

28. ALBANIA

A faster-than-expected economic recovery is driven by a strong rebound of tourism from neighbouring countries, as well as high investment growth and a recovery of private consumption. These factors are set to boost growth to close to 7% in 2021. An expected full recovery of tourism and manufacturing to pre-crisis levels is forecast to keep growth at 3.7% in 2022 and 3.6% in 2023. Fiscal policy remains very expansionary in 2021 and despite solid recovery of revenue growth, government finances will only significantly improve in 2023.

Strong recovery follows the 2020 contraction

The Albanian economy contracted by 4% in 2020 due to the impact of the COVID-19 pandemic on tourism, services and manufacturing. The moderate recovery, which began in the fourth quarter of 2020, accelerated to a strong rebound in the first half of 2021. The spring forecast for economic growth in 2021 is revised from 4.1% to 6.9%, as most expenditure categories are recovering to their 2019 levels earlier than expected, investment and external demand being the key drivers.

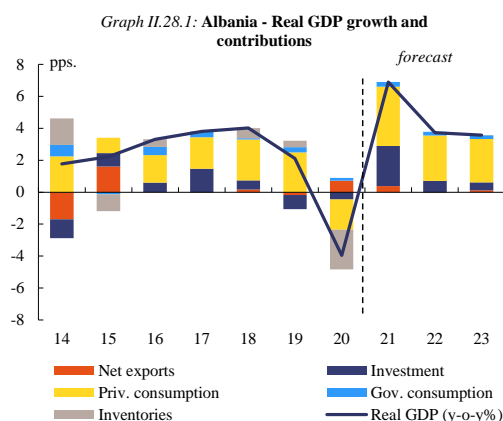
High public investment and a stable and liquid financial sector support the recovery of investment. While goods exports, mainly electricity and construction material, have already more than recovered the ground lost last year, tourism exports, despite growing inbound tourism from neighbouring countries, still remain below their pre-crisis level. Private consumption is also recovering earlier than expected, supported by growing employment and increasing wages. While overall imports, in particular goods in relation to the high investment, are also growing strongly, service imports remain subdued due to travel restrictions limiting outbound tourism. This is projected to lead to a growth contribution of net exports in 2021.

On the production side, growth recovered across all sectors, led by construction and industry, but also services rebounded strongly, in particular trade and hospitality services, although not yet returning to 2019 levels.

Economic growth to normalise in 2022 and 2023

Following the early recovery of most expenditure categories in 2021, economic activity is expected to normalise gradually in 2022 and 2023. The growth of private and public consumption as well as investment is projected to moderate in 2022.

From 2022, public investment is set to be gradually scaled back, while private investment growth is expected to accelerate, supported by strengthening foreign investment. This will also support services exports and manufacturing to exceed pre-crisis levels and a strong recovery of services imports, which is projected to result in a slightly negative contribution of net export. Overall, growth is forecast to slow to 3.7% in 2022 and further to 3.6% in 2023. Supported by the recovery, moderate employment growth is expected to gradually reduce the unemployment rate to just above 10% by 2023.



This outlook is subject to downside risks related to the relatively low COVID-19 vaccination rate in Albania and to the impact of a potentially long-lasting energy price hike. A substantial increase of fossil fuel prices could affect Albania negatively mainly via higher prices for electricity imports. Given that Albania produces all its electricity from hydropower, this could be underscored in case of insufficient rainfall.

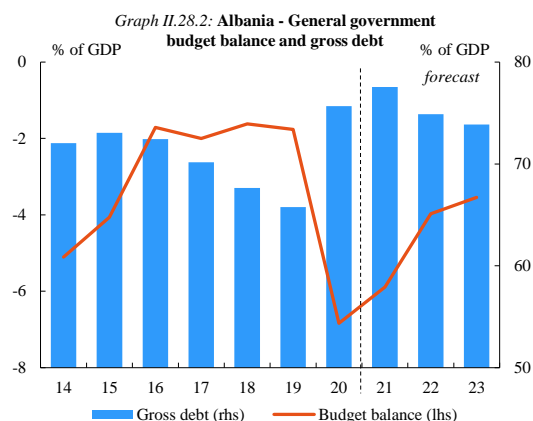
Rebounding service trade surplus to narrow the current account deficit

Increasing goods exports are projected to lower the merchandise trade deficit only slightly in 2021 because of high investment related imports. However, an increasing service trade surplus and rebounding remittances are expected to narrow the current account deficit to 7.7% of GDP in 2021. In 2022 and 2023, normalising remittances inflows and trade balances are projected to narrow the current account deficit gradually to 7.1% of GDP.

Monetary policy is set to remain accommodative over the forecast horizon

With its record low policy rate of 0.5%, unchanged since March 2020, the central bank continues to support the economy in 2021. Adding to the strong, but partly transitional price increases for food and transport, more persistent upward pressure from wage growth is forecast to drive the inflation rate towards the central bank's 3% inflation target in 2023, when the very accommodative monetary policy stance is expected to begin a gradual normalisation.

investment is forecast to keep the fiscal deficit elevated, at 5.9% despite the strong recovery of revenue. As post-earthquake reconstruction comes to an end, public investment is set to decrease in 2022. However, the planned public wage increase coupled with an Eurobond issuance are projected to slow the reduction of fiscal deficit and debt-to-GDP ratio to 3.5% and 73.9%, respectively, in 2023.



Delayed improvement of Government finances

In 2021, continuing high public expenditure for

Table II.28.1:

Main features of country forecast - ALBANIA

	2020			Annual percentage change						
	bn ALL	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP	1617.5		100.0	4.0	4.0	2.1	-4.0	6.9	3.7	3.6
Private Consumption	1340.5		82.9	4.4	3.2	3.2	-2.4	4.5	3.5	3.3
Public Consumption	195.3		12.1	2.3	0.7	2.9	1.6	2.5	2.1	1.9
Gross fixed capital formation	371.8		23.0	2.6	2.3	-3.7	-2.0	10.9	3.0	2.1
of which: equipment	:	:	:	:	:	:	:	:	:	:
Exports (goods and services)	373.8		23.1	8.9	4.0	2.7	-25.5	26.2	9.5	5.2
Imports (goods and services)	612.4		37.9	5.1	2.4	2.3	-19.3	15.0	6.4	3.3
GNI (GDP deflator)	1590.1		98.3	3.8	3.6	0.9	-4.3	7.2	4.3	4.1
Contribution to GDP growth:										
Domestic demand				4.8	3.2	1.9	-2.2	6.5	3.8	3.4
Inventories				-0.5	0.6	0.4	-2.5	0.0	0.0	0.0
Net exports				-0.3	0.2	-0.2	0.7	0.4	0.0	0.1
Employment				:	2.1	2.4	-1.9	1.7	1.7	1.6
Unemployment rate (a)				16.5	12.8	12.0	12.2	11.8	11.0	10.3
Compensation of employees / head				:	:	:	:	:	:	:
Unit labour costs whole economy				:	:	:	:	:	:	:
Real unit labour cost				:	:	:	:	:	:	:
Saving rate of households (b)				:	:	:	:	:	:	:
GDP deflator				2.5	1.5	1.2	-0.4	1.3	1.5	1.2
Consumer price index				2.6	2.0	1.4	1.6	2.2	2.8	2.7
Terms of trade goods				-1.3	4.0	-2.8	-5.7	0.1	0.2	0.6
Trade balance (goods) (c)				-24.5	-22.3	-22.8	-22.8	-22.7	-22.6	-22.6
Current-account balance (c)				-10.9	-6.8	-7.9	-8.7	-7.7	-7.3	-7.1
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				:	:	:	:	:	:	:
General government balance (c)				-7.5	-1.6	-1.8	-6.8	-5.9	-4.0	-3.5
Cyclically-adjusted budget balance (d)				:	:	:	:	:	:	:
Structural budget balance (d)				:	:	:	:	:	:	:
General government gross debt (c)				64.5	67.7	65.8	75.7	77.6	74.9	73.9

(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.