

Mario Holzner

Albania: key elections

Albania's economic growth remains high. Starting from very low levels, the country has been catching up at an average annual growth rate of 6% in recent years.¹ This is also expected to continue in the years to come. Fair and democratic elections in July 2005 are seen as a keystone to sustainable development in the future.

The Albanian Socialist Party (SP) has been running the country for the past eight years. The parliamentary elections on 3 July 2005 will decide whether the SP will rule for another legislative period. The main opposition party is the Democratic Party (DP). A recent opinion poll funded by USAID sees the DP leading in front of the SP with 42% against 32% of the decided voters. Next come the SP split-off Socialist Movement for Integration (SMI) with 11% and the Movement for National Development (MND), headed by crown prince Leka Zog, with 4%. Whatever the outcome of the elections, it is unlikely that a potential change in government will lead to a substantial change in the main strands of economic policy. Rather, it can be expected that Albania will continue with the economic reforms necessary in the course of the EU accession process, carry on with a fairly sound fiscal policy and proceed with a stable monetary policy targeting a 2-4% inflation range.

The concern of the international community is in fact that the elections will not be conducted according to international standards – as has happened in the past. Thus, the EU is waiting to see how the elections will be conducted before it sets a time frame for the signing of the Stabilization and Association Agreement (SAA) with Albania. The conclusion of the SAA is of utmost importance for the Albanian EU accession process. It is a precondition for the start of EU-accession negotiations and thereby paving the way for various EU support programmes. However, NGOs have already expressed fear of election manipulations by the two big parties, the SP and the DP. Using strategic voting schemes in the proportional system could hurt especially the SMI and the MND while 'gifting' votes to the DP's and SP's smaller allied parties.

Political unrest following unfair elections and a delay of the SAA could potentially harm Albania's favourable economic development. This development has been facilitated by the latest upward trend in FDI in the wake of the privatization of strategic enterprises. In 2005 Turkish CETEL offered EUR 120 million to purchase 76% of the Albanian fixed line telephone company Altelecom. Moreover, also greenfield FDI starts to trickle in. An

¹ Yet, a note of caution is required here. Albania's national accounts statistics are still in their fledgling stages. The GDP figures are constantly being revised. This relates both to the level of nominal GDP as well as to the rate of real GDP growth. Similarly, other statistics have to be treated with caution.

important sector of the Albanian economy with a strong growth prospect is tourism. The French Club Méditerranée constructs a EUR 40 million holiday village on the southern part of the Albanian coast opposite the Greek island of Corfu.

Besides increasing FDI, remittances from abroad are traditionally a strong stimulus for Albanian GDP growth. However, whether real GDP growth in 2005 will remain above or below the 6% target rate will also depend on the level of fiscal expansion. The government emphasizes that the budget is so far in line with the projections and the IMF even expects a surplus on current operations, for the first time since the beginning of transition. Nevertheless, given that 2005 is an election year, we may still expect a certain increase in government expenditures. Thus, wiiw's forecast for 2005 real GDP growth is 6.5%. In 2006 a slight recovery of Albania's main trading partners (in particular the euro-zone countries) may support Albanian exports of goods and services and keep GDP growth at 6.5%.

Overall, economic dynamics in Albania appear to be strong. Fair and democratic parliamentary elections could be the keystone for a continuation of favourable economic development and European integration.

Table AL

Albania: Selected Economic Indicators

	2000	2001	2002	2003	2004 ¹⁾	2004 1st quarter	2005	2005 forecast	2006
Population, th pers., end of period ²⁾	3418.1	3112.4	3145.4	3190	.	.	.	.	.
Gross domestic product, ALL mn, nom.	530906	610426	677684	744974	835448	.	.	920000	1010000
annual change in % (real)	7.3	7.6	4.7	6.0	5.9	.	.	6.5	6.5
GDP/capita (EUR at exchange rate)	1174	1539	1636	1710	2046	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	3180	3860	4080	4270	4560	.	.	.	.
Gross industrial production									
annual change in % (real) ³⁾	0.5	7.1	1.8	2.7	3.1	.	.	4	5
Gross agricultural production									
annual change in % (real) ³⁾	4.5	2.2	2.1	3.0	3.8	.	.	3.5	3.5
Construction output total									
annual change in % (real) ³⁾	37.2	49.3	8.7	11.3	10.6	.	.	11	10
Consumption of households, ALL mn, nom.	350038	359016	363864	.	.	.	.	.	.
Consumption of households, in % of GDP	65.9	58.8	53.7	.	.	.	.	.	.
Gross fixed capital form., ALL mn, nom.	112958	151327	145920	.	.	.	.	.	.
Gross fixed capital form., in % of GDP	21.3	24.8	21.5	.	.	.	.	.	.
Employment total, th pers., end of period	1068.2	920.6	920.1	926.2	924.5	919.0	.	.	.
annual change in %	0.3	.	0.0	0.7	-0.2	-0.8	.	.	.
Reg. unemployed, th pers., end of period	215.0	181.0	172.0	164.0	155.5	161.0	.	.	.
Reg. unemployment rate in %, end of period	16.8	16.4	15.8	15.0	14.4	14.9	.	14	14
Average gross monthly wages, ALL ⁴⁾	14963	17218	19659	21325	24399	23077	.	.	.
annual change in % (real, gross) ⁴⁾	17.7	11.6	8.1	6.0	11.2	.	.	.	.
Consumer prices, % p.a.	0.1	3.1	5.2	2.3	2.9	3.9	2.2	2.5	2.5
Producer prices in manufacturing ind., % p.a.	6.5	-7.2	5.1	1.8	.	.	.	.	.
Consolidated budget, nat.def., % GDP									
Revenues	24.6	23.9	22.8	22.4	22.1	.	.	.	.
Expenditures	32.1	30.5	28.4	27.0	26.7	.	.	.	.
Deficit (-) / surplus (+), % GDP	-7.5	-6.9	-6.0	-4.6	-4.6	.	.	-6	-5
Public debt in % of GDP	41.0	39.4	38.5	37.7	.	.	.	.	.
Interest rate of NB % p.a., end of period ⁵⁾	6.9	6.9	8.0	5.5	4.5	5.2	4.0	.	.
Current account, EUR mn ⁶⁾	-175.6	-243.5	-433.1	-360.7	-287.5	-36.0	.	-360	-320
Current account in % of GDP	-4.4	-5.1	-8.5	-6.7	-4.4	.	.	-5	-4
Gross reserves of BoA incl. gold, EUR mn ⁷⁾	691.5	863.5	813.0	812.7	1005.2	839.1	1045.6	.	.
Gross external debt, EUR mn	1262.0	1356.0	1124.0	1117.0	.	.	.	.	.
FDI net inflow, EUR mn ⁶⁾	156.1	231.2	151.4	157.8	275.4	28.8	.	.	.
Exports of goods, BOP, EUR mn ⁶⁾	277.5	340.2	350.5	397.9	484.8	108.7	.	550	600
annual growth rate in %	7.3	22.6	3.0	13.5	21.8	7.1	.	13.4	9.1
Imports of goods, BOP, EUR mn ⁶⁾	1166.8	1486.5	1574.5	1578.3	1768.6	363.7	.	1950	2020
annual growth rate in %	32.6	27.4	5.9	0.2	12.1	-0.9	.	10.3	3.6
Exports of services, BOP, EUR mn ⁶⁾	485.6	595.3	618.4	638.1	808.6	175.8	.	850	950
annual growth rate in %	94.1	22.6	3.9	3.2	26.7	46.3	.	5.1	11.8
Imports of services, BOP, EUR mn ⁶⁾	467.2	494.8	623.7	709.8	849.7	166.2	.	900	950
annual growth rate in %	202.2	5.9	26.1	13.8	19.7	42.8	.	5.9	5.6
Average exchange rate ALL/USD	143.7	143.5	140.2	121.9	102.8	105.9	96.7	.	.
Average exchange rate ALL/EUR (ECU)	132.6	128.5	132.4	137.5	127.6	132.5	126.7	126	125
Purchasing power parity ALL/USD, wiiw	43.2	45.0	47.1	48.0	49.8	.	.	.	.
Purchasing power parity ALL/EUR, wiiw	48.9	51.3	53.2	55.1	57.2	.	.	.	.

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

1) Preliminary. - 2) Until 2000: population estimates; 2001: census data; thereafter: projection. - 3) According to gross value added. - 4) Public sector only. - 5) 3-month deposit rate. - 6) Converted from USD to EUR at the official cross exchange rate. - 7) Refer to total foreign assets of Bank of Albania.

Source: wiiw Database incorporating national statistics; wiiw forecasts.