29. ALBANIA
Sustained growth path

Economic growth is projected to decelerate to just above 3% in 2019, down from 4.1% one year earlier, due mainly to a weather-driven drop in electricity production. Economic activity is expected to rebound in the next two years on the back of a continuing solid increase in household spending. The combination of sustained GDP growth and moderate budget deficits is expected to continue reducing the public debt-to-GDP ratio, which is however forecast to remain above 60% in 2021.

A temporary deceleration

In the first half of 2019, the economy decelerated to 2.4% y-o-y, down from a 3.8% y-o-y expansion in the same period a year before. This slowdown largely reflects a strong base effect from high hydroelectricity production one year earlier, and weak gross fixed capital formation due to the conclusion of works related to the Trans-Adriatic Pipeline. Private consumption and services exports were the main growth drivers in this period. A fall in the volume of exported goods, coupled with solid import growth, resulted in a negative growth contribution of net exports.

Easing external imbalances

The current account deficit increased to 7.4% of GDP in the first half of 2019, up from 6.8% of GDP in 2018, driven by a larger trade deficit in goods, and despite some increase in remittances inflows. However, the conclusion of large energy projects is expected to result in a moderation of construction-related imports and an expansion of domestic energy production capacities. As a result, the current account deficit is expected to gradually contract during the forecast period, to some 5% of GDP by the end of 2021, covered predominantly by FDI inflows. However, downside risks to this scenario arise from slow growth in Albania’s key trading partners in the EU.

Continuing improvement in the labour market

Overall, economic growth is expected to moderate to around 3% in 2019. It is forecast to bounce back afterwards, to 3.7% in 2020 and 3.6% in 2021, as unfavourable base effects dissipate and domestic growth drivers, in particular private consumption, remain solid in the context of rising wages and employment, and a broad-based pick-up in lending activity.

Risks to this forecast are mainly on the downside due to the deteriorating external environment and the tense domestic political climate.

Accommodative monetary policy

The annual inflation rate averaged just 1.5% in the first nine months of 2019, well below the Bank of Albania’s target of 3%, as domestic inflationary pressures from wage increases and food prices were offset by muted import price dynamics. With its policy rate at the record low of 1%, the central bank does not expect to start normalising its current accommodative stance before mid-2020 at the earliest. However, the long-standing undershooting of the inflation target might continue for longer, further postponing the start of the tightening cycle.

After several years of sluggish growth, bank
lending perked up in 2019, rising by more than 6% y-o-y, with credit to small businesses driving the expansion. Favourable financing conditions and the recent consolidation in the banking sector are expected to continue supporting credit activity in 2020 and 2021.

Public debt on a declining path
Budget execution improved in the second half of 2019, with both revenue and expenditure broadly in line with the plan. Overall, a budget deficit below 2% of GDP is expected by the end of 2019. In the absence of additional measures, the deficit is forecast to hover around 1.5% of GDP in the medium-term. Although the debt ratio is set to continue to be on a declining path, it is projected to remain relatively high, at some 62% of GDP in 2021.

The main fiscal risks stem from the possible further accumulation of payment arrears, which are not captured in cash-based budget data, and from the materialisation of contingent liabilities from public-private partnerships.