

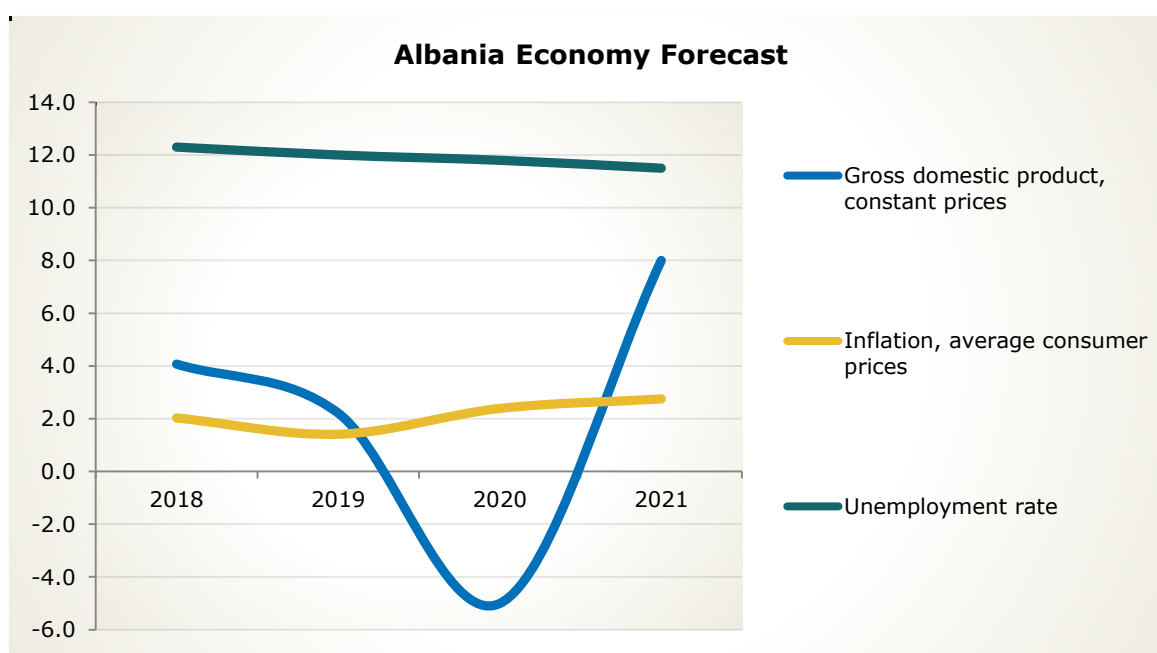
## **ALBANIA ECONOMY REPORT** 2019

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

ALBANIA – MACROECONOMIC SNAPSHOT AS OF 2019	
<b>GDP Growth</b>	2.2% y/y
<b>Business confidence indicator</b>	-12.6 pp q/q
<b>Manufacturing output</b>	3.9% y/y
<b>Retail sales</b>	3.9% y/y
<b>Annual inflation</b>	1.1%
<b>Unemployment rate</b>	11.5%
<b>Number of building permits</b>	-12.6% y/y
<b>Money supply growth</b>	4.3% y/y
<b>Household loans</b>	6.5% y/y
<b>Gross external debt</b>	EUR 8.3 bln
<b>Current account deficit</b>	EUR 346.0 mln
<b>FDI inflow</b>	EUR 250.0 mln
<b>Foreign trade deficit</b>	ALL 94.1 bln
<b>Arrivals of foreign citizens</b>	8.1% y/y

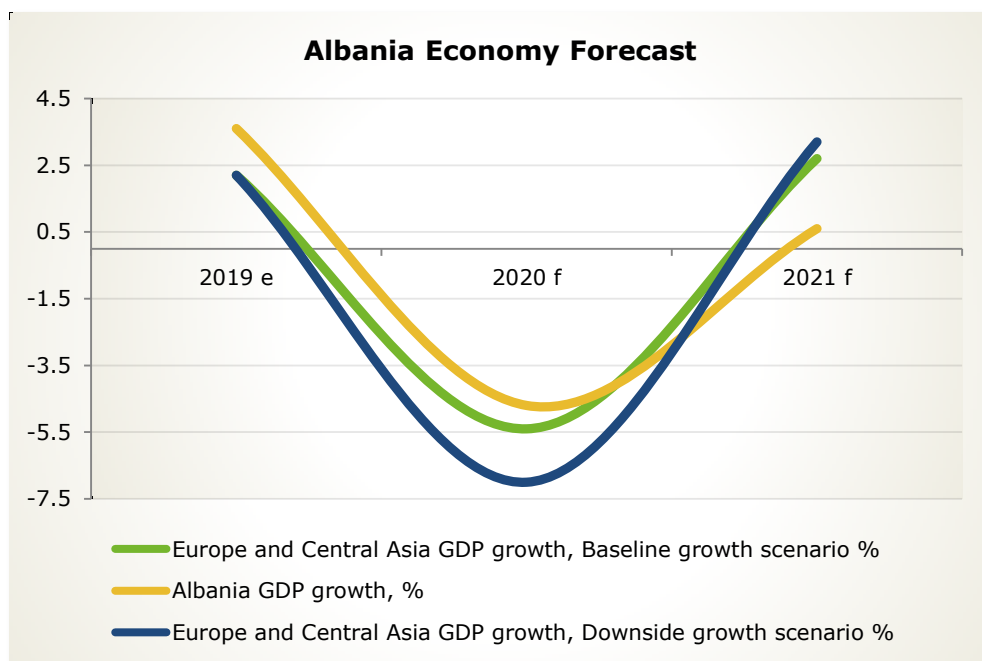


Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2020

According to the International Monetary Fund (IMF), the Albanian economy will suffer from the effects of the COVID-19 pandemic in the short term, with real GDP expected to go down by 5.0% y/y in 2020, reflecting plummeting domestic demand and practically non-existent exports and tourism for a large part of the year. A sharp contraction in remittances, on which Albania is heavily reliant, and FDI paint an even

darker picture for the economy in 2020. A sound rebound is projected in 2021, when the economy should grow by 8.0%, although mainly due to base effects. However, the outlook is subject to high uncertainty, given the unpredictable depth and duration of the pandemic crisis.

Inflation will pick up significantly and reach 2.4 – 2.8% in the short term, up from 1.4% in 2019. IMF expects Albania's average annual unemployment rate to narrow to 11.8% in 2020 and 11.5% in the next year, making the country one of the few in Europe to not see a drastic deterioration of its labour market due to COVID-19. This is due predominantly to the unproportionately high share of agriculture in the employment structure of Albania – a sector expected to benefit from the crisis and even absorb some of the labour force laid off from other sectors of the economy.



Source: World Bank, Europe and Central Asia Economic Update, June 2020

According to the World Bank estimates from April 2020, Albania's GDP is likely to slump by 4.7% in 2020, sharply down from the 3.6% annual growth in 2019. This is better than the projected baseline and downside growth scenarios for Europe and Central Asia, of -5.4% and -7.0% in 2020, respectively. The recovery in the short term, until 2021, of Croatia's economy is expected to be at a 2.1 pp to 2.6 pp slower rate than the average in Europe and Central Asia.

## Albania – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices, y/y change	3.8	4.3	2.2	-1.4	6.6	3.0
Private Consumption	2.3	3.5	3.3	-1.4	5.0	3.3
Government Consumption	2.9	-1.1	3.8	-0.1	6.4	5.0
Gross Fixed Capital Investment	5.5	2.9	-4.1	3.9	5.7	2.3
Exports, Goods and Services	13.0	2.9	6.1	-17.0	9.2	5.5
Imports, Goods and Services	8.1	3.8	2.7	-9.5	4.3	4.0
Real GDP growth, at constant factor prices (by sectors)	3.9	4.6	1.9	-1.3	6.5	3.5
Agriculture	0.8	0.9	1.1	1.2	1.5	1.5
Industry	1.9	9.1	-0.4	0.0	6.9	5.0
Services	6.1	3.9	3.2	-2.8	8.1	3.5
Inflation (Consumer Price Index)	2.0	2.1	1.4	2.2	2.5	2.8
Current Account Balance (% of GDP)	-7.5	-6.7	-7.6	-8.2	-7.1	-6.5
Net Foreign Direct Investment (% of GDP)	8.6	8.0	7.6	7.8	7.4	7.3

Source: World Bank, Europe and Central Asia Economic Update, Spring 2020

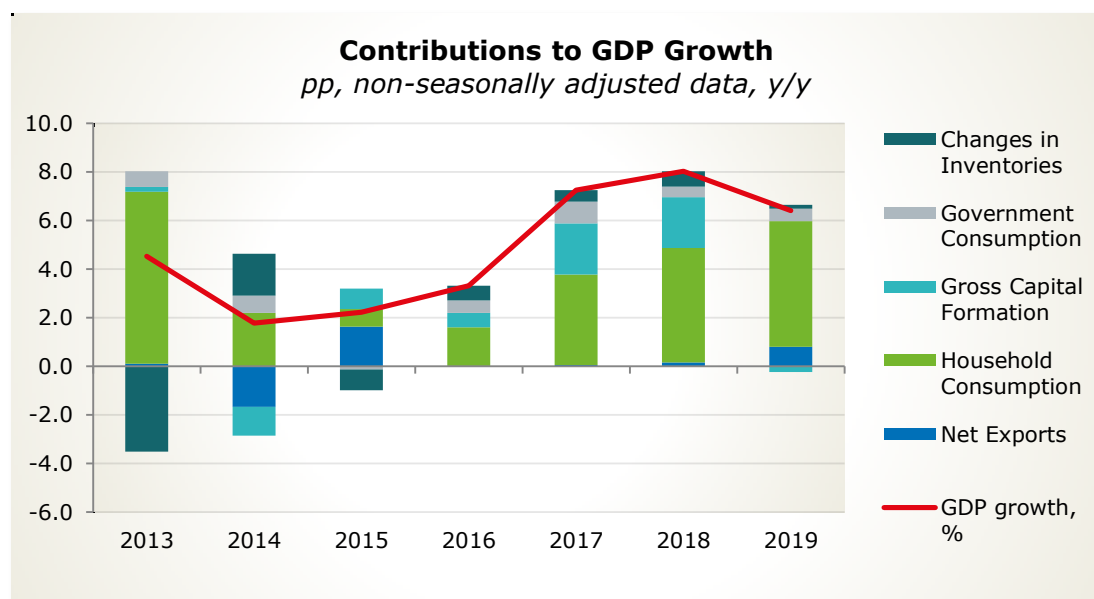
## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

#### GDP growth at 2.2% y/y in 2019, down from 4.1% y/y in 2018

Albania's GDP increased in real terms by 2.2% y/y in 2019, compared to a 4.1% y/y growth in the previous year, according to data from Albania's Institute of Statistics (INSTAT).

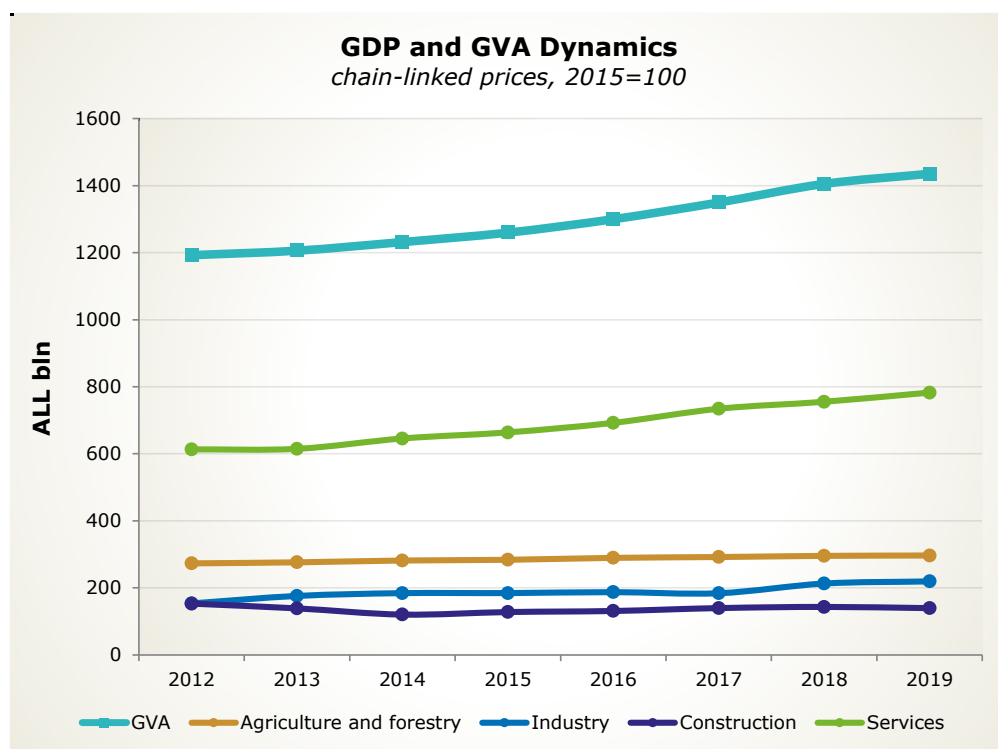
In 2019, household consumption rose by 3.3% and added 5.2 pp to the overall GDP growth, while government consumption increased by 3.8%, contributing with 0.5 pp. Gross capital formation dropped by 3.3% y/y and cut 0.2 pp from the total GDP growth. In the same time, exports grew faster than imports, at 5.9% y/y against 2.7% y/y, and thus net exports recorded positive contribution of 0.8 pp to the economic growth in 2019.



Source: INSTAT; SeeNews calculations

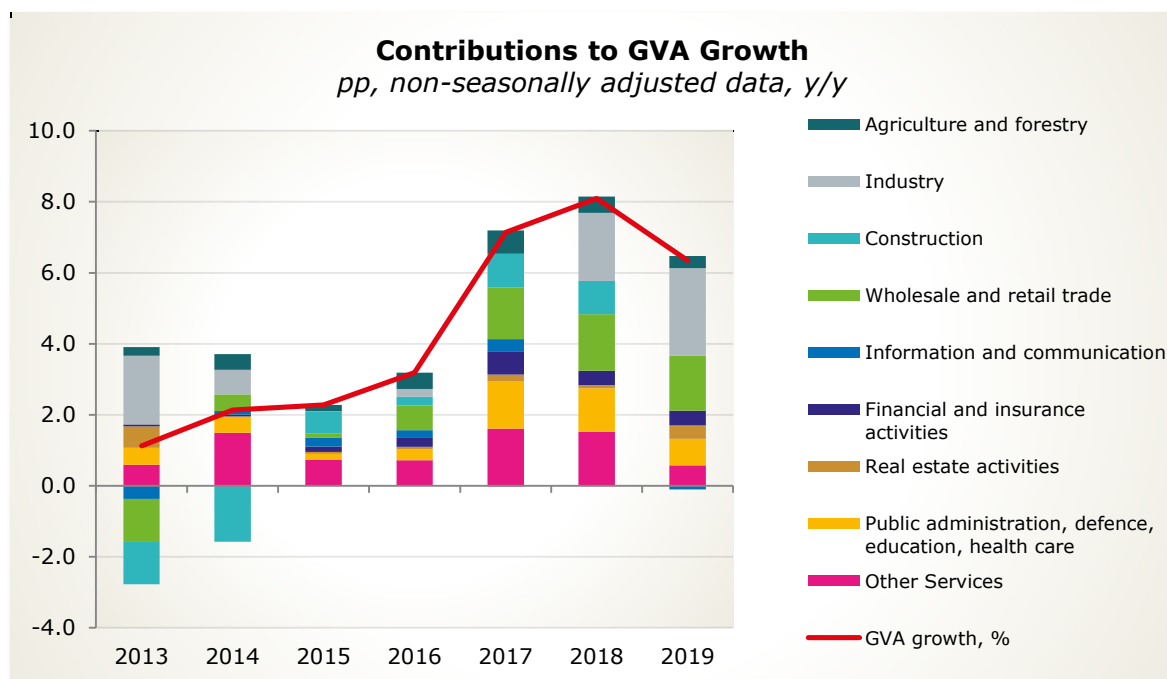
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The country's non-seasonally adjusted GVA increased in value by 2.1% y/y and totalled ALL 1,435 bln in 2019. The industrial sector went up by 3.0% y/y and took 15.3% share in GVA, while the services sector recorded a 3.6% annual increase, forming 54.5% of the GVA. Construction decreased by 2.6% and its share in GVA came down to 9.7% from 10.2% in the previous year. The agricultural sector notched up by 0.4% y/y, accounting for 20.7% of the total GVA.



Source: INSTAT

In terms of GVA growth contribution by sector, industry contributed the most – 2.5 pp. Other major contributors were wholesale and retail and public administration, defence, education, and healthcare – with 1.5 pp and 0.7 pp, respectively.



Source: INSTAT; SeeNews calculations

Note: Non-additive data due to direct chain-linking of GDP and its components.

## 2.2. BUSINESS CLIMATE

### *Economic Sentiment Indicator decreased by 12.6 percentage points q/q in Q4 2019*

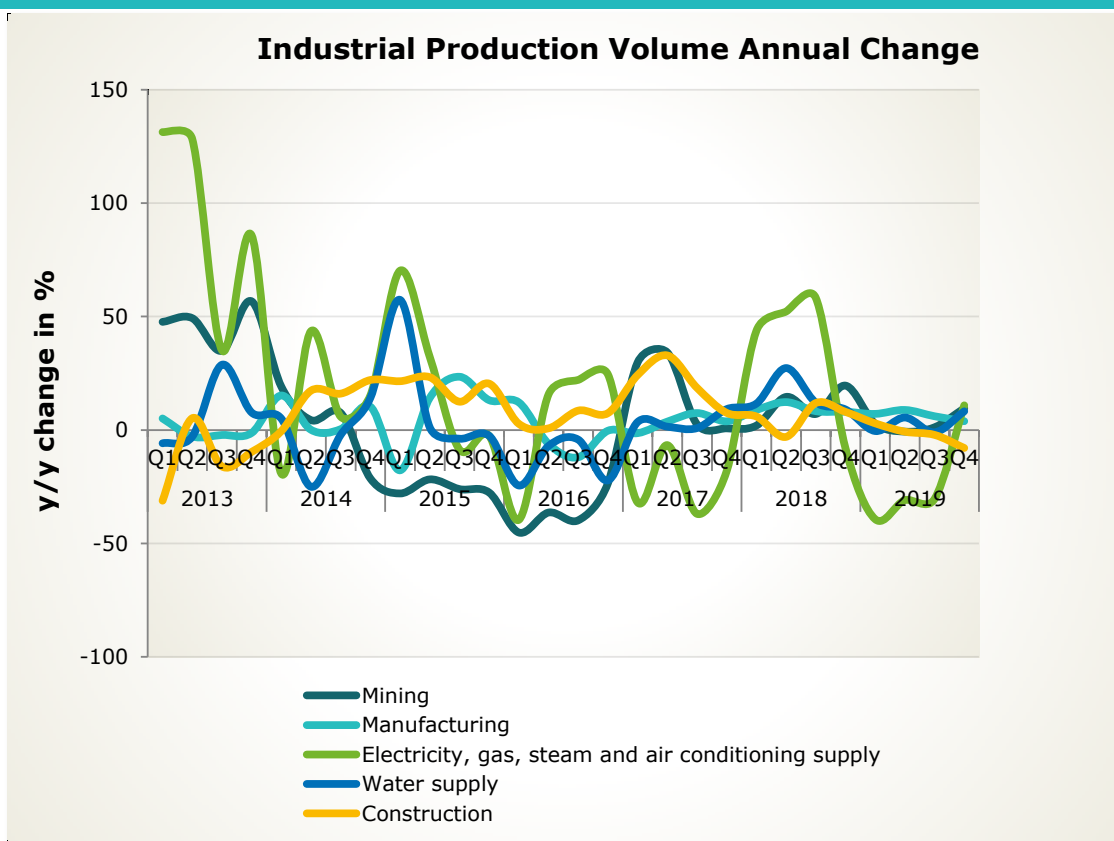
In the fourth quarter of 2019, the average economic sentiment indicator contracted by 12.6 percentage points q/q, according to Bank of Albania. It reflected the drops in confidence in all sectors – industry by 5.1 pp, construction by 3.0 pp, services by 15.1 pp and trade by 3.4 pp. Consumer confidence also went down, by 1.4 pp, compared to Q3 2019.

## 2.3. INDUSTRIAL OUTPUT

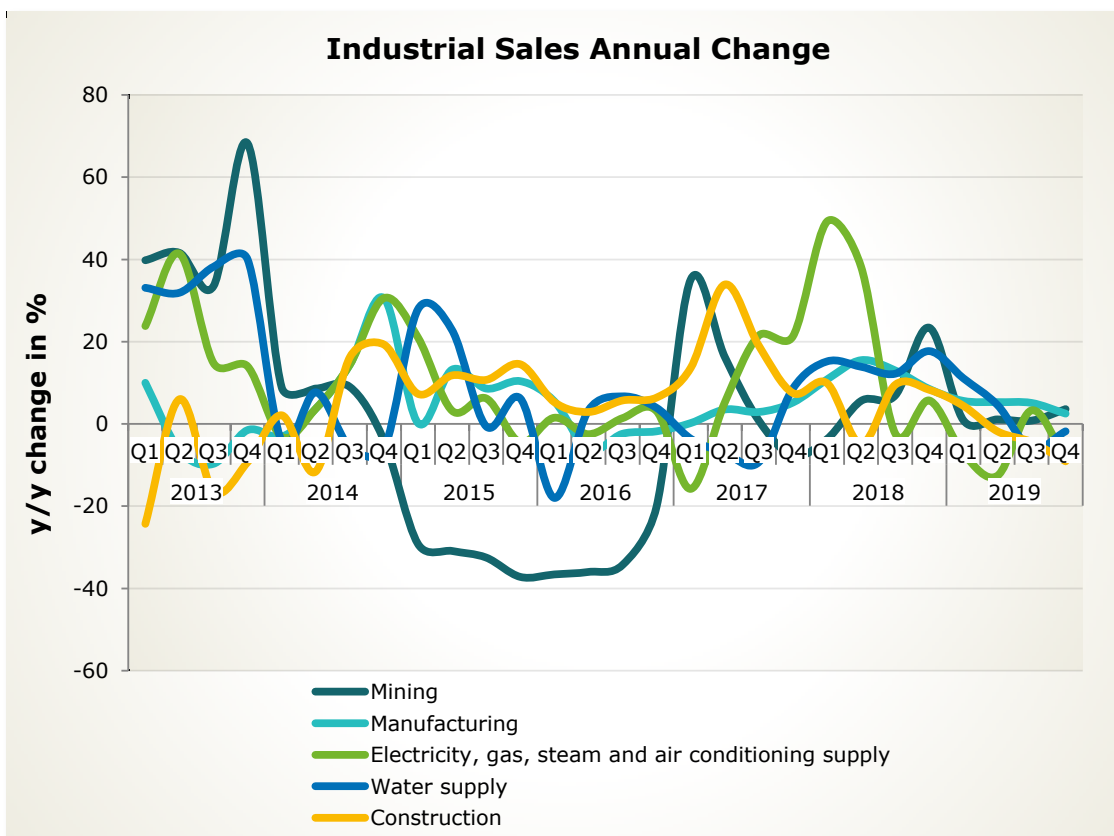
### *Manufacturing output rose by 3.9% y/y in Q4 2019*

The manufacturing sector expanded its output by 3.9% in Q4 2019, while the mining sector output increased by 9.6% y/y, according to INSTAT.

The production of the electricity, gas, steam and air conditioning supply sector jumped by 10.9% y/y. The water supply sector increased its output by 8.3% on the year, while construction output dropped by 7.9%.



Source: INSTAT



Source: INSTAT

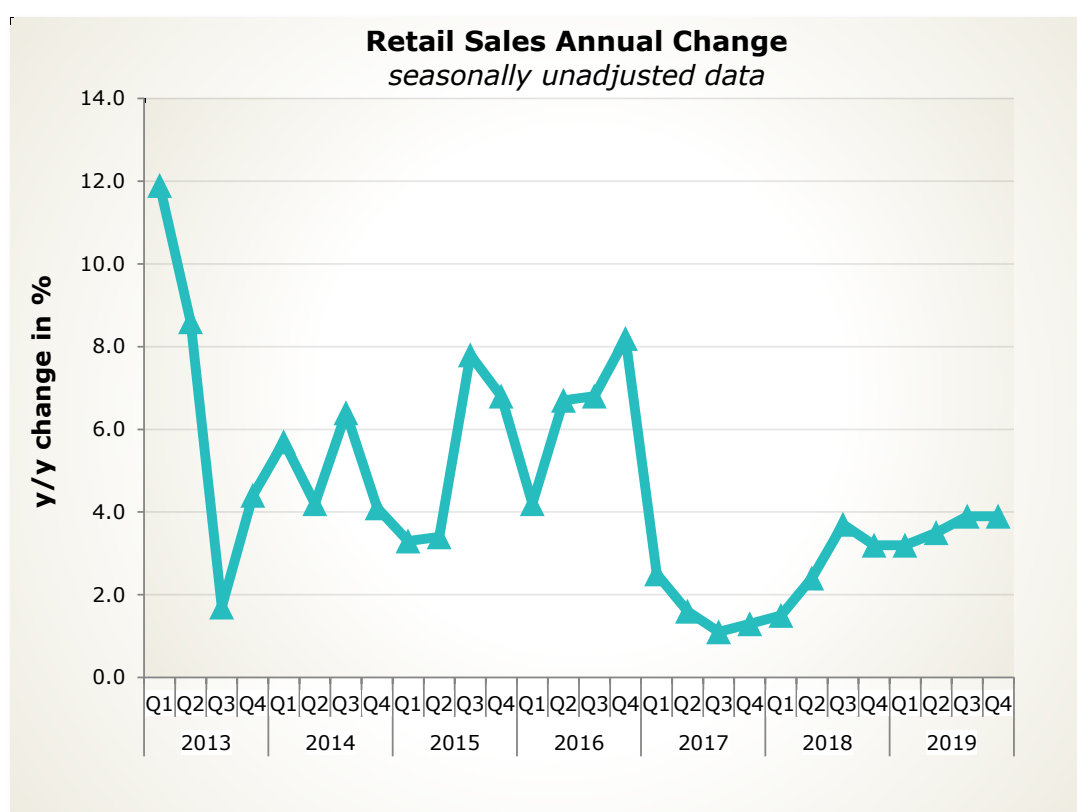


## 2.4. RETAIL SALES

### Retail sales growth at 3.9% y/y in Q4 2019

In the fourth quarter of 2019, the retail sales annual change stood at 3.9%, up from 3.2% in the same period of 2018, according to the data from INSTAT.

Retail sales of non-food products in specialised and non-specialised stores increased by 4.4% y/y in Q4 2019, while the retail sales of food, beverages and tobacco went up by 2.6% y/y. Retail sales of motor fuel grew annually by 4.8%.



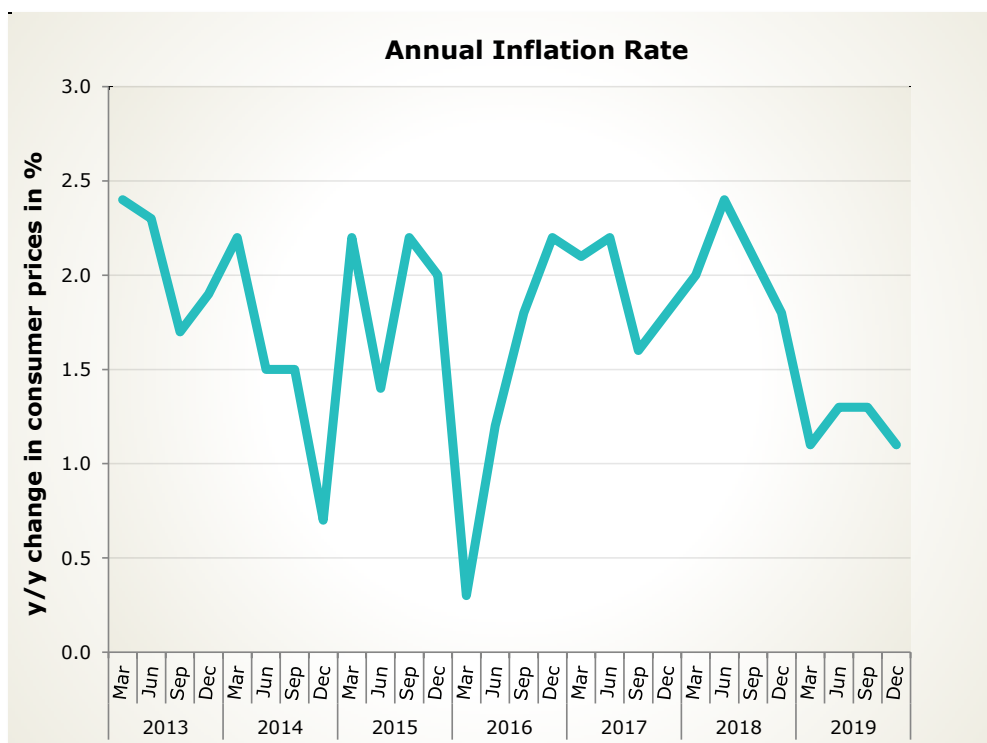
Source: INSTAT

## 2.5. INFLATION

### Annual inflation of 1.1% in December 2019

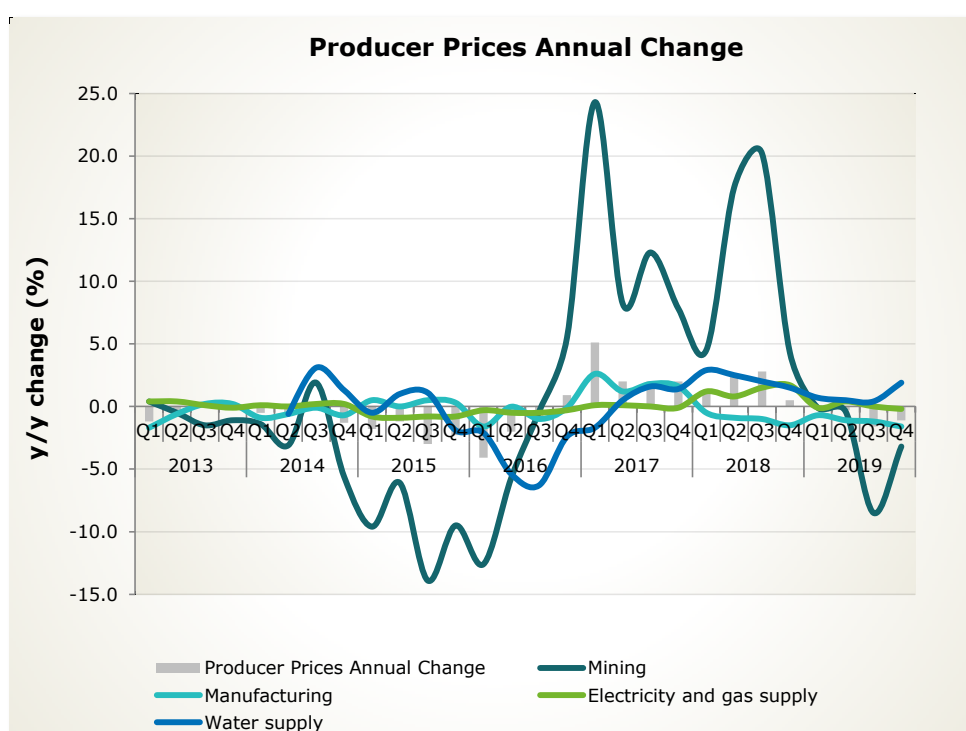
The annual inflation in Albania came in at 1.1% in December 2019, according to INSTAT. It was a notch down compared to September 2019 and lower than the 1.8% a year earlier.

The average prices of food and non-alcoholic beverages advanced the most, by 2.6% y/y. Recreation and culture came second in inflation terms with 2.2%, followed by furniture, household goods and house maintenance services with 1.2%. Healthcare services registered the largest annual decline in prices, of 0.4%. Clothing and footwear and communication also were cheaper in December 2019 than in the corresponding month of the previous year.



Source: INSTAT

Producer prices went down by 1.1% y/y in Q4 2019, INSTAT data showed. Mining producer prices decreased annually by 3.2%, while the decrease in manufacturing prices stood at 1.6%. Water supply prices went up by 1.9%, while electricity and gas supply prices remained inched down by 0.2% y/y.



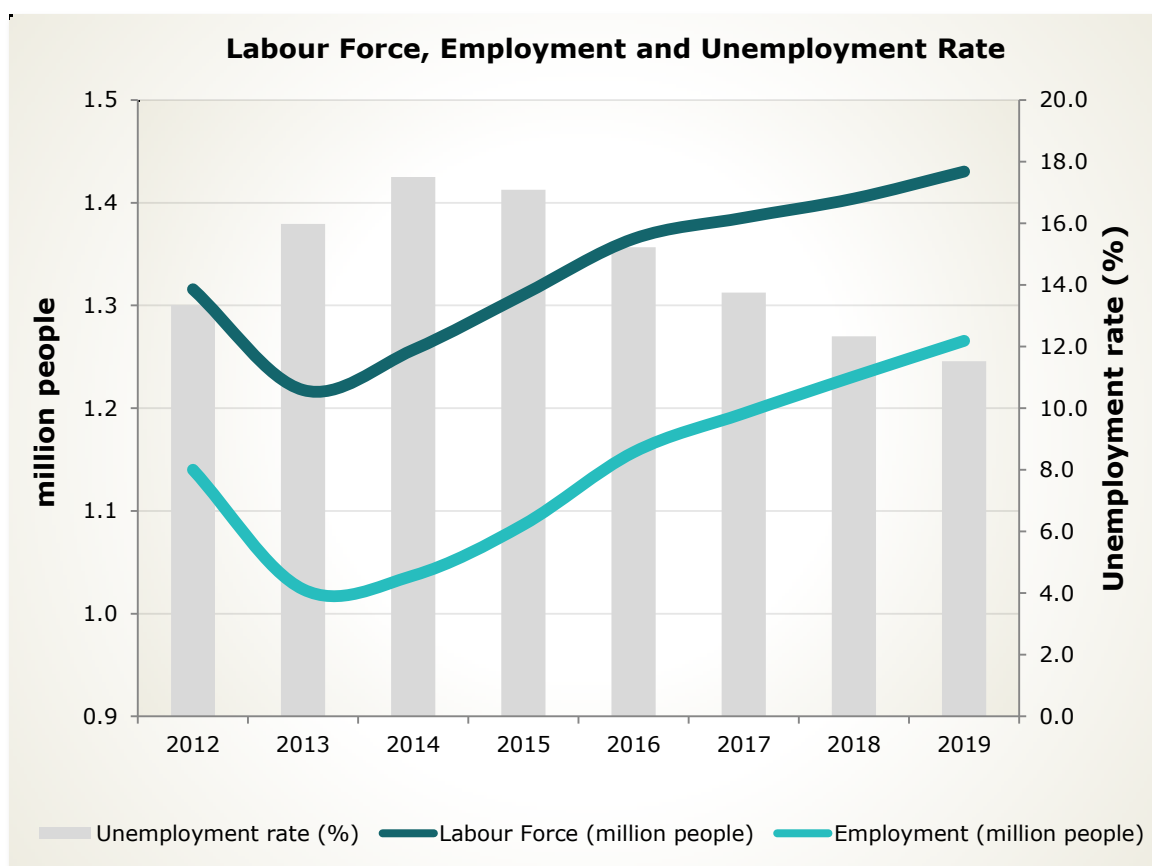
Source: INSTAT

### 3. LABOUR MARKET

#### *Unemployment rate continued to fall in 2019*

The unemployment rate in Albania slowed down to an average of 11.5% of the total labour force in 2019, down from 12.3% in 2018 and 13.7% in 2017, according to data of INSTAT. The employed population aged 15 years and older numbered 1.266 million on average in 2019, up by 2.8% y/y.

The youth (population aged 15-29) unemployment rate decreased to 21.5% in 2019 from 23.1% in the previous year, reaching its lowest point in the last eight years.



Source: INSTAT

### 4. CONSTRUCTION AND REAL ESTATE

#### *The number of building permits went down by 12.6% y/y in 2019*

The number of building permits issued in Albania in 2019 totalled 1,044, compared to 1,194 in the previous year, according to INSTAT data.

Permits for construction of non-residential buildings came in at 348, down from 424 in 2018, while permits for housing projects decreased to 696 from 770 in the previous year.

The total area, covered by permits for non-residential buildings increased to 775,972 sq m in 2019, compared to 532,594 sq m a year earlier. The total area of the new housing projects expanded to 1,140,749 sq m from 910,189 sq m in 2018.

## 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 123.023 in 2019 from ALL 127.588 in 2018, according to Bank of Albania. The average annual exchange rate of the ALL against the USD stood at 109.851 in 2019, up from 108.005 in the previous year.

Average Annual ALL Exchange Rates			
Foreign Currency	2019	2018	2017
EUR	123.023	127.588	134.137
USD	109.851	108.005	119.061
GBP	140.221	144.221	153.148
CHF	110.556	110.457	120.886

### 5.2. MONETARY POLICY

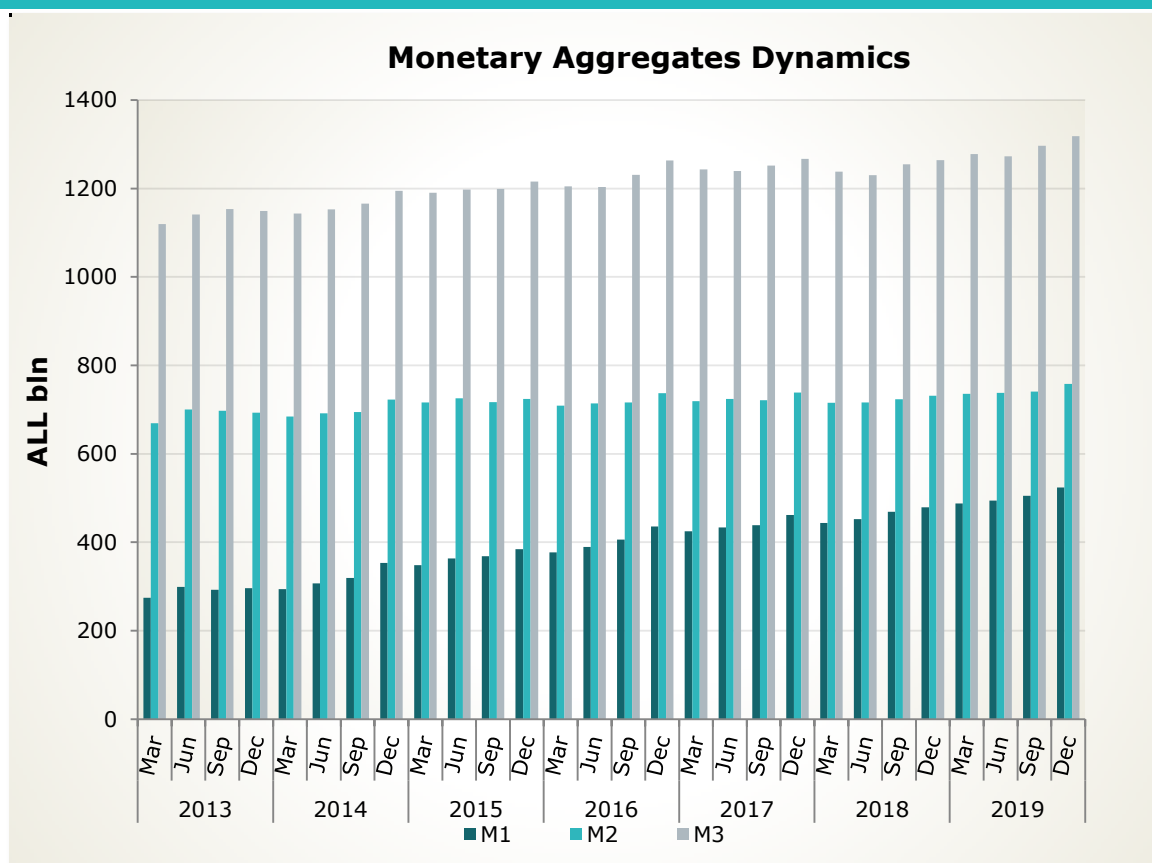
#### *Policy rate at 1.0% as of September 2019*

In December 2019, the Central Bank of Albania kept the monetary policy rate at 1.0%, unchanged from the previous month. This was the minimal historical level of the rate prior to the COVID-19-induced cut to 0.5% in March 2020. During 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 December 2019, the interest rate for the overnight deposit facility and the interest rate for the overnight lending facility, stood unchanged at 0.1% and 0.9%, respectively.

### 5.3. MONETARY AGGREGATES

#### *Money supply up 4.3% y/y in December 2019*

Broad money M3 widened by 4.3% in 2019 to reach ALL 1,318.7 bln in the end of the year, according to the Central Bank of Albania. The M2 aggregate increased by 3.6% y/y, while the liquid money indicator M1 rose by 9.5% compared to the end of 2018.



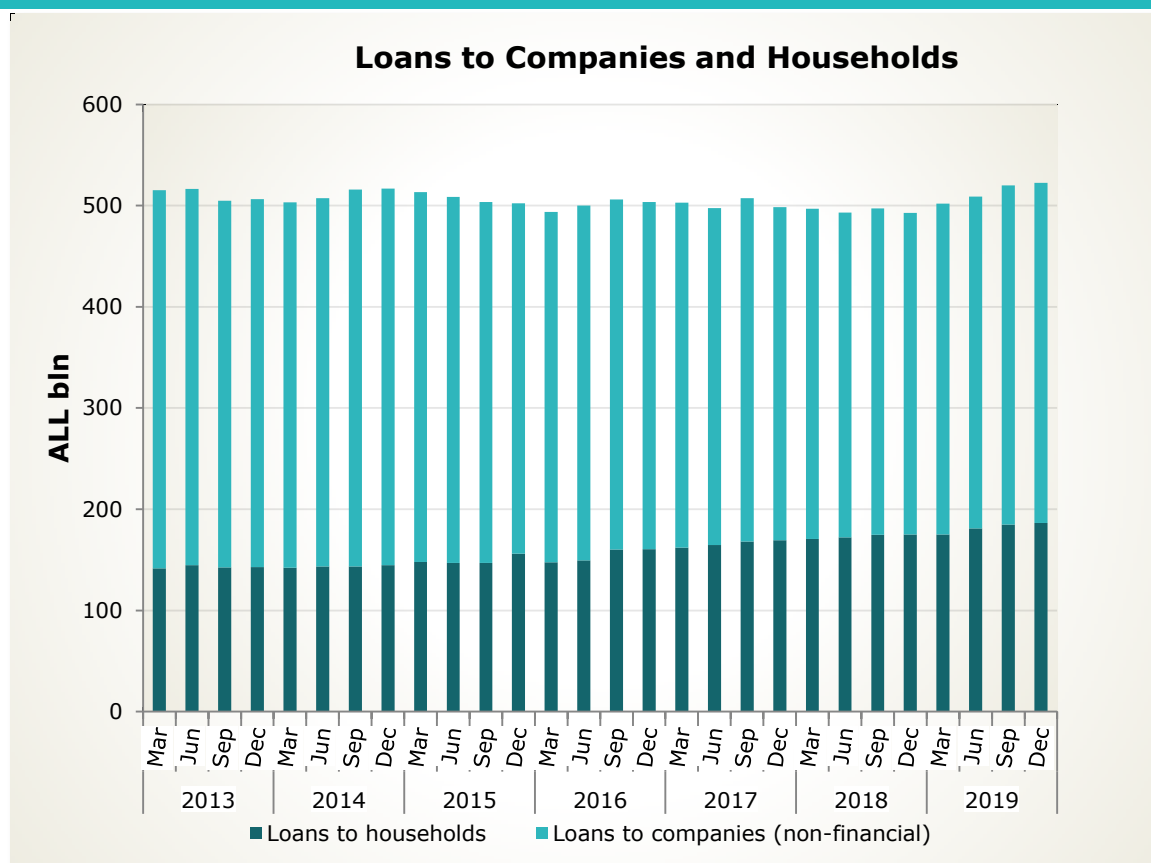
Source: Bank of Albania

## 5.4. BANKING AND INSURANCE

### Non-government sector loans up by 6.0% y/y in December 2019

Loans to the non-government sector reached ALL 522.4 bln, up 6.0% y/y in December 2019, according to Bank of Albania. The growth was fuelled by both loans to non-financial corporates and household loans, which grew annually by 5.8% and 6.5%, respectively.

Loans for house purchase continued to grow annually – by 6.2% as of end-2019, reaching ALL 116.6 bln, or 62.5% of the total household loans.

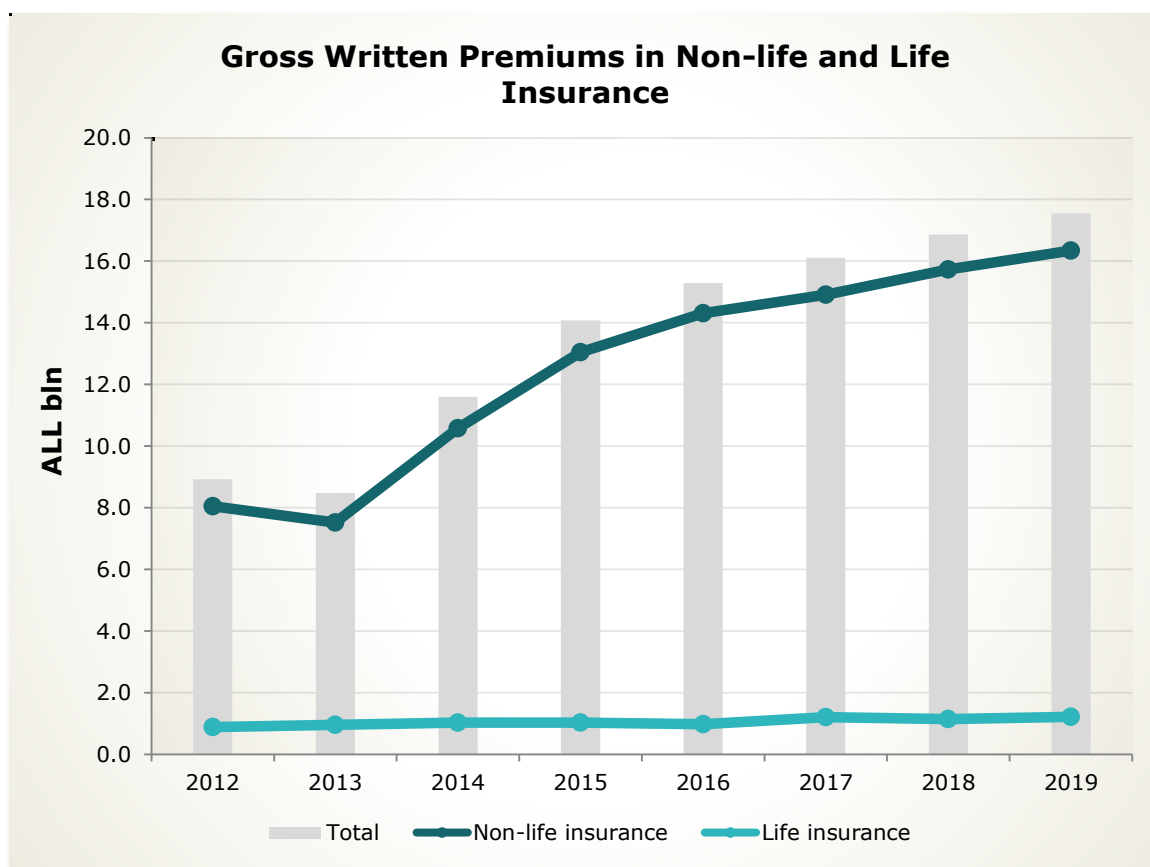


Source: Bank of Albania

### Insurance premium income up by 4.1% y/y in 2019

The total gross written premiums (GWP) of the Albanian non-life and life insurance companies, excluding reinsurance, stood at ALL 17.553 bln, up by 4.1% y/y in 2019, according to the Albanian Financial Supervisory Authority (AMF).

The increase was fuelled by the 6.5% annual rise of the life insurance sector, which posted GWP of ALL 1.216 bln in 2019. The premiums in the non-life insurance segment expanded by 3.9% to ALL 16.337 bln.



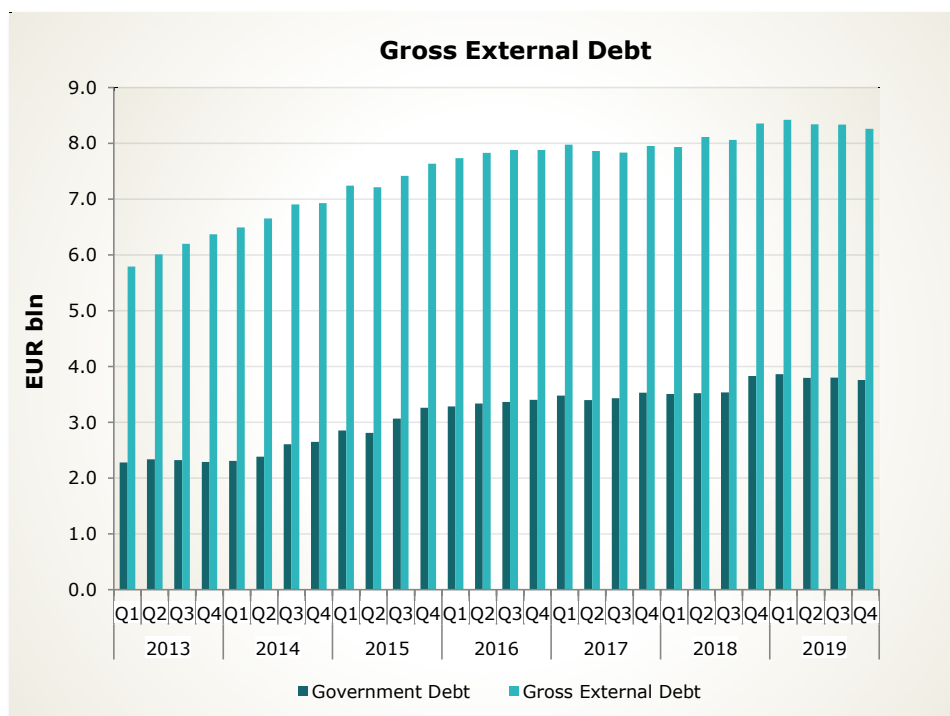
## 6. EXTERNAL SECTOR

### 6.1. FOREIGN DEBT

*The gross external debt notched down by 1.1% y/y to EUR 8.258 bln as of December 2019*

The gross external debt totalled EUR 8.258 bln as of end-2019, down by 1.1% on the year, according to Bank of Albania. In Q4 2019 alone, the gross external debt inched down by 0.9% compared to September 2019.

Long-term liabilities amounted to EUR 4.960 bln, or 60.1% of the total debt, and short-term liabilities totalled EUR 1.616 bln, equal to 19.6% of the total debt.

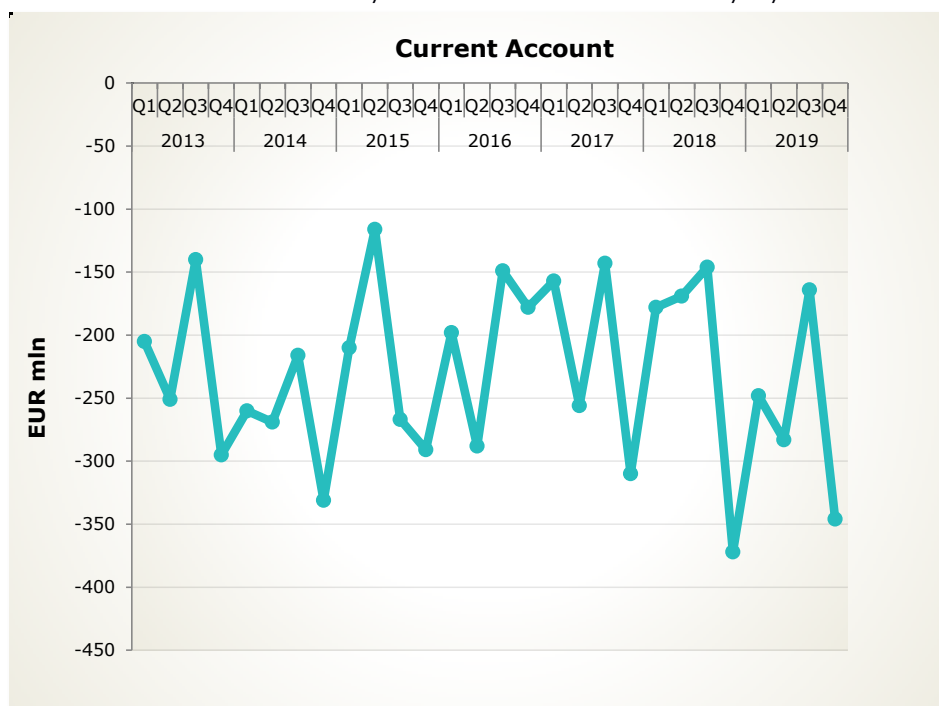


Source: Bank of Albania

## 6.2. BALANCE OF PAYMENTS

**Current account deficit narrowed by 7.0% y/y to EUR 346.0 mln in Q4 2019**

The current account deficit narrowed by 7.0% y/y to EUR 346.0 mln in Q4 2019, according to central bank statistics data. Secondary income increased annually by 15.3% to EUR 272.0 mln.



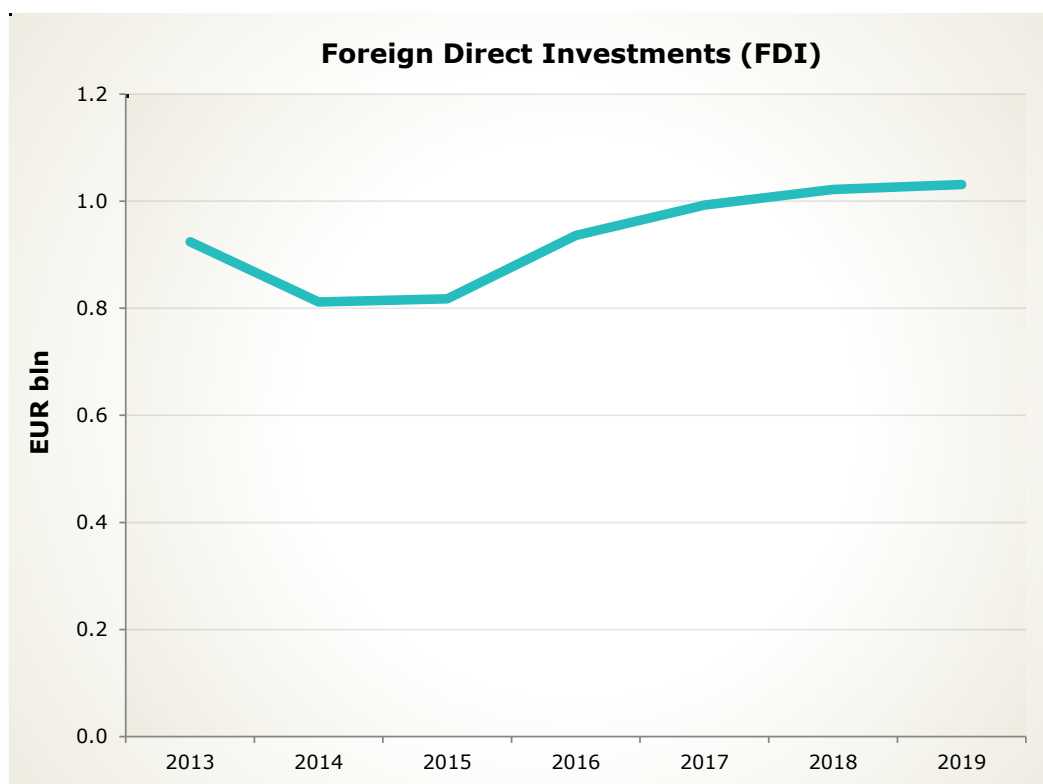
Source: Bank of Albania



### 6.3. FDI

#### *FDI in Albania at EUR 1.031 bln in 2019*

Foreign Direct Investments (FDI) in Albania amounted to EUR 1.031 bln in 2019, according to Bank of Albania. In annual terms, the FDI inflow decreased by 0.9%.



Source: Bank of Albania

### 6.4. FOREIGN TRADE

#### *Foreign trade deficit up by 5.8% y/y to ALL 90.9 bln in Q3 2019*

The trade deficit stood at ALL 350.3 bln in 2019, up by 5.8% compared to 2018, according to INSTAT.

Exports of goods decreased by 3.8% to ALL 298.8 bln, while imports grew, by 1.2% y/y to ALL 649.1 bln.

The groups to report the largest annual rise of exports were chemical and plastic products with 23.6%, machinery, equipment and spare parts with 16.1% and food, beverages and tobacco – 9.4%.

Minerals, fuels and electricity was the leading product group in terms of annual growth of imports with 12.9%, followed by food, beverages and tobacco with 3.6% and wood manufactures and articles of paper – 2.6%.



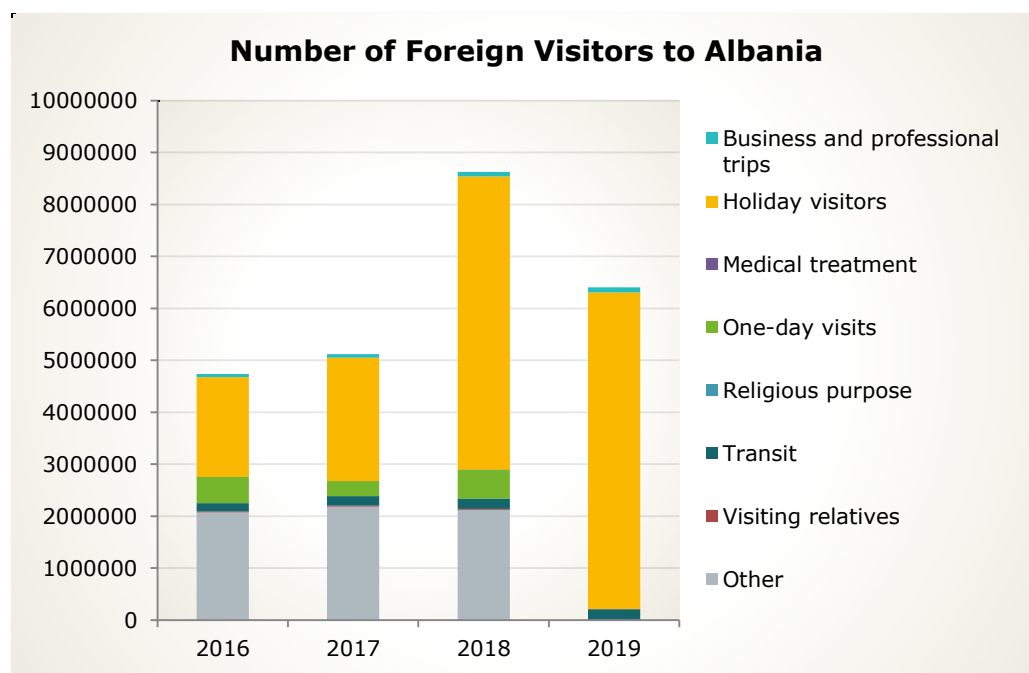
Source: INSTAT

## 6.5. TOURISM

### Number of foreign visitors to Albania up 8.1% y/y in 2019

The number of foreign nationals who visited Albania in 2019 rose by 8.1% y/y to 6.4 million people, according to INSTAT.

Foreign visitors who entered the country in 2019 for the purpose of recreation represented 95.1% of all foreign nationals, or 6.1 million people. People who visited Albania for the purpose of business and professional engagements represented 1.6% of the total visitors in the period under consideration.



Source: INSTAT

## 7. MAJOR DEVELOPMENTS

### **Albania invites bids for Vlora airport construction project**

Dec 19, 2019

Albania is inviting bids for awarding a 35-year concession contract for construction, operation and maintenance of an international airport at the southwestern port city of Vlora, infrastructure minister Belinda Balluku said on Thursday.

[Read the full story here](#)

### **EBRD mulls lending Albania 60 mln euro to improve tourism infrastructure**

Dec 9, 2019

The European Bank for Reconstruction and Development said it is considering providing a sovereign loan of up to EUR 60 mln euro (USD 66.3 mln) to finance a programme on tourism-enabling infrastructure sub-projects in Albania's cities of Berat, Korca, Fier and Shkoder.

[Read the full story here](#)

### **Albania needs to strengthen efforts to tackle informality – EBRD**

Nov 19, 2019

Albania needs to step up efforts to tackle informality as one of the most important obstacles to doing business, the European Bank for Reconstruction and Development (EBRD) said in November.

[Read the full story here](#)

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**World Bank lends USD 10 mln to back women's access to economic opportunities in Albania**

Nov 15, 2019

The World Bank said it approved a USD10 mln loan to support Albania enhance gender equality in access to economic opportunities.

*Read the full story [here](#)*

**Albania's parl approves EUR 8 mln EIB loan for urban project in Tirana**

Oct 3, 2019

Albania's parliament said in October it approved a EUR 8 mln loan agreement with the European Investment Bank (EIB) for financing the rehabilitation of the Lana river area in the capital Tirana.

*Read the full story [here](#)*

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