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Albania: the one-eyed king

Among the transition economies in Europe whose growth prospects have been dampened, the forecasts of growth for Albania are the best. While other countries in the region face prospects of stagnation or even recession in 2009 as a result of the international financial crisis spilling over, Albania can expect to grow by close on 3%. However, it is still unclear from which level of economic activity the growth will actually decelerate (GDP has been growing by about 6% per year over the past few years). In mid-January 2009, the Albanian Institute of Statistics (INSTAT) published quarterly GDP data for the first time. The data are mainly based on VAT-related information and present a picture quite different to previous annual national accounts data.

For the first three quarters of 2008, growth rates in excess of 10% were estimated. According to the quarterly GDP estimates, growth in the construction sector of close to 20% was mainly responsible for the double-digit overall growth. This should be seen in relation to the major efforts being made to finalise the construction of the 'patriotic highway' leading from Durres, Albania's main port, to the Kosovo border by June 2009 (when parliamentary elections are to be held). The Albanian Minister of Finance initially rejected the growth projected by INSTAT for the first three quarters of 2008 only to be sharply rebuked by the Prime Minister. In the meantime, INSTAT has announced revisions to the quarterly data to be released at the end of March 2009. Depending on the growth rate agreed upon for 2008, be it 10% or 6%, the country's economy faces the prospects of either a hard or soft landing in 2009 in the wake of the international financial crisis.

The global crisis is also making itself felt in Albania, albeit to a lesser degree, given the country's limited integration in the international goods, services and capital markets. None the less, liquidity has dried up on the financial market. By the end of 2008, bad loans had reached an historical high: 5% of the overall credit portfolio. The banking system faced a major credibility crisis when Albanians withdrew more than EUR 345 million from their bank accounts: more than 6% of total deposits. 12-month treasury bill yields reached a multi-year high at 9.1% at the end of January 2009, whereas treasury bills were scarcely in demand. Ultimately, at the end of January, the Albanian central bank lowered its interest rate by 50 basis points down to 5.75%, following a request earlier in the month by the CEO of Raiffeisen Bank that interest rates be lowered. Given this environment, the Albanian government decided not to renew the remit of the IMF mission to the country. The Prime Minister described the move as putting an end to Albania's transition process.

The government's populist measures, however, may well prove to be of crucial importance to sustaining growth by increasing effective demand. With parliamentary elections scheduled for June

2009, public spending will target infrastructure projects in the transport and energy sectors. These investment projects rely not only on government financing, but also on international donor funding, such as the World Bank. Overall, the donor community invests some USD 300 million into Albania's ailing energy sector. The construction of the thermo-power plant in Vlora is proceeding well; it is planned to go on stream in 2009. This will mark a major step towards lessening dependence on hydro-power. Although rain was plentiful in the past winter and the country even started exporting electricity to neighbouring Greece, reliance on hydro-power and a series of droughts have led to regular power cuts over the past few years.

Nevertheless, new hydro-power projects are under way, given that the potential hydro-power capacities have still not been fully exploited. At the end of January, the Albanian government approved a EUR 950 million deal with the Austrian electricity company EVN and the Norwegian renewable energy group Statkraft for the construction of three hydro-power plants. Apart from generally stimulating the economy, the project could increase the country's power production by as much as 20%. The government also awarded a 35-year concession contract to the British-Swiss Zumax AG group for the construction of a EUR 1.2 billion ship container terminal in Vlora. Construction is expected to take four years.

Remittances have been an important factor in fuelling domestic demand and triggering a private building boom; however, growing reluctance on the part of migrants and their growing inability to remit funds are being reported. That notwithstanding, no radical reduction in remittances is to be expected. On the contrary, it can be assumed that remittances are demand-driven. Migrants will try to maintain their relatives' basic consumption patterns at all costs. For 2009, we thus expect a slowdown in household consumption growth to some 2% and a subsequent reduction of the current account deficit to a level of 10% of GDP or maybe even lower – on account of fewer imports. This process will also be reinforced by a slight devaluation of the Albanian lek in the course of the year.

With liquidity returning to the international capital markets, we expect a slow acceleration of economic growth in 2010 to a level of around 4%, with the current account deficit increasing once again. By 2011, growth should once more be of the order of 6%. Whereas the crisis may last longer in other countries, Albania has every prospect of overcoming the current turbulence given: (i) its lower dependence on exports and credit; and (ii) its huge potential for basic infrastructure investment, a large part of which will be financed by international development organizations and private foreign concessionaires.

Table AL

Albania: Selected Economic Indicators

	2003	2004	2005	2006	2007	2008 ¹⁾	2009	2010	2011
	Forecast								
Population, th pers., average	3111	3127	3142	3151	3161	3170	.	.	.
Gross domestic product, ALL bn, nom.	694.1	750.8	814.8	891.0	982.2	1120	1177	1261	1390
annual change in % (real)	5.8	5.7	5.7	5.5	6.0	6.1	3	4	6
GDP/capita (EUR at exchange rate)	1600	1900	2100	2300	2500	2700	.	.	.
GDP/capita (EUR at PPP - wiiw)	4300	4600	5000	5500	5900	6400	.	.	.
Consumption of households, ALL bn, nom.	521.0	584.7	634.5	696.5	728.8	.	.	.	.
annual change in % (real)	11.1	9.4	6.0	7.2	6.0	6	2	3	5
Gross fixed capital form., ALL bn, nom.	280.9	279.4	301.4	313.2	380.2	.	.	.	.
annual change in % (real)	18.0	2.7	4.9	9.3	8.0	10	6	9	10
Gross industrial production									
annual change in % (real) ²⁾	29.0	14.1	11.7	12.1	-5.1	6	3	4	5
Gross agricultural production									
annual change in % (real) ²⁾	2.9	6.3	0.9	3.0	1.7	3	2	2	3
Construction output total									
annual change in % (real) ²⁾	23.4	7.9	6.3	11.0	7.5	15	7	10	11
Employed persons - LFS, th, June	.	.	.	.	1188.3	1230	.	.	.
annual change in %	.	.	.	.	.	3.5	.	.	.
Employment reg. total, th pers., end of period	926.2	931.2	932.1	935.1	939.0	970	.	.	.
annual change in %	0.7	0.5	0.1	0.3	0.4	3.3	.	.	.
Unemployment rate - LFS, in %, June	.	.	.	.	13.5	12.8	13	12	11
Reg. unemployment rate, in %, end of period	15.0	14.4	14.1	13.8	13.2	12.6	.	.	.
Average gross monthly wages, ALL	18522	19039	19993	21493	23234	25300	.	.	.
annual change in % (real, gross)	13.1	-5.8	2.5	5.0	15.3	8.9	.	.	.
Consumer prices, % p.a.	2.4	2.9	2.4	2.4	2.9	3.4	2	3	3
Producer prices in industry, % p.a. ³⁾	8.7	12.2	4.9	0.8	3.5	7.3	.	.	.
General governm.budget, nat.def., % GDP									
Revenues	24.1	24.6	25.1	25.8	25.6	27	.	.	.
Expenditures	29.0	29.6	28.5	29.0	29.1	31	.	.	.
Deficit (-) / surplus (+), % GDP	-4.9	-5.1	-3.5	-3.3	-3.5	-4	-4	-3	-3
Public debt in % of GDP ⁴⁾	60.7	57.7	58.1	55.9	53.1	53.5	.	.	.
Base rate of NB, % p.a., end of period ⁵⁾	6.5	5.3	5.0	5.5	6.3	6.3	.	.	.
Current account, EUR mn	-349.5	-340.2	-589.1	-471.0	-831.0	-1100	-900	-1150	-1400
Current account in % of GDP	-6.9	-5.8	-9.0	-6.5	-10.5	-12.7	-9.9	-11.4	-12.3
Exports of goods, BOP, EUR mn	394.9	485.6	530.2	630.6	786.3	950	800	950	1200
annual growth rate in %	13.3	23.0	9.2	18.9	24.7	20.8	-16	19	26
Imports of goods, BOP, EUR mn	1571.8	1762.3	2006.9	2289.6	2890.4	3200	2800	3100	3900
annual growth rate in %	0.3	12.1	13.9	14.1	26.2	10.7	-13	11	26
Exports of services, BOP, EUR mn	633.1	807.6	967.3	1156.6	1415.1	1600	1400	1700	2100
annual growth rate in %	3.4	27.6	19.8	19.6	22.3	13.1	-13	21	24
Imports of services, BOP, EUR mn	705.0	848.1	1107.7	1188.0	1402.3	1550	1400	1650	1800
annual growth rate in %	13.6	20.3	30.6	7.2	18.0	10.5	-10	18	9
FDI inflow, EUR mn	156.9	278.4	212.6	258.6	481.1	500	.	.	.
FDI outflow, EUR mn	.	9.0	1.7	8.2	11.0	.	.	.	.
Gross reserves of NB excl. gold, EUR mn	789.7	982.7	1171.6	1329.2	1415.9	1700	.	.	.
Gross external debt, EUR mn ⁴⁾	1110.0	1224.0	1373.5	1445.4	1445.7	1700	.	.	.
Gross external debt in % of GDP	21.5	20.6	20.7	20.1	17.9	19.9	.	.	.
Average exchange rate ALL/EUR	137.5	127.7	124.2	123.1	123.6	122.8	129	125	122
Purchasing power parity ALL/EUR ⁶⁾	52.0	51.9	52.1	51.2	52.6	52.0	.	.	.

1) Preliminary and wiiw estimates. - 2) Gross value added. - 3) Until 2005 producer prices in manufacturing industry. - 4) Based on IMF data. - 5) One week repo rate. - 6) Benchmark results 2005 from Eurostat and wiiw estimates.
Source: wiiw Database incorporating national statistics and IMF. Forecasts by wiiw.