

ALBANIA ECONOMY REPORT

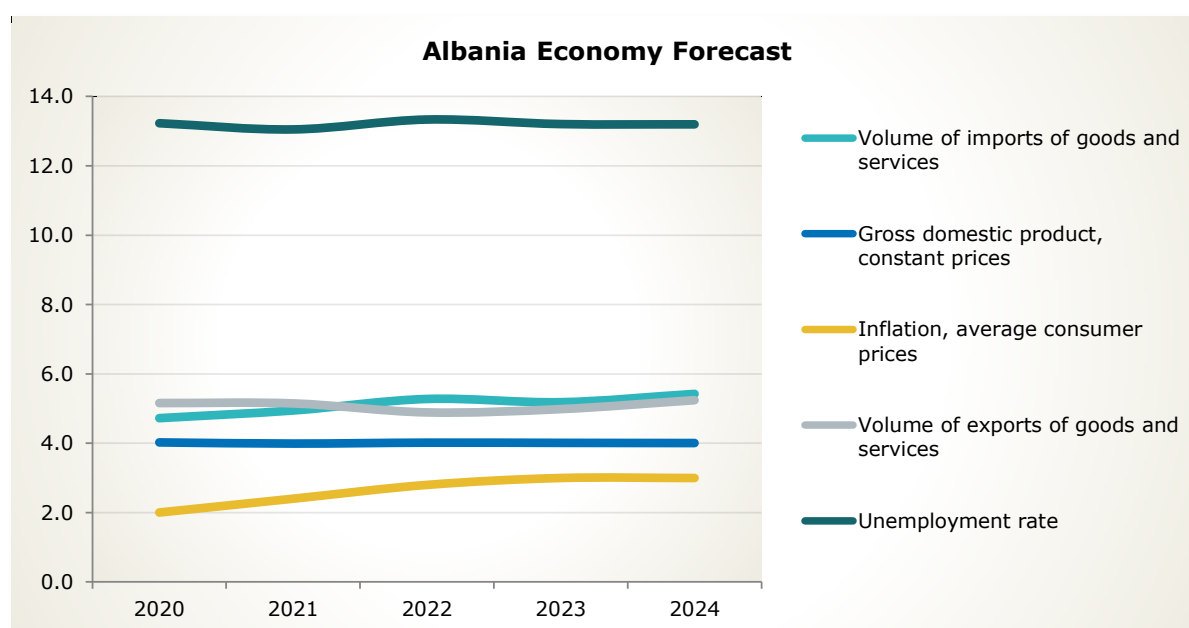
Q3 2019

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1. MACROECONOMIC SNAPSHOT AND FORECAST

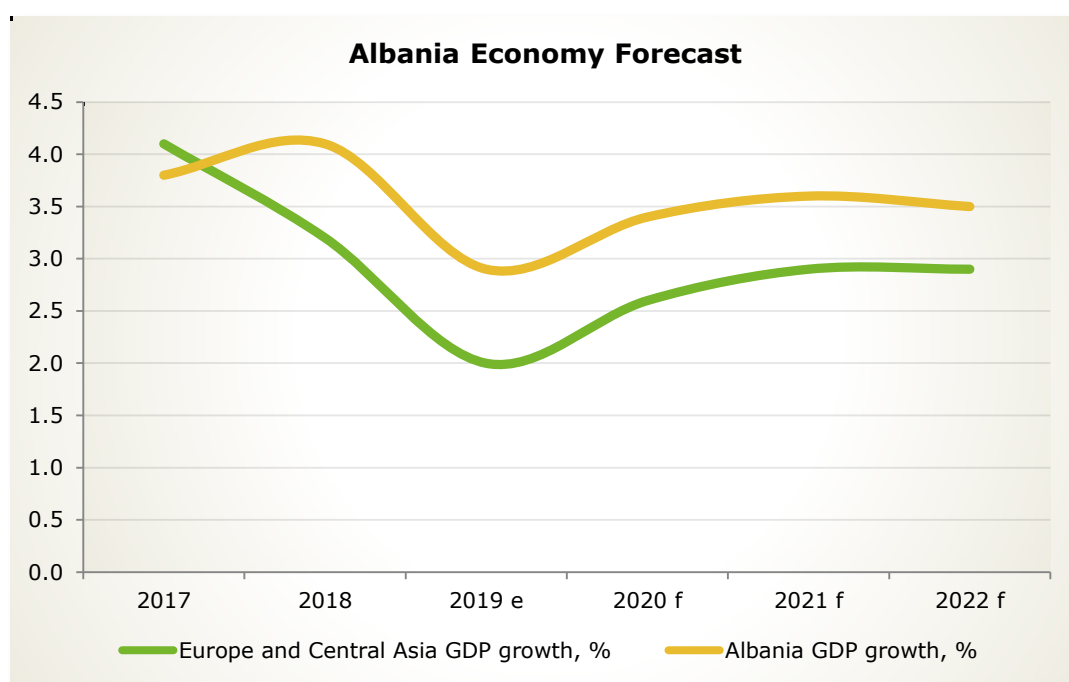
ALBANIA – MACROECONOMIC SNAPSHOT AS OF Q3 2019	
GDP Growth	3.8% y/y
Business confidence indicator	3.2 pp q/q
Manufacturing output	6.1% y/y
Retail sales	3.9% y/y
Annual inflation	1.3%
Unemployment rate	11.4%
Number of building permits	-14.6% y/y
Money supply growth	3.3% y/y
Household loans	5.8% y/y
Gross external debt	EUR 8.3 bln
Current account deficit	EUR 161.0 mln
FDI inflow	EUR 264.0 mln
Foreign trade deficit	ALL 90.9 bln
Arrivals of foreign citizens	5.8% 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 2020-2024, 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 2020-2024, 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*, January 2020

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 2.0%.

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

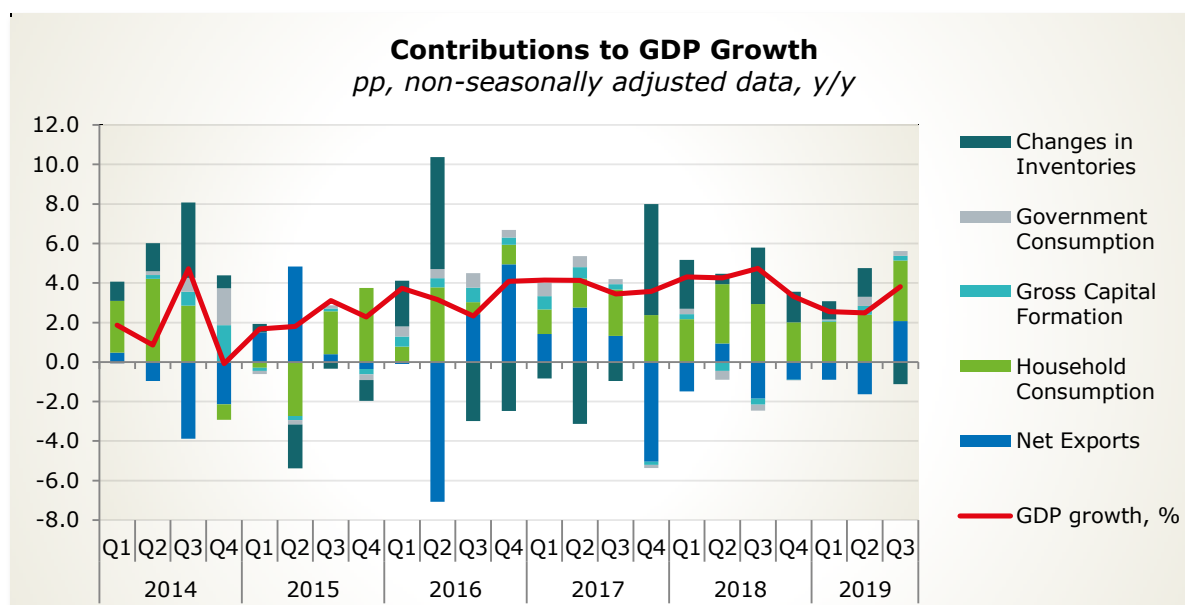
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth at 3.8% y/y in Q3 2019, down from 4.7% y/y in Q3 2018

Albania's GDP increased in real terms by 3.8% y/y in Q3 2019, compared to a 4.7% y/y growth in Q3 2018, according to data from Albania's Institute of Statistics (INSTAT).

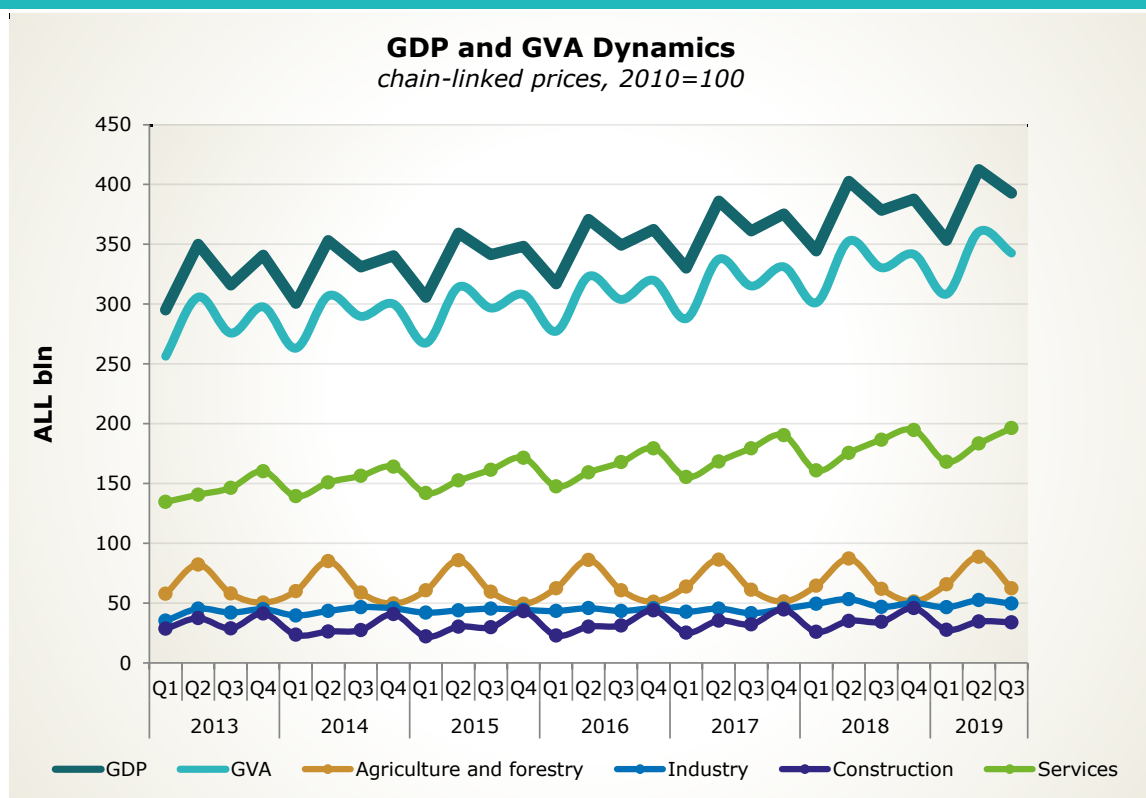
In Q3 2019, household consumption rose by 3.9% and added 3.1 pp to the overall GDP growth, while government consumption increased by 2.1%, contributing with 0.2 pp. Gross capital formation dropped by 1.9% y/y and cut 0.4 pp from the total GDP growth. In the same time, the imports took away 3.6 pp from the economic growth in Q3 2019, while export contributed 2.1 pp.



Source: INSTAT; SeeNews calculations

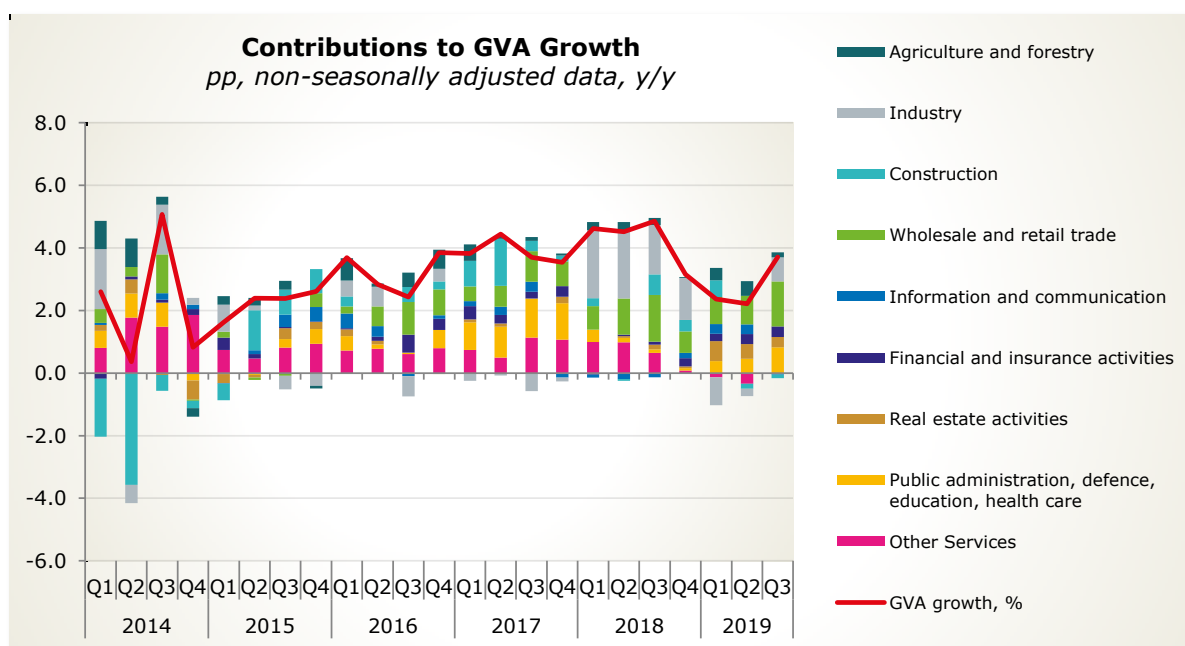
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The country's non-seasonally adjusted GVA increased in value by 3.7% y/y and totalled ALL 342.7 mln in Q3 2019. The industrial sector went up by 5.8% y/y and took 14.5% share in GVA, while the services sector recorded a 5.2% annual increase, slicing a 57.3% share in the GVA. Construction decreased by 1.1% and its share in GVA came to 9.9%. The agricultural sector marked an increase of 0.9% y/y, accounting for 18.2% of the total GVA.



Source: INSTAT

In terms of GVA growth contribution by sector, wholesale and retail trade contributed the most – 1.4 pp. Other major contributors were industry and public administration, defence, education, healthcare – by 0.8 pp each.



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 3.2 percentage points q/q in Q3 2019

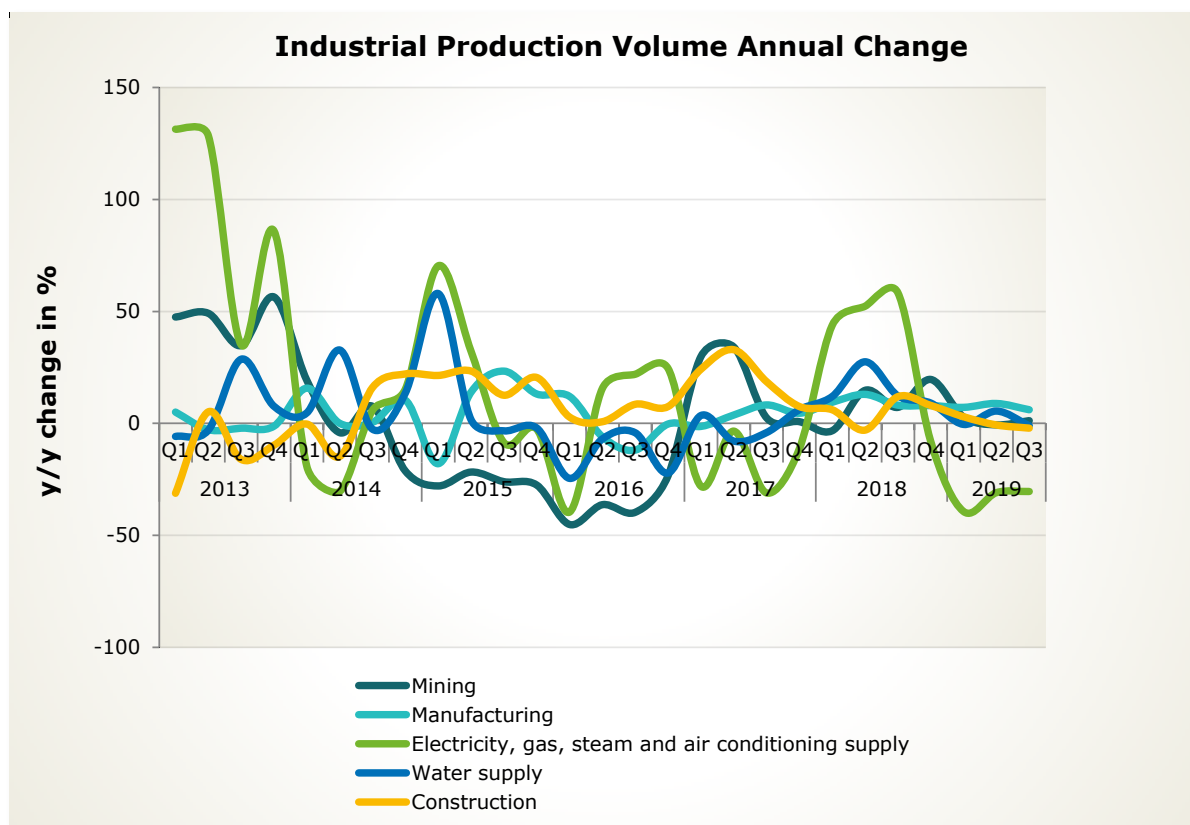
In the third quarter of 2019, the average business confidence indicator advanced by 3.2 percentage points q/q, according to Bank of Albania. In Q2 2019, the business confidence indicator went down by 0.7 pp q/q.

2.3. INDUSTRIAL OUTPUT

Manufacturing output rose by 6.1% y/y in Q3 2019

Manufacturing output surged up by 6.1% in Q3 2019, while the mining sector output increased by 1.2% y/y, according to INSTAT.

The production of the electricity, gas, steam and air conditioning supply sector dropped by 30.4% y/y, while the output of construction and water supply decreased by 2.1% and 1.0%, respectively.



Source: INSTAT



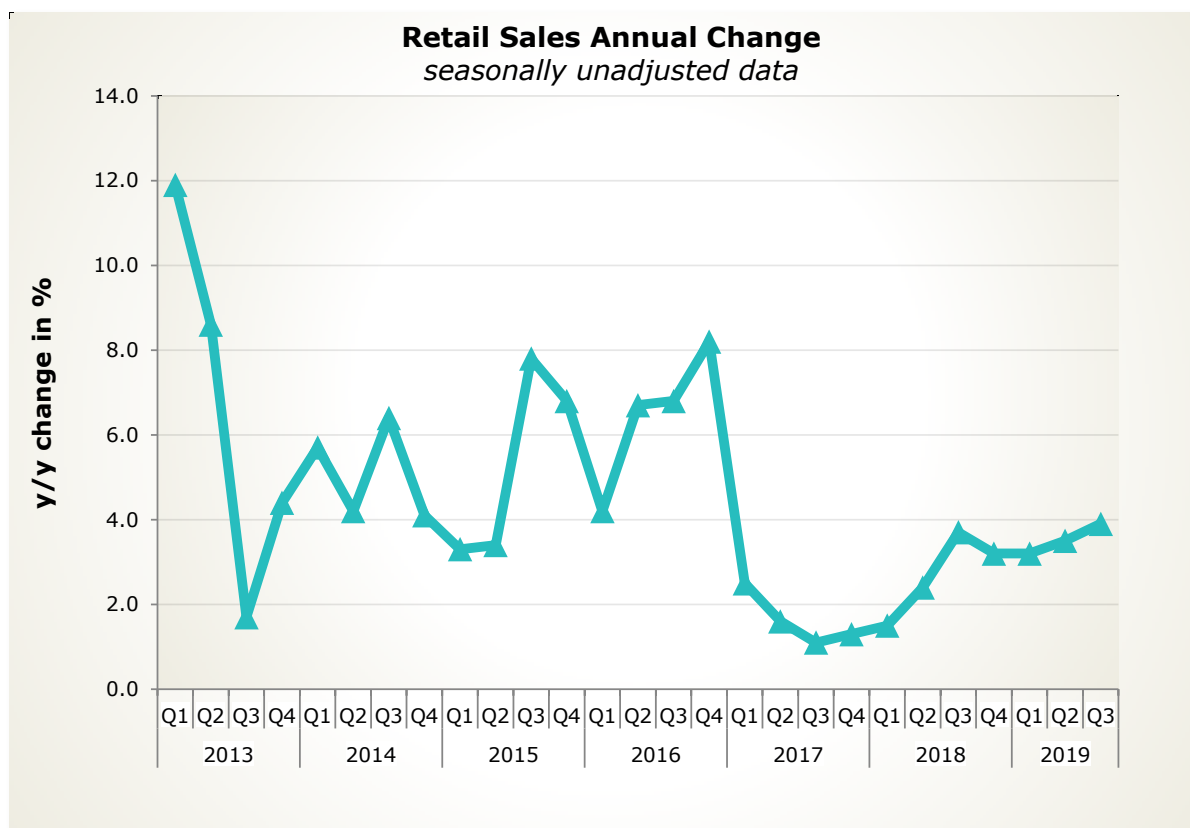
Source: INSTAT

2.4. RETAIL SALES

Retail sales growth at 3.9% y/y in Q3 2019, up from Q3 2018

In the third quarter of 2019, the retail sales annual change stood at 3.9%, up from 3.7% in the same quarter of 2018, according to the data from INSTAT.

Retail sales of non-food products in specialised and non-specialised stores increased by 4.6% y/y in Q3 2019, while the retail sales of food, beverages and tobacco increased by 1.8% y/y. Retail sales of motor fuel grew annually by 5.0%.



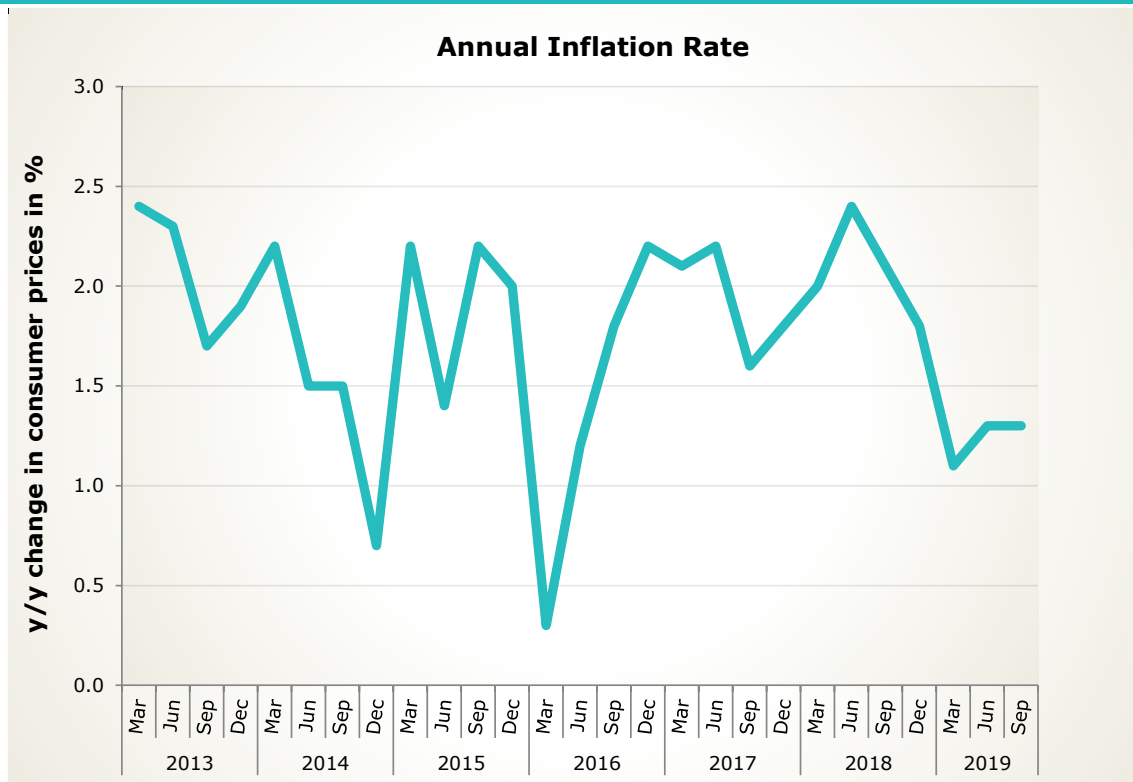
Source: INSTAT

2.5. INFLATION

Annual inflation of 1.3% in September 2019

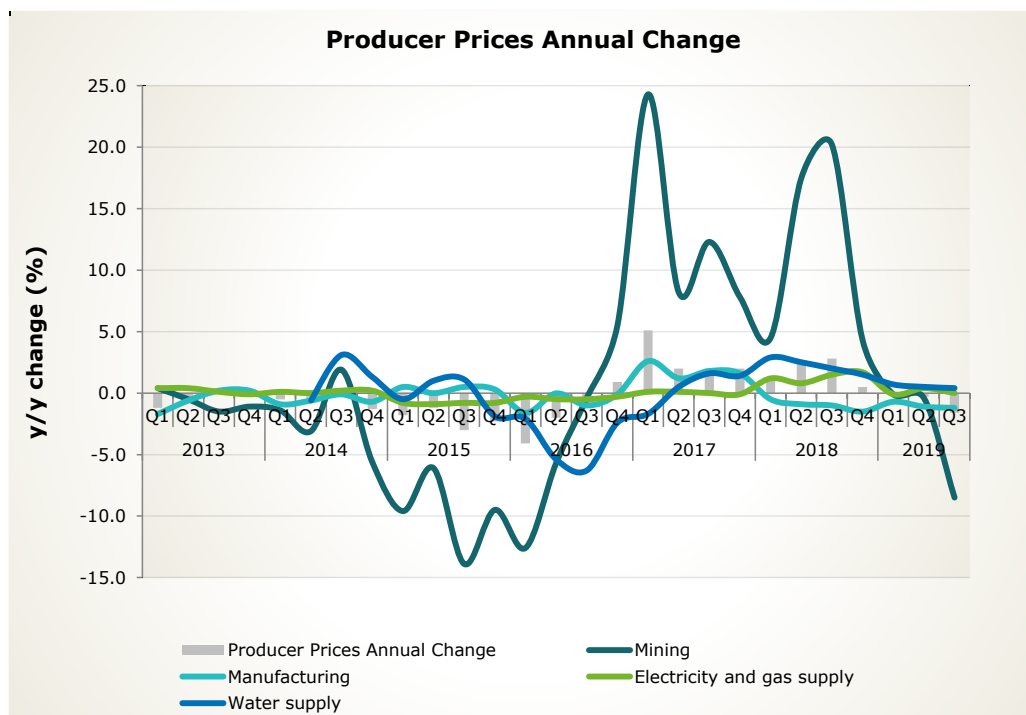
The annual inflation in Albania came in at 1.3% in September 2019, according to INSTAT. It was unchanged compared to June 2019 and lower than the 2.1% a year earlier.

In September 2019, the average prices of food and non-alcoholic beverages advanced the most, by 2.5% y/y. Furniture, household goods and house maintenance services, and alcoholic beverages came second in inflation terms, with 1.5% each. Healthcare services registered no annual change in prices, while transport services were the only group to post a deflation, of 0.6%.



Source: INSTAT

Producer prices went down by 1.6% y/y in Q3 2019, INSTAT data showed. Mining's producer prices decreased by 8.5% y/y and the decrease in manufacturing prices was 1.2%. Water supply prices inched up by 0.4%, while electricity and gas supply prices remained unchanged.



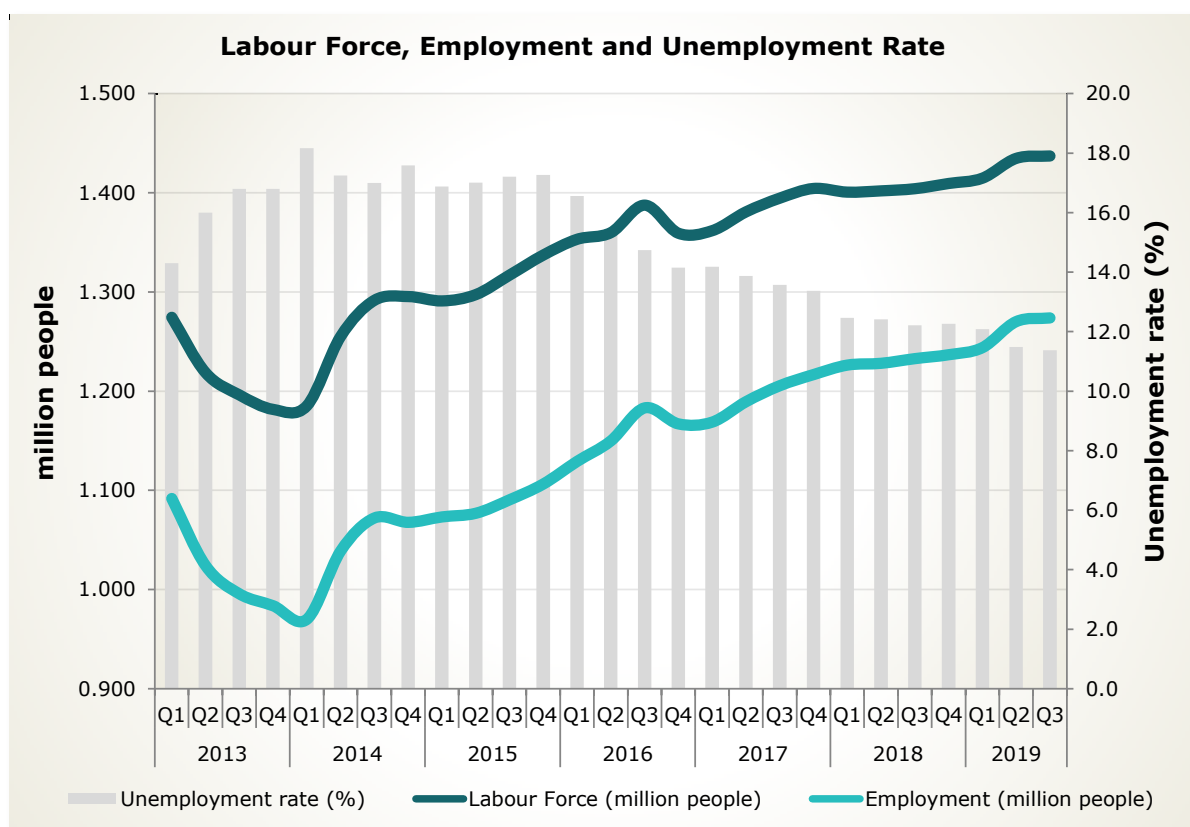
Source: INSTAT

3. LABOUR MARKET

Unemployment rate continued to fall in Q3 2019

The unemployment rate in Albania slowed down to 11.4% of the total labour force in September 2019, down from 11.5% in Q2 2019 and 12.2% in Q3 2018, according to data of INSTAT. The employed population aged 15 years and older numbered 1.3 million as of September 2019, up by 3.3% y/y.

The youth (population aged 15-29) unemployment rate increased to 21.4% in Q3 2019 from 20.9% in Q2 2019 and 23.2% in the third quarter of the previous year.



Source: INSTAT

4. CONSTRUCTION AND REAL ESTATE

The number of building permits went down by 14.6% y/y in Q3 2019

The number of building permits issued in Albania in Q3 2019 totalled 293, compared to 343 in the same quarter of the previous year, according to INSTAT data.

Permits for construction of non-residential buildings came in at 91, up from 128 in Q3 2018, while permits for housing projects decreased to 202 from 215 in Q3 2018.

The total area, covered by permits for non-residential buildings increased to 190,036 sq m in Q3 2019, compared to 133,021 sq m a year earlier. The total area of the new housing projects expanded to 495,420 sq m from 197,704 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 121.62 in Q3 2019 from ALL 125.97 in Q3 2018, according to Bank of Albania. The average annual exchange rate of the ALL against the USD stood at 109.31 in Q3 2019, up from 108.32 in Q3 2018.

Average Annual ALL Exchange Rates			
Foreign Currency	Q3 2019	Q2 2019	Q3 2018
EUR	121.62	123.12	125.97
USD	109.31	109.55	108.32
GBP	134.73	140.83	141.18
CHF	110.88	109.30	110.07

5.2. MONETARY POLICY

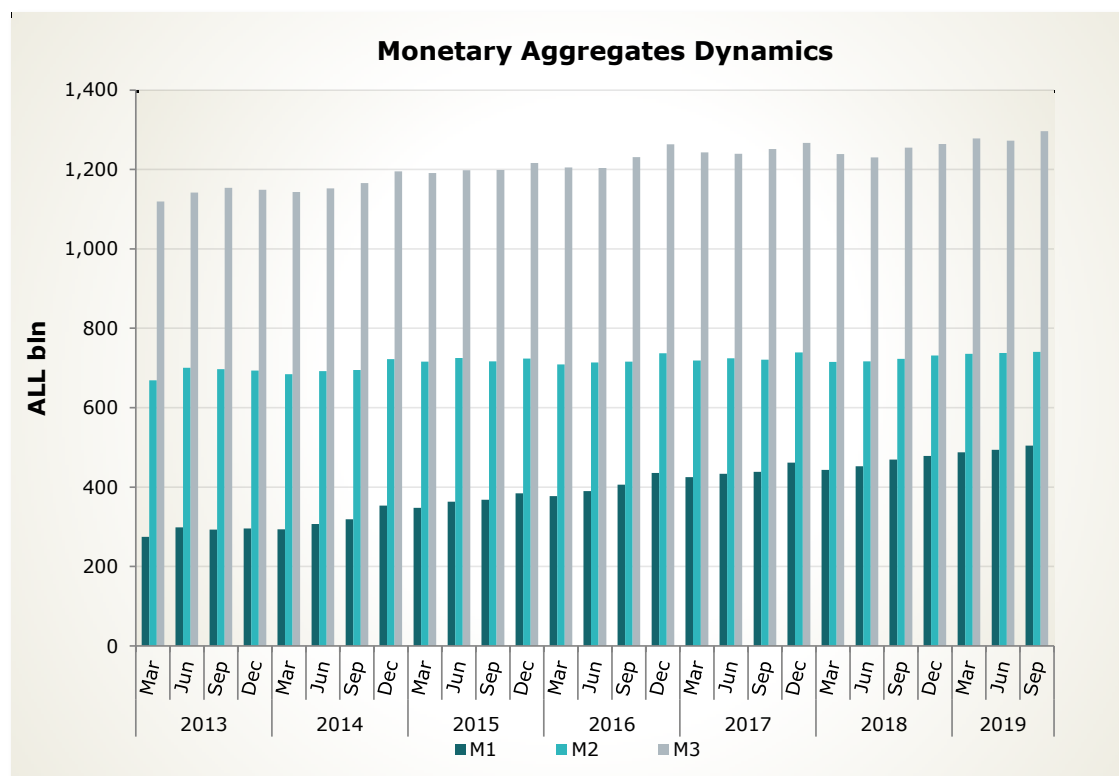
Policy rate at 1.0% as of September 2019

In September 2019, the Central Bank of Albania kept the monetary policy rate at 1.0%, its minimum historical level. During the first three trimesters 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 September 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 3.3% y/y in September 2019

Broad money M3 widened by 3.3 y/y in Q3 2019 to ALL 1,296.6 bln, according to the Central Bank of Albania. The M2 aggregate increased by 2.4% y/y, while the liquid money indicator M1 rose by 7.6%.



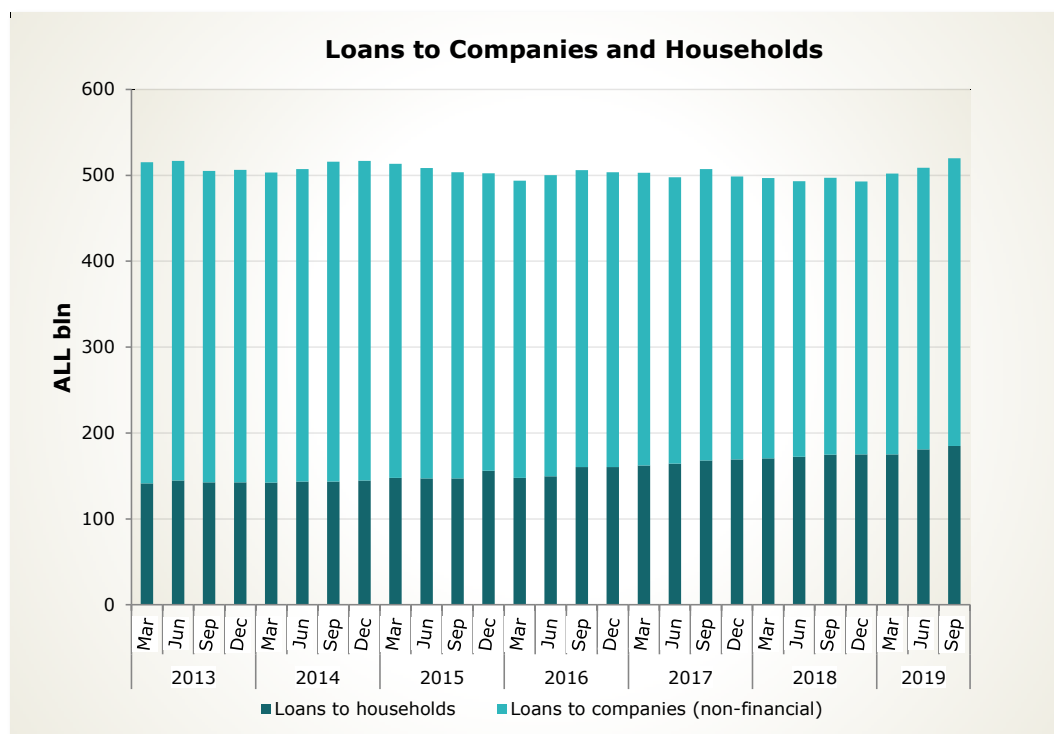
Source: Bank of Albania

5.4. BANKING AND INSURANCE

Non-government sector loans up by 4.6% y/y in Q3 2019

Loans to the non-government sector reached ALL 519.9 bln, up 4.6% y/y in Q3 2019, according to Bank of Albania. The growth was fuelled by both loans to non-financial corporates and household loans, which grew annually by 3.9% and 5.8%, respectively.

Loans for house purchase continued to grow annually – by 4.6% in Q3 2019, reaching ALL 114.8 bln, or 62.1% of the total household loans.

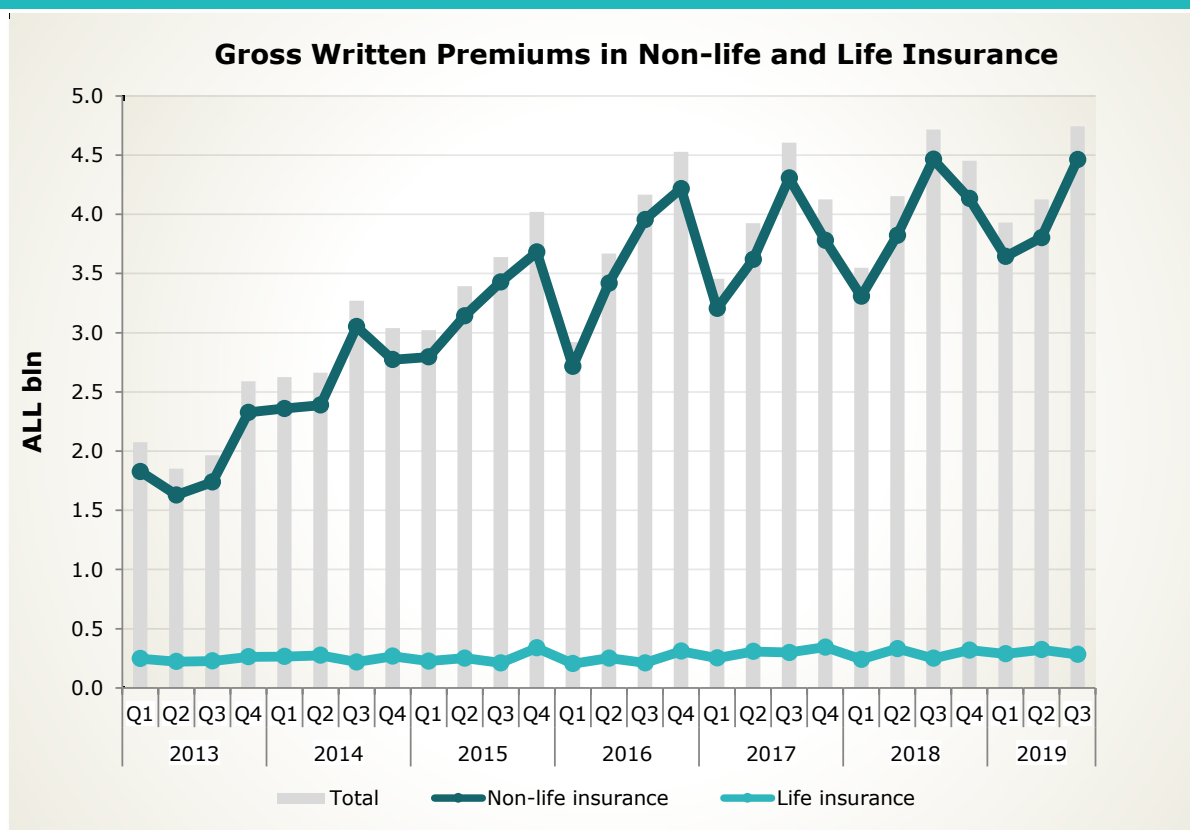


Source: Bank of Albania

Insurance premium income up by 0.6% y/y in Q3 2019

The total gross written premiums (GWP) of the Albanian non-life and life insurance companies, excluding reinsurance, stood at ALL 4.7 bln, up by 0.6% y/y in Q3 2019, according to the Albanian Financial Supervisory Authority (AMF).

The increase was fuelled by the 13.0% annual rise of the life insurance sector, which posted GWP of ALL 283.2 mln in Q3 2019. The premiums in the non-life insurance segment inched down by 0.1% to ALL 4.5 bln.



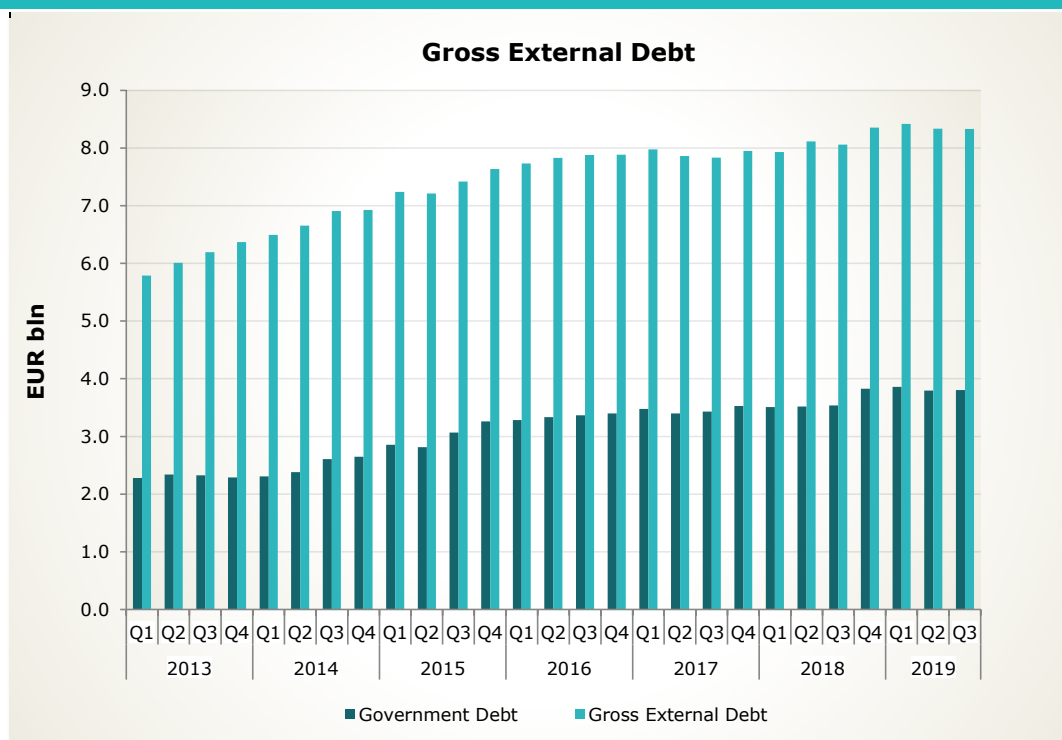
6. EXTERNAL SECTOR

6.1. FOREIGN DEBT

The gross external debt rose by 3.4% y/y to EUR 8.3 bln as of September 2019

The gross external debt totalled EUR 8.3 bln as of September 2019, up by 3.4% on the year, according to Bank of Albania. In comparison to Q2 2019 the gross external debt inched down by 0.1%.

In Q3 2019, long-term liabilities amounted to EUR 5.0 bln, or 60.0% of the total debt, and short-term liabilities totalled EUR 1.6 bln, equal to 19.6% of the total debt.

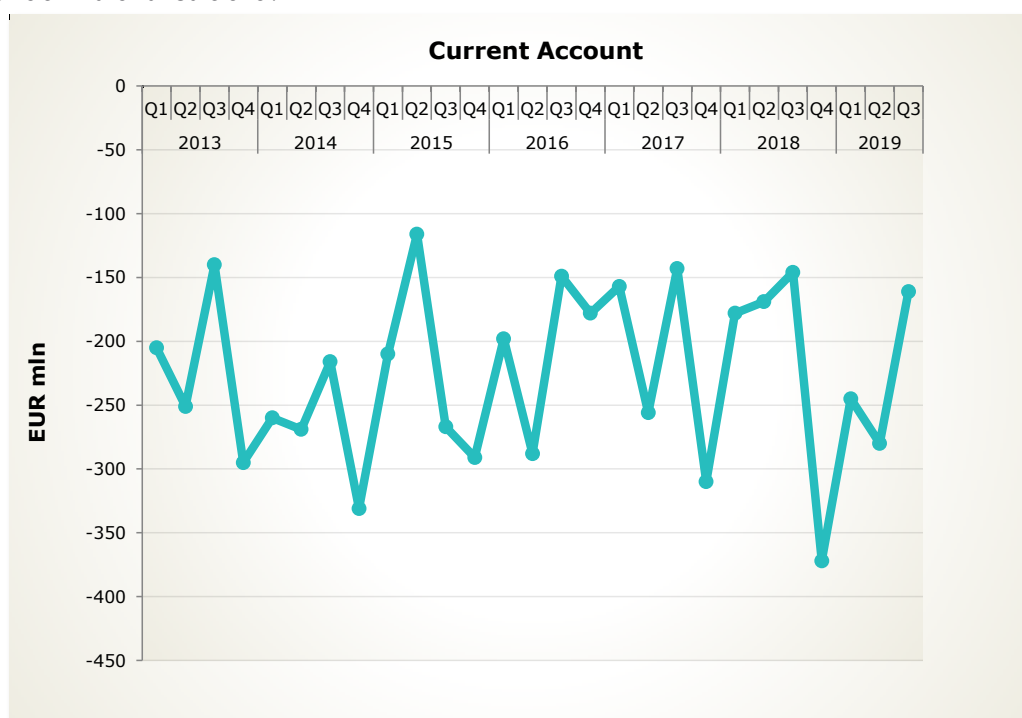


Source: Bank of Albania

6.2. BALANCE OF PAYMENTS

Current account deficit expanded by 10.3% y/y to EUR 161.0 mln in Q3 2019

The current account deficit widened by 10.3% y/y to EUR 161.0 mln in Q3 2019, according to central bank statistics data.

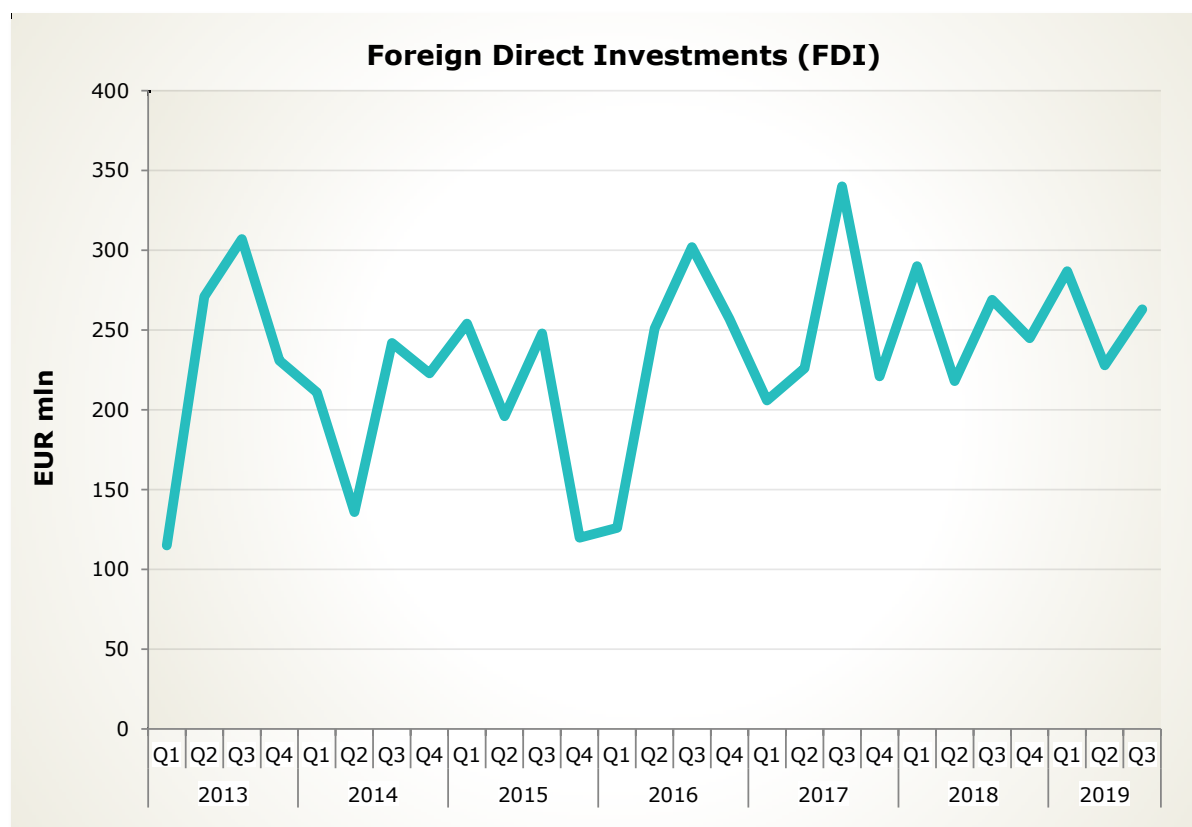


Source: Bank of Albania

6.3. FDI

FDI in Albania at EUR 263.0 mln in Q3 2019

Foreign Direct Investments (FDI) in Albania amounted to EUR 263.0 mln in the third quarter of 2019, according to Bank of Albania. In annual terms, the FDI inflow decreased by 2.2%.



Source: Bank of Albania

6.4. FOREIGN TRADE

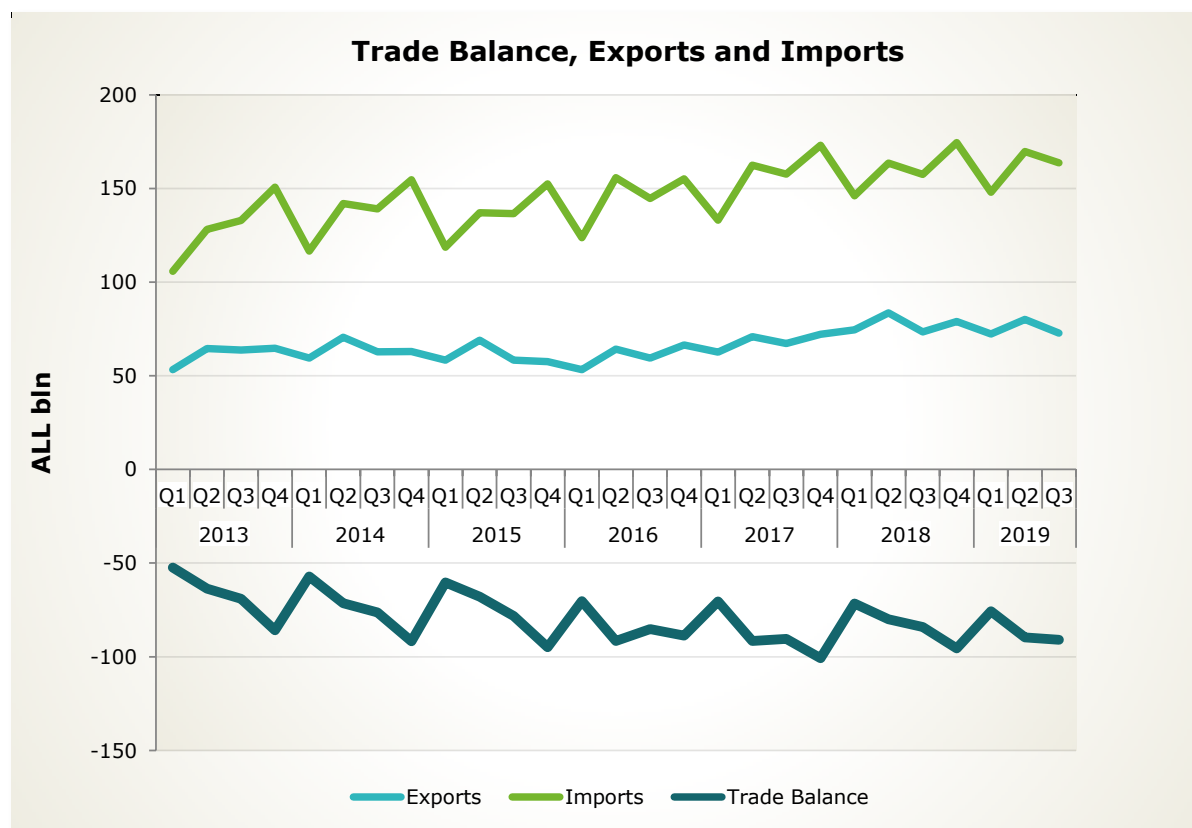
Foreign trade deficit up by 8.1% y/y to ALL 90.9 bln in Q3 2019

The trade deficit stood at ALL 90.9 bln in Q3 2019, up by 8.1% compared to Q3 2018, according to INSTAT.

Exports of goods decreased by 0.9% to ALL 72.8 bln, while imports grew, by 3.9% y/y to ALL 163.6 bln.

The groups to report the largest annual rise of exports were machineries, equipment and spare parts with 46.8%, chemical and plastic products with 27.3% and food, beverages and tobacco - 18.2%.

Minerals, fuels and electricity was the leading product group in terms of annual growth of imports with 16.2%, followed by chemical and plastic products with 6.9% and wood manufactures and articles of paper – 6.7%.



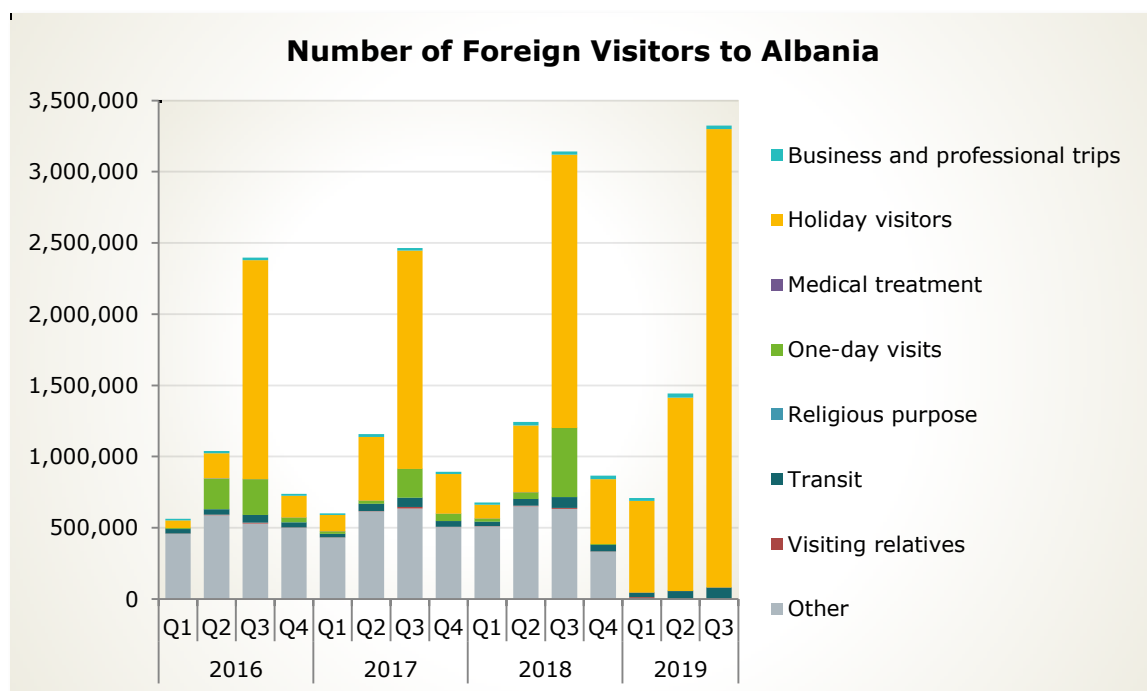
Source: INSTAT

6.5. TOURISM

Number of foreign visitors to Albania up 5.8% y/y in Q3 2019

The number of foreign nationals who visited Albania in Q3 2019 rose by 5.8% y/y to 3.3 million people, according to INSTAT.

Foreign visitors who entered the country in the third quarter of 2019 for the purpose of recreation represented 96.8% of all foreign nationals, or 3.2 million people. People who visited Albania for the purpose of business and professional engagements represented 0.8% of the total visitors in the period under consideration.



Source: INSTAT

7. MAJOR DEVELOPMENTS

Germany grants EUR 10 mln to support rural development in Albania

Sept 27, 2019

The German government is offering EUR 10 mln grant to finance a four-year programme to promote sustainable development in Albania's rural areas, the German embassy in Tirana said.

[Read the full story here](#)

Albania, N. Macedonia agree to set up one-stop shop for joint border controls

Sept 18, 2019

EU candidate countries Albania and N. Macedonia have agreed to set up a one-stop shop for joint controls at their common border, Albania's economy minister Anila Denaj said.

[Read the full story here](#)

Albania's EU accession to serve Europe's best interest

Sept 17, 2019

The president of the European Council Donald Tusk said that Albania's accession to the EU is in the best interest of the whole of Europe.

[Read the full story here](#)

EU, Albania sign EUR 94 mln agreement in support of key reforms

Sept 13, 2019

The European Union and Albania signed EUR 94 mln financing agreement to support key reforms in the areas of justice, environment, rule of law and human rights, and improve infrastructure, the EU delegation to the country said.

Read the full story [here](#)

EBRD mobilises EUR 87 mln from GEF to help four SEE countries fight climate change

July 3, 2019

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

Read the full story [here](#)

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