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Albania: conditional growth

Albania, the least developed country in Southeast Europe, recorded the highest economic growth rate (6%) among the Balkan countries in 2003. At the same time it recorded low inflation and a decreasing unemployment rate. The strong growth performance was mainly driven by the construction and the services sectors, an export boost and the fact that power supply has improved. Conditions seem to be favourable for a further upward tendency in the years to come.

General legislative elections are planned for 2005 and the ruling Socialist Party might find it necessary to increase government consumption before the polls. This may enhance the boom in the construction sector. Moreover, there is an increasing trend of tourists coming from Kosovo to stay for holidays on the Albanian coast. This will lead to an additional foreign exchange inflow. In the wake of economic recovery of the EU, which is by far the most important trading partner of Albania, exports may be expected to grow further. This could also contribute to a further reduction of the trade deficit in goods, which is currently far above 20% of GDP. The poor electric power supply – a major bottleneck in the past – has improved. Given the international aid in this sector and favourable weather conditions for Albania's hydroelectric power plants, the situation might improve even further. Substantial FDI inflows have finally started to come in. Austrian RZB bank took over 100% of the main Albanian bank, the Savings Bank of Albania. The USD 126 million deal was the largest privatization project in Albanian history. Experience from other transition countries has shown that FDI in the banking sector is often followed by foreign investment in other parts of the economy. Thus, in principle, Albania's short- and long-term economic outlook is quite favourable.

The main risk to economic success is political instability. Albania's society faces a significant potential for conflicts in domestic policies. Tensions occur between the main political parties and within the ruling Socialist Party itself. Political infighting has also dampened Albania's progress in the country's EU Stabilization and Association Process (SAP) by delaying the reform programme. The EU commission, in its 2004 SAP report, points to lacking proper implementation of reforms particularly in the issues central to the rule of law, including the fight against organized crime and corruption and the functioning of the judicial system.

Table AL

Albania: Selected Economic Indicators

	1997	1998	1999	2000	2001	2002	2003 ¹⁾	2004	2005
	forecast								
Population, th pers., 1st of January ²⁾	3324	3354	3373	3401	3063	3112	3145	.	.
Gross domestic product, ALL mn, nom.	333071	425356	488611	551282	610426	677684	744585	815300	892700
annual change in % (real)	-10.3	12.7	8.9	7.7	7.6	4.7	6.0	6	6
GDP/capita (EUR at exchange rate)	593	752	986	1223	1551	1645	1721	.	.
GDP/capita (EUR at PPP- wiiw)	2010	2270	2520	2800	3390	3560	3740	.	.
Gross industrial production, ALL mn	45964	48491	55702	64500	80576	71157	75948	.	.
annual change in % (real)	-25.8	26.1	30.0	0.9	6.5	2.1	3.0	3.5	4
Construction industry, ALL mn	14322	17440	23942	33628	62874	58281	67757	.	.
annual change in % (real)	-10.5	18.0	17.8	27.2	14.0	8.7	11.3	.	.
Reg. employment total, th pers., average	1107	1085	1065	1068	921	920	.	.	.
annual change in %	-0.8	-2.0	-1.8	0.3	-13.8	-0.1	.	.	.
Reg. unemployed, th pers., end of period	194	235	240	215	181	172	.	.	.
Reg. unemployment rate in %, end of period	14.9	17.8	18.2	16.8	16.4	15.8	15.2	14.5	14
Monthly gross wages in public sector, ALL	9558	11509	12708	14963	17218	20923	.	.	.
annual change in % (real)	-16.9	-0.2	9.9	17.7	11.6	8.1	.	.	.
Consumer prices, % p.a.	32.1	20.9	0.4	0.1	3.1	5.2	2.4	3.5	3.5
Consolidated budget, nat.def., % GDP									
Revenues	17.0	22.0	22.0	21.9	22.2	22.2	.	.	.
Expenditures	30.2	33.3	33.9	30.9	30.5	28.4	.	.	.
Deficit (-) / surplus (+)	-13.2	-11.3	-11.9	-9.1	-8.3	-6.2	.	.	.
Interest rate, % p.a., end of year ³⁾	35.3	20.4	14.8	7.8	8.0	11.2	7.3	.	.
Current account, EUR mn	-224	-58	-125	-177	-243	-445	-360	-410	-440
Current account in % of GDP	-11.3	-2.3	-3.7	-4.3	-5.1	-8.7	-6.7	-6.8	-6.9
Gross reserves, EUR mn	500	574	488	695	852	902	906	.	.
Gross external debt, EUR mn	773	899	1040	1269	1339	1252	1168	.	.
Exports of goods, fob, BOP, EUR mn	147	183	258	276	341	349	395	420	440
annual growth rate in %	-18.5	24.3	40.8	7.1	23.4	2.6	13.2	6.2	4.8
Imports of goods, cif, BOP, EUR mn	604	738	1051	1165	1487	1572	1577	1660	1760
annual growth rate in %	-16.8	22.1	42.5	10.8	27.7	5.7	0.3	5.3	6.0
Trade balance of goods, BOP, EUR mn	-457	-554	-793	-889	-1147	-1222	-1182	.	.
Trade balance in % of GDP	-23.2	-22.0	-23.8	-21.4	-24.1	-23.9	-21.9	.	.
Average exchange rate ALL/USD	148.9	150.6	137.7	143.7	143.5	140.2	121.9	.	.
Average exchange rate ALL/EUR (ECU)	168.9	168.7	147.0	132.6	128.5	132.4	137.5	135	140
Purchasing power parity ALL/USD, wiiw	45.1	50.5	52.6	53.9	54.2	56.6	57.8	.	.
Purchasing power parity ALL/EUR, wiiw	50.0	56.0	57.4	57.9	58.8	61.2	63.3	.	.

Notes: ALL: ISO-Code for the Albanian lek.

1) Preliminary. - 2) Until 2000: population estimates; 2001: census data; thereafter: projection. - 3) 3-month treasury bill rate.

Source: IMF, INSTAT, Bank of Albania, EBRD; wiiw forecasts.