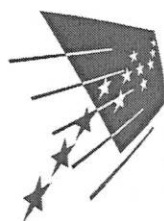


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ALBANIA



Key developments

In February 2011, the government adopted its medium-term economic and fiscal framework setting a ceiling for the government deficit of 3% of GDP for the period 2012-14. The framework foresees annual GDP growth to hover around 6% while inflation is expected to remain close to 3%. As for public debt, the medium-term framework projects a modest downward path and it is expected to reach some 57½% of GDP by 2014.

The government introduced measures intended to further broaden the tax base. Relevant legislation was amended to include professional-service providers in the list of taxpayers subject to VAT regardless of the amount of their turnover. As of 1 February, medicines sold in Albania became subject to a 10% VAT.

In March, the credit rating agency Standard & Poor's kept Albania's sovereign rating stable at 'B+B'. The agency indicated that the ratings on Albania are constrained by the country's low per capita GDP level, high government debt and a polarised political environment which constrains the government's ability to press ahead with reforms. The outlook remained stable on account of Albania's strong growth potential and the policy anchor of EU integration which balance the downside risks.

Real sector

In the last quarter of 2010, real GDP growth reached 5.4% year-on-year, continuing the strong economic performance registered in the first three trimesters of the year. Industry remained the main driver of growth, largely owing to a sizeable increase in electricity production. The trade, hotels and restaurants sector continued to improve in the fourth quarter. The contraction in the construction sector recorded in the first three quarters of 2010 continued in the fourth trimester, albeit at a lower pace.

Labour market

Labour market conditions improved somewhat in the fourth quarter of 2010, in line with a

continued acceleration of economic activity. Year-on-year employment growth reached 2% in the fourth trimester following contractions in the first three quarters of 2010. As a result, the rise in unemployment was halted and stood at 13.5% in the fourth quarter.

External sector

In 2010, the current account deficit narrowed by around 22% to EUR 1.1 billion from EUR 1.3 billion a year earlier, primarily on the back of an improved export performance.

The merchandise trade gap declined as exports of goods grew at a faster pace than imports. Foreign sales of goods rose by some 63% (year-on-year) in 2010, spurred mostly by exports of electricity due to a rebound in energy prices as well as full capacity production of the local hydropower generation. Food and beverages, textiles and footwear and construction materials also registered an increase. These positive trends in exports of goods continued in January and February 2011. Imports of goods increased moderately in 2010, mainly reflecting the normalisation of import of machinery and equipment from the high level recorded in 2009. In January and February 2011, imports posted a significant increase driven primarily by food, fuel and capital goods imports. The surplus on the services account rose by 50% in 2010. A sharp drop in tourism outflows more than offset the lower earnings from inbound travel leading to an improved balance of the tourism account. The other services category also increased. Current transfers declined by 1.7% in 2010 in the wake of a continuing decline in workers' remittances. Inflows of remittances, which represent the bulk of current transfers, shrank by almost 12% partly reflecting the weak economic conditions in the host countries.

FDI inflows increased significantly by 17% in 2010 mainly due to investment in exploration and drilling of oil and gas as well as new concessions especially in the energy sector. Portfolio investment registered a significant increase, owing to the issuance of the EUR 300 million Eurobond by the government in the last quarter of 2010. The improvement in FDI and portfolio investment was, however, more than compensated by a sharp swing in other investment from a net inflow to an outflow

primarily due to the repayment of a syndicated loan by government. These developments led to a decline in capital inflows of some 11%. Overall, the balance of payments registered a surplus in 2010 which led to a corresponding rise in reserves of some EUR 179 million. Foreign reserves at the end of 2010 provided 4.8 months of import cover. Gross external debt stood at EUR 3.7 billion in the last quarter of 2010, representing a year-on-year increase of 11%. Government long-term borrowing constitutes slightly more than half of gross external debt.

Monetary developments

Following a peak in October, the monetary aggregate M2 declined to 4.6% year-on-year in December 2010. It accelerated in the first months of 2011, reaching 5.5% in February.

The decline in consumer prices continued in the fourth quarter when inflation reached 3.1% (year-on-year). However, in December inflationary pressures resumed and accelerated in the first two months of 2011. In January, inflation reached 3.3% year-on-year, rising further to 4.5% in February. The pick-up in inflation was mostly driven by higher prices of food and to a lesser extent fuel, reflecting developments in the international commodity markets. Higher prices were also recorded for tobacco as a result of a rise in the excise rate as well as pharmaceuticals due to the introduction of a 10% VAT.

The increase in inflationary pressures during the first months of 2011 prompted the Supervisory Council of the Bank of Albania (BoA), in its meeting of 23 March 2011, to raise the key repo rate by 25 basis points to 5.25%. In the first quarter of 2011, the Albanian currency weakened by 0.6% vis-à-vis the euro but appreciated by some 4.7% against the US dollar compared to the previous quarter.

Financial sector

Interest rates on deposits continued the downward trend started in the final quarter of 2009. Compared to end-2009, the decline has been more pronounced for longer-term deposits with the 36-month interest rate falling by 126 basis points to 6.4% by February 2011. The downward trend which started in November 2009 in the average yield of the 12-month Treasury bills appears to have stabilised in February 2011 at 6.9%.

Deposits continued to grow in the fourth quarter of 2010 reaching 17.6% year-on-year. In January and February, they grew at a slower rate, although this may reflect seasonal factors. Foreign-currency deposits continued to record the strongest increase reaching 16.8% in February, against almost 9.5% for deposits denominated in lek. The pace of credit growth in the last quarter of 2010 remained subdued at 8.6% year-on-year. The deceleration in lending appears to have bottomed out as credit in January and February increased by 8.8% and 9.4%, respectively. Following a period of deceleration, lending to both the private sector and households showed the first signs of a turnaround. On the other hand, credit to the public sector, which accounts for a small share of the total, contracted.

The loan-to-deposit ratio reached 60.5% in February 2011. Its level is relatively high for foreign currency denominations (87%), whereas it remains below 40% in case of loans and deposits denominated in lek. External borrowing by the banking sector stabilised in the first two months of 2011, after a deceleration in 2010.

Following a progressively rising trend, the share of non-performing loans as a percentage of total loans appears to have stabilised at 13.6% in the fourth quarter of 2010. During the same period, profitability indicators strengthened while the capital adequacy ratio declined marginally to 15.4%.

Fiscal developments

According to cash-based government finance data, total revenue in January and February 2011 rose by 5% year-on-year, on account of a continuing strong performance of tax receipts which increased by 8.6%. The intake from VAT and social contributions rose by 8% and 8.5%, respectively. Total expenditure was up by some 26% year-on-year in January and February. Current spending increased by 8.7%, primarily due to higher expenditure in wages, social transfers and interest payments. Capital outlays rose almost threefold in the first two months of 2011 as the government embarks on a renewed effort to upgrade infrastructure.

As a result of these developments, the budget balance deteriorated substantially from a small surplus in January-February 2010 to a deficit of some Lek 9 billion in the same months of 2011. Nevertheless, this deficit was lower than planned, as expenditure undershot by more than the underperformance of revenue. Almost all the deficit was financed from domestic sources.



TABLE

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		2006	2007	2008	2009	2010	Q3 10	Q4 10	Q1 11	Jan 11	Feb 11	Mar 11
1 Real sector												
Industrial confidence ^{1.1}	Percent	3.8	0.9	0.4	-13.4	-5.9	-7.7	-2.3	:	N.A.	N.A.	N.A.
Industrial production ^{1.2}	Ann. % ch	12.1	-9.7	9.4	0.6	:	:	:	:	:	:	:
Gross domestic product ^{1.3}	Ann. % ch	5.4	5.9	7.7	3.3	4.1	5.0	5.4	:	N.A.	N.A.	N.A.
Private consumption ^{1.4}	Ann. % ch	7.2	13.4	9.8	7.7	2.2	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation ^{1.5}	Ann. % ch	16.2	6.5	12.9	2.4	-5.2	:	:	:	N.A.	N.A.	N.A.
Construction index ^{1.6}	Ann. % ch	1.1	2.5	1.2	0.0	0.3	0.5	0.5	:	N.A.	N.A.	N.A.
Retail sales ^{1.7}	Ann. % ch	N.A.	10.9	23.7	-1.7	0.2	-0.7	-1.1	:	N.A.	N.A.	N.A.
2 Labour market												
Unemployment ^{2.1}	%	13.9	13.4	12.8	13.0	13.7	13.5	13.5	:	:	:	:
Employment ^{2.2}	Ann. % ch	0.2	0.2	2.9	-0.8	-4.7	-5.7	2.0	:	:	:	:
Wages ^{2.3}	Ann. % ch	7.5	17.1	8.3	11.9	6.7	6.4	7.1	:	:	:	:
3 External sector												
Exports of goods ^{3.1}	Ann. % ch	18.0	25.0	15.7	-11.8	62.5	50.9	50.2	:	:	:	:
Imports of goods ^{3.2}	Ann. % ch	13.3	26.5	15.0	-1.7	10.9	13.4	11.4	:	:	:	:
Trade balance ^{3.3}	% of GDP	-23.1	-26.8	-27.3	-26.6	-23.4	-24.3	-23.8	:	N.A.	N.A.	N.A.
Exports goods and services ^{3.4}	% of GDP	24.9	28.0	29.3	28.4	32.2	31.8	32.8	:	N.A.	N.A.	N.A.
Imports goods and services ^{3.5}	% of GDP	48.4	54.6	55.8	53.6	53.6	53.7	54.5	:	N.A.	N.A.	N.A.
Current account balance ^{3.6}	% of GDP	-6.6	-10.6	-15.4	-15.5	-11.9	-11.5	-11.9	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) ^{3.7}	% of GDP	3.5	6.0	7.0	7.8	5.9	5.2	5.9	:	N.A.	N.A.	N.A.
International reserves ^{3.8}	mio EUR	1305.8	1418.7	1638.9	1567.4	1825.3	1694.4	1825.3	:	1789.9	1735.0	:
Int. reserves / months imp ^{3.9}	Ratio	6.8	5.9	5.9	6.2	6.7	6.4	6.7	:	:	:	:
4 Monetary developments												
CPI ^{4.1}	Ann. % ch	2.4	2.9	3.4	2.3	3.6	3.4	3.1	:	3.3	4.5	:
Producer prices ^{4.2}	Ann. % ch	0.8	3.5	6.5	-1.7	0.3	0.4	0.6	:	:	:	:
Food prices ^{4.3}	Ann. % ch	N.A.	3.0	5.2	4.9	4.8	4.3	4.1	:	4.4	6.9	:
M2 ^{4.4}	Ann. % ch	7.6	9.8	7.4	8.7	4.5	4.0	4.7	:	5.3	5.5	:
Exchange rate LEK/EUR ^{4.5}	Value	122.76	123.31	122.39	131.82	137.48	136.19	138.37	139.18	138.38	139.31	139.86
Nominal eff. exchange rate ^{4.6}	Index	:	:	:	:	:	:	:	:	:	:	:
5 Financial indicators												
Interest rate (3 months) ^{5.1}	% p.a.	5.49	5.92	6.24	N.A.	:	:	:	:	:	5.20	:
Bond yield ^{5.2}	% p.a.	7.18	8.22	8.43	9.24	8.55	8.38	8.10	7.47	7.45	7.35	7.60
Stock markets ^{5.3}	Index	:	:	:	:	:	:	:	:	:	:	:
Credit growth ^{5.4}	Ann. % ch	60.9	53.9	43.8	20.5	8.6	8.6	8.6	:	8.8	9.4	:
Deposit growth ^{5.5}	Ann. % ch	N.A.	N.A.	14.8	-0.1	15.5	17.3	17.6	:	16.7	15.7	:
Non performing loans ^{5.6}	% total	3.3	3.2	4.7	9.1	12.6	13.5	13.6	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance ^{6.1}	% of GDP	-3.3	-3.5	-5.5	-7.1	-3.0	:	:	:	N.A.	N.A.	N.A.
General government debt ^{6.2}	% of GDP	56.8	54.8	53.9	59.7	59.4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

CHARTS



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