

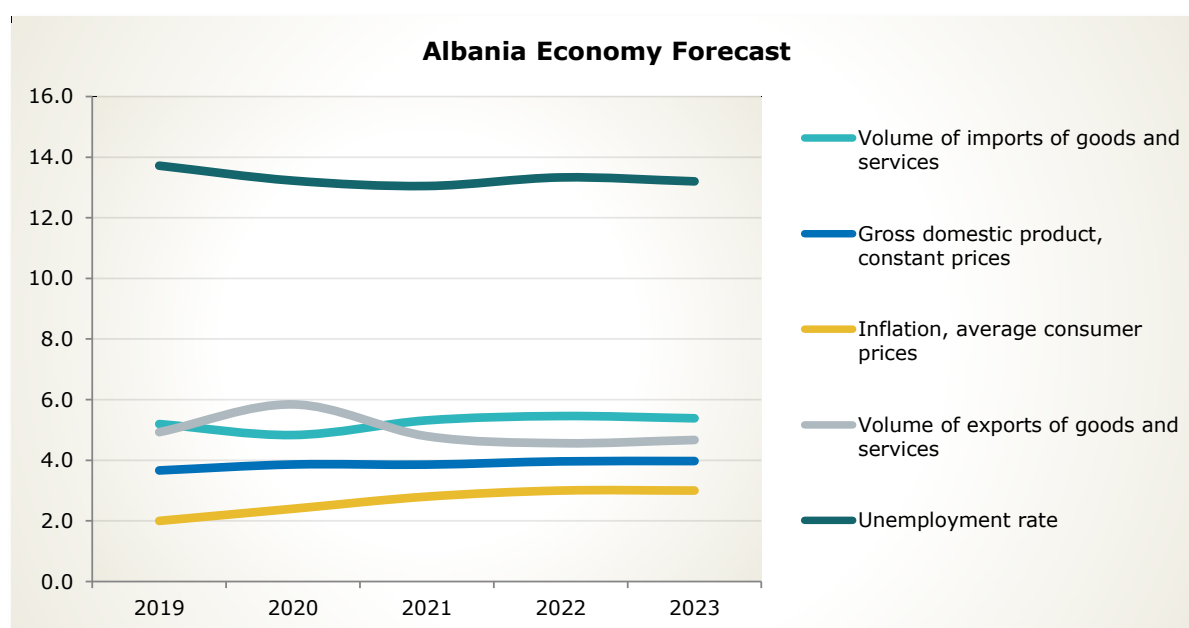
ALBANIA ECONOMY REPORT 2018

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.....	9
3. LABOUR MARKET.....	11
4. CONSTRUCTION AND REAL ESTATE	11
5. MONEY SUPPLY AND BANKING SYSTEM.....	12
5.1. ALL EXCHANGE RATE	12
5.2. MONETARY POLICY	12
5.3. MONETARY AGGREGATES	12
5.4. BANKING AND INSURANCE.....	13
6. EXTERNAL SECTOR	15
6.1. FOREIGN DEBT	15
6.2. BALANCE OF PAYMENTS	16
6.3. FDI.....	17
6.4. FOREIGN TRADE	17
6.5. TOURISM	18
7. MAJOR DEVELOPMENTS	19

1. MACROECONOMIC SNAPSHOT AND FORECAST

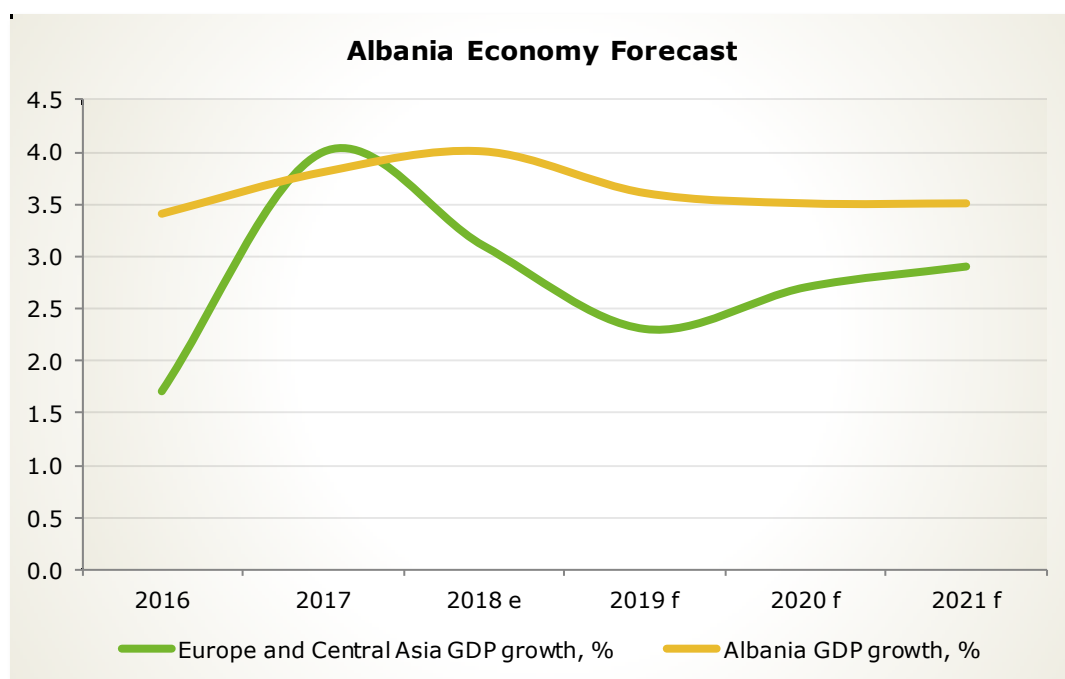
ALBANIA – MACROECONOMIC SNAPSHOT AS OF 2018	
GDP Growth	4.1% y/y
Business confidence indicator	-1.2 pp q/q
Manufacturing output	7.9% y/y
Retail sales	3.2% y/y
Annual inflation	1.8%
Unemployment rate	13.7%
Number of building permits	45.8% y/y
Money supply growth	-0.2% y/y
Household loans	3.5% y/y
Gross external debt	EUR 8.347 bln
Current account deficit	EUR 860.0 mln
FDI inflow	EUR 1.026 bln
Foreign trade deficit	ALL 331.0 bln
Arrivals of foreign citizens	15.8% y/y



Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2019

According to the International Monetary Fund (IMF), the Albanian economy has continued to strengthen, with real GDP growth seen at about 3.9% in 2019-2023, reflecting stronger domestic demand driven by a gradual revival in exports and large infrastructure and energy-related FDI projects.

IMF expects the Albania's current account deficit to narrow to below 6.0% of GDP in 2019-2023, supported by tourism and other services exports. 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. On the upside, the opening of EU accession negotiations, scheduled for June 2019, 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 3.8% in 2019, down from 4.1% in 2018. This will be higher than the projected growth for Europe and Central Asia, of 2.3% in 2019.

Albania – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)							
	2016	2017	2018 e	2019 f	2020 f	2021 f	
Real GDP growth, at constant market prices, y/y change in %	3.4	3.8	4.2	3.8	3.6	3.6	
Private Consumption	2.6	3.1	2.6	3.6	3.6	3.2	
Government Consumption	4.7	2.5	1.1	6.3	-0.7	4.1	
Gross Fixed Capital Investment	3.2	6.8	3.3	4.1	3	3.1	
Exports, Goods and Services	11.4	8.5	5.3	5.8	5.8	5.9	
Imports, Goods and Services	6.9	8.2	2.5	5.3	4.8	4.7	
Real GDP growth, at constant factor prices (by sectors)	3.2	3.8	4.3	3.8	3.6	3.6	
Agriculture	1.7	0.6	1.4	2.1	2.2	2.2	
Industry	2.1	6.8	8.3	4.2	4.4	4.4	
Services	4.8	4.2	3.9	4.6	3.9	4.0	
Inflation (Consumer Price Index)	1.3	2.0	2.1	2.5	2.9	3.0	
Current Account Balance (% of GDP)	-7.6	-7.5	-6.3	-6.4	-6.1	-5.7	
Net Foreign Direct Investment (% of GDP)	8.7	8.6	7.8	6.8	6.8	6.9	

Source: World Bank, Europe and Central Asia Economic Update, April 2019

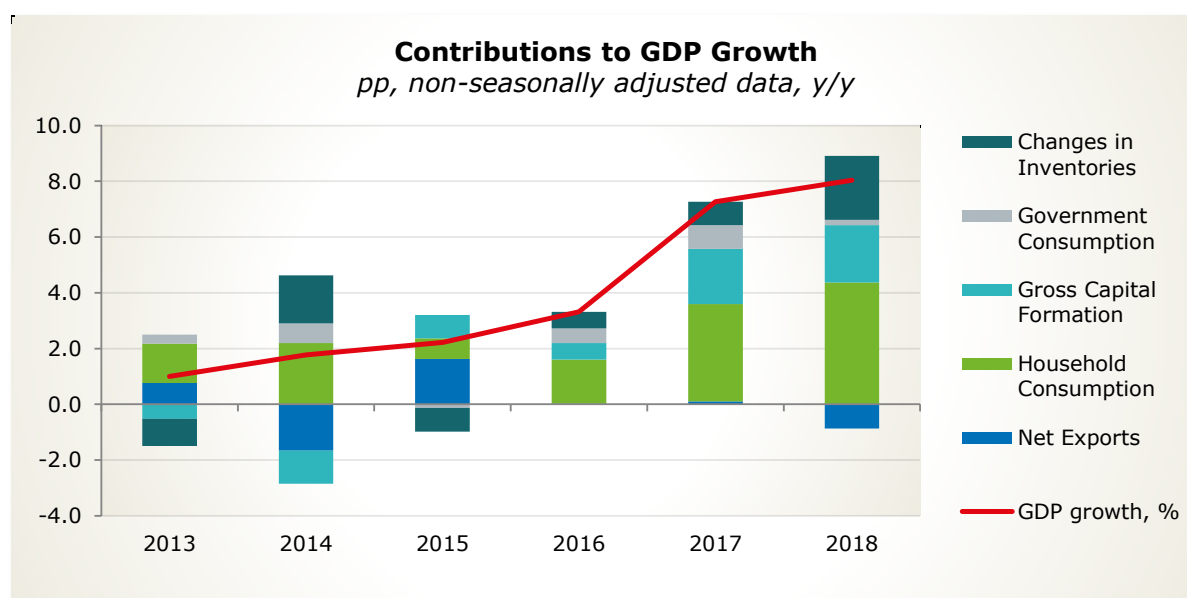
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth rose to 4.1% y/y in 2018, from 3.8% y/y in 2017

The Albanian GDP increased in real terms by 4.1% y/y in 2018, compared to a 3.8% y/y growth in 2017, according to data from Albania's Institute of Statistics (INSTAT).

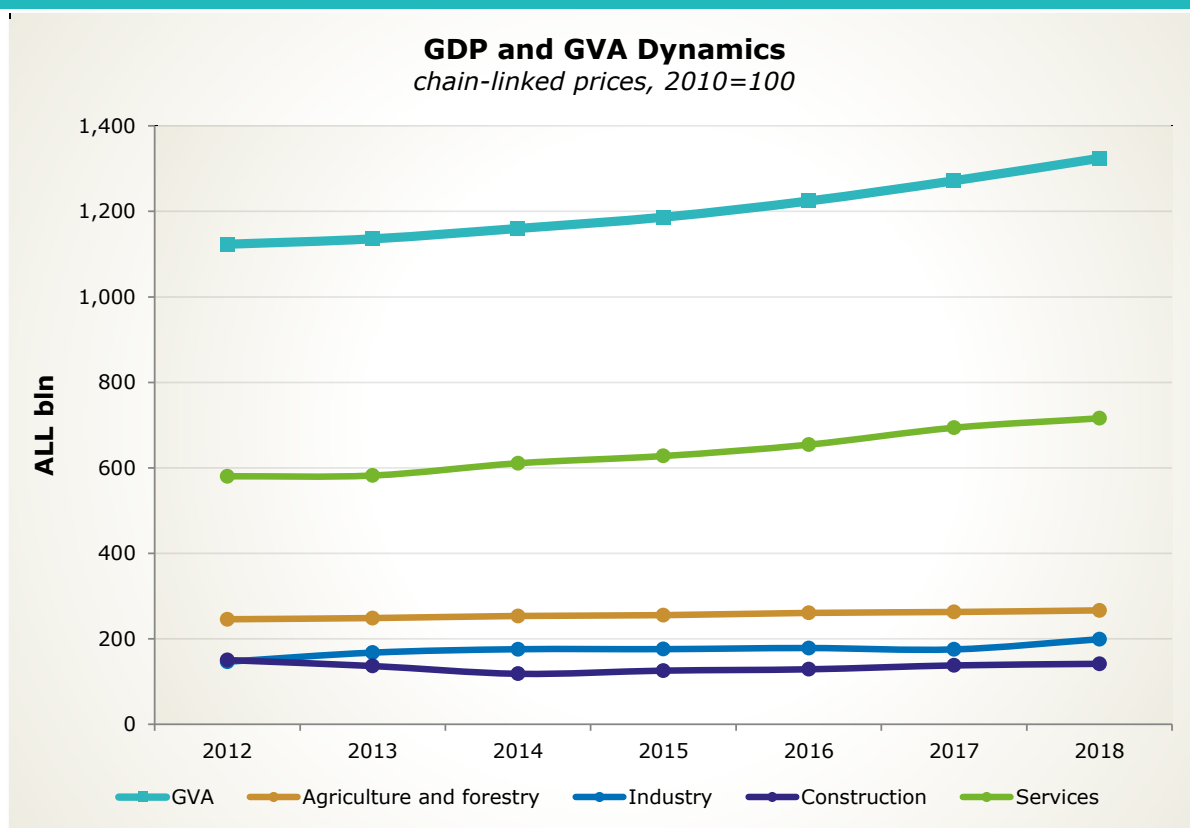
In 2018 household consumption rose by 3.0% in real terms and added 4.4 pp to the overall GDP growth, while government consumption shrank by 1.1%, contributing by 0.2 pp. Gross capital formation increased by 2.8% y/y and contributed with 2.1 pp to the total GDP growth. In the same time, the imports took away 5.6 pp from the economic growth in 2018, while exports contributed only 4.7 pp.



Source: INSTAT; SeeNews calculations

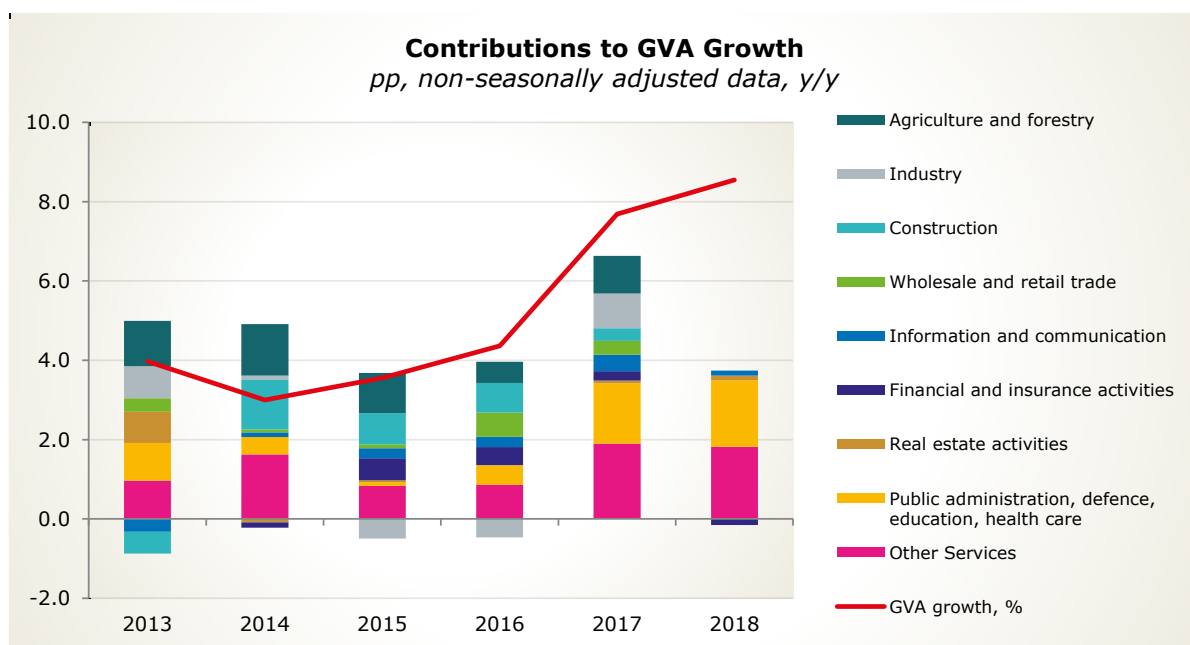
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The country's non-seasonally adjusted GVA increased in value by 4.1% y/y and totalled ALL 1,324.3 bln in 2018. The industrial sector went up by 13.6% y/y and took a 15.0% share in GVA, while the services sector recorded a 3.2% annual increase, slicing a 54.1% share in the GVA. Construction rose by 2.7% and its share in GVA came in at 10.7%. The agricultural sector marked a modest increase of 1.4% y/y, accounting for 20.1% of the total GVA.



Source: INSTAT

In terms of sector contributions, the industry sector added 0.8 pp to the GVA expansion, while the services sector contributed with 5.8 pp to the growth. The retail and wholesale sector alone added another 2.4 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 1.2 percentage points q/q in Q4 2018

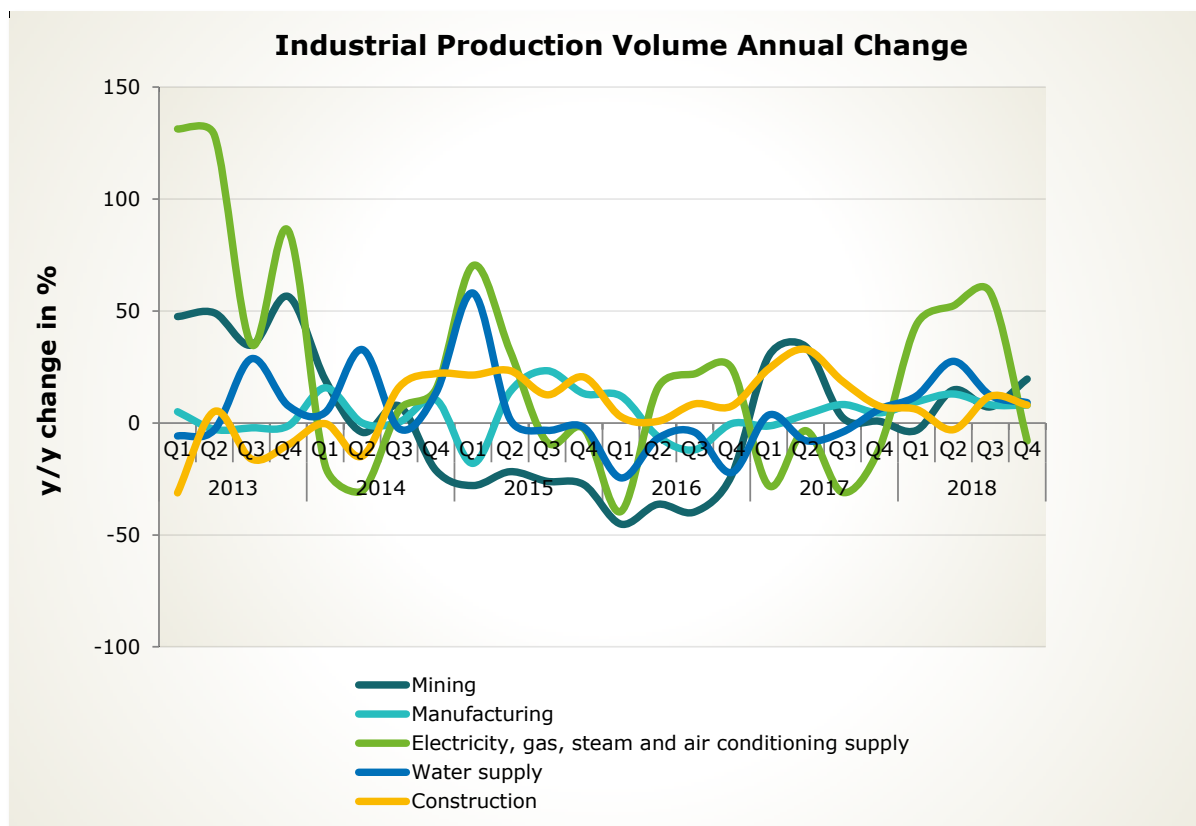
In the fourth quarter of 2018, the average economic sentiment indicator (ESI) indicator fell by 1.2 pp q/q, reaching 100.2 points, according to Bank of Albania. In Q3 2018, the business confidence indicator had gone down by 4.0 pp q/q. The performance of ESI reflected the decline of both business and consumer confidence. Despite that ESI remains above its long-term average of 100.0 points.

2.3. INDUSTRIAL OUTPUT

All but one sectors registered annual increase in industrial production in Q4 2018

In Q4 2018, the highest annual increase in production was posted by the mining sector – its output jumped by 19.6%, according to INSTAT.

Water supply and construction saw annual rises of 9.1% and 8.0%, respectively. Manufacturing sector output climbed by 7.9%, while the electricity, gas, steam and air conditioning supply sector fell by 8.0%.



Source: INSTAT



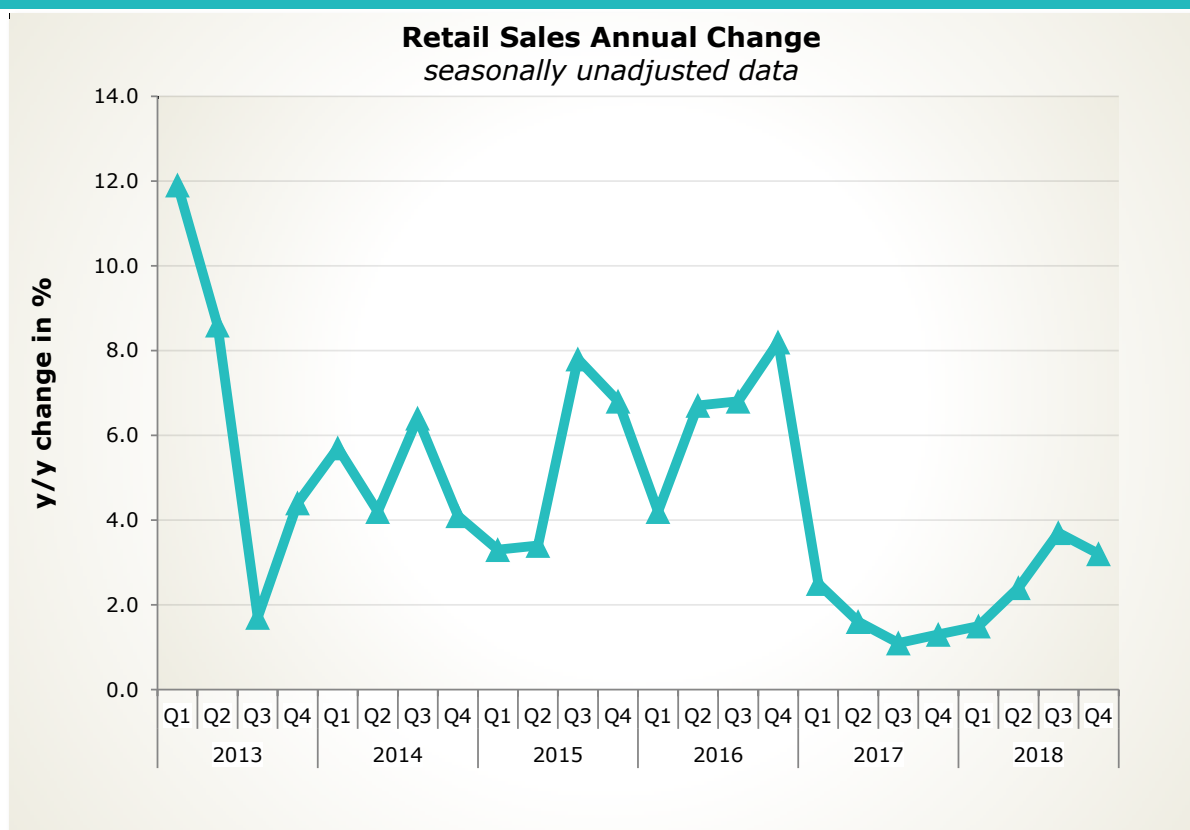
Source: INSTAT

2.4. RETAIL SALES

Retail sales continued its uptrend in Q4 2018

In the fourth quarter of 2018, the retail volume increased annually by 3.2%, compared to a 3.7% rise in Q3 2018 and 1.3% a year earlier, according to seasonally unadjusted data from INSTAT.

Retail trade of motor fuel registered the highest increase, of 5.2%. Retail sale of non-food products, except motor fuel rose by 2.8%, while retail of food, beverages and tobacco in both specialized and non-specialized stores went up by 2.4%.



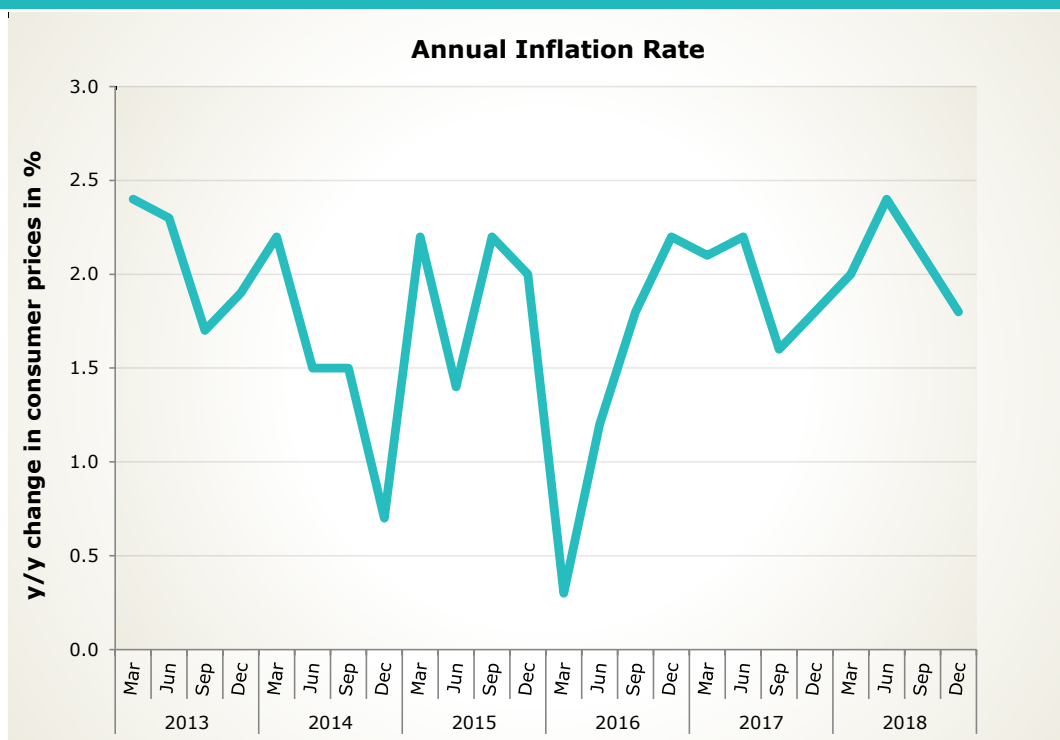
Source: INSTAT

2.5. INFLATION

Annual inflation of 1.8% in December 2018

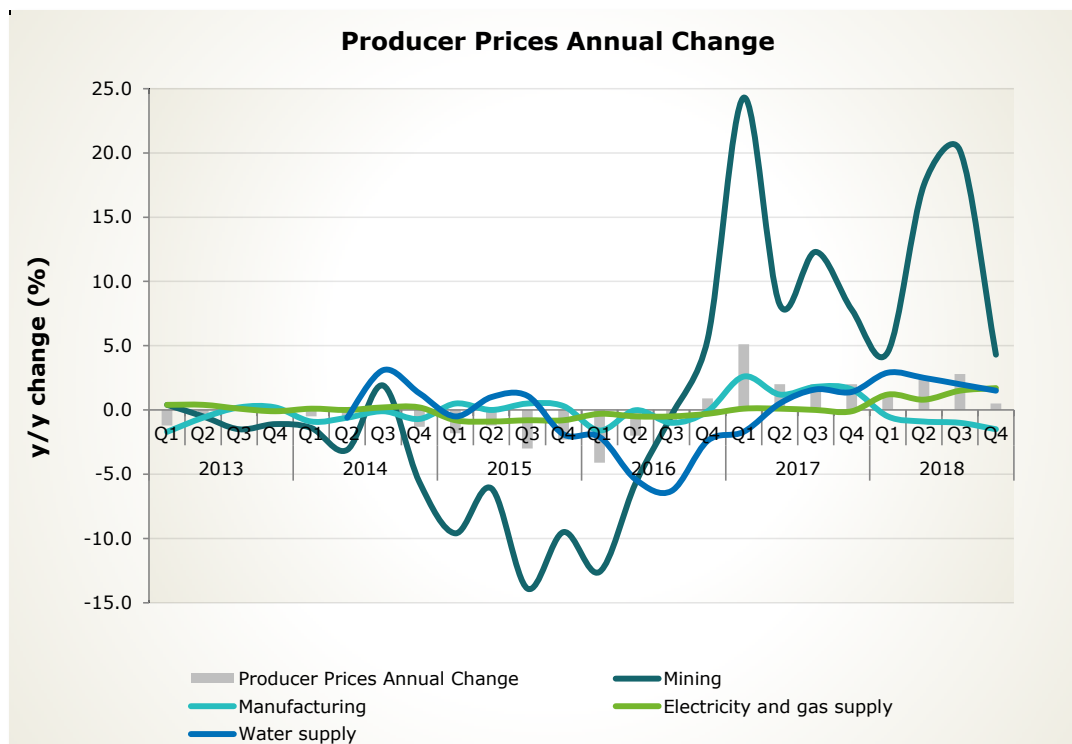
The annual inflation in Albania came in at 1.8% in December 2018, according to INSTAT. This is down compared to September 2018 when the annual inflation was 2.1%. Compared to December 2017, the inflation remained unchanged.

In December 2018, the highest annual inflation among consumer groups was registered by food and non-alcoholic beverages – 2.8%, recreation and culture – 2.7% and alcoholic beverages and tobacco – 2.5%. Deflation was present in medical care, which inched down by 0.5% and clothing and footwear – 1.6%.



Source: INSTAT

Producer prices went up by 0.5% y/y in Q4 2018, INSTAT data showed. Producer prices in all sectors registered a growth, except manufacturing where they inched down by 1.5%. The mining sector was on top in terms of annual rise – 4.3%, followed by electricity and gas supply - 1.7% and water supply - 1.5%.



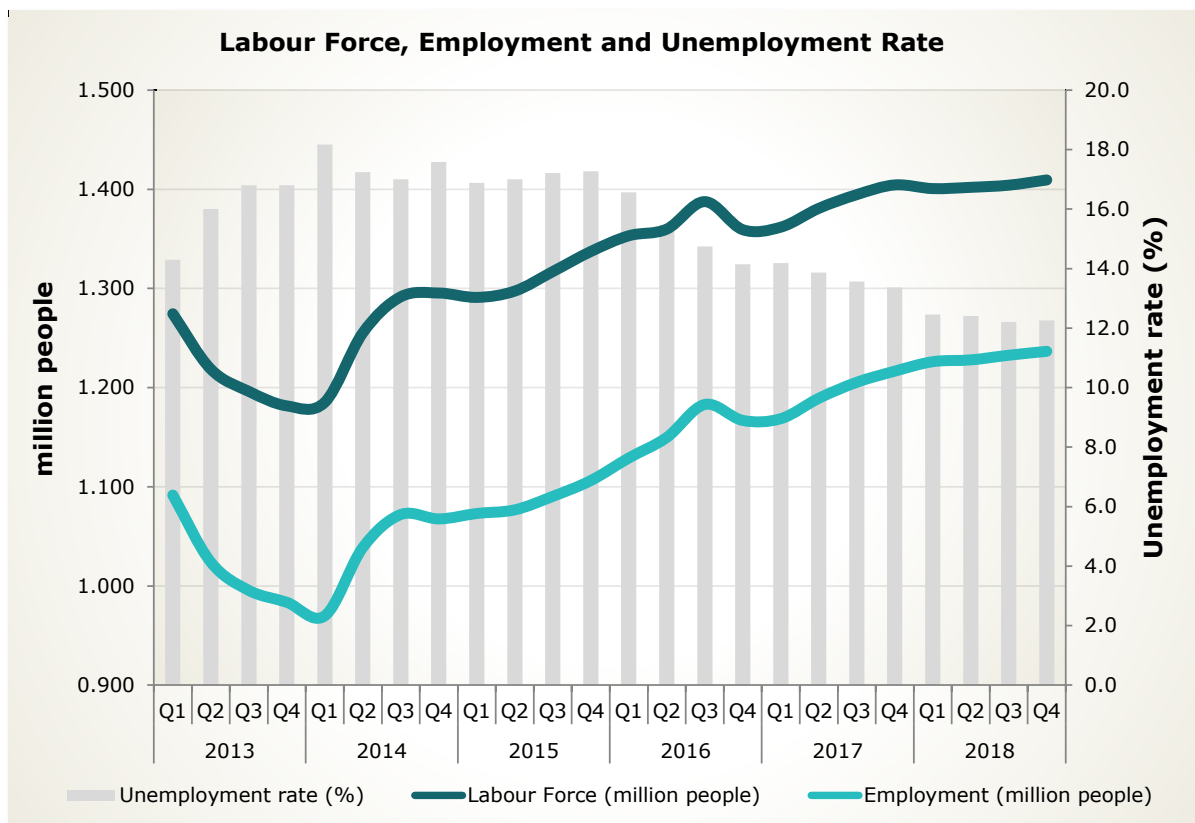
Source: INSTAT

3. LABOUR MARKET

Unemployment rate continued to fall in 2018

The unemployment rate in Albania eased to 13.7% of the total labour force in 2018, down from 13.9% in 2017 and 15.2% in 2016, while the youth (population aged 15-29) unemployment rate decreased to 25.9% in 2018 from 26.8% in 2017, according to data of INSTAT.

The employed population aged 15 years and older was 1.195 million in 2018, up by 1.1% y/y.



4. CONSTRUCTION AND REAL ESTATE

The number of building permits grew by 45.8% y/y in 2018

The number of building permits issued in Albania in 2018 totalled 1,194, compared to 819 in the previous year, according to INSTAT data.

Permits for construction of non-residential buildings came in at 424, up from 295 in 2017, while permits for housing projects recorded an increase to 770 from 524.

The total area covered by permits for non-residential buildings went up by 58.9% to 532,594 sq m in 2018, while the total area of the housing projects grew by 70.6% to 910,189 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 slip down to ALL 127.590 in 2018 from ALL 134.128 in 2017, according to Bank of Albania. The average annual exchange rate of the USD against the ALL stood at ALL 108.000 in 2018, compared to ALL 119.047 in 2017.

Average Annual ALL Exchange Rate			
Foreign Currency	2018	2017	2016
EUR	127.590	134.128	137.371
USD	108.000	119.047	124.072
GBP	144.220	153.120	168.159
CHF	110.460	120.907	126.011

5.2. MONETARY POLICY

Policy rate at 1.0% as of March 2019

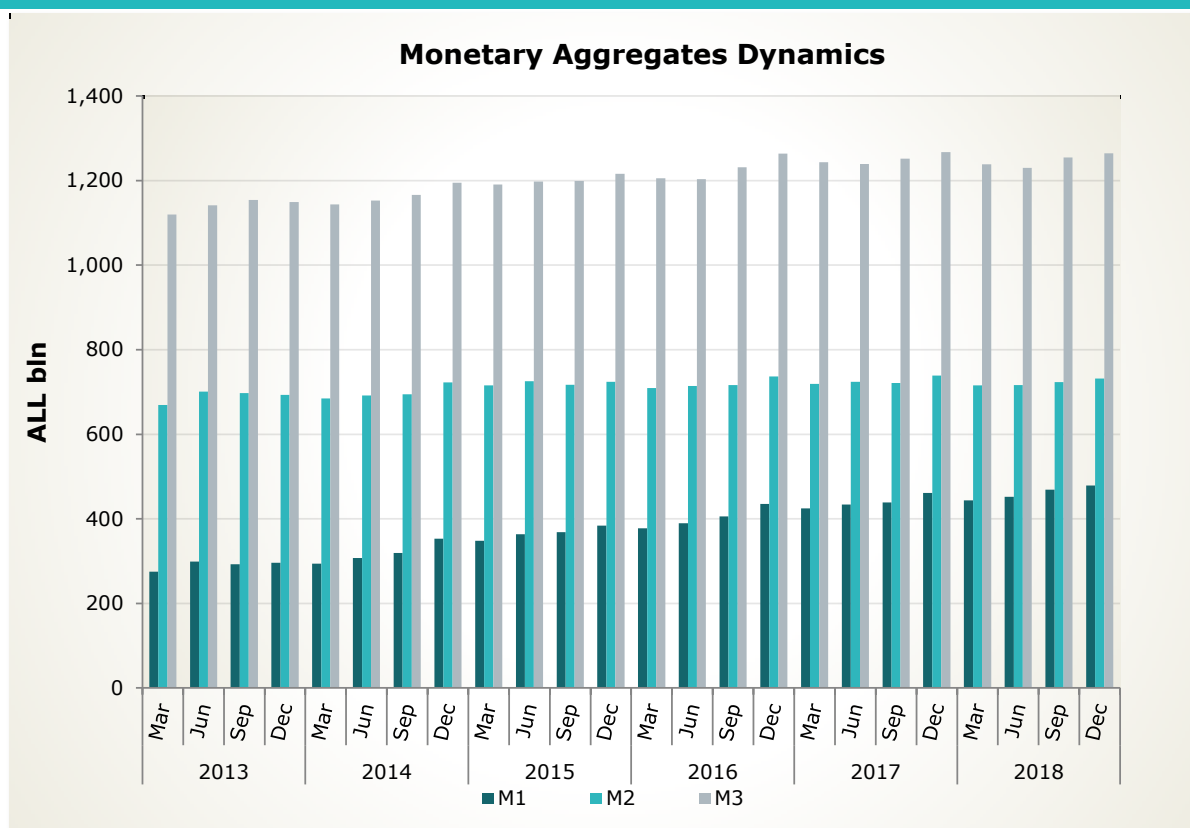
In June 2018, the Central Bank of Albania lowered the monetary policy rate by 0.25 pp to 1.0%, its minimum historical level. During the fourth quarter of 2018, the Bank of Albania continued to supply the needed liquidity to the banking sector to ensure intermediation activity and the stability of interest rates in the money market. As of May 2019, the interest rate for the overnight deposit facility and the interest rate for the overnight lending facility, stood unchanged at 0.10% and 1.90%, respectively.

5.3. MONETARY AGGREGATES

Monetary supply down 0.2% y/y in December 2018

Broad money M3 inched down by 0.2% y/y in December 2018 to ALL 1,264.1 bln, according to the Central Bank of Albania.

The M2 aggregate decreased by 1.0% y/y in December 2018, while the liquid money indicator, M1, rose by 3.7%.



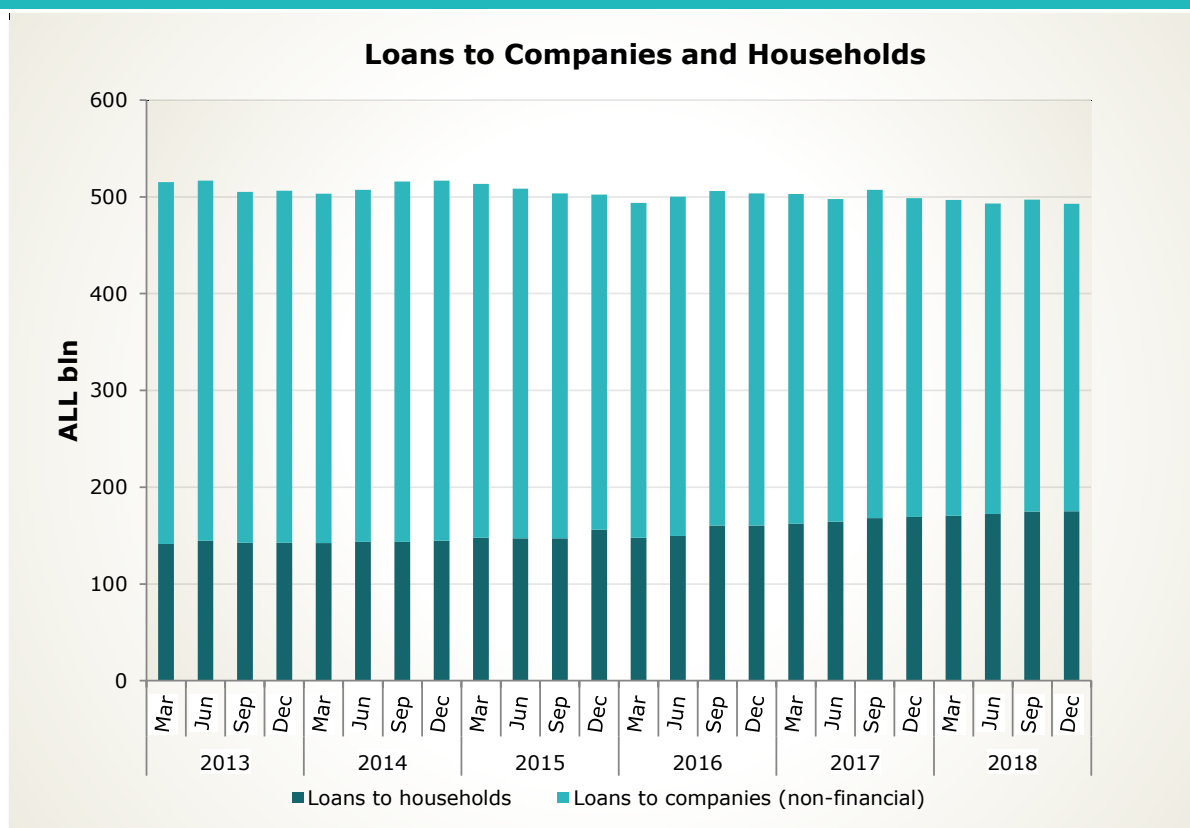
Source: Bank of Albania

5.4. BANKING AND INSURANCE

Non-government sector loans fell by 1.2% y/y in December 2018

Loans to the private sector inched down by 1.2% y/y to ALL 492.8 bln as of December 2018, data from the Bank of Albania showed. The 3.5% annual growth of household loans to ALL 175.1 bln could not offset the 3.5% decline, to ALL 317.7 bln, of loans to non-financial companies.

Loans for house purchase continued to grow annually – by 2.9% in Q4 2018, reaching ALL 109.8 bln.

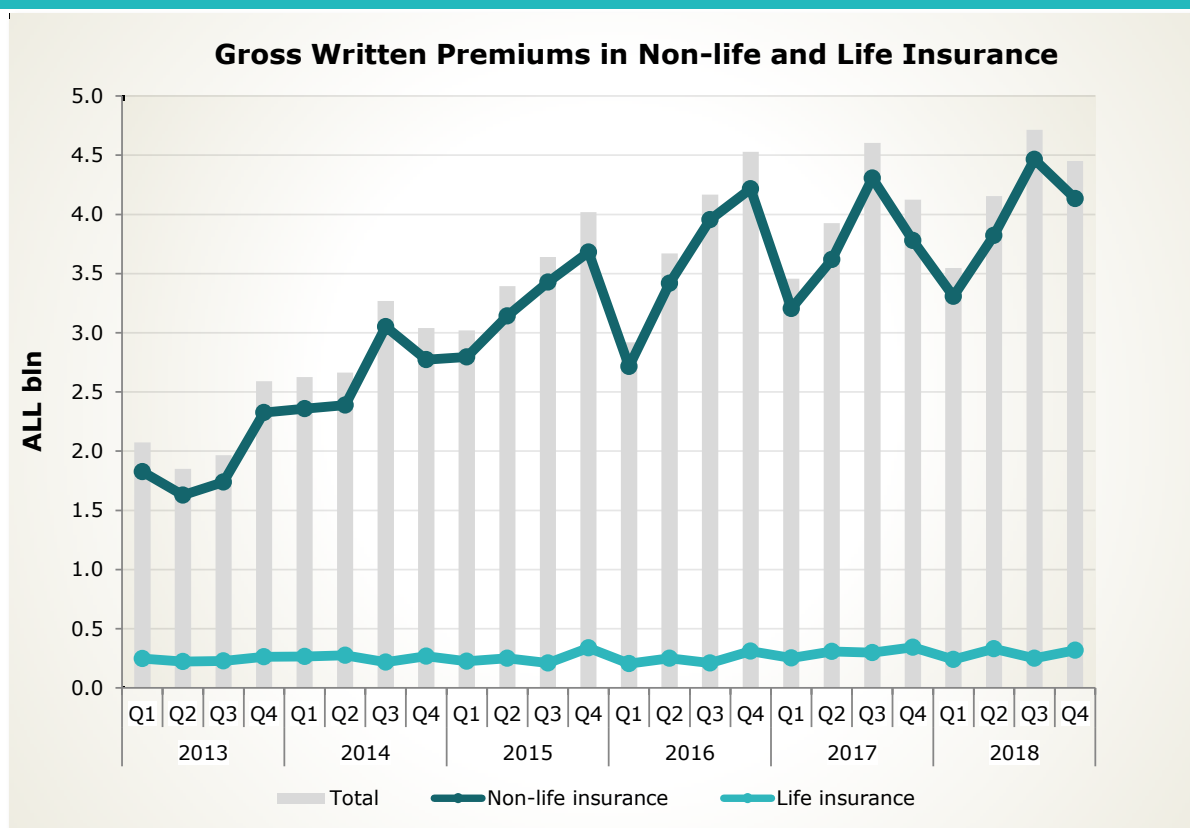


Source: Bank of Albania

Insurance premium income up by 4.7% y/y in 2018

The total gross written premiums of the Albanian non-life and life insurance companies, excluding reinsurance, stood at ALL 16.867 bln, up by 4.7% y/y, according to the Albanian Financial Supervisory Authority (AMF).

The increase was aided by the 5.5% rise of the non-life insurance sector, which posted gross written premiums of ALL 15.725 bln in 2018, while the premiums in the life insurance segment sank by 5.1% to ALL 1.142 bln.



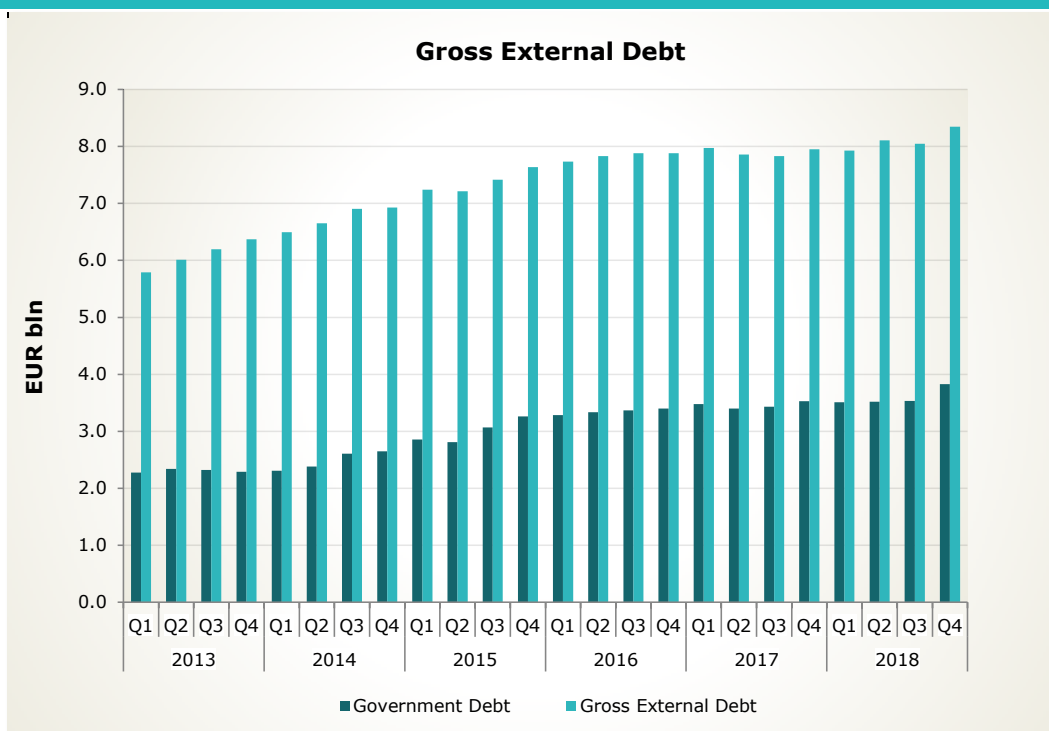
6. EXTERNAL SECTOR

6.1. FOREIGN DEBT

The gross external debt grew y/y to EUR 8.347 bln in 2018

The gross external debt totalled EUR 8.347 bln as of end-2018, up 5.0% y/y, according to Bank of Albania. In comparison to September 2018, the gross external debt increased by 3.7%.

In December 2018, long-term liabilities amounted to EUR 4.996 bln, or 59.9% of the total debt, and short-term liabilities totalled EUR 1.663 bln, equal to 19.9% of the total debt.

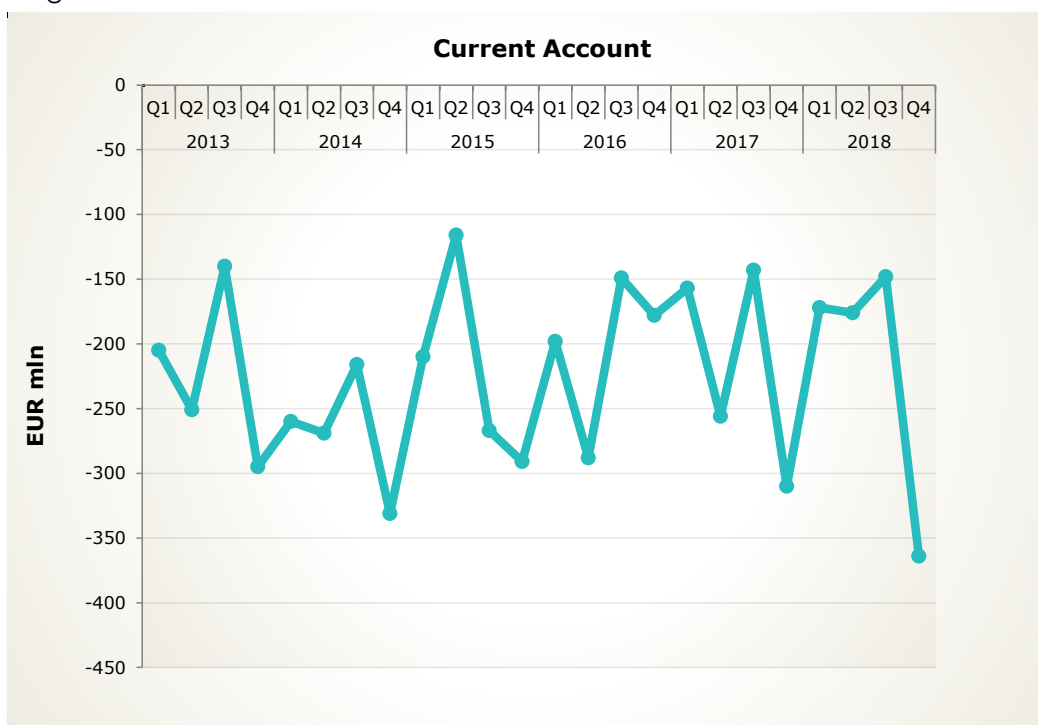


Source: Bank of Albania

6.2. BALANCE OF PAYMENTS

Current account deficit narrowed y/y to EUR 860.0 mln in 2018

The current account deficit narrowed by 0.7% y/y to EUR 860.0 mln in December 2018, according to central bank statistics data.

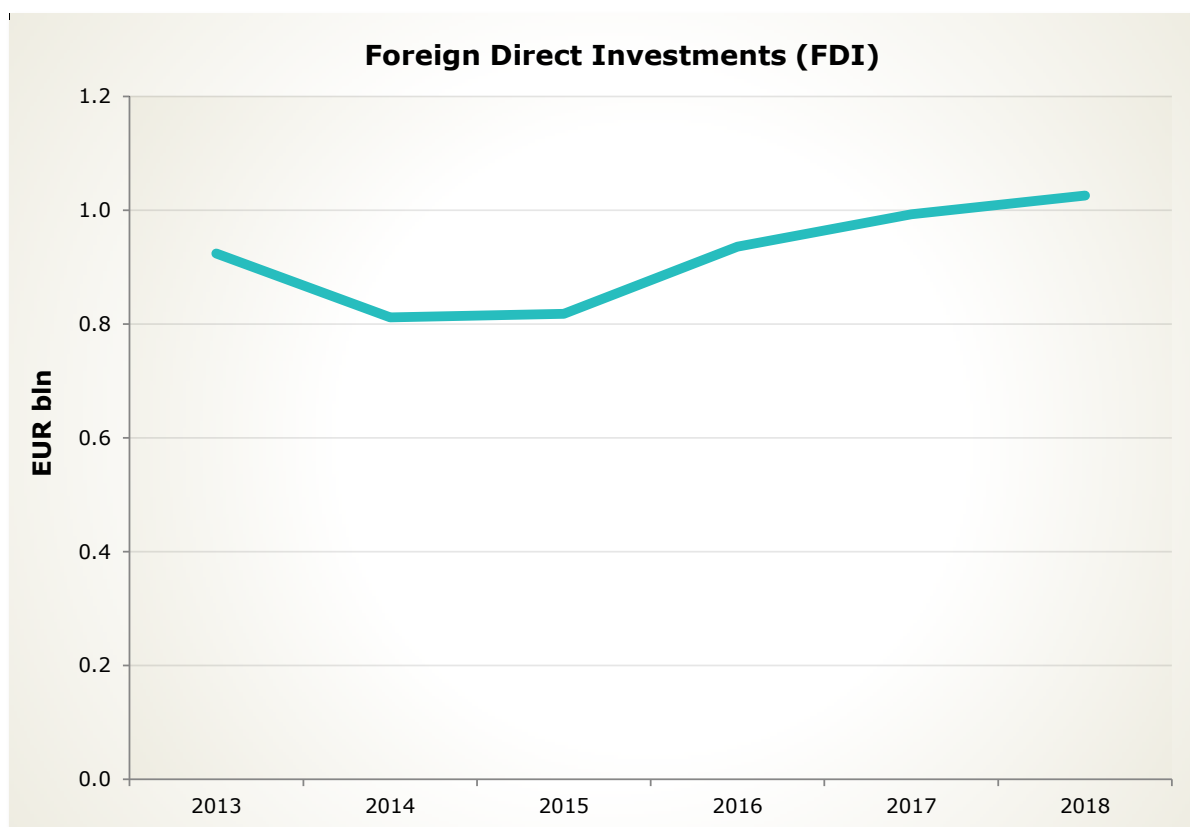


Source: Bank of Albania

6.3. FDI

FDI in Albania at EUR 1.026 bln in 2018

Foreign Direct Investments (FDI) in Albania amounted to EUR 1.026 bln in 2018, according to Bank of Albania. In annual terms, the FDI inflow grew by 3.3%, compared to 2017, when it stood at EUR 0.993 bln.



Source: Bank of Albania

6.4. FOREIGN TRADE

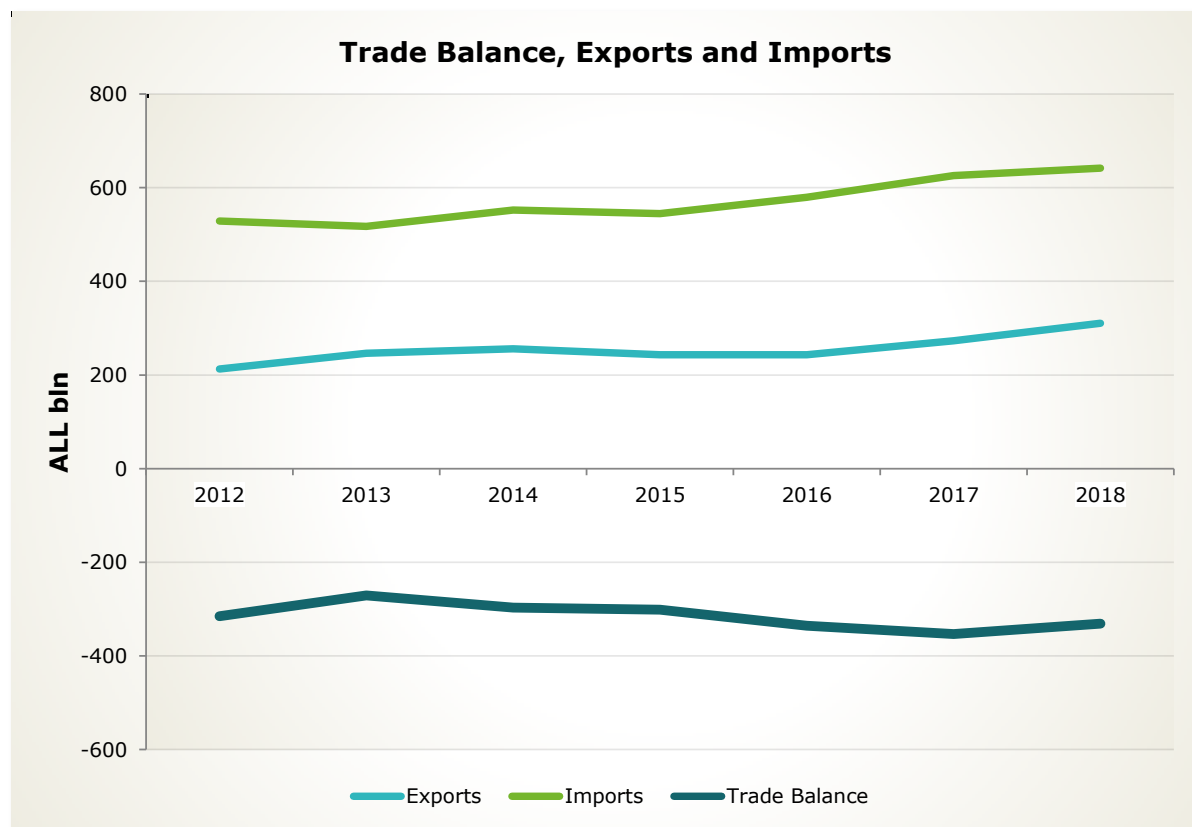
Foreign trade deficit down by 6.3% y/y to ALL 331 bln in 2018

The trade deficit stood at ALL 331.0 bln in 2018, down by 6.3% compared to 2017, according to INSTAT.

Exports of goods increased by 13.7% to ALL 310.4 bln, while imports inched up by 2.4% y/y to ALL 641.4 bln.

The groups to report the largest annual rises of exports were minerals, fuels, electricity – 30.9%, chemical and plastic products – 30.8% and construction materials and metals – 21.4%.

In 2018, wood manufactures and articles of paper and machineries, equipment and spare parts were the leading product groups in terms of annual growth of imports with 6.2% followed by minerals, fuels, electricity – 3.7% and construction materials and metals – 2.3%.



Source: INSTAT

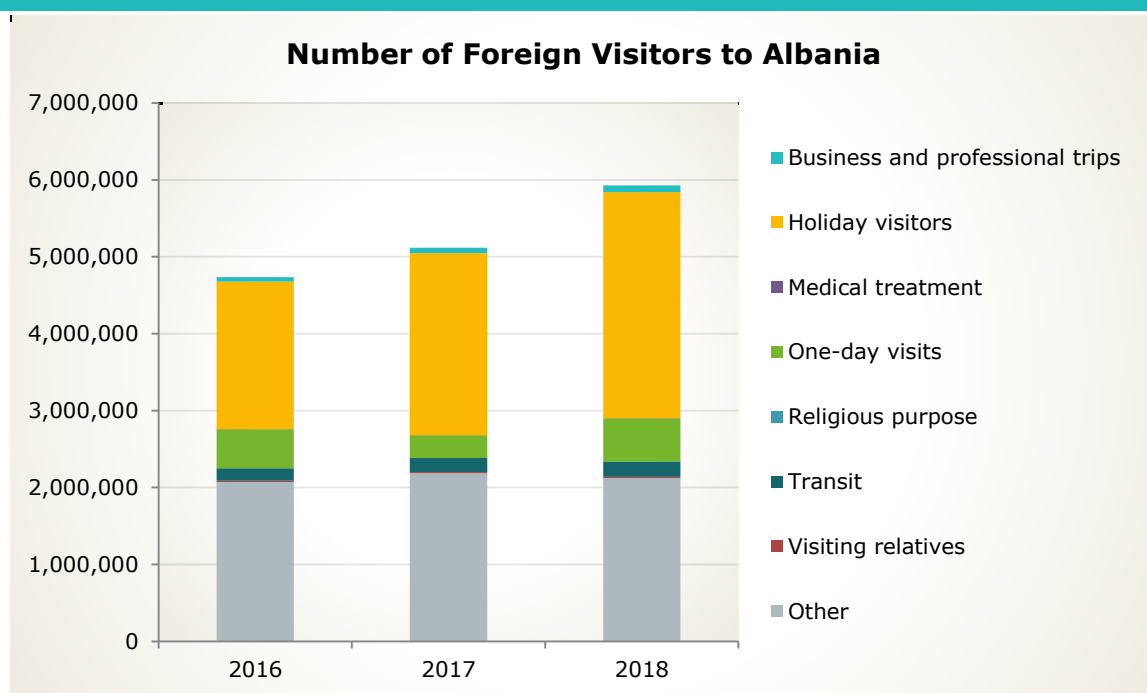
6.5. TOURISM

Number of foreign visitors to Albania up 15.8% y/y in 2018

The number of foreign nationals who visited Albania in 2018 jumped, by 15.8% y/y, to 5.927 million people, according to INSTAT.

Visitors who entered the country in 2018 for the purpose of recreation represented 49.6% of all foreign nationals, or 2.941 million people.

Poland was the leading market with 34.2% of the foreigners who visited Albania in 2018. Italians accounted for 20.0% of the total number, and Kosovo had a 19.6% share.



Source: INSTAT

7. MAJOR DEVELOPMENTS

Germany to provide EUR 34.9 mln in loans, grants to back energy projects in Albania

Dec 15, 2018

Albania's economy ministry said in December it signed two agreements worth a total of EUR 34.9 mln in loans and grants with the German government to back energy projects.

[Read the full story here](#)

EU grants EUR 94 mln to support integration process in Albania

Dec 8, 2018

The European Commission has adopted a EUR 94 mln programme to support the European integration process in Albania, the EU delegation to the country said.

[Read the full story here](#)

Norway grants EUR 1.4 mln to back maritime industry in Albania

Nov 17, 2018

Albania's infrastructure ministry said in November it has received a EUR 1.4 mln grant from the Norwegian government in support of a project for the development of the country's maritime sector.

[Read the full story here](#)

Albania's A.N.K wins EUR 161.5 mln tender for construction of Milot-Balldre highway

Oct 24, 2018

Albanian construction company A.N.K. has won a EUR 161.5 mln tender for the construction and maintenance of a 17.3 km-long highway section linking Milot to Balldre, the country's infrastructure ministry said.

[Read the full story here](#)

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