

ALBANIA ECONOMY REPORT

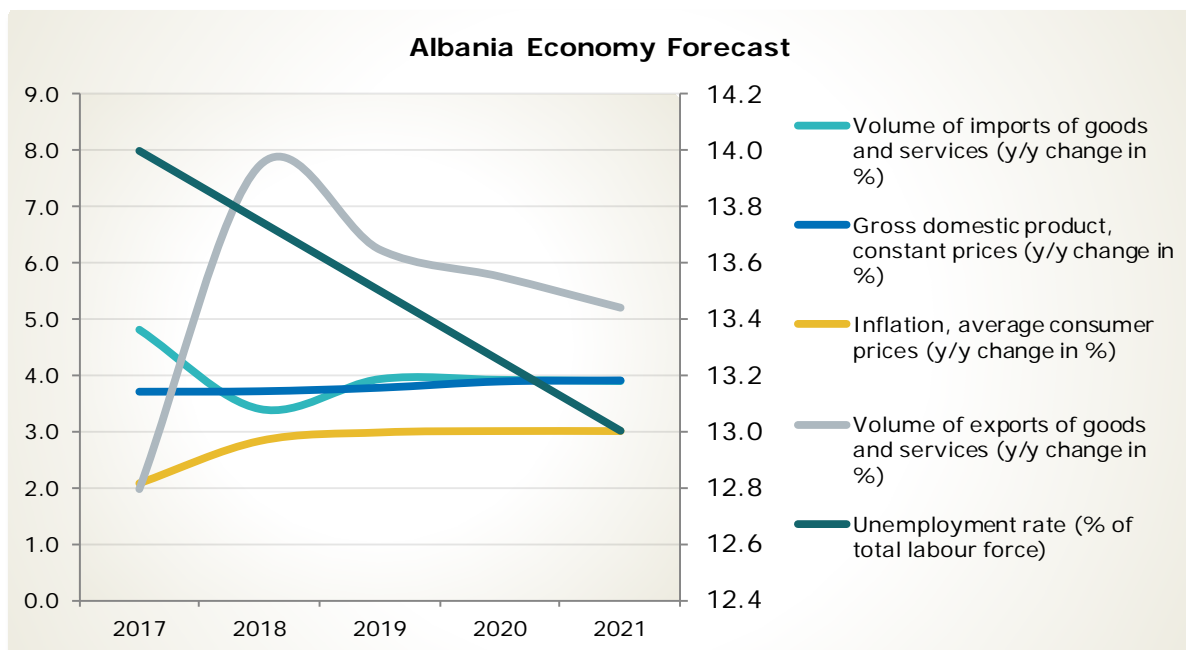
Q2 2017

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1. MACROECONOMIC SNAPSHOT AND FORECAST

ALBANIA - MACROECONOMIC SNAPSHOT AS OF Q2 2017	
GDP Growth	4.1% y/y
Business confidence indicator	-9.70 pp q/q
Industrial output	33.7% y/y
Retail sales	2.5% y/y
Annual inflation	2.2%
Unemployment rate	13.9%
Number of building permits	197
Money supply growth	2.8% y/y
Household loans	10.0% y/y
Gross external debt	EUR 7.851 bln
Current account deficit	EUR 231.0 mln
FDI inflow	EUR 200.1 mln
Foreign trade deficit	ALL 91.5 bln
Number of foreign tourists	11.4% y/y

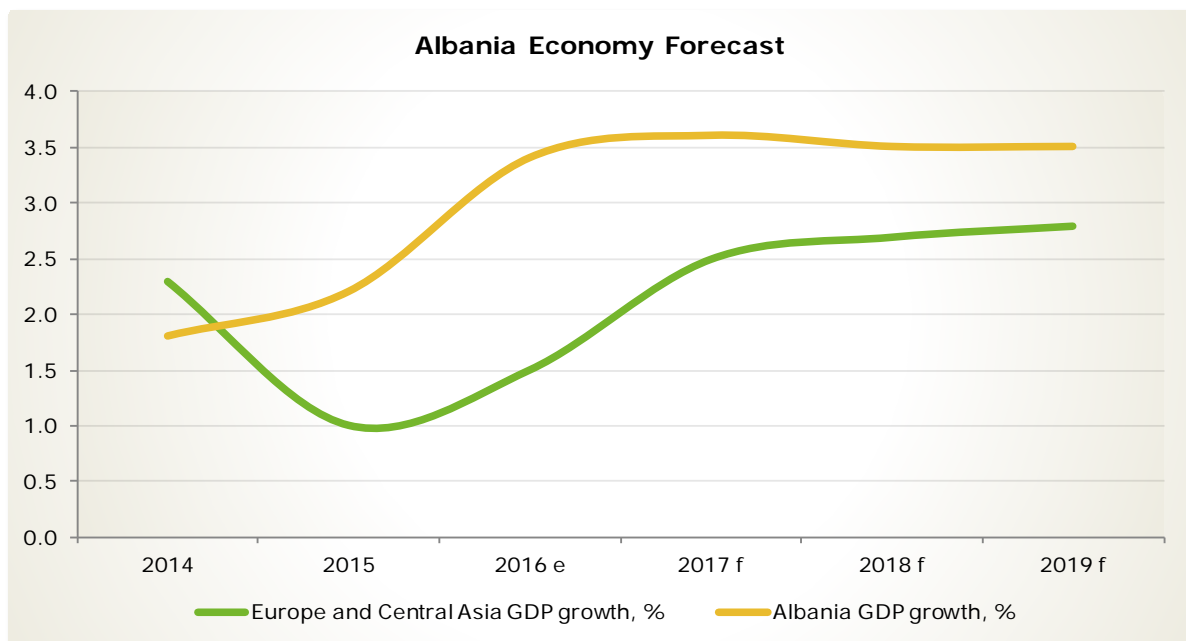


Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2017

The Albanian economy is expected to rise by 3.7% y/y in 2017, up from 3.4% in 2016, according to IMF forecasts. Growth will be sustained mainly by large energy-related FDI projects and a gradual recovery of domestic demand. As a result, inflation will rise to 2.1 in 2017 from 1.3% in 2016, according to the fund.

In the medium term, GDP growth shall stay at between 3.7% - 3.9% 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, October 2017

Albania - GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)							
	2014	2015	2016 e	2017 f	2018 f	2019 f	
Real GDP growth, at constant market prices, y/y change in %	1.8	2.2	3.4	3.6	3.5	3.5	
Private Consumption	2.8	1.1	2.9	1.8	2.1	2.6	
Government Consumption	6.4	-1.1	3.8	2.5	-1.7	-5.1	
Gross Fixed Capital Investment	-4.5	4.0	6.0	8.1	7.2	4.2	
Exports, Goods and Services	1.8	1.0	13.0	5.8	5.5	5.8	
Imports, Goods and Services	4.3	-2.9	7.4	5.4	5.1	4.2	
Real GDP growth, at constant factor prices (by sectors)	2.1	3.1	3.4	3.5	3.5	3.5	
Agriculture	2.0	0.8	0.7	0.8	1.5	1.8	
Industry	-3.8	5.1	3.2	3.5	3.6	4.2	
Services	5.6	3.4	5.1	5.0	4.5	4.1	
Inflation (Consumer Price Index)	1.6	1.9	0.9	2.2	2.7	3.0	
Current Account Balance (% of GDP)	-12.9	-10.8	-9.6	-13.0	-13.0	-11.8	
Net Foreign Direct Investment (% of GDP)	8.1	8.0	8.9	8.3	7.0	5.6	

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

The World Bank expects annual GDP growth in Albania to remain stable at around 3.5% in 2017-2019. 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)

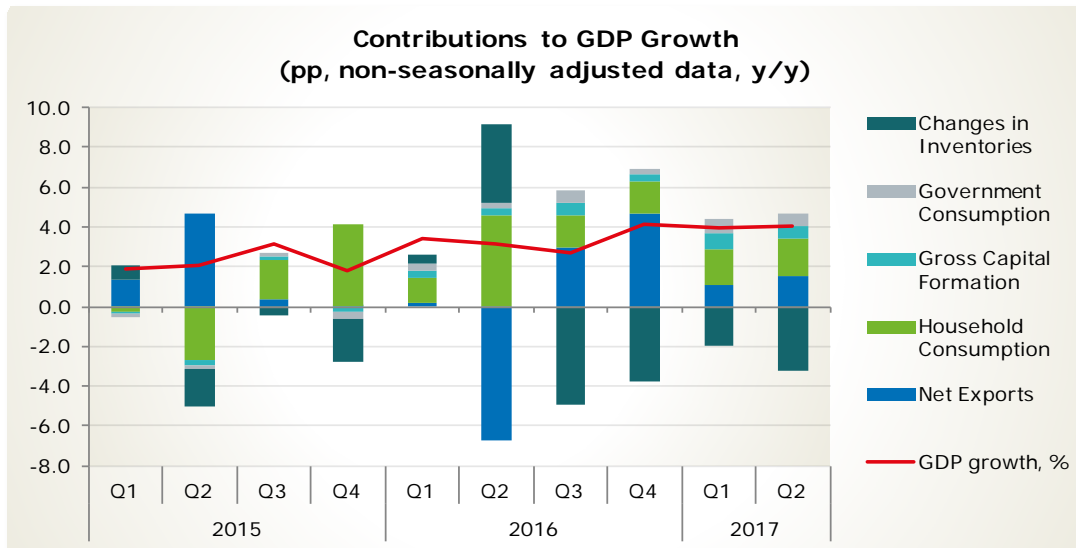
GDP annual growth at 4.1% in Q2 2017 boosted by capital investments and construction of energy related projects

In Q2 2017, the Albanian economy kept its rapid pace of growth achieved in the first quarter of 2017. Country's GDP increased by 4.1% y/y and totalled ALL 387.4 bln in Q2 2017, according to the Institute of Statistics (INSTAT). In Q1 2017, GDP went up by 4.0% 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. TAP's schedule is in full alignment with upstream developments, which means that exact timings will depend on the progress of the Shah Deniz Stage 2 development.

Capital investments had the biggest contribution to the annual GDP growth - 3.3 pp, household contribution followed with 1.9 pp.

Final consumption, which took 87.9% share in the GDP, went up by 2.7% y/y. Gross capital formation increased by 14.3%, slicing 25.0% of the GDP. Exports and imports grew by 17.2% and 6.4%, respectively.

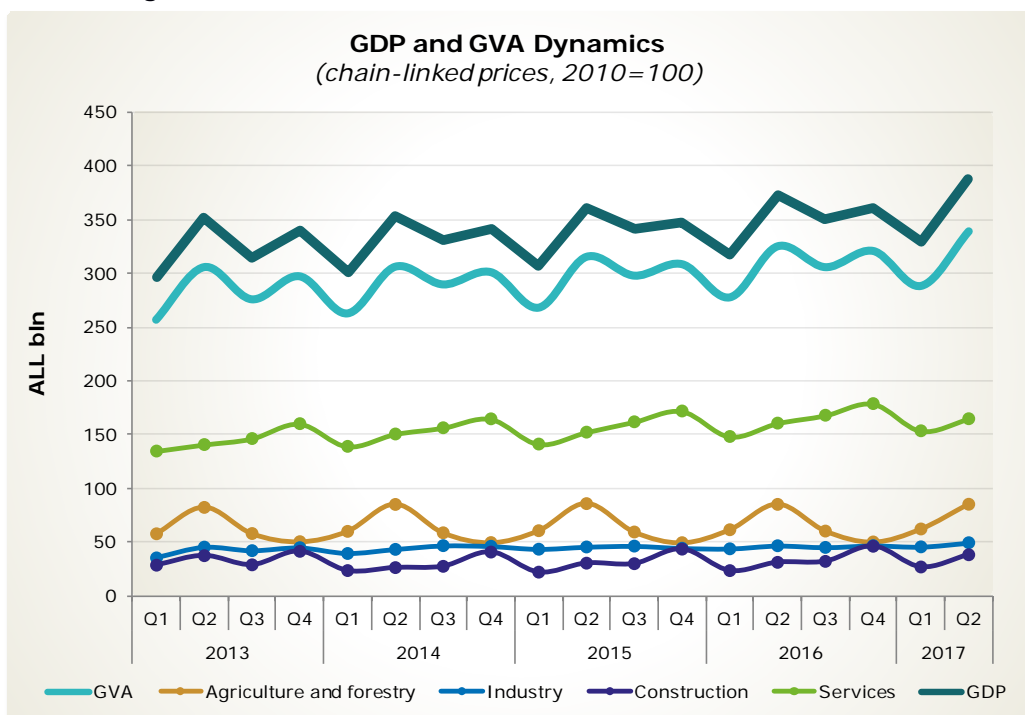


Source: INSTAT; SeeNews calculations

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.

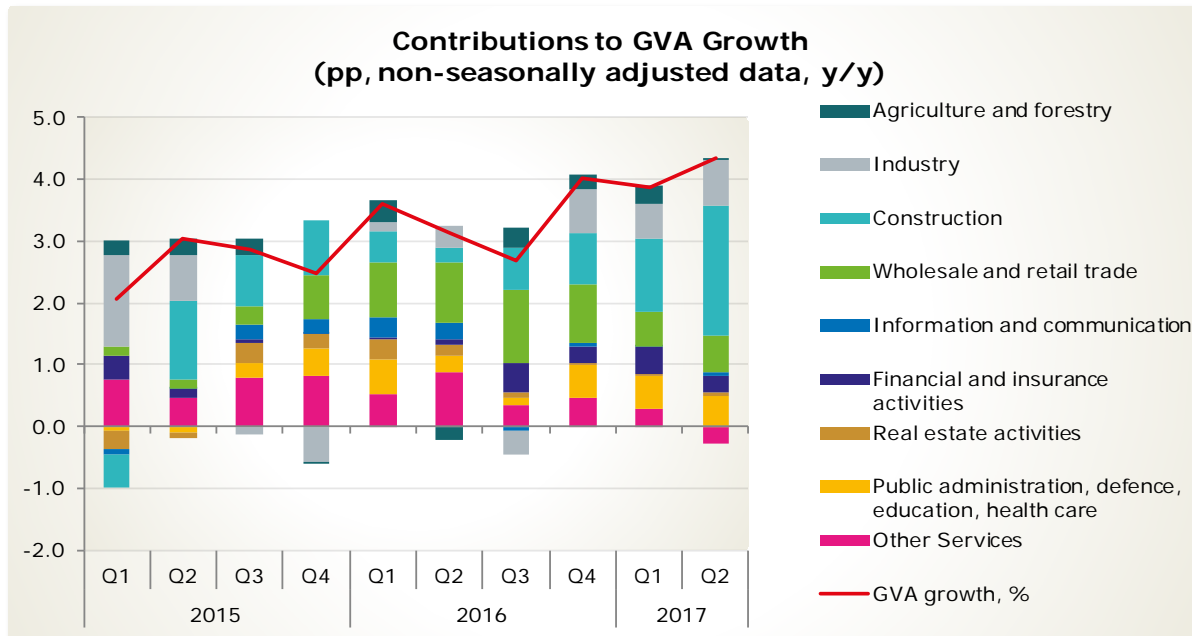
The country's non-seasonally adjusted GVA increased in value by 4.3% y/y and totalled ALL 339.7 bln in Q2 2017. The industrial sector expanded by 6.0% y/y and took 14.6% share in the total GVA. The services sector recorded a 2.5% annual increase, slicing a 48.5% share in the GVA.

Construction surged by 22.7% and its share in GVA went up to 11.3% from 9.3% in the corresponding quarter of the previous year. The agricultural sector marked a modest increase - 0.1%, accounting for 25.1% of the total GVA.



Source: INSTAT

In terms of sector contributions, the economic growth was balanced during the second quarter of 2017. The construction sector was the largest growth driver as it added 2.1 pp to the overall y/y GVA growth. The industrial sector contributed with 0.7 pp to the GVA increase, followed by wholesale and retail with 0.6 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 decreased by 9.7 percentage points q/q in Q2 2017

In the second quarter of 2017, the average business confidence indicator went down by 9.7 percentage points q/q, according to Bank of Albania.

Services confidence indicator reported the strongest slump among all sectors, by 17.1 pp q/q. The lower level of the services confidence is attributed to the decline of its two component balances, business situation and demand, which fell by 17.7 pp and 17.3 pp, respectively. Firms operating in the services sector showed worsened financial situation and there was a decrease in the balance related to employment, according to the Bank of Albania survey. Expectations for demand and employment for Q3 2017 were brighter. Meanwhile, the capacity utilisation rate is assessed at 71.6% on average, or by 8.3 pp lower compared to the level registered in the previous quarter.

Construction confidence indicator went up by 1.9 pp, fuelled mainly by improvement of the employment balance. The contribution of construction activity was positive at 1.1 pp. Capacity utilisation rate in the sector was at 63.6% in Q2 2017, or 1.7 pp higher than in Q1 2017.

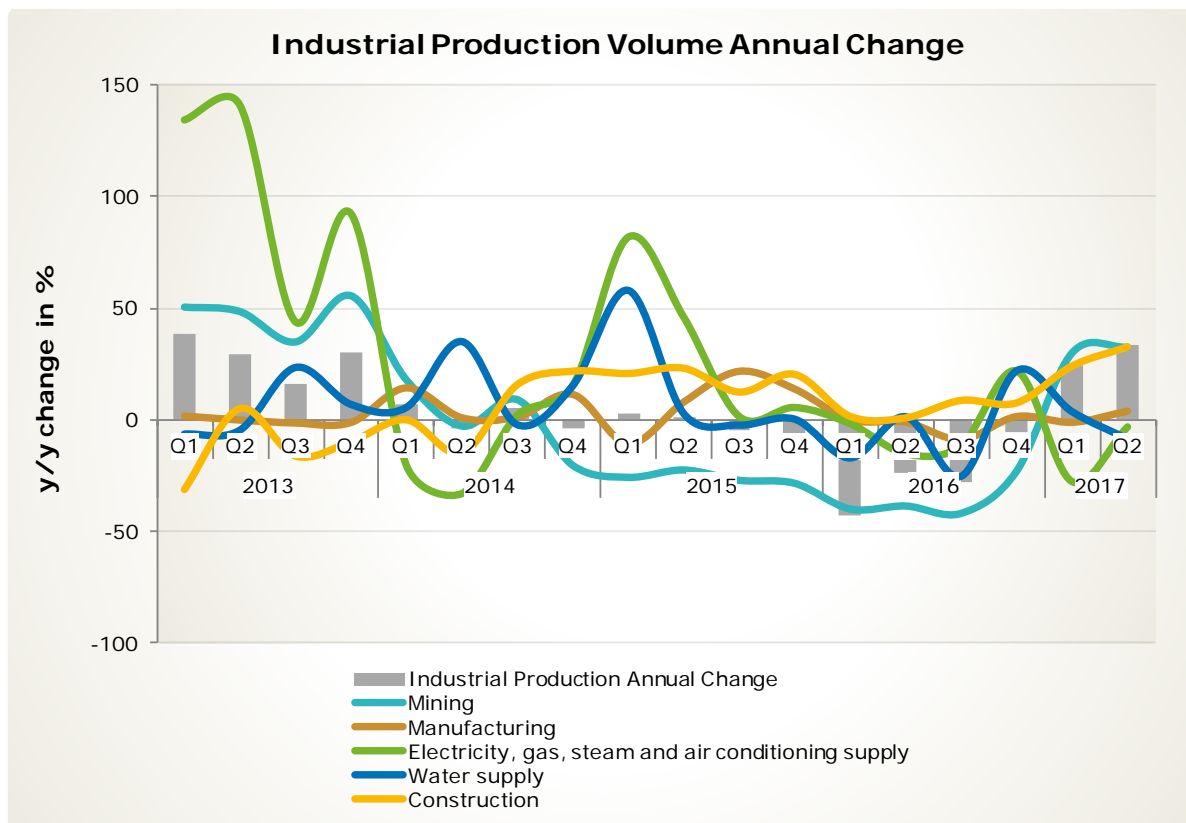
Industry confidence indicator increased by 3.5 pp in Q2 2017, reflecting mainly the positive developments in the order books – by 7.8 pp. The stock of inventories balance, gave a negative contribution to the calculation of the aggregate indicator, of -2.0 pp. Capacity utilisation rate of firms operating in the industry sector stood at 74.4% in Q2 2017, or 0.4 pp lower than in the previous quarter.

2.3. INDUSTRIAL OUTPUT

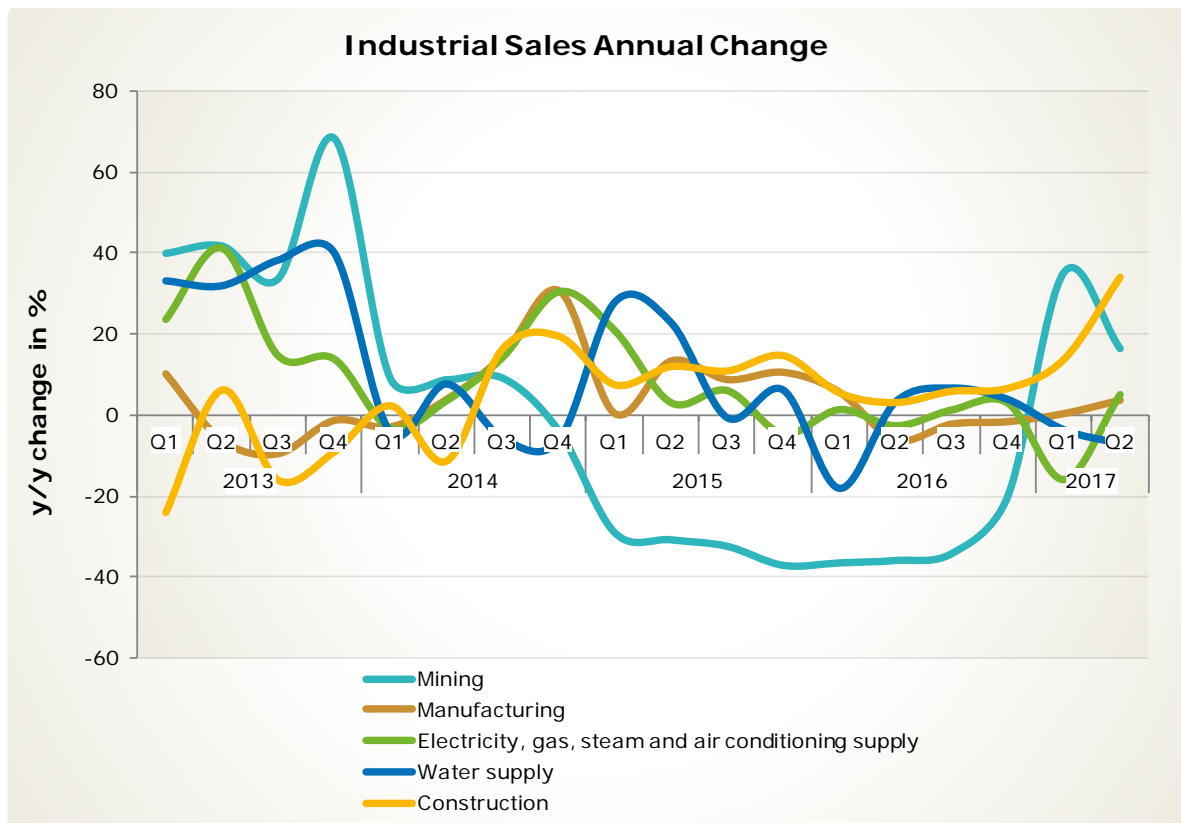
Industrial output increased by 33.7% y/y in Q2 2017 on mining and construction sectors

Industrial output surged by 33.7% in Q2 2017, fuelled by the annual jump in the production of the construction, and mining sectors, according to INSTAT.

The output of the construction sector registered the sharpest annual jump, of 32.9% y/y, followed by the mining sector with 32.5%. The output of the manufacturing industry grew much slower – by 3.6%. At the same time, water supply sector's output shrank by 8.3%, and the electricity, gas, steam and air conditioning supply fell by 3.4% y/y.



Source: INSTAT



Source: INSTAT

2.4. RETAIL SALES

Retail sales growth slowed to 2.5% y/y in Q2 2017

Retail sales went up by 2.5% y/y in Q2 2017, according to INSTAT. This is a slowdown compared to Q1 2017 when retail sales increased by 5.3% y/y.

Retail sale of other goods in specialised stores registered the highest annual rise, of 10.0%. In terms of sharpest drop, retail sale of cultural and recreation goods in specialised stores led the ranking with a 8.2% annual decline.



Source: INSTAT

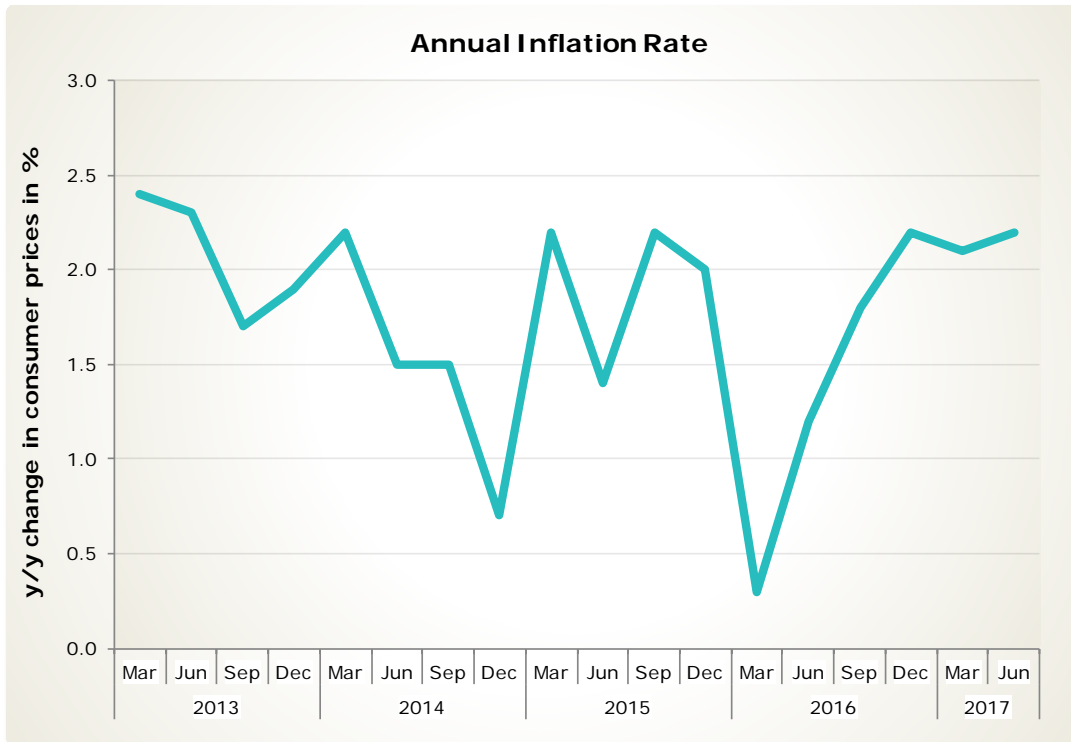
2.5. INFLATION

Annual inflation of 2.2% in June 2017

The annual inflation in Albania remained at around 2.0% in the second quarter of 2017, according to INSTAT. In June 2017 alone, it reached 2.2%, up from 2.0% in May and 1.9% in April.

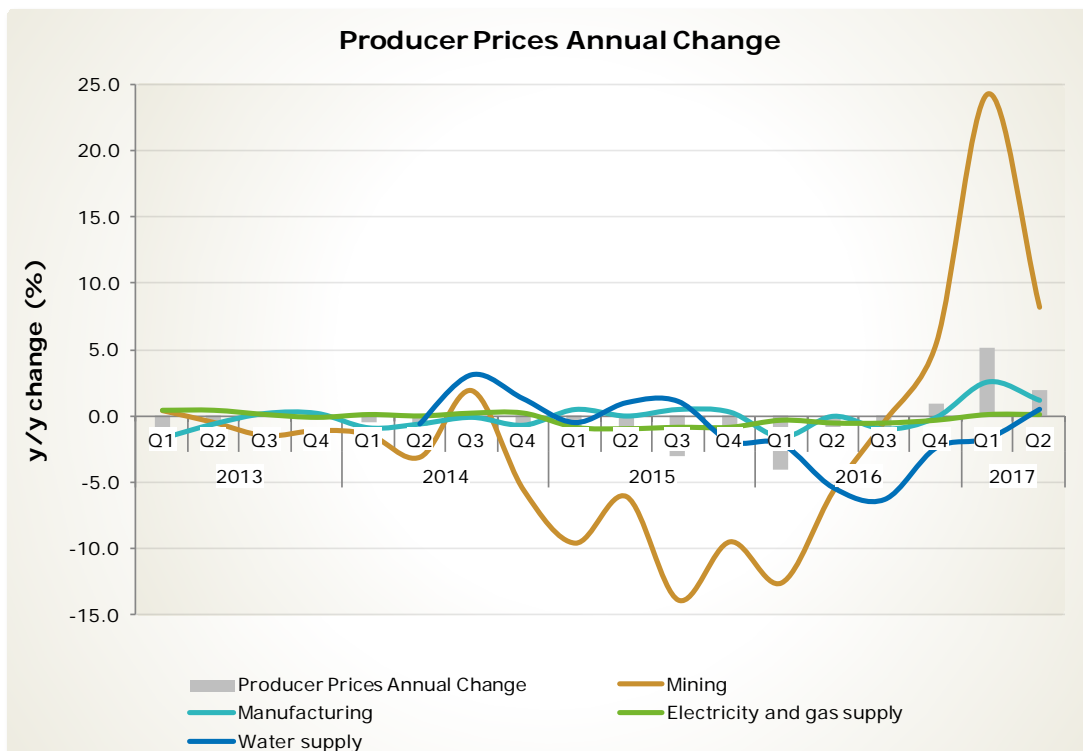
The highest increase in consumer prices, of 5.1%, in June 2017, was registered in food and non-alcoholic beverages, followed by goods and other services with 3.2%, and alcoholic beverages and tobacco with 0.8%.

Deflation was present in only three product groups – 2.5% for clothing and footwear, furniture, household goods and maintenance – 0.5%, and healthcare – 0.1%.



Source: INSTAT

Producer prices went up by 2.0% y/y in Q2 2017, INSTAT data showed. Producer prices in the mining sector grew by 8.2%, in the manufacturing industry they increased by 1.2% and inched by 0.5% in the water supply sector, and by 0.1% in the electricity and gas supply sector.



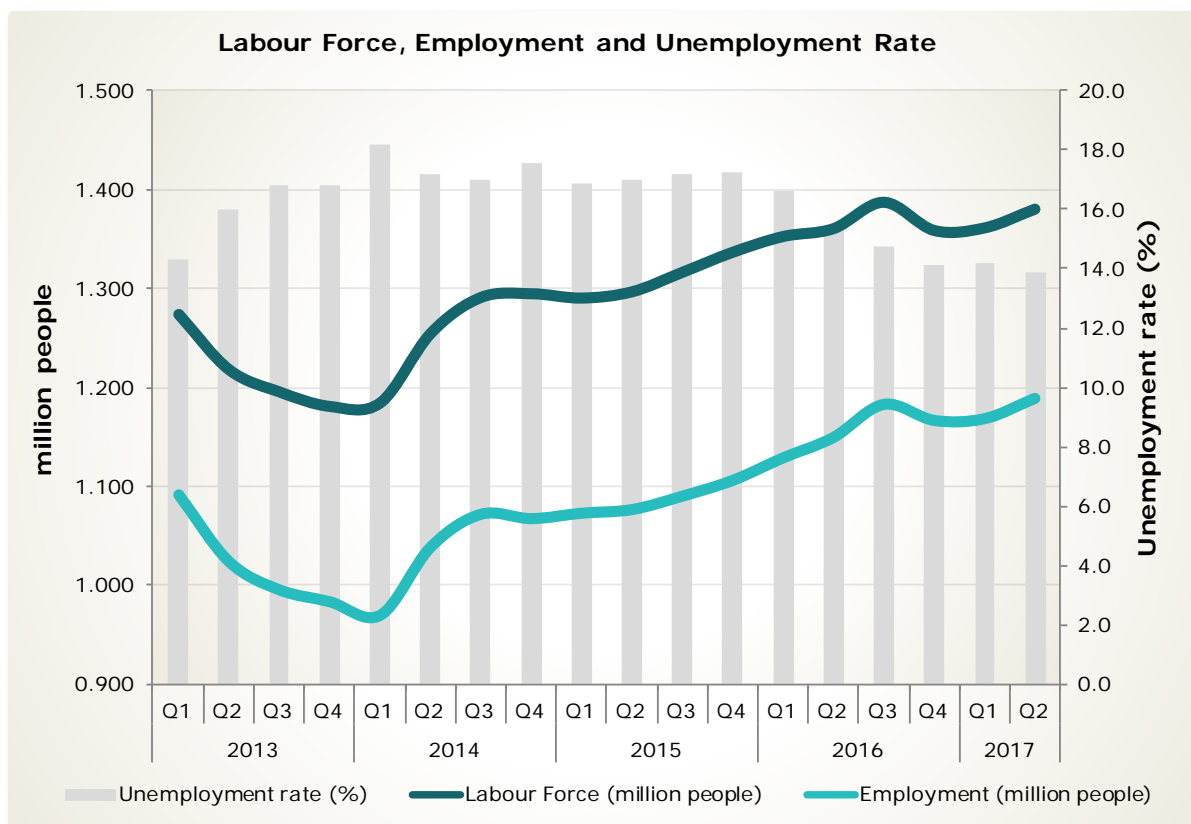
Source: INSTAT

3. LABOUR MARKET

Unemployment rate went down during the second quarter of 2017 but remains high, at 13.9%

Unemployment in Albania narrowed to 13.9% of the total labour force in Q2 2017 from 14.2% in Q1 2017 and 15.5% in Q2 2016, according to data of INSTAT. The employed population aged 15 years and older was 1.189 mln as of June 2017, up by 3.4% y/y.

The youth (population aged 15-29) unemployment rate went down to 26.4% in the second quarter of 2017 from 29.9% in Q2 2016.



Source: INSTAT

4. CONSTRUCTION AND REAL ESTATE

The number of building permits doubled y/y in Q2 2017

The number of building permits issued in Albania in Q2 2017 totalled 197, compared to 98 in the same quarter of the previous year, according to INSTAT data.

Permits for construction of non-residential buildings stood at 76, up from 37, while permits for housing projects jumped to 121 from 62.

The total area, covered by permits for non-residential buildings amounted to 81,296 sq m, more than doubling y/y in Q2 2017. The total area of the housing projects, covered by the permits, stood at 148,091 sq m, a surge from the 23,000 sq m in Q2 2016.

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 134.4 in Q2 2017 from ALL 135.8 in Q1 2017, 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	Q2 2017	Q1 2017	Q4 2016
EUR	134.4	135.8	136.1
USD	122.1	127.5	126.0
GBP	156.2	157.9	156.5
CHF	124.0	127.1	126.0

5.2. MONETARY POLICY

Policy rate at 1.25% as of Q2 2017

The monetary policy stance of the Central Bank of Albania remained accommodative as inflation remained within the bank's target of 3.0%. 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.

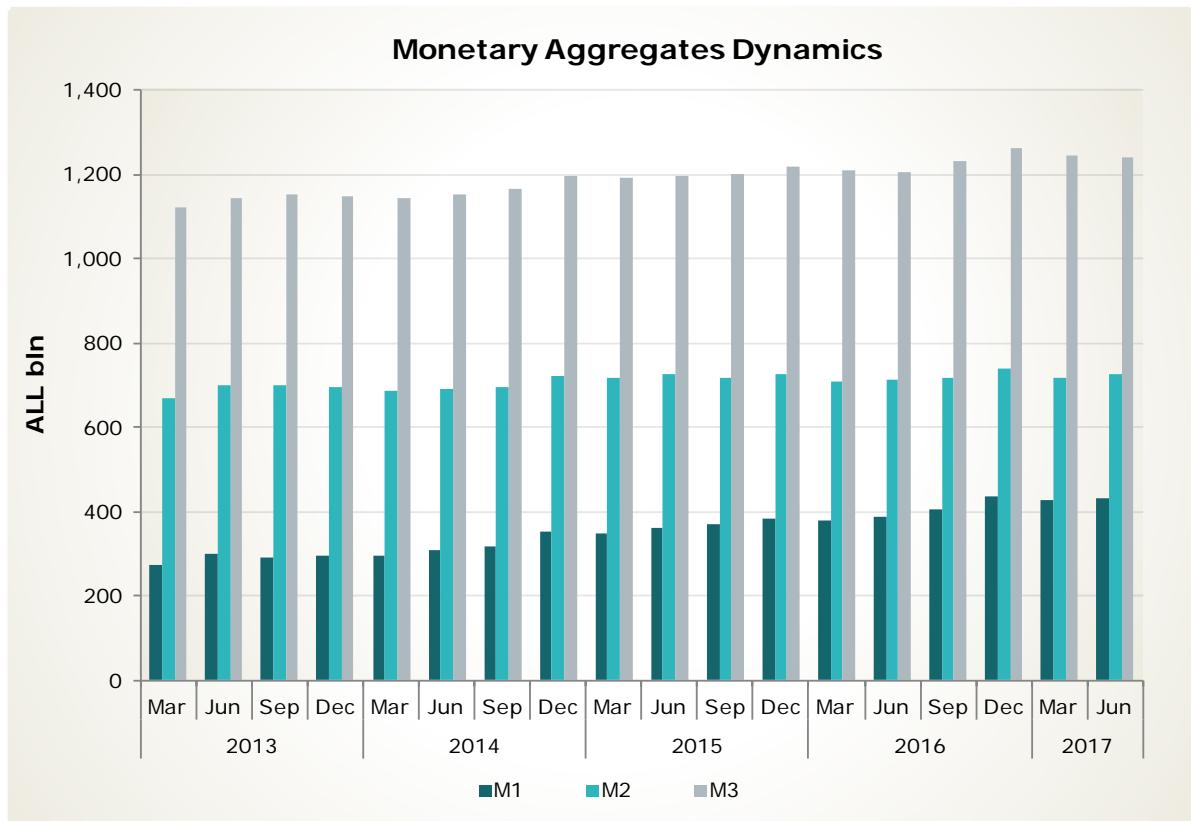
5.3. MONETARY AGGREGATES

Annual money supply growth was 2.8% in Q2 2017

Broad money (money aggregate M3) increased by 2.8% y/y and reached ALL 1,239.3 bln in June 2017, according to data provided by Bank of Albania.

The M2 money supply went up by 1.4% y/y to ALL 724.3 bln and shows expansion and concentration of lending in domestic currency.

Money aggregate M1 jumped by 11.3% y/y to ALL 433.6 bln and reflects the preference of economic agents to keep deposits in liquid form.



Source: Bank of Albania

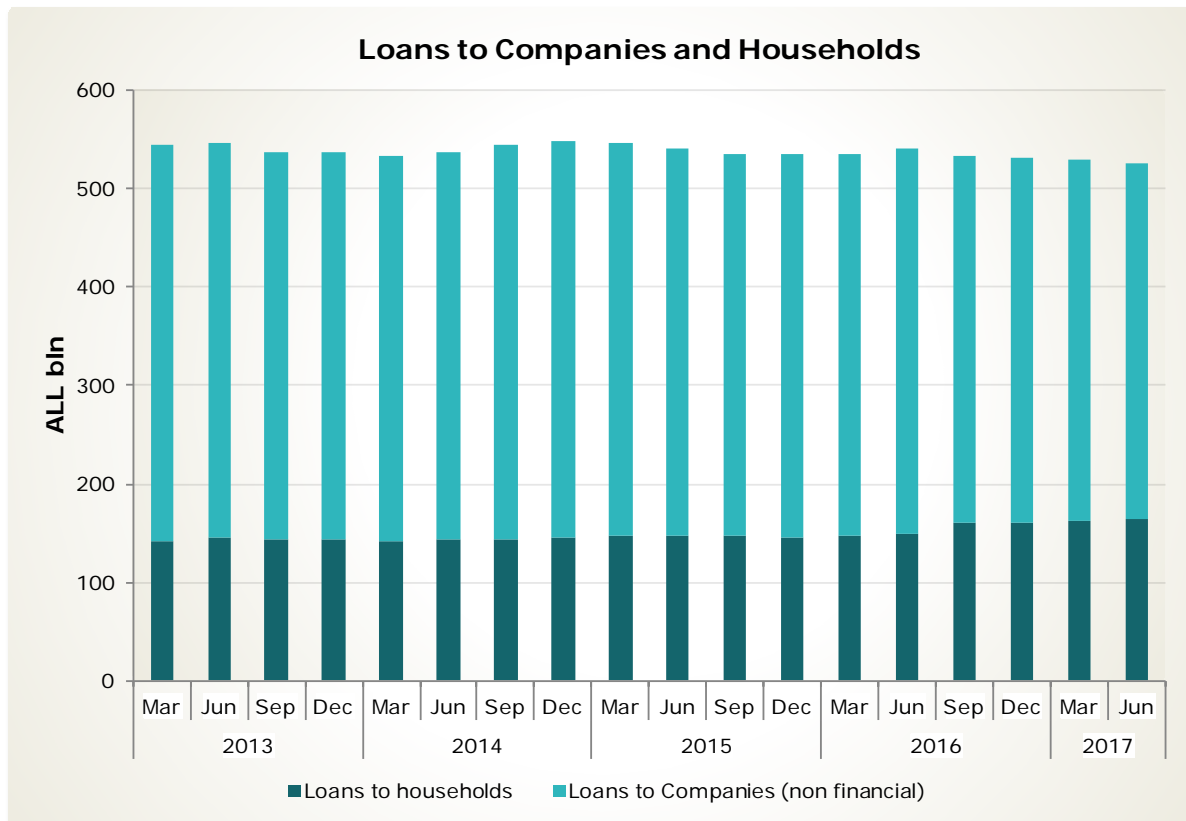
5.4. BANKING AND INSURANCE

Non-government sector loans decreased by 2.6% y/y in Q2 2017 on tightened credit standards for businesses

Loans to the non-government sector totalled ALL 526.5 bln in June 2017, down by 2.6% y/y, according to Bank of Albania.

According to the central bank's Q2 2017 bank lending survey, credit standards on loans to small and medium-sized enterprises eased, while the standards on loans for large enterprises remained unchanged in comparison to the first quarter of the year. Loans to households experienced eased credit standards, especially for consumer loans, while credit standards for house purchase remained unchanged.

As a result, loans to businesses fell, while those for households went up. Loans to non-financial corporations narrowed by 7.5% y/y to ALL 362.0 bln, while household loans rose by 10.0% to ALL 164.5 bln. House purchasing loans amounted to ALL 104.8 bln, up from ALL 103.1 bln in June 2016.

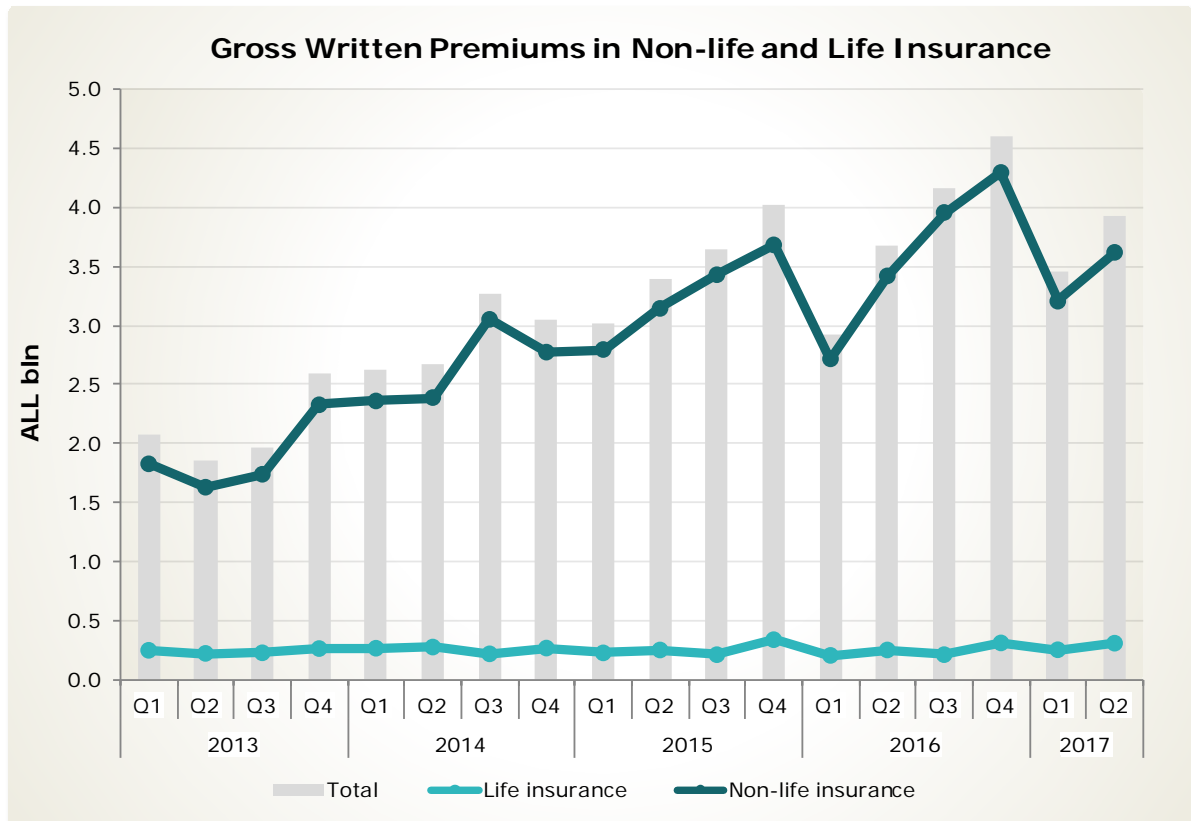


Source: Bank of Albania

Insurance premium income up 7.0% y/y in Q2 2017

The total gross written premiums of the Albanian non-life and life insurance companies, excluding reinsurance, stood at ALL 3.926 bln, up 7.0% y/y in Q2 2017, according to the Albanian Financial Supervisory Authority (AMF).

The rise was fuelled by the 5.8% increase of the non-life insurance sector, which posted gross written premiums of ALL 3.618 bln in Q2 2017. The premiums in the life insurance segment expanded much faster - by 22.8% to ALL 0.308 bln.



Source: AMF

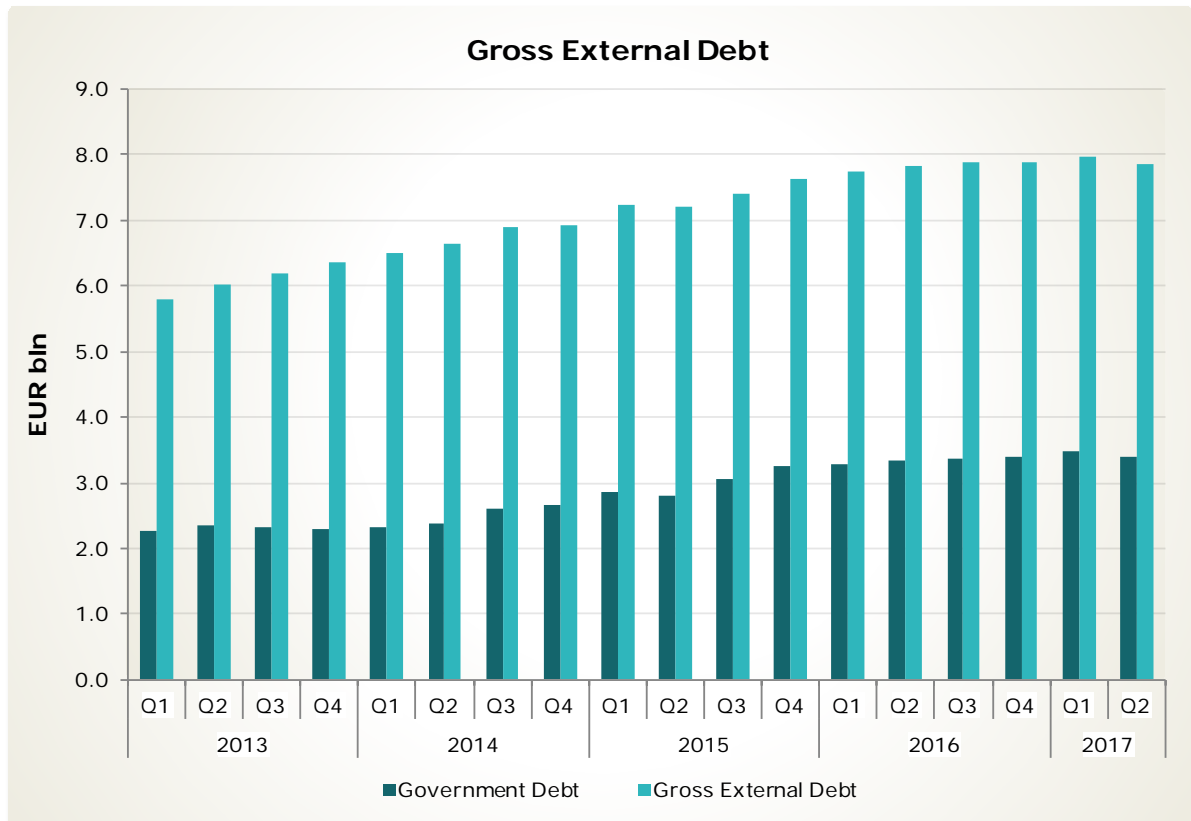
6. EXTERNAL SECTOR

6.1. FOREIGN DEBT

The gross external debt inched up by 0.3% y/y to EUR 7.851 bln in Q2 2017

The gross external debt totalled EUR 7.851 bln, down by 0.3% on the year in the second quarter of 2017, according to Bank of Albania. In comparison to Q1 2017 the gross external debt decreased by EUR 129.0 mln.

In Q2 2017, long-term liabilities amounted to EUR 4.501 bln, or 57.9% of the total debt, and short-term liabilities totalled EUR 1.602 bln, equal to 20.4% of the total debt.



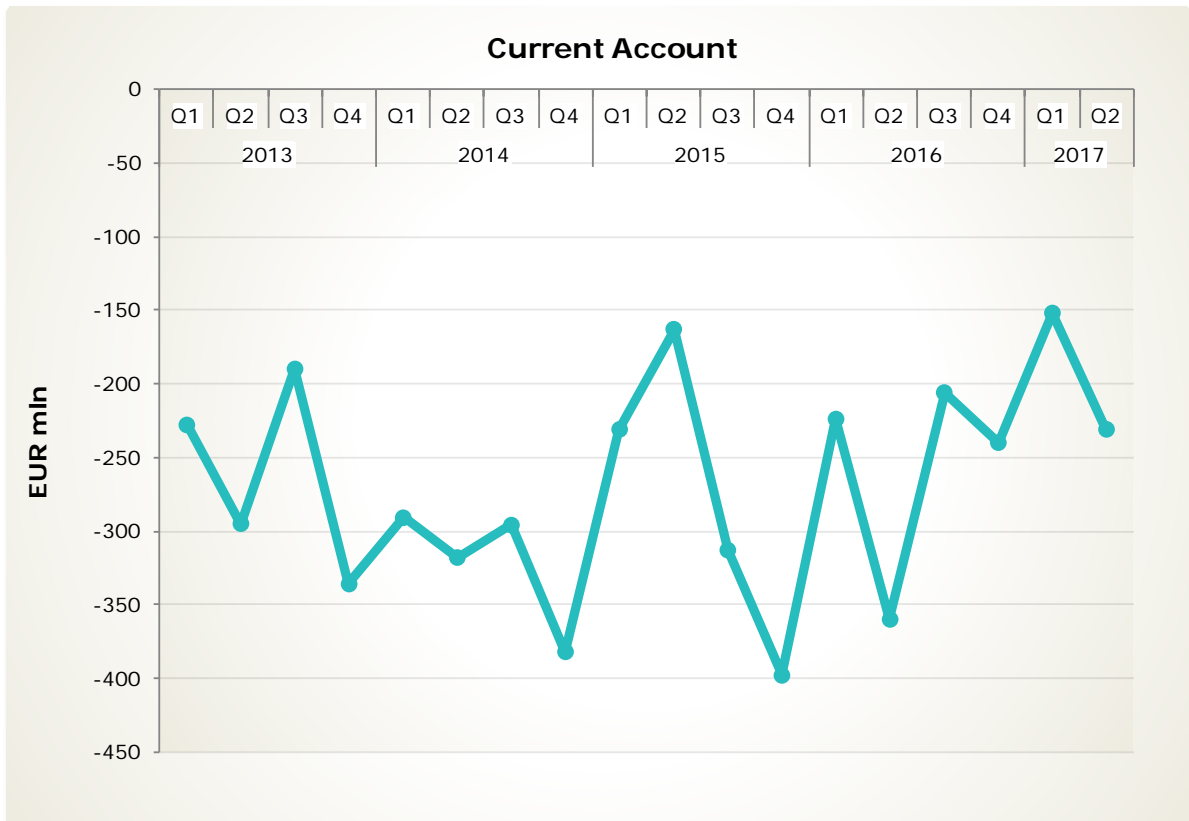
Source: Bank of Albania

6.2. BALANCE OF PAYMENTS

Current account deficit narrowed to EUR 231.0 mln in Q2 2017 on increased services trade surplus

The current account deficit narrowed to EUR 231.0 mln in Q2 2017 from EUR 360.0 mln in Q2 2016, according to central bank statistics data.

This was mainly a result of increased surplus on the trade of services by 73.0% y/y to EUR 211.0 mln in Q2 2017. The negative trade balance on goods went up by 2.5% y/y to EUR 694.0 mln, while the secondary income account was in surplus of EUR 213.0 mln, down from EUR 217.0 mln a year ago.

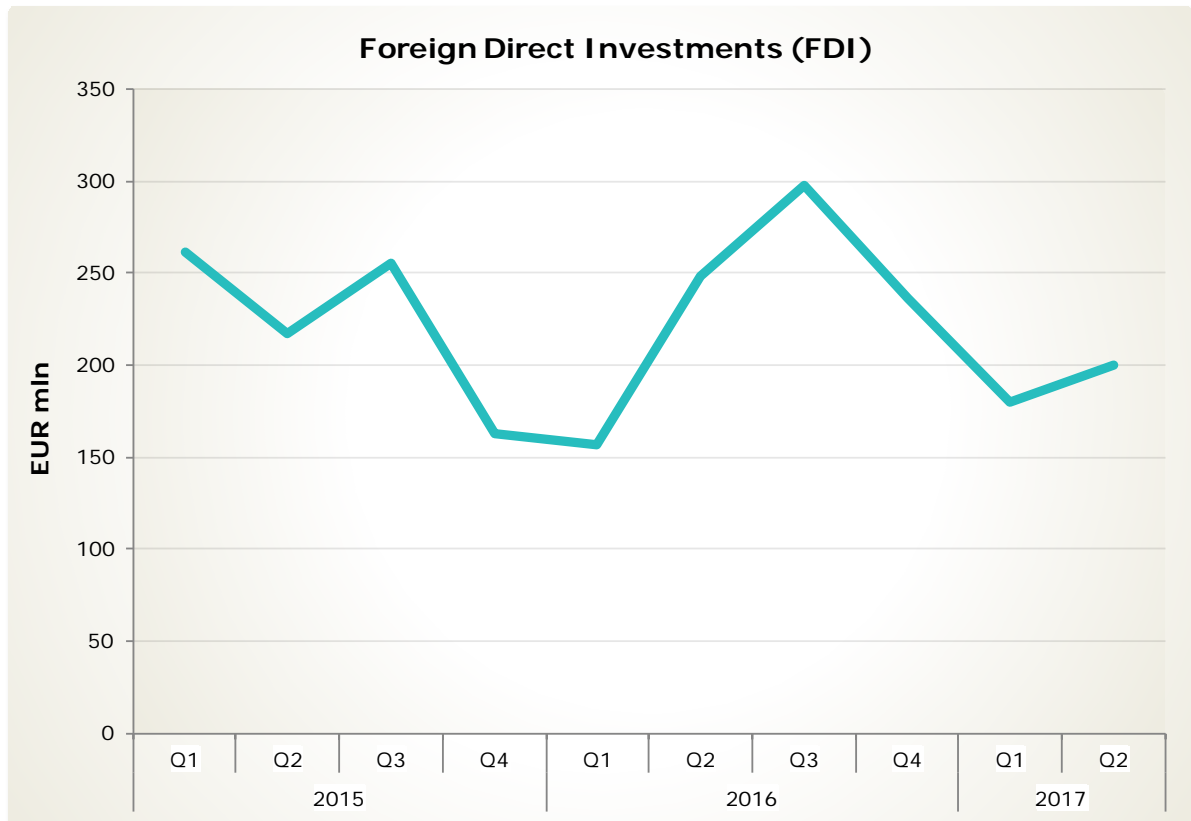


Source: Bank of Albania

6.3. FDI

FDI in Albania at EUR 200.1 mln in Q2 2017

Foreign Direct Investments (FDI) in Albania amounted to EUR 200.1 mln in the second three months of 2017, according to Bank of Albania. In annual terms, the FDI inflow fell by 19.4%, or EUR 48.1 mln. FDIs covered 86.6% of the current account deficit in Q2 2017.



Source: Bank of Albania

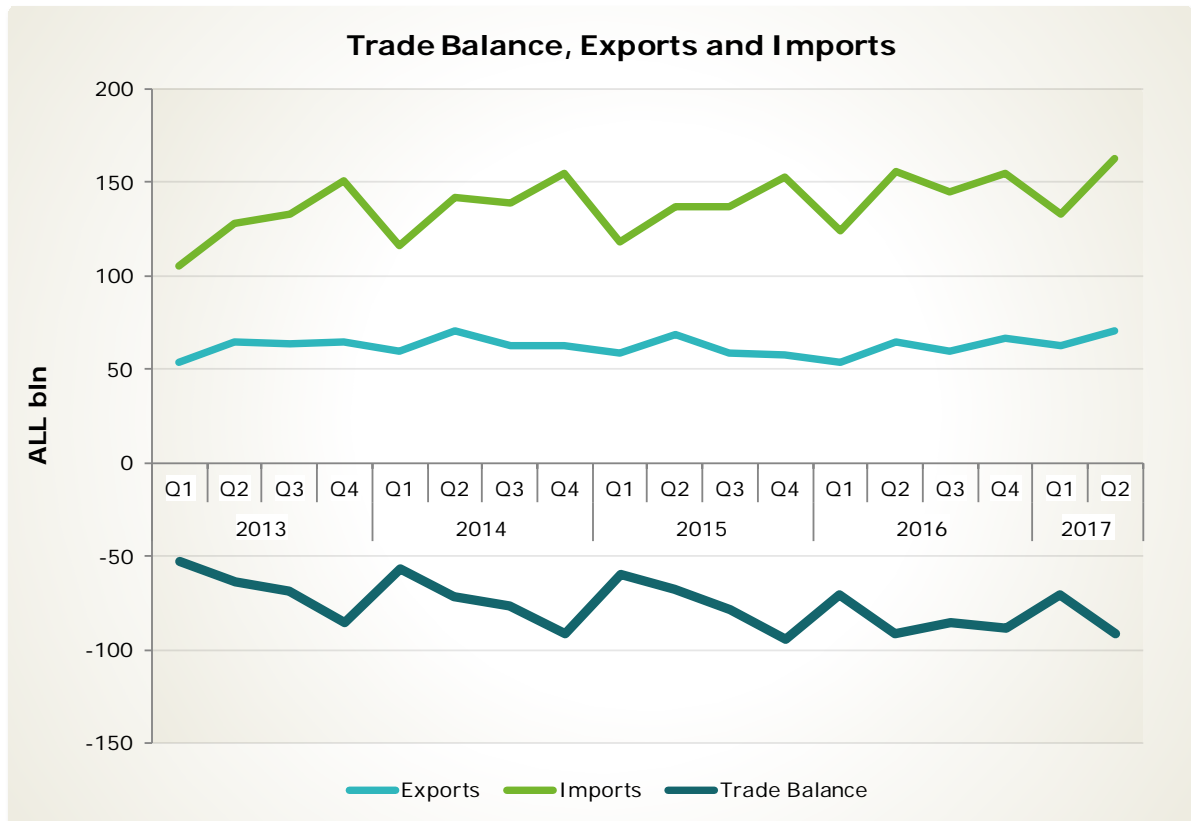
6.4. FOREIGN TRADE

Foreign trade deficit almost unchanged y/y at ALL 91.5 bln in Q2 2017

The trade deficit stood at ALL 91.5 bln in the second quarter of 2017, unchanged compared to Q2 2016, according to INSTAT.

Exports of goods increased by 10.2% to ALL 70.9 bln, while imports went up by 4.2% y/y to ALL 162.4 bln.

Albania's most exported products were footwear – 20.0% of the total exports, and articles of apparel and clothing accessories not knitted – 12.3%. In terms of imports, nuclear reactors, boilers, machinery and mechanical appliances led the ranking with a 7.9% share, followed by mineral fuels, mineral oils and products of their distillation with a 7.0% share.



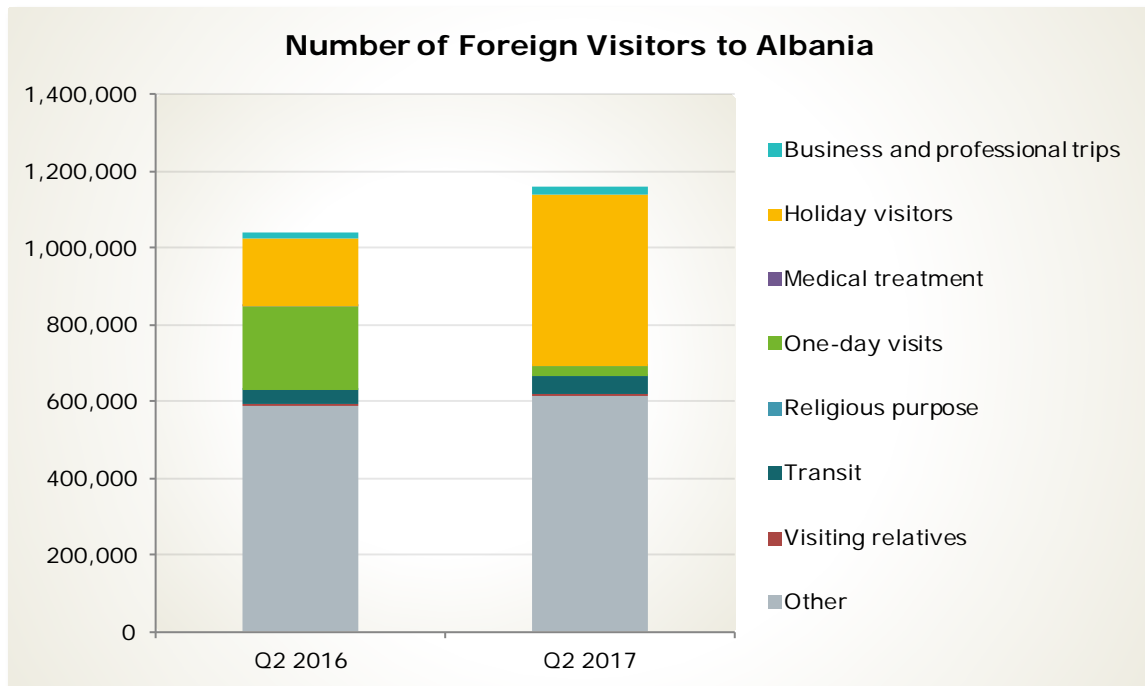
Source: INSTAT

6.5. TOURISM

Number of foreign visitors to Albania up 11.4% y/y in Q2 2017

The number of foreign nationals who visited Albania in the second quarter of 2017 rose by 11.4% y/y to 1,157,354, according to INSTAT.

Visitors who entered the country for the purpose of recreation represented 38.6% of all foreign nationals, or 447,109. By comparison, 176,347 foreign nationals visited Albania for recreational purposes in Q2 2016, or 17.0% of the total number of foreign visitors.



Source: INSTAT

7. MAJOR DEVELOPMENTS

Tourism contributes EUR 1.0 bln to Albania's GDP in 2016 - WTTC

Jun 15, 2017

Albania's tourism and travel sector contributed directly EUR 957.2 mln to the country's economy in 2016, equivalent to 8.4% of its gross domestic product (GDP), the World Travel&Tourism Council (WTTC) announced in June 2017. The direct contribution of the country's tourism is projected to increase by 5.2% in 2017, according to WTTC.

[Read the full story here](#)

More than half of Albanians want to emigrate - Gallup

Jun 13, 2017

More than half, or 56%, of Albanians would like to emigrate, driven away by chronic high unemployment in their country, according to a survey by international polling company Gallup published in June 2017. Albania ranks second worldwide in terms of its citizens' desire to emigrate, having the same percentage of potential emigrants as Haiti, according to the survey.

[Read the full story here](#)

EU advises Albania to continue with fiscal consolidation

May 24, 2017

The Council of the European Union has recommended to Albania to continue pursuing fiscal adjustment in order to reduce its public debt.

[Read the full story here](#)

Turkish Airlines to help Albania set up air carrier - PM

May 9, 2017

Albania's prime minister Edi Rama said in May 2017 that Albania plans to set a national air carrier with the support of Turkish Airlines. The first flights are expected to be launched by the end of this year.

Read the full story [here](#)

EBRD to help Albania hold tenders for solar power projects - energy min

May 4, 2017

In May 2017, Albania's energy ministry signed a memorandum of understanding with the European Bank for Reconstruction and Development (EBRD), aimed at enhancing cooperation in the tendering process for solar power capacities.

Read the full story [here](#)

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