



ALBANIA: INSTAT replay

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We expect 2014 GDP growth in Albania to slightly accelerate to 1.7%; the reason being a mix of a statistical base year effect due to weak growth in 2013 and strong foreign investment in the energy sector. However, restrictive fiscal policy and reduced lending activity owing to high levels of NPLs will likely curtail economic growth to 1.5% in 2015 and 1% in 2016. The current and expected meagre growth is not only a far cry from the pre-crisis performance but will not suffice to generate a visible income convergence.

Speculations about the trustworthiness and political instrumentalisation of Albanian national accounts data started already back in early 2012, when the country's state institute of statistics (INSTAT) was put under the exclusive control of former conservative Prime Minister Sali Berisha. After the recent change in government, the current socialist Prime Minister Edi Rama has appointed a new director who should 'turn the politically controlled INSTAT into an independent statistical institute'. Now, the current conservative opposition is accusing INSTAT of deliberately manipulating data on the country's GDP growth.

While earlier growth figures were assumed to be overrated, the estimated 2.3% GDP decline in the third quarter of 2013 should, according to the former conservative deputy Finance Minister, document alleged misgovernment of the 'ancien régime', which was still in power at that time. The same accusations expect a strong rebound of GDP in the last quarter of 2013. Indeed, GDP growth in the fourth quarter would need to reach almost 2.8% in order to leave Albania with an overall 1% GDP growth rate for the year 2013, which in fact is our estimate for 2013. Still, this would be the year with the lowest growth since the 10.8% drop of real GDP in 1997, when the collapse of a nation-wide Ponzi scheme caused a general rebellion.

Between 1998 and 2012 the average annual GDP growth rate was at 6%. However, since 2010 economic growth has been gradually decelerating. The main question is whether the Albanian economy has bottomed out or whether it continues the economic slide. Forward-looking evidence is mixed. The annualised change of the volume index of sales and repair of motor vehicles was negative in autumn 2013, indicating a loss of consumer confidence. Contrary to that, data for eleven months of 2013 show that new loans to households were increasing by 12% on the year, with even stronger growth in loans for the consumption of durable goods. However, the overall volume of new loans to the private sector was falling by 17% in the same period, as new loans to businesses dropped by 22%. New loans for investment in machinery even dropped by almost 60%.

One reason for these disappointing developments is also a tightening of lending standards to businesses, as the overall high stock of non-performing loans is above 24% of total loans. While this share is still increasing year on year, it was for the first time since the outbreak of the global financial crisis that on a quarter to quarter basis NPLs were declining in the third quarter of 2013. While there is some hope that the peak of the deleveraging process will soon be reached, the overall situation of the financial sector is still fragile as for instance the provisions coverage ratio is quickly increasing and stands at about 16%.

On the other hand, the total value of construction permits tripled in the third quarter of 2013 as compared to the same quarter a year earlier. Also, the consumption of cement, which at the beginning of 2013 was at very low levels compared to much higher values a year earlier, increased by the end of the year to levels comparable to the same period in 2012. At the same time data for the first nine months of 2013 depict a dramatic fall in remittances of 28% on the year. In the past, migrants' remittances used to fuel a substantial part of construction activities. However, in the same period foreign direct investment increased by 27%, on the year. By now, FDI inflows of about 10% of GDP make up more than double the value of remittances.

Some of the additional FDI is also related to Norway's Statkraft Devoll Cascade hydropower plant project. Over the next years Statkraft will invest more than half a billion euro in order to construct two hydropower plants with a combined capacity of 243 MW and an annual electricity production of about 700 GWh. By 2018 constructions are expected to be finalised and the additional capacity has the potential to increase the current electricity production in Albania by about 17%.

Public investment is not expected to increase substantially in the years to come. The new government has inherited a huge amount of hidden arrears which it plans to pay off over the next couple of years. At the same time a reduction of the general government deficit is aimed at. This is especially in view of the estimated 70% share of public debt in GDP.

Currently rising net exports are the dominant source of growth for the Albanian economy. In 2013 exports of goods increased in nominal lek terms by some 15%, while imports decreased by a few percentage points. One of the reasons was higher precipitation in 2013 and subsequent stronger electricity production in Albania's hydropower plants. This strongly reduced electricity imports while at the same time improving electricity exports. Also, Albanian oil exports increased further and reached more than one million tonnes per year. Rising oil exports are mainly due to the investments made by Canada's Bankers Petroleum which since 2004 develops the Patos-Marinza oilfield under a 25-year concession. This oilfield is expected to hold reserves reaching up to 400 million tonnes.

Due to the unexpected sharp fall of Albanian GDP in the third quarter of 2013, as published by INSTAT, we had to revise our estimate of the 2013 GDP growth from 2.3% to 1% only. Our forecasts for 2014 and 2015 remain unchanged at 1.7% and 1.5% respectively. The somewhat higher growth in 2014 as compared to 2013 might be related to a statistical base year effect, on the one hand. On the other hand, foreign investment in the Albanian energy sector might have a positive effect on domestic demand. However, restrictive fiscal policy and high levels of NPLs will act as a drag on the economy. Export growth is likely to level off due to mean-reverting weather conditions as well as decreasing world market prices for energy; hence the expected lower growth for 2015 and the even lower forecasted GDP growth of 1% for 2016. While downward risks are plenty, a possible official recognition of EU candidate status in June 2014 might be supporting investment mood and economic prospects.

Table 1 / Albania: Selected Economic Indicators

	2009	2010	2011	2012	2013 ¹⁾	2014	2015	2016
							Forecast	
Population, th pers., average ²⁾	2884.3	2856.7	2829.3	2801.7	2840.0	2850	2860	2870
Gross domestic product, ALL bn, nom. ³⁾	1148.1	1222.5	1282.3	1340.0	1380.0	1420	1460	1490
annual change in % (real) ³⁾	3.3	3.8	3.1	1.5	1.0	1.7	1.5	1.0
GDP/capita (EUR at exchange rate)	3000	3100	3200	3400	3500	.	.	.
GDP/capita (EUR at PPP)	7200	7100	7500	7800	7900	.	.	.
Consumption of households, ALL bn, nom. ^{3/4)}	910.0	970.0	1030.0	1060.0	1080.0	.	.	.
annual change in % (real) ^{3/4)}	3.0	2.5	3.0	1.0	0.0	1.0	0.5	0.5
Gross fixed capital form., ALL bn, nom. ^{3/4)}	430.0	400.0	420.0	380.0	360.0	.	.	.
annual change in % (real) ^{3/4)}	5.0	-7.0	4.8	-12.0	-6.0	2.0	1.5	2.0
Gross industrial production								
annual change in % (real)	-1.2	19.9	-10.1	16.5	-13.0	5.0	6.0	4.0
Gross agricultural production								
annual change in % (real)	4.4	5.9	3.7	5.3	3.0	4.0	5.0	3.0
Construction output total								
annual change in % (real)	43.7	-13.3	-1.1	-11.2	-4.0	-1.0	1.0	1.0
Employed persons, LFS, th ⁵⁾	1160.5	1167.4	1160.5	1117.1	1100.0	1150	1200	1200
annual change in %	3.3	0.6	.	-3.7	-1.5	4.5	4.3	0.0
Employment reg. total, th pers., end of period ⁶⁾	899.3	895.7	948.0	966.3	960.0	950	950	950
annual change in %	-7.7	-1.6	5.8	1.9	-0.7	-1.0	0.0	0.0
Unemployed persons, LFS, th ⁵⁾	185.0	190.7	188.5	173.4	180.0	200	210	220
Unemployment rate, LFS, in % ⁵⁾	13.7	14.0	14.0	13.4	14.0	15.0	15.0	15.5
Reg. unemployment rate, in %, end of period	13.8	13.8	13.1	12.8	13.0	14.0	14.0	14.5
Average monthly gross wages, ALL	36075	34767	36482	39284	40860	.	.	.
annual change in % (real, gross)	2.9	-7.0	1.5	5.6	2.0	1.0	1.0	1.0
Consumer prices, % p.a.	2.3	3.6	3.4	2.0	2.0	1.0	1.0	1.0
Producer prices in industry, % p.a.	-1.6	0.3	2.6	1.1	-0.5	0.0	0.0	0.0
General governm.budget, nat.def., % of GDP								
Revenues	26.1	26.6	25.8	24.7	24.0	25.0	26.0	26.0
Expenditures	33.1	29.7	29.4	28.1	30.0	28.0	27.0	28.0
Deficit (-) / surplus (+)	-7.0	-3.1	-3.6	-3.4	-6.0	-3.0	-1.0	-2.0
Public debt, nat.def., % of GDP ⁷⁾	59.3	57.8	58.6	60.9	70.0	71.0	70.1	70.7
Central bank policy rate, % p.a., end of period ⁸⁾	5.25	5.00	4.75	4.00	3.00	2.75	2.50	2.00
Current account, EUR mn	-1329.8	-1018.5	-1185.4	-1021.3	-1100.0	-950	-900	-800
Current account, % of GDP	-15.3	-11.5	-13.0	-10.6	-11.2	-9.5	-8.8	-7.8
Exports of goods, BOP, EUR mn	750.7	1171.5	1405.5	1525.6	1750.0	1850	1900	1950
annual change in %	-18.2	56.1	20.0	8.5	14.7	5.7	2.7	2.6
Imports of goods, BOP, EUR mn	3054.4	3254.2	3647.1	3524.8	3300.0	3400	3500	3500
annual change in %	-8.8	6.5	12.1	-3.4	-6.4	3.0	2.9	0.0
Exports of services, BOP, EUR mn	1771.4	1750.7	1747.4	1655.1	1550.0	1600	1750	1800
annual change in %	5.0	-1.2	-0.2	-5.3	-6.3	3.2	9.4	2.9
Imports of services, BOP, EUR mn	1597.5	1518.8	1612.4	1459.9	1600.0	1600	1650	1650
annual change in %	-1.3	-4.9	6.2	-9.5	9.6	0.0	3.1	0.0
FDI inflow, EUR mn	716.9	793.3	745.4	744.9	950.0	800	800	700
FDI outflow, EUR mn	28.2	4.8	29.9	17.7	27.5	40.0	50.0	40.0
Gross reserves of NB excl. gold, EUR mn	1607.8	1842.1	1853.1	1907.6	1970.6	.	.	.
Gross external debt, EUR mn	3591.4	4097.0	4795.8	5284.0	5500.0	.	.	.
Gross external debt, % of GDP	41.3	46.2	52.5	54.8	55.9	.	.	.
Average exchange rate ALL/EUR	132.06	137.79	140.33	139.04	140.26	142	143	145
Purchasing power parity ALL/EUR	55.55	59.94	60.32	61.17	61.41	.	.	.

1) Preliminary and wiiw estimates. - 2) According to census October 2011. - 3) According to ESA'95 (including non-observed economy, real growth rates based on previous year prices). - 4) Estimated by wiiw. - 5) Until 2011 survey once a year. From 2011 according to census October 2011. - 6) From 2010 according to census October 2011, census April 2001 before. - 7) Based on IMF data. - 8) One-week repo rate.

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