

ALBANIA ECONOMY REPORT

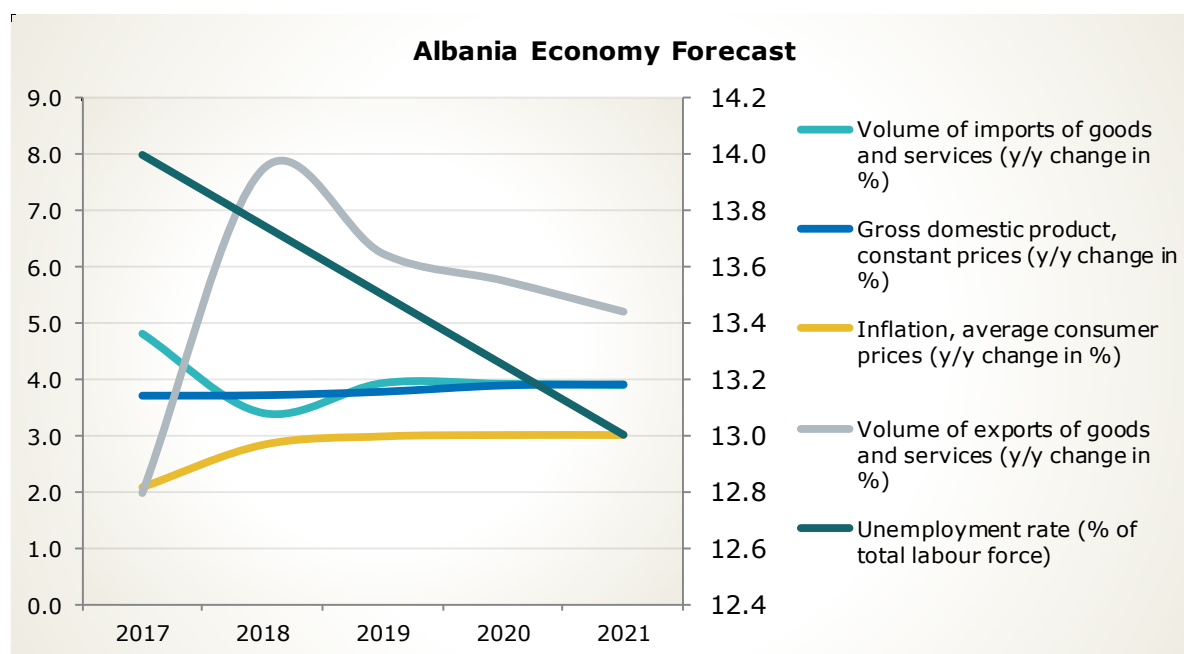
Q3 2017

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1. MACROECONOMIC SNAPSHOT AND FORECAST

ALBANIA – MACROECONOMIC SNAPSHOT AS OF Q3 2017	
GDP Growth	3.5% y/y
Business confidence indicator	1.80 pp q/q
Industrial output	33.7% y/y (Q2 2017)
Retail sales	1.1% y/y
Annual inflation	1.6%
Unemployment rate	13.6%
Number of building permits	310
Money supply growth	1.7% y/y
Household loans	4.7% y/y
Gross external debt	EUR 7.833 bln
Current account deficit	EUR 133.0 mln
FDI inflow	EUR 298.8 mln
Foreign trade deficit	ALL 90.4 bln
Number of foreign tourists	2.9% y/y

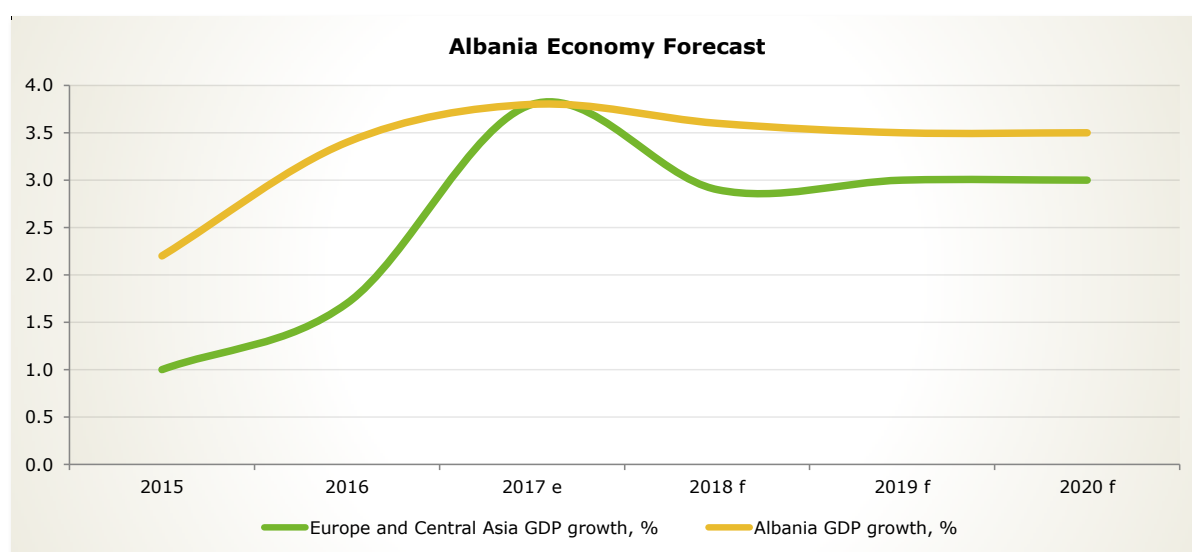


Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2017

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 will 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, a possible weakening of the EU growth, failures to implement structural reforms and corruption fighting.



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

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 the country. 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

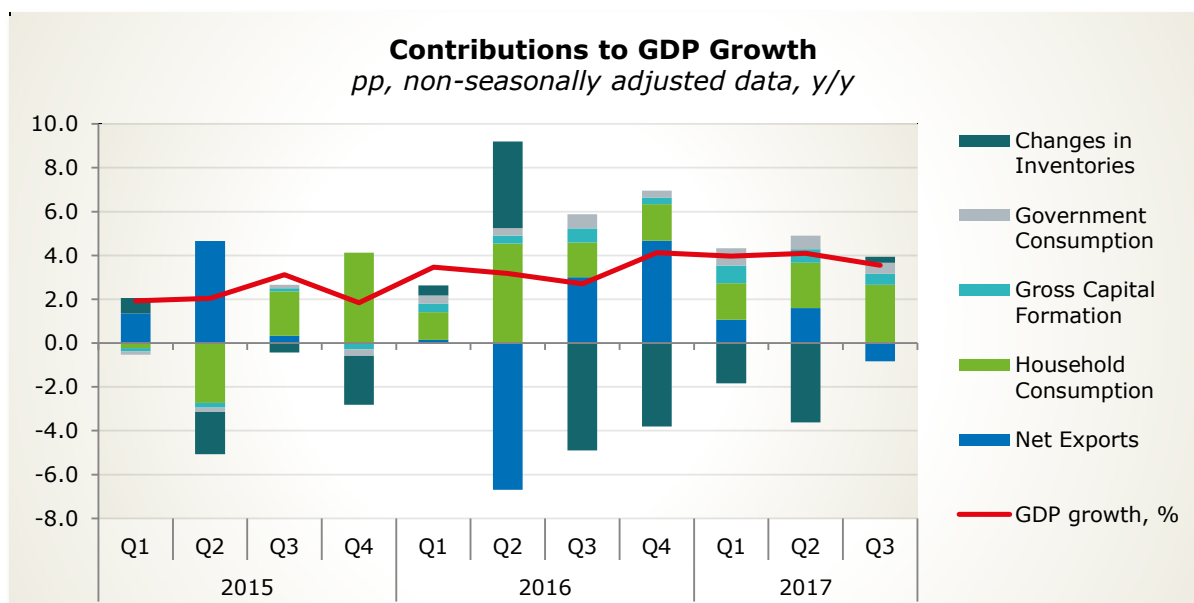
2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP annual growth at 3.5% in Q3 2017 boosted by capital investments and construction of energy related projects

In Q3 2017, the Albanian economy kept its rapid pace of growth achieved in the second quarter of 2017. Country's GDP increased by 3.5% y/y and totalled ALL 362.3 bln in Q3 2017, according to the Institute of Statistics (INSTAT). The economy expanded mainly on government consumption, which marked a 4.4% y/y growth, followed by household consumption and capital investments.

Household consumption had the biggest contribution to the annual GDP growth - 2.7 pp, gross capital formation followed with a contribution of 0.9 pp.

Final consumption, which took 87.8% share in the GDP, went up by 3.4% y/y. Gross capital formation increased by 3.8%, slicing 25.0% of the GDP. Exports and imports grew by 11.4% and 9.6%, respectively.

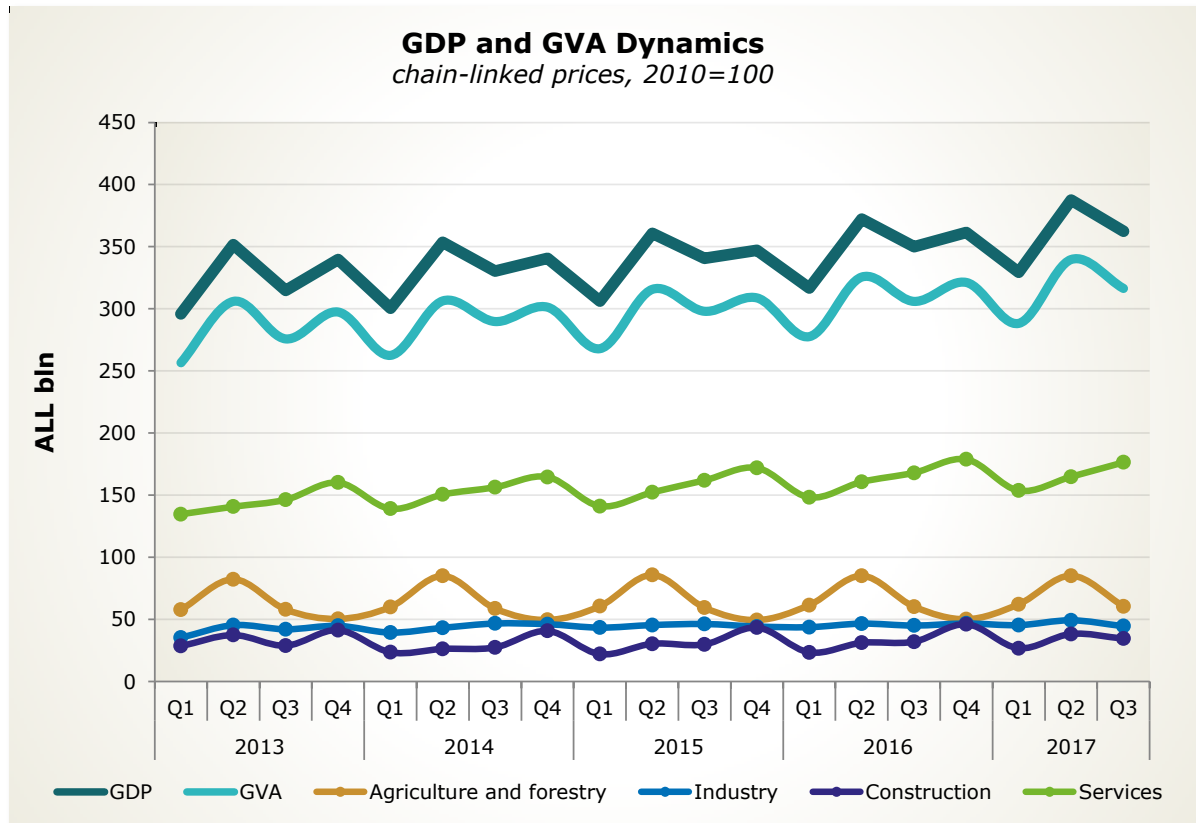


Source: INSTAT; SeeNews calculations

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.

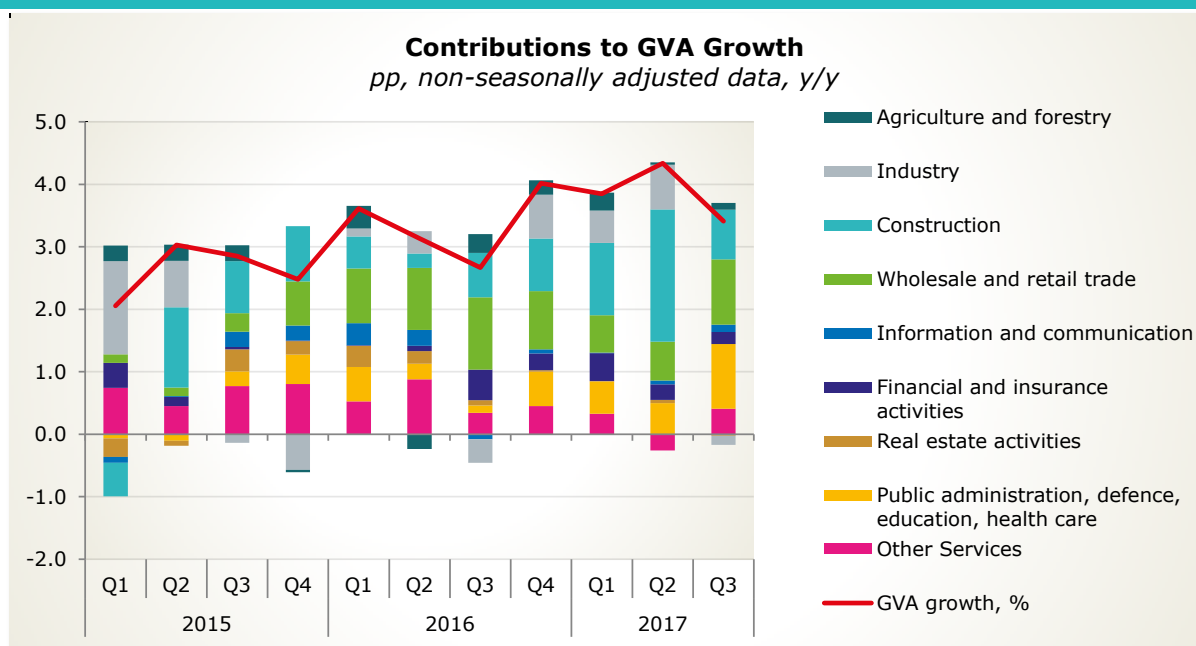
The country's non-seasonally adjusted GVA increased in value by 3.4% y/y and totalled ALL 316.4 bln in Q3 2017. The industrial sector fell by 1.1% y/y and took 14.1% share in the total GVA. The services sector recorded a 5.0% annual increase, slicing a 55.8% share in the GVA.

Construction grew by 7.6% and its share in GVA went up to 10.9% from 10.5% in the corresponding quarter of the previous year. The agricultural sector marked a modest increase - 0.5%, accounting for 19.2% of the total GVA.



Source: INSTAT

In terms of sector contributions, the economic growth was balanced during the third quarter of 2017. The public administration, defence and education sector was the largest growth driver as it added 8.4 pp to the overall y/y GVA growth. The construction sector contributed with 7.6 pp to the GVA increase, followed by financial and insurance activities with 6.7 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 increased by 1.8 percentage points q/q in Q3 2017

In the third quarter of 2017, the average business confidence indicator went up by 1.8 percentage points q/q, according to Bank of Albania.

Services confidence indicator reported the strongest decrease among all sectors, by 2.2 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 2.3 pp and 2.0 pp, respectively. Firms operating in the services sector however expected improvement in financial situation, while employment balance remained down, according to the Bank of Albania survey. Meanwhile, the capacity utilisation rate is assessed at 73.0% on average, or by 1.3 pp higher compared to the level registered in the previous quarter.

Construction confidence indicator went up by 7.2 pp, fuelled mainly by improvement of the employment expectations and construction activity. Capacity utilisation rate in the sector was at 62.9% in Q2 2017, unchanged from the level recorded in the first half of the year.

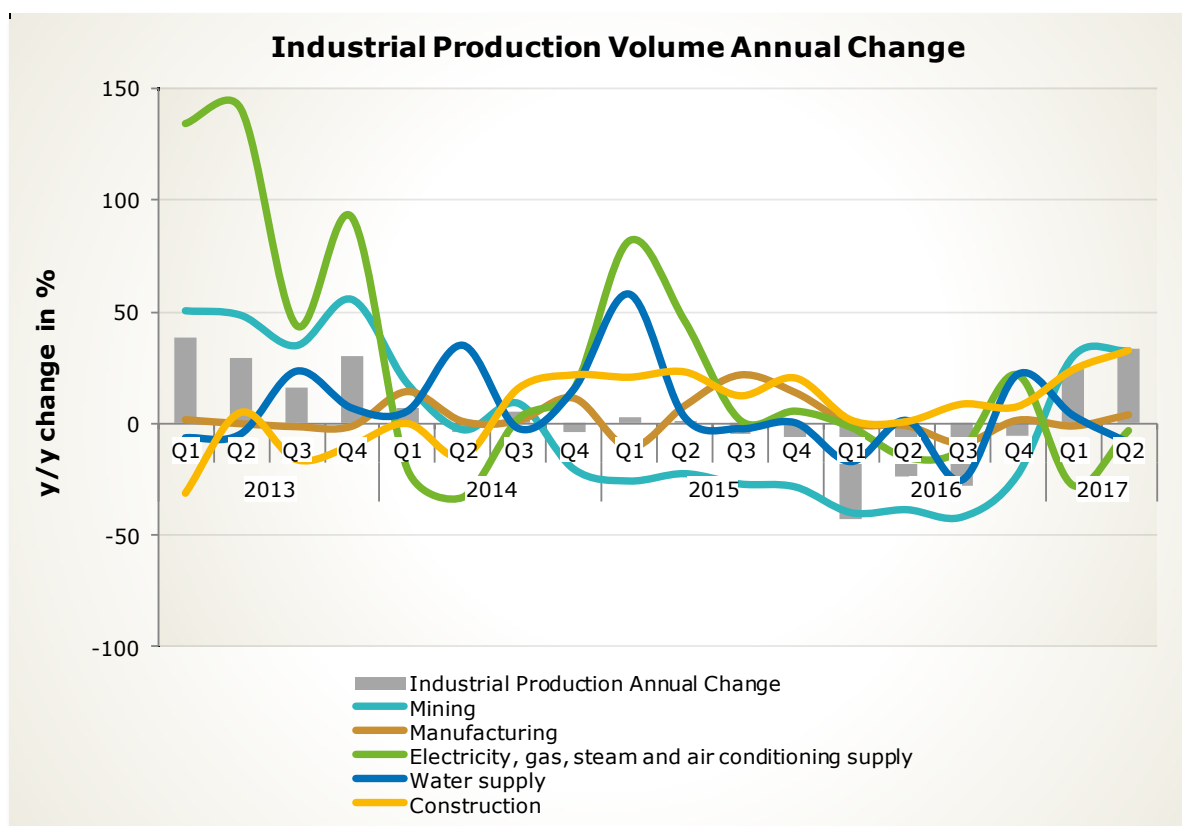
Industry confidence indicator notched down by 1.0 pp in Q3 2017, reflecting mainly the negative developments in the inventories and production balances. Capacity utilisation rate of firms operating in the industry sector stood at 74.0% in Q3 2017, or 0.4 pp lower than in the previous quarter.

2.3. INDUSTRIAL OUTPUT

Industrial output increased by 33.7% y/y in Q2 2017 on mining and construction sectors¹

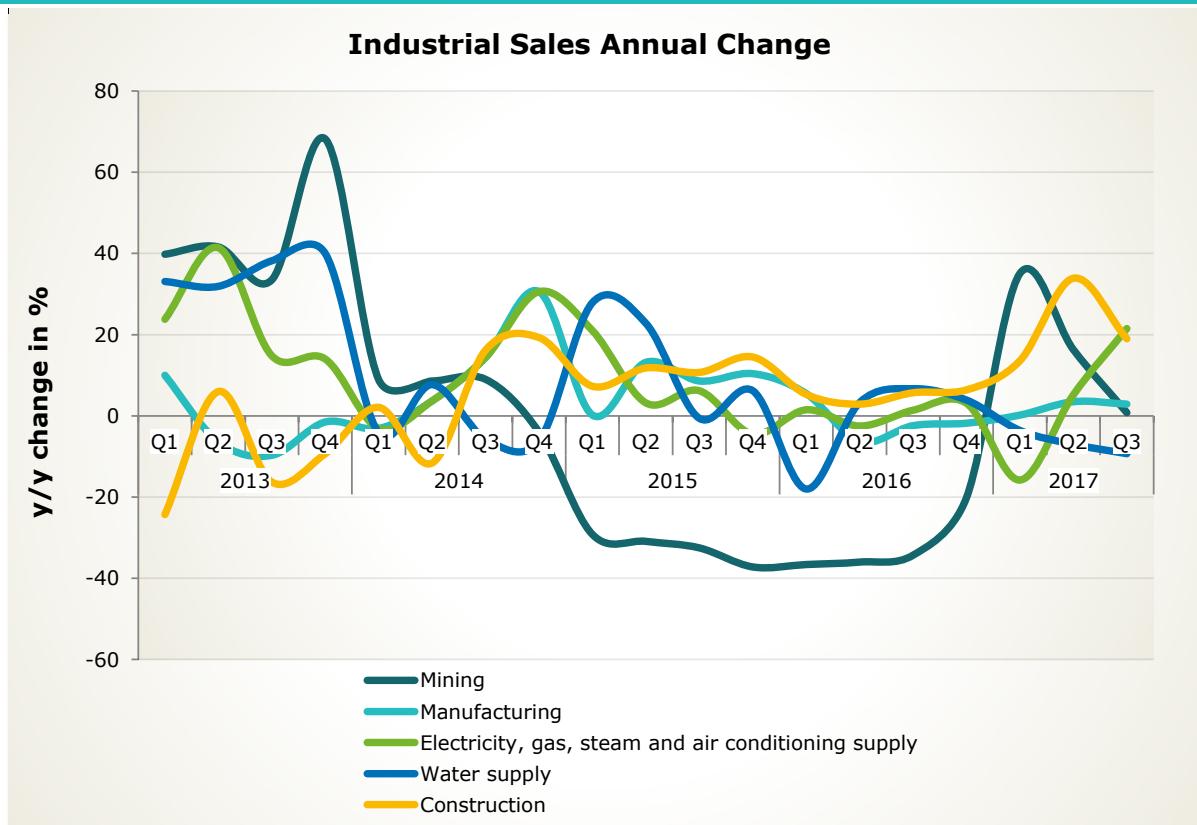
Industrial output surged by 33.7% in Q2 2017, fuelled by the annual jump in the production of the construction and mining sectors, according to INSTAT.

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

¹ Data for Q3 2017 was not available at the time of preparation of this report.



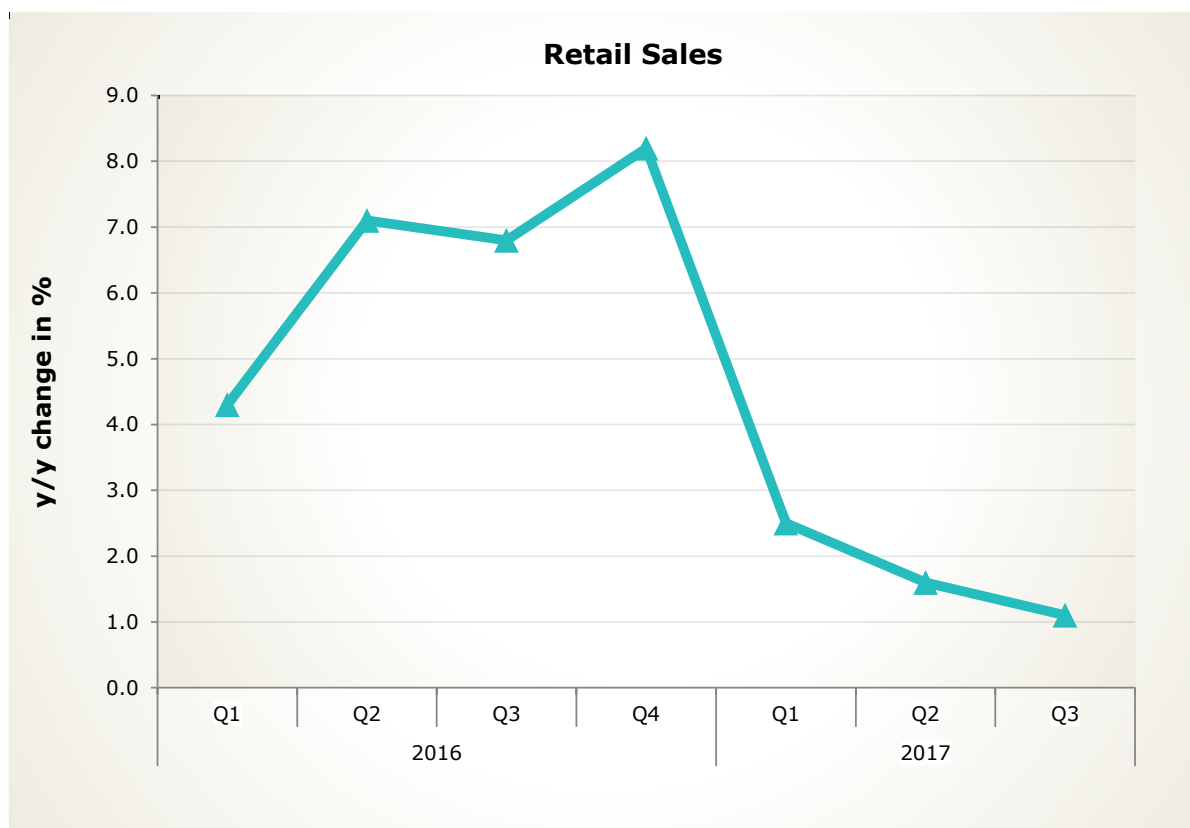
Source: INSTAT

2.4. RETAIL SALES

Retail sales growth slowed to 1.1% y/y in Q3 2017

Retail sales went up by 1.1% y/y in Q3 2017, according to INSTAT. This is a slowdown compared to Q3 2016 when retail sales increased by 6.8% y/y.

Retail sale of non-food products in specialised and non-specialised stores registered the highest annual rise, of 4.5%. Food, beverages and tobacco followed with a growth rate of 1.7% y/y, while retail sale of automotive fuel dropped by 4.0% compared with the same quarter of the previous year.



Source: INSTAT

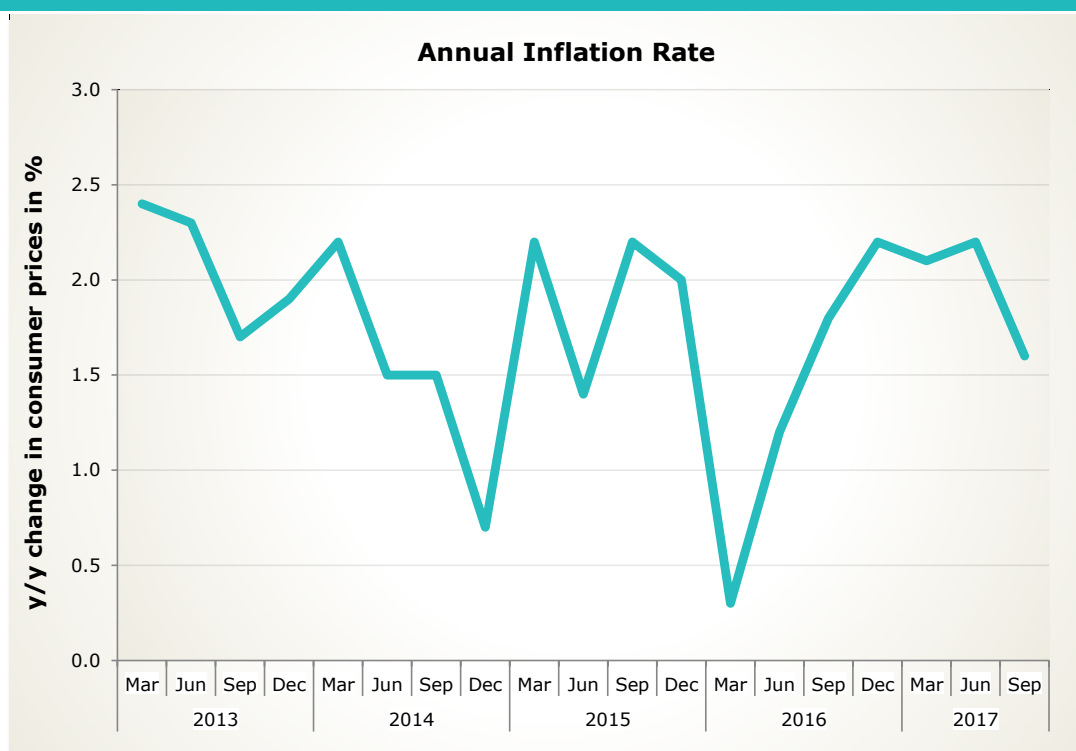
2.5. INFLATION

Annual inflation of 1.6% in September 2017

The annual inflation in Albania remained at around 2.0% in the third quarter of 2017, according to INSTAT. In September 2017 alone, it stood at 1.6%, unchanged from 1.6% in August and 2.0% in July.

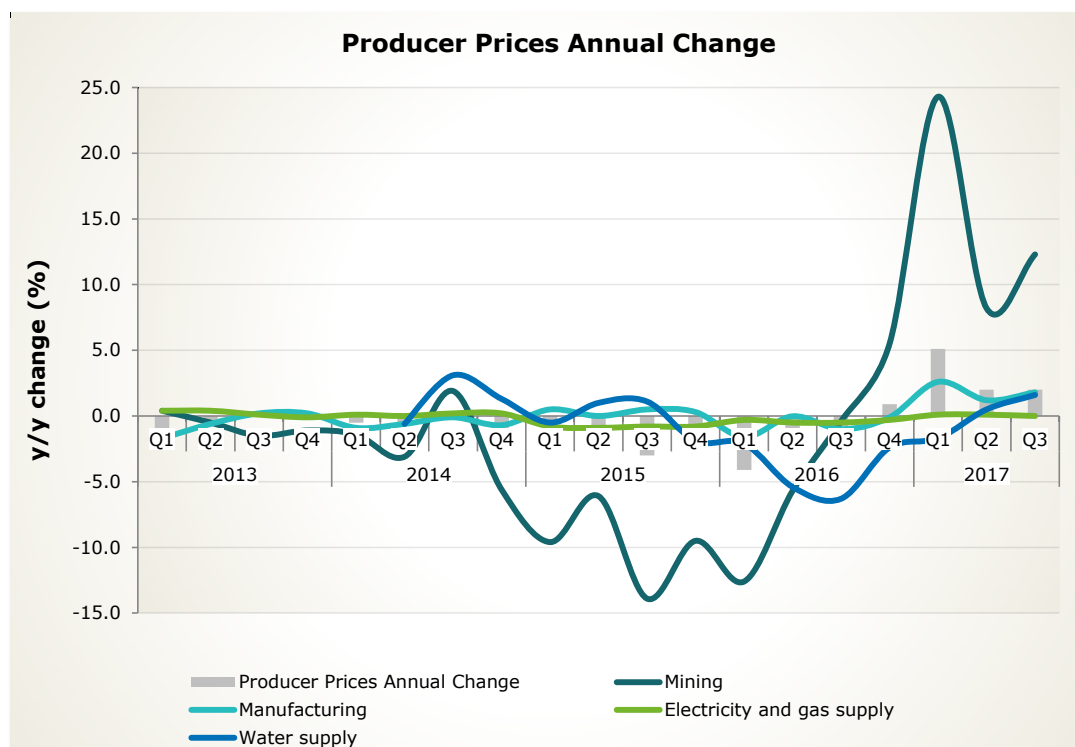
The highest increase in consumer prices in September 2017, of 3.5%, was registered in food and non-alcoholic beverages, followed by housing, water, electricity and gas supply with 1.1% and education services with 1.0%.

Deflation was present in four product groups – 1.6% for clothing and footwear, 0.8% for furniture, household goods and maintenance, 0.2% in healthcare and 0.1% in telecommunications.



Source: INSTAT

Producer prices went up by 2.0% y/y in Q3 2017, INSTAT data showed. Producer prices in the mining sector grew by 12.3%. In the manufacturing industry they increased by 1.8% and inched up by 1.6% in the water supply sector. Producer prices stayed unchanged y/y in the electricity and gas supply sector.



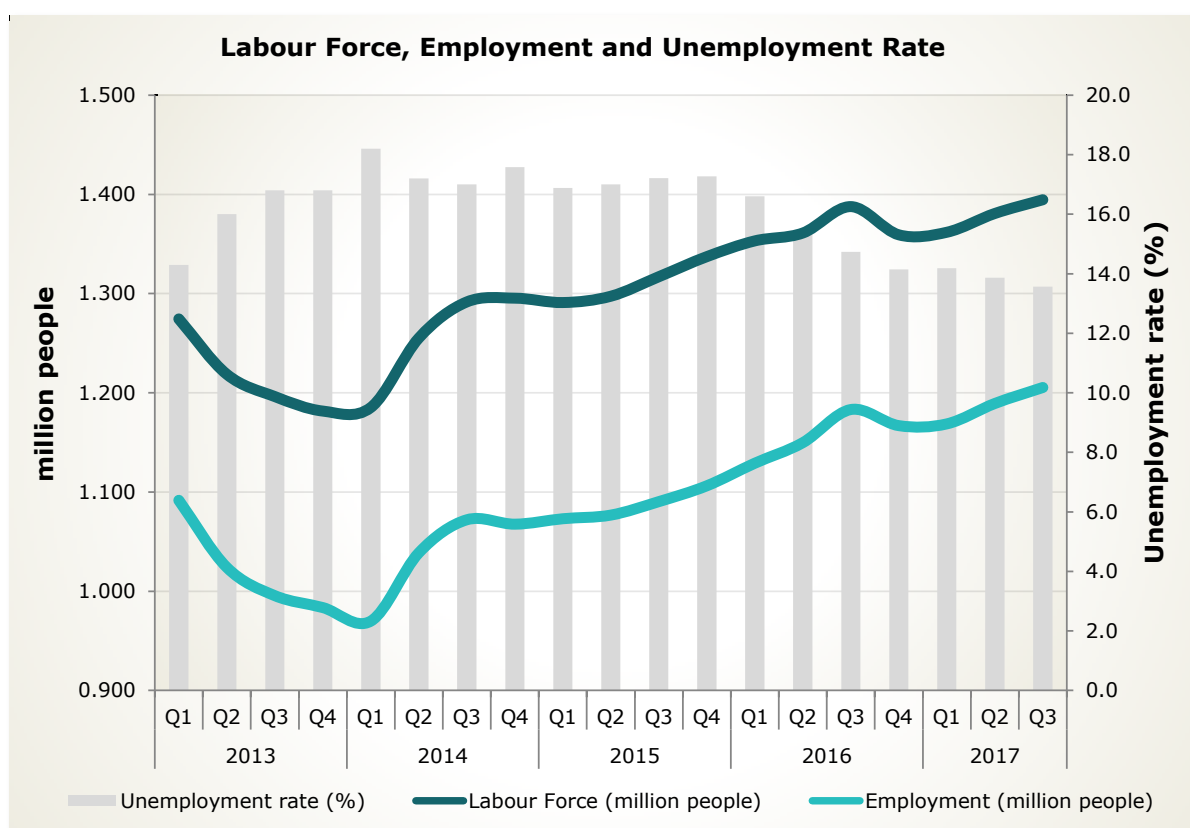
Source: INSTAT

3. LABOUR MARKET

Unemployment rate went down in the third quarter of 2017 but remained high, at 13.6%

Unemployment in Albania narrowed to 13.6% of the total labour force in Q3 2017 from 13.9% in Q2 2017 and 14.7% in Q3 2016, according to data of INSTAT. The employed population aged 15 years and older was 1.205 mln in Q3 2017, up by 1.9% y/y.

The youth (population aged 15-29) unemployment rate went down to 26.0% in the third quarter of 2017 from 27.4% in Q3 2016.



4. CONSTRUCTION AND REAL ESTATE

The number of building permits doubled y/y in Q3 2017

The number of building permits issued in Albania in Q3 2017 totalled 310, compared to 145 in the same quarter of the previous year, according to INSTAT data.

Permits for construction of non-residential buildings stood at 102, up from 47, while permits for housing projects jumped to 208 from 98.

The total area, covered by permits for non-residential buildings amounted to 103,354 sq m, more than doubling y/y in Q3 2017. The total area of the housing projects jumped almost tenfold on the year to 246,799 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 132.9 in Q3 2017 from ALL 134.4 in Q2 2017, according to Bank of Albania. 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	Q3 2017	Q2 2017	Q3 2016
EUR	132.9	134.4	136.8
USD	113.2	122.1	122.5
GBP	148.1	156.2	160.9
CHF	117.5	124.0	125.7

5.2. MONETARY POLICY

Policy rate at 1.25% as of Q3 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 stands unchanged at the minimum historic level of 1.25% since May 2016. 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.

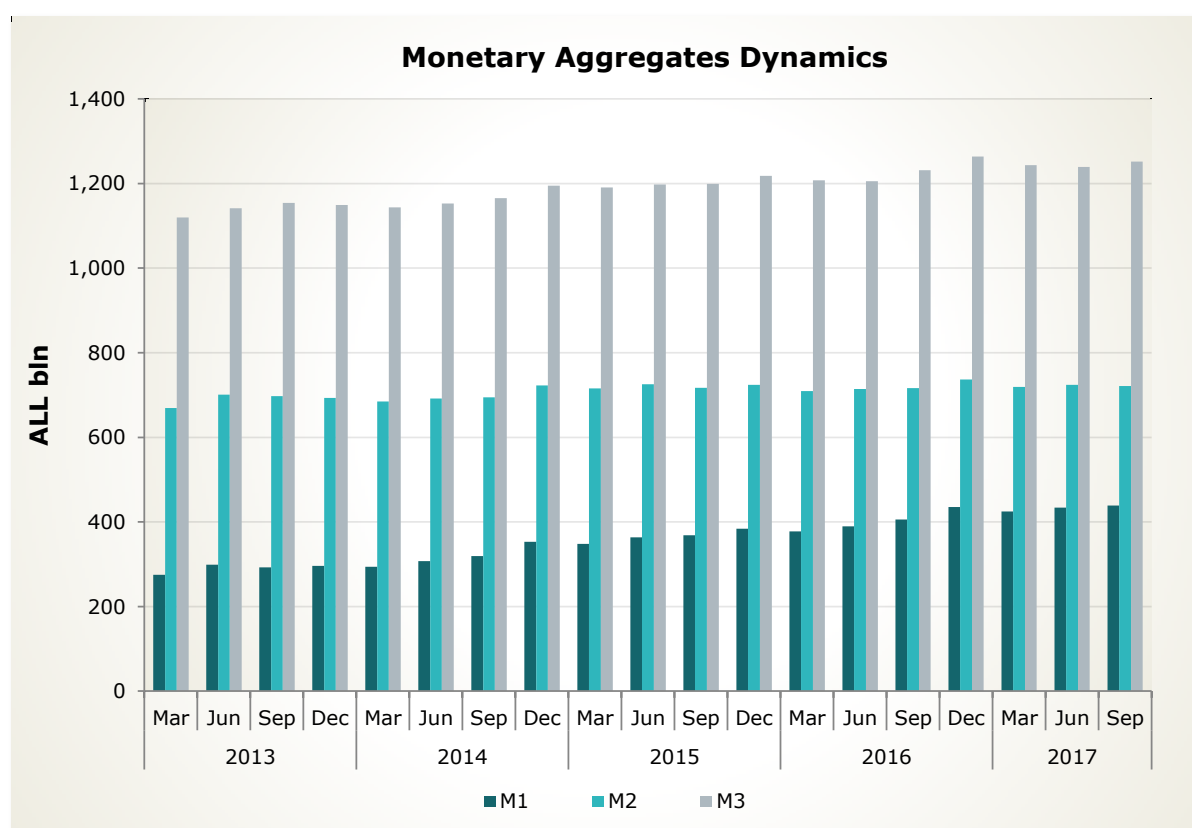
5.3. MONETARY AGGREGATES

Annual money supply growth was 1.7% in Q3 2017

Broad money (money aggregate M3) increased by 1.7% y/y and reached ALL 1,251.7 bln in September 2017, according to data provided by Bank of Albania.

The M2 money supply went up by 0.7% y/y to ALL 721.2 bln and shows expansion and concentration of lending in domestic currency.

Money aggregate M1 soared by 8.1% y/y to ALL 438.6 bln and reflects the preference of economic agents to keep deposits in liquid form.



Source: Bank of Albania

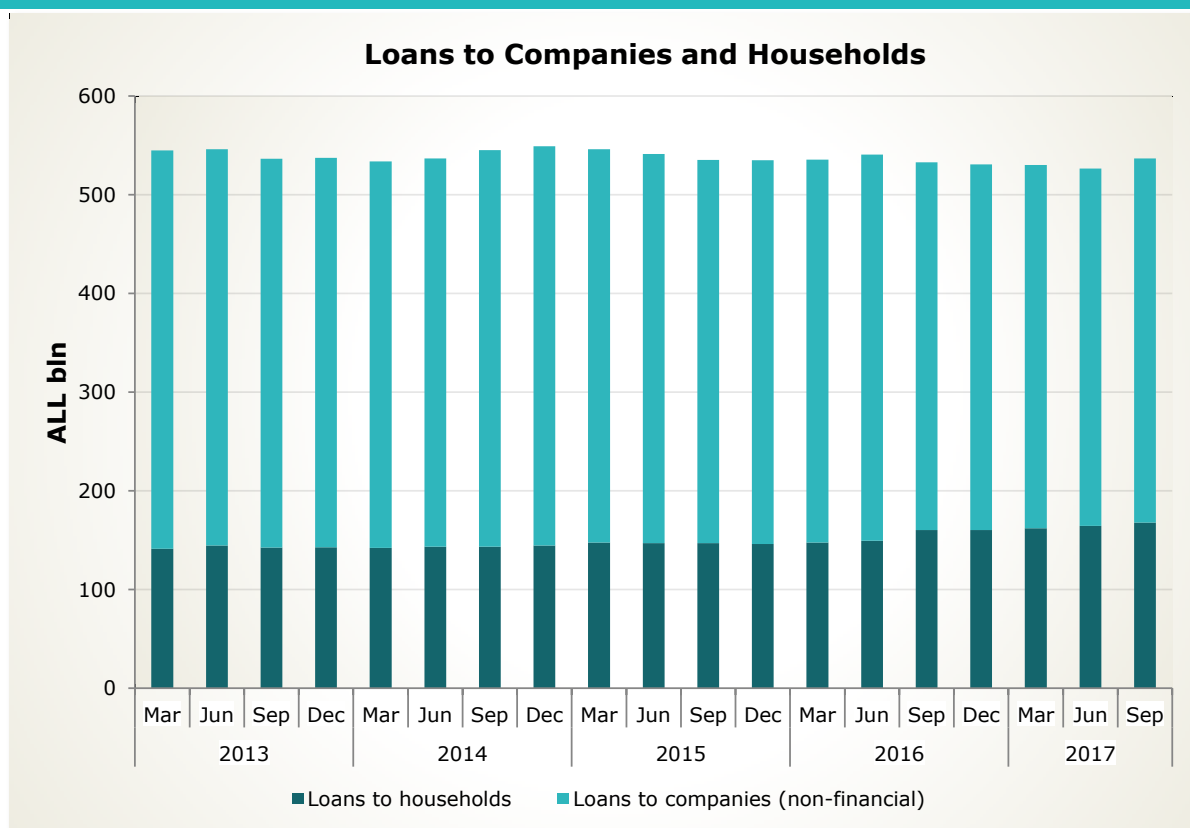
5.4. BANKING AND INSURANCE

Non-government sector loans increased by 0.7% y/y in Q3 2017

Loans to the non-government sector totalled ALL 536.7 bln in September 2017, up by 0.7% y/y, according to Bank of Albania.

According to the central bank's Q3 2017 bank lending survey, credit standards on loans to small and medium-sized enterprises remained unchanged while the standards on loans for large enterprises were tightened in comparison to the second quarter of the year. Loans to households experienced eased credit standards, especially for consumer loans.

As a result, loans to businesses fell, while those for households went up. Loans to non-financial corporations narrowed by 1.0% y/y to ALL 368.7 bln, while household loans rose by 4.7% to ALL 168.0 bln. House purchasing loans amounted to ALL 106.9 bln, up from ALL 104.4 bln in September 2016.

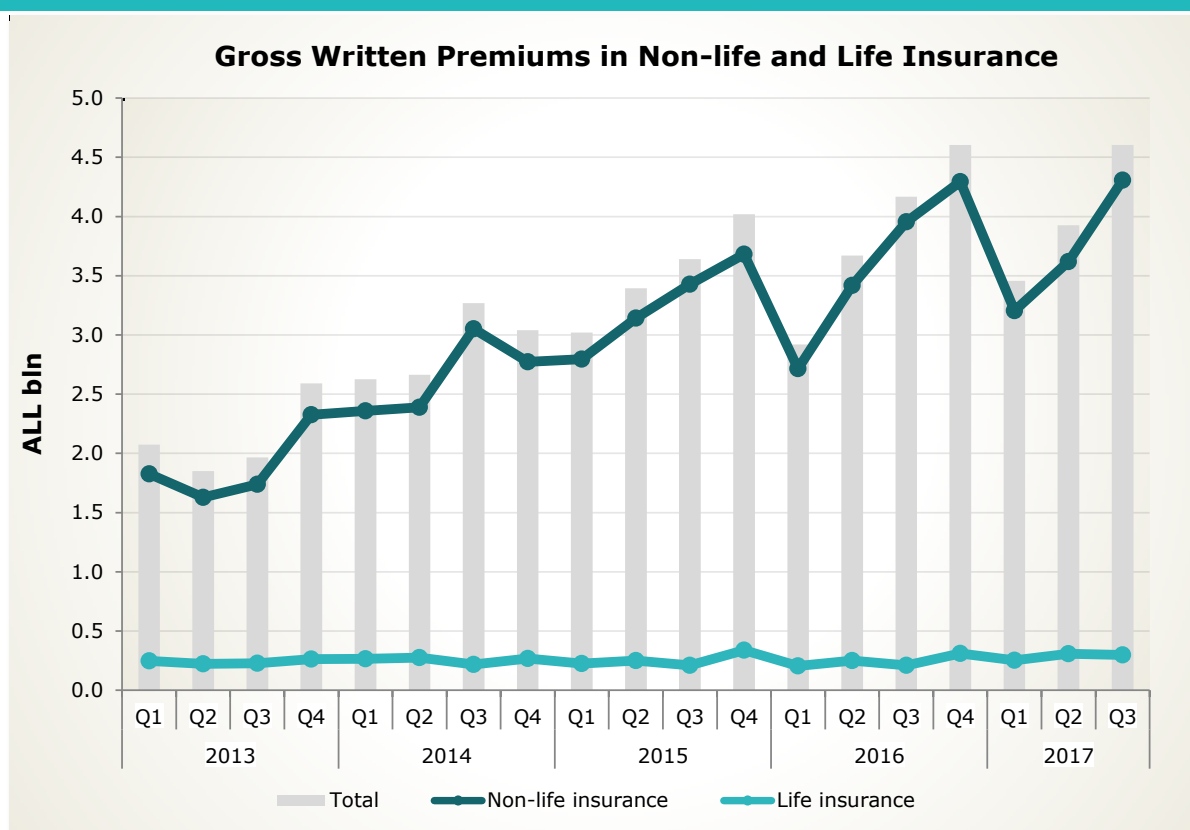


Source: Bank of Albania

Insurance premium income up 10.5% y/y in Q3 2017

The total gross written premiums of the Albanian non-life and life insurance companies, excluding reinsurance, stood at ALL 4.604 bln, up by 10.5% y/y in Q3 2017, according to the Albanian Financial Supervisory Authority (AMF).

The rise was fuelled by the 8.9% increase of the non-life insurance sector, which posted gross written premiums of ALL 4.306 bln in Q3 2017. The premiums in the life insurance segment expanded much faster - by 41.3% to ALL 0.299 bln.



6. EXTERNAL SECTOR

6.1. FOREIGN DEBT

The gross external debt inched down by 0.6% y/y to EUR 7.833 bln in Q3 2017

The gross external debt totalled EUR 7.833 bln, down by 0.6% on the year in the third quarter of 2017, according to Bank of Albania. In comparison to Q2 2017 the gross external debt decreased by EUR 22.0 mln.

In Q3 2017, long-term liabilities amounted to EUR 4.515 bln, or 57.6% of the total debt, and short-term liabilities totalled EUR 1.589 bln, equal to 20.3% of the total debt.



Source: Bank of Albania

6.2. BALANCE OF PAYMENTS

Current account deficit narrowed to EUR 133.0 mln in Q3 2017

The current account deficit narrowed to EUR 133.0 mln in Q3 2017 from EUR 149.0 mln in Q3 2016, according to central bank statistics data.

This was mainly a result of increased surplus on the trade of services y/y to EUR 380.1 mln in Q3 2017 from EUR 269.1 mln in the same quarter of the previous year. The negative trade balance on goods went up to EUR 753.8 mln from EUR 680.0 mln in Q3 2016, while the secondary income account was in surplus of EUR 212.0 mln, up from EUR 210.3 mln a year ago.

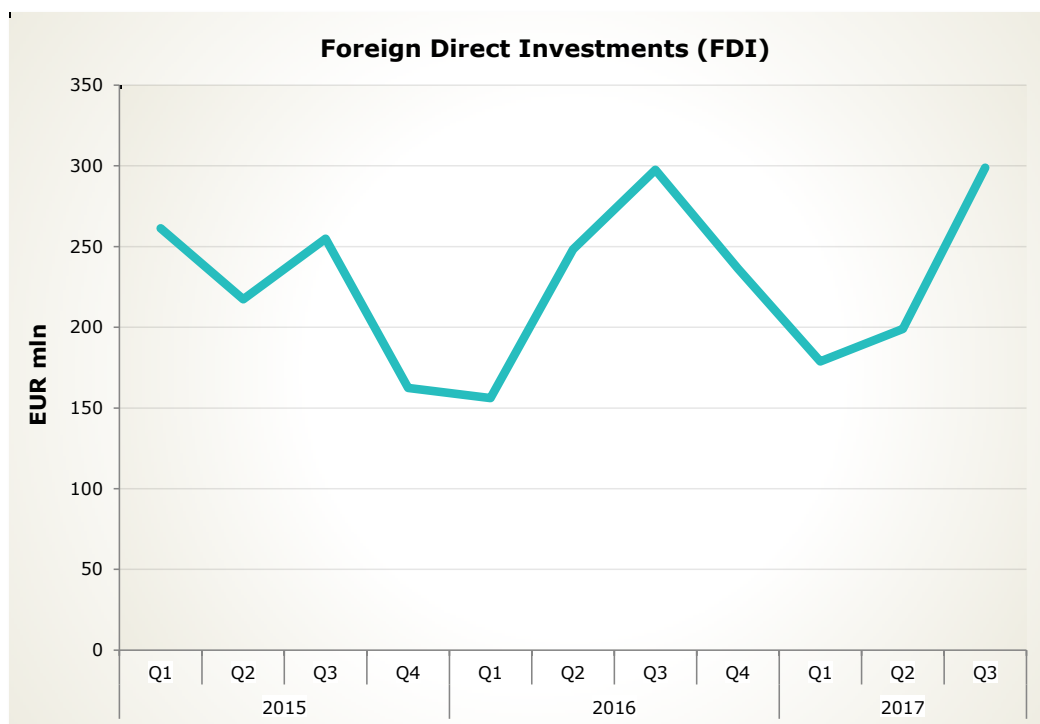


Source: Bank of Albania

6.3. FDI

FDI in Albania at EUR 298.8 mln in Q3 2017

Foreign Direct Investments (FDI) in Albania amounted to EUR 298.8 mln in the third quarter of 2017, according to Bank of Albania. In annual terms, the FDI inflow rose by 0.4%, or EUR 1.2 mln. FDIs covered 2.5 times the current account deficit in Q3 2017.



Source: Bank of Albania

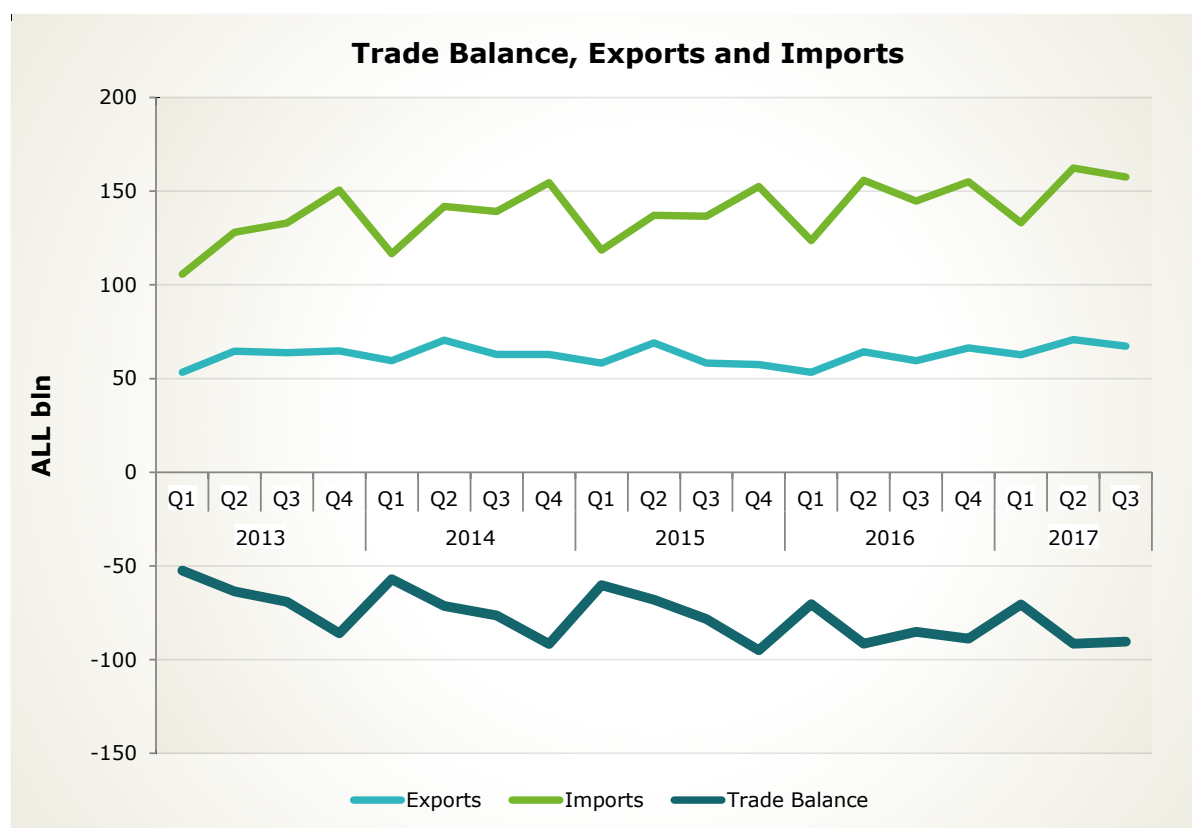
6.4. FOREIGN TRADE

Foreign trade deficit up by 6.1% y/y at ALL 90.4 bln in Q3 2017

The trade deficit stood at ALL 90.4 bln in the third quarter of 2017, up by 6.1% compared to Q3 2016, according to INSTAT.

Exports of goods increased by 13.0% to ALL 67.3 bln, while imports went up by 9.0% y/y to ALL 157.7 bln.

Albania's most exported products were footwear – 22.3% of the total exports, articles of apparel and clothing accessories not knitted – 12.4% and iron and steel with 8.7%. In terms of imports, mineral fuels and oils and products of their distillation led the ranking with an 11.7% share, followed by electrical machinery and equipment with a 7.5% share and nuclear reactors, boilers, machinery and mechanical appliances with 7.3% of the total imports.



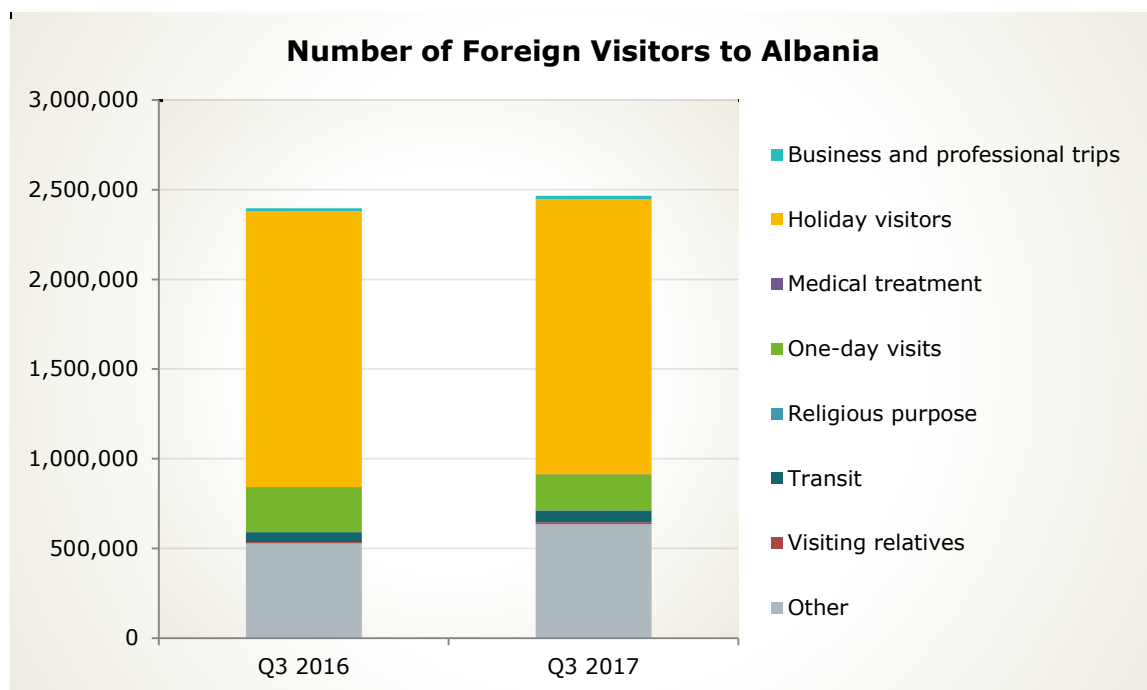
Source: INSTAT

6.5. TOURISM

Number of foreign visitors to Albania up 2.9% y/y in Q3 2017

The number of foreign nationals who visited Albania in the third quarter of 2017 rose by 2.9% y/y to 2,465,389, according to INSTAT.

Visitors who entered the country for the purpose of recreation represented 62.2% of all foreign nationals, or 1,532,963. By comparison, 1,537,569 foreign nationals visited Albania for recreational purposes in Q3 2016, or 64.2% of the total number of foreign visitors.



Source: INSTAT

7. MAJOR DEVELOPMENTS

Albania's PM expects GDP to grow 3.8% in 2017

Sept 5, 2017

Albania's prime minister Edi Rama has said the country is experiencing an encouraging economic growth, with gross domestic product (GDP) expected to increase by 3.8% in 2017, French media reported in September 2017.

[Read the full story here](#)

Albania PM forms new govt, merges finance, economy ministries

Aug 28, 2017

Albania's prime minister Edi Rama said he has formed a streamlined new government comprising 11 ministers and two ministers of state.

[Read the full story here](#)

S&P affirms Albania at B+, outlook stable

Aug 17, 2017

Standard & Poor's said it has affirmed its 'B+/B' long- and short-term foreign and local currency sovereign credit ratings on Albania, with a stable outlook.

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