

## 28. ALBANIA

Following subdued growth and a devastating earthquake in 2019, Albania was hit by the COVID-19 pandemic in March 2020. The economy is projected to contract by 4¼ % in 2020 because the domestic and international restrictions will depress private consumption and tourism, on which Albania strongly relies. The recession in the EU will also affect remittances and FDI inflows and put pressure on the current account and the exchange rate. The fiscal deficit is expected to rise above 5 % of GDP and public debt is set to rise temporarily to about 75% of GDP. For 2021, GDP growth is expected to rebound to 4¼ %, but this is subject to uncertainty about the length of travel restrictions and the resilience of enterprises during the crisis.

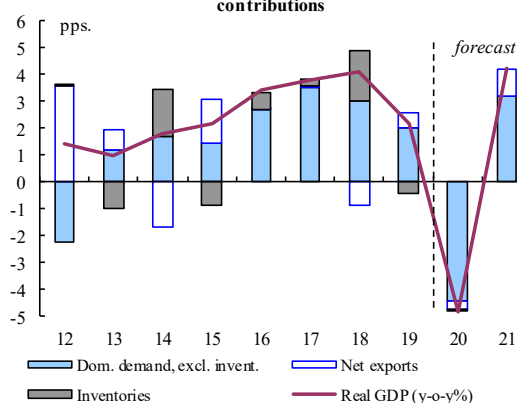
### Subdued economic growth and the earthquake in 2019 weaken resilience

The growth of the Albanian economy slowed to 2.2% in 2019, mainly because of low hydroelectric production due to below average rainfall, aggravated by the strong earthquake in November that caused substantial damage and loss of lives. In addition, the finalisation of some large energy projects caused a 4.1 % contraction in investment. Household consumption continued to be the main growth driver (+3.3% y-o-y), based on growing wages and employment. Strong growth of services exports offset the fall of electricity exports and net exports contributed 0.6 pps. to growth.

### Recession in the wake of the pandemic

Since March 2020, domestic and international restrictions to contain the pandemic have begun to depress private consumption, investment and exports. Private consumption and investment are projected to drop by 4¼% and 7% respectively. Total exports are set to drop by about 25%, mainly because tourism services are set to lose an entire season in 2020. Merchandise exports are expected to contract because of falling manufacturing and commodity exports, whereas electricity exports are not expected to be affected. The expected strong fall in imports, in particular for travel services, will not be able to fully offset the drop of exports; overall net exports are likely to subtract about ¼ pps. from growth. The still large share of family based agriculture and hydro-electricity production will not be affected by the crisis and could slightly limit the contraction of GDP. Manufacturing, construction and services industries are expected to recover gradually after the end of the lock-down assumed for May. Overall, GDP is estimated to contract by about 4¾% in 2020.

Graph II.28.1: Albania - Real GDP growth and contributions



### Rebound in 2021 subject to uncertainty and downside risks

The contraction is likely to increase the unemployment rate by more than 3 pps. to close to 15%. The rise in unemployment and weak social safety nets will dampen the recovery of private consumption in 2021. The depletion of many SMEs' financial resources is expected to continue depressing private investment in 2021. Nonetheless, economic growth is estimated to rebound to 4¼% mainly due to the recovery of tourism. Moreover, already lined-up public reconstruction projects could stimulate the construction sector. This projection is subject to substantial uncertainty about how enterprises will survive the crisis period. Continuing travel restrictions, which would dampen the recovery of tourism, are the downside risk.

### A moderately depreciating currency

The recession in the EU will likely cause a fall in remittances from Albanians working in the EU and contribute the most to the expected widening of the current account deficit. Foreign direct investments are also likely to fall due to the recession in the

EU. In response to falling foreign capital inflows and a growing current account deficit, the lek is expected to depreciate moderately. In 2021, following a moderate rebound in remittances and FDI, the current account deficit is set to narrow slightly.

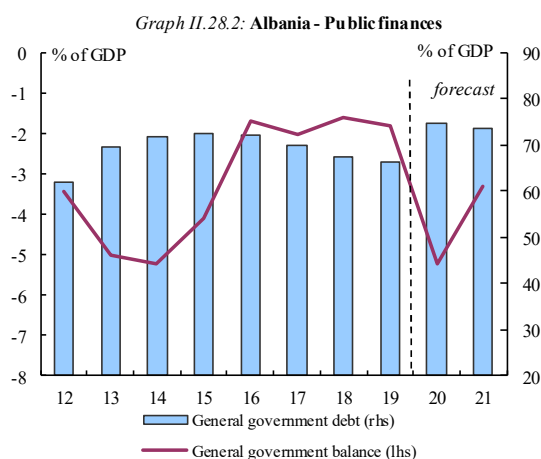
### A new record low policy rate

The central bank has intensified its accommodative monetary policy and lowered its policy rate to a record low 0.5% in March 2020. The inflation rate is expected to rise to 2.5% in 2020 as the inflationary effect of the weaker currency is expected to outweigh the impact of low demand and oil prices. In 2021, recovering demand is projected to contribute to a further pick-up in inflation to 2.8%, still below the 3% target. Thus, monetary policy is set to remain very accommodative well into 2021.

### Fiscal balance set to deteriorate

In response to the earthquake, the government planned a 0.6 pps. increase in the fiscal deficit, to 2.2% of GDP in 2020. The government's financial

support measures in the context of the pandemic, combined with the expected fall in revenue are forecast to increase the fiscal deficit temporarily above 5% of GDP.



The public debt-to-GDP ratio declined to 66.3% at end-2019. Because of the high financing needs, the new sovereign guarantees for the private sector and the fall in GDP, the public debt ratio is set to increase temporarily to about 75% of GDP in 2020 and to decline mildly in 2021.

Table II.28.1:

### Main features of country forecast - ALBANIA

	2018			Annual percentage change						
	bn ALL	Curr. prices	% GDP	00-15	2016	2017	2018	2019	2020	2021
GDP	1630.9		100.0	4.5	3.3	3.8	4.1	2.2	-4.8	4.2
Private Consumption	1290.4		79.1	4.8	2.1	2.4	3.3	3.3	-4.3	3.3
Public Consumption	184.7		11.3	1.7	4.7	3.2	0.7	3.1	5.5	5.2
Gross fixed capital formation	390.7		24.0	5.7	2.4	6.0	2.4	-4.1	-7.0	-0.5
of which: equipment	-		-	6.9	-	-	-	-	-	-
Exports (goods and services)	516.7		31.7	10.6	11.3	13.2	4.1	5.9	-24.8	12.2
Imports (goods and services)	740.4		45.4	7.7	6.9	8.4	2.4	2.7	-16.7	5.1
GNI (GDP deflator)	1629.0		99.9	4.4	3.8	2.4	3.7	1.3	-4.8	4.2
Contribution to GDP growth:										
Domestic demand				5.8	2.8	3.8	3.3	2.0	-4.4	3.3
Inventories				0.1	0.5	0.0	0.6	-0.4	-0.1	0.0
Net exports				-1.2	0.0	0.0	0.2	0.6	-0.3	1.0
Employment				-	7.0	3.4	1.4	2.2	-3.0	2.8
Unemployment rate (a)				-	15.5	13.9	12.7	11.6	14.9	13.5
Compensation of employees / head				-	-	-	-	-	-	-
Unit labour costs whole economy				-	-	-	-	-	-	-
Real unit labour cost				-	-	-	-	-	-	-
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				3.0	-0.6	1.5	1.0	0.7	2.6	2.7
Harmonised index of consumer prices				-	2.2	1.8	1.8	1.1	2.5	2.8
Terms of trade goods				-1.3	-2.1	3.7	3.6	-3.1	-3.4	-3.4
Trade balance (goods) (c)				-24.6	-24.3	-24.4	-22.4	-23.0	-21.2	-21.6
Current-account balance (c)				-9.8	-7.6	-7.5	-6.8	-7.6	-9.1	-8.4
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)				-	-1.7	-2.0	-1.6	-1.8	-5.2	-3.3
Cyclically-adjusted budget balance (d)				-	-	-	-	-	-	-
Structural budget balance (d)				-	-	-	-	-	-	-
General government gross debt (c)				58.8	72.4	70.1	67.9	66.3	74.6	73.6

(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.