

ALBANIA ECONOMY REPORT

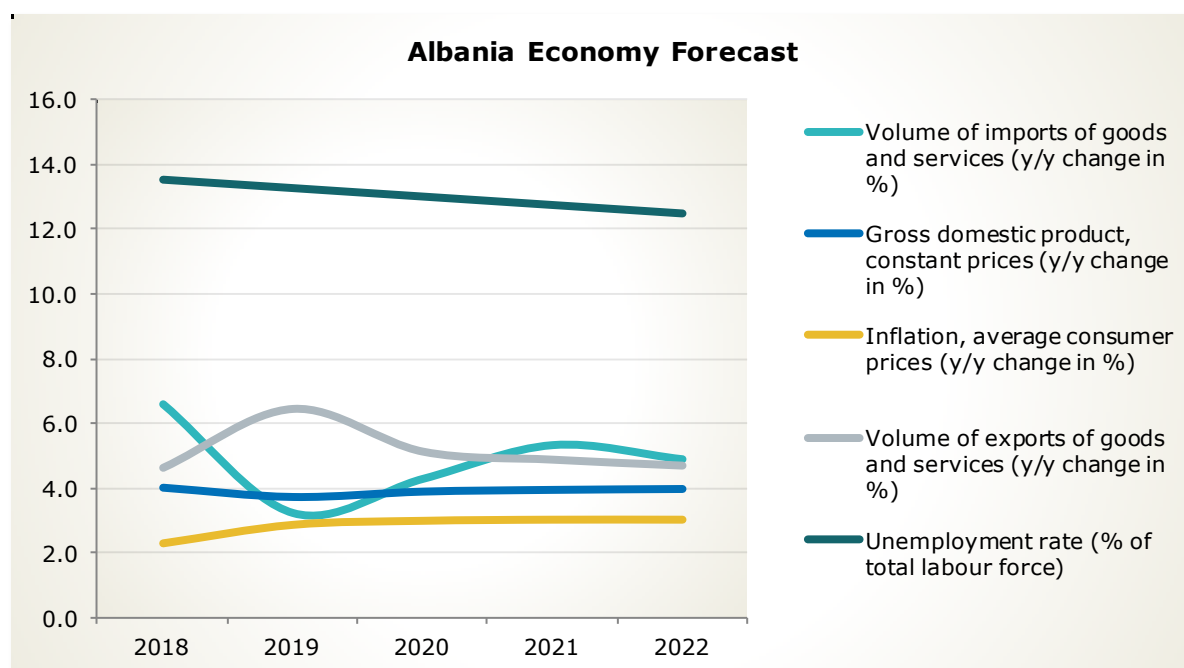
Q2 2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

ALBANIA – MACROECONOMIC SNAPSHOT AS OF Q2 2018	
GDP Growth	4.3% y/y
Business confidence indicator	-9.9 pp q/q
Manufacturing output	12.9% y/y
Retail sales	2.4% y/y
Annual inflation	2.4%
Unemployment rate	12.4%
Number of building permits	37.1% y/y
Money supply decline	0.7% y/y
Household loans	4.7% y/y
Gross external debt	EUR 8.111 bln
Current account deficit	EUR 173.0 mln
FDI inflow	EUR 223.0 mln
Foreign trade deficit	ALL 79.9 bln
Arrivals of foreign citizens	7.4% y/y



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

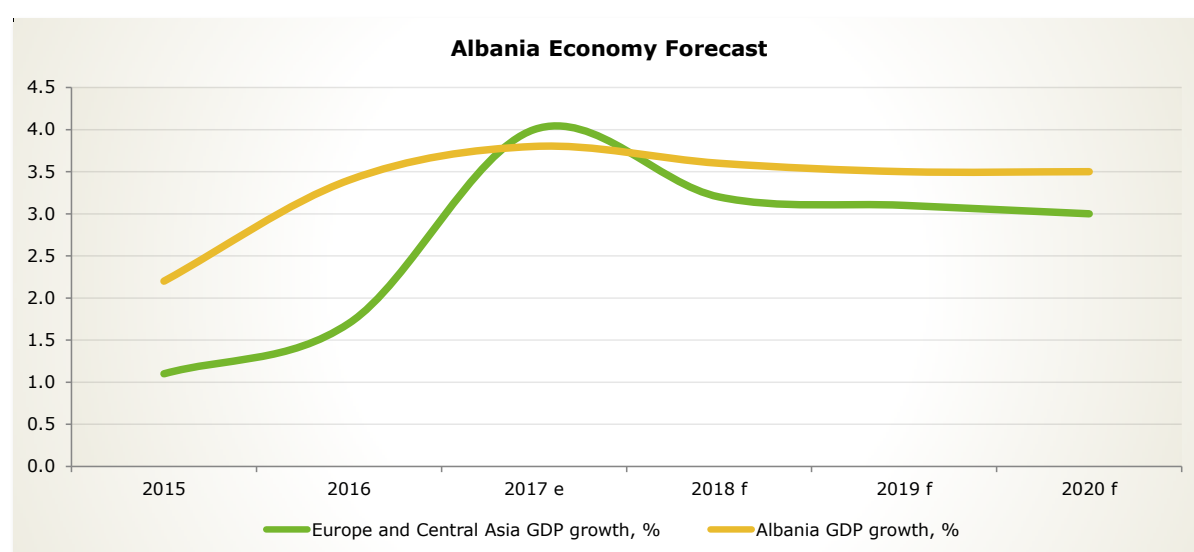
According to the International Monetary Fund (IMF), the Albanian economy has continued to strengthen, with real GDP growth seen at about 4.0% in 2018-2022, reflecting stronger domestic demand driven by a revival in construction, recovery in the labour market and household credit, and large energy-related FDI projects.

While the public debt to GDP ratio declined, the pace of fiscal consolidation has slowed post-programme, with arrears accumulating. IMF expects the Albania's current account deficit to narrow to below 7.0% of GDP in 2018-2020, supported by tourism and other services exports, and the level of FX reserves remains comfortable. 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. A slowdown in reforms or spill overs 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.

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

	2015	2016	2017 e	2018 f	2019 f	2020 f
Real GDP growth, at constant market prices, y/y change in %	2.2	3.4	3.8	3.6	3.5	3.5
Private Consumption	1.1	2.9	1.7	2.7	2.7	3.5
Government Consumption	-1.1	3.8	2.3	1.2	0.4	0.6
Gross Fixed Capital Investment	4.0	6.0	6.8	3.5	3.1	1.9
Exports, Goods and Services	1.0	13.0	7.5	6.5	6.5	6.3
Imports, Goods and Services	-2.9	7.4	5.7	4.8	4.8	4.9
Real GDP growth, at constant factor prices (by sectors)						
Agriculture	3.1	3.4	3.7	3.6	3.5	3.5
Industry	0.8	0.7	0.8	1.5	1.8	1.8
Services	5.1	3.2	3.5	3.6	4.2	4.2
Inflation (Consumer Price Index)	3.4	5.1	5.5	4.9	4.0	4.1
Current Account Balance (% of GDP)	1.9	0.9	2.0	2.1	2.3	2.8
Net Foreign Direct Investment (% of GDP)	-7.8	-6.8	-8.0	-7.1	-6.9	-6.7
	8.0	8.7	9.4	8.5	7.0	6.5

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



Source: World Bank, Europe and Central Asia Economic Update, June 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.

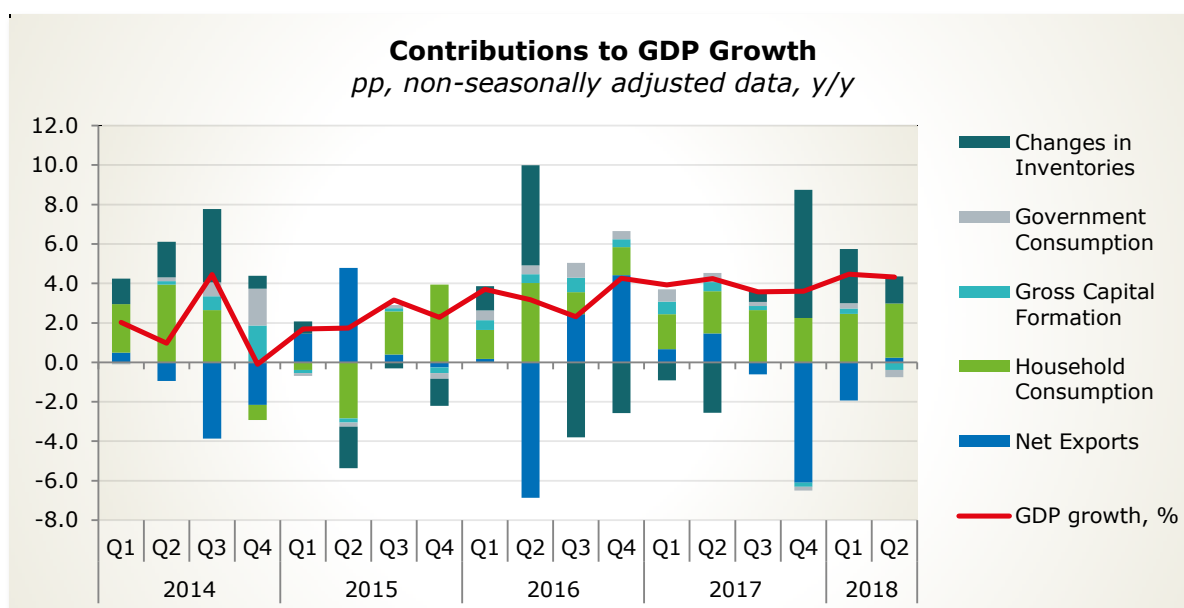
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth fell to 4.3% y/y in Q2 2018, down from 4.5% y/y in Q1 2018

The Albanian GDP decreased by 4.3% in Q2 2018 in real terms compared to 4.5% y/y growth in Q1 2018, according to data from Albania's Institute of Statistics (INSTAT).

In Q2 2018, household consumption rose by 3.3% and added 2.8 pp to the overall GDP growth, while government consumption shrank by 1.6%, taking away 0.4 pp. Gross capital formation increased by 1.5% y/y and contributed to 0.3 pp to the total GDP growth. In the same time, the net exports took away 0.2 pp from the economic growth in Q2 2018.

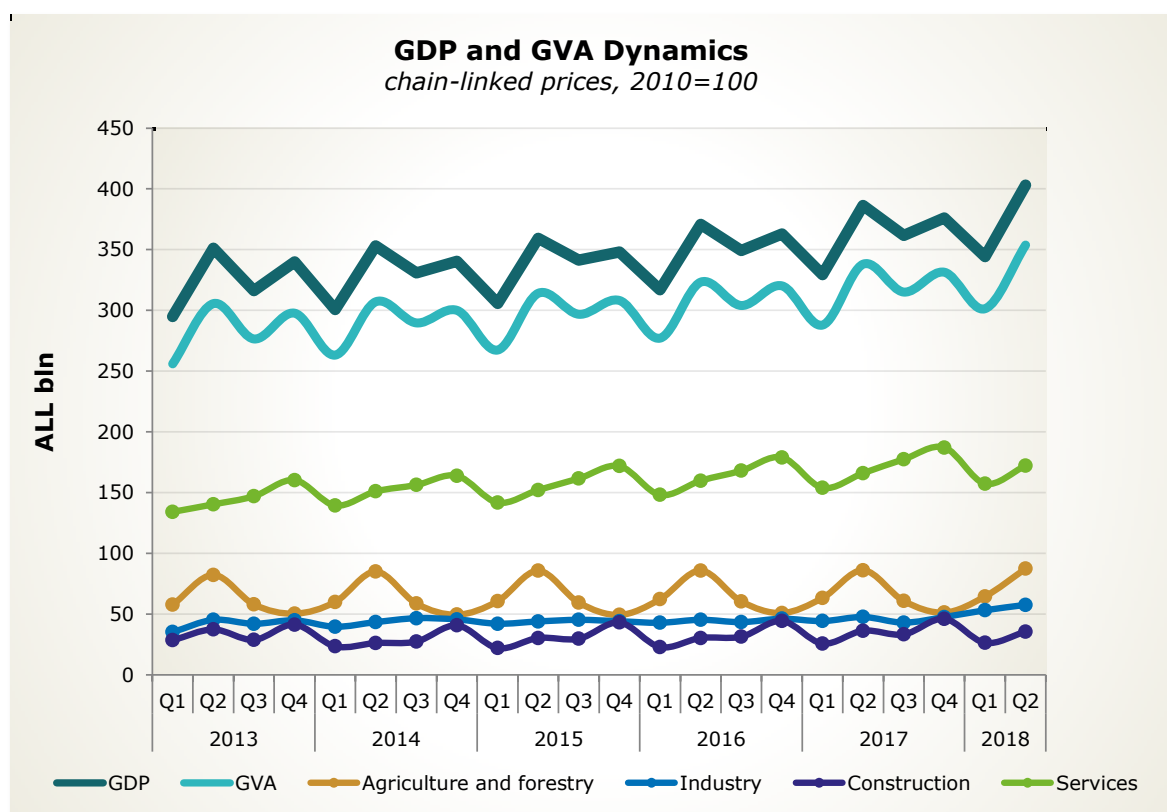


Source: INSTAT; SeeNews calculations

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.

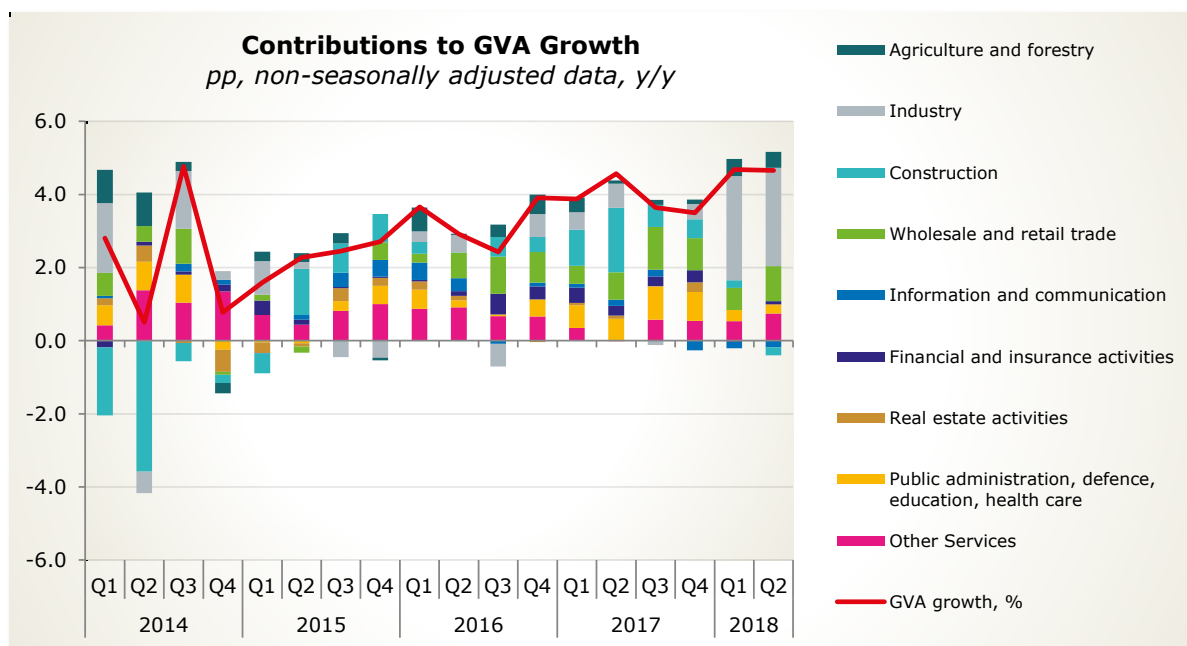
The country's non-seasonally adjusted GVA increased in value by 4.7% y/y and totalled ALL 353.8 bln in Q2 2018. The industrial sector went up by 20.9% y/y and took a 16.3% share in GVA, while the services sector recorded a 3.7% annual increase, slicing a 48.7% share in the GVA.

Construction fell by 2.2% and its share in GVA came in at 10.1%. The agricultural sector marked a modest increase, of 1.6% y/y, accounting for 24.7% of the total GVA.



Source: INSTAT

In terms of sector contributions, the industry sector added 2.7 pp to the GVA expansion, while the services sector contributed 1.8 pp to the growth. Retail and wholesale sector added another 1.0 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 9.9 percentage points q/q in Q2 2018

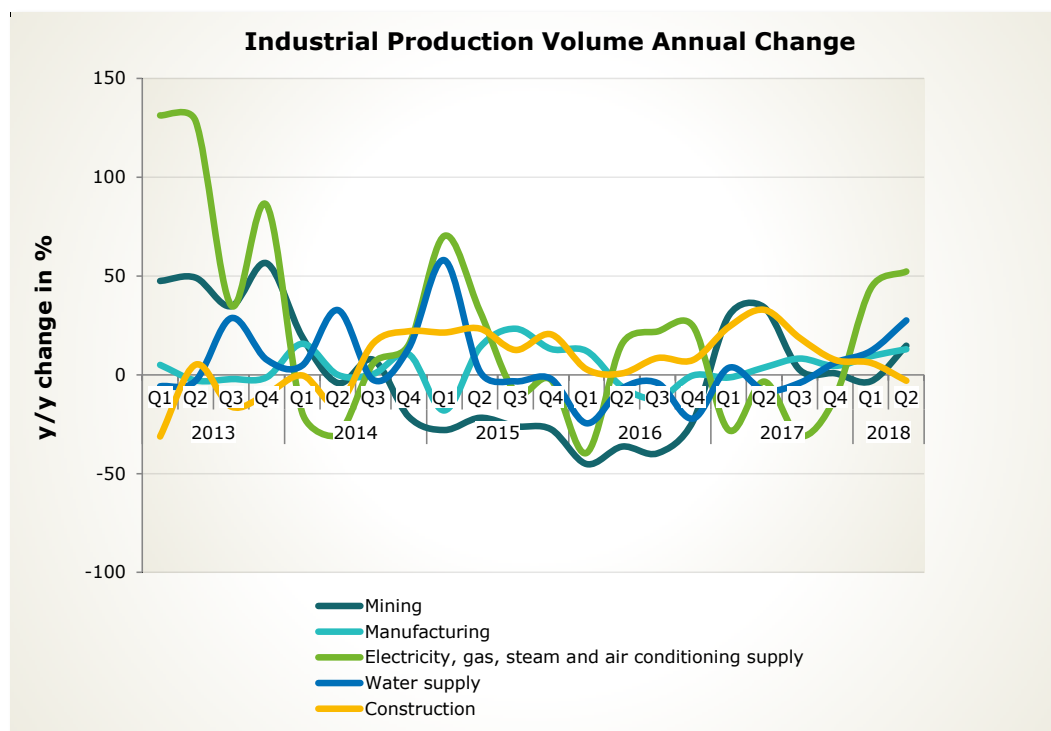
In the second quarter of 2018, the average business confidence indicator fell by 9.9 percentage points q/q, according to Bank of Albania. In Q1 2018, the business confidence indicator grew by 3.7 pp q/q.

2.3. INDUSTRIAL OUTPUT

Manufacturing output increased by 12.9% y/y in Q2 2018

Manufacturing output surged up by 12.9% in Q2 2018, while the construction output dropped by 3.0% y/y, according to INSTAT.

The water supply sector increased by 27.5% y/y, while the output of electricity, gas, steam and air conditioning supply jumped by 52.3%, and the mining sector grew by 14.7% y/y.



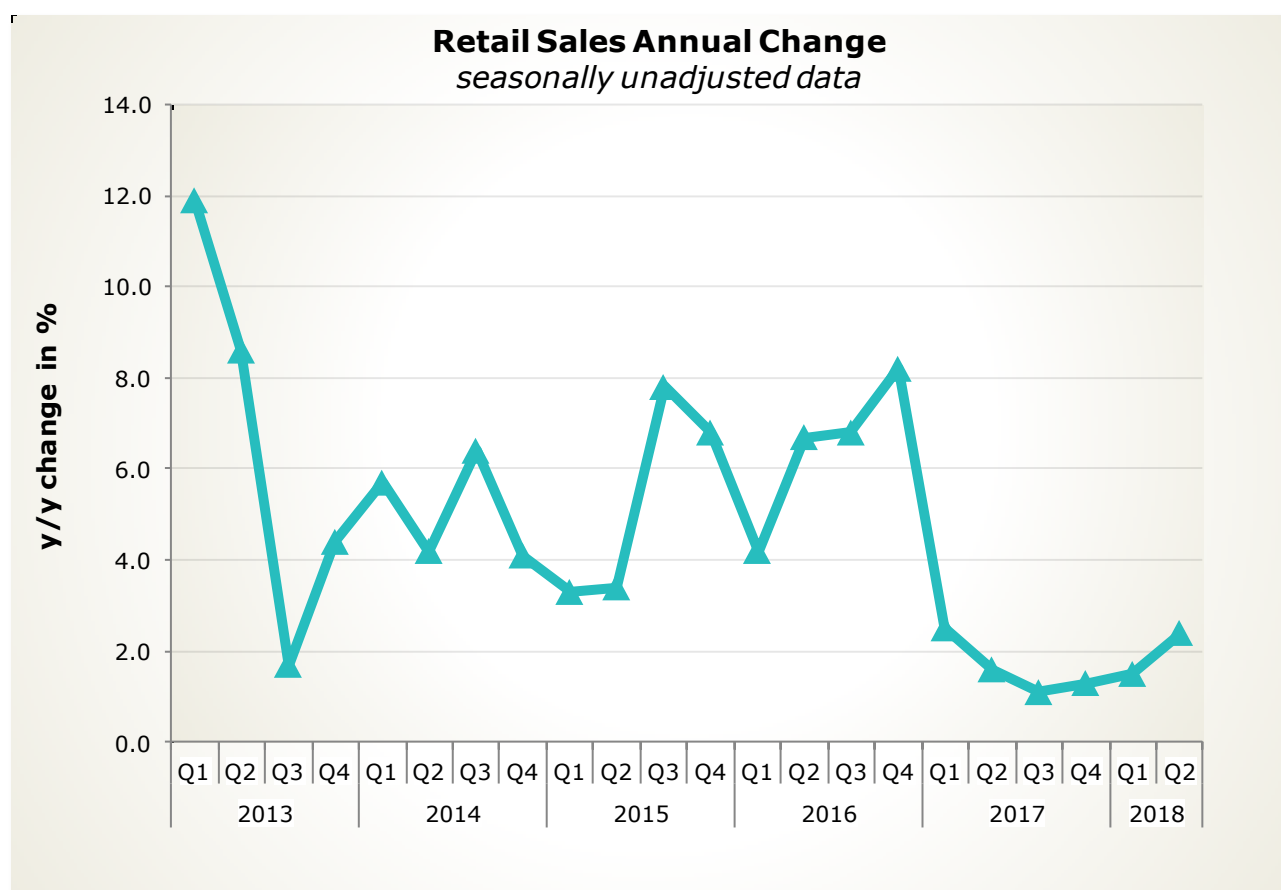
Source: INSTAT

2.4. RETAIL SALES

Retail sales growth picked up to 2.4% y/y in Q2 2018, from 1.5% y/y growth in Q1 2018

In the second quarter of 2018, the retail volume increased by 2.4% compared with the same quarter of 2017, according to seasonally unadjusted data from INSTAT.

Retail trade with food, beverages and tobacco rose by 1.2%, while retail of non-food products, except motor fuel increased slightly faster, by 1.4%. Retail sale of motor fuel registered the highest increase, of 5.3%.



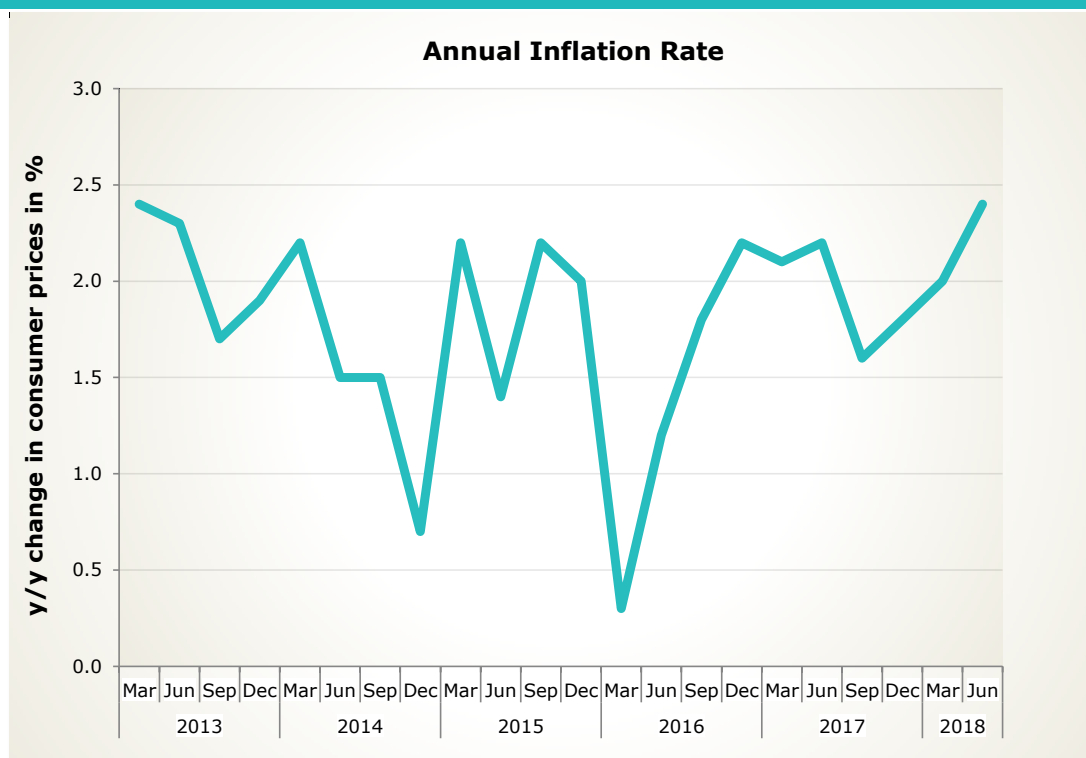
Source: INSTAT

2.5. INFLATION

Annual inflation of 2.4% in June 2018, as prices of foods and non-alcoholic beverages advanced the most

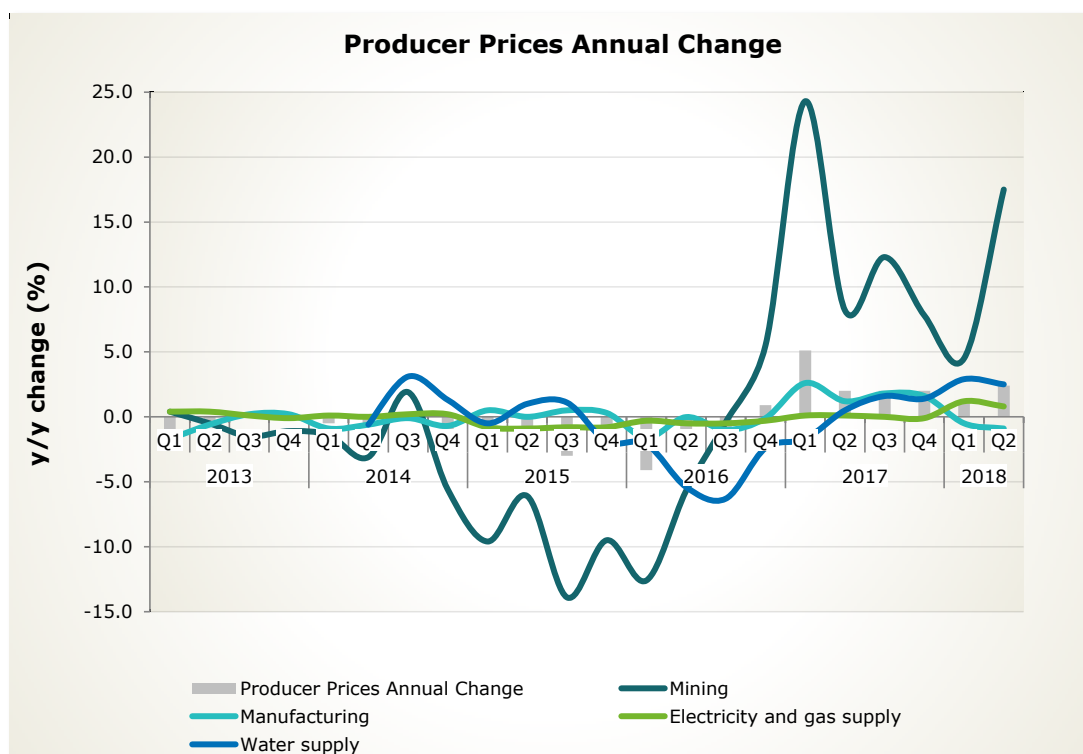
The annual inflation in Albania came in at 2.4% in June 2018, according to INSTAT. This is up compared to March 2018 when the annual inflation was 2.0%. Compared to June 2017, the inflation in June 2018 speeded up by 0.2 pp.

In June 2018, the highest annual inflation among consumer groups was registered by recreation and culture – 4.2%, clothing and footwear – 3.3% and food, and non-alcoholic beverages – 3.2%. Deflation was also present, although only in two consumer groups – prices in medical care inched down by 0.2%, and by 0.1% in household furniture and maintenance.



Source: INSTAT

Producer prices went up by 2.4% y/y in Q2 2018, INSTAT data showed. Producer prices in all sectors, except manufacturing where they inched down by 0.9%, experienced a growth. The mining sector was on top in terms of annual rise – 17.5%, followed by 2.5% for water supply and 0.8% for electricity and gas supply.



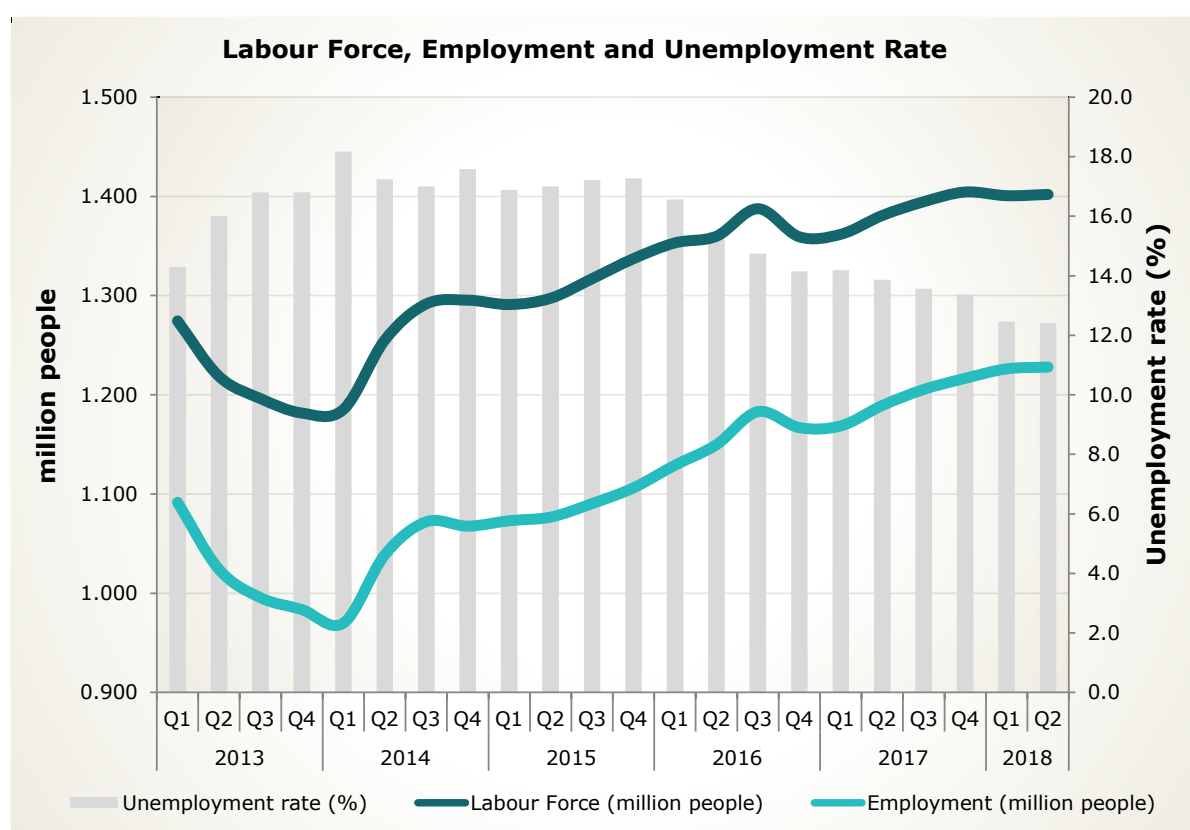
Source: INSTAT

3. LABOUR MARKET

Unemployment rate went down to 12.4%

The unemployment rate in Albania eased to 12.4% of the total labour force in Q2 2018, down from 12.5% in Q1 2018 and 13.9% in Q2 2017, according to data of INSTAT. The employed population aged 15 years and older was 1.228 million in Q2 2018, up by 3.3% y/y.

The youth (population aged 15-29) unemployment rate decreased to 22.6% in Q2 2018 from 24.5% in Q1 2018 and 26.4% in Q2 2017.



4. CONSTRUCTION AND REAL ESTATE

The number of building permits grew by 37.1% y/y in Q2 2018

The number of building permits issued in Albania in Q2 2018 totalled 270, compared to 197 in the same quarter of the previous year, according to INSTAT data.

Permits for construction of non-residential buildings came in at 90, up from 76 in Q2 2017, while permits for housing projects jumped to 180 from 121.

The total area covered by permits for non-residential buildings jumped by 57.8% to 128,267 sq m in Q2 2018, compared to a year earlier. The total area of the housing projects went up by 11.2% to 164,628 sq m.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. ALL EXCHANGE RATE

The average annual exchange rate of the EUR against the ALL decreased to ALL 127.36 in Q2 2018 from ALL 132.54 in Q1 2018, according to Bank of Albania. The average annual exchange rate of the USD against the ALL came down to 106.88 in Q2 2018 from 107.81 in Q1 2018.

Average Annual ALL Exchange Rate			
Foreign Currency	Q2 2018	Q1 2018	Q2 2017
EUR	127.36	132.54	134.38
USD	106.88	107.81	122.11
GBP	145.28	150.05	156.17
CHF	108.46	113.79	124.03

5.2. MONETARY POLICY

Policy rate at 1.0% as of October 2018

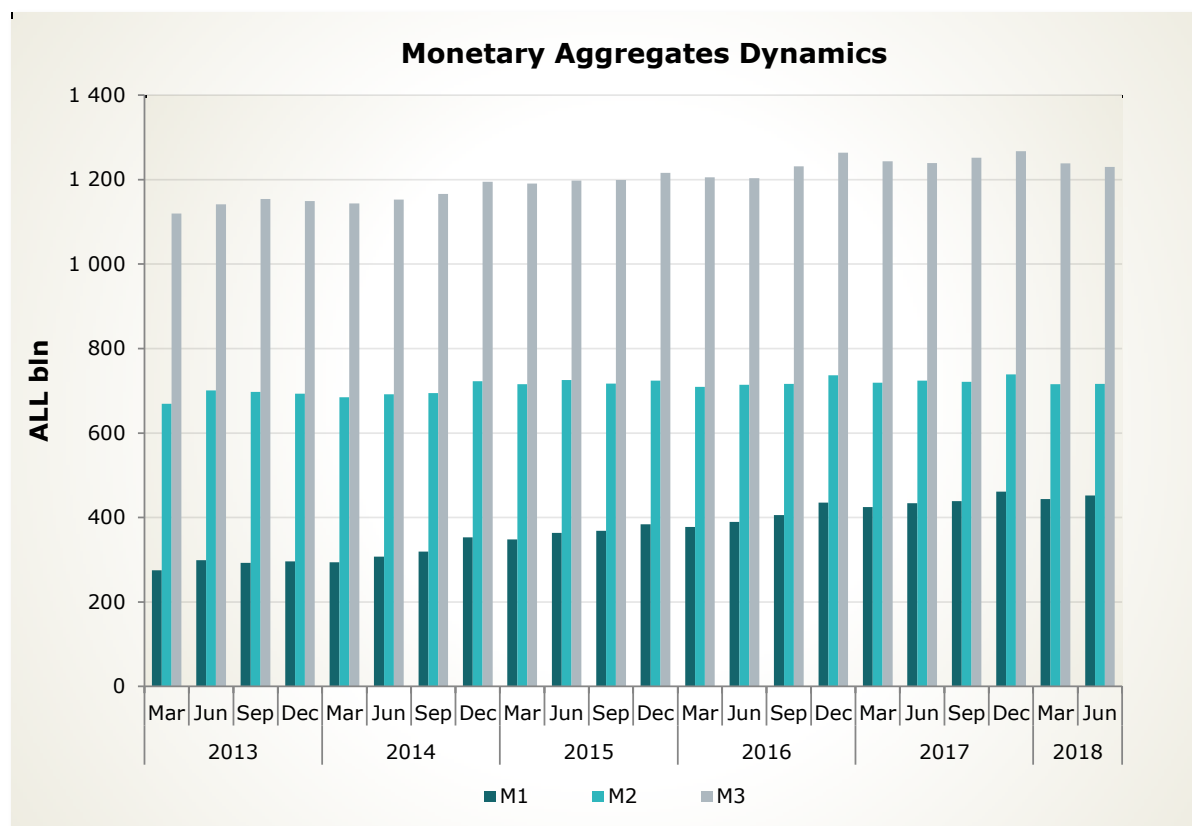
In June 2018, the Central Bank of Albania lowered the monetary policy rate to by 0.25 pp to 1.0%, its minimum historical level. During the second quarter of 2018, the Bank of Albania continued to supply the needed liquidity to the banking sector to ensure intermediation activity and the stability of interest rates in the money market. As of Oct 29, 2018 the interest rate for the overnight deposit facility and the interest rate for the overnight lending facility, stood at 0.10% and 1.90%, respectively.

5.3. MONETARY AGGREGATES

Monetary supply in the economy remains at moderate levels

Broad money, money aggregate M3, inched down by 0.7% y/y in June 2018 to ALL 1,230.2 bln, according to Central Bank of Albania.

The M2 aggregate decreased by 1.1% y/y in June 2018, while the liquid money indicator, M1, increased by 4.3%.



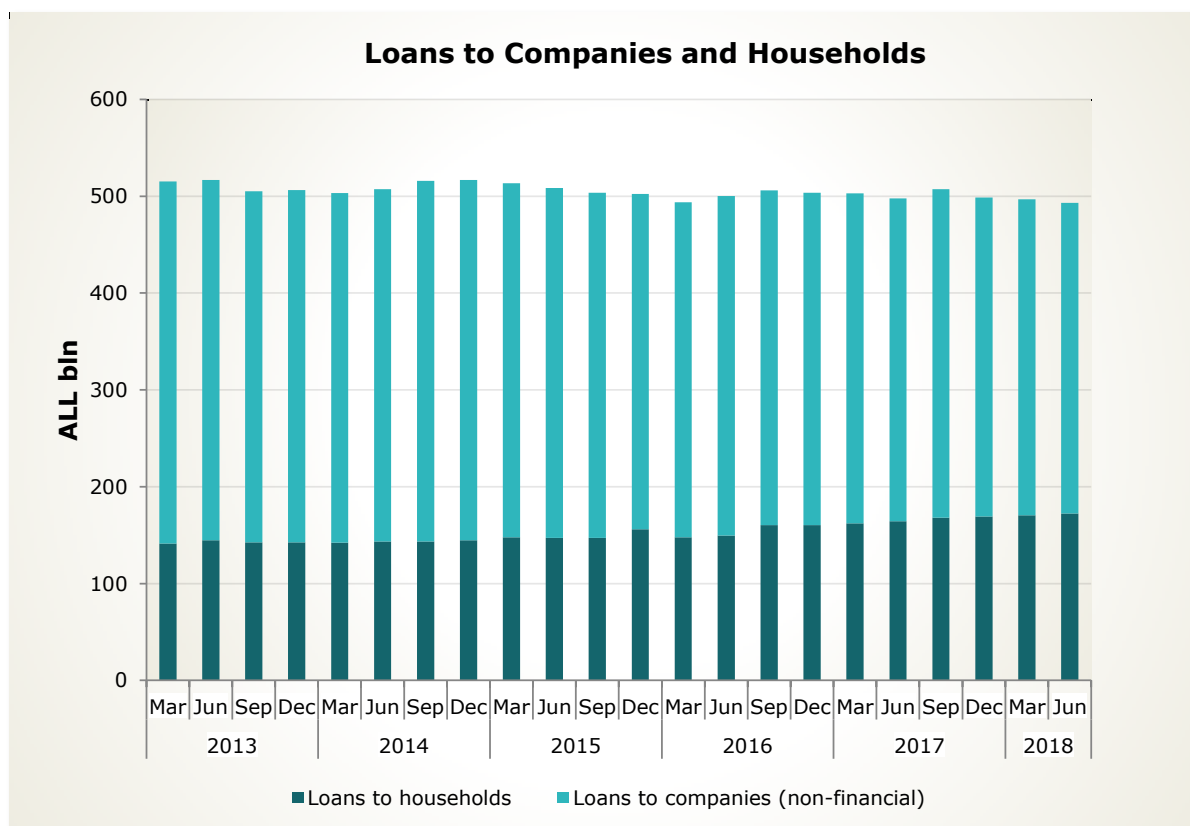
Source: Bank of Albania

5.4. BANKING AND INSURANCE

Non-government sector loans growth fell by 0.9% in Q2 2018

Loans to the private sector inched down by 0.9% y/y to ALL 493.1 bln in Q2 2018, data from the Bank of Albania showed. The 4.7% annual growth of household loans to ALL 172.2 bln could not offset the 3.7% decline to ALL 320.9 bln of loans to non-financial companies.

Loans for house purchase continued to grow annually – by 2.9% in Q2 2018, reaching ALL 107.8 bln.

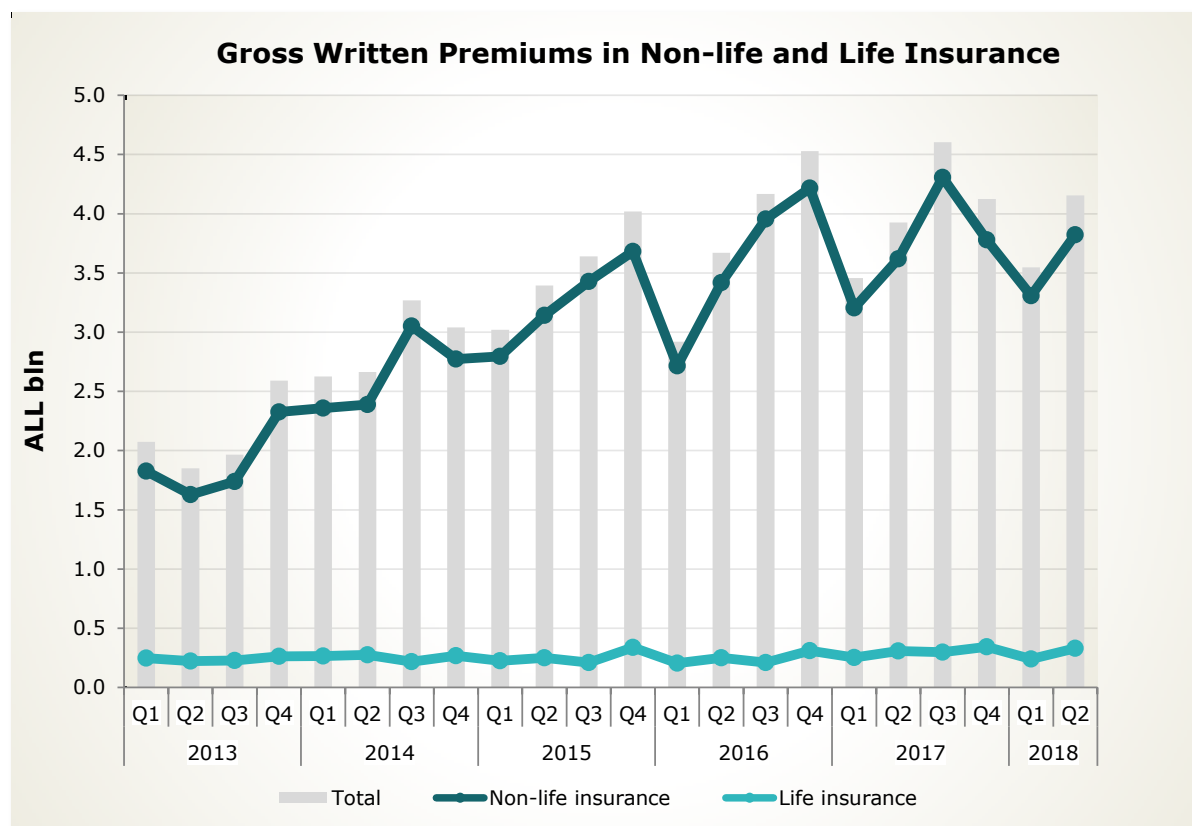


Source: Bank of Albania

Insurance premium income up by 5.8% y/y in Q2 2018

The total gross written premiums of the Albanian non-life and life insurance companies, excluding reinsurance, stood at ALL 4.153 bln, up by 5.8% y/y, according to the Albanian Financial Supervisory Authority (AMF).

The increase was fuelled by the 5.7% rise of the non-life insurance sector, which posted gross written premiums of ALL 3.822 bln in Q2 2018. The premiums in the life insurance segment also grew, by 7.4% to ALL 331.3 mln.



Source: AMF

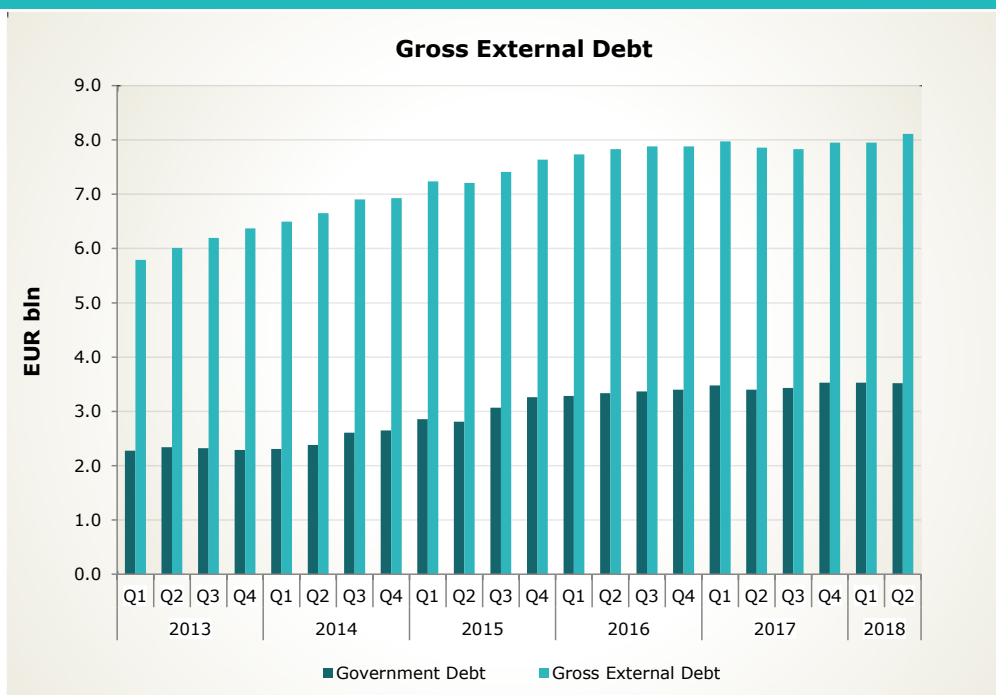
6. EXTERNAL SECTOR

6.1. FOREIGN DEBT

The gross external debt grew by 3.2% y/y to EUR 8.111 bln in Q2 2018

The gross external debt totalled EUR 8.111 bln in Q2 2018, up 3.2% y/y, according to Bank of Albania. In comparison to Q1 2018 the gross external debt increased by 2.0%.

In Q2 2018, long-term liabilities amounted to EUR 4.782 bln, or 59.0% of the total debt, and short-term liabilities totalled EUR 1.619 bln, equal to 20.0% of the total debt.

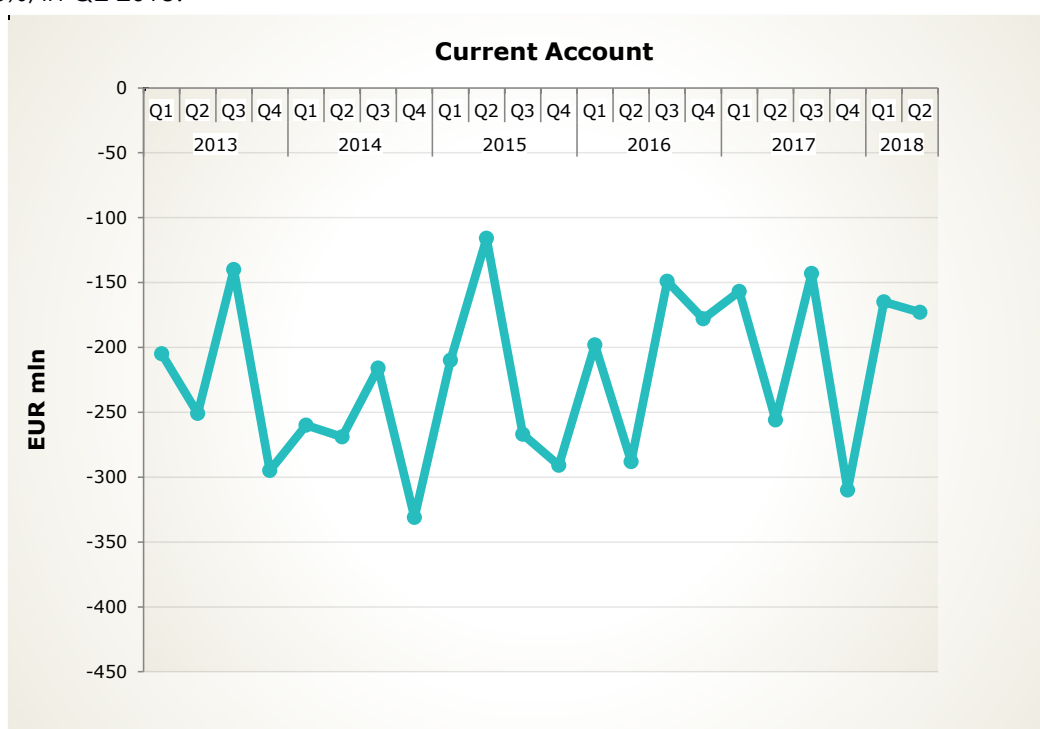


Source: Bank of Albania

6.2. BALANCE OF PAYMENTS

Current account deficit narrowed y/y to EUR 173.0 mln in Q2 2018

The current account deficit shrank by 32.4% y/y to EUR 173.0 mln in Q2 2018, according to central bank statistics data. In comparison to Q1 2018, the current account deficit widened, by 4.8%, in Q2 2018.

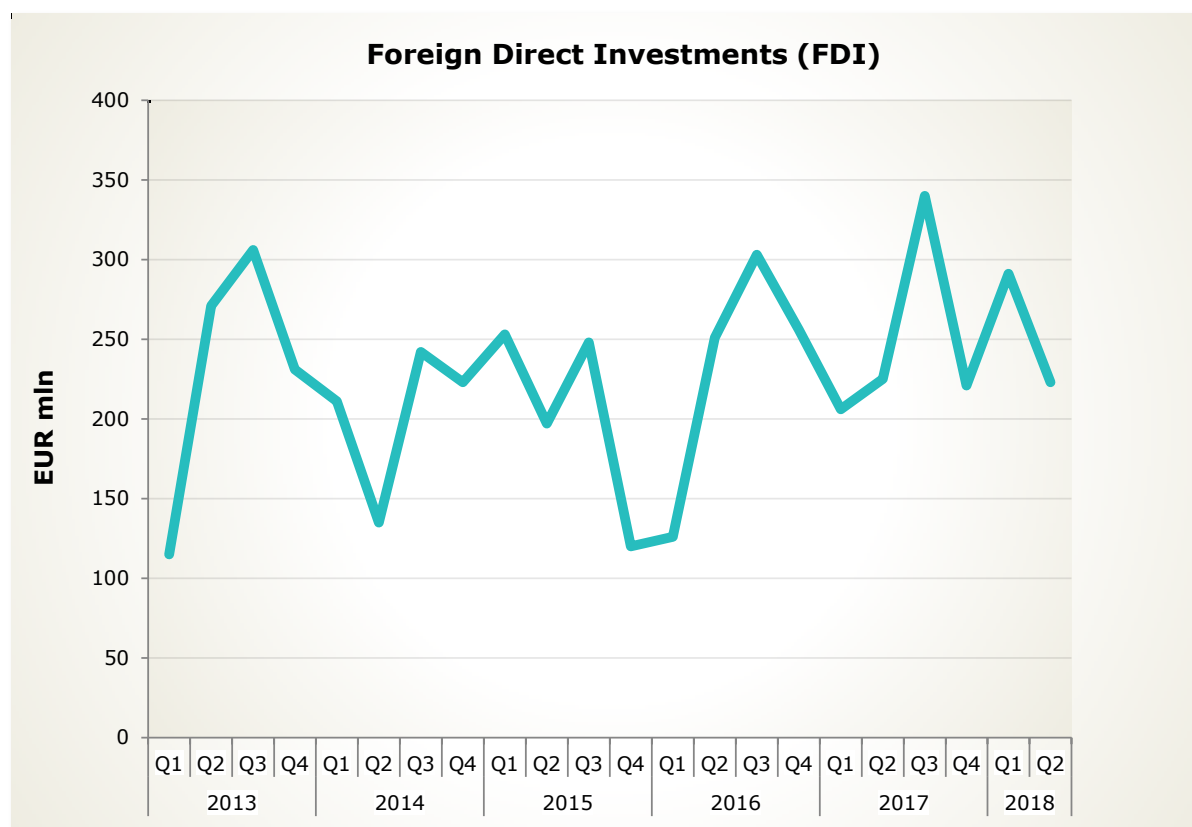


Source: Bank of Albania

6.3. FDI

FDI in Albania at EUR 223.0 mln in Q2 2018

Foreign Direct Investments (FDI) in Albania amounted to EUR 223.0 mln in the second quarter of 2018, according to Bank of Albania. In annual terms, the FDI inflow inched down by 0.9%. Compared to Q1 2018, the FDI inflow was by EUR 68.0 mln lower in Q2 2018.



Source: Bank of Albania

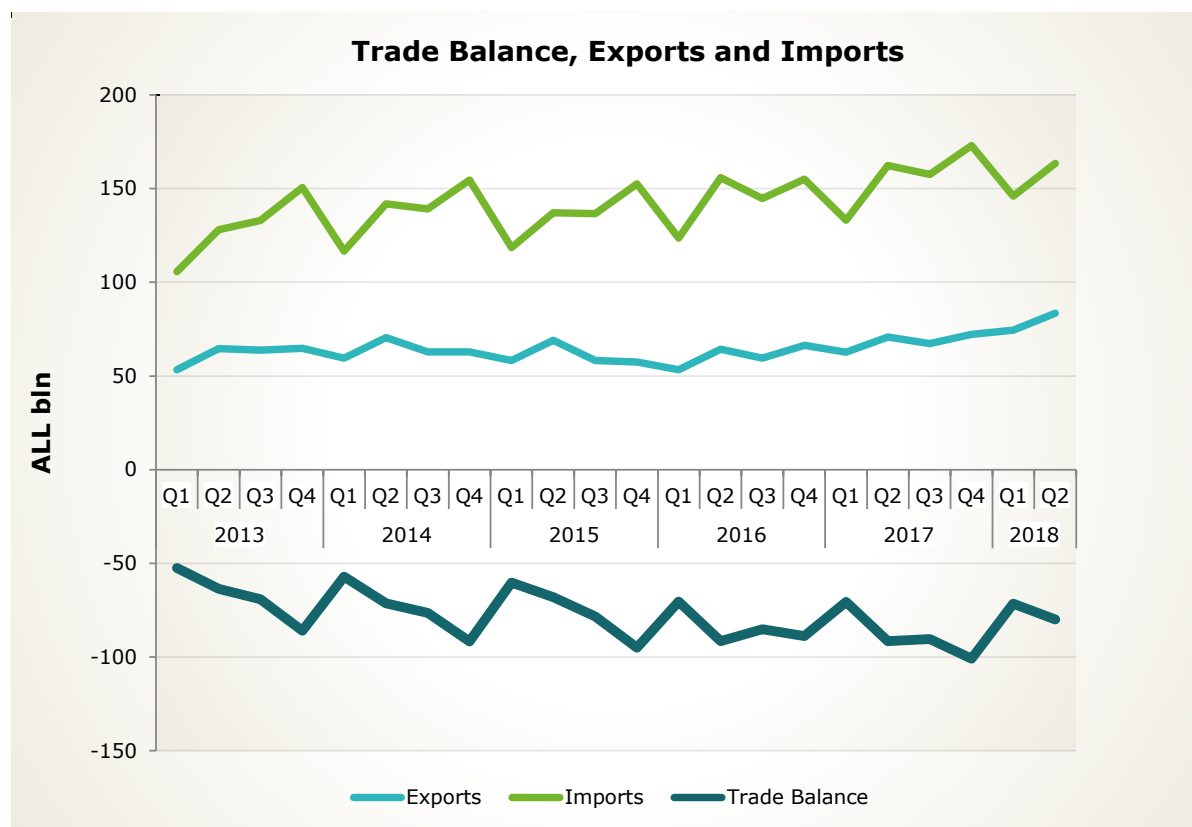
6.4. FOREIGN TRADE

Foreign trade deficit down by 12.7% y/y at ALL 79.902 bln in Q2 2018

The trade deficit stood at ALL 79.902 bln in Q2 2018, down by 12.7% compared to Q2 2017, according to INSTAT.

Exports of goods increased by 17.9% to ALL 83.554 bln, while imports inched up by 0.7% y/y to ALL 163.5 bln. In terms of exports, almost all product groups posted a rise, led by Minerals, fuels and electricity – 56.7%, Construction materials and metals – 22.5% and Chemical and plastical products – 21.6%. Leather and leather products was the only product group to report a drop in exports, of 10.1%.

In Q2 2018, minerals, fuels and electricity was the leading product group in terms of annual growth of imports with 18.9%. The other groups to report an annual rise were Wood manufactures and articles of paper – 5.8%, and Machineries, equipments and spare parts – 4.9%, Chemical and plastic products – 4.0%. A total of five groups posted a decline in imports, ranging from 1.2% for Textile and footwear to 10.9% for Construction materials and metals.



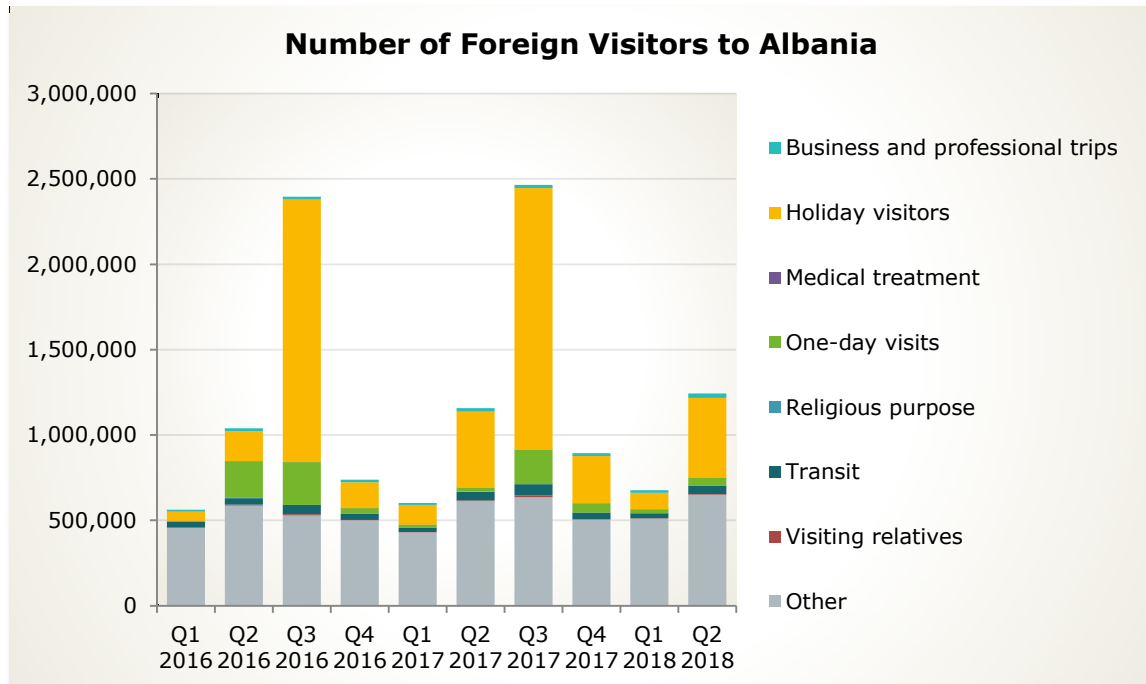
Source: INSTAT

6.5. TOURISM

Number of foreign visitors to Albania up 12.5% y/y in Q2 2018

The number of foreign nationals who visited Albania in Q2 2018 rose by 7.4% y/y to 1,243 million people, according to INSTAT.

Visitors who entered the country in the second quarter of 2018 for the purpose of recreation represented 37.7% of all foreign nationals, or 468,791 people. People who visited Albania for the purpose of business and professional engagements represented 2.0% of the total.



Source: INSTAT

7. MAJOR DEVELOPMENTS

Germany to offer EUR 5.0 mln to back agriculture financing in Albania

June 29, 2018

Germany will offer EUR 5.0 mln through its development bank KfW to increase the capital of Albania's Rural Credit Guarantee Fund (KCGF) in order to improve financing of projects of local farmers, German ambassador in Tirana, Susanne Schutz, said.

[Read the full story here](#)

EU urges Albania to prioritize resolving of property rights issues

June 23, 2018

Albania should pay attention with priority to the restitutions, compensation and registration of property as stated in the latest country report of the European Commission, the head of the EU delegation in Tirana, Romana Vlahutin, said in June.

[Read the full story here](#)

EBRD, EU looking to invest EUR 100 mln to back tourism in Albania

June 21, 2018

The European Bank for Reconstruction and Development (EBRD) is working with the EU to structure a EUR 100 mln (\$116 million) investment programme to support the tourism sector in Albania, a senior EBRD official told SeeNews.

[Read the full story here](#)

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