

ALBANIA ECONOMY REPORT

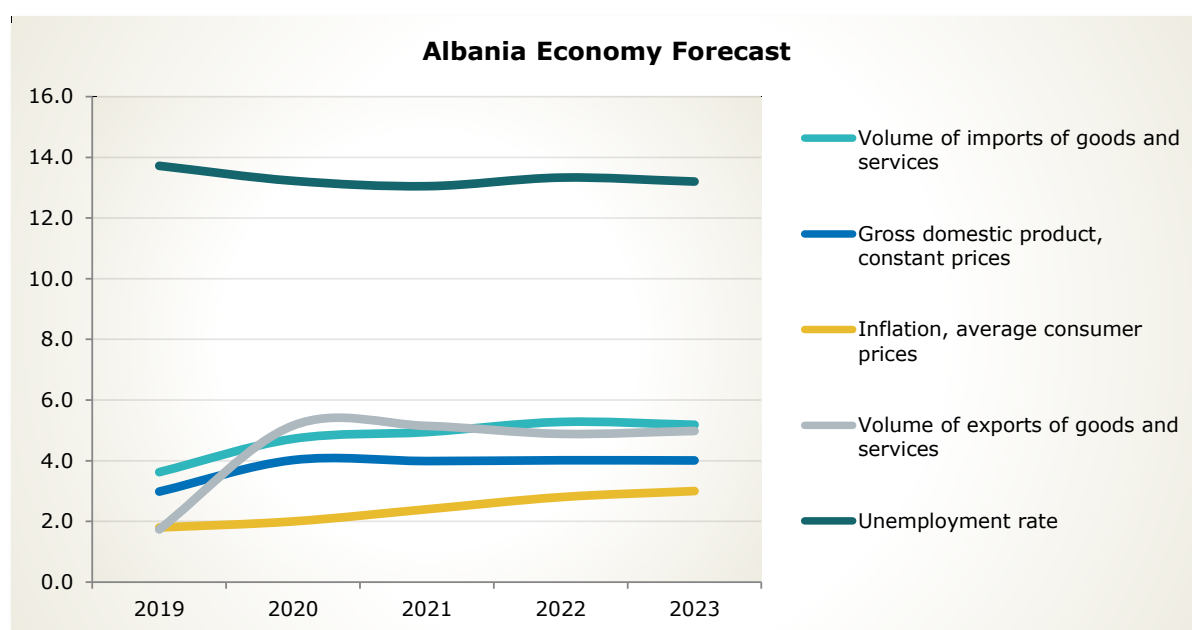
Q2 2019

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1. MACROECONOMIC SNAPSHOT AND FORECAST

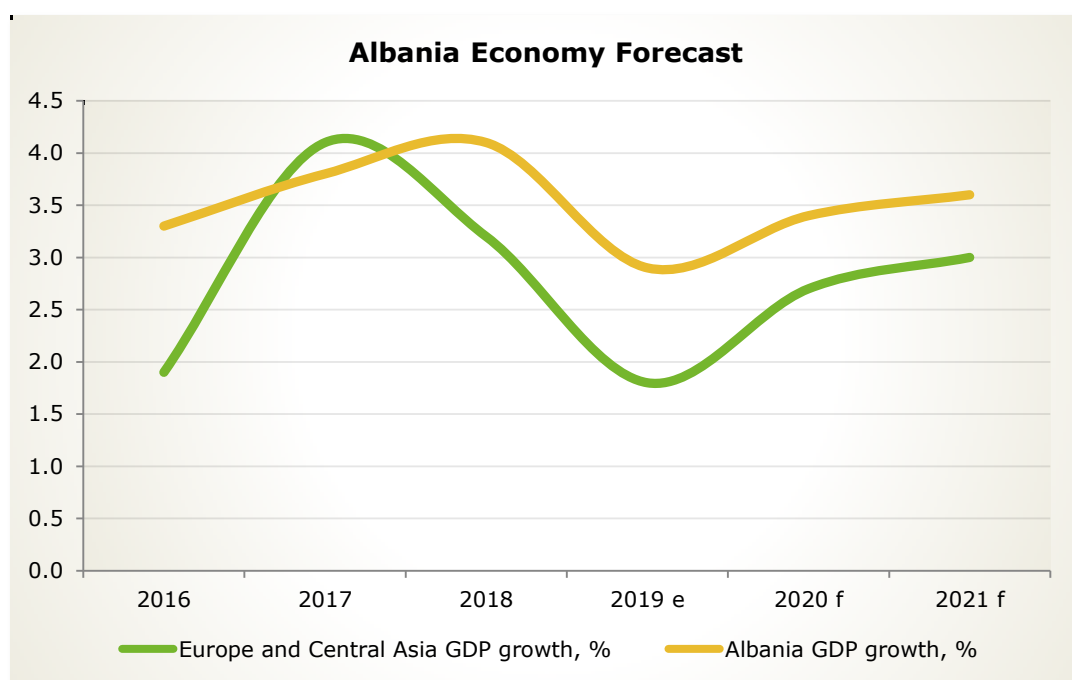
ALBANIA – MACROECONOMIC SNAPSHOT AS OF Q2 2019	
GDP Growth	2.3% y/y
Business confidence indicator	-0.7 pp q/q
Manufacturing output	8.9% y/y
Retail sales	3.5% y/y
Annual inflation	1.3%
Unemployment rate	11.5%
Number of building permits	14.8% y/y
Money supply growth	3.5% y/y
Household loans	5.1% y/y
Gross external debt	EUR 8.339 bln
Current account deficit	EUR 273.0 mln
FDI inflow	EUR 226.0 mln
Foreign trade deficit	ALL 89.626 bln
Arrivals of foreign citizens	16.0% y/y



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

According to the International Monetary Fund (IMF), the Albanian economy has continued to strengthen, with real GDP growth seen at about 4.0% in 2020-2023, reflecting stronger domestic demand driven by a gradual revival in exports and large infrastructure and energy-related FDI projects.

IMF expects 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 below 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 and low domestic savings.



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

According to the World Bank estimates from October 2019, GDP growth of Albania is likely to come in at 2.9% in 2019, which will be higher than the projected growth for Europe and Central Asia, of 1.8%.

Albania – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)							
	2016	2017	2018	2019 e	2020 f	2021 f	
Real GDP growth, at constant market prices, y/y change in %	3.3	3.8	4.1	2.9	3.4	3.6	
Private Consumption	2.0	2.3	3.2	2.9	3.3	3.3	
Government Consumption	4.8	2.9	-1.1	6.4	1.0	3.4	
Gross Fixed Capital Investment	2.4	5.5	2.9	2.2	4.4	4.1	
Exports, Goods and Services	11.5	13.0	2.9	1.8	4.3	4.3	
Imports, Goods and Services	7.0	8.1	3.8	2.1	3.3	3.4	
Real GDP growth, at constant factor prices (by sectors)	3.2	3.9	4.3	2.8	3.4	3.6	
Agriculture	2.0	0.8	0.9	1.5	1.5	1.5	
Industry	1.9	1.9	9.1	-1.2	1.5	1.7	
Services	4.3	6.0	3.4	5.2	5.0	5.2	
Inflation (Consumer Price Index)	1.3	2.0	2.1	1.5	2.7	2.9	
Current Account Balance (% of GDP)	-7.6	-7.5	-6.7	-7.0	-6.4	-6.1	
Net Foreign Direct Investment (% of GDP)	8.7	8.6	8.0	7.8	7.5	6.9	

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

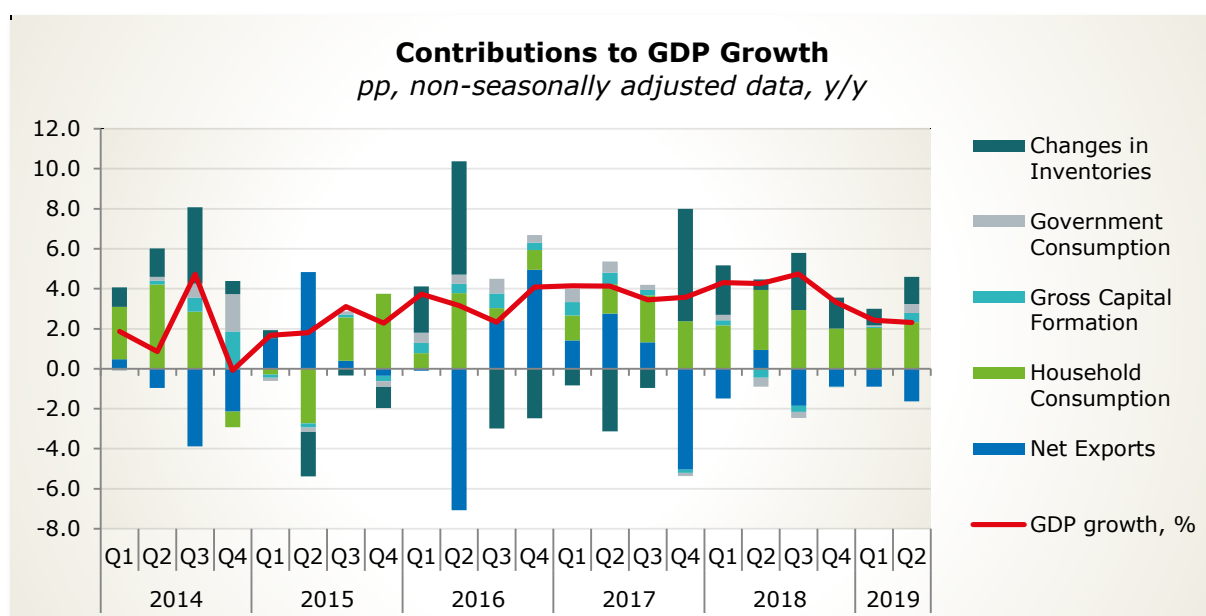
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth at 2.3% y/y in Q2 2019, down from 4.3% y/y in Q2 2018

The Albanian GDP increased in real terms by 2.3% y/y in Q2 2019, compared to a 4.3% y/y growth in Q2 2018, according to data from Albania's Institute of Statistics (INSTAT).

In Q2 2019, household consumption rose by 2.9% and added 2.3 pp to the overall GDP growth, while government consumption increased by 4.4%, contributing with 0.5 pp. Gross capital formation dropped by 0.9% y/y and removed 0.2 pp from the total GDP growth. In the same time, the imports took away 2.6 pp from the economic growth in Q2 2019, while export contributed only 1.0 pp.

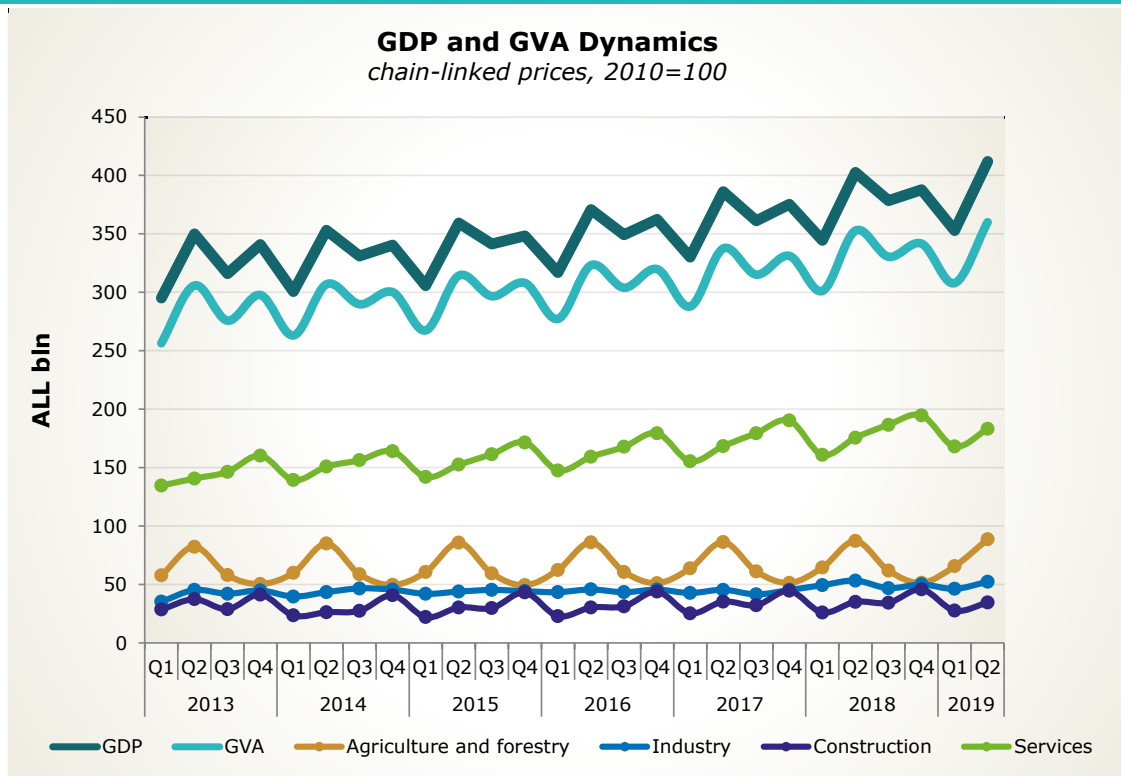


Source: INSTAT; SeeNews calculations

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.

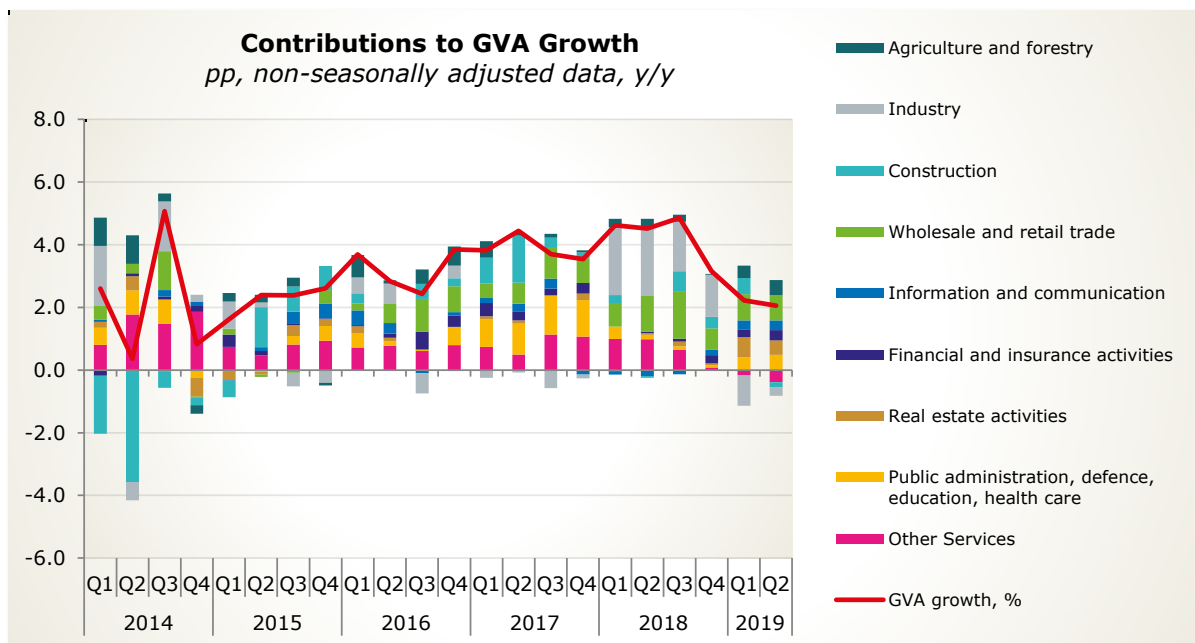
The country's non-seasonally adjusted GVA increased in value by 2.1% y/y and totalled ALL 360.046 mln in Q2 2019. The industrial sector went down by 1.9% y/y and took 14.6% share in GVA, while the services sector recorded a 4.3% annual increase, slicing a 50.9% share in the GVA.

Construction decreased by 1.7% and its share in GVA came notched down to 9.6%. The agricultural sector marked an increase of 1.8% y/y, accounting for 24.7% of the total GVA.



Source: INSTAT

In terms of sector contributions, the retail and wholesale sector added 0.8 pp to the GVA expansion in Q2 2019, while the agriculture, real estate and public sectors contributed with 0.5 pp each to the growth.



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 0.7 percentage points q/q in Q2 2019

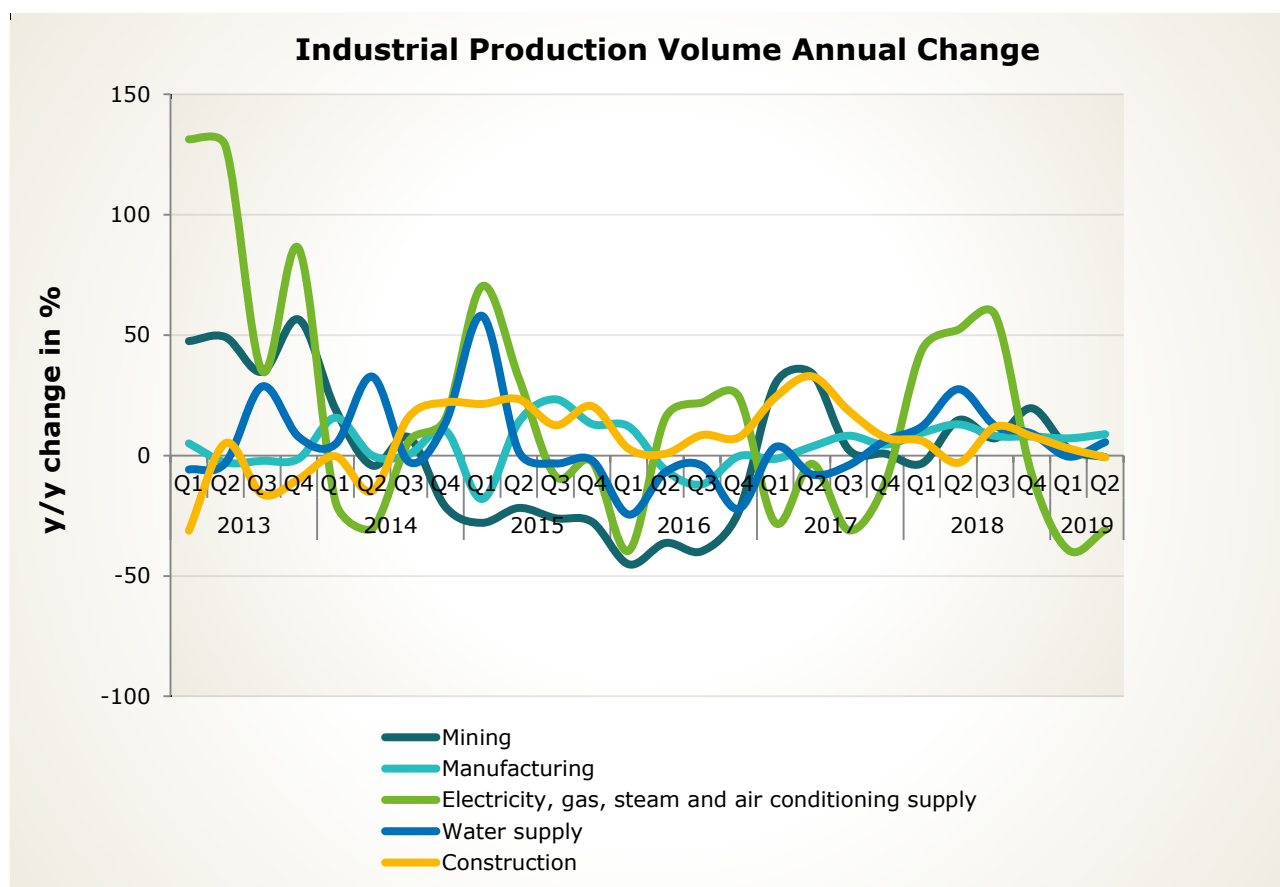
In the second quarter of 2019, the average business confidence indicator declined by 0.7 percentage points q/q, according to Bank of Albania. In Q1 2019, the business confidence indicator went up by 4.6 pp q/q.

2.3. INDUSTRIAL OUTPUT

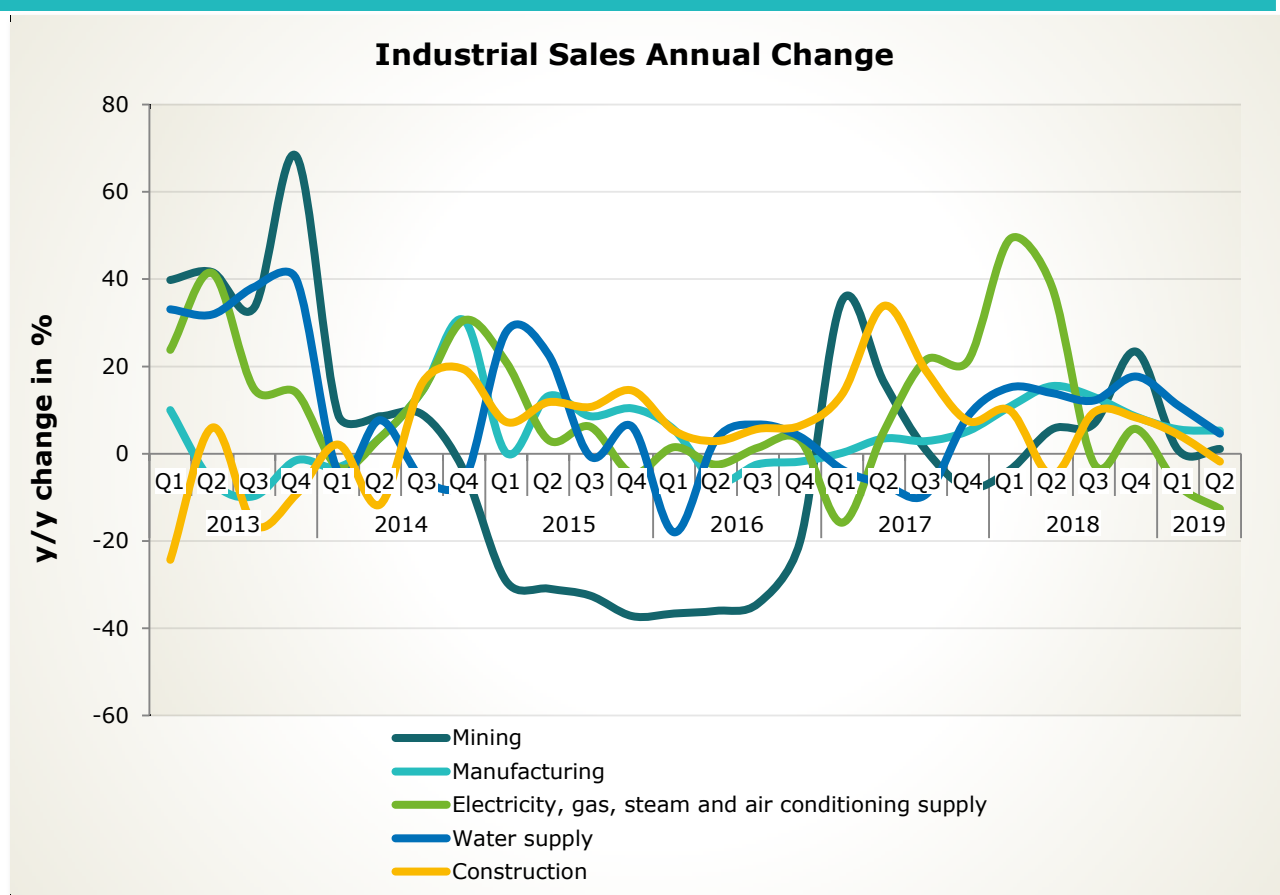
Manufacturing output increased by 8.9% y/y in Q2 2019

Manufacturing output surged up by 8.9% in Q2 2019, while the construction and mining sectors output decreased by 0.7% y/y each, according to INSTAT.

The water supply sector increased by 5.5% y/y, while the output of the electricity, gas, steam and air conditioning supply output dropped by 30.9%.



Source: INSTAT



Source: INSTAT

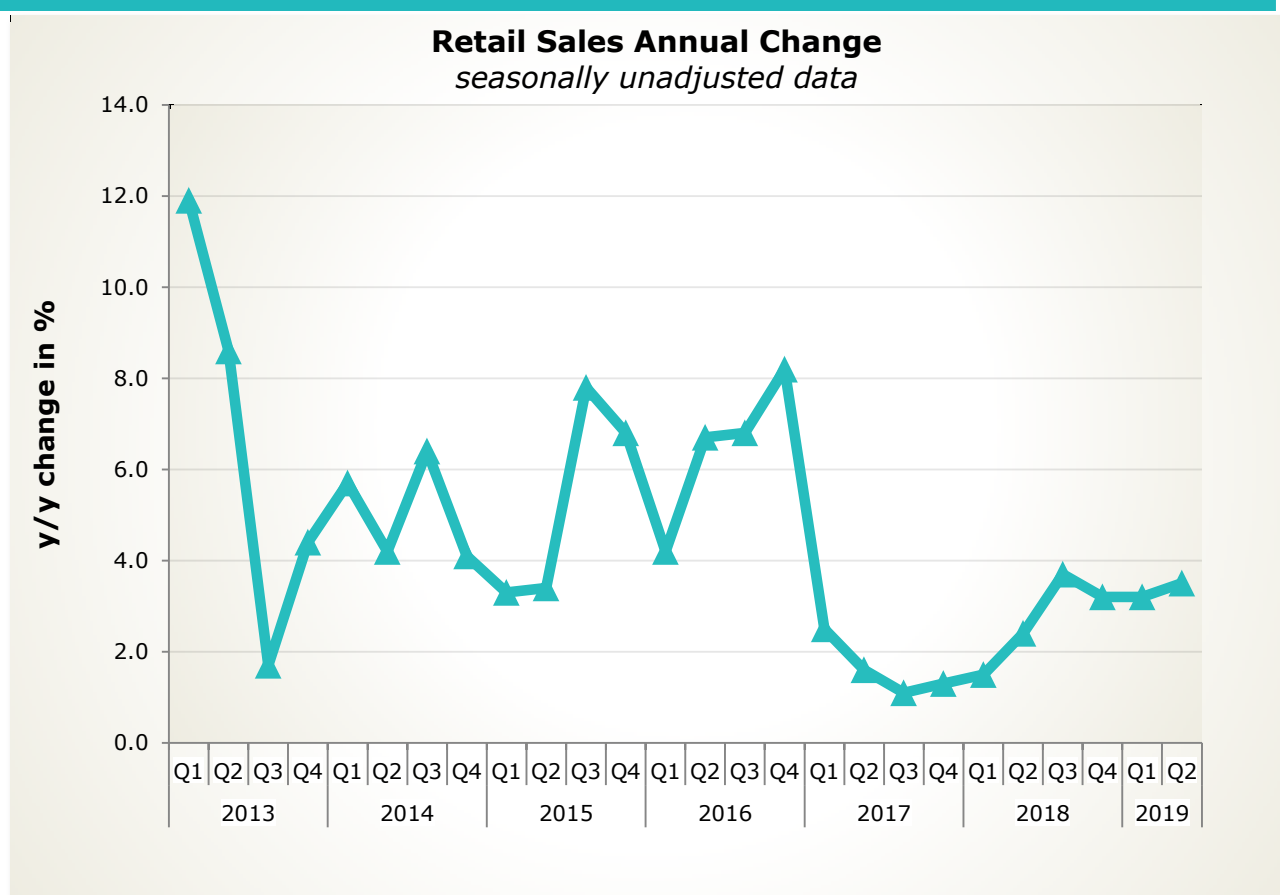
2.4. RETAIL SALES

Retail sales growth at 3.5% y/y in Q2 2019, up from Q1 2019

In the second quarter of 2019, the retail sales annual change stood at 3.5%, up from 2.4% in the same quarter of 2018, according to the data from INSTAT.

Retail sales, excluding the retail sales of motor fuel, increased by 4.7% y/y in Q2 2019, while the retail sales of food, beverages and tobacco increased by 5.7% y/y.

In Q2 2019, retail sales of non-food products, excluding motor fuels increased by 4.0% y/y. The turnover volume index of the group of motor fuels increased by 0.5%, compared with the same quarter of the previous year.



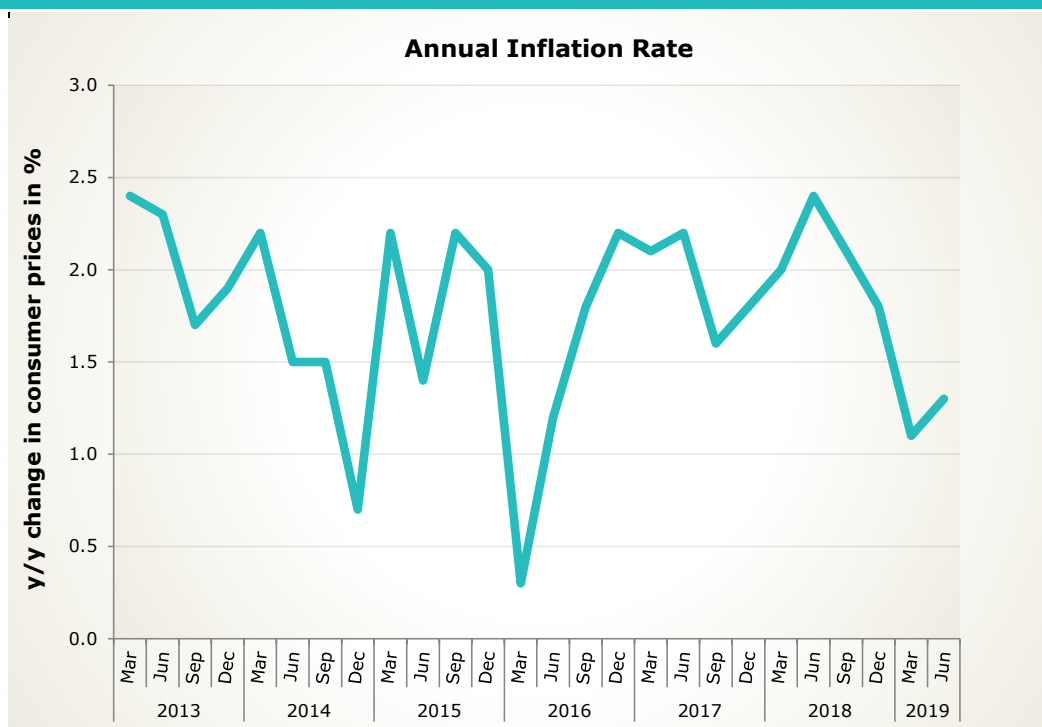
Source: INSTAT

2.5. INFLATION

Annual inflation of 1.3% in June 2019

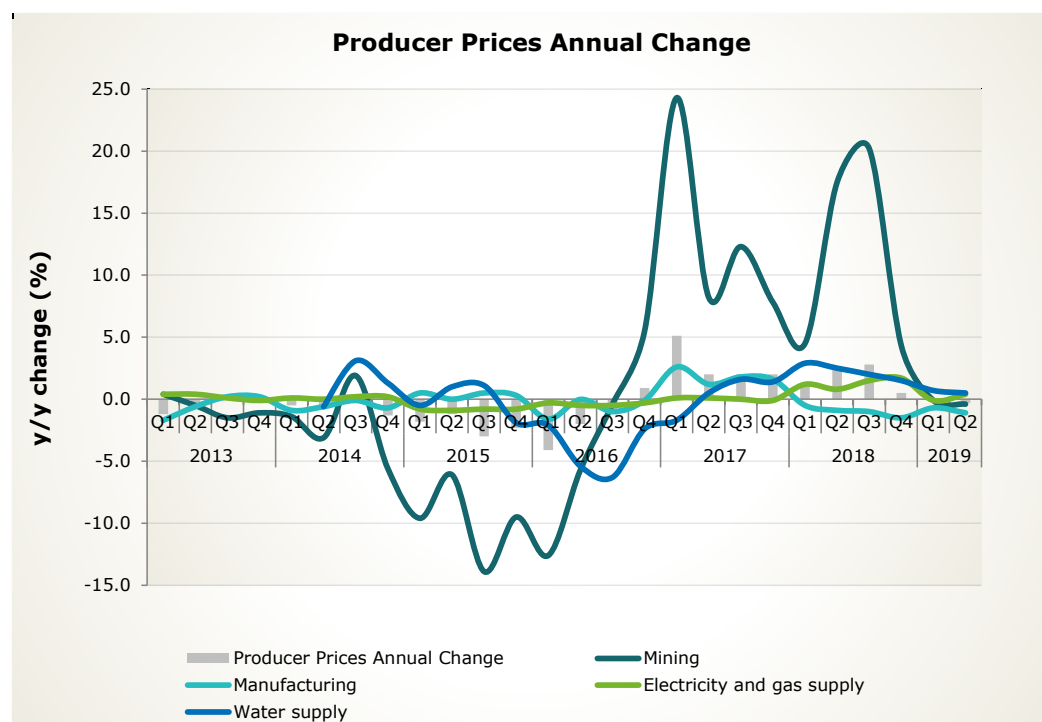
The annual inflation in Albania came in at 1.3% in June 2019, according to INSTAT. This is up compared to March 2019 when the annual inflation was 1.1%.

In June 2019, the average prices of food and non-alcoholic beverages advanced by 2.7% y/y, while the inflation in the product group of hotels, coffee-houses and restaurants came in at 1.3%. Recreation and culture suffered a 0.1% decrease of prices on average, while the inflation reading of the groups of housing, water, electricity, gas and other fuels was 0.8%. Alcoholic beverages and tobacco were with 1.4% more expensive than in June 2018. Education prices rose by 0.7% on average, while transport services saw deflation of 0.6%.



Source: INSTAT

Producer prices went down by 0.3% y/y in Q2 2019, INSTAT data showed. Manufacturers' producer prices decreased by 1.1% y/y, while the average producer prices in the mining sector went down by 0.4% y/y. The sector of electricity and gas supplies saw an increase of 0.4% y/y on average. Water supply inched up by 0.5% y/y.



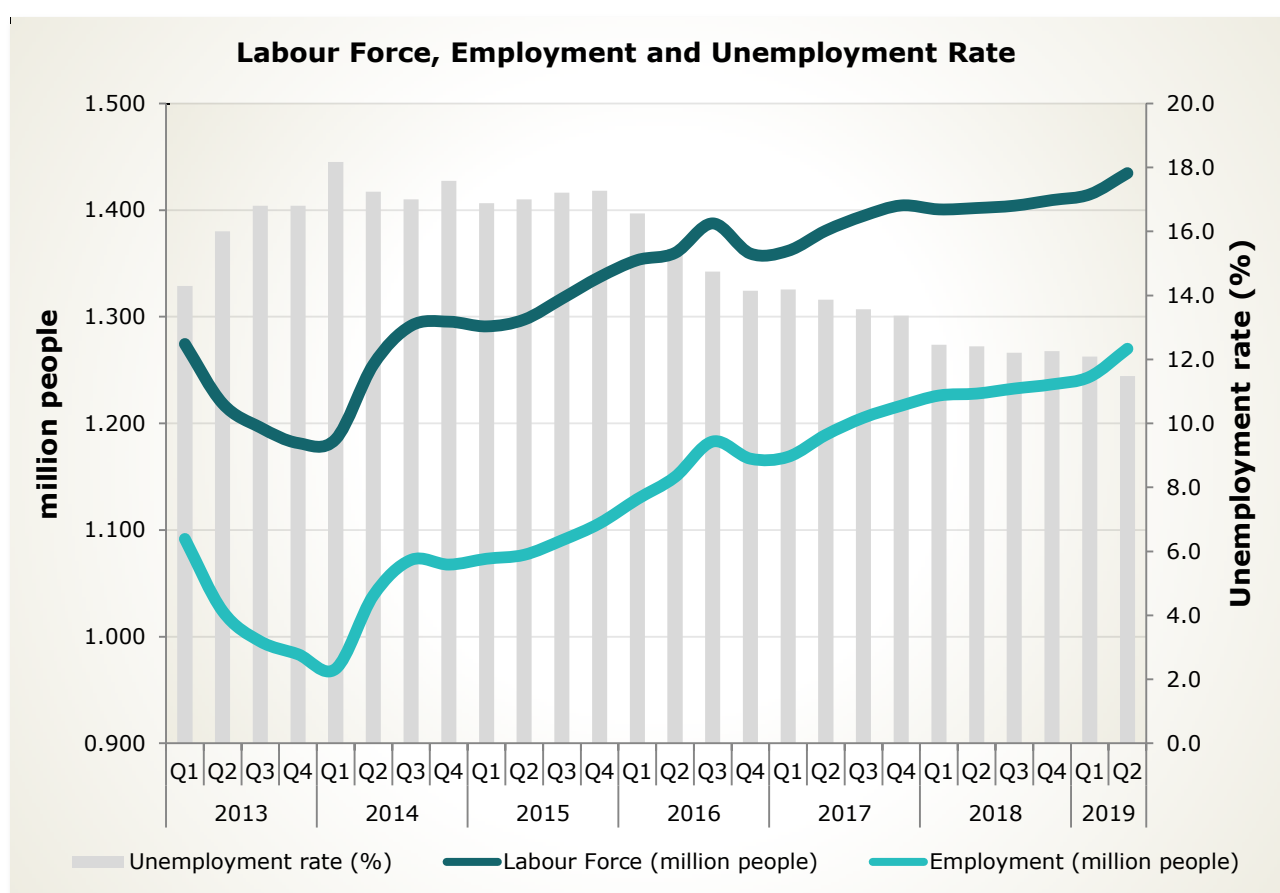
Source: INSTAT

3. LABOUR MARKET

Unemployment rate continued to fall in Q2 2019

The unemployment rate in Albania crawled down to 11.5% of the total labour force in June 2019, down from 12.1% in Q1 2019 and 12.4% in Q2 2018, according to data of INSTAT. The employed population aged 15 years and older numbered 1.270 million as of June 2019, up by 3.4% y/y.

The youth (population aged 15-29) unemployment rate inched down to 20.9% in Q2 2019 from 22.1% in Q1 2019 and 22.6% in the second quarter of the previous year.



Source: INSTAT

4. CONSTRUCTION AND REAL ESTATE

The number of building permits grew by 14.8% y/y in Q2 2019

The number of building permits issued in Albania in Q2 2019 totalled 310, compared to 270 in the same quarter of the previous year, according to INSTAT data.

Permits for construction of non-residential buildings came in at 116, up from 90 in Q2 2018, while permits for housing projects increased to 194 from 180 in Q2 2018.

The total area, covered by permits for non-residential buildings increased to 153,253 sq m in Q2 2019, compared to 128,267 sq m a year earlier. The total area of the new housing projects expanded to 256,295 sq m from 164,628 in the corresponding period of the previous year.

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 123.12 in Q2 2019 from ALL 127.36 in Q2 2018, according to Bank of Albania. The average annual exchange rate of the ALL against the USD came to 109.55 in Q2 2019, up from 106.88 in Q2 2018.

Average Annual ALL Exchange Rates			
Foreign Currency	Q2 2019	Q1 2019	Q2 2018
EUR	123.12	124.64	127.36
USD	109.55	109.70	106.88
GBP	140.83	142.81	145.28
CHF	109.30	110.05	108.46

5.2. MONETARY POLICY

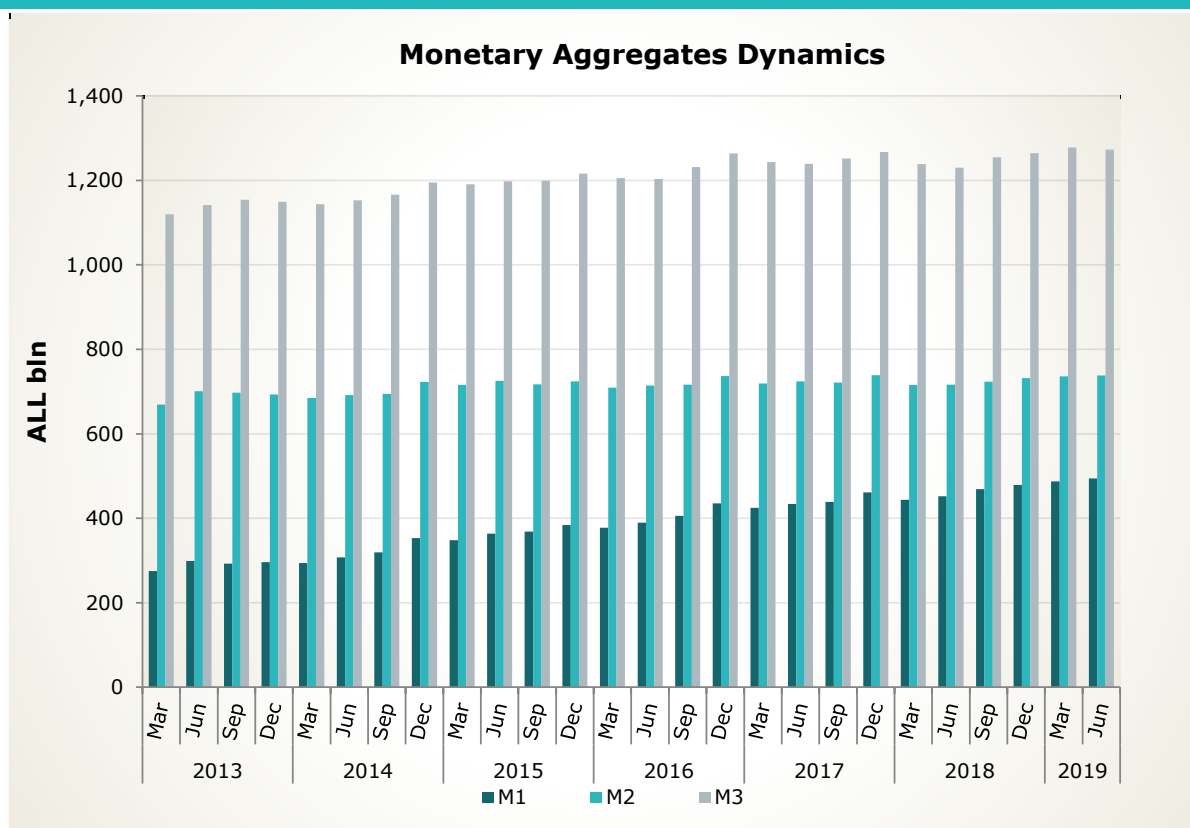
Policy rate at 1.0% as of June 2019

In June 2019, the Central Bank of Albania kept the monetary policy rate at 1.0%, its minimum historical level. During the second 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 June 2019, the interest rate for the overnight deposit facility and the interest rate for the overnight lending facility, stood unchanged at 0.1% and 1.9%, respectively.

5.3. MONETARY AGGREGATES

Money supply up 3.5% y/y in June 2019

Broad money M3 widened by 3.5% y/y in Q2 2019 to ALL 1,272.8 bln, according to the Central Bank of Albania. The M2 aggregate increased by 3.0% y/y, while the liquid money indicator M1 rose by 9.3%.



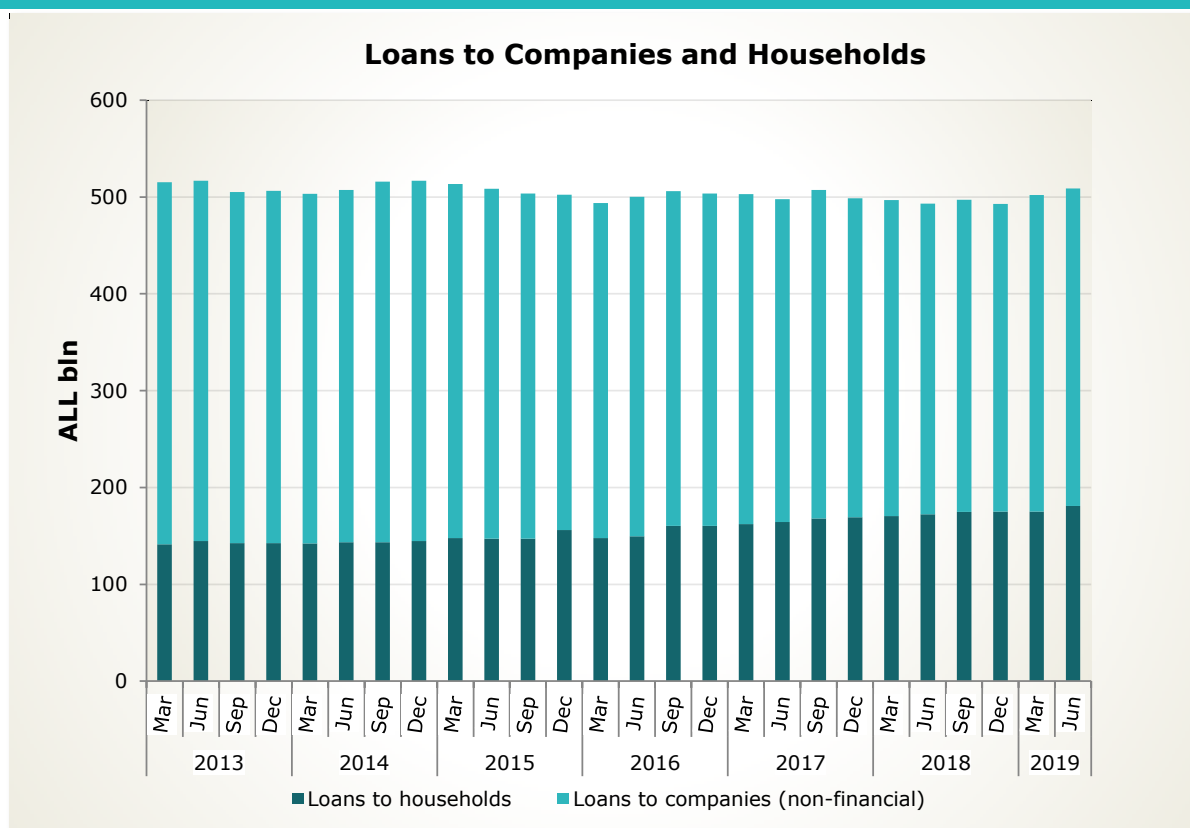
Source: Bank of Albania

5.4. BANKING AND INSURANCE

Non-government sector loans up by 3.2% y/y in Q2 2019

Loans to the non-financial corporate sector inched up by 2.2% y/y to ALL 327.9 bln in Q2 2019, data from the Bank of Albania showed. The household loans registered a 5.1% annual increase, totalling ALL 181.0 bln.

Loans for house purchase continued to grow annually – by 4.4% in Q2 2019, reaching ALL 112.6 bln.

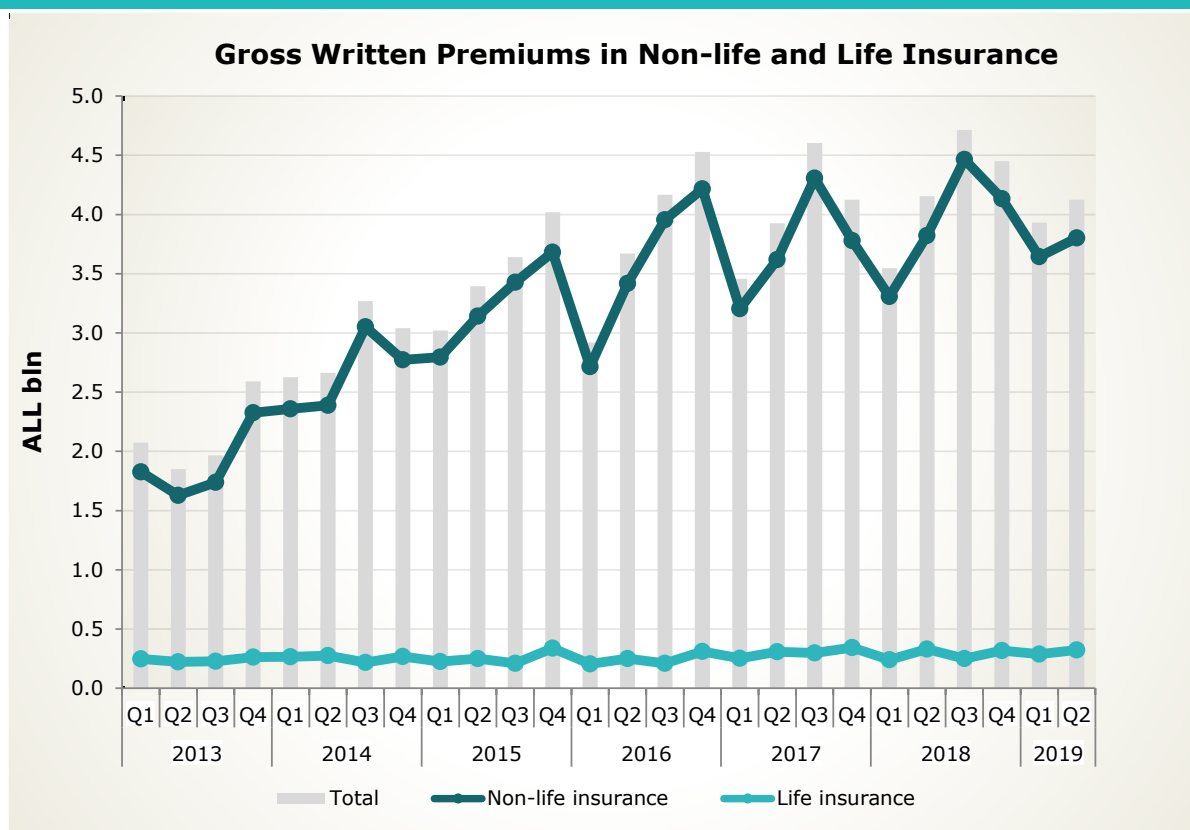


Source: Bank of Albania

Insurance premium income down by 0.7% y/y in Q2 2019

The total gross written premiums of the Albanian non-life and life insurance companies, excluding reinsurance, stood at ALL 4.125 bln, down by 0.7% y/y in Q2 2019, according to the Albanian Financial Supervisory Authority (AMF).

The decrease was largely caused by the 2.5% decline of life insurance sector, which posted gross written premiums of ALL 322.9 mln in Q2 2019. The premiums in the non-life insurance segment decreased by 0.5% to ALL 3.802 bln.



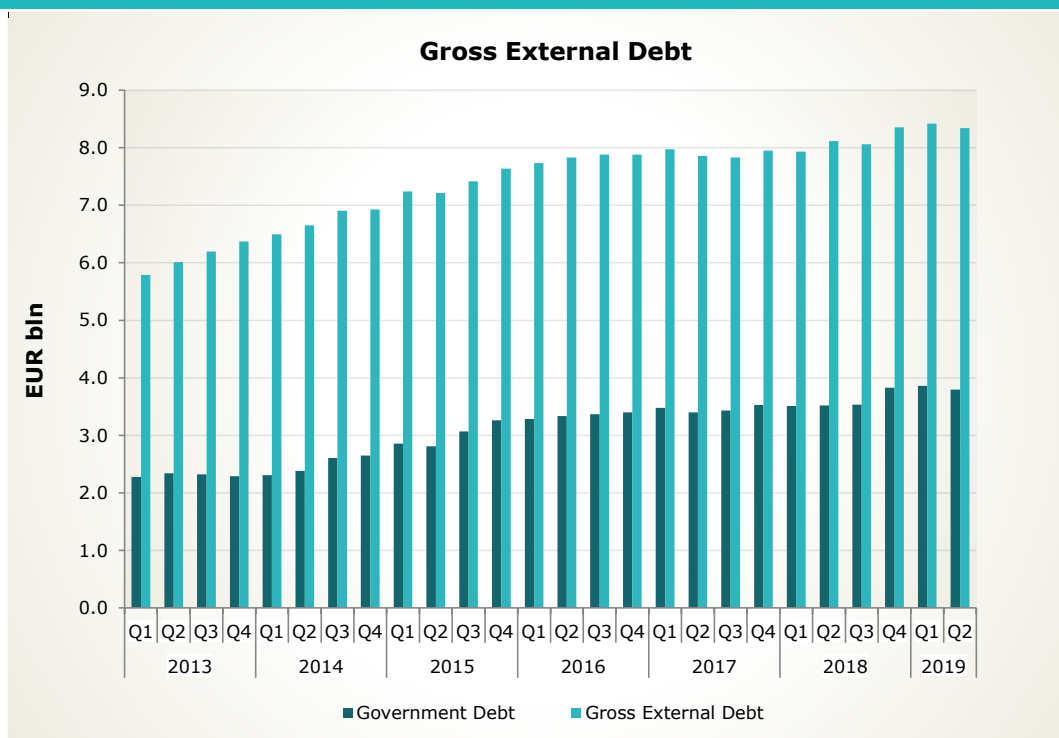
6. EXTERNAL SECTOR

6.1. FOREIGN DEBT

The gross external debt rose by 2.8% y/y to EUR 8.339 bln as of June 2019

The gross external debt totalled EUR 8.339 bln as of June 2019, up by 2.8% on the year, according to Bank of Albania. In comparison to Q1 2019 the gross external debt decreased by 1.0%.

In Q2 2019, long-term liabilities amounted to EUR 4.972 bln, or 59.6% of the total debt, and short-term liabilities totalled EUR 1.663 bln, equal to 19.9% of the total debt.

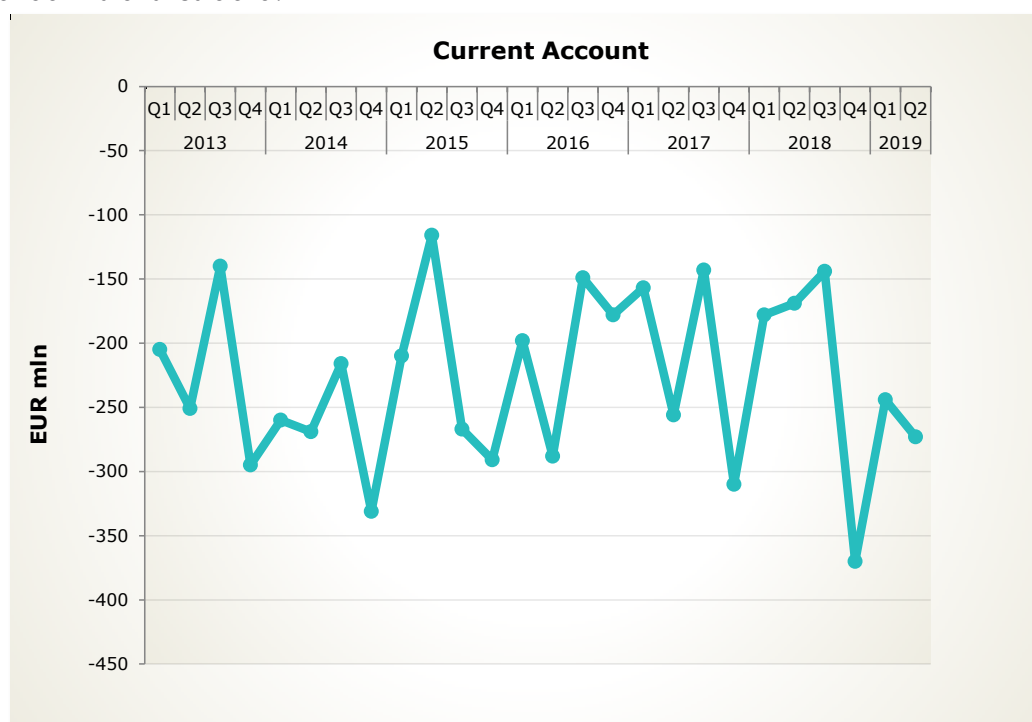


Source: Bank of Albania

6.2. BALANCE OF PAYMENTS

Current account deficit expanded by 61.5% y/y to EUR 273.0 mln in Q2 2019

The current account deficit narrowed by 61.5% y/y to EUR 273.0 mln in Q2 2019, according to central bank statistics data.

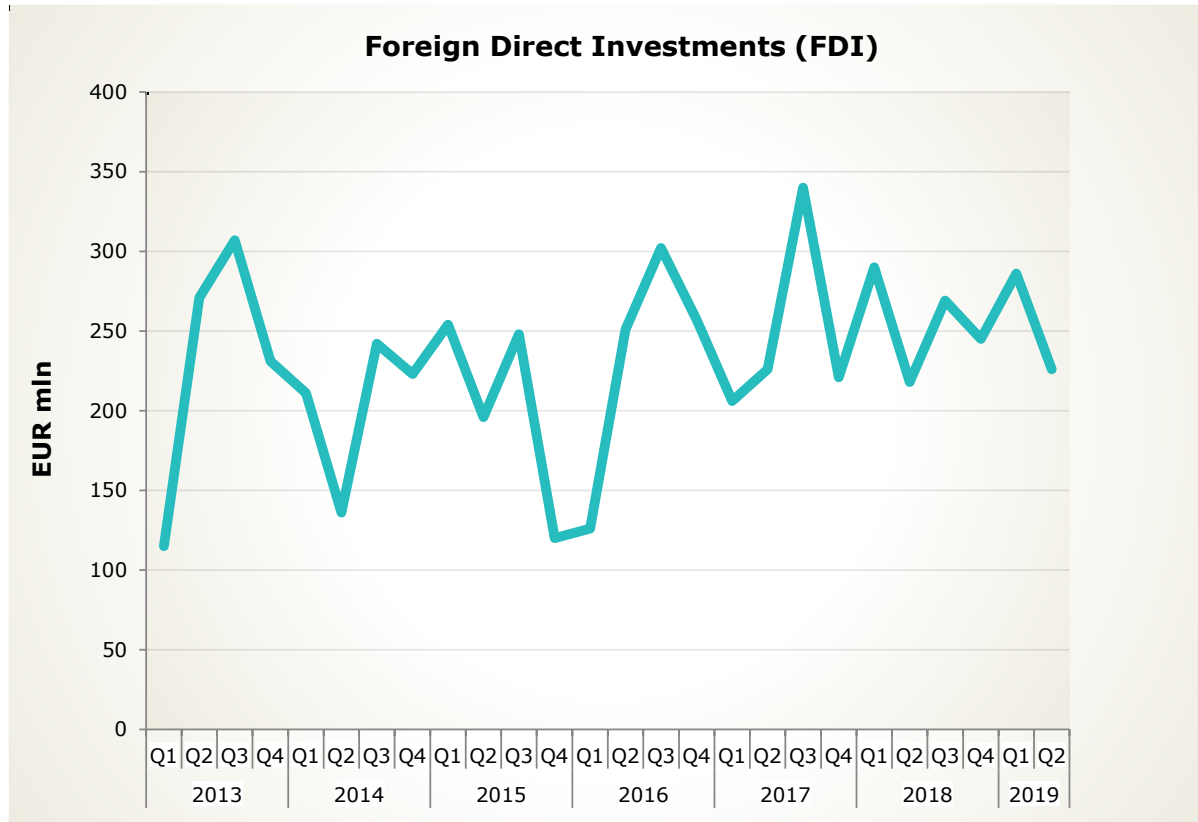


Source: Bank of Albania

6.3. FDI

FDI in Albania at EUR 226.0 mln in Q2 2019

Foreign Direct Investments (FDI) in Albania amounted to EUR 226.0 mln in the second quarter of 2019, according to Bank of Albania. In annual terms, the FDI inflow increased by 3.7%.



Source: Bank of Albania

6.4. FOREIGN TRADE

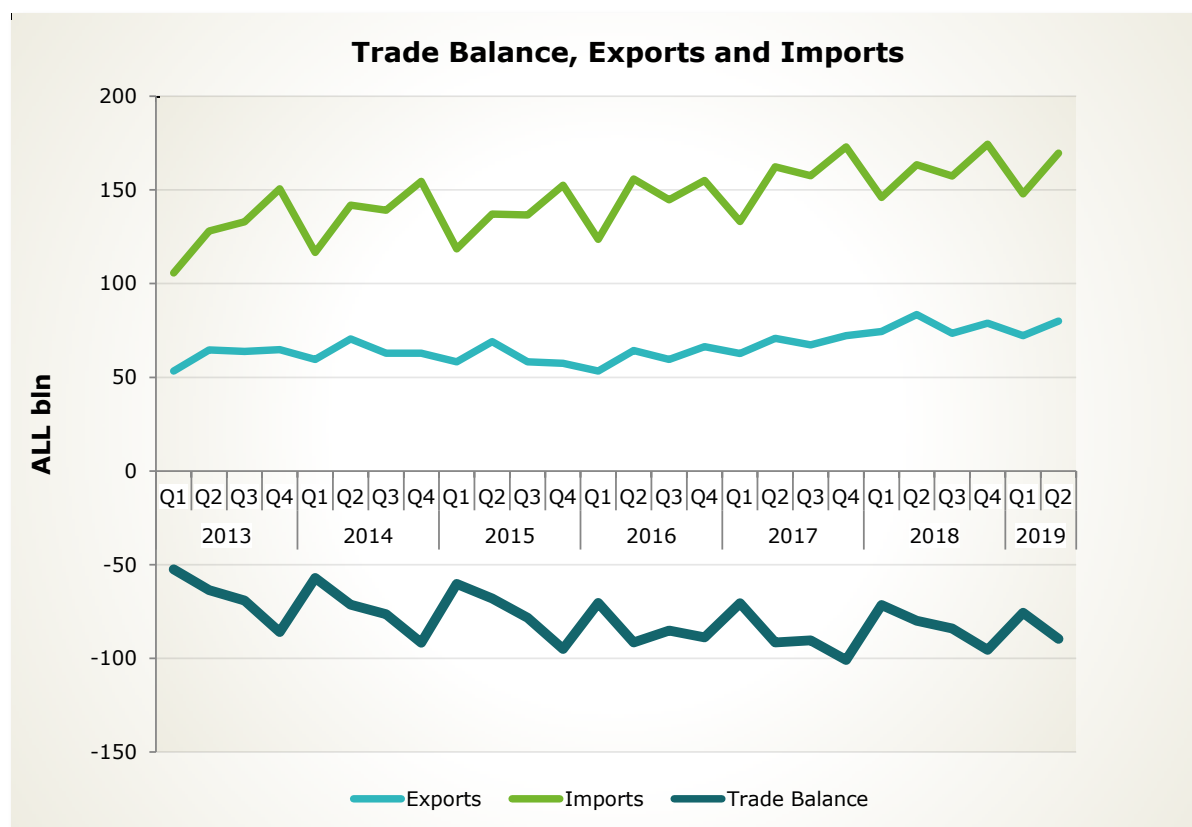
Foreign trade deficit up by 12.1% y/y to ALL 89.6 bln in Q2 2019

The trade deficit stood at ALL 89.6 bln in Q2 2019, up by 12.1% compared to Q2 2018, according to INSTAT.

Exports of goods decreased by 4.2% to ALL 80.1 bln, while imports inched up by 3.8% y/y to ALL 169.7 bln.

The groups to report the largest annual rise of exports were chemical and plastic products with 24.6%, machinery, equipment and spare parts with 15.8% and manufacture of paper and wood articles with 11.4%.

Minerals, fuels and electricity was the leading product group in terms of annual growth of imports with 30.0%, followed by construction materials and metals with 12.2% and food, beverages and tobacco with 1.6%.



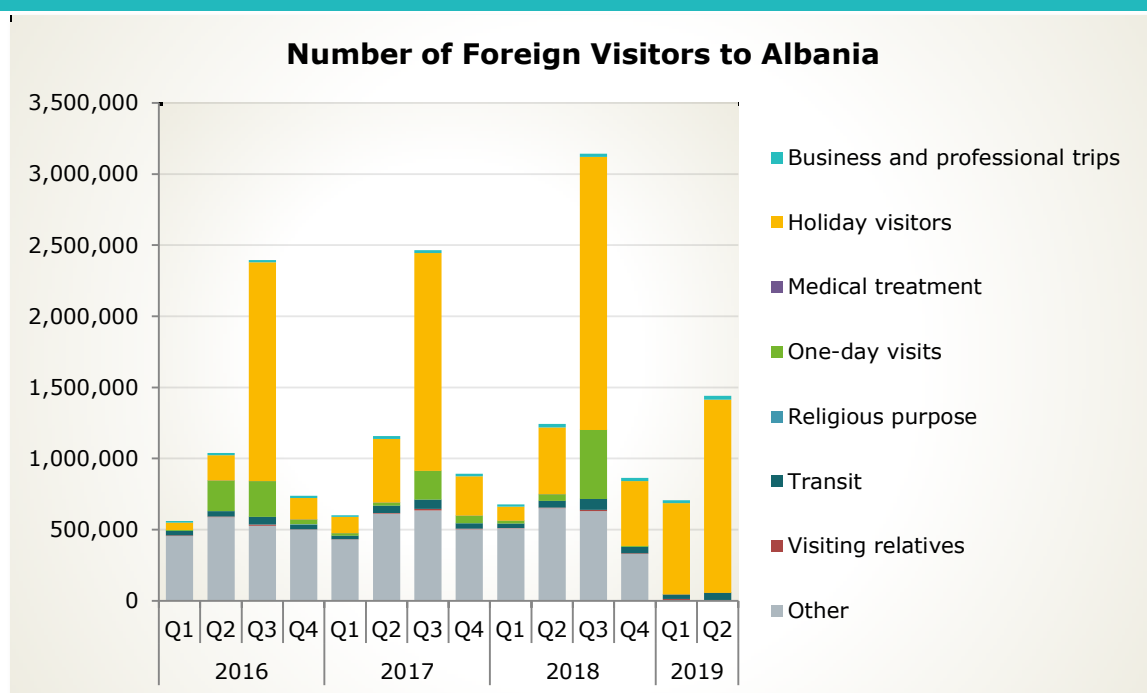
Source: INSTAT

6.5. TOURISM

Number of foreign visitors to Albania up 16% y/y in Q2 2019

The number of foreign nationals who visited Albania in Q2 2019 rose by 16.0% y/y to 1.442 million people, according to INSTAT.

Visitors who entered the country in the second quarter of 2019 for the purpose of recreation represented 94.2% of all foreign nationals, or 1.359 million people. People who visited Albania for the purpose of business and professional engagements represented 1.9% of the total visitors in the period under consideration.



Source: INSTAT

7. MAJOR DEVELOPMENTS

Albania's govt approves EUR 8.0 mln EIB loan for river infrastructure project in Tirana

June 20, 2019

Albania's government has approved a EUR 8.0 mln (USD 9.0 mln) loan agreement with the European Investment Bank (EIB) for financing the rehabilitation of the Lana river area in Tirana.

[Read the full story here](#)

Foreign remittances to Albania up 1.1% y/y in Q1

June 11, 2019

Foreign remittances to Albania increased by 1.1% year-on-year to EUR 150.2 mln (USD 169.9 mln) in the first quarter of 2019, according to central bank data.

[Read the full story here](#)

Germany, EU provide EUR 44 mln to improve water supply in Albania

June 4, 2019

Germany and the EU-supported Western Balkans Investment Framework (WBIF) are co-financing with loans and grants the fourth phase of a rural water supply programme in southwestern Albania worth a total of EUR 44 mln (USD 49.3 mln), the finance ministry said.

[Read the full story here](#)

Albania to set up power exchange – energy min

May 16, 2019

Albania's government has decided to establish a national power exchange in accordance with European directives as a step forward in advancing the reform of the energy sector, energy minister Belinda Balluku.

Read the full story [here](#)

EU, EBRD to co-finance EUR 105 mln programme to support tourism in Albania

May 6, 2019

The European Union and the European Bank for Reconstruction and Development (EBRD) will co-finance a EUR 105 mln (USD 117.6 mln) five-year programme to support the development of Albania's tourism sector.

Read the full story [here](#)

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