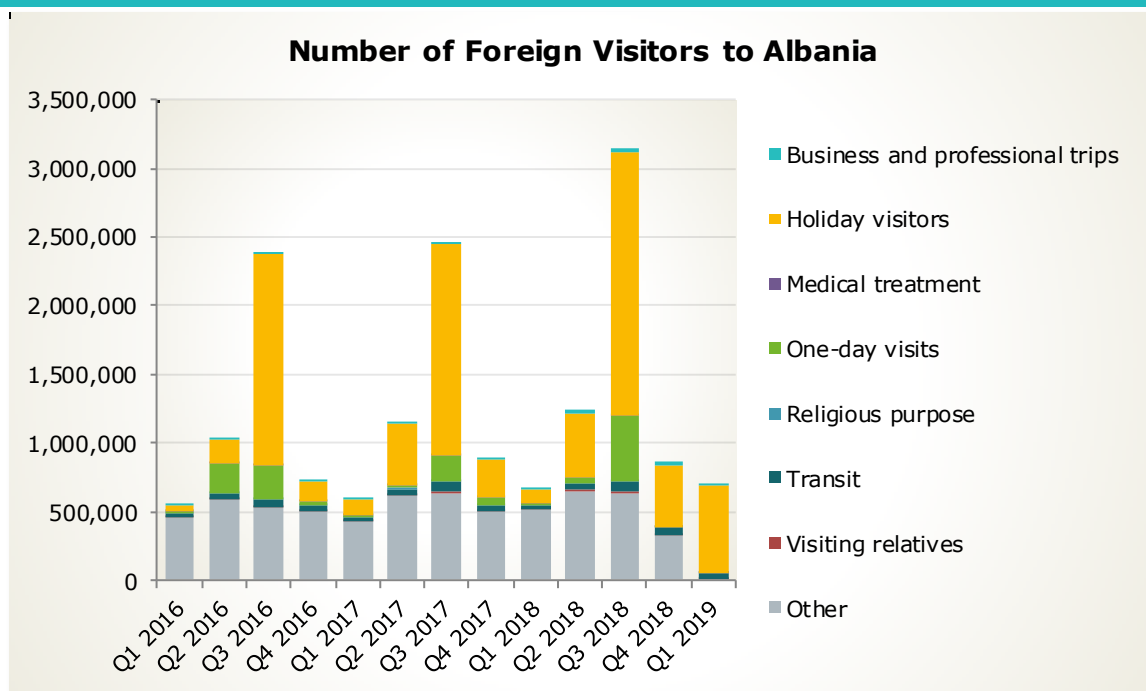
Source: INSTAT

## 6.5. TOURISM

### Number of foreign visitors to Albania up 2.7% y/y in Q1 2019

The number of foreign nationals who visited Albania in Q1 2019 rose by 2.7% y/y to 695,027 people, according to INSTAT.

Visitors who entered the country in the first quarter of 2019 for the purpose of recreation represented 92.5% of all foreign nationals, or 643,145 people. People who visited Albania for the purpose of business and professional engagements represented 2.9% of the total in the quarter.



Source: INSTAT

## 7. MAJOR DEVELOPMENTS

### **Albania's parliament endorses EUR 32 mln loan to back energy projects**

Mar 22, 2019

Albania's parliament has approved a loan agreement worth EUR 32 mln with the German government in support of energy projects.

[Read the full story here](#)

### **Albania and North Macedonia to set up joint economic zone**

Mar 14, 2019

Albania's Prime Minister Edi Rama has agreed with his North Macedonian counterpart Zoran Zaev to establish a joint economic zone on the border between the two countries, according to the Albanian government.

[Read the full story here](#)

### **EBRD lending EUR 9.0 mln to back green energy projects in Albania**

Mar 12, 2019

The European Bank for Reconstruction and Development (EBRD) is providing a EUR 9.0 mln loan to support green energy investment projects in Albania, according to the EU ambassador to Albania.

[Read the full story here](#)

### **Albania agrees EUR 6.5 mln programme with UN to boost rural economy**

Mar 5, 2019

Albania's agriculture ministry signed an agreement with United Nations agencies to co-finance a EUR 6.5 mln programme for boosting economic growth and employment and supporting agriculture this year and next.

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*Read the full story [here](#)*

***EU launches EUR 7.5 mln project to support innovation in Albania***

*Feb 28, 2019*

The Delegation of the European Union to Albania has launched a EUR 7.5 mln programme for strengthening the innovation ecosystem in Albania in cooperation with the governments of Germany and Sweden.

*Read the full story [here](#)*

***EU launches EUR 5.0 mln food safety support programme for Albania***

*Feb 7, 2019*

The European Union said has launched a EUR 5.0 mln programme to help candidate country Albania strengthen its food safety, veterinary and phytosanitary standards.

*Read the full story [here](#)*

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