

ALBANIA ECONOMY REPORT

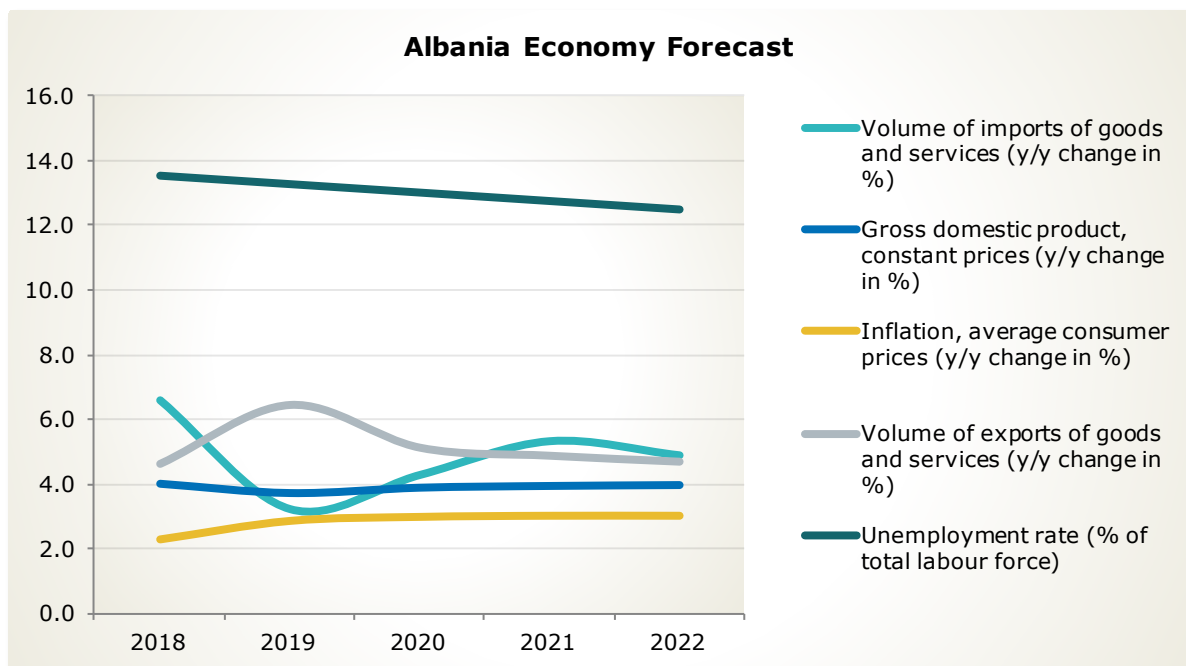
Q3 2018

CONTENTS

1. MACROECONOMIC SNAPSHOT AND FORECAST	3
2. REAL SECTOR	5
2.1. GROSS DOMESTIC PRODUCT (GDP)	5
2.2. BUSINESS CLIMATE.....	7
2.3. INDUSTRIAL OUTPUT	7
2.4. RETAIL SALES	8
2.5. INFLATION.....	8
3. LABOUR MARKET.....	10
4. CONSTRUCTION AND REAL ESTATE	10
5. MONEY SUPPLY AND BANKING SYSTEM.....	11
5.1. ALL EXCHANGE RATE	11
5.2. MONETARY POLICY	11
5.3. MONETARY AGGREGATES	11
5.4. BANKING AND INSURANCE.....	12
6. EXTERNAL SECTOR	14
6.1. FOREIGN DEBT	14
6.2. BALANCE OF PAYMENTS	15
6.3. FDI.....	16
6.4. FOREIGN TRADE	16
6.5. TOURISM	17
7. MAJOR DEVELOPMENTS	18

1. MACROECONOMIC SNAPSHOT AND FORECAST

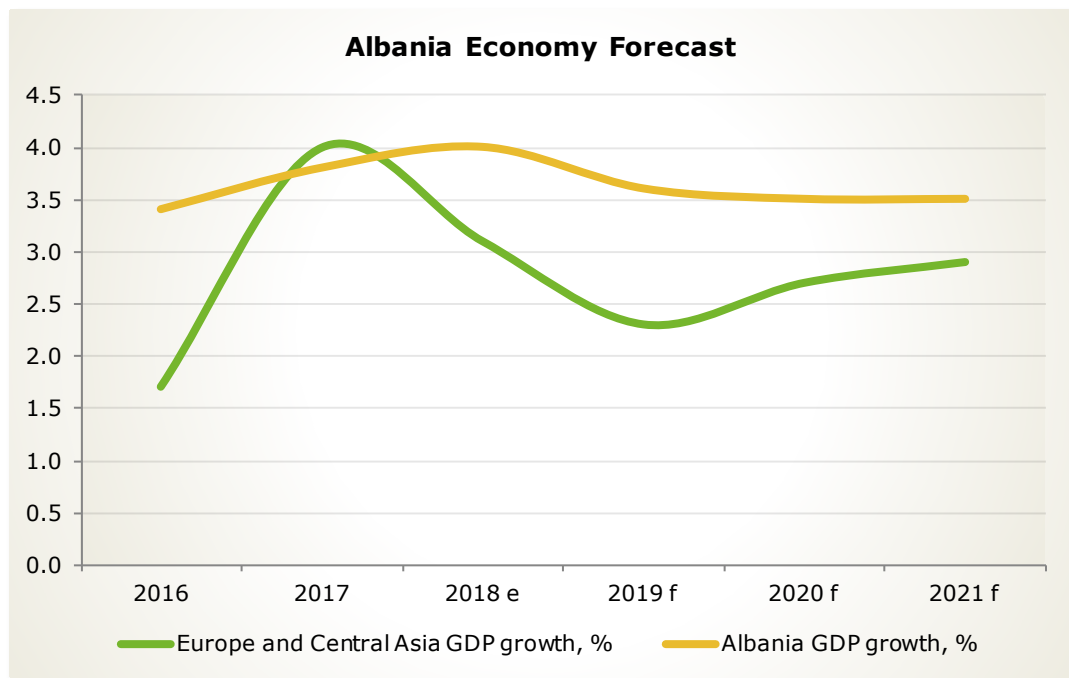
ALBANIA – MACROECONOMIC SNAPSHOT AS OF Q3 2018	
GDP Growth	4.5% y/y
Business confidence indicator	-4.0 pp q/q
Manufacturing output	8.1% y/y
Retail sales	3.7% y/y
Annual inflation	2.1%
Unemployment rate	12.2%
Number of building permits	10.6% y/y
Money supply growth	0.2% y/y
Household loans	4.0% y/y
Gross external debt	EUR 8.041 bln
Current account deficit	EUR 146.0 mln
FDI inflow	EUR 268.0 mln
Foreign trade deficit	ALL 84.0 bln
Arrivals of foreign citizens	27.5% 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.



Source: World Bank's Global Economic Prospects, January 2019

According to the World Bank estimates from January 2019, GDP growth of Albania is likely to come in at 4.0% in 2018, down from 3.8% in 2017. This will be higher than the projected growth for Europe and Central Asia, of 3.1% in 2018.

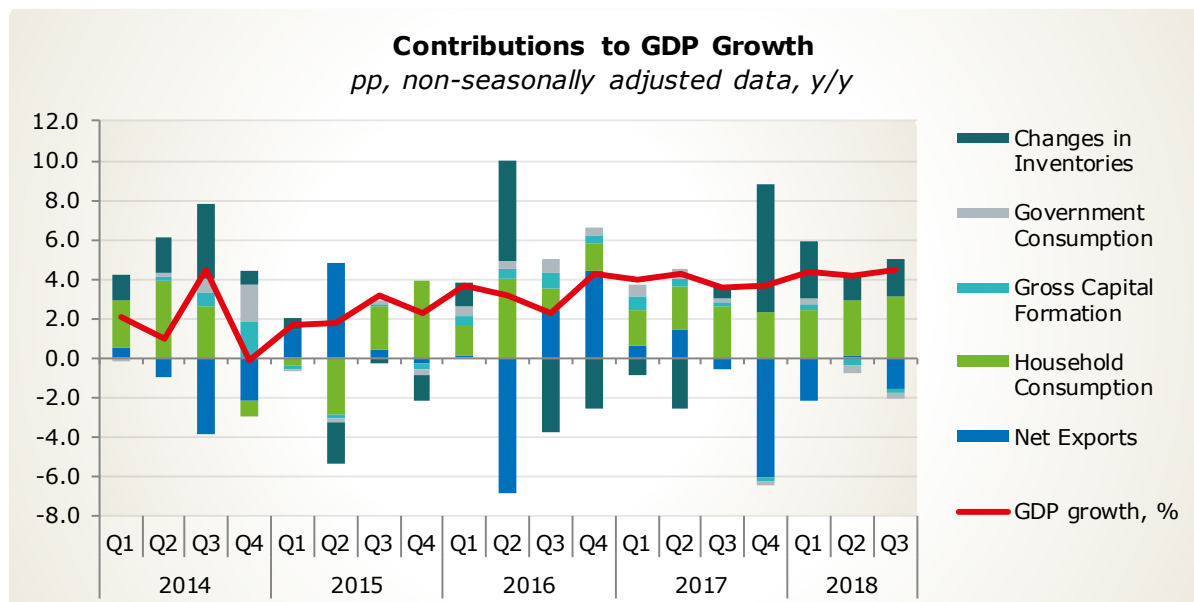
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth rose to 4.5% y/y in Q3 2018, from 4.2% y/y in Q2 2018

The Albanian GDP increased in real terms by 4.5% y/y in Q3 2018, compared to a 4.2% y/y growth in Q2 2018, according to data from Albania's Institute of Statistics (INSTAT).

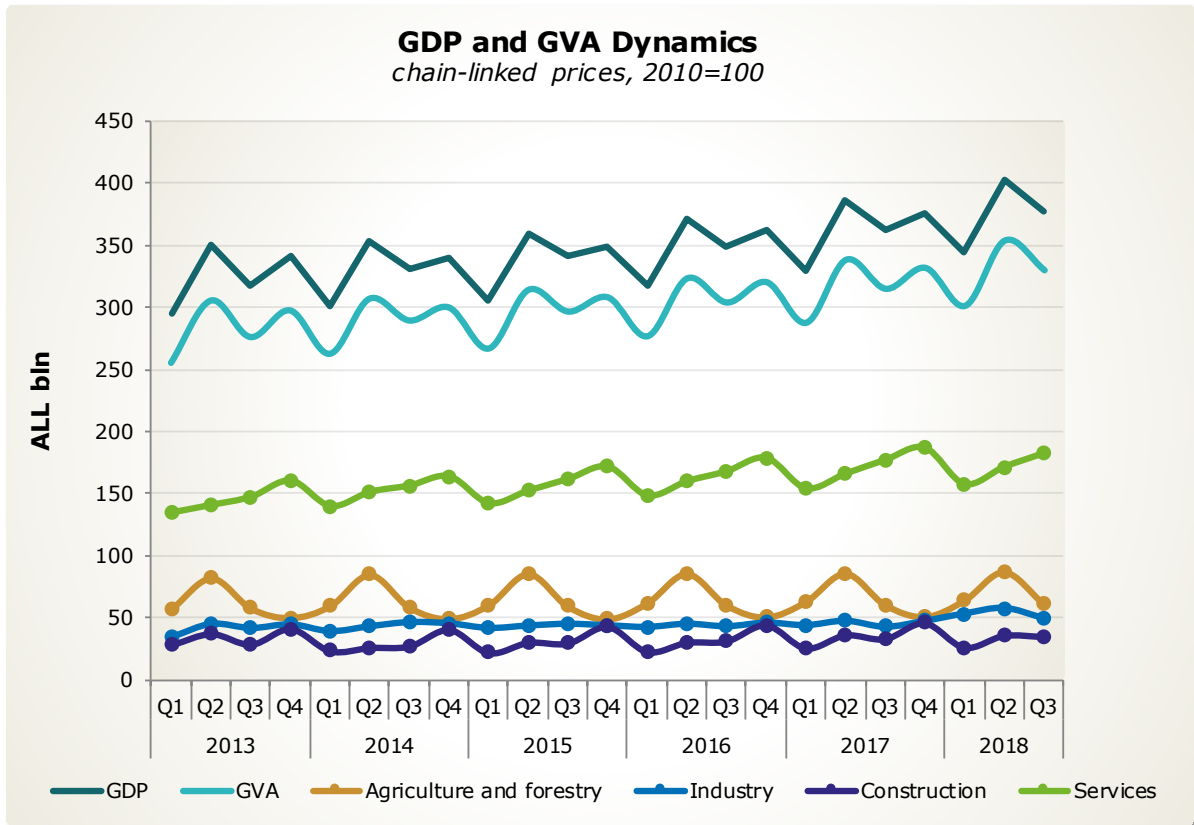
In Q3 2018, household consumption rose by 3.9% and added 3.1 pp to the overall GDP growth, while government consumption shrank by 2.4%, taking away 0.3 pp. Gross capital formation increased by 5.4% y/y and contributed to 1.3 pp to the total GDP growth. In the same time, the imports took away 1.5 pp from the economic growth in Q3 2018, while export contributed only 0.6 pp.



Source: INSTAT; SeeNews calculations

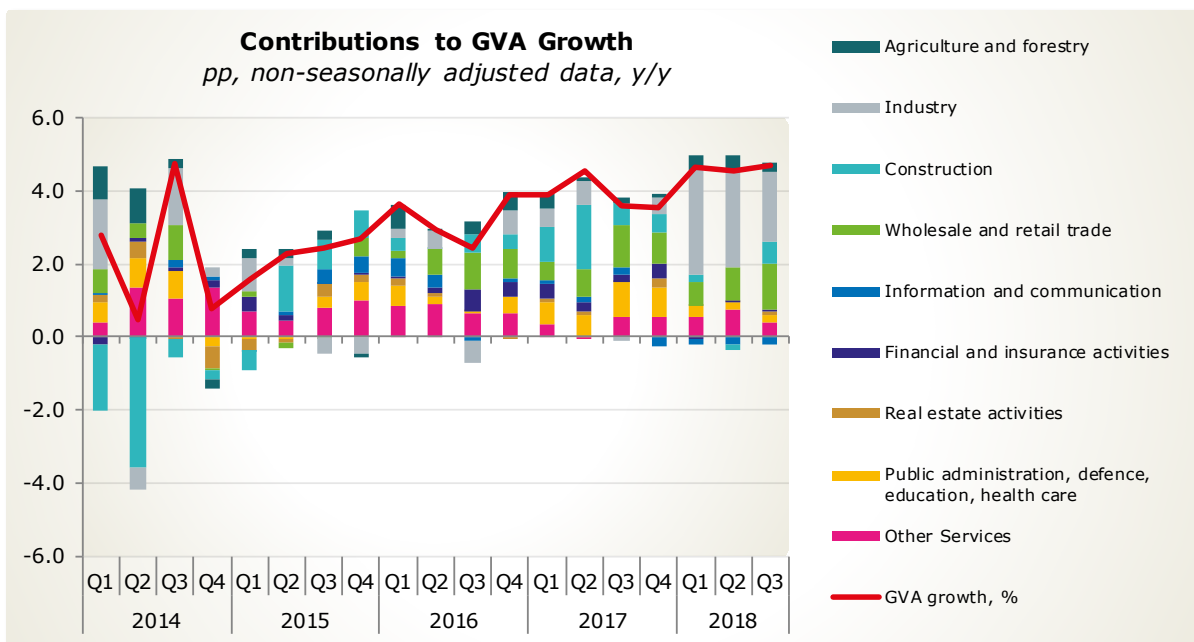
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The country's non-seasonally adjusted GVA increased in value by 4.7% y/y and totalled ALL 329.7 bln in Q3 2018. The industrial sector went up by 15.4% y/y and took a 15.1% share in GVA, while the services sector recorded a 3.1% annual increase, slicing a 55.4% share in the GVA. Construction rose by 5.4% and its share in GVA came in at 10.7%. The agricultural sector marked a modest increase, of 1.5% y/y, accounting for 18.7% of the total GVA.



Source: INSTAT

In terms of sector contributions, the industry sector added 1.9 pp to the GVA expansion, while the services sector contributed 1.8 pp to the growth. The retail and wholesale sector alone added another 1.3 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 4.0 percentage points q/q in Q3 2018

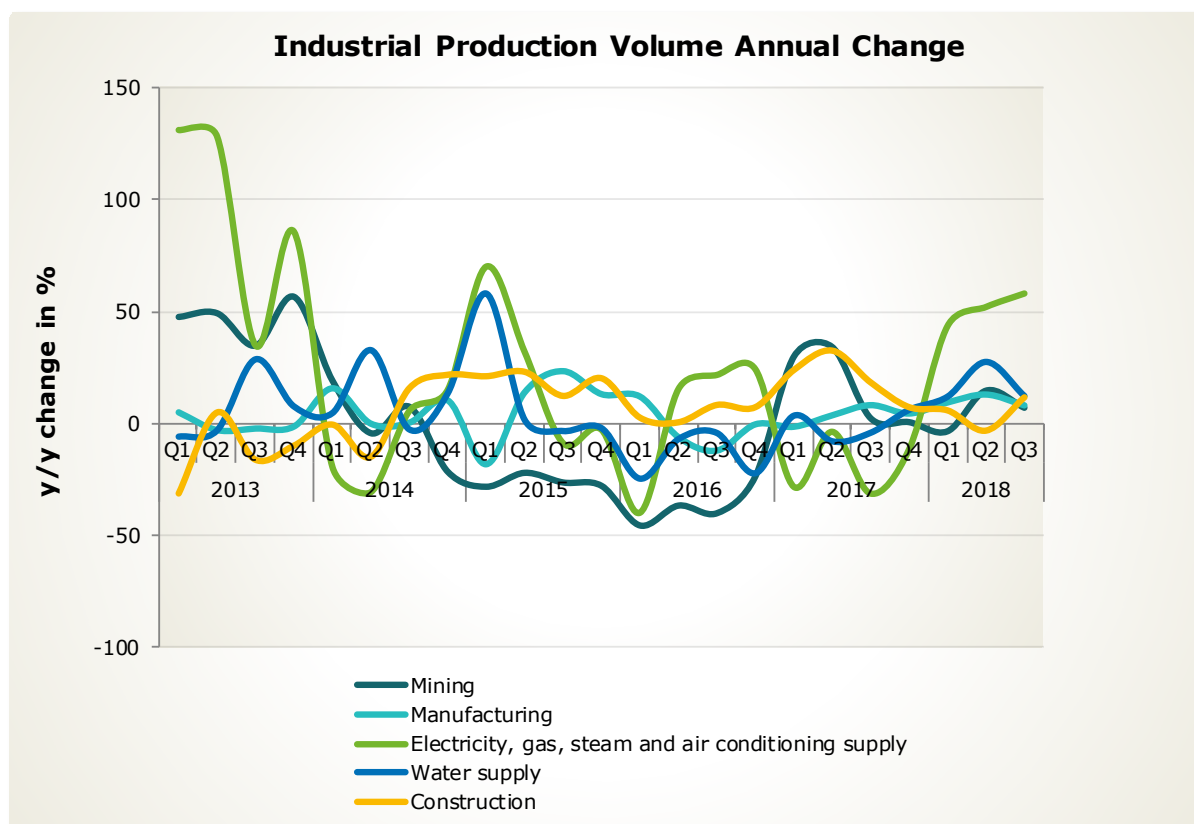
In the third quarter of 2018, the average economic sentiment indicator (ESI) indicator fell by 4.0 percentage points q/q, reaching 102.1 points, according to Bank of Albania. In Q2 2018, the business confidence indicator went down by 9.9 pp q/q. The performance of ESI reflected the decline of both business and consumer confidence. Despite that ESI remains above its long-term average, of 100.0 points.

2.3. INDUSTRIAL OUTPUT

All sectors registered annual increase in industrial production in Q3 2018

In Q3 2018, the highest annual increase in production was posted by the electricity, gas, steam and air conditioning supply sector – its output jumped by 58.3%, according to INSTAT.

Water supply and construction saw an annual rise around the 12.0% mark. Manufacturing sector output climbed by 8.1%, while the production of the mining industry expanded by 7.2%.

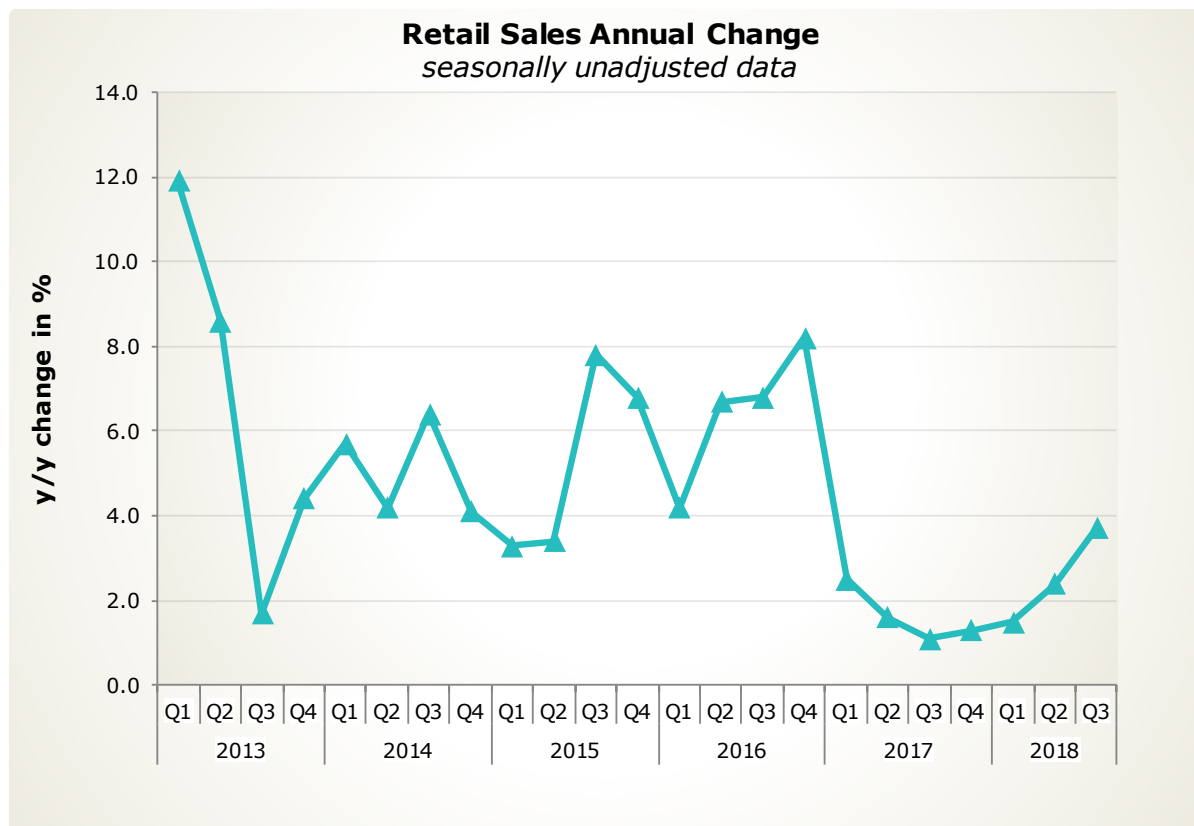


2.4. RETAIL SALES

Retail sales continued its uptrend in Q3 2018

In the third quarter of 2018, the retail volume increased annually by 3.7%, compared to a 2.4% rise in Q2 2018 and 1.1% a year earlier, according to seasonally unadjusted data from INSTAT.

Retail trade with food, beverages and tobacco registered the highest increase, of 6.9%. Retail sale of motor fuel rose by 5.0%, while retail of non-food products, except motor fuel inched up by 0.3%.



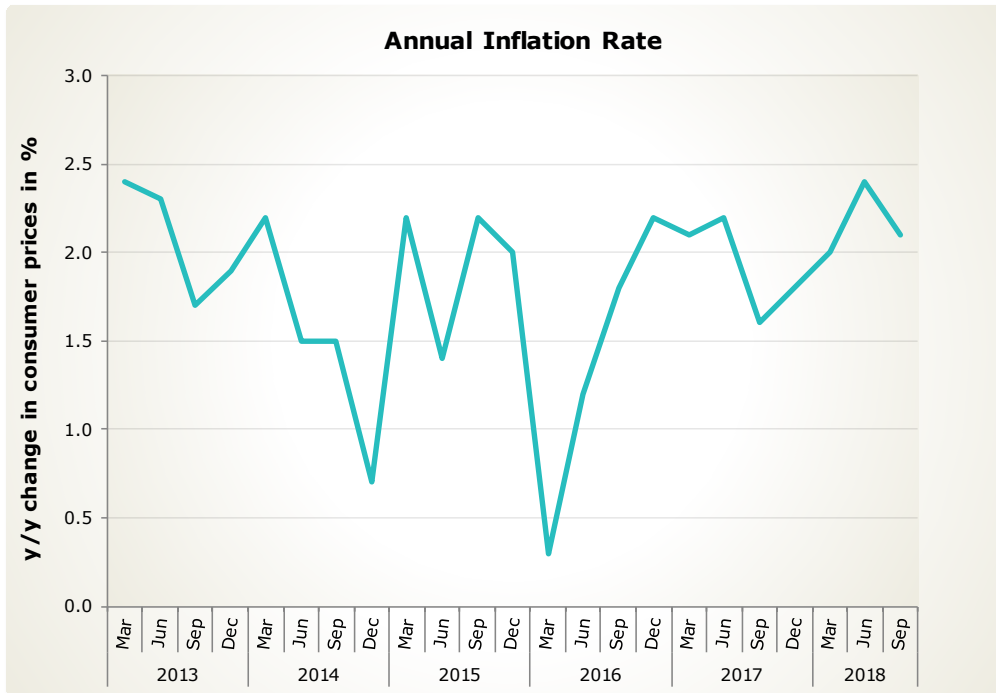
Source: INSTAT

2.5. INFLATION

Annual inflation of 2.1% in September 2018

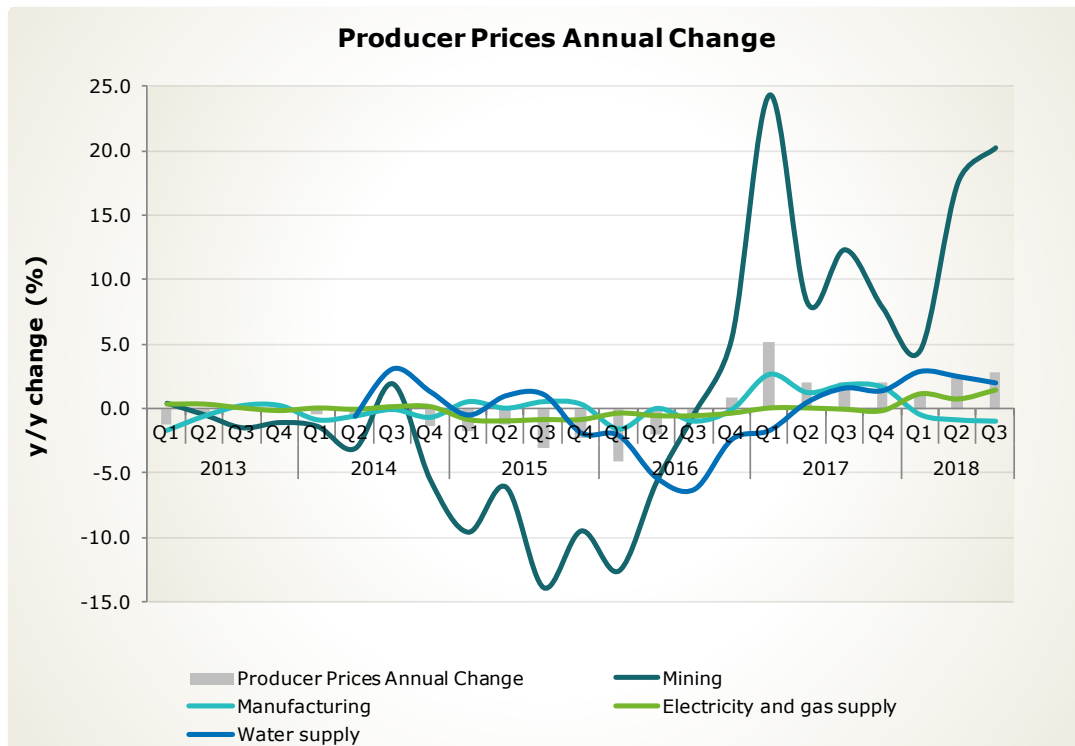
The annual inflation in Albania came in at 2.1% in September 2018, according to INSTAT. This is down compared to June 2018 when the annual inflation was 2.4%. Compared to September 2017, the inflation speeded up by 0.5 pp.

In September 2018, the highest annual inflation among consumer groups was registered by recreation and culture – 5.2%, transport – 3.2% and housing utilities – 2.8%. Deflation was present only in one consumer group – prices in medical care inched down by 0.4%.



Source: INSTAT

Producer prices went up by 2.8% y/y in Q3 2018, INSTAT data showed. Producer prices in all sectors registered a growth, except manufacturing where they inched down by 1.0%. The mining sector was on top in terms of annual rise – 20.2%, followed by water supply - 2.0% and electricity and gas supply - 1.5%.



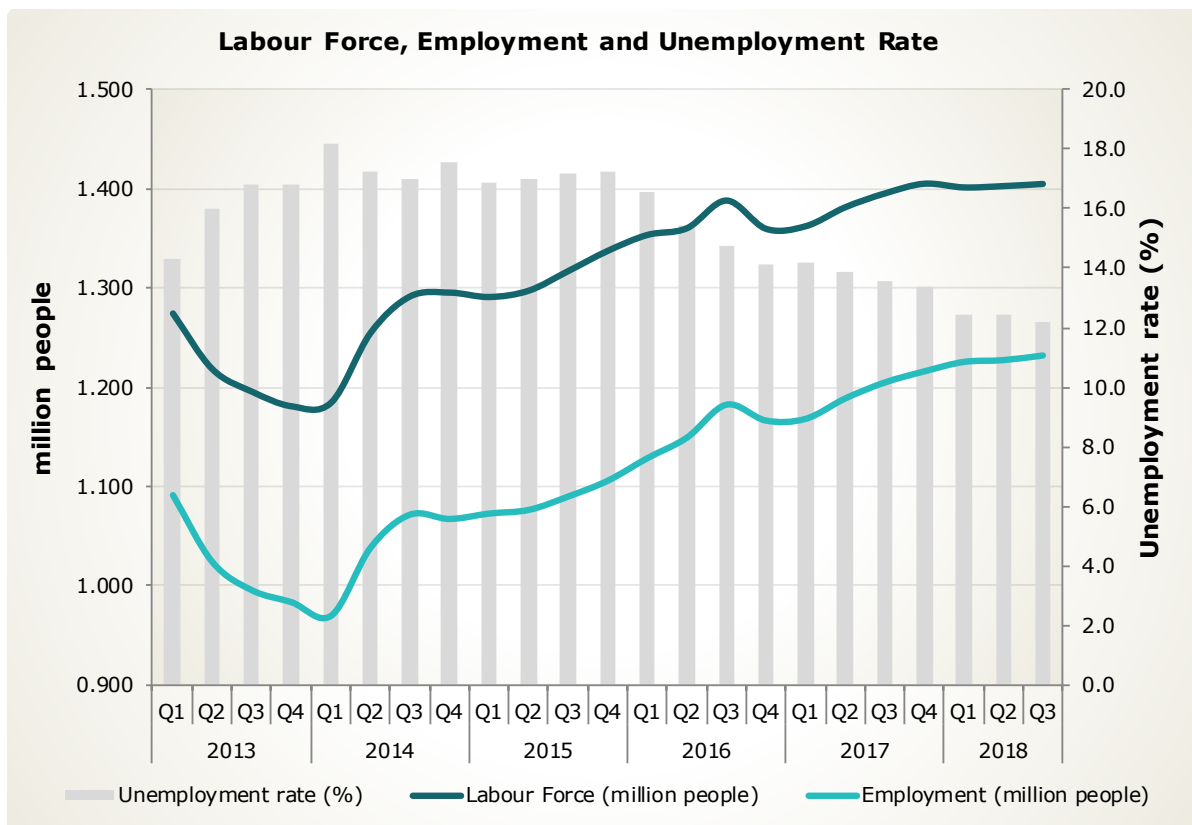
Source: INSTAT

3. LABOUR MARKET

Unemployment rate continued to fall in Q3 2018

The unemployment rate in Albania eased to 12.2% of the total labour force in Q3 2018, down from 12.4% in Q2 2018 and 13.6% in Q3 2017, while the youth (population aged 15-29) unemployment rate increased to 23.1% in Q3 2018 from 22.6% in Q2 2018, according to data of INSTAT.

The employed population aged 15 years and older was 1.233 million in Q3 2018, up by 2.3% y/y.



Source: INSTAT

4. CONSTRUCTION AND REAL ESTATE

The number of building permits grew by 10.6% y/y in Q3 2018

The number of building permits issued in Albania in Q3 2018 totalled 343, compared to 310 in the same quarter of the previous year, according to INSTAT data.

Permits for construction of non-residential buildings came in at 128, up from 102 in Q3 2017, while permits for housing projects recorded a slight increase to 215 from 208.

The total area covered by permits for non-residential buildings went up by 28.7% to 133,021 sq m in Q3 2018, while the total area of the housing projects declined by 19.9% to 197,704 sq m, compared to a year earlier.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. ALL EXCHANGE RATE

The average annual exchange rate of the EUR against the ALL continued to progress downwards to ALL 125.97 in Q3 2018 from ALL 127.36 in Q2 2018, according to Bank of Albania. The average annual exchange rate of the USD against the ALL came up to 108.32 in Q3 2018 from 106.88 in Q2 2018.

Average Annual ALL Exchange Rate			
Foreign Currency	Q3 2018	Q2 2018	Q3 2017
EUR	125.97	127.36	132.86
USD	108.32	106.88	113.18
GBP	141.18	145.28	148.06
CHF	110.07	108.46	117.55

5.2. MONETARY POLICY

Policy rate at 1.0% as of October 2018

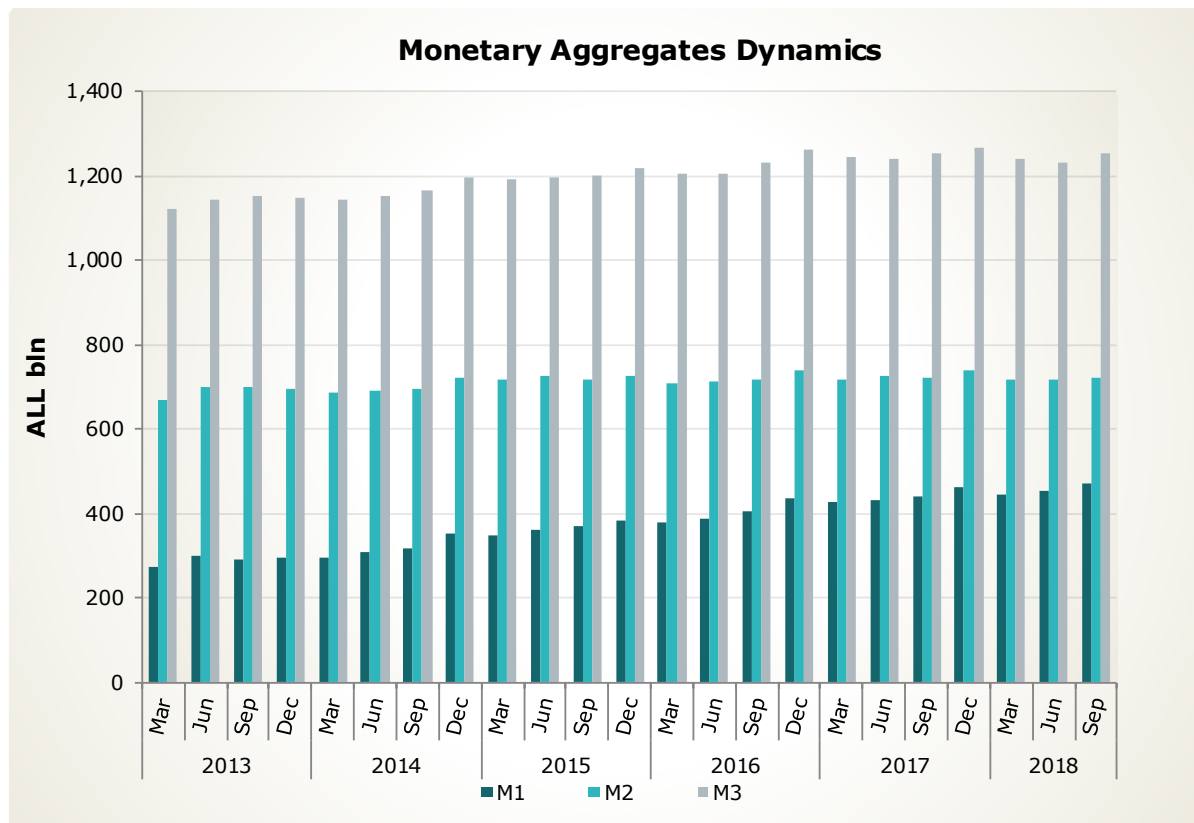
In June 2018, the Central Bank of Albania lowered the monetary policy rate to by 0.25 pp to 1.0%, its minimum historical level. During the third quarter of 2018, the Bank of Albania continued to supply the needed liquidity to the banking sector to ensure intermediation activity and the stability of interest 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 up 0.2% y/y in September 2018

Broad money, money aggregate M3, inched up by 0.2% y/y in September 2018 to ALL 1,254.7 bln, according to Central Bank of Albania.

The M2 aggregate increased by 0.3% y/y in September 2018, and the liquid money indicator, M1, rose by 6.9%.



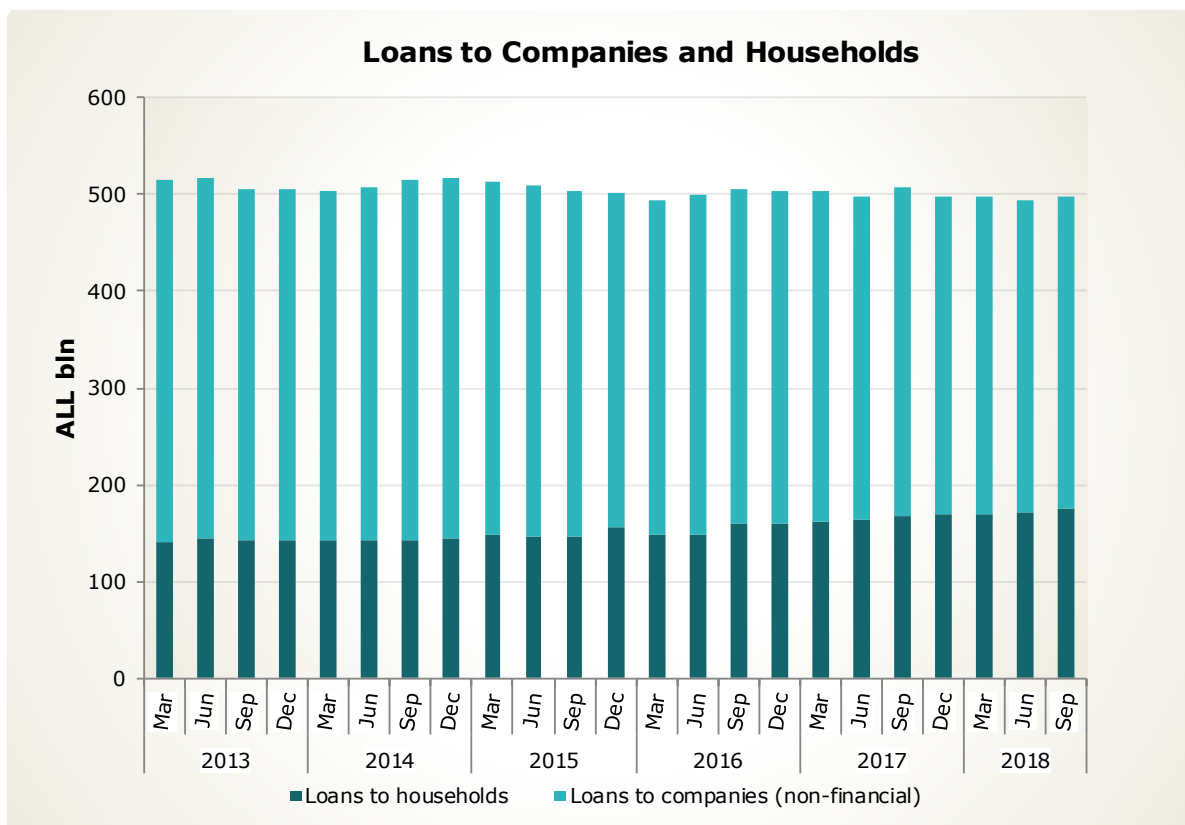
Source: Bank of Albania

5.4. BANKING AND INSURANCE

Non-government sector loans fell by 2.0% y/y in September 2018

Loans to the private sector inched down by 2.0% y/y to ALL 497.1 bln as of September 2018, data from the Bank of Albania showed. The 4.0% annual growth of household loans to ALL 174.7 bln could not offset the 5.0% decline, to ALL 322.4 bln, of loans to non-financial companies.

Loans for house purchase continued to grow annually – by 2.7% in Q3 2018, reaching ALL 109.8 bln.

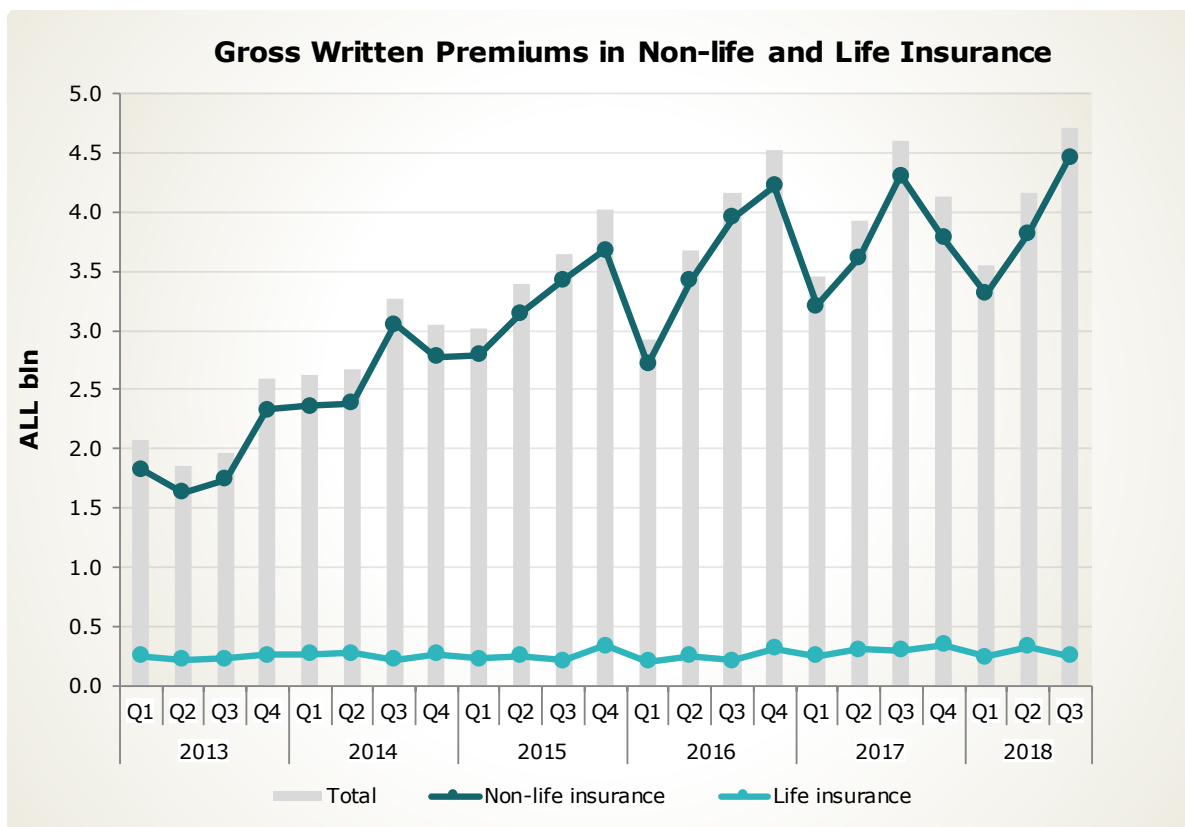


Source: Bank of Albania

Insurance premium income up by 2.4% y/y in Q3 2018

The total gross written premiums of the Albanian non-life and life insurance companies, excluding reinsurance, stood at ALL 4.715 bln, up by 2.4% y/y, according to the Albanian Financial Supervisory Authority (AMF).

The increase was aided by the 3.7% rise of the non-life insurance sector, which posted gross written premiums of ALL 4.464 bln in Q3 2018, while the premiums in the life insurance segment sank by 16.1% to ALL 250.6 mln.



Source: AMF

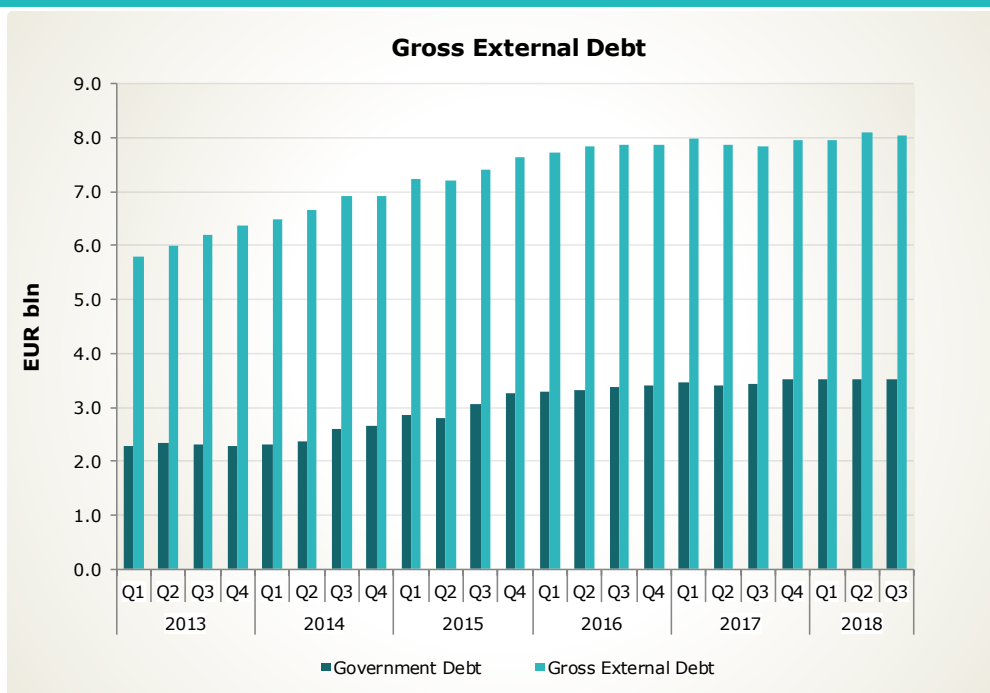
6. EXTERNAL SECTOR

6.1. FOREIGN DEBT

The gross external debt grew y/y to EUR 8.041 bln in Q3 2018

The gross external debt totalled EUR 8.041 bln in Q3 2018, up 2.7% y/y, according to Bank of Albania. In comparison to the second quarter, the gross external debt decreased by 0.9%.

In Q3 2018, long-term liabilities amounted to EUR 4.708 bln, or 58.5% of the total debt, and short-term liabilities totalled EUR 1.638 bln, equal to 20.4% of the total debt.

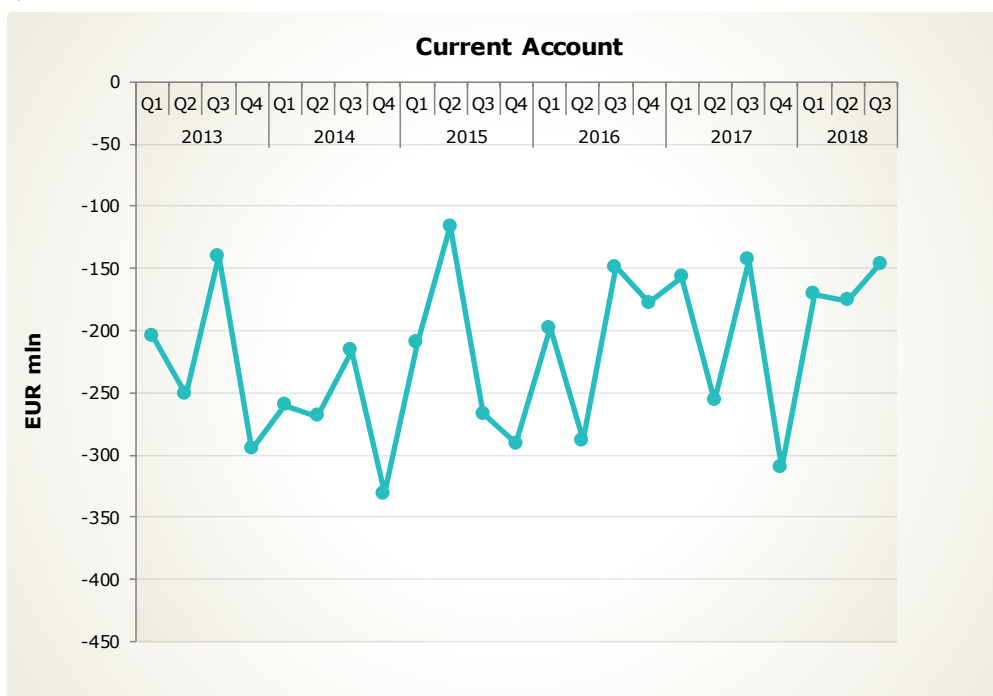


Source: Bank of Albania

6.2. BALANCE OF PAYMENTS

Current account deficit widened y/y to EUR 146.0 mln in Q3 2018

The current account deficit expanded by 2.1% y/y to EUR 146.0 mln in Q3 2018, according to central bank statistics data. In comparison to Q2 2018, the current account deficit narrowed, by 17.0%, or EUR 30.0 mln.

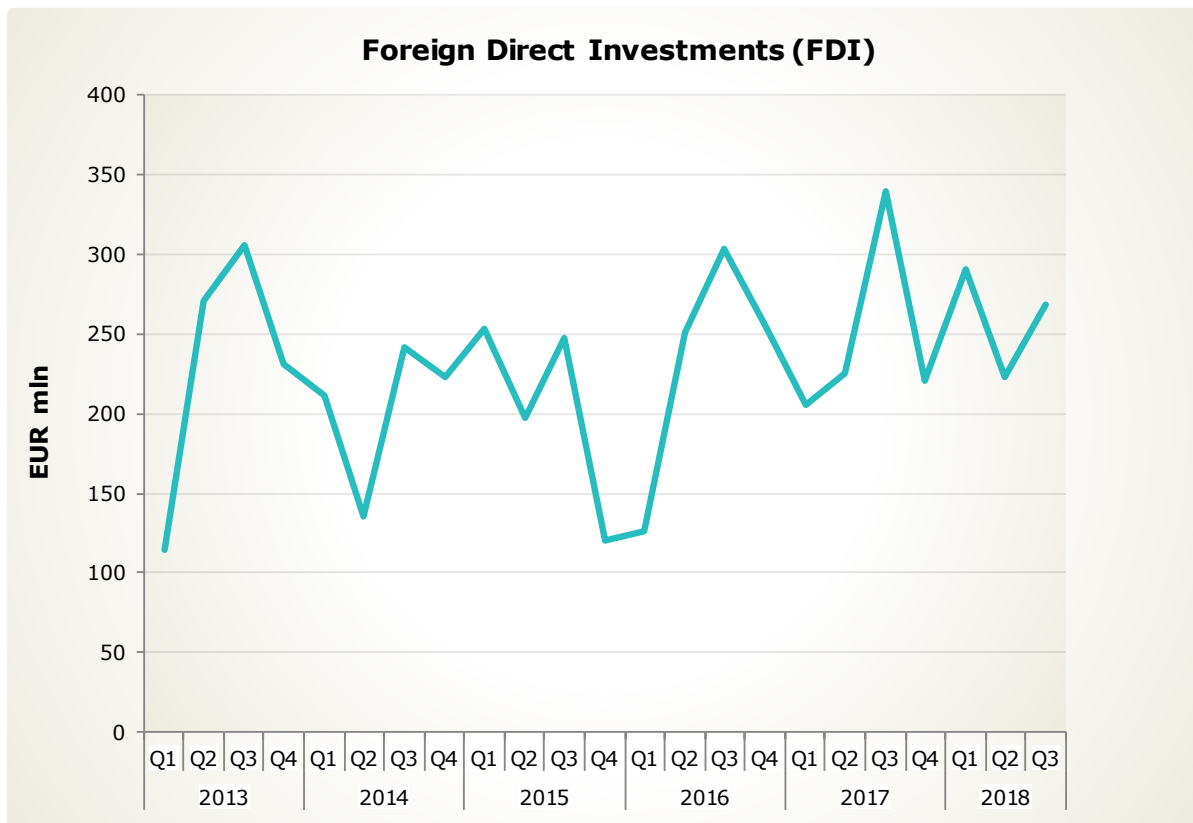


Source: Bank of Albania

6.3. FDI

FDI in Albania at EUR 268.0 mln in Q3 2018

Foreign Direct Investments (FDI) in Albania amounted to EUR 268.0 mln in the third quarter of 2018, according to Bank of Albania. In annual terms, the FDI inflow shrank by 21.2%. Compared to Q2 2018, the FDI inflow was by EUR 45.0 mln higher.



Source: Bank of Albania

6.4. FOREIGN TRADE

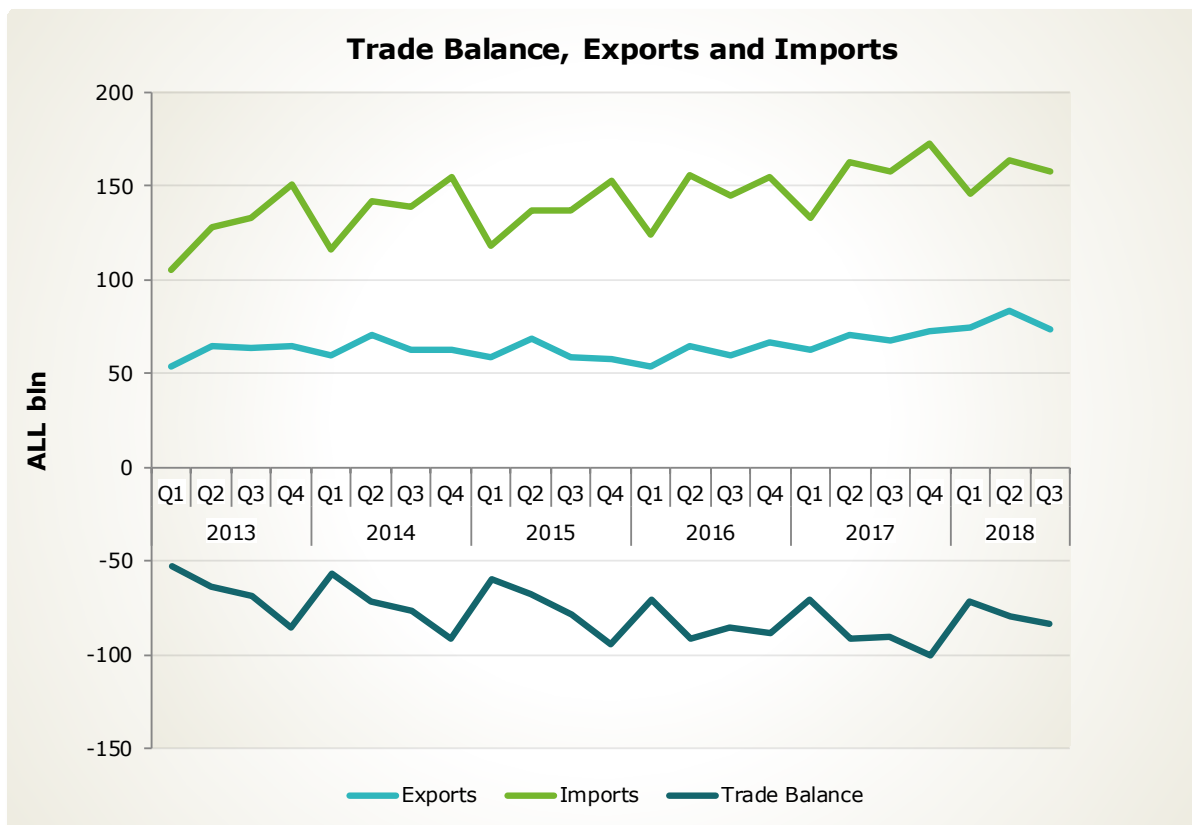
Foreign trade deficit down by 7.0% y/y to ALL 84.036 bln in Q3 2018

The trade deficit stood at ALL 84.036 bln in Q3 2018, down by 7.0% compared to Q3 2017, according to INSTAT.

Exports of goods increased by 9.2% to ALL 73.430 bln, while imports inched down, by 0.1% y/y, to ALL 157.5 bln.

The groups to report annual rises of exports were chemical and plastic products – 38.0%, minerals, fuels and electricity – 33.5% and construction materials and metals – 20.4%.

In Q3 2018, construction materials and metals was the leading product group in terms of annual growth of imports with 7.1% followed by wood manufactures and articles of paper – 3.3% and chemical and plastic products – 2.8%.



Source: INSTAT

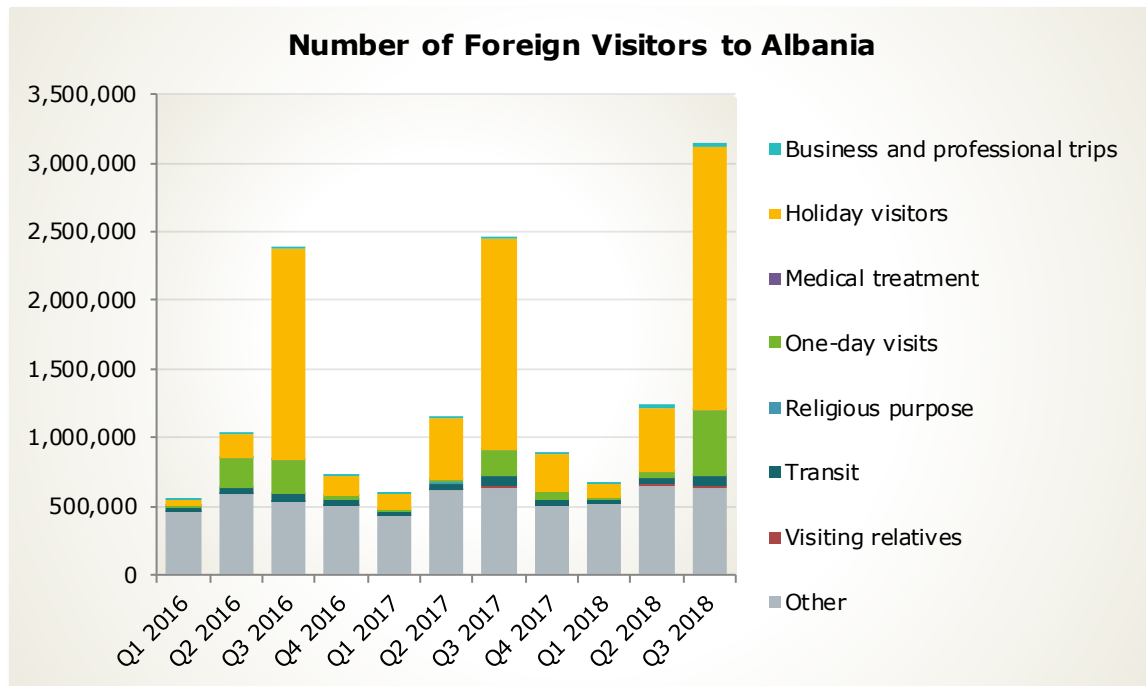
6.5. TOURISM

Number of foreign visitors to Albania up 27.5% y/y in Q3 2018

The number of foreign nationals who visited Albania in Q3 2018 jumped, by 27.5% y/y, to 3.142 million people, according to INSTAT.

Visitors who entered the country in the third quarter of 2018 for the purpose of recreation represented 61.1% of all foreign nationals, or 1.919 million people.

More than 40% of the foreigners who visited Albania in Q3 2018 were from Kosovo. Macedonians accounted for 9.2% of the total number, and Italians had a 6.7% share.



Source: INSTAT

7. MAJOR DEVELOPMENTS

Stronger institutions, solid growth prospects support Albania's credit profile - Moody's

Sep 26, 2018

Albania's improved institutional quality, increased prospects for the start of EU membership talks and solid economic growth prospects support the country's credit profile (B1 stable), according to Moody's. Albania's low fiscal strength reflects its elevated debt burden, which stood at just over 70% of GDP at the end of 2017.

[Read the full story here](#)

Albania, Macedonia sign MoU on developing natgas interconnector

Sep 21, 2018

Albanian gas infrastructure operator Albgaz signed a memorandum of understanding with Macedonian Energy Resources (MER) Skopje to coordinate the joint development of a gas interconnection between the two counties.

[Read the full story here](#)

EBRD seeks consultants to help Albania improve its investment climate

Sep 11, 2018

The European Bank for Reconstruction and Development (EBRD) announced in September 2018 it is inviting expression of interest, seeking two individual experts to assist Albania's government in its reforms to improve the investment climate in the country.

[Read the full story here](#)

Albania needs to advance justice reform, strengthen rule of law – EC

Jul 13, 2018

Albania should advance the implementation of justice reform in order to strengthen the rule of law in the country, the European Commission (EC) announced in September 2018. The Commission also urged the Albanian authorities to swiftly implement the recommendations of the Moneyval report on anti-money laundering and countering terrorism financing.

Read the full story [here](#)

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