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## **Albania: resource blessing**

Increasing prices for natural resources have turned Albania into a potential exporter of oil, gas and metals. Old mines are being revived and new oil fields investigated. The resource blessing may help the country to accelerate economic growth above its medium-term potential growth path of 6% in the years to come – given continued strong domestic consumer demand and increased public investment in infrastructure.

### **New oil fields being explored**

In early 2008 the Swiss-based Manas Petroleum Corporation announced that an independent resource evaluation has confirmed the existence of giant oil and gas prospects on the company's North-Albanian exploration blocks. Seismic analysis has revealed that the field might contain up to 3 billion barrels of oil as well as 3 trillion cubic feet of associated gas. Put in comparison, the 3 billion barrels of oil would be about one third of Norway's proved oil reserves. Even if only a fraction of this can be delivered it would be a strong income boost to a small and poor country such as Albania.

At the same time Australian Beach Petroleum announced to seek to drill for oil from off-shore reserves in the Adriatic Sea near the North-Albanian port of Durres. The exploration is expected to have the potential to yield reserves in excess of 100 million barrels of oil equivalent. Similarly, Canadian Bankers Petroleum has agreed to buy a half-interest in the right to evaluate and redevelop the Kucova heavy oil field in South-Central Albania, with an option to take the other half. The oil field is expected to have the potential of more than 490 million barrels of oil. Bankers Petroleum is already active in the nearby Patos Marinza field.

Interestingly enough, the Albanian government opened an international tender on 15 February to privatize ARMO. The company is a refiner which also sells motor oil and products through a small network of gas stations. Albania intends to sell 76% of ARMO's shares to a strategic investor.

### **Idle mines being reopened**

However, the country does not only face an oil and gas rush but also a mining renaissance. Canadian Tirex Resources has started drilling on its 344 km<sup>2</sup> Mirdita property covering most of the traditional Albanian mining district north of Tirana. The project is expected to find multiple large deposits of copper, zinc, gold and silver mineralization. One of the initial drill targets is the Koshaj deposit, which was reported to be zinc-rich but was not mined because of the lack of zinc processing facilities in communist times. Similarly, an Austrian–Russian consortium is expected to invest in the Bulqiza chrome mine in the coming years.

### **Additional investment in the energy sector**

Albania's hydro-power potential is being further exploited as well. The Austrian utility company EVN won a tender to construct three hydro-electric power plants on the Devoll river in South Albania. Total output is expected to reach 400 MW. In a similar project the Italian Moncada wind power construction group received approval to build a wind farm that has a potential of 500 MW as well as to construct and operate an underwater power line between the Italian and Albanian coasts. Total investment is expected to come close to EUR 1 billion. Both projects are part of a general plan to overcome Albania's chronic power shortages.

According to the minister of economy, trade and energy, the energy crisis is to be resolved by mid-2009. Important projects underway include the new thermo-power station in Vlore, the 400 kV link with neighbouring Montenegro as well as a set of mobile emergency generators and a network of small hydro-power stations. Also, power supply to consumers who do not pay their energy bills will be cut, and electricity prices will have to be raised in order to render the state electricity company KESH able to operate according to market rules and prepare its privatization.

### **Favourable growth prospects**

The overall growth prospects of the Albanian economy appear to be rather favourable given the expected investment in infrastructure. Strong domestic demand growth fuelled by remittances from Albanians working abroad is at the core of the country's economic performance. However, an improved business climate should also attract more FDI to the export sector, making this sector an engine of economic growth too. New discoveries of natural resources will be an additional source of foreign exchange. The GDP growth forecasts for the years 2008, 2009 and 2010 are thus at 5.8%, 6.1% and 6.2%, respectively.

Table AL

## Albania: Selected economic indicators

	2002	2003	2004	2005	2006	2007 <sup>1)</sup>	2008	2009	2010
							Forecast		
Population, th pers., end of period	3,103	3,120	3,135	3,150	3,150	3,150	.	.	.
Gross domestic product, ALL bn, nom.	622.7	694.1	751.0	817.4	893.0	970	1,060	1,160	1,270
annual change in % (real)	4.2	5.8	5.7	5.8	5.5	5.6	5.8	6.1	6.2
GDP/capita (EUR at exchange rate)	1,521	1,622	1,881	2,094	2,303	2,491	.	.	.
GDP/capita (EUR at PPP - wiiw)	3,700	3,910	4,210	4,530	4,950	5,350	.	.	.
Gross industrial production									
annual change in % (real) <sup>2)</sup>	-5.1	29.0	14.1	2.5	7.3	8	7	8	7
Gross agricultural production									
annual change in % (real) <sup>2)</sup>	2.1	2.9	6.3	0.9	3.2	3	3	2	2
Construction output total									
annual change in % (real) <sup>2)</sup>	21.5	23.4	7.9	11.9	6.9	5	10	11	12
Consumption of households, ALL bn, nom.	465.2	521.0	586.2	621.4	668.1	729	.	.	.
annual change in % (real)	7.6	11.1	9.4	3.9	5	6	5	6	6
Gross fixed capital form., ALL bn, nom.	236.0	280.9	279.4	296.9	320.0	380	.	.	.
annual change in % (real)	4.5	17.9	2.7	11.2	7	8	10	10	11
Reg. employment total, th pers., end of per. <sup>3)</sup>	920.1	926.2	931.2	932.1	935.1	934	.	.	.
annual change in %	0.1	0.7	0.5	0.1	0.3	-0.1	.	.	.
Reg. unemployed, th pers., end of period	172.4	163.0	157.0	153.0	147.7	143	.	.	.
Reg. unemployment rate in %, end of period	15.8	15.0	14.4	14.1	13.6	14	13	12	11
Average gross monthly wages, ALL <sup>3)</sup>	19,659	21,325	24,393	26,808	28,822	34,200	.	.	.
annual change in % (real, gross) <sup>3)</sup>	8.1	6.0	11.2	7.3	4.9	15	.	.	.
Consumer prices, % p.a.	5.2	2.2	3.0	2.4	2.4	2.9	3.2	3.1	3.0
Producer prices in manufacturing ind., % p.a.	5.1	1.8	12.2	4.9	0.7	10	9	.	.
General governm.budget, nat.def., % GDP									
Revenues	24.8	24.1	24.5	25.0	25.3	.	.	.	.
Expenditures	30.9	29.0	29.6	28.4	28.5	.	.	.	.
Deficit (-) / surplus (+), % GDP	-6.0	-4.9	-5.1	-3.4	-3.2	-4.8	-8	-6	-4
Public debt in % of GDP <sup>4)</sup>	60.1	54.7	55.6	56.9	55.6	.	.	.	.
Refinancing base rate, % p.a., end of period	8.5	6.5	5.3	5.0	5.5	6	.	.	.
Current account, EUR mn <sup>5)</sup>	-422.5	-331.0	-287.9	-493.1	-534.6	-700	-550	-650	-830
Current account in % of GDP	-9.0	-6.6	-4.9	-7.5	-7.4	-8.9	-6.5	-7.1	-8.0
Gross reserves of BoA incl. gold, EUR mn <sup>6)</sup>	813	813	1,005	1,202	1,363	1,462 <sup>xi)</sup>	.	.	.
Gross external debt, EUR mn	1,189	1,110	1,224	1,374	1,445	.	.	.	.
Gross external debt in % of GDP	25.3	22.0	20.8	20.9	19.9	.	.	.	.
FDI inflow, EUR mn <sup>5)</sup>	141.4	156.9	278.4	224.2	258.6	400	350	.	.
FDI outflow, EUR mn	.	.	11.0	3.3	8.3	10.0	10	.	.
Exports of goods, BOP, EUR mn <sup>5)</sup>	348	395	486	530	631	800	900	1,000	1,100
annual growth rate in %	2.4	13.3	23.0	9.2	18.9	27	13	11	10
Imports of goods, BOP, EUR mn <sup>5)</sup>	1,567	1,572	1,762	2,007	2,316	2,800	3,000	3,400	3,700
annual growth rate in %	5.2	0.3	12.1	13.9	15.4	21	7.1	13	9
Exports of services, BOP, EUR mn <sup>5)</sup>	612	633	808	967	1,195	1,300	1,500	1,800	2,000
annual growth rate in %	2.6	3.4	27.6	19.8	23.5	9	15	20	11
Imports of services, BOP, EUR mn <sup>5)</sup>	621	705	848	1,108	1,262	1,300	1,500	1,600	1,800
annual growth rate in %	24.8	13.6	20.3	30.6	13.9	3	15	7	13
Average exchange rate ALL/USD	140.2	121.9	102.8	99.9	98.1	90.4	.	.	.
Average exchange rate ALL/EUR (ECU)	132.4	137.5	127.7	124.2	123.1	123.6	125	126	122
Purchasing power parity ALL/USD <sup>7)</sup>	46.5	48.3	48.0	48.6	48.2	47.0	.	.	.
Purchasing power parity ALL/EUR <sup>7)</sup>	54.4	57.1	57.1	57.4	57.3	57.5	.	.	.

1) Preliminary and wiiw estimates. - 2) According to gross value added. - 3) Public sector only. - 4) Based on IMF data. - 5) Until 2003 calculated from USD with the average exchange rate. - 6) Refer to total foreign assets of Bank of Albania. - 7) Benchmark results 2005 from Eurostat and wiiw estimates.

Source: wiiw Database incorporating national statistics; wiiw forecasts.