

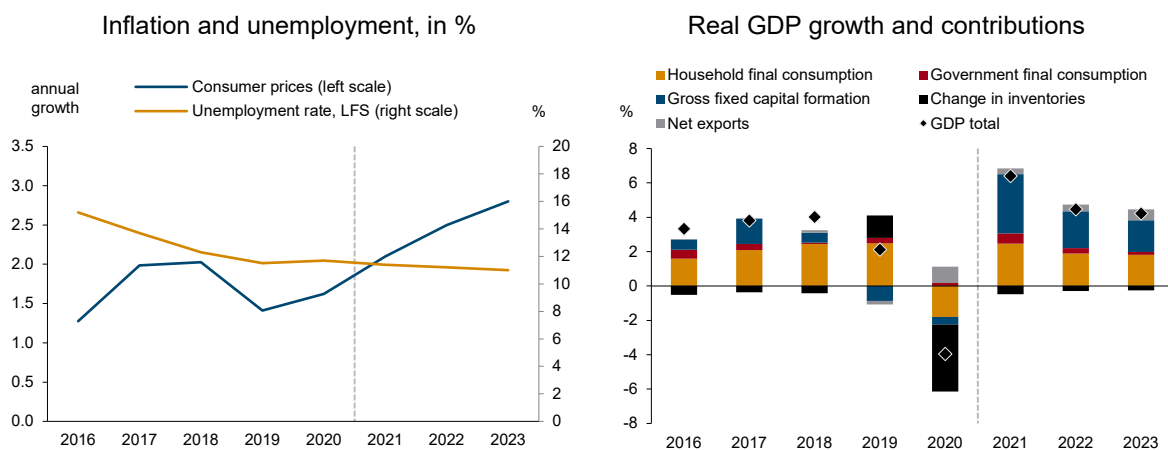


ALBANIA: V-shaped and vibrant recovery of the economy

ISILDA MARA

The V-shaped recovery that we see suggests that the economy is back on track and will remain sound. GDP growth will accelerate to 6.4% in 2021 and will hover at above 4.5% in the medium term. The tourism sector has had an impressive year and is getting closer to its pre-pandemic level. Growth will be led by investment and by optimistic external and domestic demand, but downside risks stemming from the international markets and the pandemic call for vigilance.

Figure 4.1 / Albania: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

The evolution of COVID-19 looks manageable and does not appear to present that much risk. The third wave of the pandemic – which was in full swing in September – seems, at the beginning of October, to have settled down. The outstanding results of early summer 2021, when fewer than 10 infections a day were recorded, were ruined in September, when daily infections hovered at close to a thousand. By the start of October, however, the figure had halved, suggesting that the waves are becoming shorter and less virulent than in early 2021; the death toll is also much lower, at below five a day. The vaccination programme has enjoyed only moderate success: 1.6 million jabs delivered suggest that perhaps less than a third of the population has reached a certain level of immunity. The boom in tourism is certainly the principal cause of the third wave. In all likelihood, the vaccination programme has not prevented an upsurge in infections, but it has at least helped to reduce the number of severe cases, and has cut the risk of death in the event of infection. With winter approaching, other strains of COVID-19 – mingled with seasonal flu – will emerge; but their impact is expected to be lower, as the vaccination of the population improves.

The country's economic performance returned to pre-pandemic levels as early as Q2 2021, and the recovery is expected to be lasting. The way the economy bounced back in Q2 2021 was remarkable: the 18% real growth rate year on year was enough to claw back all the losses following the huge contraction of Q2 2020 (-11%) – and even to exceed the 2019 levels by 2.5%. The engines of growth have been the construction sector (which surpassed all expectations and rose by 30% in the first half of 2021) and (not to be outdone) the manufacturing sector – especially the extraction industry. Growth also benefited from a strong increase in government spending (8.9%) and household consumption (5.6%) in the first half of 2021 (and the figures for both were even in double digits in Q2 2021). Meanwhile, gross fixed capital formation expanded by 36% over the same period. Also exports of goods and services have made great strides and provide yet another positive impetus to growth performance. Expectations for the second half of 2021 are similarly optimistic, and growth is likely to be lasting.

Employment has not picked up at the same pace as the economy. Labour market signals are mixed. Unemployment for Q2 2021 was reported to be 11.6% – 0.1 percentage points (pp) lower than in Q4 2021. Employment is still a long way from the 2019 level – and in fact is closer to the 2018 level. For the first half of 2021, the pool of the employed expanded by fewer than 7,000 people. However, the younger age cohorts seem to be weathering the situation rather better than older age groups: most of the new jobs have been snapped up by younger people, while inactivity and unemployment have been rising especially within the age group 33-64. The strong economic growth has not translated into a wealth of new jobs. The culprit for this is the structure of the economy and its growth drivers. Construction (and also tourism) offers seasonal employment that is in large part informal. Therefore, the impact of any growth is both less visible and less durable. However, wages do seem to be edging up, and the government has announced further wage hikes by the beginning of next year for specific occupational groups – e.g. doctors, nurses and teachers. Consumer confidence seems to have been improving, but is still below its historical level. The surge in remittances from abroad in the first half of 2021 – up 25% on the same period in 2020, and 2% up on the first six months of 2019 – will continue to support consumption.

Public spending will continue to bolster growth. General government revenues soared by 19% for January–August 2021, year on year, to exceed the initial target by 5%. Spending also rose by 9.6%: this was driven by capital expenditure, which grew by 42% (to account for 18% of total spending). Nevertheless, a fiscal deficit of 3% of GDP is expected for this year, and public debt will remain elevated at 73%. The post-earthquake reconstruction work and health spending on vaccines will absorb the lion's share of the budget this year, too.

The banking sector has performed well during the pandemic and has been supportive of the economy. The demand for credit has been growing rapidly and non-performing loans have shrunk to 7.1% (as of July 2021). Up to the end of August 2021, the demand for credit grew by 7%, year on year. Demand for credit from both the non-financial private sector and households has expanded – particularly among the latter (by 11%). Households in particular have shown a much greater appetite for spending and for taking new risks: quite a large share of the new loans have been for consumer durables and the purchase of housing. The inflation rate has picked up (2.4% in August), but this is mainly in the wake of global trends. The central bank – with a target of 3% for consumer price index inflation – has announced that it will not intervene and has kept interest rates unchanged. Also, the exchange rate, following a degree of volatility in the early phase of the pandemic, seems to have stabilised and has hovered at between 121 and 123 LEK/EUR this year.

The external sector has been picking up steam. External demand has reflected improvements in the export of goods, with figures exceeding pre-pandemic levels. Up to the end of August 2021, merchandise exports rose by 62% compared to the same period of 2020, and by 33% for the first eight months of 2019. For all groups (apart from textiles and wood & paper manufacturing products), exports regained their pre-pandemic levels in both nominal and real terms. The structure of exports has also changed: textile industry goods have dropped from 40% to 31% of total exports, while other categories – such as construction materials and metals, minerals and fuel – have regained a market share of 20% each. Certainly, higher energy prices and demand for metals at the global level will continue to strengthen external demand. Imports have also been recovering lost ground quite remarkably, indicating that consumption is back. Imports of machinery, equipment and spare parts in January–August 2021 were 36% higher in nominal terms than in the same period of 2020, and 25% higher than in the same period of 2019. Such a strong performance suggests that investments are also back on track. Exports of services have also helped the economy heal the wounds of last year: tourism has been booming – in the first eight months of 2021, the number of visitors almost reached the levels of 2019 (a bumper year). Foreign direct investments have proved resilient, amounting to EUR 463m for the first half of the year (slightly above the same period of 2020). Sectors such as the extraction industry, real estate and financial intermediaries have benefited the most. The Netherlands, Italy, Turkey, France, Austria and Germany seem to be the main countries to have invested in Albania in the first half of the year.

The ‘Rama 3’ cabinet now in office will likely pave the way for the start of several large infrastructure projects and for the completion of others. The Arbri road (which will connect the central part of the country with the north east) is expected to be finished early next year. Meanwhile Vloora airport – a EUR 100m investment – is expected to see the start of construction by the end of this year. An unprecedented construction boom, especially in Tirana (where it is mainly emigrants and foreign residents who can afford to buy), continues unabated; prices in the centre are already comparable to those in some European capitals.

The EU integration process has stalled. The process seems to have become a pawn in the ongoing dispute between Bulgaria and North Macedonia. During her visit to Tirana on 28 September, Ursula von der Leyen reconfirmed that Albania has done its homework, and that the first intergovernmental conference should take place by the end of this year, so that EU accession talks can begin. However, it remains to be seen whether this is just another vague promise or an actual commitment.

Overall, the V-shaped recovery suggests that the economy is back on track and will remain sound. Still, we prefer to err on the side of caution. We have revised our GDP growth projections for 2021 upwards to 6.4% (from 5%). This reflects the strong domestic and external demand, but also the downside risks stemming from the dynamics in international markets – such as the strong rise in energy prices - and the pandemic. In the medium term, economic growth is expected to hover at above 4.5% and will likely be led by investment.

Table 4.1 / Albania: Selected economic indicators

| | 2018 | 2019 | 2020 ¹⁾ | 2020 | 2021 | 2021 | 2022 | 2023 |
|---|--------|--------|--------------------|--------------|--------|----------|--------|--------|
| | | | | January-June | | Forecast | | |
| Population, th pers., average | 2,866 | 2,854 | 2,838 | . | . | 2,820 | 2,810 | 2,800 |
| Gross domestic product, ALL bn, nom. | 1,637 | 1,692 | 1,618 | 764 | 885 | 1,800 | 1,900 | 2,000 |
| annual change in % (real) | 4.0 | 2.1 | -4.0 | -7.4 | 11.9 | 6.4 | 4.5 | 4.2 |
| GDP/capita (EUR at PPP) | 9,190 | 9,630 | 9,290 | . | . | . | . | . |
| Consumption of households, ALL bn, nom. | 1,282 | 1,338 | 1,329 | 670 | 717 | . | . | . |
| annual change in % (real) | 3.1 | 3.2 | -2.3 | -3.7 | 5.7 | 3.0 | 2.3 | 2.2 |
| Gross fixed capital form., ALL bn, nom. | 391 | 377 | 372 | 152 | 199 | . | . | . |
| annual change in % (real) | 2.3 | -3.7 | -2.0 | -13.9 | 29.7 | 15.0 | 9.3 | 8.0 |
| Gross industrial production | | | | | | | | |
| annual change in % (real) | 18.7 | -1.1 | -6.3 | -12.8 | 36.5 | 15.0 | 5.0 | 8.0 |
| Gross agricultural production ²⁾ | | | | | | | | |
| annual change in % (real) | 1.8 | -2.9 | 3.0 | . | . | . | . | . |
| Construction output total | | | | | | | | |
| annual change in % (real) | 5.6 | -2.5 | 9.5 | -3.4 | 25.6 | . | . | . |
| Employed persons, LFS, th, average | 1,231 | 1,266 | 1,243 | 1,241 | 1,231 | 1,250 | 1,270 | 1,290 |
| annual change in % | 3.0 | 2.8 | -1.8 | -1.2 | -0.8 | 0.5 | 1.6 | 1.6 |
| Unemployed persons, LFS, th, average | 173 | 165 | 165 | 164 | 164 | 160 | 160 | 160 |
| Unemployment rate, LFS, in %, average | 12.3 | 11.5 | 11.7 | 11.7 | 11.7 | 11.4 | 11.2 | 11.0 |
| Reg. unemployment rate, in %, eop | 5.4 | 5.8 | 7.4 | 7.1 | 8.1 | . | . | . |
| Average monthly gross wages, ALL | 50,589 | 52,380 | 53,662 | 53,691 | 56,365 | 57,000 | 61,300 | 66,200 |
| annual change in % (real, gross) | 1.3 | 2.1 | 0.8 | 1.3 | 3.6 | 4.0 | 5.0 | 5.0 |
| Consumer prices, % p.a. | 2.0 | 1.4 | 1.6 | 1.8 | 1.4 | 2.1 | 2.5 | 2.8 |
| Producer prices in industry, % p.a. | 1.7 | -0.8 | -3.3 | -3.1 | 0.5 | 1.0 | 1.0 | 1.0 |
| General governm.budget, nat.def., % of GDP | | | | | | | | |
| Revenues | 27.5 | 27.2 | 26.3 | 25.5 | 26.5 | 27.0 | 27.5 | 28.0 |
| Expenditures | 29.1 | 29.1 | 33.2 | 30.6 | 29.8 | 30.0 | 29.0 | 29.0 |
| Deficit (-) / surplus (+) | -1.6 | -1.9 | -6.8 | -5.1 | -3.3 | -3.0 | -1.5 | -1.0 |
| General gov.gross debt, nat.def., % of GDP | 67.7 | 65.8 | 75.7 | 78.2 | 70.8 | 73.0 | 71.0 | 70.0 |
| Stock of loans of non-fin.private sector, % p.a. | -3.6 | 6.6 | 6.9 | 6.6 | 6.1 | . | . | . |
| Non-performing loans (NPL), in %, eop | 11.1 | 8.4 | 8.1 | 8.1 | 7.1 | . | . | . |
| Central bank policy rate, % p.a., eop ³⁾ | 1.00 | 1.00 | 0.50 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Current account, EUR m | -866 | -1,089 | -1,153 | -613 | -554 | -1,250 | -1,190 | -1,160 |
| Current account, % of GDP | -6.8 | -7.9 | -8.8 | -9.9 | -7.7 | -8.5 | -7.7 | -7.1 |
| Exports of goods, BOP, EUR m | 986 | 907 | 794 | 370 | 602 | 1,010 | 1,100 | 1,200 |
| annual change in % | 23.7 | -8.1 | -12.5 | -18.0 | 62.4 | 27.0 | 9.0 | 9.0 |
| Imports of goods, BOP, EUR m | 3,857 | 4,050 | 3,776 | 1,679 | 2,209 | 4,460 | 4,660 | 4,750 |
| annual change in % | 6.5 | 5.0 | -6.8 | -12.9 | 31.6 | 18.0 | 4.5 | 2.0 |
| Exports of services, BOP, EUR m | 3,073 | 3,405 | 2,226 | 965 | 1,425 | 2,850 | 3,090 | 3,280 |
| annual change in % | 7.6 | 10.8 | -34.6 | -35.4 | 47.7 | 28.0 | 8.5 | 6.0 |
| Imports of services, BOP, EUR m | 1,962 | 2,141 | 1,174 | 558 | 710 | 1,350 | 1,420 | 1,510 |
| annual change in % | 10.6 | 9.1 | -45.1 | -41.2 | 27.2 | 15.0 | 5.0 | 6.5 |
| FDI liabilities, EUR m | 1,020 | 1,072 | 937 | 460 | 463 | 880 | . | . |
| FDI assets, EUR m | -3 | 36 | 43 | 9 | 20 | 60 | . | . |
| Gross reserves of CB excl. gold, EUR m | 3,342 | 3,240 | 3,806 | 4,026 | 3,794 | . | . | . |
| Gross external debt, EUR m | 8,353 | 8,246 | 8,572 | 8,944 | 8,811 | 8,900 | 9,500 | 9,800 |
| Gross external debt, % of GDP | 65.1 | 60.0 | 65.6 | 68.4 | 60.3 | 61.0 | 61.0 | 60.0 |
| Average exchange rate ALL/EUR | 127.59 | 123.01 | 123.77 | 123.68 | 123.24 | 123.0 | 122.5 | 122.0 |

1) Preliminary. - 2) Based on UN-FAO data, wiiw estimate in 2020. - 3) One-week repo rate.

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