

ALBANIA ECONOMY REPORT

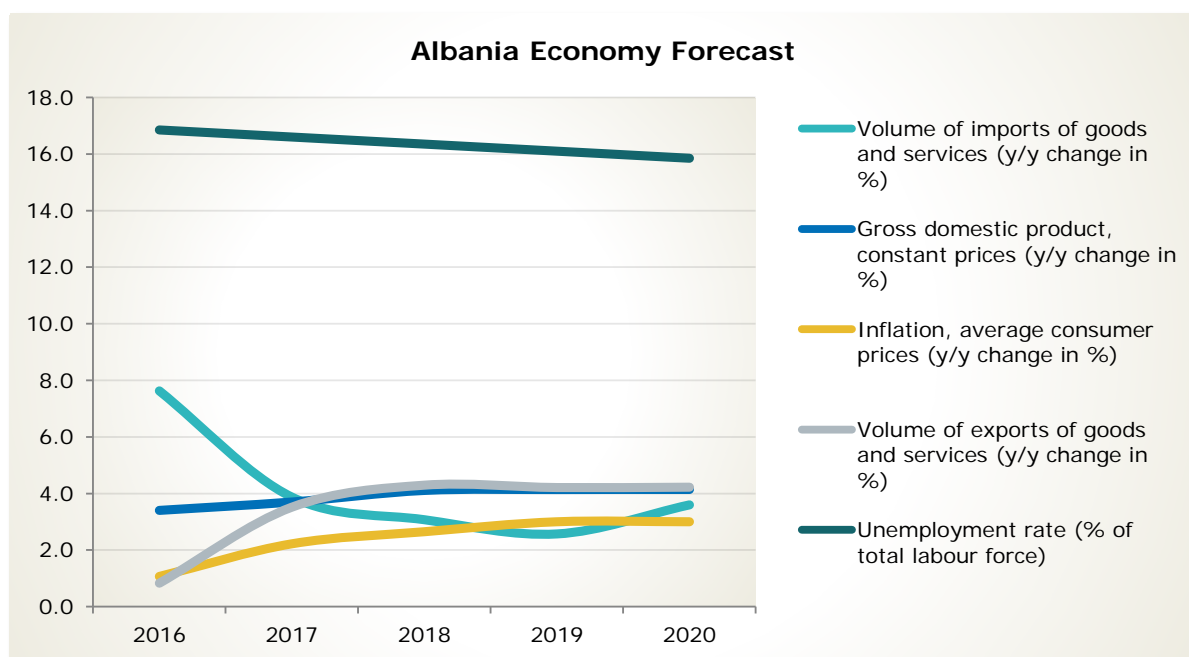
Q2 2016

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1. MACROECONOMIC SNAPSHOT AND FORECAST

ALBANIA – MACROECONOMIC SNAPSHOT AS OF Q2 2016	
GDP Growth	3.2% y/y
Business confidence indicator	6.2 pp q/q
Industrial output	-9.0% y/y
Industrial sales	0.3% y/y
Retail sales	6.2% y/y
Annual inflation	1.2%
Unemployment rate	15.5%
Number of building permits	98
Money supply growth	0.6% y/y
Household loans	1.7% y/y
Gross external debt	EUR 7.881 bln
Current account deficit	EUR 353.8 mln
FDI inflow	EUR 261.0 mln
Foreign trade deficit	ALL 90.5 bln



Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2016

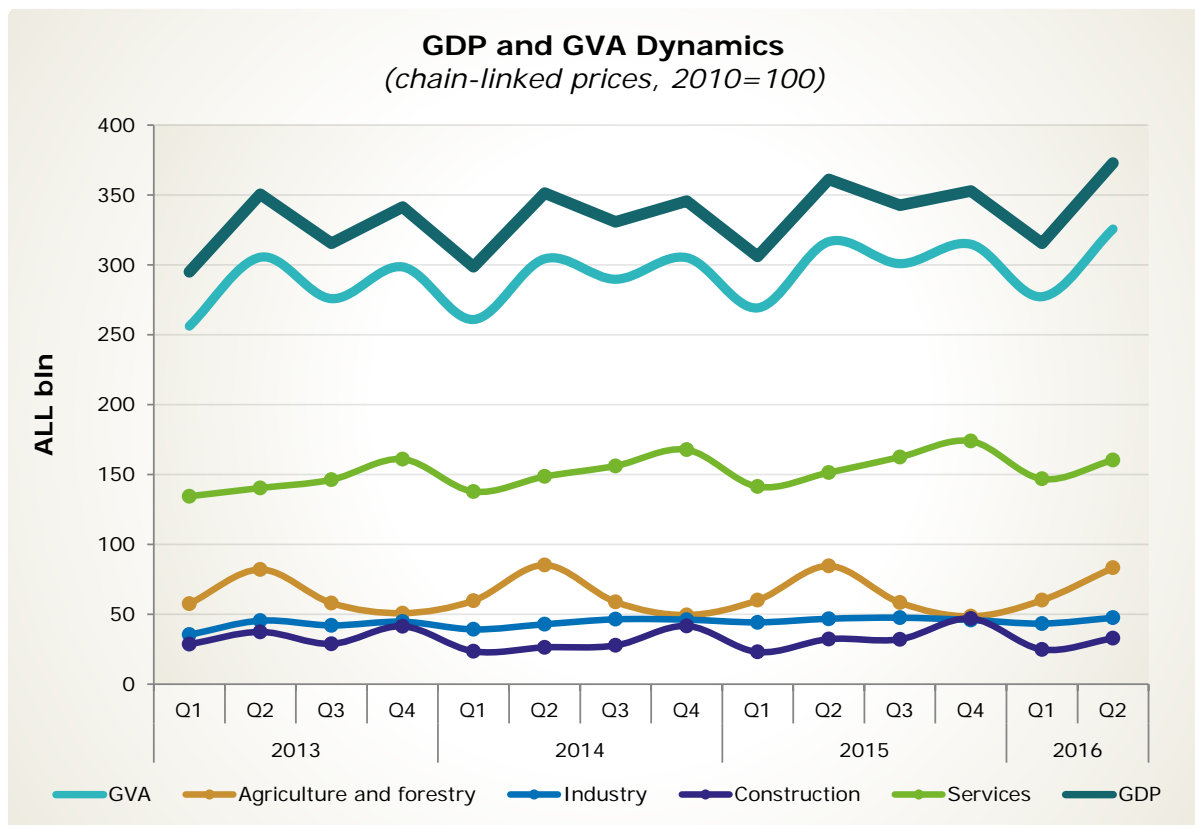
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP annual growth at 3.2% in Q2 2016

Albania's GDP increased by 3.2% y/y and totalled ALL 372.7 bln in Q2 2016, according to flash estimates of the country's Institute of Statistics (INSTAT).

Final consumption, which contributed 86.9% to the GDP, went up by 3.6% y/y. Gross capital formation increased by 4.4%, contributing 24.2% to the GDP. Imports and exports grew by 19.8% and 3.9%, respectively.



Source: INSTAT

The country's non-seasonally adjusted GVA increased in value by 2.8% y/y and totalled ALL 325.6 bln in Q2 2016. The industrial sector rose by 1.4%, but its share in the GVA structure decreased to 14.6% from 14.8% in the same quarter of the previous year. The services sector recorded a 5.9% annual rise, slicing a 49.3% share in the GVA, up from 47.8%. Construction also grew in value – by 1.8% y/y, but its share in GVA inched down to 10.1% from 10.2%. The agricultural sector was the only one to mark a decrease - by 1.5% and its share in the GVA shrank to 25.6% from 26.7%.

2.2. BUSINESS CLIMATE

Business Confidence Indicator increased by 6.2 percentage points q/q in Q2 2016

In Q2 2016 the average business confidence indicator went up by 6.2 percentage points q/q, according to Bank of Albania.

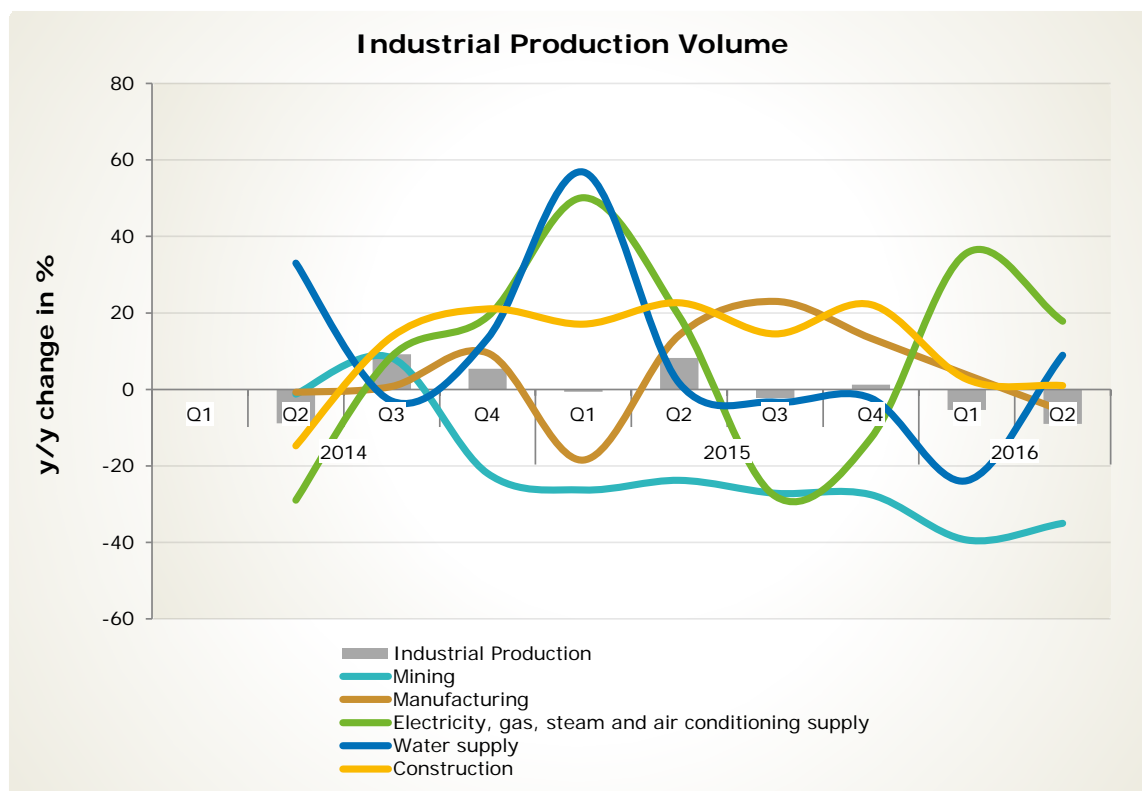
Services confidence indicator reported the strongest growth among all sectors, by 10.2 percentage points q/q, while confidence in the trade sector fell the most, by 5.5 percentage points.

2.3. INDUSTRIAL OUTPUT

Industrial output decreased by 9.0% y/y in Q2 2016

Industrial output went down by 9.0% on the year in the second quarter of 2016, according to INSTAT.

The output of the electricity, gas, steam and air conditioning supply sector registered the sharpest annual jump, of 17.8%, followed by the water supply sector with 8.9% and the construction sector with 1.0%. All other sectors registered an annual drop in their output – production in the mining sector fell by 35.0% and manufacturing output went down by 5.6%.



Source: INSTAT

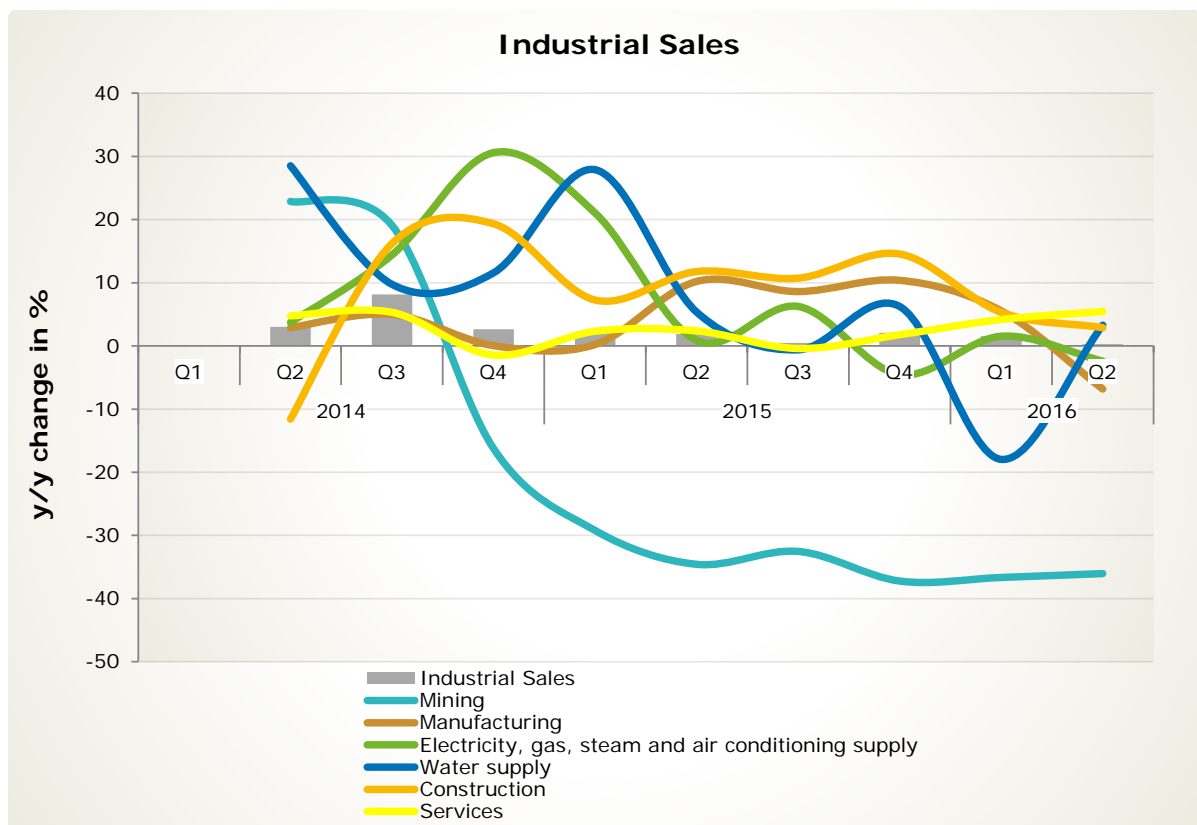
Editor's note: Data for Q1 2014 was not available

2.4. INDUSTRIAL SALES

Industrial sales grew by 0.3% y/y in Q2 2016

Industrial sales went up by 0.3% y/y in Q2 2016 thanks to the 5.5% growth of the services sector and the rise in the turnover of the water supply and construction sectors, by 3.3% and 2.9%, respectively.

Sales in the mining sector reported the sharpest annual drop, of 36.0%. The other sectors to report an annual decrease in sales were manufacturing with 6.8% and electricity, gas, steam and air conditioning supply with 2.4%.



Source: INSTAT

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

2.5. RETAIL SALES

Retail sales grew 6.2% y/y in Q2 2016

Retail sales went up by 6.2% y/y in the second quarter of 2016, according to INSTAT.

Retail sale of non-food products in specialised and non-specialised stores registered the highest annual rise, of 11.5%. Retail sale of motor fuel marked the sharpest annual decrease, of 1.2%.



Source: INSTAT

2.6. INFLATION

Annual inflation of 1.2% in June 2016

The annual inflation in Albania slowed down to 1.2% in June 2016 from 1.4% in June 2015, according to INSTAT data.

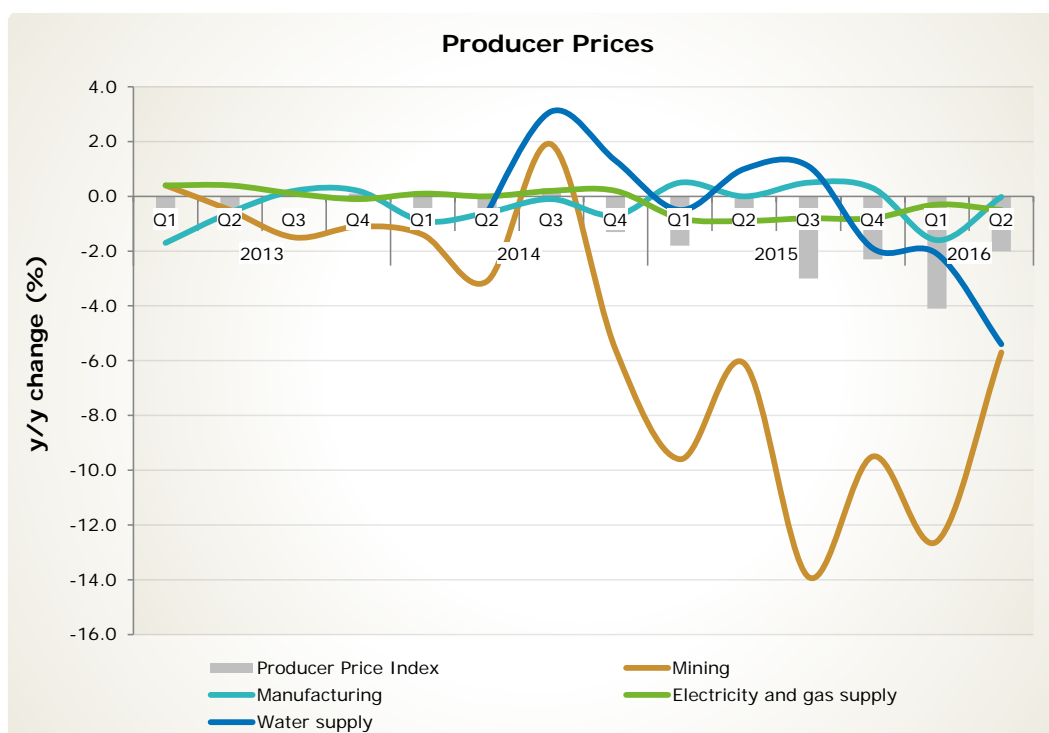
The highest increase in consumer prices, of 16.3%, was registered in fruits, followed by vegetables with 7.1% and education service with 4.8%.

The products and services, which registered the sharpest deflation, were equipment operations of personal transportation with 7.1%, women's clothing with 4.4% and men's clothing and audio-visual and photographic equipment with 3.4% each.



Source: INSTAT

Producer prices went down by 2.0% y/y in Q2 2016. All sectors registered a decline. Mining sector recorded the highest annual drop, of 5.7%, followed by water supply and electricity and gas supply with a decline of 5.4% and 0.5%, respectively. Segment wise, producer prices dropped the most, by 12.5%, in the collection, treatment and disposal of waste and materials recovery sector, while the sharpest increase, of 6.8%, was registered by manufacture of machinery and equipment.



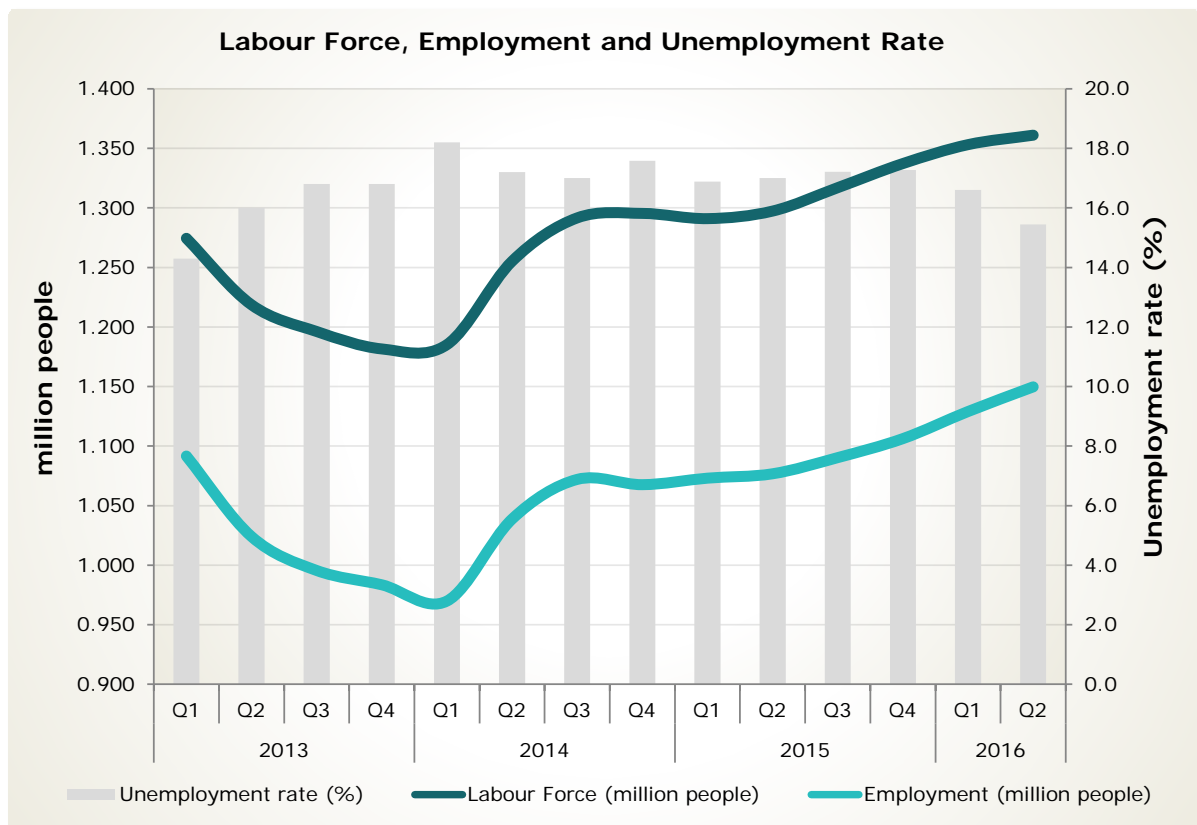
Source: INSTAT

3. LABOUR MARKET

Unemployment rate went down to 15.5% in Q2 2016

Unemployment in Albania narrowed to 15.5% of the total labour force in Q2 2016 from 17.0% in the corresponding quarter of the previous year, according to data of INSTAT. The employed population aged 15 years and older was 1.150 million in Q2 2016, up by 6.8% y/y.

The youth (population aged 15-29) unemployment rate went down to 29.9% from 34.2% in Q2 2015.



Source: INSTAT

4. CONSTRUCTION AND REAL ESTATE

The number of building permits inched down by 1.0% y/y in Q2 2016

The number of building permits issued in Albania in Q2 2016 totalled 98, compared to 99 in the corresponding quarter of the previous year, according to INSTAT data.

Permits for construction of non-residential buildings stood at 37, down from 78, while permits for housing projects jumped to 61 from 21.

The total area, covered by permits for non-residential buildings amounted to 36,305 sq m. The total area of the housing projects, covered by the permits, stood at 23,026 sq m.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. ALL EXCHANGE RATE

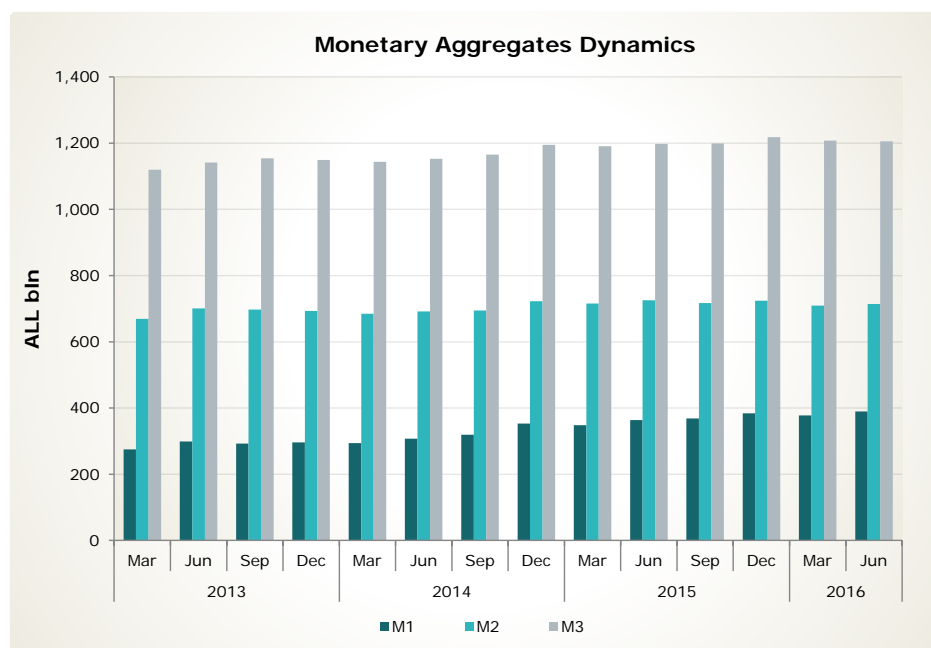
The average annual exchange rate of the ALL against the EUR decreased to ALL 138.246 in Q2 2016 from ALL 140.640 in the previous year, according to Bank of Albania.

ALL Average Annual Exchange Rate			
Foreign Currency	Q2 2016	Q1 2016	Q2 2015
EUR	138.246	138.301	140.640
USD	122.442	125.497	127.203
GBP	175.656	179.456	194.960
CHF	126.159	126.207	135.193

5.2. MONETARY AGGREGATES

Money supply growth was 0.6% y/y in Q2 2016

Broad money (money aggregate M3) increased by 0.6% y/y and reached ALL 1,205.6 bln in June 2016, according to data provided by Bank of Albania. The M2 money supply went down by 1.5% y/y to ALL 714.1 bln. Money aggregate M1 jumped by 7.2% y/y to ALL 389.6 bln.



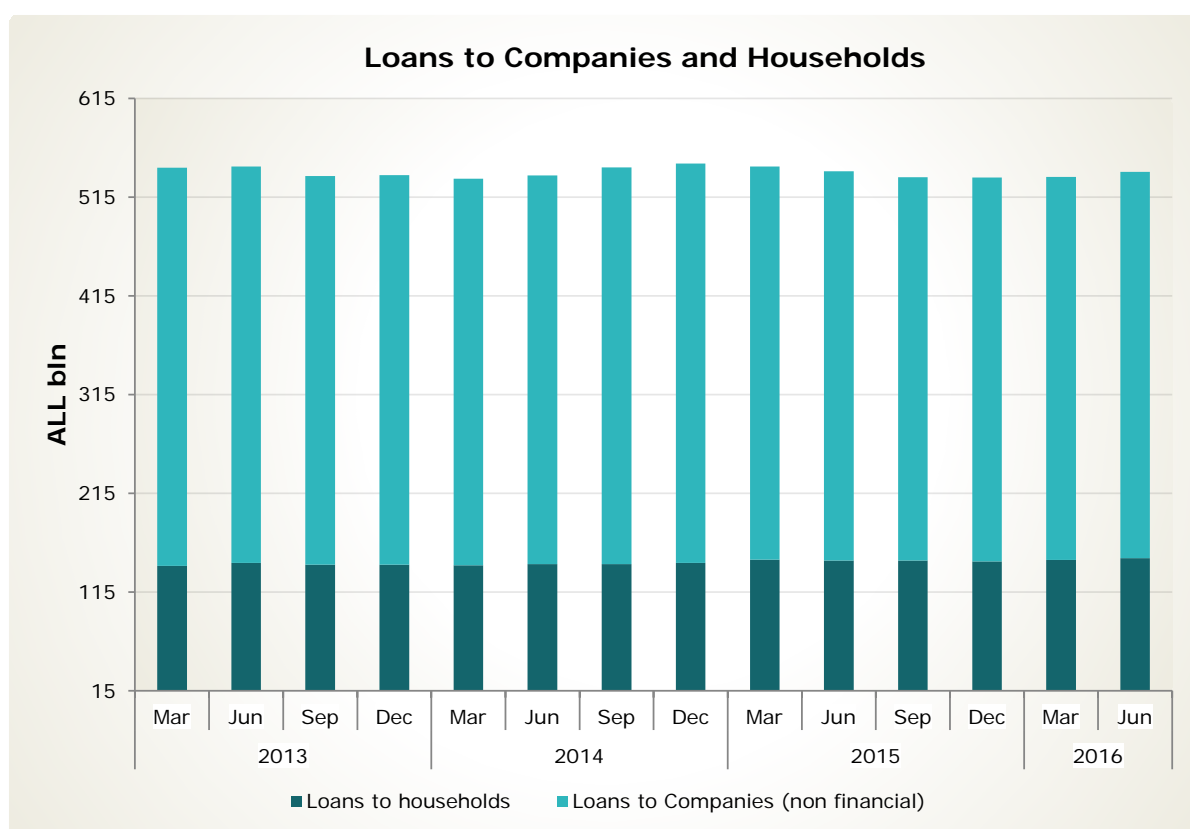
Source: Bank of Albania

5.3. BANKING AND INSURANCE

Household loans increased by 1.7% y/y in Q2 2016

Loans to the non-government sector totalled ALL 540.7 bln in June 2016, down by 0.1% y/y, according to Bank of Albania.

Loans to non-financial corporations fell by 0.7% y/y to ALL 391.2 bln, while household loans rose by 1.7% to ALL 149.5 bln. House purchasing loans amounted to ALL 103.1 bln, up from ALL 103.0 bln in Q2 2015.

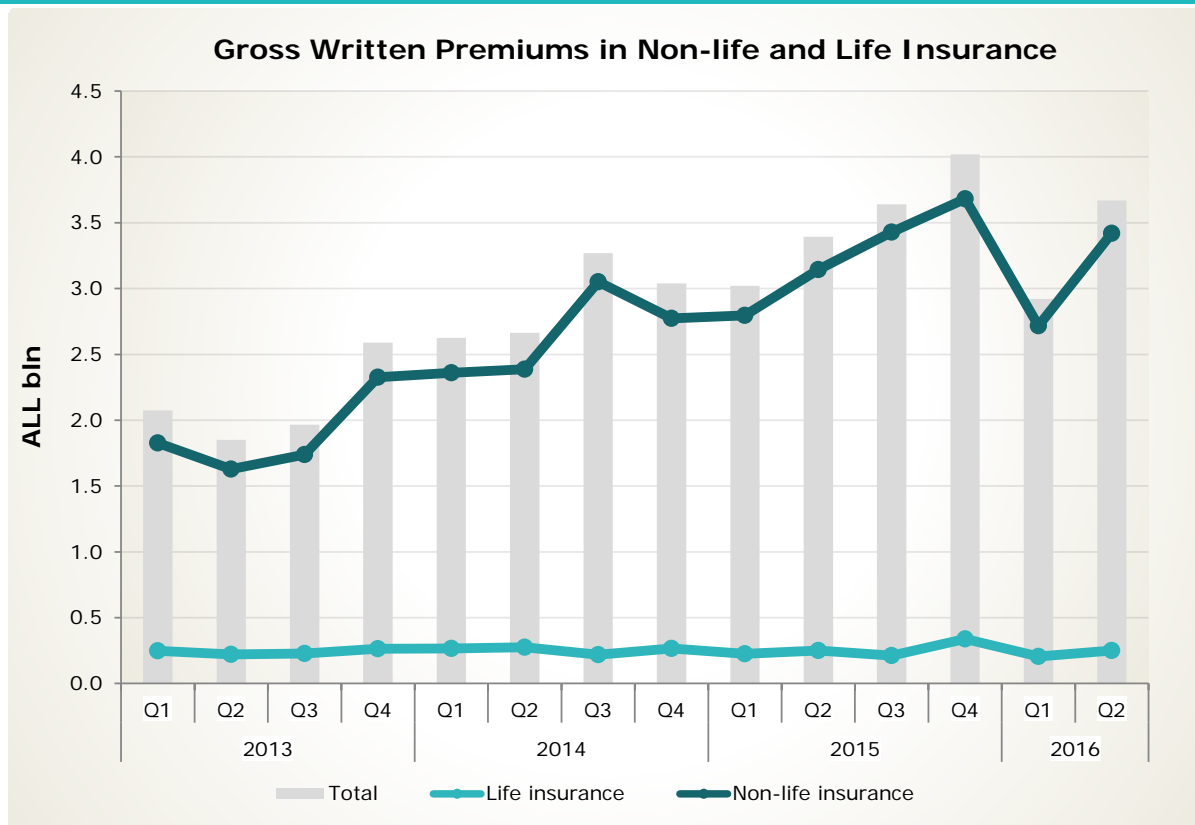


Source: Bank of Albania

Insurance premium income up 8.1% y/y in Q2 2016

The total gross written premiums of the non-life and life insurance companies, excluding reinsurance, stood at ALL 3.669 bln, up by 8.1% y/y in Q2 2016, according to the Albanian Financial Supervisory Authority (AMF).

The rise was fuelled by the 8.8% increase of the non-life insurance sector, which posted gross written premiums of ALL 3.418 bln in Q2 2016. The premiums in the life insurance segment inched up by 0.1% on the year to ALL 251.1 mln.



Source: AMF

In the non-life insurance sector the highest annual rise of gross written premiums was registered in the aircraft liability insurance, where premiums soared to ALL 23.195 mln from ALL 0.395 mln. Insurance of vessels in see and inland navigation was on the other end with its premium income shrinking to ALL 0.442 mln from ALL 0.778 mln.

Among the life insurance segments, the leader in terms of annual growth in gross written premiums was the group life insurance segment, where premium income more than tripled to ALL 52.595 mln. Flexi plan insurance generated premium income of only ALL 0.113 mln, down from ALL 0.986 mln, thus registering the sharpest annual drop on the local life insurance market, of 88.5%.

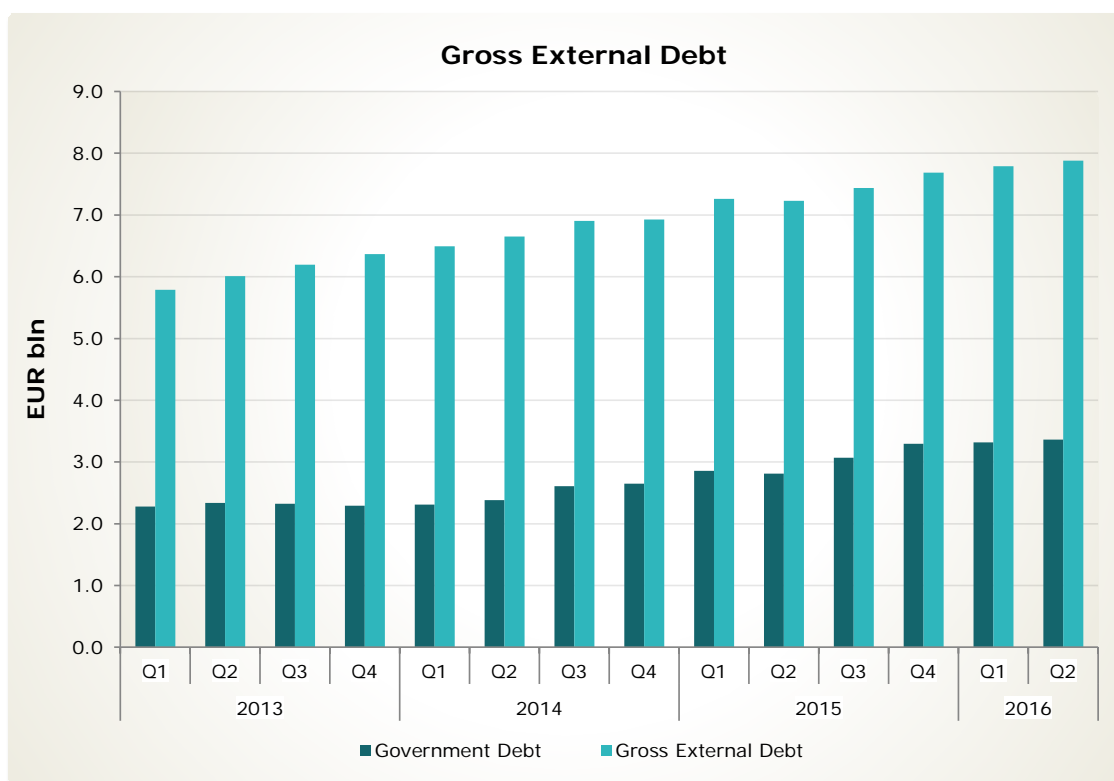
6. EXTERNAL SECTOR

6.1. FOREIGN DEBT

The gross external debt grew to EUR 7.881 bln in Q2 2016

The gross external debt totalled EUR 7.881 bln, up by 9.0% on the year in the second quarter of 2016, according to Bank of Albania. In comparison to Q2 2015 the gross external debt increased by EUR 651.0 mln.

In Q2 2016, long-term liabilities amounted to EUR 4.527 bln, or 57.4% of the total debt, and short-term liabilities totalled EUR 1.505 bln, equal to 19.1% of the total debt.



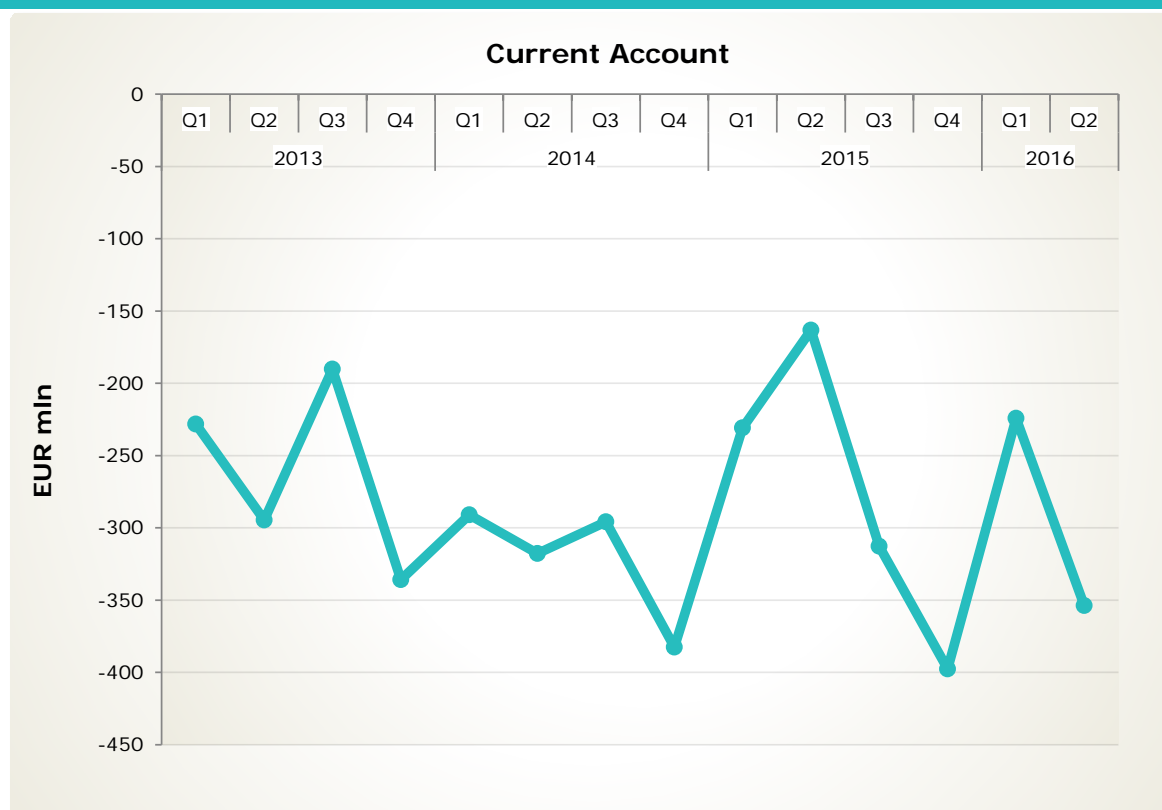
Source: Bank of Albania

6.2. BALANCE OF PAYMENTS

Current account deficit at EUR 353.8 mln in Q2 2016

The current account deficit expanded to EUR 353.8 mln in Q2 2016 from EUR 163.2 mln in Q2 2015, according to central bank statistics data.

Secondary income in Q2 2016 rose to EUR 216.6 mln from EUR 210.2 mln in Q2 2015.

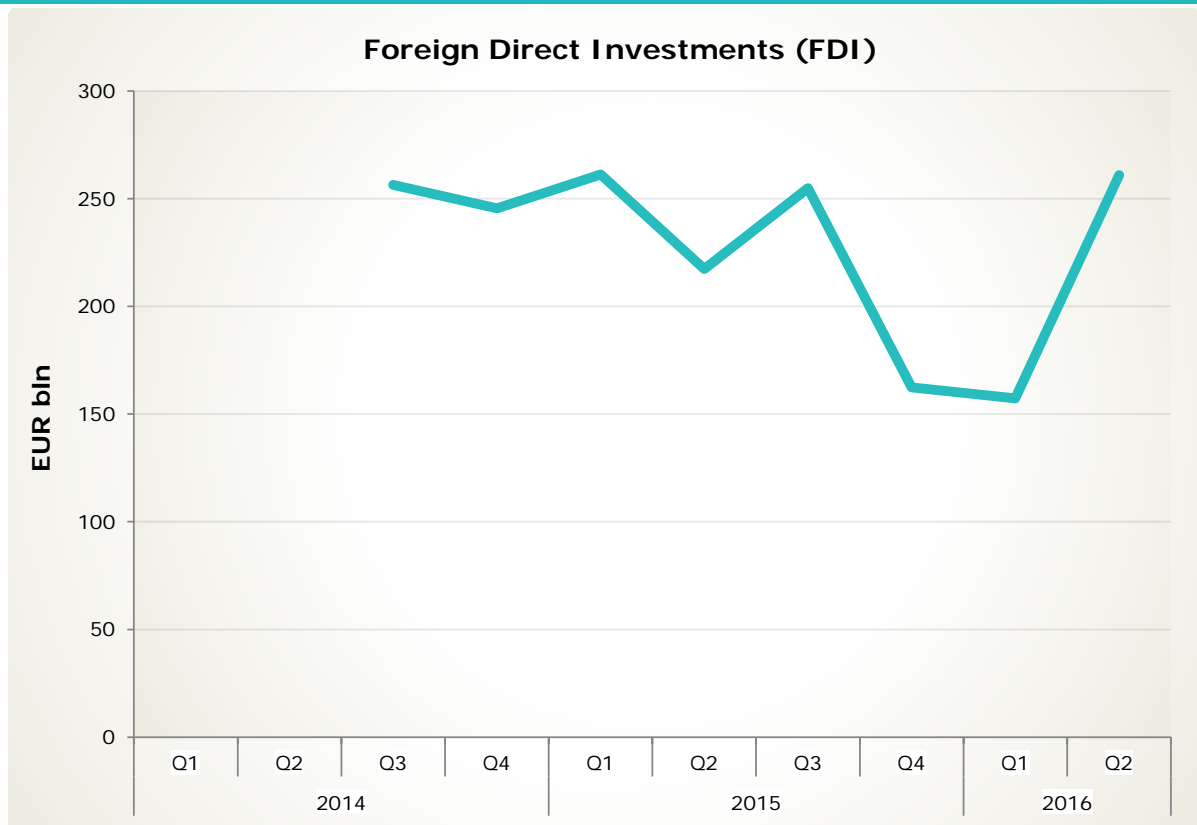


Source: Bank of Albania

6.3. FDI

FDI in Albania at EUR 261.0 mln in Q2 2016

Foreign Direct Investments (FDI) in Albania amounted to EUR 261.0 mln in Q2 2016, according to Bank of Albania. In annual terms, the FDI inflow increased by 20.1% or EUR 43.6 mln.



Source: Bank of Albania

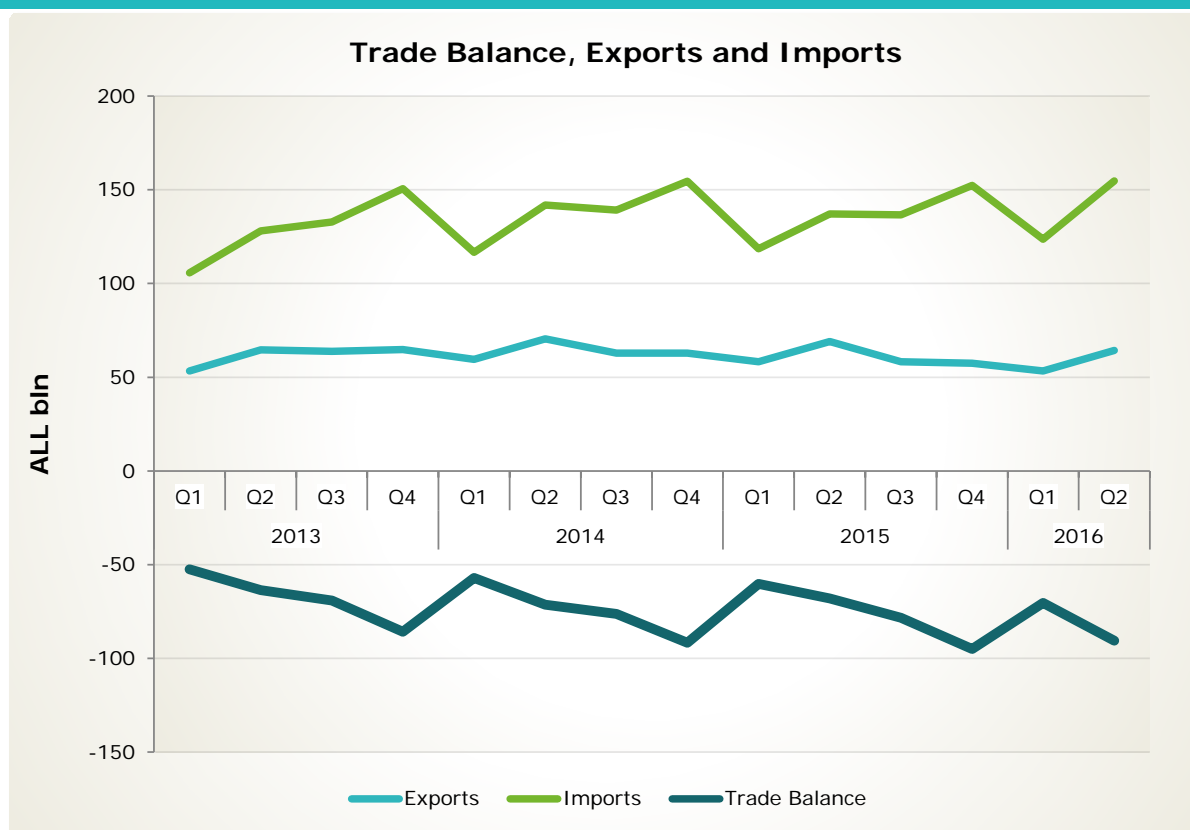
6.4. FOREIGN TRADE

Foreign trade deficit up by 33.1% y/y in Q2 2016

The trade deficit stood at ALL 90.502 bln in Q2 2016, compared to ALL 67.995 bln in Q2 2015, according to INSTAT.

Albania's most exported products groups were textile and footwear, and minerals, fuels and electricity, with their combined share amounting to 62.4% of the total in Q2 2016.

The most imported product groups in Albania in Q2 2016 were machinery and equipment, and food, beverages and tobacco. They accounted for 37.9% of the total imports in the country in the period under review.



Source: INSTAT

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