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Albania: Deleveraging and improved business confidence – unity and conflict of opposites

In Albania the deleveraging process will act as a drag on economic development in the years to come. This is also one of the reasons for having corrected downwards our GDP growth forecast for 2014: from 3.3% to a mere 2.5%. Interestingly, the most recent business and consumer confidence survey results for the first quarter of 2013 show a further improvement in the overall economic sentiment indicator. The construction sector, in particular, has recently experienced a substantial improvement in confidence after years of deterioration. The above contradictory developments lead us to expect a GDP trend growth rate of around 3% for 2015 and beyond.

At the time of going to press of this report, with more than 82% of the ballots counted, Albania's left-wing opposition seems to have won a landslide victory in the 23 June general elections. International observers monitoring Albania's parliamentary election declared that the vote was an improvement to past fraud-rigged elections and generally free and 'quite fair'. Nevertheless, with a new government in place, a major turn-around in economic policy is not necessarily to be expected.

A recent poll has shown that the Albanian electorate was quite apathetic about the elections. The vast majority has been following the general election campaign with little or no interest. Though less intense than in the past, it was once again a tiresome battle of egos between the leaders of the two major competing coalitions. One is headed by the ruling centre-right Democratic Party of Prime Minister Sali Berisha and the other by the Socialists of former Tirana mayor Edi Rama. Post-communist Albania has a long history of elections that do not necessarily meet all international standards and often end in political disputes. A number of scandals and non-transparent government operations have additionally contributed to discrediting the reputation of the Albanian political class.

The murky privatisation attempt of the state oil firm Albpetrol is a case in point. The Albanian government has invalidated the winning bid from a consortium headed by a local businessman close to the ruling Prime Minister in the tender for Albpetrol in early 2013 after it failed for two months to come up with a down payment. The lack of those

privatisation receipts is painfully felt in the treasury. Hope remains that the privatisation process can quickly be restarted after the elections and that revenues can be used to bolster economic growth via fiscal expansion. In 2012 a 13% reduction of public capital expenditures had a negative impact on already weak growth dynamics. Figures for the first four months of 2013 show a 10% increase in overall government expenditures year-on-year, which is somewhat less than expected and which will most likely lose dynamics after the elections.

Given the retained fiscal stimulus, household demand is expected to increase only slightly in 2013. In fact imports of goods continued to drop over the first four months of the year. While new loans to households have started to increase again in February and March 2013 as compared to the same period a year earlier, new loans to businesses were slashed almost by half in the same period. This hints at stagnating investments for 2013. The main reason why we have still revised our GDP growth forecast for the whole of 2013 upwards (from 2.8% to 3.5% since our spring forecast report) is an exceptionally robust export development.

Data for the first four months of 2013 depict a nominal increase of goods exports in lek terms by 16.5% as compared to the same period a year earlier. The euro exchange rate has been stable. The price development for fuels and minerals which make up more than a third of Albanian exports has been rather stable as well. If anything, commodity prices are on the decline. The exports to Albania's main trading partner Italy have been stagnating and Italy's share in overall Albanian exports has dropped below 50%. The large increase in overall exports is especially due to a doubling of exports to Spain. Spain is now the second most important export destination for Albanian goods (15%) and these represent almost entirely mineral products. Goods exports to Italy are much more diversified and contain to a large extent textiles and footwear as well as other manufactures. Hence it is particularly the extracting industry that is currently flourishing while the manufacturing industry is rather stagnating.

If the current trends of rising exports and decreasing imports continue, 2013 will be the first year since 2006 when the current account deficit will fall below 10% of GDP. In 2011 and 2012 remittances from expatriates stabilised at a level of about EUR 670 million – a value we expect to drop slightly since according to anecdotal evidence many Albanian migrants return from crisis-torn Greece. If, apart from remittances, FDI flows are also stabilising at the current levels of EUR 700 million to 800 million, a current account deficit of about 7% to 9% of GDP can be sustained for the years to come.

Non-performing loans are continuing to rise. In the first quarter of 2013 they reached a level of 24% of the total credit portfolio. This is about 4 percentage points higher than a year earlier. The banks started to strongly deleverage in the first quarter of 2013. The issuance of new loans was reduced by more than a third as compared to the same period a year earlier. As a consequence the banks' capital adequacy ratio has further increased to a level of almost 17%, which appears to be quite a solid value. According to the latest lending activity survey of the Bank of Albania for the first quarter of 2013, credit standards have continued to tighten on loans to businesses and consumer credit while only easing a bit on loans for house purchases.

The deleveraging process will act as a drag on economic development in Albania in the years to come. This is also one of the reasons for having corrected downwards our GDP growth forecast for 2014: from 3.3% to a mere 2.5%. Interestingly, the most recent business and consumer confidence survey results for the first quarter of 2013 show a further improvement in the overall economic sentiment indicator. The construction sector, in particular, has recently experienced a substantial improvement in confidence after years of deterioration. The above dialectical developments lead us to expect a GDP trend growth rate of around 3% for 2015 and beyond.

Table AL

Albania: Selected Economic Indicators

	2009	2010	2011	2012 ¹⁾	2012 1st quarter	2013	2014 Forecast	2015	
Population, th pers., average ²⁾	2884.3	2856.7	2829.3	2801.7	.	.	2840	2850	2860
Gross domestic product, ALL bn, nom. ³⁾	1148.1	1222.5	1282.3	1340.0	.	.	1430	1500	1580
annual change in % (real) ³⁾	3.3	3.8	3.1	1.5	-0.4	.	3.5	2.5	3.0
GDP/capita (EUR at exchange rate)	3000	3100	3200	3400	.	.	.	.	.
GDP/capita (EUR at PPP)	7200	7400	7600	8000	.	.	.	.	.
Consumption of households, ALL bn, nom. ³⁾	910.0	970.0	1030.0	1060.0	.	.	.	.	.
annual change in % (real) ³⁾	3.0	2.5	3.0	1.0	.	.	1.5	2.0	3.0
Gross fixed capital form., ALL bn, nom. ³⁾	430.0	400.0	420.0	380.0	.	.	.	.	.
annual change in % (real) ³⁾	5.0	-7.0	4.8	-12.0	.	.	0.0	2.0	2.0
Gross industrial production									
annual change in % (real)	-1.2	19.9	-10.1	16.5	.	.	7.0	5.0	6.0
Gross agricultural production ⁴⁾									
annual change in % (real)	4.4	5.9	4.0	5.0	4.9	.	4.0	5.0	4.0
Construction output total									
annual change in % (real)	43.7	-13.3	-1.1	-11.2	.	.	4.0	3.0	2.0
Employed persons, LFS, th ⁵⁾	1160.5	1185.0	1200.0	1200.0	.	.	1200	1220	1240
annual change in % ⁵⁾	3.3	2.1	1.3	0.0	.	.	0.0	1.7	1.6
Employment reg. total, th pers., end of period	899.3	916.9	932.4	927.5	933.3	.	930	950	970
annual change in %	-7.7	2.0	1.7	-0.5	1.4	.	0.3	2.2	2.1
Unemployed persons, LFS, th ⁵⁾	185.0	196.0	200.0	200.0	.	.	200	190	180
Unemployment rate, LFS, in % ⁵⁾	13.8	14.2	14.3	14.0	.	.	14.0	13.0	13.0
Unemployment rate, reg., in %, end of period	13.9	13.5	13.3	13.3	13.3	.	13.0	12.0	12.0
Average gross monthly wages, ALL ⁶⁾	36075	34767	37060	39284	48800	.	.	.	.
annual change in % (real, gross) ⁶⁾	2.9	-7.0	3.1	3.9	6.1	.	8.0	4.0	3.0
Consumer prices, % p.a.	2.3	3.6	3.4	2.0	1.1	2.5	3.0	2.0	2.0
Producer prices in industry, % p.a.	-1.6	0.3	2.6	1.5	2.5	-1.2	0.0	3.0	1.0
General governm.budget, nat.def., % of GDP									
Revenues	26.1	26.6	25.8	24.7	.	.	26.0	26.0	27.0
Expenditures	33.1	29.7	29.4	28.1	.	.	31.0	29.0	28.0
Deficit (-) / surplus (+)	-7.0	-3.1	-3.6	-3.4	.	.	-5.0	-3.0	-1.0
Public debt, nat.def., % of GDP ⁷⁾	59.8	58.2	58.0	58.6	.	.	59.9	60.1	58.1
Central bank policy rate, % p.a., end of period ⁸⁾	5.25	5.00	4.75	4.00	4.25	3.75	3.75	3.5	3.8
Current account, EUR mn	-1329.8	-1018.5	-1185.4	-1021.3	-290.4	.	-900	-800	-800
Current account, % of GDP	-15.3	-11.5	-13.0	-10.6	.	.	-8.7	-7.3	-6.8
Exports of goods, BOP, EUR mn	750.7	1171.5	1405.5	1525.6	325.8	.	1700	1800	2000
annual change in %	-18.2	56.1	20.0	8.5	-12.1	.	11.4	5.9	11.1
Imports of goods, BOP, EUR mn	3054.4	3254.2	3647.1	3524.8	791.2	.	3450	3500	3700
annual change in %	-8.8	6.5	12.1	-3.4	1.6	.	-2.1	1.4	5.7
Exports of services, BOP, EUR mn	1771.4	1750.7	1747.4	1655.1	293.8	.	1700	1750	1850
annual change in %	5.0	-1.2	-0.2	-5.3	-5.9	.	2.7	2.9	5.7
Imports of services, BOP, EUR mn	1597.5	1518.8	1612.4	1459.9	285.4	.	1450	1500	1550
annual change in %	-1.3	-4.9	6.2	-9.5	-13.3	.	-0.7	3.4	3.3
FDI inflow, EUR mn	716.9	793.3	745.4	744.9	205.5	.	800	700	700
FDI outflow, EUR mn	28.2	4.8	29.9	17.7	2.7	.	30.0	40.0	50.0
Gross reserves of NB excl. gold, EUR mn	1607.8	1842.1	1853.1	1907.6	1825.3	.	.	.	.
Gross external debt, EUR mn	3591.4	4097.0	4795.8	5294.5	4886.6	.	.	.	.
Gross external debt, % of GDP	41.3	46.2	52.5	54.9	50.7	.	.	.	.
Exchange rate ALL/EUR, average	132.06	137.79	140.33	139.04	139.23	139.67	139	137	135
Purchasing power parity ALL/EUR	55.55	57.86	59.69	60.01	.	.	.	.	.

1) Preliminary. - 2) 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) Quarterly data refer to public sector. - 7) Until 2010 based on IMF data; wiiw estimate thereafter. - 8) One-week repo rate.

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