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Albania: Adolescent development

The political system is still showing signs of pubescence. The recent municipal elections culminated in a fierce dispute over the outcome of the ballot in the country's capital, Tirana. Nevertheless, in terms of economic development things seem to be improving. The growth rate for 2011 is expected to be slightly over 4%. A similar growth rate is expected for 2012 and a somewhat higher rate for 2013. The main drivers are further export growth and an improvement in consumer and business confidence.

Once again the Albanian political system has proved to be still in puberty. The municipal elections of 8 May 2011 have ended in a fierce dispute over the outcome of the vote in the capital Tirana. According to the unofficial preliminary results, incumbent mayor and socialist opposition leader Edi Rama had won the elections in Tirana by 10 votes. However, after a controversial recount of stray ballots the conservative party-dominated Electoral Commission declared the conservative government candidate Lulzim Basha to be the winner of the Tirana race. Apparently the legal basis for opening the ballot boxes to count the stray votes is unclear. The final result has been appealed in the Electoral College. Whatever the outcome of the election will be, Albanians once again have the impression that elections are not fully fair and according to European standards. The Albanian political system seems to be still in adolescence. This will act as a further drawback for Albania's wish to enter EU accession negotiations in the near future.

In economic terms Albania is doing better than expected. Compared to earlier forecasts the growth rate for 2011 is expected to be almost a percentage point higher at 4.1%. A similar growth rate is expected for 2012 and a somewhat higher one for 2013. Main drivers are the further expansion of exports as well as an improvement of the consumer and business confidence. The Albanian export boom is continuing. This is mainly based on the sustained increase in electricity exports by about 55% in lek terms in early 2011 as weather conditions and international energy price developments were favourable for Albania's hydro power industry. However, comparing customs data for the first four months of 2011 with the same period in 2010 reveals that exports of construction materials and

metals increased by an even higher rate of 74%. This group of goods contributed to about one third of the overall nominal export increase which stood at 38%. Although rather small, a further devaluation of the Albanian lek was certainly not hampering the export growth either. The import growth of 17% was much less dynamic. It is reassuring that about a quarter of the increase in imports was due to imports of machinery, equipment and spare parts, which hints at a revival of investment activity.

This seems to be confirmed by the marked improvement of the Industry Confidence Indicator in the last quarter of 2010. The Indicator has now returned to its long-term average after being in the negative zone starting from the fourth quarter of 2008. Also business expectations for 2011 are optimistic. The credit standards to businesses eased strongly during the fourth quarter of 2010. In particular business loan demand for working capital and investment financing increased substantially.

Although the Consumer Confidence Indicator deteriorated somewhat over the last two quarters of 2010, the general trend since early 2009 is positive and the Indicator values are significantly above the long-term average. Also the credit standards to households eased over the fourth quarter of 2010 and household loan demand expectations for 2011 are optimistic. While overall retail trade still performs quite sluggishly, sales of motor vehicles increased by nearly 10% in the last quarter of 2010 as compared to the same period a year earlier. This index tends to be a good indicator for future household demand. Consequently we expect a slight increase in household demand in 2011.

In the wake of the municipal elections, general government expenditures have risen strongly. While revenues stagnated, expenditures increased by 17% in the first four months of 2011 as compared to the same period a year earlier. For the whole year we thus may expect a positive contribution of government demand to GDP growth.

Although imports, fuelled by rising domestic demand, are expected to increase at a slower rate than exports, the sheer volume of imports will make the current account deficit increase slightly in 2011. This is also due to the fact that remittances started to decrease in 2010. Compared to 2009 private transfers decreased by almost 4%. This may be related to the economic crisis in neighbouring Greece, which is a major host country for Albanian migrants.

Overall the outlook for 2011 appears to be rather optimistic. Growth is expected to stay at around 4% in both 2011 and 2012. Growth will not be back to pre-crisis levels as the formerly vibrant construction sector seems to be still rather stagnating. However, the recent

increase in construction permits raises hopes for a certain recovery. With the exchange rate expected to appreciate again, imports will grow faster than exports and the current account will further deteriorate in 2012. Only by 2013 can we expect a growth rate of about 5% which is closer to the long-term average growth rate. The next parliamentary elections in 2013 should act as a litmus test for Albania's maturity to enter accession negotiations with the EU. A start of negotiations could serve as a boost to foreign direct investment and could bring the country's growth dynamics back to pre-crisis levels.

Table AL

Albania: Selected Economic Indicators

| | 2007 | 2008 | 2009 | 2010 ¹⁾ | 2010 1st quarter | 2011 | 2011 Forecast | 2012 | 2013 |
|---|--------|---------|---------|--------------------|---------------------|--------|------------------|-------|-------|
| Population, th pers., average ¹⁾ | 3161.3 | 3182.0 | 3194.4 | 3210.0 | . | . | 3220 | 3240 | 3260 |
| Gross domestic product, ALL bn, nom. ²⁾ | 967.7 | 1088.1 | 1143.6 | 1220 | 300 | . | 1300 | 1400 | 1530 |
| annual change in % (real) ²⁾ | 5.9 | 7.7 | 3.3 | 4 | 2.2 | . | 4.1 | 3.9 | 5 |
| GDP/capita (EUR at exchange rate) | 2500 | 2800 | 2700 | 2800 | . | . | . | . | . |
| GDP/capita (EUR at PPP - wiiw) | 5800 | 6400 | 6500 | 6800 | . | . | . | . | . |
| Consumption of households, ALL bn, nom. ²⁾ | 775.1 | 861.9 | 910 | 970 | . | . | . | . | . |
| annual change in % (real) ²⁾ | 10.7 | 6.7 | 3 | 3 | . | . | 4 | 7 | 9 |
| Gross fixed capital form., ALL bn, nom. ²⁾ | 374.1 | 415.1 | 430 | 400 | . | . | . | . | . |
| annual change in % (real) ²⁾ | 5.5 | 9.5 | 5 | -7 | . | . | 2 | 5 | 11 |
| Gross industrial production ³⁾ | | | | | | | | | |
| annual change in % (real) | -9.7 | 9.4 | 0.6 | 20.0 | 21.2 | . | 7 | 13 | 7 |
| Gross agricultural production ⁴⁾ | | | | | | | | | |
| annual change in % (real) | 2.7 | 7.3 | 3.3 | 9.0 | 8.4 | . | 3 | 4 | 3 |
| Construction output total ³⁾ | | | | | | | | | |
| annual change in % (real) | 12.2 | 10.7 | 0.2 | -25.0 | -18.4 | . | 2 | 3 | 8 |
| Employed persons - LFS, th, Oct | 1197.7 | 1123.3 | 1160.0 | 1100.0 | . | . | 1060 | 1100 | 1150 |
| annual change in % | . | -6.2 | 3.3 | -5.2 | . | . | -4 | 4 | 5 |
| Employment reg. total, th pers., end of period | 965.5 | 974.1 | 899.3 | 916.9 | 900.7 | 920.4 | 920 | 930 | 970 |
| annual change in % | 3.3 | 0.9 | -7.7 | 2.0 | -7.4 | 2.2 | 0 | 1 | 4 |
| Unemployed persons - LFS, th, Oct | 184.8 | 168.6 | 185.0 | 210 | . | . | 200 | 190 | 180 |
| Unemployment rate - LFS, in %, Oct | 13.5 | 13.0 | 13.8 | 15 | . | . | 15 | 14 | 13 |
| Reg. unemployment rate, in %, end of period | 12.9 | 12.7 | 13.9 | 13.5 | 13.8 | 13.4 | 13 | 13 | 12 |
| Average gross monthly wages, ALL | 27350 | 27951 | 31900 | 33870 | 42000 | 45500 | . | . | . |
| annual change in % (real, gross) | 21.6 | -1.1 | 11.7 | 3.0 | 6.6 | 4.1 | 4 | 5 | 10 |
| Consumer prices, % p.a. | 2.9 | 3.4 | 2.3 | 3.5 | 4.3 | 4.0 | 4 | 4 | 4 |
| Producer prices in industry, % p.a. | 3.5 | 6.5 | -1.6 | 0.1 | -0.2 | 3.1 | 4 | 5 | 6 |
| General governm. budget, nat. def., % GDP | | | | | | | | | |
| Revenues | 26.0 | 26.8 | 26.2 | 27 | . | . | 28 | 29 | 29 |
| Expenditures | 29.6 | 32.3 | 33.2 | 30 | . | . | 32 | 33 | 36 |
| Deficit (-) / surplus (+) | -3.5 | -5.5 | -7.0 | -3 | . | . | -4 | -4 | -7 |
| Public debt, nat. def., in % of GDP ⁵⁾ | 53.9 | 55.2 | 61.6 | 61 | . | . | 61 | 61 | 62 |
| Central bank policy rate, % p.a., end of period ⁶⁾ | 6.3 | 6.3 | 5.3 | 5.0 | 5.3 | 5.3 | 5.3 | 5.3 | 5.5 |
| Current account, EUR mn | -831.1 | -1370.2 | -1345.5 | -1056.3 | -235.3 | -246.4 | -1100 | -1400 | -2000 |
| Current account in % of GDP | -10.6 | -15.5 | -15.5 | -11.9 | -10.9 | . | -11.8 | -13.0 | -16.3 |
| Exports of goods, BOP, EUR mn | 786.3 | 917.5 | 750.7 | 1171.5 | 254.9 | 370.6 | 1350 | 1500 | 1700 |
| annual growth rate in % | 24.7 | 16.7 | -18.2 | 56.1 | 45.1 | 45.4 | 15 | 11 | 13 |
| Imports of goods, BOP, EUR mn | 2890.4 | 3348.9 | 3054.4 | 3254.2 | 673.9 | 779.1 | 3600 | 4200 | 5100 |
| annual growth rate in % | 26.2 | 15.9 | -8.8 | 6.5 | -2.7 | 15.6 | 11 | 17 | 21 |
| Exports of services, BOP, EUR mn | 1415.1 | 1687.8 | 1718.4 | 1702.5 | 259.31 | 289.2 | 1950 | 2300 | 2600 |
| annual growth rate in % | 22.3 | 19.3 | 1.8 | -0.9 | -14.4 | 11.5 | 15 | 18 | 13 |
| Imports of services, BOP, EUR mn | 1402.3 | 1618.4 | 1597.5 | 1520.8 | 272.4 | 335.3 | 1600 | 1800 | 2200 |
| annual growth rate in % | 18.0 | 15.4 | -1.3 | -4.8 | -20.0 | 23.1 | 5 | 13 | 22 |
| FDI inflow, EUR mn | 481.1 | 675.4 | 706.4 | 827.4 | 165.8 | 57.5 | 600 | 700 | 800 |
| FDI outflow, EUR mn | 11.1 | 55.4 | 26.1 | -9.5 | 0.2 | 3.6 | 20 | 30 | 40 |
| Gross reserves of NB excl. gold, EUR mn | 1415.9 | 1626.1 | 1607.8 | 1842.1 | 1631.3 | 1733.7 | . | . | . |
| Gross external debt, EUR mn | 2098.6 | 3092.1 | 3323.4 | 3697.2 | 3388.3 | 3724.5 | . | . | . |
| Gross external debt in % of GDP | 26.8 | 34.9 | 38.4 | 41.8 | 38.3 | 40.1 | . | . | . |
| Average exchange rate ALL/EUR | 123.63 | 122.80 | 132.06 | 137.79 | 138.6 | 139.46 | 140 | 130 | 125 |
| Purchasing power parity ALL/EUR ⁷⁾ | 52.39 | 53.08 | 55.32 | 56.22 | . | . | . | . | . |

1) Preliminary. - 2) According to ESA'95 (including non-observed economy, real growth rates based on previous year prices). - 3) Gross value added. - 4) Gross value added of agriculture, forestry and fishing. - 5) Based on IMF data. - 6) One-week repo rate. - 7) Benchmark results 2005 from Eurostat and wiiw estimates.

Source: wiiw Database incorporating national statistics and IMF. Forecasts by wiiw.