

## 28. ALBANIA

Since the fourth quarter of 2020, the Albanian economy has been on the path of recovery, supported by accelerating public spending on post-earthquake reconstruction. Investment, coupled with rebounding goods exports and a recovery of private consumption, will likely continue to boost growth in 2021. Mobility restrictions in the EU have dampened the recovery of services exports and FDI this year, but economic output and inbound tourism are expected to return to their 2019 levels in 2022. Government finances are likely to improve following expenditure cuts, but debt and deficit ratios will not fall to pre-crisis levels over the forecast horizon.

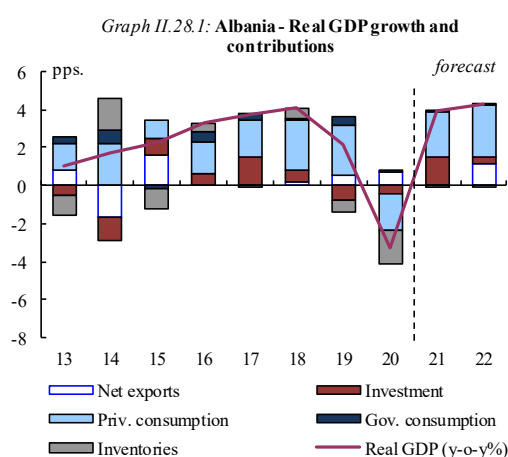
### A short-lived contraction following the pandemic

According to preliminary data, the Albanian economy contracted by 3.3% in 2020 due to the impact of the COVID-19 pandemic on tourism, services and manufacturing. Private consumption fell by 2.4% in annual terms, but started to recover moderately in the second half of 2020, helped by public support to businesses and households, which limited the increase in the unemployment rate to 0.2 pps. The weak performance of investments and merchandise exports in 2019 generated positive base effects and supported the return of year-on-year growth in the fourth quarter of 2020. However, total exports and imports dropped significantly by 25.7% and 19.4% respectively, mainly because international travel restrictions caused large losses in tourism. Overall, net exports provided a positive contribution to growth. On the production side, growth of the large agricultural sector, construction, real estate activities and public services buffered the contraction of all other services and of manufacturing, which continued to suffer from new restrictions in early 2021.

### Moderate recovery in 2021

Ambitious public investment plans, and merchandise exports, supported by rising commodity demand, both helped by strong base effects, stimulated the moderate economic rebound in the fourth quarter of 2020. These factors are set to continue driving growth to 4% in 2021. A moderate recovery of services exports is expected from growing regional tourism to Albania, where travel restrictions are less stringent than in the EU. In turn, this should support the recovery of private consumption, which is projected to help accelerate economic growth to 4.3% in 2022. In the same year, the assumed lifting of international travel restrictions is set to lead to a strong rebound of tourism, supported by the ongoing expansion of

infrastructure such as airports and roads. Strong investment growth is expected to drive the rise in merchandise imports, which are likely to diminish the positive growth contribution of net exports in 2021. In 2022, the expected rebound of service exports will again boost the net contribution of foreign trade to growth. Supported by the recovery, moderate employment growth is expected to push the unemployment rate below 11% in 2022. This outlook is subject to uncertainties related to a potentially delayed formation of a new government following Parliamentary elections on 25 April, which could delay the implementation of the ambitious reconstruction programme, a key part of the economic stimulus in 2021.



### Rebounding service balance surplus to narrow the current account deficit

In 2020, the drop in imports limited the widening of the current account deficit to 0.8 pps. despite the temporary drop in remittances. The rebound of goods imports is projected to widen the trade deficit, allowing only for a slight improvement of the current account deficit to 8.5% of GDP in 2021, despite the expected recovery of remittances. In 2022, the improving service balance surplus is

forecast to outweigh the impact of private investment growth on the merchandise trade deficit and narrow the current account deficit to 7.6% of GDP.

### The monetary policy is set to remain accommodative

With its record low policy rate of 0.5%, unchanged since March 2020, the central bank has supported the economy. The very accommodative monetary policy stance is expected to be maintained in the medium-term as inflationary pressures remain low.

### Government finances set to improve gradually

A 9% public expenditure increase for support measures in the context of the pandemic and the post-earthquake reconstruction, combined with a 7.5% fall in revenue, increased the fiscal deficit to 6.9% of GDP and the debt-to-GDP ratio to 76.1% in 2020. Increased spending on the education and health sectors and the ambitious reconstruction plans will delay a significant reduction of the fiscal deficit to 2022, when expenditure should fall as the reconstruction efforts near completion, which together with the strengthening recovery will help reduce both the fiscal deficit and the debt-to-GDP ratio by about 2.5 pps. and less than 2 pps.

respectively.

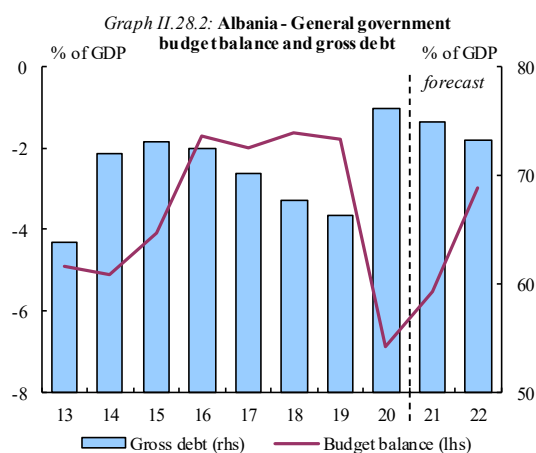


Table II.28.1:

### Main features of country forecast - ALBANIA

	2019			Annual percentage change						
	bn ALL	Curr. prices	% GDP	01-16	2017	2018	2019	2020	2021	2022
GDP	1679.2	100.0	4.2	4.2	3.8	4.1	2.2	-3.3	4.0	4.3
Private Consumption	1346.8	80.2	4.5	4.5	2.4	3.3	3.3	-2.4	2.9	3.3
Public Consumption	193.4	11.5	2.7	2.7	3.2	0.7	3.8	0.8	1.2	0.6
Gross fixed capital formation	378.0	22.5	3.6	3.6	6.0	2.4	-3.3	-1.8	6.4	1.5
of which: equipment	:	:	:	:	:	:	:	:	:	:
Exports (goods and services)	529.6	31.5	9.0	9.0	13.2	4.1	6.1	-25.7	12.2	18.7
Imports (goods and services)	760.9	45.3	5.5	5.5	8.4	2.4	3.0	-19.4	7.5	8.9
GNI (GDP deflator)	1657.1	98.7	4.1	4.1	2.4	3.7	0.9	-3.7	4.3	4.8
Contribution to GDP growth:										
Domestic demand			5.3	5.3	3.8	3.3	2.3	-2.2	4.0	3.2
Inventories			-0.5	-0.5	0.0	0.6	-0.6	-1.8	0.0	0.0
Net exports			-0.5	-0.5	0.0	0.2	0.6	0.7	0.0	1.1
Employment			:	:	2.7	2.1	2.4	-1.9	1.3	1.3
Unemployment rate (a)			17.1	17.1	14.1	12.8	12.0	12.2	11.7	10.9
Compensation of employees / head			:	:	:	:	:	:	:	:
Unit labour costs whole economy			:	:	:	:	:	:	:	:
Real unit labour cost			:	:	:	:	:	:	:	:
Saving rate of households (b)			:	:	:	:	:	:	:	:
GDP deflator			2.6	2.6	1.5	1.4	0.5	-1.0	1.4	1.3
Consumer price index			2.7	2.7	2.0	2.0	1.4	1.6	1.9	2.3
Terms of trade goods			-1.5	-1.5	3.7	3.6	-3.1	-5.5	1.1	0.5
Trade balance (goods) (c)			-24.6	-24.6	-24.4	-22.3	-23.0	-23.0	-23.2	-23.3
Current-account balance (c)			-11.3	-11.3	-7.5	-6.8	-8.0	-8.8	-8.5	-7.6
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			:	:	:	:	:	:	:	:
General government balance (c)			-2.6	-2.6	-2.0	-1.6	-1.8	-6.9	-5.5	-3.0
Cyclically-adjusted budget balance (d)			:	:	:	:	:	:	:	:
Structural budget balance (d)			:	:	:	:	:	:	:	:
General government gross debt (c)			63.9	63.9	70.2	67.7	66.3	76.1	74.9	73.2

(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.