

## 28. ALBANIA

*The COVID-19 pandemic and the ensuing restrictions are set to drag the Albanian economy into a deep recession in 2020 despite the good performance of the agricultural sector and implementation of reconstruction works after the earthquake. Public investment and net exports are expected to support a partial economic recovery in 2021, while uncertainty about international travel and the muted recovery in the EU should affect services exports, FDI and remittances. The economy is projected to regain its 2019 output level in 2022 but government finances are unlikely to reach pre-crisis debt and deficit levels.*

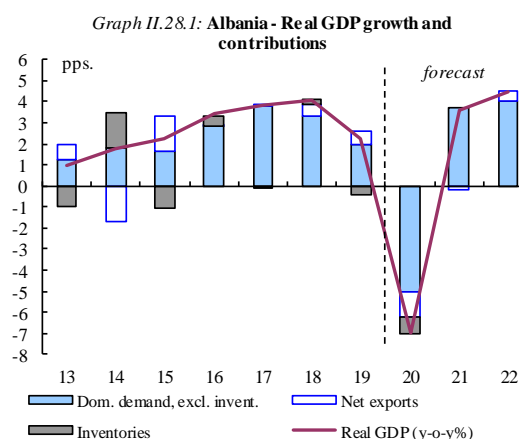
### A full-blown recession caused by the pandemic

The Albanian economy contracted by 10.2% in the second quarter of 2020 reflecting the impact of domestic and international restrictions to contain the COVID-19 pandemic on tourism, services and manufacturing since mid-March. The contraction in GDP is expected to reach 7% for the year as a whole. Moreover, private consumption dropped strongly in Q2 because of income losses from the increasing unemployment rate, despite some public support to businesses and households. Investment is estimated to drop by 8.5% from an already low level of 2019. The large fall of imports and tentative stabilisation of merchandise exports in the second half of 2020 will not be able to off-set the impact of the collapse of services exports caused by the tourism restrictions, resulting in an expected negative contribution of net exports to growth. The large agricultural sector, which has hardly felt the impact of the pandemic, has registered record growth rates so far in 2020 and somewhat mitigates the extent of the recession.

### Subdued recovery in 2021

Real GDP growth is expected to bounce back by 3½% in 2021 supported by a moderate rebound in domestic private consumption, strong public investment and a limited recovery in goods exports. Although the unemployment rate is expected to fall, the weak social safety net and the decreased inflow of remittances should weigh on households income and dampen the recovery in private consumption. Strong growth of public investment into reconstruction of the earthquake damages and projects put on hold is foreseen in 2020 but uncertainty and the muted recovery in the EU are expected to hold back the rebound of private investment and FDI. Rising public investment and private consumption should stimulate import growth while the recovery in services exports, despite some support by tourists

from neighbouring countries, is expected to be muted, given the uncertainty over continuing international travel restrictions. Thus net exports are forecast to only begin to contribute positively to growth from 2022 when GDP growth is projected to accelerate to 4½% and the economic output will reach 2019 levels in all categories except services exports. This projection assumes no return to severe restrictions and is subject to substantial uncertainty about the development of the pandemic as well as the resilience of the Albanian SMEs. A downside risk is a return of mobility restrictions beyond 2021, which would have a more severe economic impact than in 2020 because the depleted monetary and fiscal policy space will not allow for support measures at the same scale.



### Falling remittances drive temporarily the widening current account deficit

The falling remittances from Albanians working abroad should drive the widening of the current account deficit to a projected 11% of GDP in 2020, although the large decrease in imports improves the trade balance. Foreign direct investments have also dropped due to the recession in the EU and are expected to rebound only in 2022. In response to

falling foreign capital inflows and a growing current account deficit, the lek has depreciated moderately in 2020. The recovery of exports and rebounding remittances are expected to narrow the current account deficit to 7.3% of GDP in 2022.

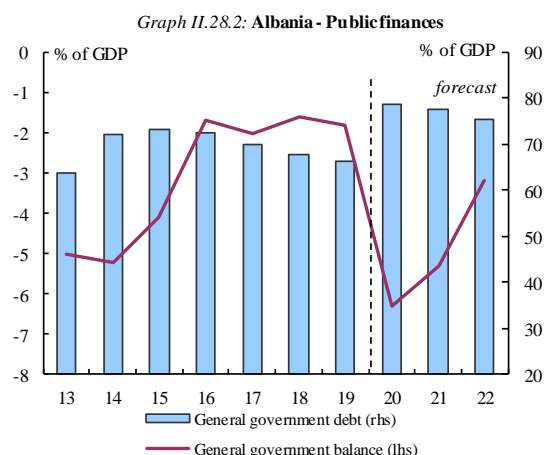
### The monetary policy is set to remain accommodative

The central bank has kept its accommodative monetary policy with its record low policy rate of 0.5% unchanged since March 2020. The inflation rate is expected to rise only slightly to 1.7% in 2020 as the negative price development of many commodities is expected to counterbalance the strongly rising food prices. In 2021 and 2022, recovering demand and commodity prices are projected to contribute to a further pick-up in inflation to 1.9% and 2.1% respectively, still considerably below the 3% central bank's target. Thus, monetary policy is expected to remain very accommodative in 2021 as well as in 2022.

### Fiscal balance set to deteriorate

The government financial support measures in the context of the pandemic, combined with the expected fall in revenue are forecast to increase the

fiscal deficit temporarily to about 6¼% of GDP and the debt-to-GDP ratio over 78% in 2020.



In 2021, the announced pay rise for public employees in the education and health sectors and the impact of new tax exemptions on revenue will delay the reduction of the fiscal deficit. Given the government's commitment to fiscal consolidation and decreasing financing needs, the public debt-to-GDP ratio is estimated to decrease below 76% in 2022.

Table II.28.1:

### Main features of country forecast - ALBANIA

	2019			Annual percentage change						
	bn ALL	Curr. prices	% GDP	01-16	2017	2018	2019	2020	2021	2022
GDP	1678.4		100.0	4.2	3.8	4.1	2.2	-6.8	3.7	4.6
Private Consumption	1346.8		80.2	4.5	2.4	3.3	3.3	-4.4	2.8	3.3
Public Consumption	193.4		11.5	2.7	3.2	0.7	3.8	4.0	4.2	2.9
Gross fixed capital formation	378.0		22.5	3.6	6.0	2.4	-3.3	-7.9	4.8	4.7
of which: equipment	-		-	5.9	-	-	-	-	-	-
Exports (goods and services)	528.8		31.5	9.1	13.2	4.1	6.0	-37.3	8.6	13.9
Imports (goods and services)	758.6		45.2	5.5	8.4	2.4	3.0	-23.4	5.4	6.9
GNI (GDP deflator)	1661.3		99.0	4.1	2.4	3.7	1.3	-7.5	3.9	5.1
Contribution to GDP growth:										
Domestic demand				5.2	3.8	3.3	2.3	-4.9	3.9	4.1
Inventories				0.1	0.0	0.6	-0.6	-0.7	0.0	0.0
Net exports				-0.6	0.0	0.2	0.6	-1.2	-0.2	0.5
Employment				-	5.1	3.8	0.8	-2.7	1.0	2.0
Unemployment rate (a)				-	14.7	13.2	12.2	14.5	13.9	12.8
Compensation of employees / head				-	-	-	-	-	-	-
Unit labour costs whole economy				-	-	-	-	-	-	-
Real unit labour cost				-	-	-	-	-	-	-
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.6	1.5	1.0	0.7	0.9	1.1	1.6
Harmonised index of consumer prices				-	2.4	1.8	1.4	1.9	2.1	2.3
Terms of trade goods				-1.5	3.7	3.6	-3.1	-0.2	1.3	2.6
Trade balance (goods) (c)				-24.6	-24.4	-22.4	-23.0	-22.3	-22.3	-21.6
Current-account balance (c)				-9.9	-7.5	-6.8	-7.6	-10.9	-9.0	-7.3
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)				-	-2.0	-1.6	-1.8	-6.3	-5.3	-3.2
Cyclically-adjusted budget balance (d)				-	-	-	-	-	-	-
Structural budget balance (d)				-	-	-	-	-	-	-
General government gross debt (c)				59.1	70.1	67.9	66.3	78.8	77.4	75.4

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.