

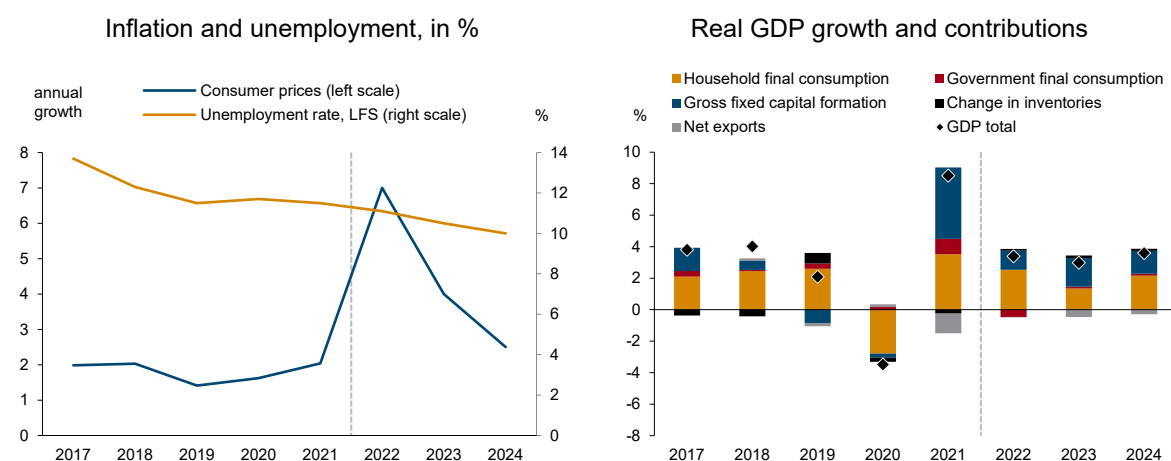


ALBANIA: Fingers crossed for abundant rainfall

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GDP in 2022 will be 3.5%, backed by private consumption and, to a lesser extent, by investments. It will likely stay at above 3% over the forecast horizon. Inflation has been picking up very rapidly, but is still among the lowest in the region. Whether enough energy can be secured for the winter will depend on rainfall and on the volatile import prices, and is among the key risks to our growth forecast for this year and next.

Figure 6.1 / Albania: Main macroeconomic indicators



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

Growth slowed with the start of the war in Ukraine. Q1 2022 still had a strong growth showing of 6.5%, year on year (owing to a low base in 2021); but during Q2 2022, growth sank to 2.2%, year on year. Household consumption grew by 9% in the first half of the year, while government consumption dropped by 7% over the same period, year on year. Gross fixed capital formation rebounded by 16% in Q1, but Q2 recorded a contraction of 7%. Exports of goods and services rose steadily in the first half of the year. Viewed from the production side, growth was driven by manufacturing and real estate (both up 13% in the first half of 2022) and by wholesale and retail trade (again double-digit growth of 10%). However, Q2 2022 saw a major contraction in the construction sector (of 5%, year on year), following a surge of 26% in Q1.

Inflation has been picking up very quickly, but is still among the lowest in the region. Annual consumer price inflation reached 8% in August. The price hikes were particularly significant for food products (11%) and cereals (21%), which are traditionally mainly imported from Russia. The rise in the price of vegetable oils and fats – which are also largely imported from Russia and Ukraine – peaked at an unprecedented 31% in July, before falling back to 23% in August. By contrast, the price of fuel and

energy has recorded only a moderate increase, because of price controls imposed by the government back in April.

The acceleration of inflation to above the target level of 3% prompted the central bank to intervene by raising interest rates. It has hiked its policy rate four times since the beginning of the year – to 2.25%, up from 0.5% in 2021. Non-performing loans continued to drop – to 5% by July 2022, from 7.1% in 2021. Credit expansion reached 12% in July, year on year, with credit to households rising by 13% and to the corporate sector by 8.5%. The expectation is that the rise in interest rates will squeeze only slightly the demand for credit among both households and businesses.

The domestic currency (the lek) has appreciated 4% against the euro since January 2022. The reasons are manifold: a big rise in remittances and foreign direct investment (up 11% and 27%, respectively, in the first half of the year), but also in illicit money that mainly goes into real estate.

It will be challenging to secure energy for the winter. The country has zero dependence on Russian gas. However, it is very exposed to volatile energy prices on the international markets. The main source of electricity production is hydropower. This means that generation is rather dependent on rainfall, which is hard to predict. Consequently, the risk related to weather conditions – drought and floods alike – is high. The first half of this year has been particularly challenging in terms of ensuring electricity supply: domestic production contracted by 38%, and 14% of the energy requirements were met by imports. In the first half of the year, demand for electricity stayed at a level similar to the same period of 2021. However, it will likely decline over the remainder of the year, as the government has announced several new measures to curb energy consumption, such as progressive tariffs for households, limits on energy use in public offices, and restrictions on street lighting and illuminated advertising for shops after a certain hour. The government does offer vulnerable households subsidies on their energy consumption. The private sector has been more exposed to energy price hikes, and many companies have reported paying tariffs that are seven times higher than last year.

Investment in green energy is on the rise, but the effects of this on the energy supply will be visible only in the medium term. The government has been proactive and has offered support to both businesses and households to encourage the use of renewable energy sources, such as solar panels. From October 2022, 2,000 families will receive up to 70% financial support to install photovoltaics and produce electricity for their own consumption. In addition, the French company Voltalia's project for a solar power plant in Karavasta (west-central Albania) is making headway. Construction began in July of this year, though production is only expected to start in 2024. The government has been prompted to seek energy supplies from other sources. In April 2022, an agreement was signed with the US company Excelerate Energy for the construction of two floating power plants that use liquefied natural gas (LNG), as well as for a new LNG terminal in the southern Albanian city of Vlora, with power production due to start in January 2023. There is a possibility that in years to come this terminal could offer LNG to other countries in the region (e.g. a memorandum of understanding has already been signed with Kosovo and Bulgaria).

The employment rate is improving, and labour shortages are looming on account of high emigration. In Q2 2022, the unemployment rate declined further to 11.1%, while employment increased by 4%, year on year. More than 40,000 people entered the labour market, and in Q2 2022 the rate of employment reached 55% – 3 percentage points up on the same period last year. Emigration persists, but circular migration is also common – with spells of three months abroad and three months at home –

especially among the youth. The high level of emigration means that labour shortages are looming. As a consequence, nominal wages in the private sector have been rising steeply – by 12% in Q2 2022, year on year. The minimum wage has been raised to 340 lek (EUR 290), up 6.2%. Meanwhile, nominal wages in the public sector have stagnated. With an overall nominal wage increase of 7% over the period, real wages have been falling, suggesting that private consumption could contract as inflation soars.

The current account balance has improved thanks to buoyant remittances and rising tourist flows.

In the first half of 2022, year on year, exports of goods and services rose at a similar pace as imports (17%). Though goods exports surged by 41% in nominal terms, in real terms they contracted by 6%. Fuel exports benefited from high oil prices and picked up in both volume and nominal terms – by 20% and 73%, respectively. Goods imports in nominal terms rose by 25%, whereas in real terms they contracted by 8%. Exports of services recorded a positive year, and especially the tourist season was very good: the number of tourists hit a new record of 5.3m in the period January to August – 30% higher than in the same period last year. Also, the number of nights spent in tourist accommodation rose by 40% (a 48% rise among visitors to Albania and 29% among Albanian residents). For the first half of the year, remittances continued on their positive trajectory, up 11%. The overall effect has been a decline in the current account deficit of 10%. Despite that, a less bright second half year is expected, owing to the strong rise in the price of imports and a weakening of the EU economies, Albania's main trading partners.

This is another year when it will be hard to achieve fiscal consolidation. Budget revenues improved, and the general government budget was reshuffled. Capital expenditure was cut, and more revenue was allocated to assistance for vulnerable groups. The Social Resilience Support Package introduced in the first half of the year has been extended, and pensions have been indexed by a combined 9.5% (3.5% in April and 6% in October). Meanwhile, the minimum wage has been increased by 6.2% and energy subsidies are envisaged for low earners.

Overall, we expect the economy to grow by 3.5% this year, backed by private consumption and, to a lesser extent, by investments. Growth in 2023 will be weaker (3%) because of the high level of uncertainty stemming from the energy sector and the international environment. Several big infrastructure projects have been announced. One is the Durrës tourist port, worth USD 2bn. In August 2022, a memorandum of understanding was signed between the founder of Emaar Properties, Mohamed Alabbar (an Emirati global developer), and the Albanian government. If the construction works can start next year, the impact on the economy in the medium-long term will be enormous. The start of EU accession talks in July 2022 is also certainly an important milestone, both domestically and internationally.

Table 6.1 / Albania: Selected economic indicators

	2019	2020	2021 ¹⁾	2021 January-June	2022	2022 Forecast	2023 Forecast	2024
Population, th pers., average	2,854	2,838	2,812	.	.	2,810	2,800	2,800
Gross domestic product, ALL bn, nom.	1,692	1,644	1,890	916	1,059	2,100	2,200	2,300
annual change in % (real)	2.1	-3.5	8.5	11.1	4.2	3.4	3.0	3.6
GDP/capita (EUR at PPP)	9,520	9,110	10,440	.	.	.	.	.
Consumption of households, ALL bn, nom.	1,340	1,313	1,408	713	824	.	.	.
annual change in % (real)	3.3	-3.5	4.4	3.2	9.1	3.4	1.8	2.9
Gross fixed capital form., ALL bn, nom.	378	374	457	205	222	.	.	.
annual change in % (real)	-3.6	-1.1	19.9	32.8	2.5	5.0	7.5	6.0
Gross industrial production								
annual change in % (real)	-1.1	-6.3	26.6	36.0	0.2	5.0	8.0	8.0
Gross agricultural production ²⁾								
annual change in % (real)	-3.0	2.6	2.0	.	.	.	.	.
Construction output total								
annual change in % (real)	-2.5	9.5	18.0	25.6	7.2	.	.	.
Employed persons, LFS, th, average	1,266	1,243	1,249	1,231	1,278	1,290	1,295	1,305
annual change in %	2.8	-1.8	0.4	-0.8	3.7	3.3	0.4	0.8
Unemployed persons, LFS, th, average	165	165	163	164	161	160	150	150
Unemployment rate, LFS, in %, average	11.5	11.7	11.5	11.8	11.2	11.1	10.5	10.0
Reg. unemployment rate, in %, eop ³⁾	5.8	7.4	7.3	.	.	.	.	.
Average monthly gross wages, ALL	52,380	53,662	57,191	56,365	59,954	66,100	72,200	77,700
annual change in % (real, gross)	2.1	0.8	4.4	3.6	0.7	8.0	5.0	5.0
Consumer prices, % p.a.	1.4	1.6	2.0	1.4	5.6	7.0	4.0	2.5
Producer prices in industry, % p.a.	-0.8	-3.3	2.7	0.5	18.8	12.0	5.0	2.0
General governm. budget, nat. def., % of GDP								
Revenues	27.2	25.9	27.0	25.6	26.4	27.0	28.0	28.5
Expenditures	29.1	32.6	31.6	28.8	24.9	27.5	28.0	28.0
Deficit (-) / surplus (+)	-1.9	-6.7	-4.5	-3.2	1.4	-0.5	0.0	0.5
General gov. gross debt, nat. def., % of GDP	65.8	74.5	73.2	67.4	66.2	70.0	69.0	68.0
Stock of loans of non-fin. private sector, % p.a.	6.6	6.9	9.6	6.1	12.5	.	.	.
Non-performing loans (NPL), in %, eop	8.4	8.1	5.7	7.1	5.3	.	.	.
Central bank policy rate, % p.a., eop ⁴⁾	1.00	0.50	0.50	0.5	1.0	2.25	2.25	2.25
Current account, EUR m	-1,089	-1,153	-1,166	-520	-469	-1,340	-1,210	-1,200
Current account, % of GDP	-7.9	-8.7	-7.6	-7.0	-5.4	-7.6	-6.4	-6.0
Exports of goods, BOP, EUR m	907	794	1,265	602	1,003	1,450	1,570	1,630
annual change in %	-8.1	-12.5	59.4	62.4	66.8	15.0	8.0	4.0
Imports of goods, BOP, EUR m	4,050	3,776	5,094	2,209	2,806	5,500	5,830	6,040
annual change in %	5.0	-6.8	34.9	31.6	27.0	8.0	6.0	3.6
Exports of services, BOP, EUR m	3,405	2,226	3,486	1,434	2,077	3,870	4,140	4,430
annual change in %	10.8	-34.6	56.6	48.6	44.8	11.0	7.0	7.0
Imports of services, BOP, EUR m	2,141	1,174	1,690	710	1,069	1,940	2,020	2,120
annual change in %	9.1	-45.1	43.9	27.3	50.6	15.0	4.0	5.0
FDI liabilities, EUR m	1,072	937	1,032	470	634	1,100	.	.
FDI assets, EUR m	36	43	42	20	60	80	.	.
Gross reserves of CB excl. gold, EUR m	3,240	3,806	4,831	3,794	4,740	.	.	.
Gross external debt, EUR m	8,246	8,549	9,755	8,781	9,893	9,900	10,100	10,400
Gross external debt, % of GDP	60.0	64.4	63.2	56.9	56.0	56.0	53.0	52.0
Average exchange rate ALL/EUR	123.01	123.77	122.46	123.24	121.17	119.0	116.0	115.0

1) Preliminary. - 2) Based on UN-FAO data, wiiw estimate in 2021. - 3) wiiw estimate in 2021. - 4) One-week repo rate.

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