

## **ALBANIA ECONOMY REPORT**

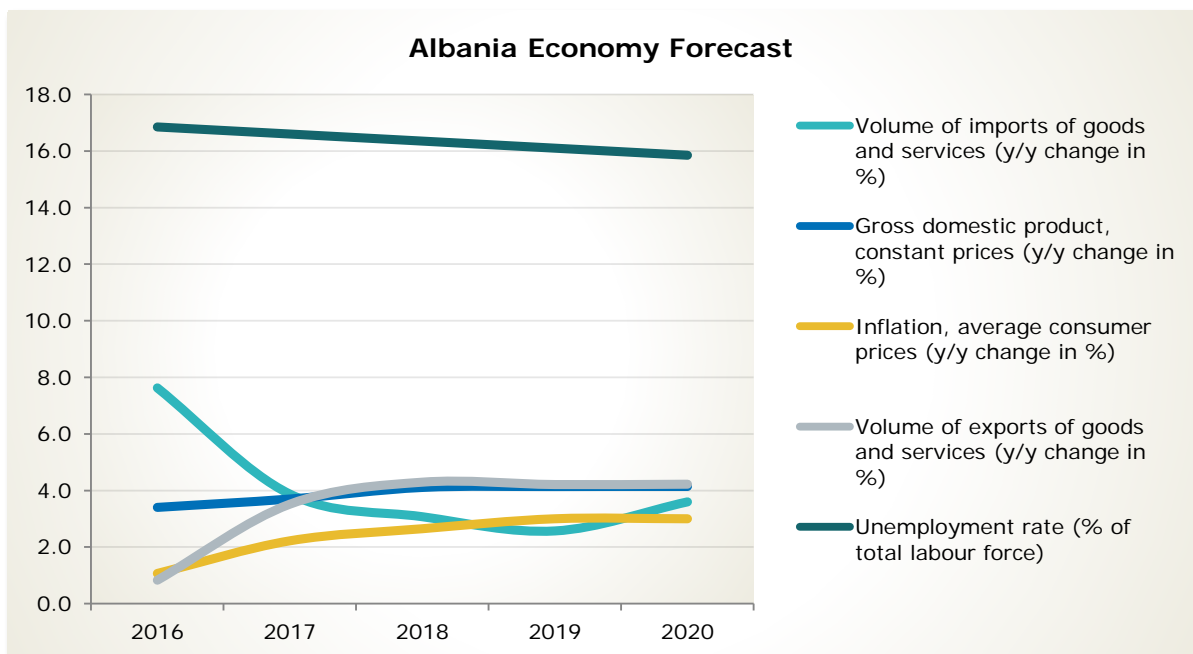
Q3 2016

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

ALBANIA – MACROECONOMIC SNAPSHOT AS OF Q3 2016	
GDP Growth	3.1% y/y
Business confidence indicator	8.5 pp q/q
Industrial output	-11.23% y/y
Industrial sales	1.3% y/y
Retail sales	6.5% y/y
Annual inflation	3.1%
Unemployment rate	14.7%
Number of building permits	145
Money supply growth	2.7% y/y
Household loans	9.1% y/y
Gross external debt	EUR 7.924 bln
Current account deficit	EUR 208.0 mln
FDI inflow	EUR 288.1 mln
Foreign trade deficit	ALL 85.1 bln



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

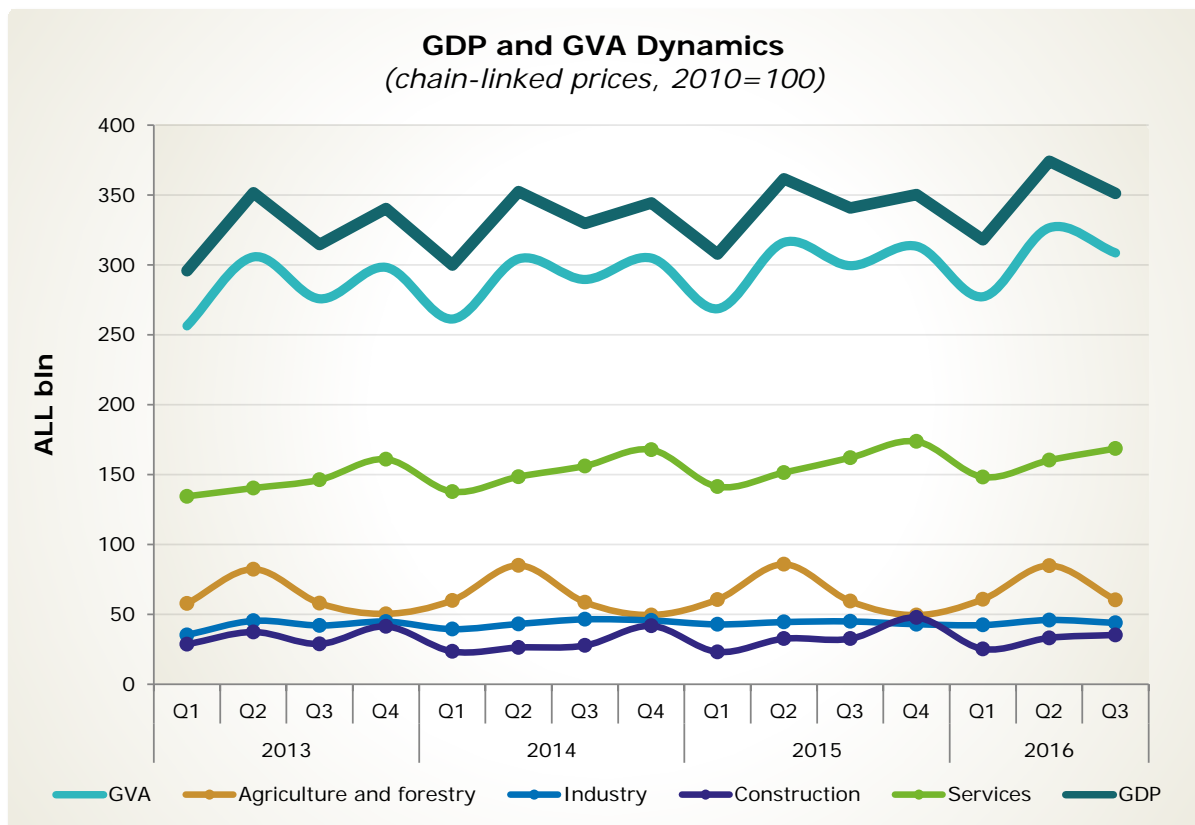
## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

#### *GDP annual growth at 3.1% in Q3 2016*

Albania's GDP increased by 3.1% y/y and totalled ALL 351.2 bln in Q3 2016, according to flash estimates of the country's Institute of Statistics (INSTAT).

Final consumption, which contributed 86.2% to the GDP, went up by 1.9% y/y. Gross capital formation increased by 11.9%, contributing 26.7% to the GDP. Imports and exports grew by 19.1% and 5.6%, respectively.



Source: INSTAT

The country's non-seasonally adjusted GVA increased in value by 3.0% y/y and totalled ALL 308.5 bln in Q3 2016. The industrial sector decreased by 2.4%, and its share in the GVA structure fell to 14.2% from 15.0% in the same quarter of the previous year. The services sector recorded a 1.0% annual rise, slicing a 54.7% share in the GVA, up from 54.1%. Construction also grew in value – by 8.3% y/y and its share in GVA went up to 11.5% from 10.9%. The agricultural sector marked an increase of 1.6%, but its share in the GVA shrank to 19.6% from 19.9%.

## 2.2. BUSINESS CLIMATE

### *Business Confidence Indicator increased by 8.5 percentage points q/q in Q3 2016*

In Q3 2016 the average business confidence indicator went up by 8.5 percentage points q/q, according to Bank of Albania.

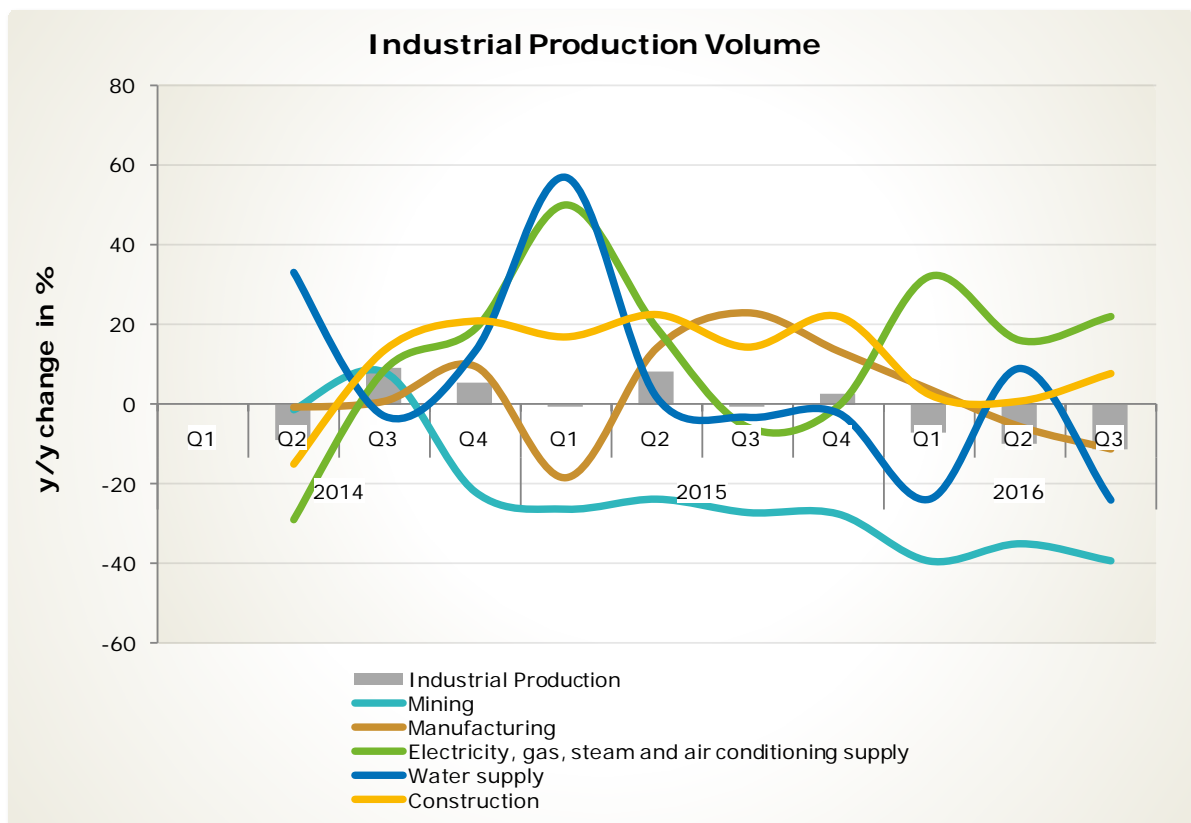
Trade confidence indicator reported the strongest growth among all sectors, by 14.2 percentage points q/q, while consumer confidence was the only one to decrease, by 0.5 percentage points.

## 2.3. INDUSTRIAL OUTPUT

### *Industrial output decreased by 11.2% y/y in Q3 2016*

Industrial output went down by 11.2% on the year in the third quarter of 2016, according to INSTAT.

The output of the electricity, gas, steam and air conditioning supply sector registered the sharpest annual jump, of 22.0%, followed by the construction sector with 7.9%. All other sectors registered an annual drop in their output – production in the mining sector fell by 39.3%, in the water supply sector by 24.1% and manufacturing output went down by 11.3%.



Source: INSTAT

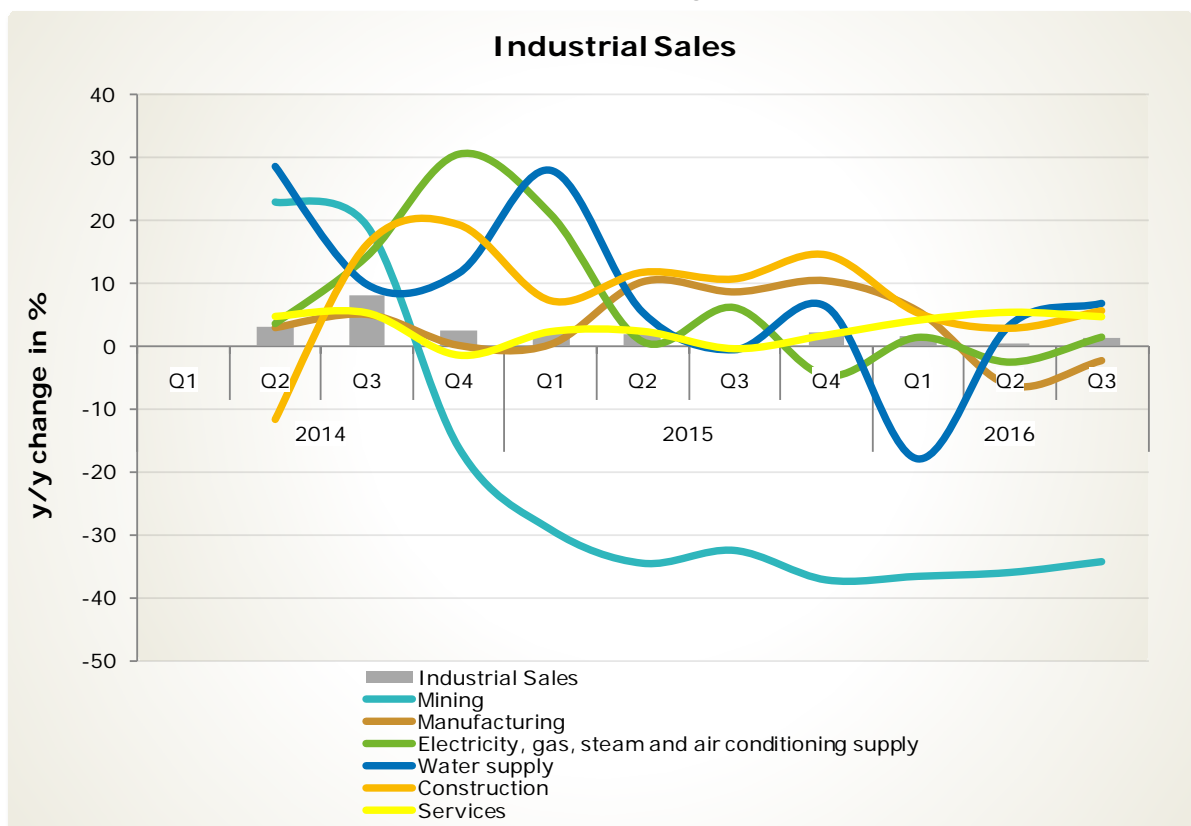
Editor's note: Data for Q1 2014 was not available

## 2.4. INDUSTRIAL SALES

### Industrial sales grew by 1.3% y/y in Q3 2016

Industrial sales went up by 1.3% y/y in Q3 2016 thanks to the 6.7% growth of the water supply sector and the rise in the turnover of the construction and services sectors, by 5.7% and 4.7%, respectively. The electricity, gas, steam and air conditioning supply also grew, by 1.6%.

Sales in the mining sector reported the sharpest annual drop, of 34.3%. The other sector to report an annual decrease in sales was manufacturing with 2.4%.



Source: INSTAT

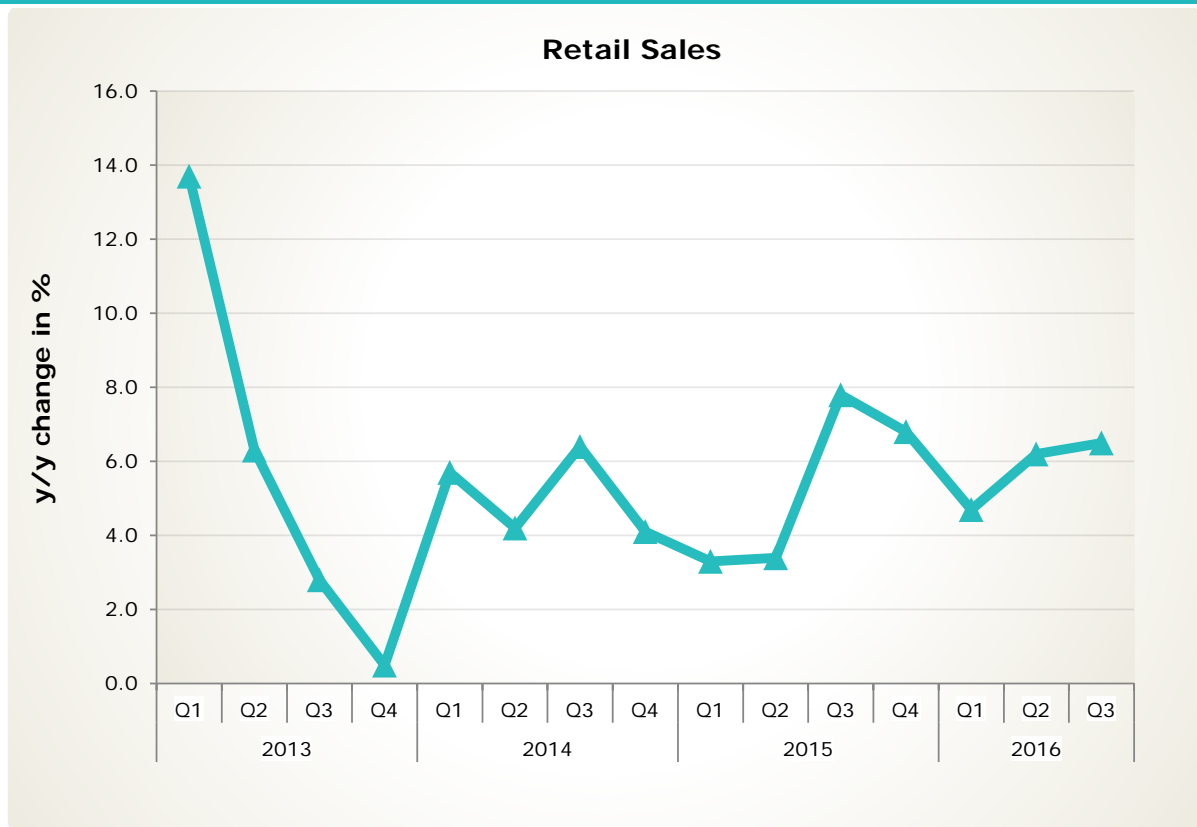
Editor's note: Data for Q1 2014 was not available

## 2.5. RETAIL SALES

### Retail sales grew 6.5% y/y in Q3 2016

Retail sales went up by 6.5% y/y in the third quarter of 2016, according to INSTAT.

Retail sale of food, beverages and tobacco in both specialised and non specialised stores registered the highest annual rise, of 12.4%. Retail sale of motor fuel marked the slowest annual increase, of 4.2%.



Source: INSTAT

## 2.6. INFLATION

### *Annual inflation of 3.1% in September 2016*

The annual inflation in Albania rose to 3.1% in September 2016 from 2.2% in September 2015, according to INSTAT data.

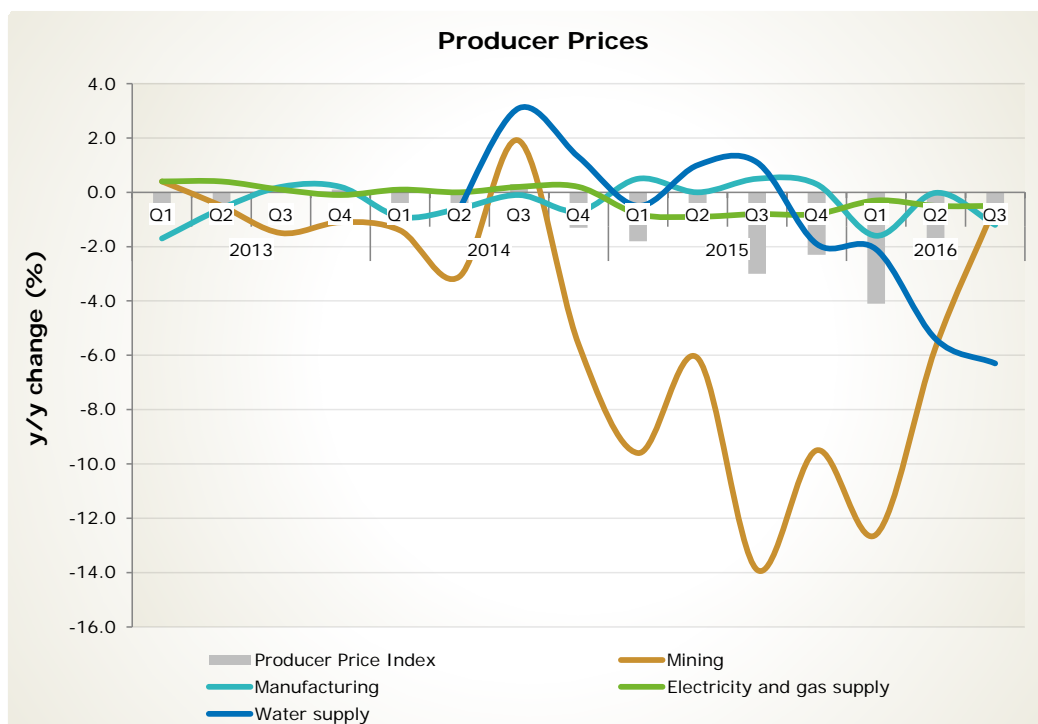
The highest increase in consumer prices, of 19.8%, was registered in fruits, followed by vegetables with 4.7% and transport services with 4.4%.

The products and services, which registered the sharpest deflation, were washing, drying and dishwashing machines with 1.9%, equipment operations of personal transportation with 1.7% and women's footwear with 0.9%.



Source: INSTAT

Producer prices went down by 1.2% y/y in Q3 2016. The water supply sector recorded the highest annual drop, of 6.3%, followed by manufacturing with 1.2% and mining and electricity, gas, steam and air conditioning with a decline of 0.5% each. Segment wise, producer prices dropped the most, by 14.0%, in the collection, treatment and disposal of waste and materials recovery sector, while the sharpest increase, of 5.8%, was registered by manufacture of optics, electronics and computer products.



Source: INSTAT

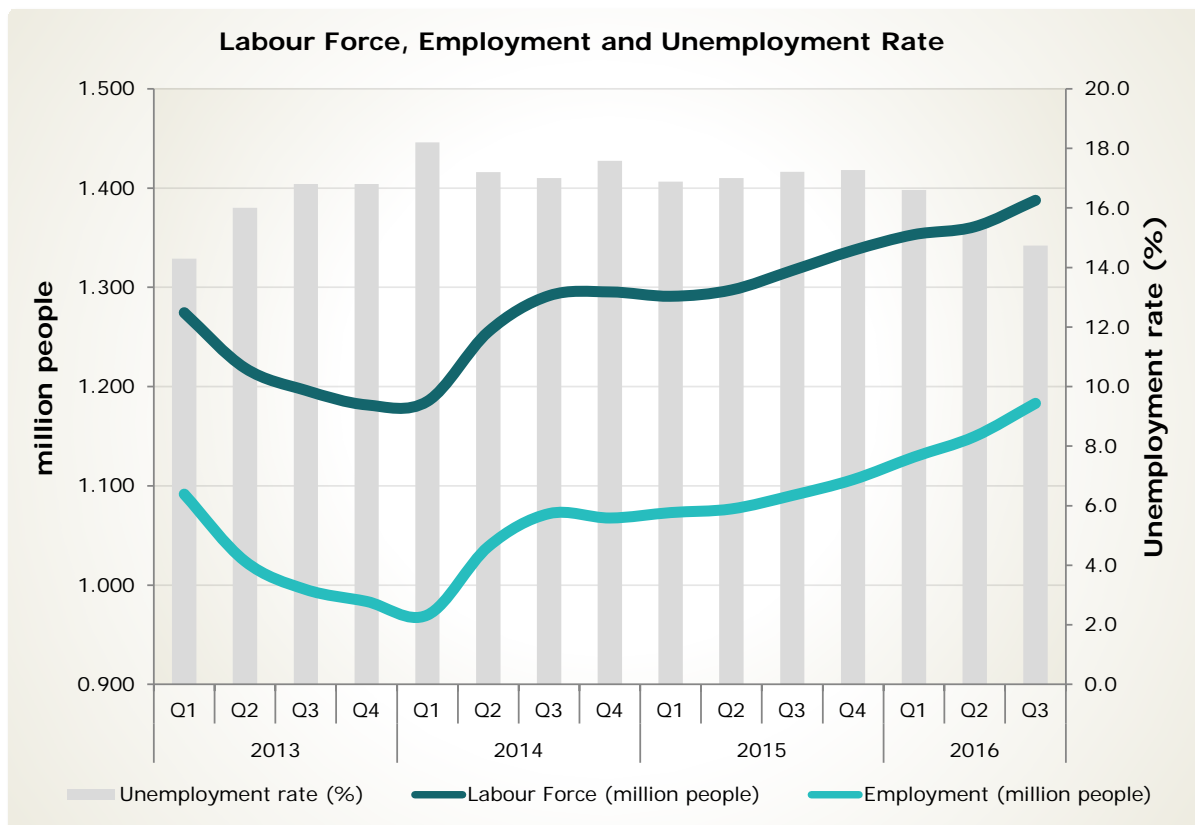


### 3. LABOUR MARKET

#### Unemployment rate went down to 14.7% in Q3 2016

Unemployment in Albania narrowed to 14.7% of the total labour force in Q3 2016 from 17.2% in the corresponding quarter of the previous year, according to data of INSTAT. The employed population aged 15 years and older was 1.183 million in Q3 2016, up by 8.5% y/y.

The youth (population aged 15-29) unemployment rate went down to 27.4% from 32.3% in Q3 2015.



Source: INSTAT

### 4. CONSTRUCTION AND REAL ESTATE

#### The number of building permits soared more than tenfold in Q3 2016

The number of building permits issued in Albania in Q3 2016 totalled 145, compared to 12 in the corresponding quarter of the previous year, according to INSTAT data.

Permits for construction of non-residential buildings stood at 47, up from 10, permits for housing projects jumped to 98 from 2.

The total area, covered by permits for non-residential buildings amounted to 50,744 sq m. The total area of the housing projects, covered by the permits, stood at 24,577 sq m.

## 5. MONEY SUPPLY AND BANKING SYSTEM

### 5.1. ALL EXCHANGE RATE

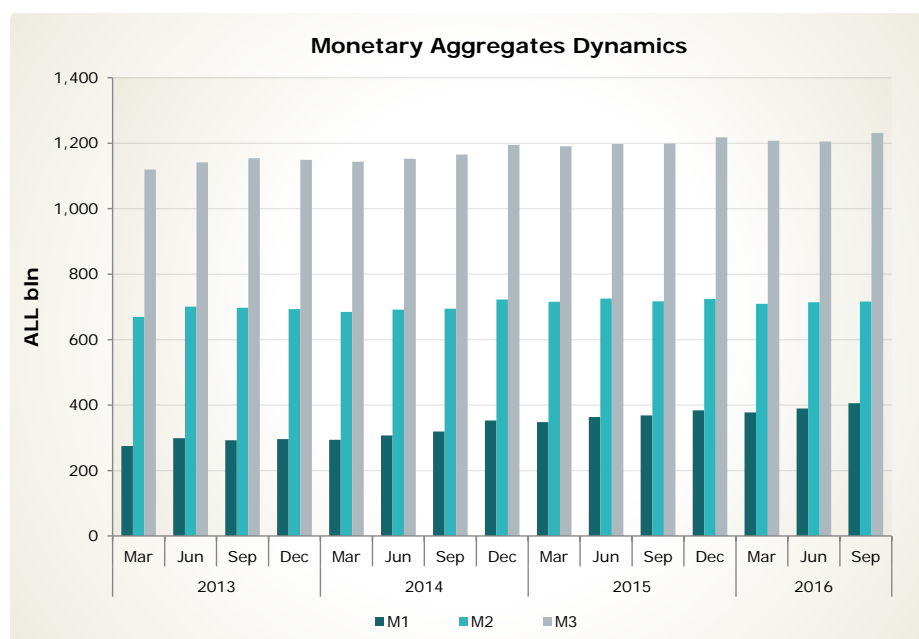
The average annual exchange rate of the ALL against the EUR decreased to ALL 136.790 in Q3 2016 from ALL 139.658 in the previous year, according to Bank of Albania.

ALL Average Annual Exchange Rate			
Foreign Currency	Q3 2016	Q2 2016	Q3 2015
EUR	136.790	138.246	139.658
USD	122.501	122.441	125.544
GBP	160.916	175.656	194.640
CHF	125.659	126.159	130.259

### 5.2. MONETARY AGGREGATES

#### Money supply growth was 2.7% y/y in Q3 2016

Broad money (money aggregate M3) increased by 2.7% y/y and reached ALL 1,231.4 bln in September 2016, according to data provided by Bank of Albania. The M2 money supply went down by 0.1% y/y to ALL 716.0 bln. Money aggregate M1 jumped by 10.2% y/y to ALL 405.9 bln.



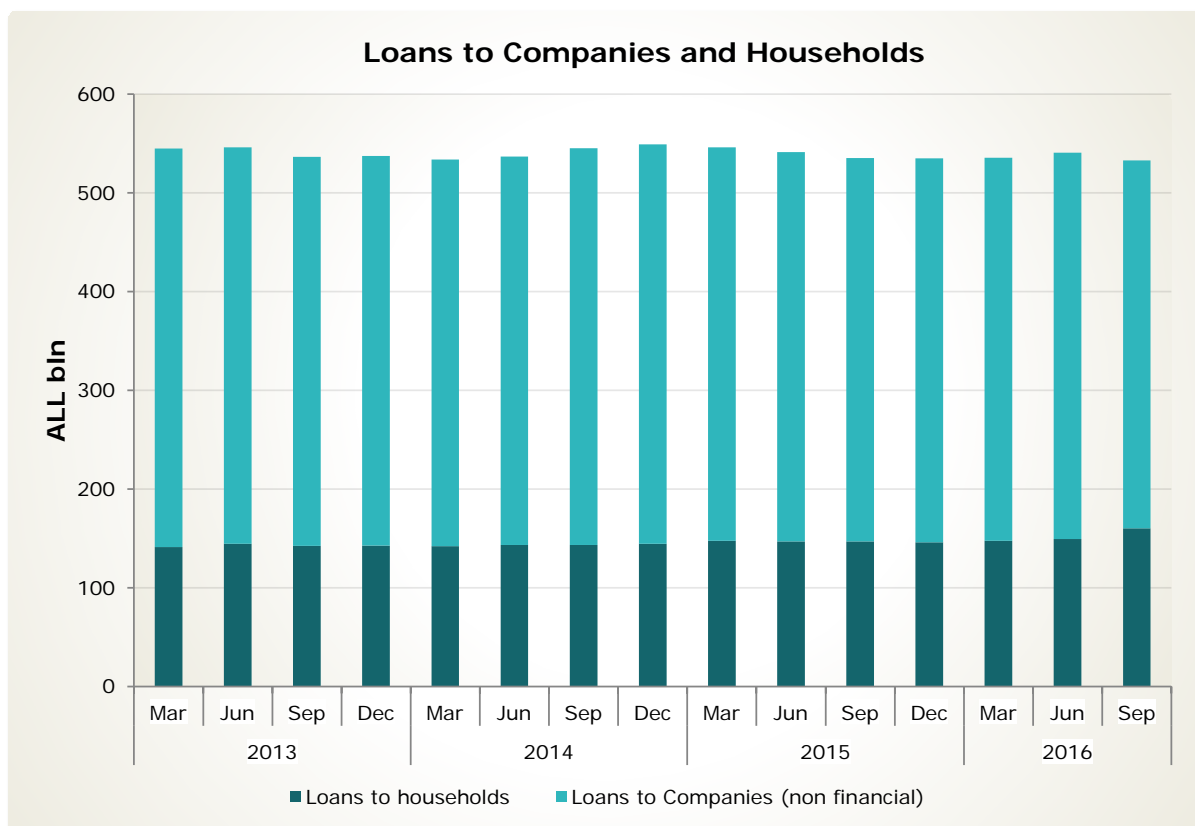
Source: Bank of Albania

## 5.3. BANKING AND INSURANCE

### Non-government sector loans decreased by 0.4% y/y in Q3 2016

Loans to the non-government sector totalled ALL 532.8 bln in September 2016, down by 0.4% y/y, according to Bank of Albania.

Loans to non-financial corporations fell by 4.0% y/y to ALL 372.4 bln, while household loans rose by 9.1% to ALL 160.4 bln. House purchasing loans amounted to ALL 104.4 bln, up from ALL 102.0 bln in Q3 2015.

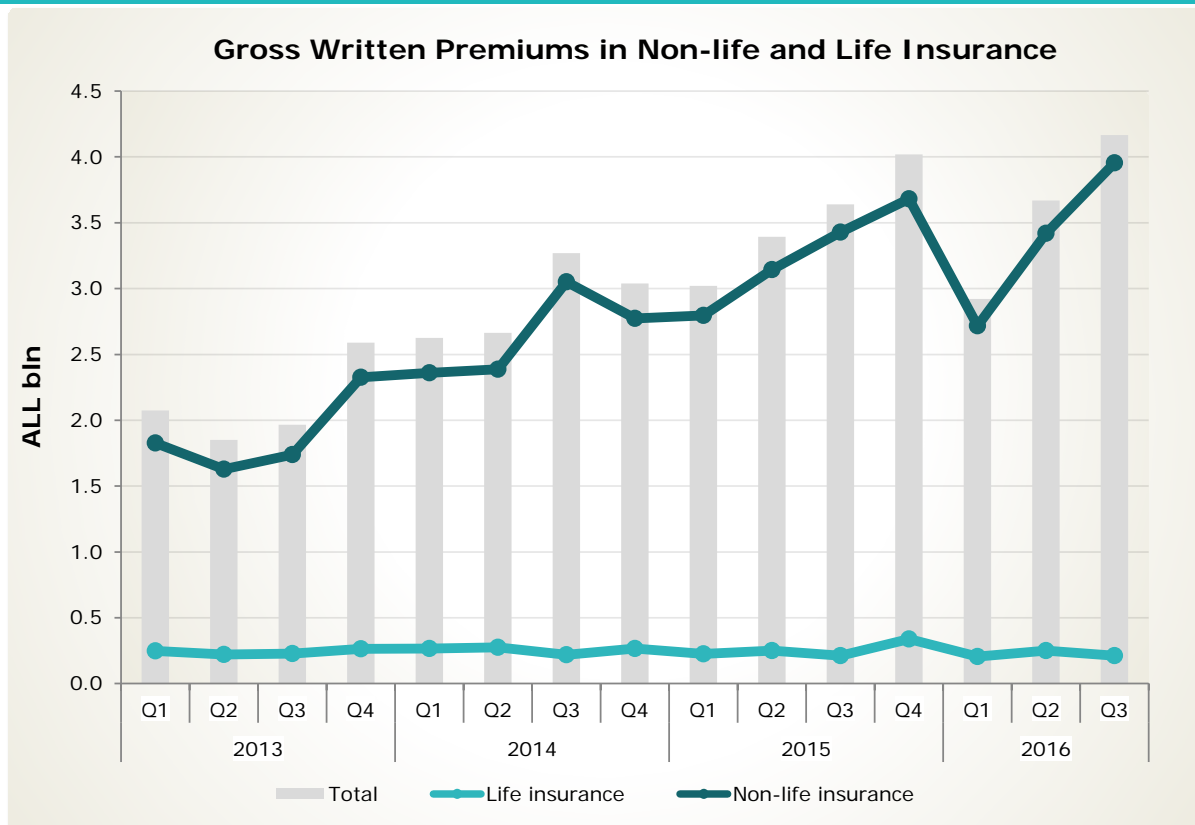


Source: Bank of Albania

### Insurance premium income up 14.5% y/y in Q3 2016

The total gross written premiums of the non-life and life insurance companies, excluding reinsurance, stood at ALL 4.167 bln, up by 14.5% y/y in Q3 2016, according to the Albanian Financial Supervisory Authority (AMF).

The rise was fuelled by the 15.4% increase of the non-life insurance sector, which posted gross written premiums of ALL 3.955 bln in Q3 2016. The premiums in the life insurance segment inched up by 0.2% on the year to ALL 211.3 mln.



Source: AMF

In the non-life insurance sector the highest annual rise of gross written premiums was registered in the casco insurance of aircraft, where premiums soared to ALL 10.685 mln from ALL 1.580 mln. Insurance of vessels in see and inland navigation was on the other end with its premium income shrinking to ALL 0.443 mln from ALL 3.985 mln.

Among the life insurance segments, the leader in terms of annual growth in gross written premiums was the flexi plan insurance segment, where premium income rose to ALL 3.202 mln from ALL 0.493 mln. Pupil and student's life insurance generated premium income of only ALL 0.095 mln, down from ALL 0.344 mln, thus registering the sharpest annual drop on the local life insurance market, of 72.5%.

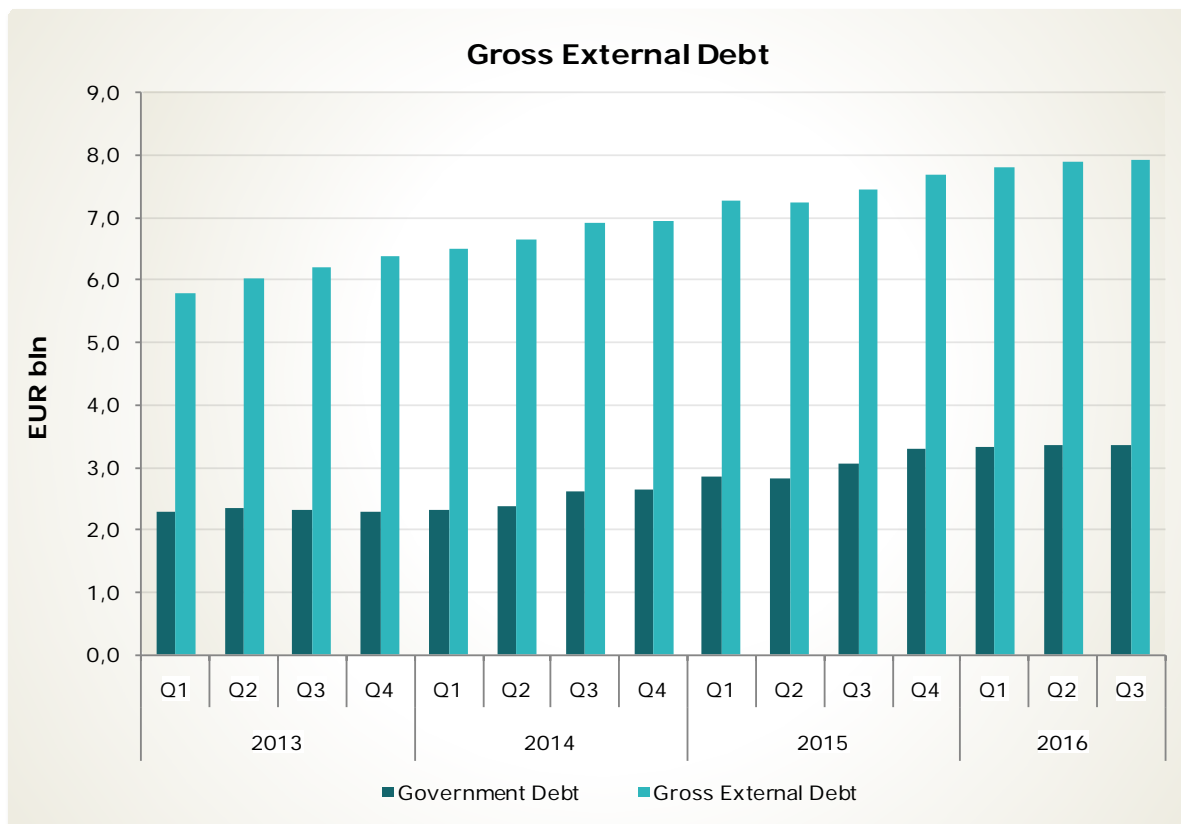
## 6. EXTERNAL SECTOR

### 6.1. FOREIGN DEBT

*The gross external debt grew to EUR 7.924 bln in Q3 2016*

The gross external debt totalled EUR 7.924 bln, up by 6.6% on the year in the third quarter of 2016, according to Bank of Albania. In comparison to Q3 2015 the gross external debt increased by EUR 488.0 mln.

In Q3 2016, long-term liabilities amounted to EUR 4.538 bln, or 57.3% of the total debt, and short-term liabilities totalled EUR 1.565 bln, equal to 19.8% of the total debt.



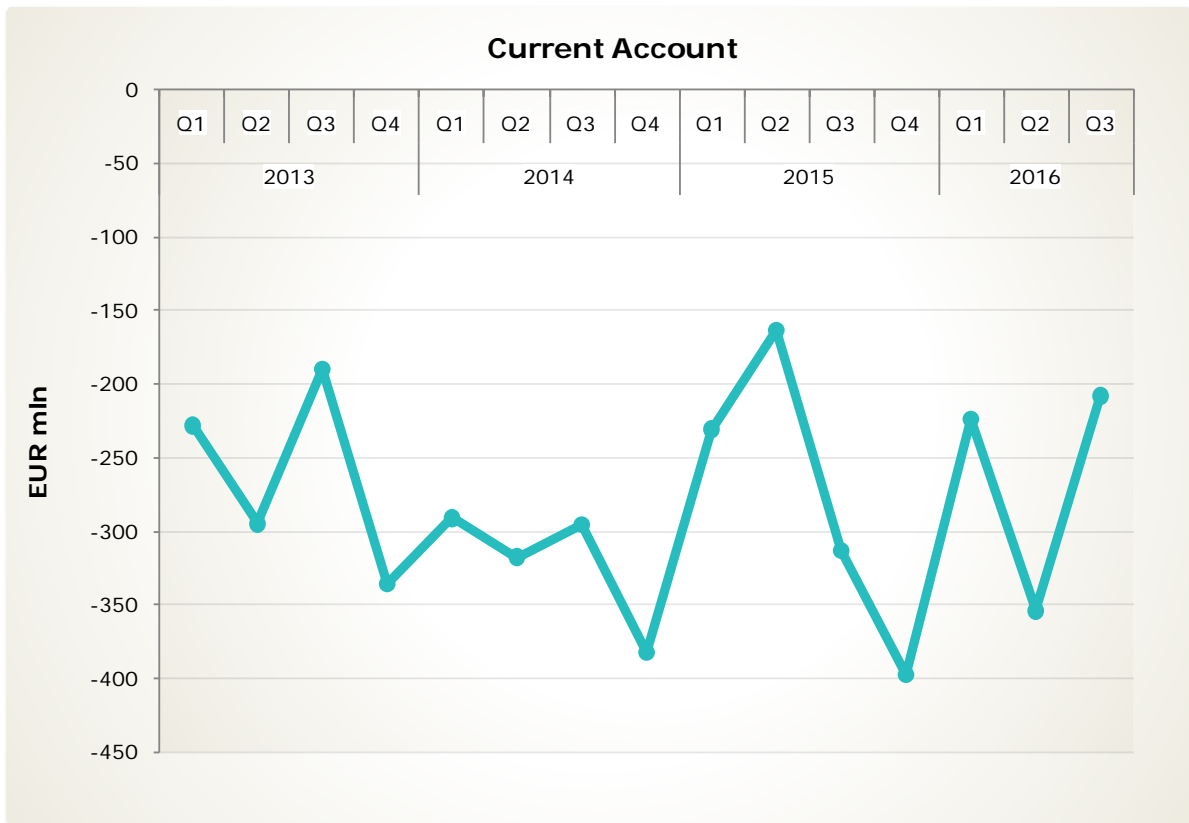
Source: Bank of Albania

## 6.2. BALANCE OF PAYMENTS

### Current account deficit at EUR 208.0 mln in Q3 2016

The current account deficit narrowed to EUR 208.0 mln in Q3 2016 from EUR 312.7 mln in Q3 2015, according to central bank statistics data.

Secondary income in Q3 2016 rose to EUR 210.0 mln from EUR 176.5 mln in Q3 2015.

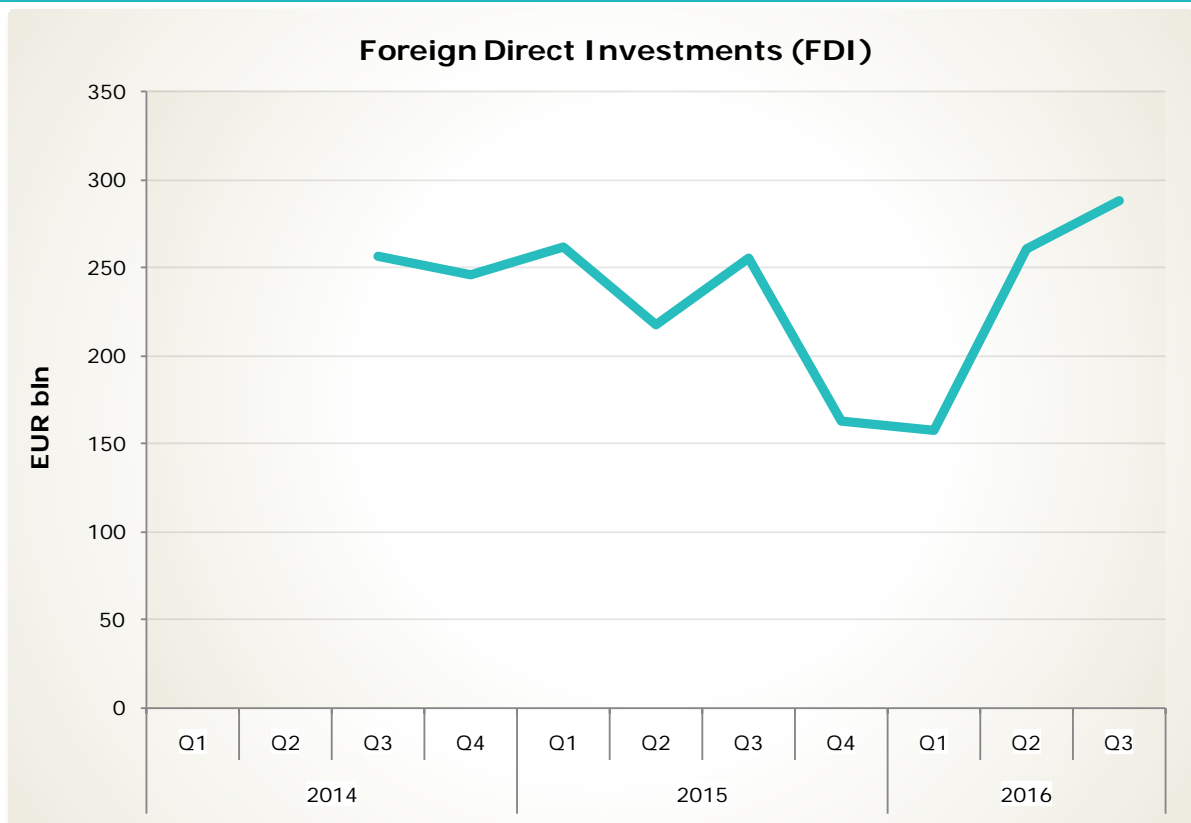


Source: Bank of Albania

## 6.3. FDI

### *FDI in Albania at EUR 288.1 mln in Q3 2016*

Foreign Direct Investments (FDI) in Albania amounted to EUR 288.1 mln in Q3 2016, according to Bank of Albania. In annual terms, the FDI inflow increased by 13.0%, or EUR 33.2 mln.



Source: Bank of Albania

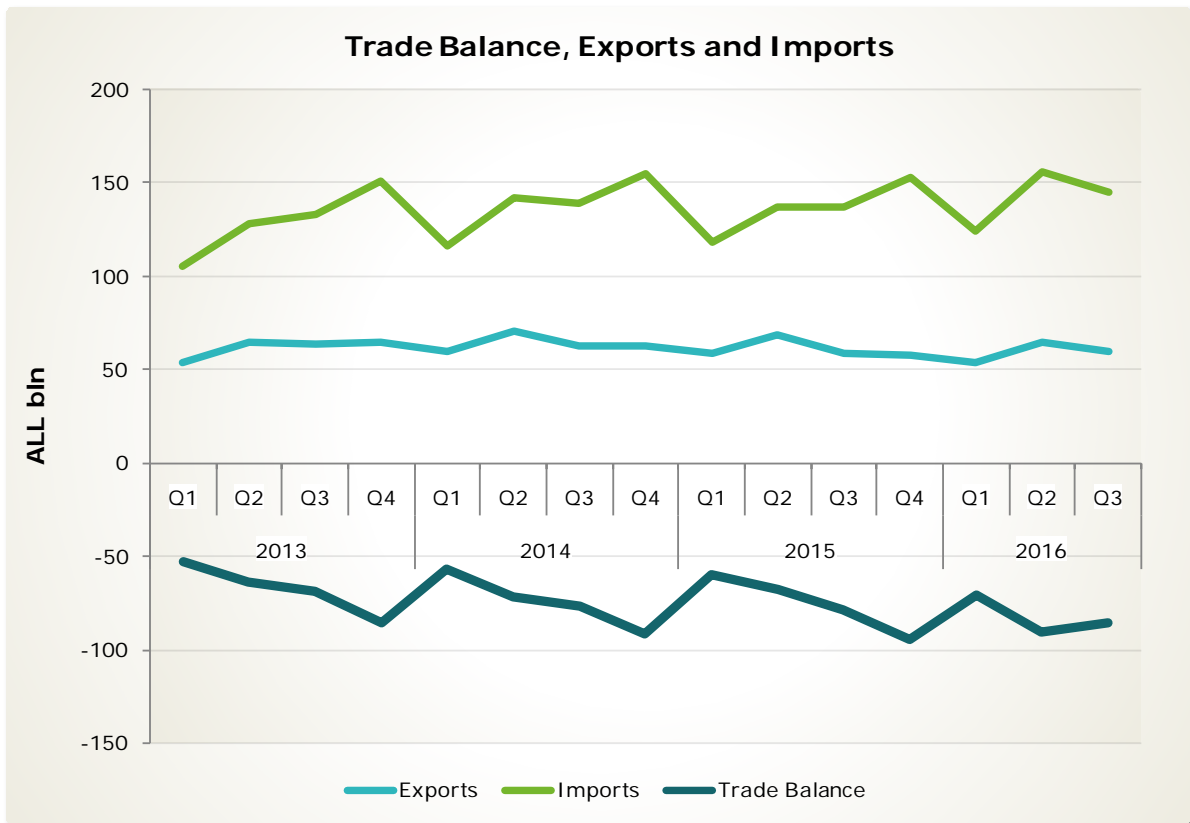
## 6.4. FOREIGN TRADE

### Foreign trade deficit up by 8.9% y/y in Q3 2016

The trade deficit stood at ALL 85.185 bln in Q3 2016, compared to ALL 78.241 bln in Q3 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 65.3% of the total in Q3 2016.

The most imported product groups in Albania in Q3 2016 were machinery, equipment and spare parts, and food, beverages and tobacco. They accounted for 41.6% of the total imports in the country in the period under review.



Source: INSTAT



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