

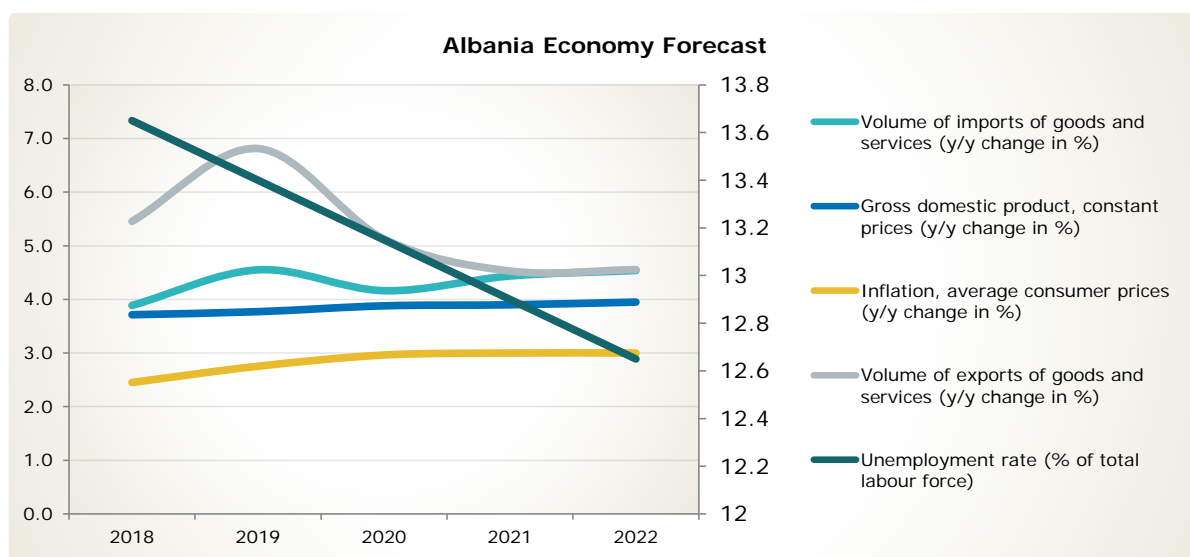
## **ALBANIA ECONOMY REPORT** 2017

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

ALBANIA – MACROECONOMIC SNAPSHOT AS OF 2017	
<b>GDP Growth</b>	3.8% y/y
<b>Business confidence indicator</b>	-3.9 pp q/q
<b>Manufacturing output</b>	4.5% y/y
<b>Retail sales</b>	1.3% y/y
<b>Annual inflation</b>	1.8%
<b>Unemployment rate</b>	13.7%
<b>Number of building permits</b>	80% y/y
<b>Money supply growth</b>	0.3% y/y
<b>Household loans</b>	5.5% y/y
<b>Gross external debt</b>	EUR 7.928 bln
<b>Current account deficit</b>	EUR 803.0 mln
<b>FDI inflow</b>	EUR 969.0 mln
<b>Foreign trade deficit</b>	ALL 353.2 bln
<b>Arrivals of foreign citizens</b>	8.1% y/y

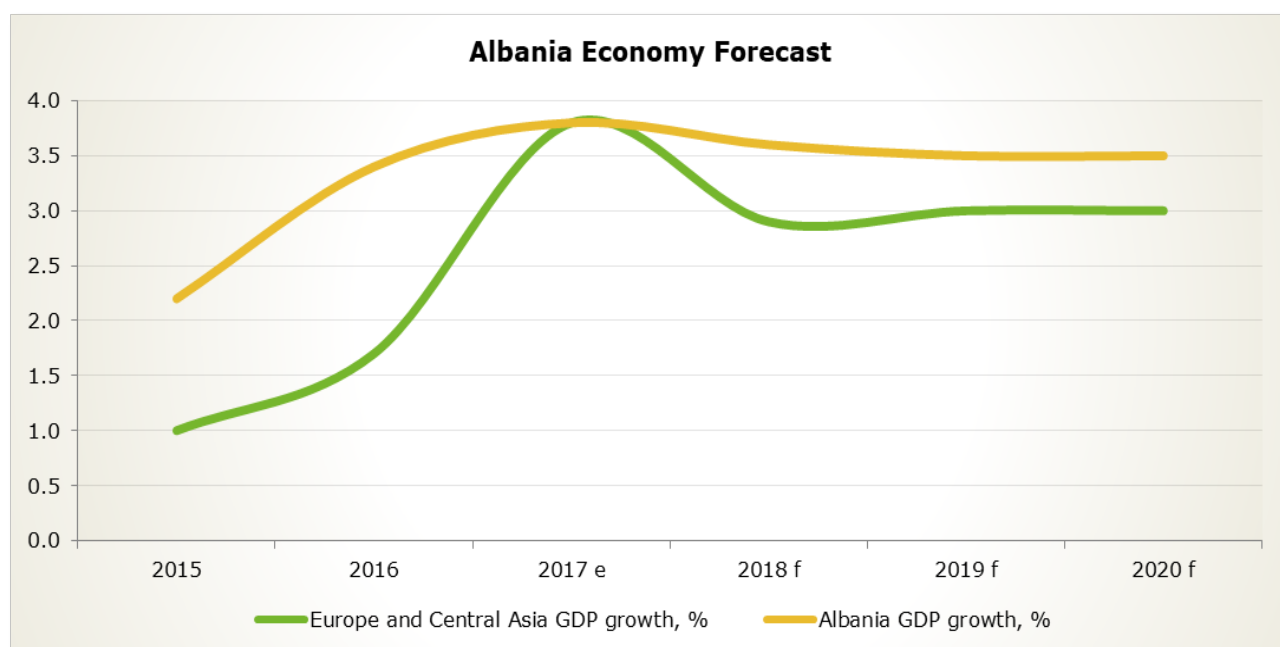


Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2018

In 2018, the Albanian economy is estimated to achieve a real growth of 3.7% y/y according to IMF forecasts. This is slightly down from the realised 3.8% y/y GDP growth in 2017, according to the preliminary data from the country's statistics office. Growth will continue to be driven by strong domestic demand, large energy-related FDIs, reforms that improve the business climate and by a strengthening EU recovery.

The medium-term outlook also remains favourable. In 2018-2022, the economy is projected to grow by 3.8% - 3.9% per year, and inflation to edge up toward the 3.0% as the output gap closes. The current account deficit is expected to narrow, as import-intensive energy projects wind down, the Euro Area continues to recover, and higher non-energy FDI propels export diversification.

In the same time, according to IMF, risks to the outlook are balanced. On the upside, accelerated donor support as part of the EU accession process could lead to higher investment and a stronger credit recovery. On the downside, volatile domestic politics or shocks to global growth could pose risks to reform implementation and fiscal consolidation.



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.

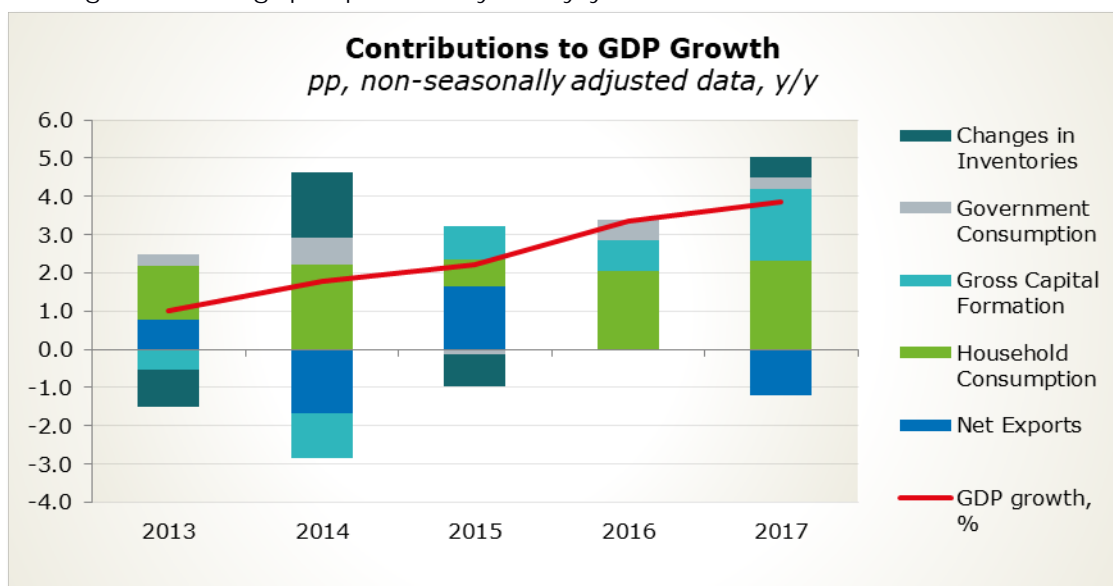
Risks to the World Bank outlook include uncertain global market conditions, which could reduce Albania's exports and FDI inflows and lower tax revenues. The faster pace of normalization of global interest rates also poses a risk, according to the bank.

## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

*GDP growth speed up to 3.8% y/y in 2017, up from 3.4% y/y in 2016*

The Albanian GDP increased by 3.8% in 2017 in real terms compared to 3.4% y/y growth in 2016. The main reason for the growth speed-up was the surging gross capital formation and the increasing household consumption. The total gross capital formation advanced by 7.7% y/y in real terms and contributed to 1.9 pp to the overall GDP growth. Household consumption went up by 2.8% y/y in real terms and contributed to 2.3 pp to the economic expansion. In the same time, the net exports took away 1.2 pp from the GDP growth in 2017 as the negative trade gap expanded by 6.8% y/y in real terms to ALL 228 bln.

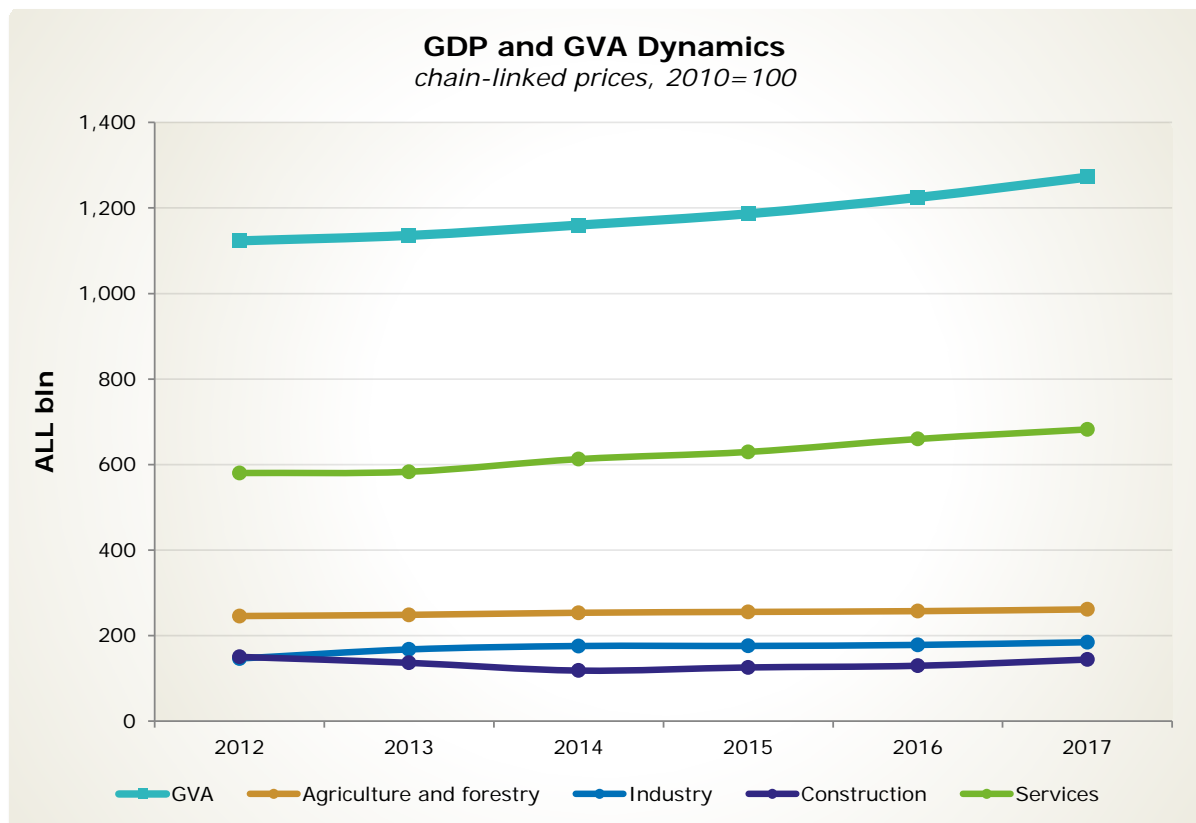


Source: INSTAT; SeeNews calculations

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.

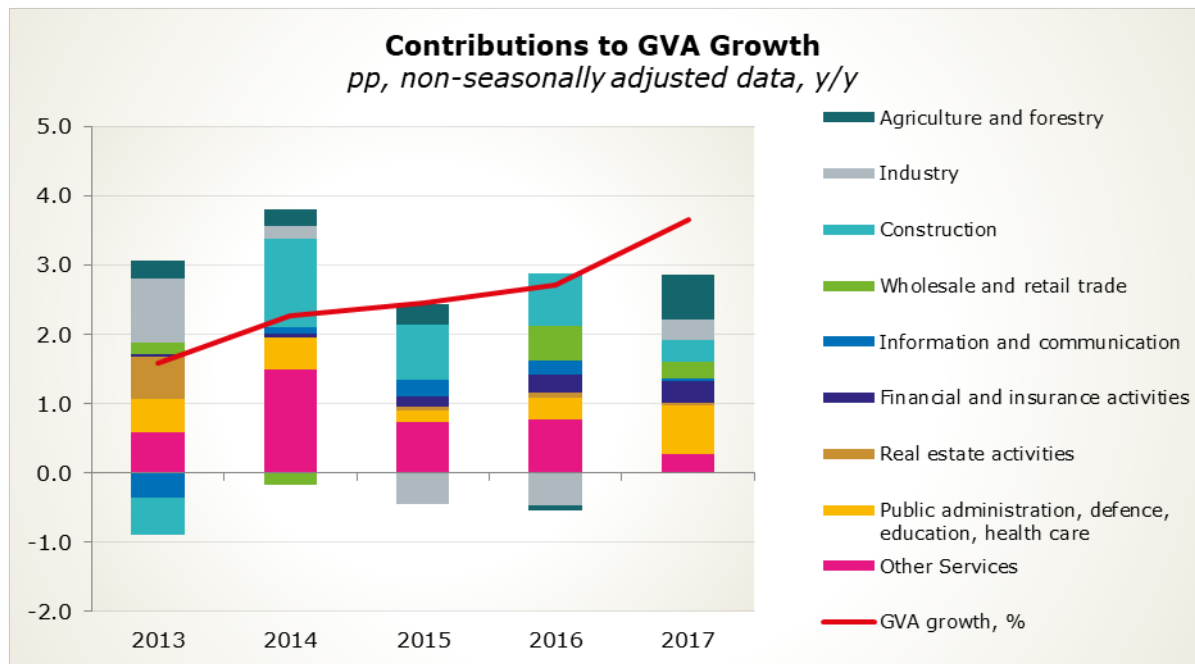
The country's non-seasonally adjusted GVA increased in value by 3.9% y/y and totalled ALL 1,272 bln in 2017. The industrial sector went up by 3.6% y/y and took 15% share in GVA, while the services sector recorded a 3.4% annual increase, slicing a 54% share in the GVA.

Construction grew by 11.3% and its share in GVA came in at 11%. The agricultural sector marked a modest increase, of 1.6% y/y, accounting for 21% of the total GVA.



Source: INSTAT

In terms of sector contributions, the construction sector contributed with 1.1 pp to the GVA expansion, while the total services sector contributed with 2.1 pp to growth. Industry added 0.5 pp to the increase of the total GVA and the retail and wholesale sector contributed with 0.7 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 decreased by 3.9 percentage points q/q in Q4 2017*

In the fourth quarter of 2017, the average business confidence indicator went down by 3.9 percentage points q/q, according to Bank of Albania. It reflected the fall in confidence indicators in construction, trade and industry and the fall in consumer confidence. In contrast, confidence in services improved during the quarter.

The confidence indicator in the industrial sector fell by 2.5 pp q/q in Q4 2017 as orders and production set back. The indicator stands at around 7.4 pp above its historical average. Also, the capacity utilisation rate fell by 1.4 pp, standing close to its historical average, of around 72.3%.

After increasing for three consecutive quarters, in Q4 2017, the confidence indicator in the construction sector fell by 12.4 pp compared to the previous quarter. The indicator stands at around 5.3 pp points below its historical average. In Q4 2017, construction activity and order books fell by 14.8 pp and 10 pp, respectively. The capacity utilisation rate came in at 59%, down around 3.3 pp compared to the previous quarter, and 5.1 percentage points below its historical average.

The services confidence indicator increased by 2.5 pp in Q4 2017 but it stood at around 12.6 pp above its historical average. The improved confidence in the services sector was attributable to the increase by 5.3 pp in the balance of the business situation development. On the other hand, the balance of demand was slightly down by 0.3 pp. The financial

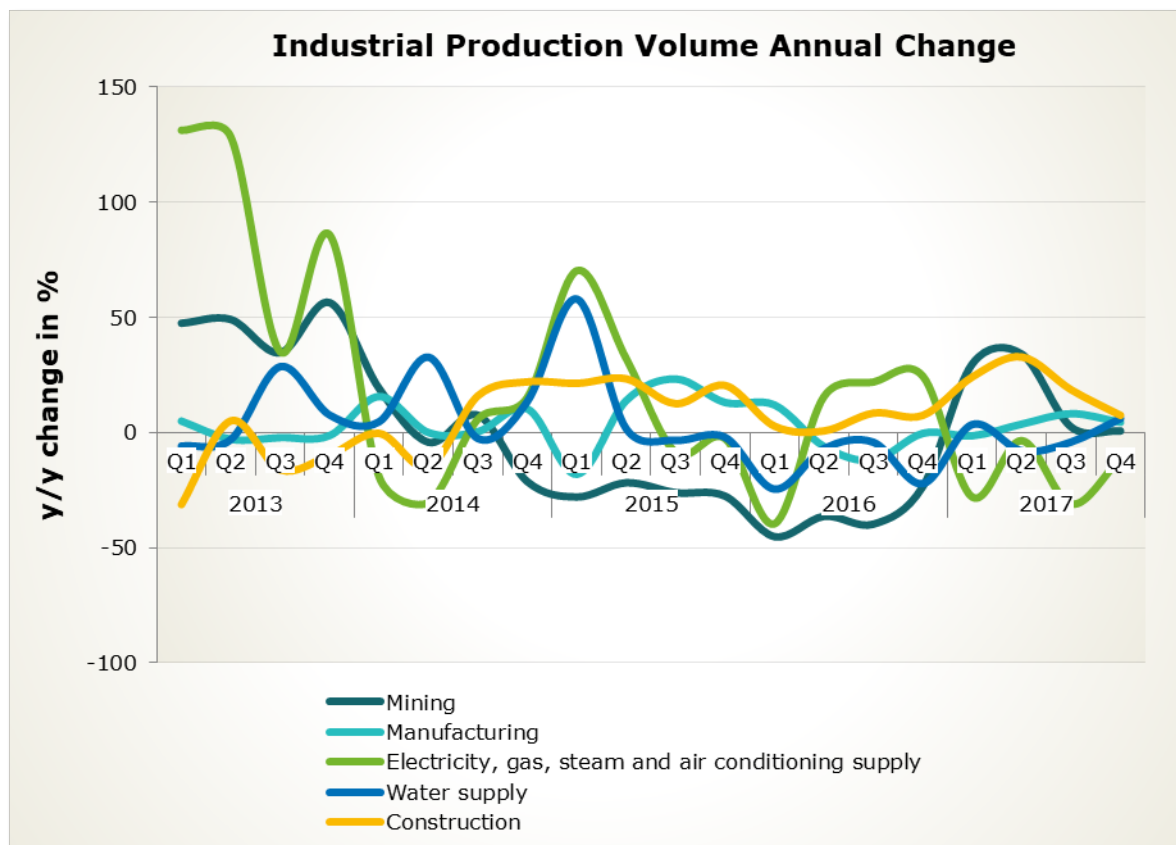
situation, employment and expectations on demand in the next quarter improved, according to the Bank of Albania.

## 2.3. INDUSTRIAL OUTPUT

### *Manufacturing output increased by 4.5% y/y in Q4 2017*

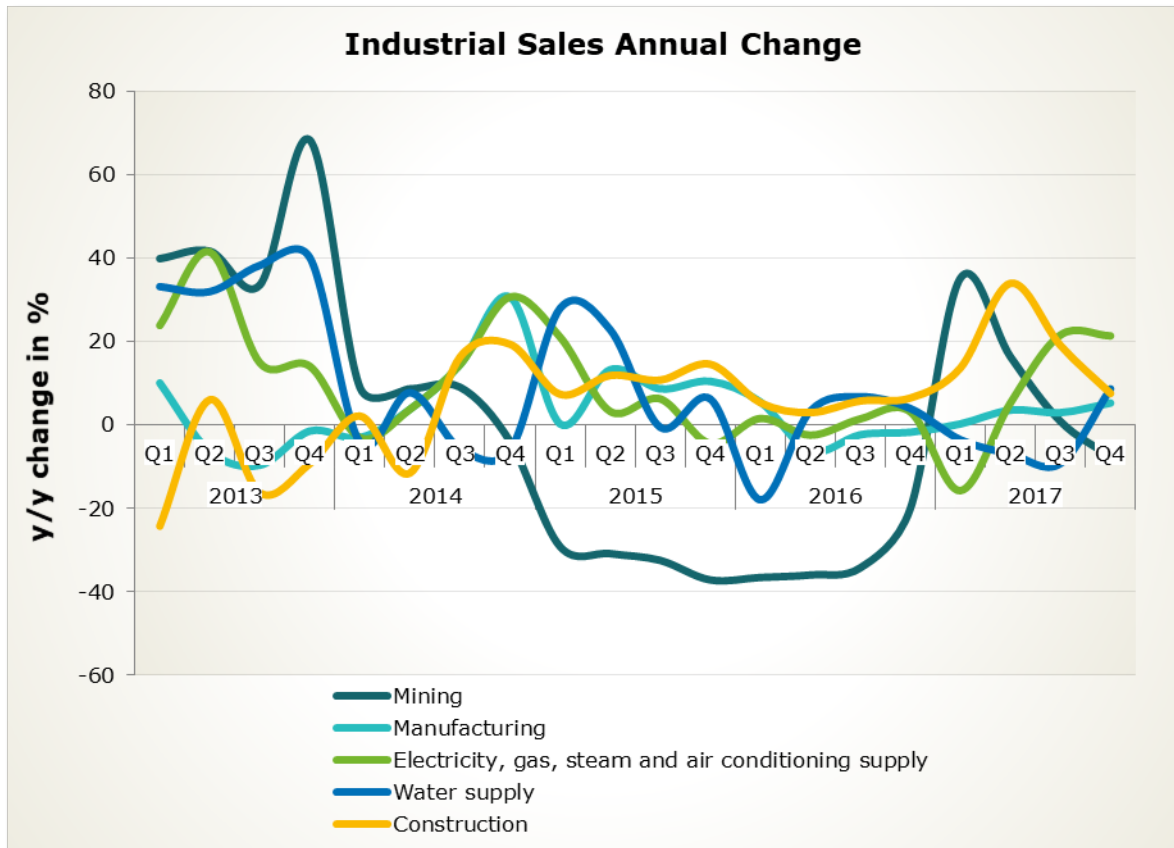
Manufacturing output went up by 4.5% in Q4 2017, while the construction output advanced by 7.5% y/y, according to INSTAT.

The water supply sector increased by 6.1% y/y while the output of the electricity, gas, steam and air conditioning supply shrank by 11.3% and the mining sector added the minimal 0.8%.



Source: INSTAT





Source: INSTAT

## 2.4. RETAIL SALES

*Retail sales growth pick up to 1.3% y/y in Q4 2017, up from 1.1% y/y growth in Q3 2017*

In the fourth quarter of 2017, the turnover volume index increased by 1.3% compared with the same quarter of 2016, according to the data from INSTAT. The retail trade turnover, excluding the retail sales of motor fuel, increased by 3.5% y/y, while the turnover volume index of the group food, beverages and tobacco advanced by 11.3% y/y in Q4 2017.

The retail turnover volume of the group of motor fuel decreased by 5.2% compared with the same quarter of the previous year. The group of non-food products without including the retail sales of motor fuel in specialized stores, the value of turnover index volume in the fourth quarter 2017 decreased by 0.8% y/y.



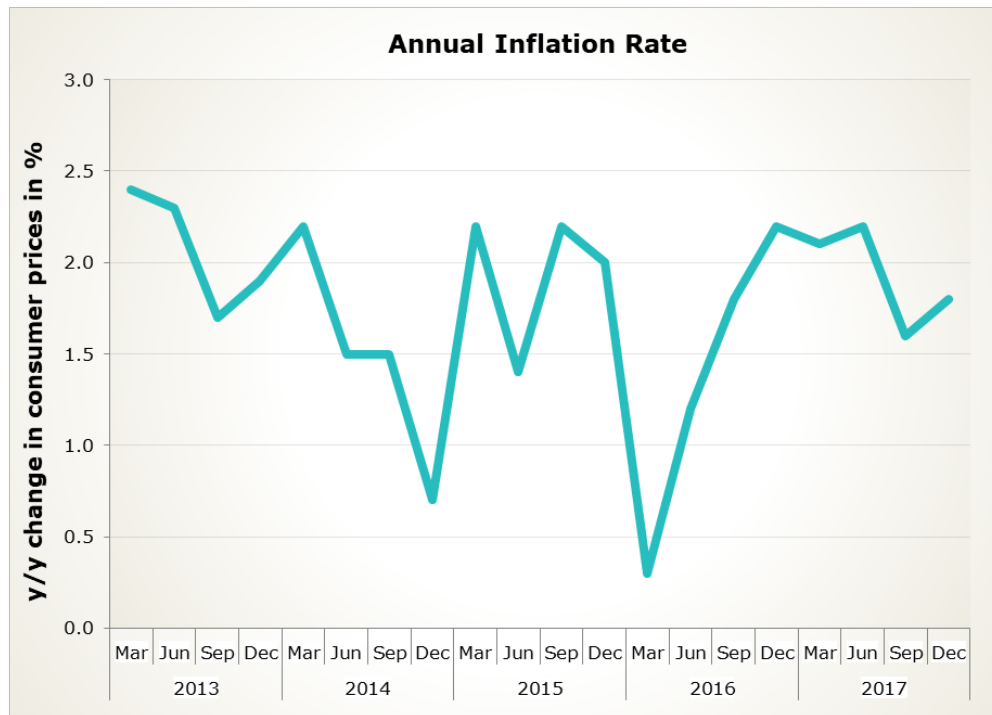
Source: INSTAT

## 2.5. INFLATION

*Annual inflation of 1.8% in December 2017, as prices of foods and non-alcoholic beverages advanced the most*

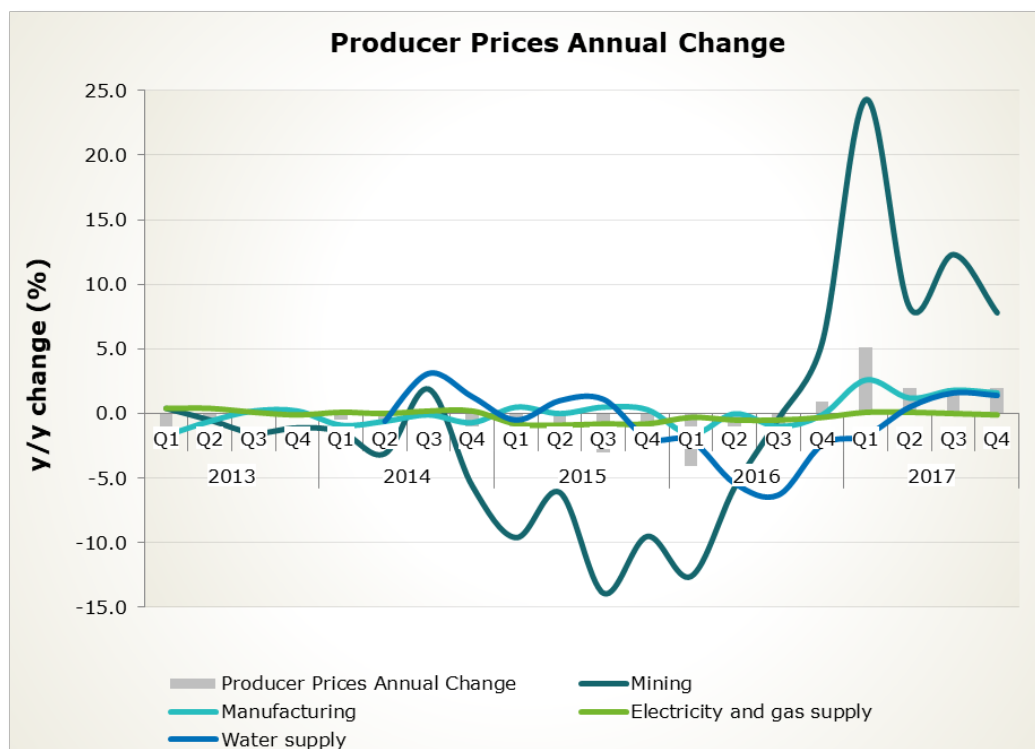
The annual inflation in Albania came in at around 1.8% in December 2017, according to INSTAT. This is up compared to September when the annual inflation reading was at 1.6%.

The fastest increase in the average prices was in the group of food and non-alcoholic beverages, which had a CPI increase of 1.8% y/y in December. The CPI index of the group of housing, water, electricity, gas and other fuels inched up by 2.2% y/y, while the inflation in the transport sector came in at 2.1%. In December 2017, the average prices of the group of furniture household goods and maintenance were unchanged compared to December 2016, while the CPI index of the clothing and footwear group went up by 0.6% y/y.



Source: INSTAT

Producer prices went up by 2.0% y/y in Q4 2017, INSTAT data showed. Producer prices in the mining sector grew by 7.8%. In the manufacturing industry they increased by 1.6% and inched up by 1.4% in the water supply sector. Producer prices were almost unchanged y/y in the electricity and gas supply sector.



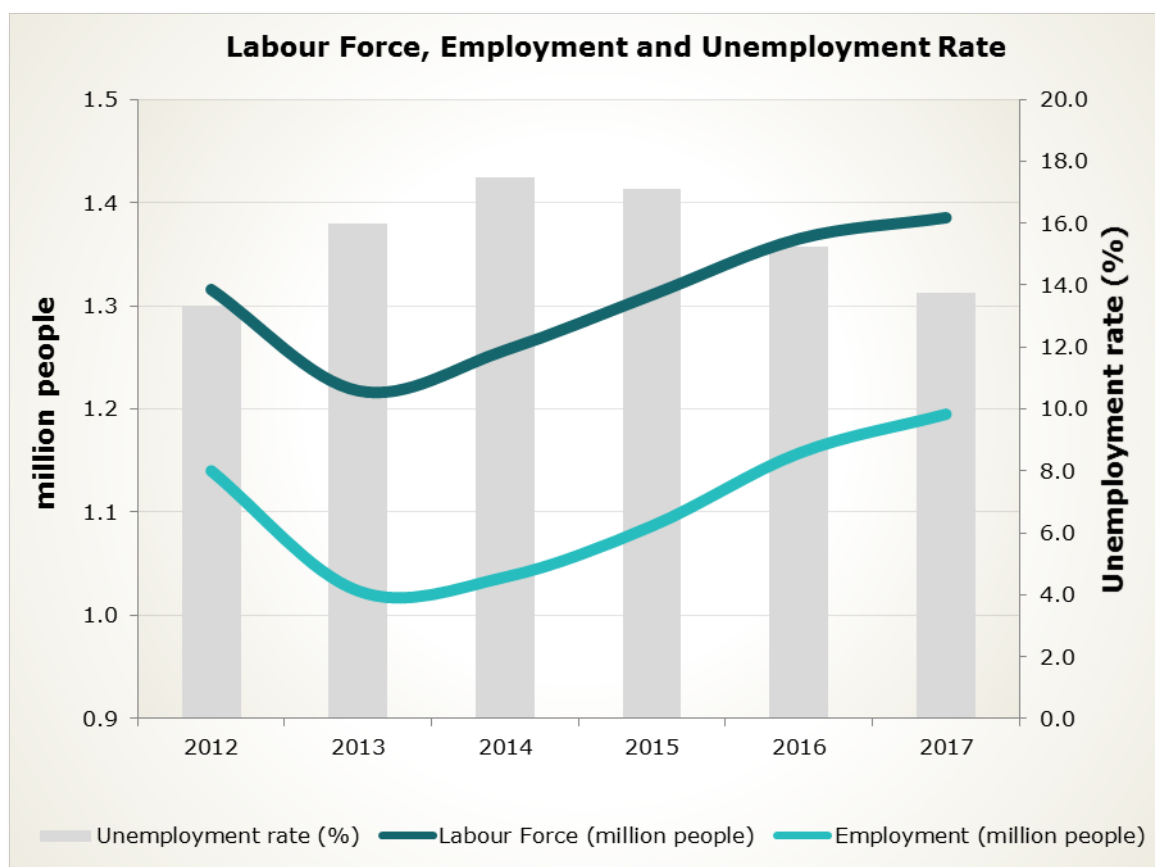
Source: INSTAT

### 3. LABOUR MARKET

*Unemployment rate went down in 2017 but remained high, at 13.7%*

The unemployment rate in Albania crawled down to 13.7% of the total labour force in 2017 from 15.2% in 2016 and 17.1% in 2015, according to data of INSTAT. The employed population aged 15 years and older was 1.195 million as of end-2017, up by 3.3% y/y.

The youth (population aged 15-29) unemployment rate went down to 25.9% in 2017 from 28.9% in 2016.



Source: INSTAT

### 4. CONSTRUCTION AND REAL ESTATE

*The number of building permits increased by 80% y/y in 2017*

The number of building permits issued in Albania in 2017 totalled 819, compared to 455 in the previous year, according to INSTAT data.

Permits for construction of non-residential buildings came in at 295, up from 160 in 2016, while permits for housing projects jumped to 524 from 295 during 2016.

The total area, covered by permits for non-residential buildings amounted to 335,190 sq m in 2017, an increase of 90% y/y. The total area of the housing projects shot up by 2.6 times on the year to 533,480 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 134.128 in 2017 from ALL 137.371 in 2016, according to Bank of Albania. The average annual exchange rate of the ALL against the USD came down to 119.047 in 2017 from 124.072 in 2016.

Average Annual ALL Exchange Rate			
Foreign Currency	2017	2016	2015
EUR	134.128	137.371	139.750
USD	119.047	124.072	125.980
GBP	153.120	168.159	192.603
CHF	120.907	126.011	131.110

### 5.2. MONETARY POLICY

#### *Policy rate at 1.25% as of end-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.

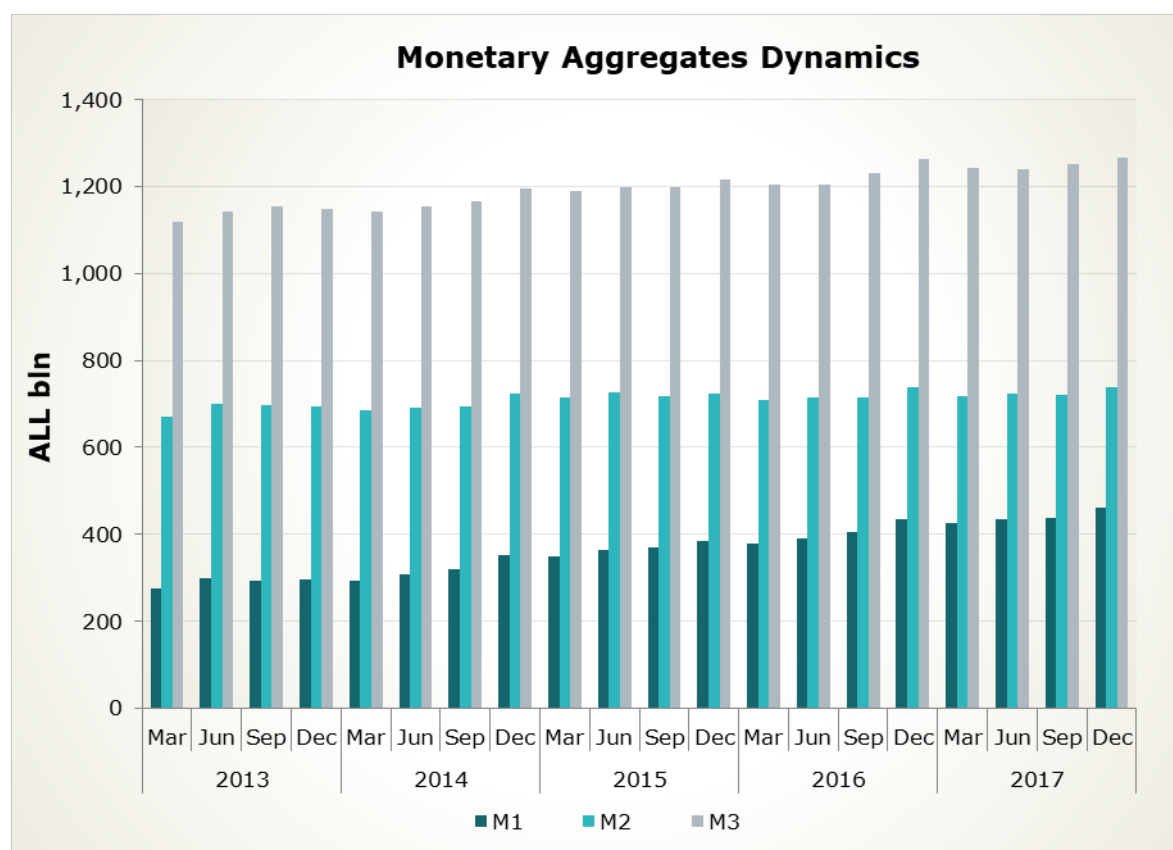
### 5.3. MONETARY AGGREGATES

#### *Annual money supply growth decelerated to 1.1% y/y in Q4 2017*

The broad money aggregate, M3, recorded an average annual growth rate of 1.1% in Q4 2017, down from 2.1% in Q3 2017, according to the Bank of Albania. The slowdown of M3 growth shows the slow creation of money in the economy, structural changes in holding the money, and the currency appreciation effect. In Q4 2017 deposits continued to shift toward maturity terms over two years, which are not included in the calculation of monetary aggregates.

The money aggregate in ALL, M2, recorded an annual growth by 1.0%, during this period, unchanged from Q3 2017, mainly supported by the credit in the domestic currency. According to the Bank of Albania, the performance on the liabilities side continued to be limited by the shift of deposits toward maturity terms over two years, which has largely affected the deposits in the domestic currency.

The liquid money indicator, M1, showed an average annual growth rate of 7.5% in Q4 2017. The ratio of currency outside banks to M2 increased at 35.9%, by reflecting the end-of-year seasonal behaviour and the structural changes in M2.



Source: Bank of Albania

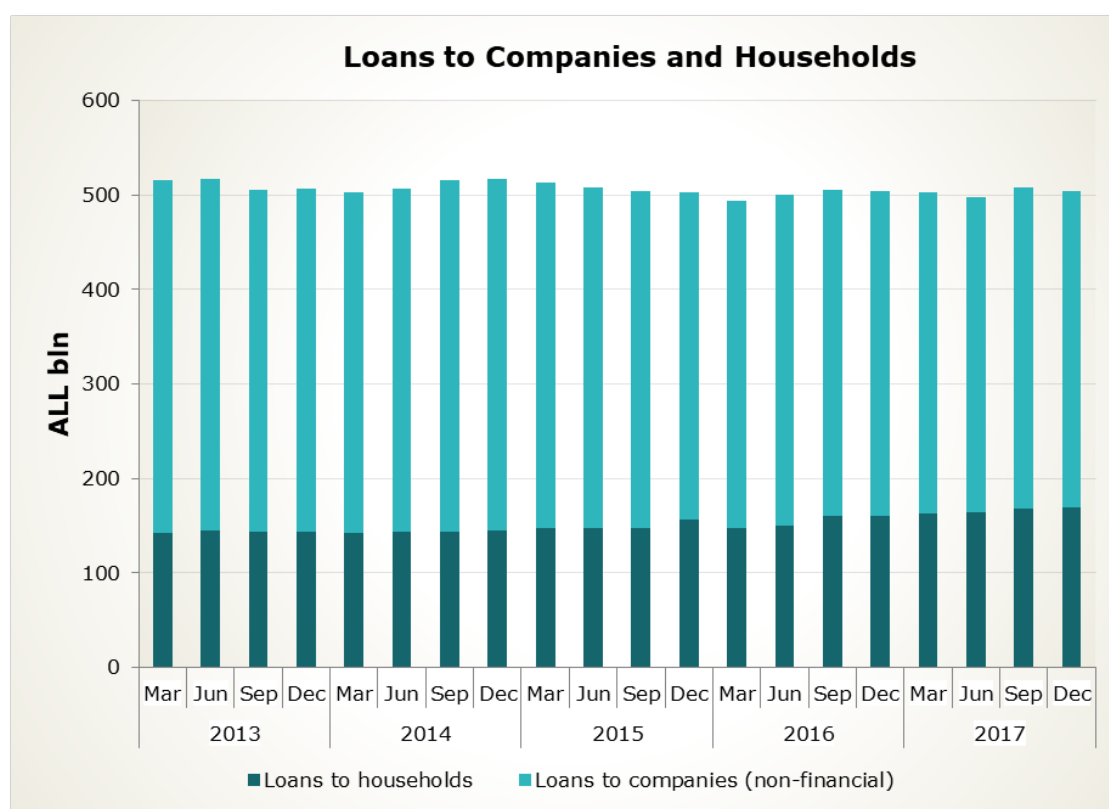
## 5.4. BANKING AND INSURANCE

### *Non-government sector loans growth sluggish at 0.1% y/y in Q4 2017*

The growth of credit to the private sector remained moderate, reflecting the steady growth of loans to households, and the sluggish performance of loans to enterprises, data from the Bank of Albania shows. In Q4 2017, the total credit to the non-government sector came in at ALL 504 bln, up 0.1% y/y and down 0.6% compared to the previous quarter. In terms of currency, credit continues to be broadly supported by the growth of the credit portfolio in ALL.

Loans to corporations declined by 2.4% y/y to ALL 334.7 bln as of end-2017, mainly on bad loans write-offs. Excluding bad loans effects, the overall credit to enterprises increased by 4.6% y/y, according to the Bank of Albania. In the same time, the Bank points that loans to enterprises continued to be conditioned by a tight bank supply and low demand by enterprises. A sale of a bank's credit portfolio to a non-bank financial institution had a negative effect on the developments in the fourth quarter. In Q4 2017, the interest rates on ALL loans for the corporate sector remained steady, while the interest rates on euro loans went up. Overall, the non-price standards for loans to enterprises remain on the tightening side. According to the Bank of Albania expectations, credit standards to enterprises are likely to tighten in Q1 2018, while demand is expected to remain unchanged.

Loans to households continued to show high growth rates in Q4 2017, supported by both the easier lending conditions and the upward demand of households for loans. As of end-2017, the total amount of the outstanding household loans was ALL 169.2 bln, up 5.5% y/y. During the final quarter of 2017, the interest rates on ALL loans to households slightly fell, while interest rates on euro loans remained unchanged. Most lending conditions to households are on the easing side but banks expect to tighten the lending standards for households in Q1 2018. Consumer loans advanced by 12.9% compared to the previous quarter on low base effects. Consumer loans have been increasing over the last two years, supported by the easing of financing conditions by banks and the increased demand of households for it.

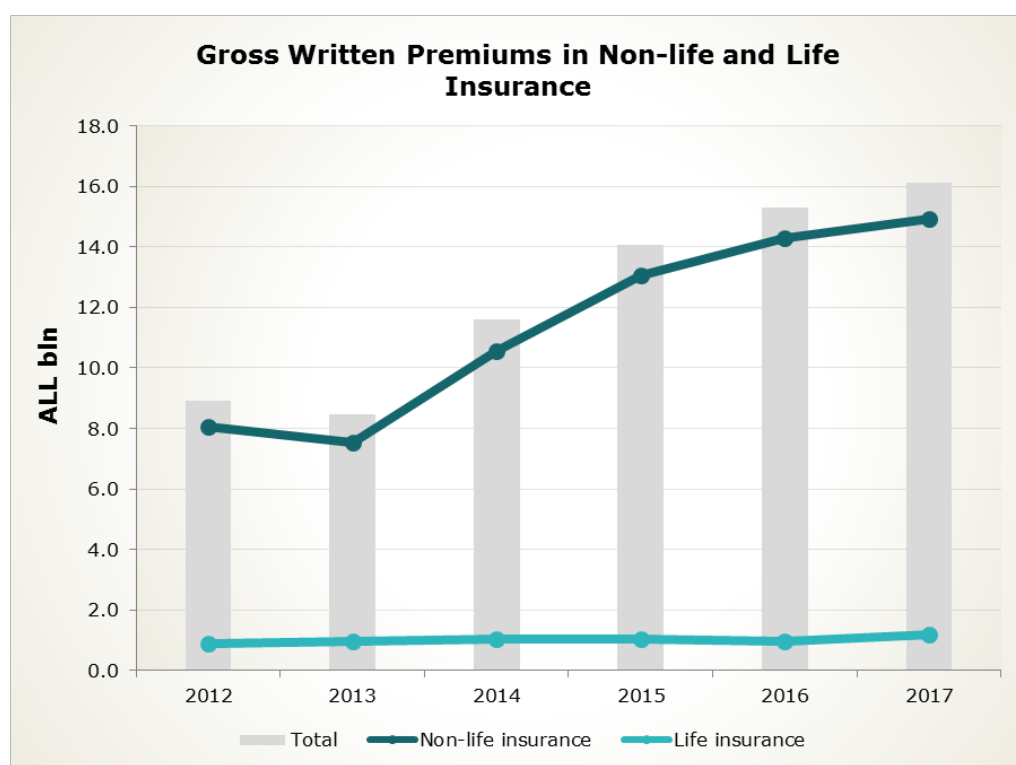


Source: Bank of Albania

## Insurance premium income up by 5.4% y/y in 2017

The total gross written premiums of the Albanian non-life and life insurance companies, excluding reinsurance, stood at ALL 16.112 bln, up by 5.4% y/y in 2016, according to the Albanian Financial Supervisory Authority (AMF).

The increase was fuelled by the 23.1% surge of life insurance sector, which posted gross written premiums of ALL 1.204 bln in 2017. The premiums in the non-life insurance segment expanded by 4.2% to ALL 14.908 bln.



Source: AMF

## 6. EXTERNAL SECTOR

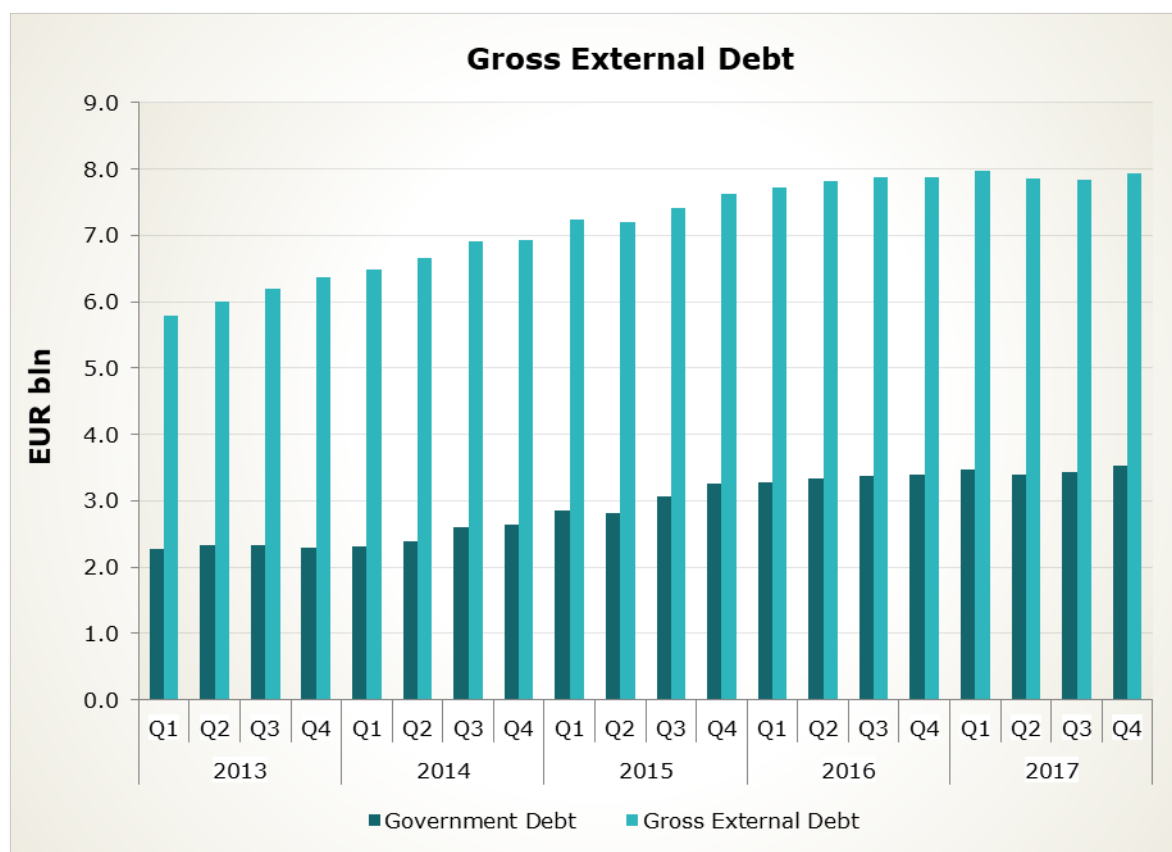
### 6.1. FOREIGN DEBT

#### The gross external debt inched up by 0.6% y/y to EUR 7.928 bln as of December 2017

The gross external debt totalled EUR 7.928 bln as of end-2017, up by 0.6%, according to Bank of Albania. In comparison to Q3 2017 the gross external debt increased by 1.2%.

In Q4 2017, long-term liabilities amounted to EUR 4.633 bln, or 58.4% of the total debt, and short-term liabilities totalled EUR 1.580 bln, equal to 19.9% of the total debt.



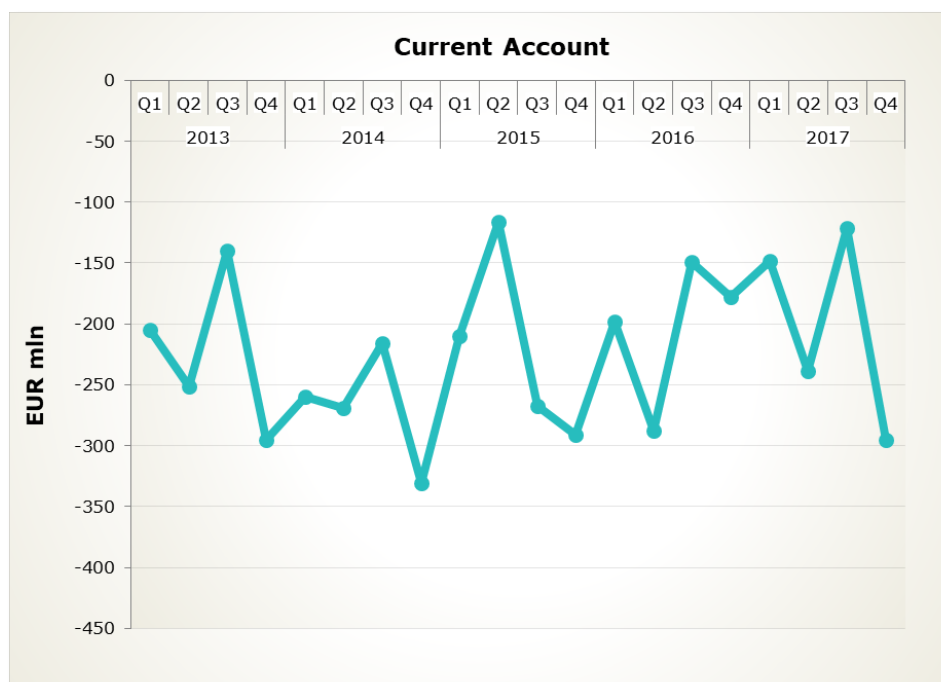


Source: Bank of Albania

## 6.2. BALANCE OF PAYMENTS

### *Current account deficit widened to EUR 295 mln in Q4 2017*

The current account deficit widened to EUR 295 mln in Q4 2017 from EUR 178 mln in Q4 2016, according to central bank statistics data. The current account gap increase was mainly a result of widening deficit on the foreign trade of goods. The trade deficit on the goods account came in at EUR 788 mln, up by EUR 122 mln compared to Q4 2016. In the same time the surplus on the services account declined to EUR 217 mln in Q4 2017 from EUR 230 mln in Q4 2016. The surplus on the income account plunged by 37% y/y to EUR 163 mln.

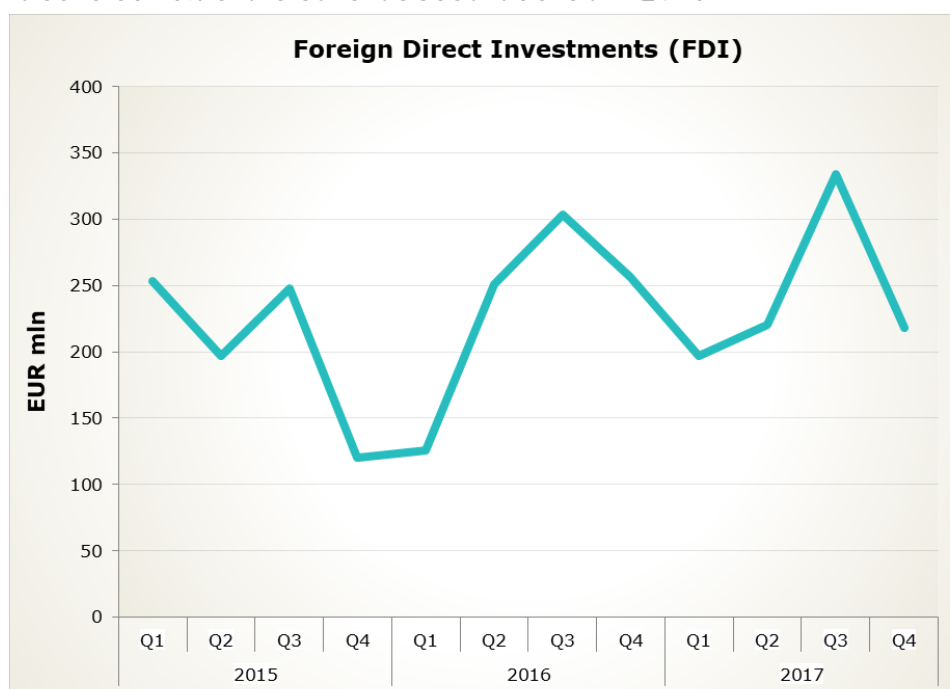


Source: Bank of Albania

## 6.3. FDI

### FDI in Albania at EUR 218 mln in Q4 2017

Foreign Direct Investments (FDI) in Albania amounted to EUR 218 mln in the fourth quarter of 2017, according to Bank of Albania. In annual terms, the FDI inflow declined by 14.8%, or EUR 38 mln. FDIs covered 70% of the current account deficit in Q4 2017.



Source: Bank of Albania

## 6.4. FOREIGN TRADE

### *Foreign trade deficit up by 5.2% y/y at ALL 353 bln in 2017*

The trade deficit stood at ALL 353 bln in 2017, up by 5.2% compared to 2016, according to INSTAT.

Exports of goods increased by 12% to ALL 273 bln, while imports went up by 8.1% y/y to ALL 626 bln.

Albania's most exported products group in the final quarter of 2017 were textile and footwear – 41% of the total exports, construction materials and metals – 16% and minerals, fuels, electricity with 14%. In terms of imports, the group of machineries, equipment and spare parts led the ranking with 22% share, followed by food, beverages and tobacco with a 16% share and textile and footwear with 14% of the total imports.



Source: INSTAT

## 6.5. TOURISM

### *Number of foreign visitors to Albania up 8.1% y/y in 2017*

The number of foreign nationals who visited Albania in 2017 rose by 8.1% y/y to 5.118 million people, according to INSTAT.

Visitors who entered the country in 2017 for the purpose of recreation represented 46.3% of all foreign nationals, or 2.372 million. By comparison, 1.919 million foreign nationals visited Albania for recreational purposes in 2016, or 40.5% of the total number of foreign visitors.



Source: INSTAT

## 7. MAJOR DEVELOPMENTS

### ***Germany grants EUR 12.5 mln to Albania in support of employment, energy efficiency***

Dec 20, 2017

Albania's economy and finance ministry signed a grant agreement worth EUR 12.5 mln with the German government to support employment and energy efficiency programmes.

[Read the full story here](#)

### ***Albania's main challenges remain high debt, NPLs, institutional weaknesses – IMF***

Dec 15, 2017

High level of public debt and financing needs, non-performing loans (NPL), and pervasive institutional weaknesses remain some of the main challenges facing Albania, according to the International Monetary Fund (IMF) said.

[Read the full story here](#)

## ***Albania approves EUR 20 mln scheme to support agriculture in 2018***

Dec 13, 2017

The Albanian government has approved an agricultural financing scheme worth EUR 20 mln for the next year aiming to boost exports, according to the country's agriculture ministry.

[Read the full story here](#)

## ***Regulatory barriers may have harmed growth, job creation in Albania - World Bank***

Nov 30, 2017

Large regulatory barriers may have harmed firm growth and job creation in Albania, according to a World Bank's report. Between 30% and 60% of total employment in Albania is informal, the report said, adding that high informality undermines workers, firms, and the economy at large.

[Read the full story here](#)

## ***Albania, Kosovo sign MoU to set up common energy exchange***

Nov 29, 2017

Albania and Kosovo have signed a memorandum of understanding (MoU) on the establishment and operation of a common energy exchange, according to the Albanian government.

[Read the full story here](#)

## ***Albania lacks many SME-friendly components - EC***

Nov 24, 2017

Albania lacks a number of key components of a friendly business environment for small and medium-sized companies (SMEs), according to the European Commission (EC).

[Read the full story here](#)

## ***Albania should accelerate EU-oriented reforms***

Nov 23, 2017

Albania should preserve and accelerate the momentum in EU-oriented reforms in order to meet the EU requirements for the opening up of accession talks, according to the European Bank for Reconstruction and Development (EBRD).

[Read the full story here](#)

## ***Albania's agriculture needs to address low expenditure, land fragmentation - EC***

Nov 16, 2017

Low expenditure and structural problems such as low average farm size and plot fragmentation are some of the main challenges Albania faces in the area of agriculture, according to the European Commission (EC).

[Read the full story here](#)

## ***Albgaz becomes Albania's certified gas system operator***

Nov 9, 2017

According to the Albania's energy regulatory ERE, the state-owned Albgaz has been issued certificate to operate the country's gas system.

[Read the full story here](#)

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