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Albania:
Corruption of power plus electrification of the whole country

In Albania, we expect stronger economic growth in 2013 based on a substantial increase in public wages and infrastructure investment boosting up aggregate demand. A similar rate of growth could be also maintained in the following years of 2014 and 2015 given an improvement of economic sentiment throughout Europe. However, there are considerable downward risks. A failure of the Albpetrol privatisation could endanger the financing of fiscal expansion and infrastructure investments. Also another drought could cause further shortage in the electricity supply, which apart from endemic corruption, is one of the major obstacles to more FDI in Albania in the medium run.

Although FDI in Albanian industry is still confined to very basic sectors such as commodities and energy, foreign investors have even there difficulties to succeed. Good contacts with the ruling elite might be an important factor of success, but even that might not be a guarantee. Recently especially investment projects in the energy sector have exemplified this point.

Certainly the publicly owned Czech energy company CEZ is currently experiencing all the nightmares a foreign investor may possibly experience in Albania. On 21 January 2013 the Albanian energy regulator ERE revoked the licence of the local unit of CEZ to operate the country's national electricity grid and appointed a new caretaker management, arguing that CEZ has not fulfilled its contractual obligations regarding imports of electricity and investment in the grid. This can be seen as an equivalent to an expropriation after the company’s accounts were already frozen earlier when CEZ announced that it would like to sell its majority share in the Albanian electricity distribution.

This is only the latest twist in a path of escalation that started with CEZ purchasing 76% of Albania’s power distributor in 2009 for EUR 102 million and investing a similar amount in the ailing grid. Since then CEZ has not been able to reduce the so-called ‘technical losses’, which are mostly due to electricity theft and unpaid bills and range between a third and a half of total Albanian electricity use. The relationship with the government deteriorated significantly when CEZ turned off power for local water utility companies that did not pay their bills. Also, due to low production in state-owned hydropower stations in 2012 drought periods, the supply price for electricity was raised while CEZ was not allowed by ERE to pass over the price increases to their customers. In turn CEZ stopped paying for electricity to the national electricity supplier KESH. CEZ is now asking for an international arbitration and wants to exercise a EUR 60 million guarantee from the World Bank that was negotiated before the privatization. However, the World Bank claims that both sides have failed to make privatization work and is trying to organize a USD 100 million emergency loan to ensure the supply of electricity in Albania.

Less dramatic, but quite indicative as well, is the case of a Pakistani businessman which is recently covered prominently in Albanian media. In 2007 the businessman hired the law firm of the daughter of Prime Minister Sali Berisha to mediate with local authorities over the construction of a power plant in Albania worth nearly EUR 100 million. Apart from seeking standard legal fees, the Prime Minister's daughter asked for an unusual success fee worth up to 3% of the total investment, as well as pressuring him to buy an expensive and inappropriate plot of land. Allegedly the local authorities killed the whole project when he refused to buy that land. The case has been raised by the socialist opposition in the wake of the starting election campaign for the 2013 midyear parliamentary elections.

Finally, an important influx of funds for the pre-election fiscal expansion of the ruling Democratic Party government should stem from the privatization of the state-owned oil company Albpetrol in late 2012. The winning privatization bid of EUR 850 million (or about 9% of Albanian GDP) was made by the Singapore-US consortium Vetro Energy. The majority shareholder of this company is Rezart Taçi, an Albanian businessman who allegedly belongs to Prime Minister Sali Berisha's inner circle. He is also the owner of Albania’s largest chain of petrol stations (Taçi Oil) and has earlier privatized the state-owned refinery company ARMO. However, Vetro Energy has failed to make the required 20% contract guarantee payment. Hence, the energy ministry considered the first offer invalid and wants to continue evaluating the other offers. The next in line is the Chinese consortium Win Business, with an offer of only EUR 298 million (still about 3% of GDP).

A complete failure of the Albpetrol privatization would not only be a blow to the ruling party’s election campaign but also endanger GDP growth in a situation where it seems that the European economic crisis has finally reached Albania as well. GDP growth in 2012 slowed down to just about 1% only. The construction sector in particular was hit by double-digit negative real growth rates in each of the first three quarters of 2012. Also housing prices started to drop and the Construction Confidence Indicator fell to a historic low in the 4th quarter of 2012. One of the reasons might be a drop in remittances (by more than 4% in the first three quarters of 2012 as compared to the same period of the previous year), presumably owing to the poor economic situation in the main host countries for Albanian migrant workers – Greece and Italy.

The only flourishing sector is the extractive industry. Despite mostly flat crude oil prices and a stable exchange rate, exports of mineral fuels denominated in Albanian lek increased by more than 35% in 2012. With a share of over a quarter of goods exports in 2012, mineral fuels contributed most to last year's overall increase in goods exports of about 8%. It is interesting to note that crisis-torn Italy and Spain are Albania's most important export markets with a share of 50% and 10%, respectively in 2012 (Spain's share more than doubled compared to 2011). Moreover, exports to these countries were even increasing as compared to 2011, again mostly due to a large and rising share of mineral fuel exports.

By contrast, domestic demand is in poor condition. Total new loans were falling in 2012 by about 3%. While new loans to businesses were still increasing, if by a mere 2%, new loans to households were plummeting by almost a quarter. The share of non-performing loans increased by nearly 5 percentage points to some 23% in the third quarter of 2012 as compared to a year earlier. However, it appears that banks are well-capitalized as the sector's capital adequacy ratio has slightly increased over the recent quarters to some 16%. Another indicator of sluggish domestic private demand is the 3% drop in retail trade volumes in the first three quarters of 2012 year-on-year. The only glimmer of hope here is the 6% growth rate of the category sale, maintenance and repair of motor vehicles, which is considered to be a forward-looking indicator.

In 2012 also government demand was anaemic. The latest general government figures from November 2012 show revenue growth only slightly above the inflation rate and expenditures stagnating year-on-year. This might be related to the fact that the government wanted to keep public debt below the legal ceiling of 60% of GDP. However, at the end of 2012 the Albanian parliament lifted this statutory limit, giving way to fiscal expansion in the run-up to parliamentary elections, to be held on 23 June 2013.

We expect stronger economic growth in 2013 (close to 3%) based on a substantial increase in public wages and infrastructure investment boosting aggregate demand. A similar rate of growth could be also maintained in the following years of 2014 and 2015 given an improvement of economic sentiment throughout Europe. However, there are considerable downward risks. A complete failure of the Albpetrol privatization could endanger the financing of fiscal expansion and infrastructure investments. Also another drought could cause further shortages in the electricity supply which, apart from endemic corruption, is one of the major obstacles to more FDI in Albania in the medium run.

Table AL

Albania: Selected Economic Indicators

	2008	2009	2010	2011	2012 [1]	2013	2014 Forecast	2015
Population, th pers., average [2]	3182.0	3194.4	3210.0	2814.0	2820.0	2840	2850	2860
Gross domestic product, ALL bn, nom. [3]	1089.3	1148.1	1222.5	1302.0	1340.0	1430	1540	1620
annual change in % (real) [3]	7.5	3.3	3.8	3.1	1.0	2.8	3.3	3.0
GDP/capita (EUR at exchange rate)	2800	2700	2800	3300	3400	.	.	.
GDP/capita (EUR at PPP)	6400	6500	6600	7800	7900	.	.	.
Consumption of households, ALL bn, nom. [3]	861.9	910.0	970.0	1030.0	1060.0	.	.	.
annual change in % (real) [3]	6.7	3.0	2.5	3.0	1.0	3.0	5.0	3.0
Gross fixed capital form., ALL bn, nom. [3]	415.1	430.0	400.0	420.0	380.0	.	.	.
annual change in % (real) [3]	9.5	5.0	-7.0	4.8	-12.0	5.0	6.0	2.0
Gross industrial production [4]								
annual change in % (real)	8.7	10.6	18.6	10.0	0.0	5.0	7.0	6.0
Gross agricultural production								
annual change in % (real)	4.6	4.4	5.9	4.0	5.0	4.0	5.0	4.0
Construction output total [4]								
annual change in % (real)	10.9	0.4	-17.9	1.0	-15.0	6.0	3.0	2.0
Employed persons, LFS, th [5]	1123.3	1160.5	1185.0	1200.0	1200.0	1200	1220	1240
annual change in %	-6.2	3.3	2.1	1.3	0.0	0.0	1.7	1.6
Employment reg. total, th pers., end of period	974.1	899.3	916.9	928.1	930.0	930	950	970
annual change in %	3.7	-7.7	2.0	1.2	0.2	0.0	2.2	2.1
Unemployed persons, LFS, th [5]	168.6	185.0	196.0	200.0	200.0	200	190	180
Unemployment rate, LFS, in % [5]	13.0	13.8	14.2	14.3	14.0	14.0	13.0	13.0
Unemployment rate, reg., in %, end of period	12.7	13.9	13.5	13.3	13.0	13.0	12.0	12.0
Average gross monthly wages, ALL	34277	36075	34767	37060	39284	.	.	.
annual change in % (real, gross)	21.2	2.9	-7.0	3.1	3.9	8.0	4.0	3.0
Consumer prices, % p.a.	3.4	2.3	3.6	3.4	2.0	4.0	4.0	2.0
Producer prices in industry, % p.a.	6.5	-1.6	0.3	2.6	1.5	4.0	4.0	1.0
General governm.budget, nat.def., % of GDP								
Revenues	26.7	26.1	26.6	25.4	25.0	25.0	26.0	27.0
Expenditures	32.3	33.1	29.7	28.9	28.0	33.0	32.0	30.0
Deficit (-) / surplus (+)	-5.5	-7.0	-3.1	-3.5	-3.0	-8.0	-6.0	-3.0
Public debt, nat.def., % of GDP [6]	55.1	59.8	58.2	58.0	59.4	63.7	65.1	64.9
Central bank policy rate, % p.a., end of period [7]	6.25	5.25	5.00	4.75	4.00	3.75	4.0	4.0
Current account, EUR mn	-1381.2	-1329.8	-1018.5	-1122.1	-1000.0	-1450	-1700	-1700
Current account, % of GDP	-15.6	-15.3	-11.5	-12.1	-10.4	-14.1	-15.0	-14.2
Exports of goods, BOP, EUR mn	917.5	750.7	1171.5	1405.5	1500.0	1600	1700	1840
annual growth rate in %	16.7	-18.2	56.1	20.0	6.7	6.7	6.3	8.2
Imports of goods, BOP, EUR mn	3348.9	3054.4	3254.2	3647.1	3300.0	3850	4300	4510
annual growth rate in %	15.9	-8.8	6.5	12.1	-9.5	16.7	11.7	4.9
Exports of services, BOP, EUR mn	1687.8	1771.4	1750.7	1747.4	1800.0	1850	2050	2210
annual growth rate in %	18.7	5.0	-1.2	-0.2	3.0	2.8	10.8	7.8
Imports of services, BOP, EUR mn	1618.3	1597.5	1518.8	1612.7	1600.0	1700	1850	1940
annual growth rate in %	15.4	-1.3	-4.9	6.2	-0.8	6.3	8.8	4.9
FDI inflow, EUR mn	665.2	716.9	793.3	747.0	900.0	800	700	700
FDI outflow, EUR mn	55.4	28.2	4.8	30.1	20.0	30.0	40.0	50.0
Gross reserves of NB excl. gold, EUR mn [8]	1626.1	1607.8	1842.1	1853.1	1950.0	.	.	.
Gross external debt, EUR mn	3313.5	3567.5	3919.1	4599.5	5200.0	.	.	.
Gross external debt, % of GDP	37.4	41.0	44.2	49.6	54.0	.	.	.
Exchange rate ALL/EUR, average	122.80	132.06	137.79	140.33	139.04	139	136	135
Purchasing power parity ALL/EUR	53.48	55.55	57.86	59.69	59.86	.	.	.

1) Preliminary and wiiw estimates. - 2) From 2011 according to census October 2011. - 3) According to ESA'95 (including non-observed economy, real growth rates based on previous year prices). Data partly estimated by wiiw. - 4) Gross value added. - 5) Survey once a year (June or September-October), wiiw estimate in 2010-2012. - 6) Until 2010 based on IMF data; wiiw estimate thereafter. - 7) One-week repo rate. - 8) Until 2008 foreign assets of NB.

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