ECONOMIC OUTLOOK ALBANIA
January-June 2019

Secretariat of Albania Investment Council

July 2019

Note: This is a summary of the main indicators on economic situation in Albania as published by official sources or international organizations. This document does not represent the opinions and views of the Secretariat or the Investment Council.

Data used in the presentation have been generated from the databases of the official websites of Albania Institute of Statistics, Bank of Albania, World Bank, International Monetary Fund, etc.

Economic Growth in Years

Source:INSTAT, MOFE (year 2017 is semi final, year 2018 INSTAT estimations, Year 2019 MoFE forecast

After a steady growth at average rate of 6% during 2000-2008, Albanian economy slowed down affected by the global financial and debt crises. The economic recovery was confirmed in 2015, while economic growth continued to improve, and according to INSTAT estimations reached 4,06% during 2018.

In the first quarter of 2019, economic growth was announce at the rate of 2.21% (see: INSTAT); MoFE estimates a 4.3% growth in year 2019, while IMF estimates a 3,7% growth for the same year.

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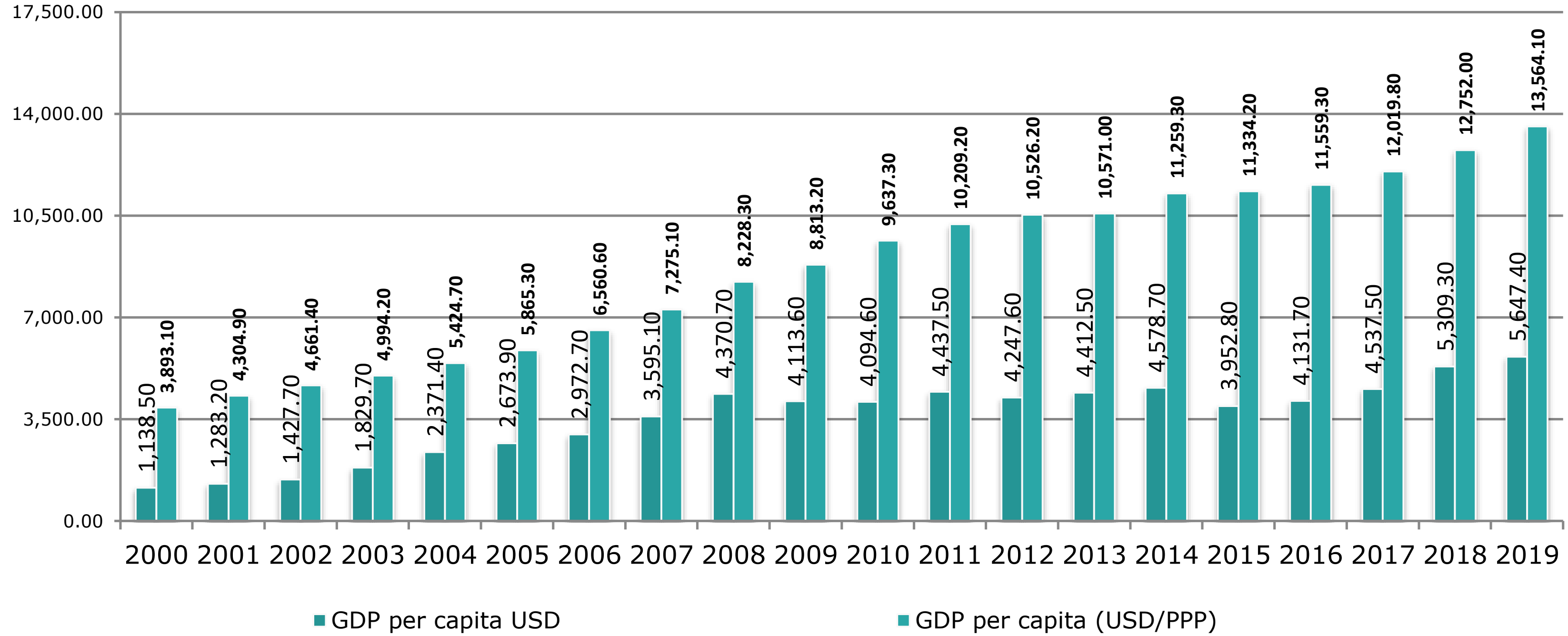
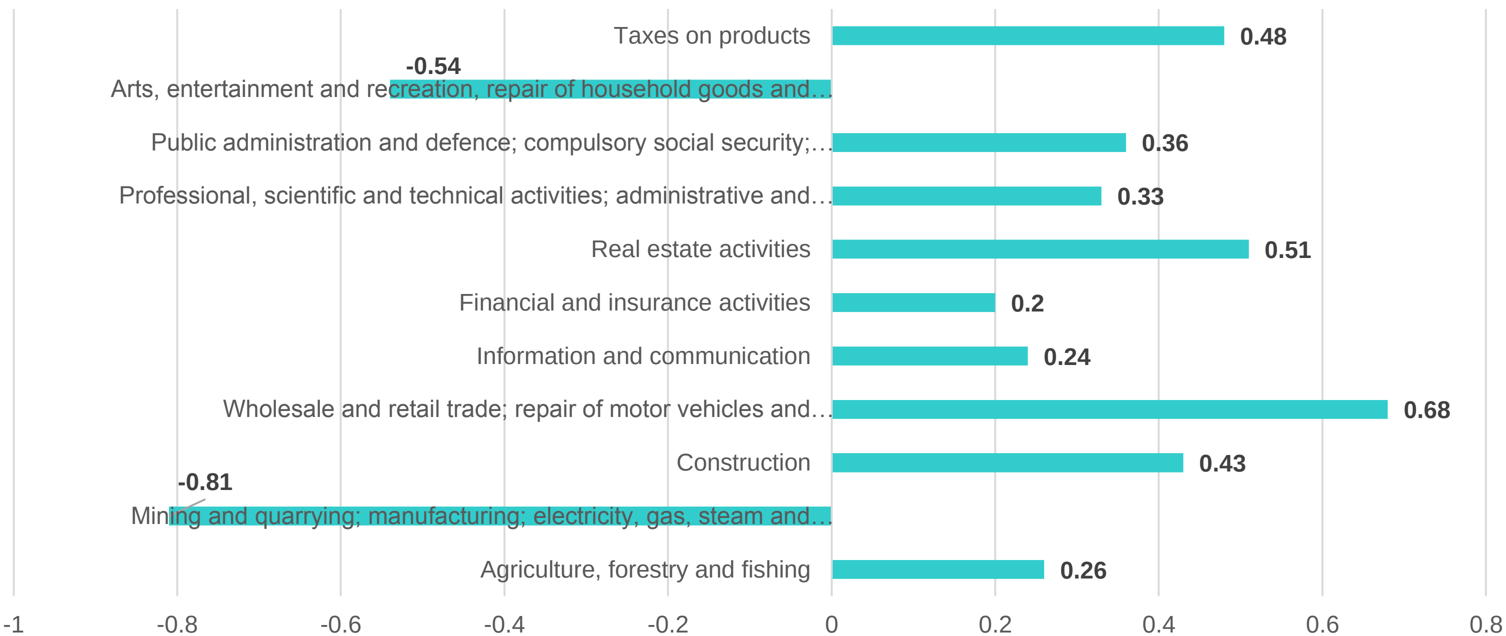
Gross Domestic Product per Capita



Source: INSTAT, MoFE

In 2018, GDP per capita was estimated to reach 5,309.3 in current USD or 12,752 USD based on purchasing power parity (PPP), increasing 6% compared to 2017.

Sectors' Contribution to Economic Growth Q1 2019 (yoy, in %)



Source: INSTAT (Production Methods)

Gross Domestic Product (GDP) in the first quarter of 2019 increased by 2.21 % compared to same period of last year.

The main contribution to this increase are Trade, Transport, Accommodation and Food Services (+0.68 p.p), Real estate activity (0.51 p.p), Construction (0.43 p.p).

Industry, Electricity and Water and Arts, entertainment and recreation services, contributed negatively to GDP increase respectively by 0.81 p.p and 0.54 p.p.

International trade

Source: INSTAT

For the period January-June 2019, the exports of goods amounted to All 152 billion, down by 3.7% compared to the previous year, while imports of goods were ALL 318 billion, increased by 2.6% compared to the previous year.

The trade deficit amounted All 165 billion, increasing by 9.2% compared to the same period of 2018

In June 2019, exports of goods reached 25 billion ALL, down by 4.4% compared to the previous year.

Imports of goods reached 53 billion ALL, down by 1.5%, compared to the previous year.

This month trade deficit is ALL 28 billion, up by 1.4% compared to June 2018.

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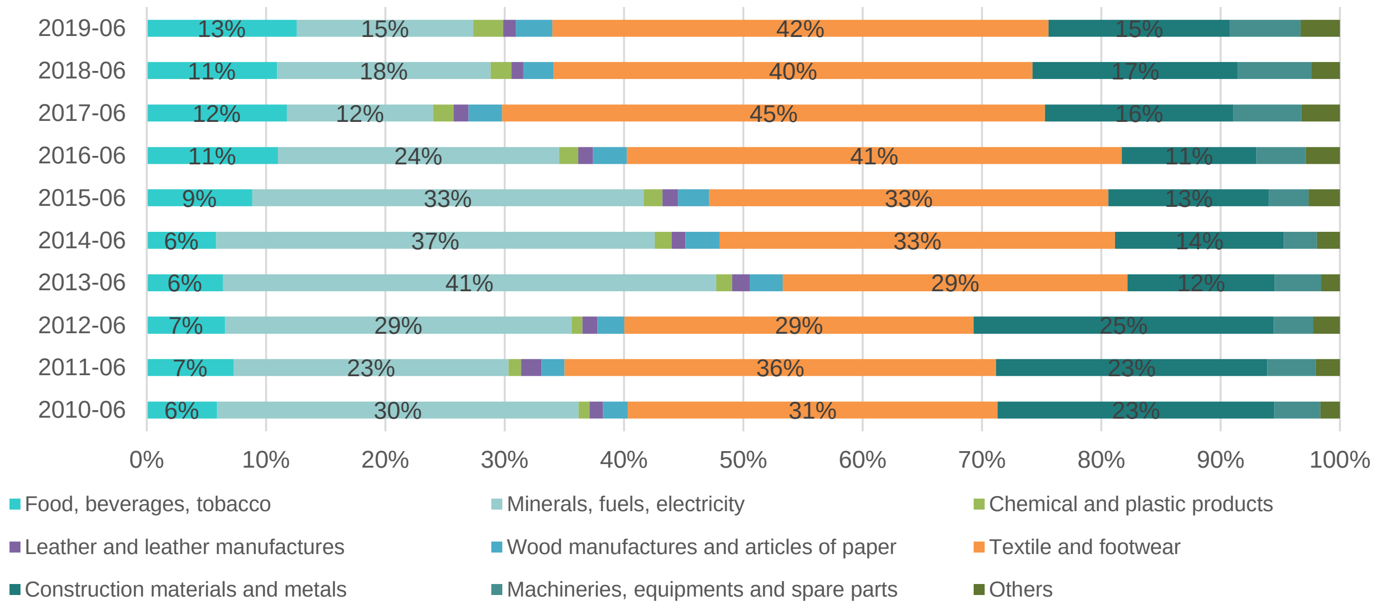
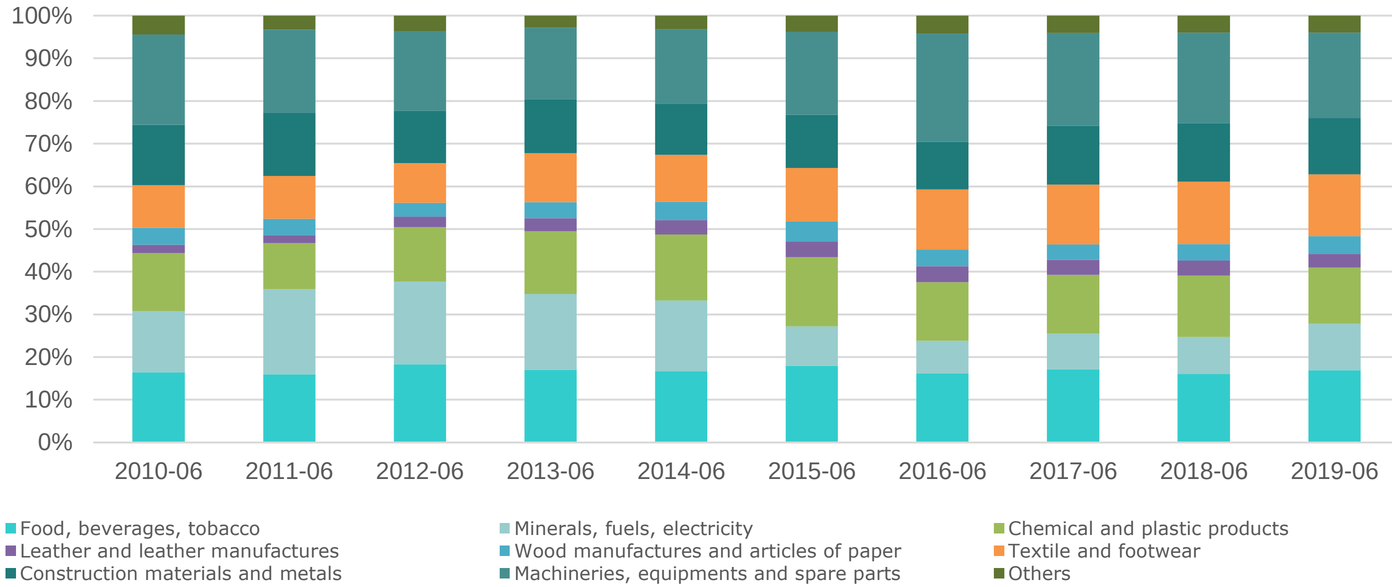
Albanian Exports in years



Source: INSTAT

In the first 6months of 2019, exports of goods amounted ALL 152 billion, decreasing by 3.7% compared to the previous year.
Groups that have adversely affected the reduction of annual exports are: "Minerals, fuels, electricity" by -4.5 percentage points, "Construction materials and metals" by -1.8 percentage points, "Textile and footwear" me - 0.7 percentage points.
In the annual change of exports, the group "Machinery, equipment, spare parts" contributed positively to +1.2 percentage points.

Albanian Imports in years



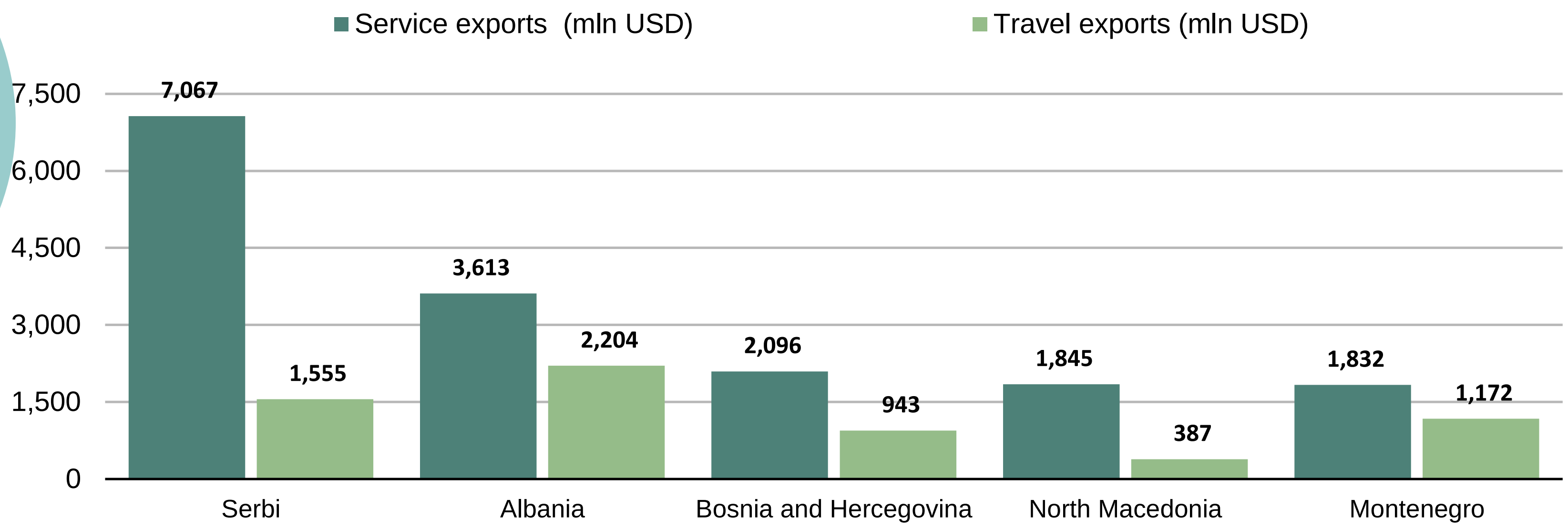
Source: INSTAT

During the first 6months of 2019, imports increased by 2.6%, compared to the first five months of 2018.

The groups that have positively impacted the annual growth of imports are: "Minerals, fuels, electricity" with +2.7 percentage points, "Construction materials and metals" by +0.9 percentage points, "Food, beverages, tobacco "With + 0.2 percentage points.

In the annual change of imports, the group that negatively affected is the group "Machinery, equipment, spare parts" by -0.7 percentage points.

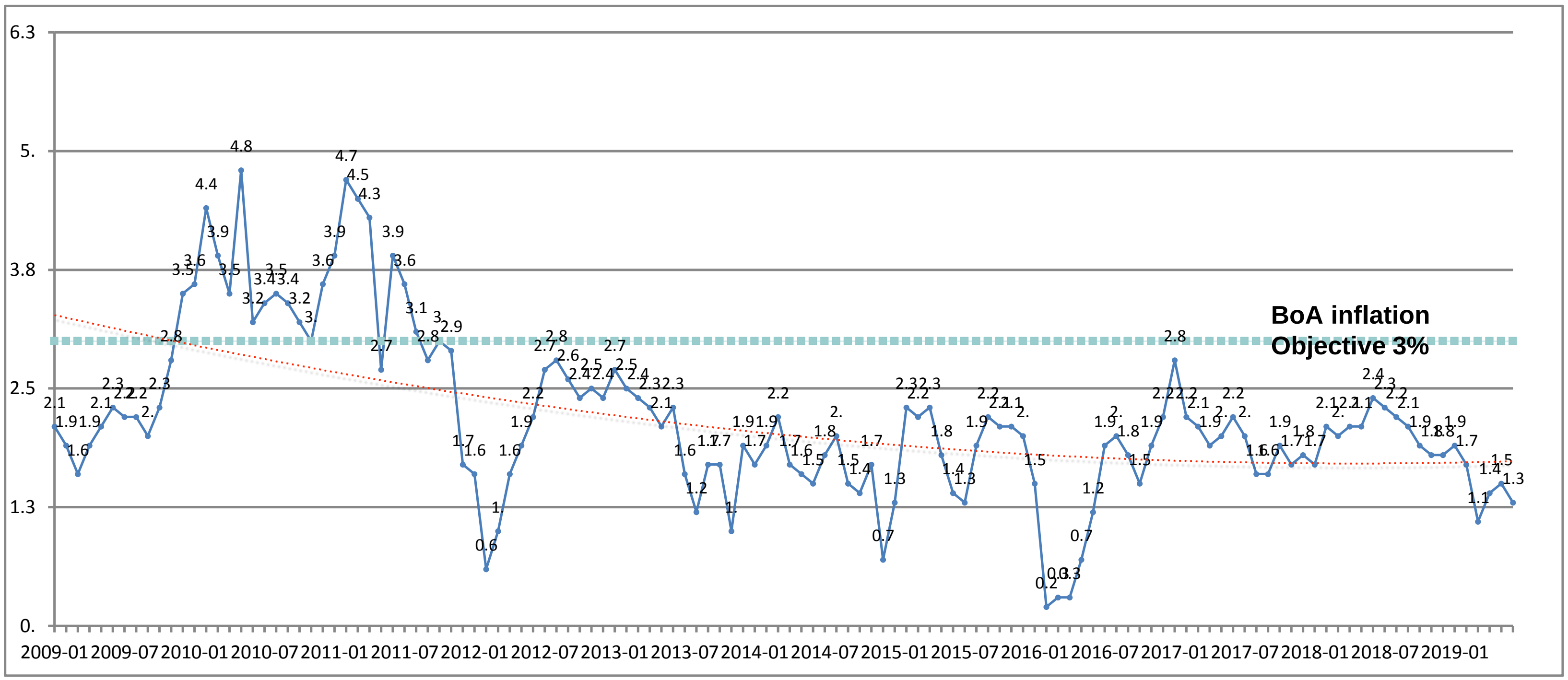
EXPORTS IN SERVICES IN 2018 – REGIONAL CONTEXT



Source: World Development Indicators

Albania ranks second in the region in terms of service exports, which are mostly dominated by travel at 60%.

Consumer Index Price

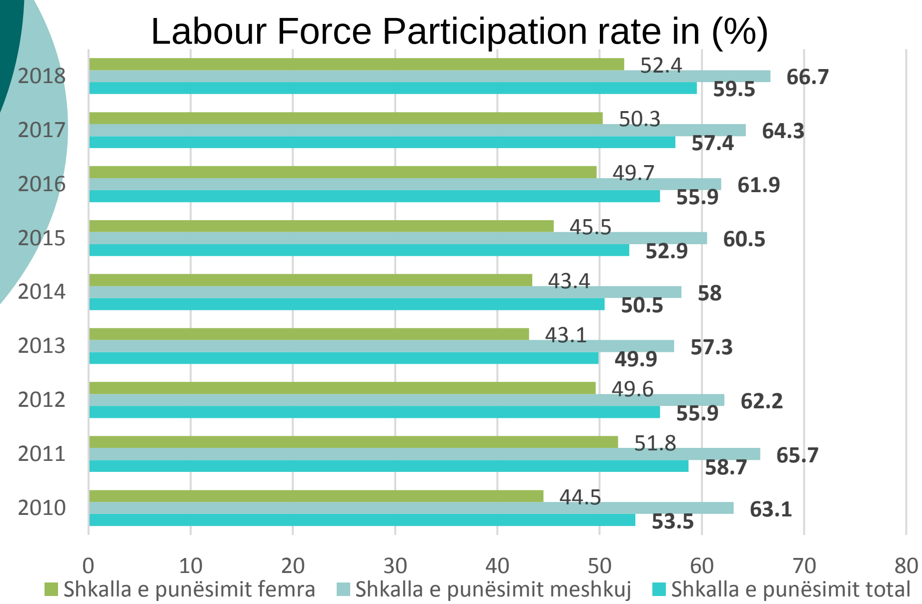


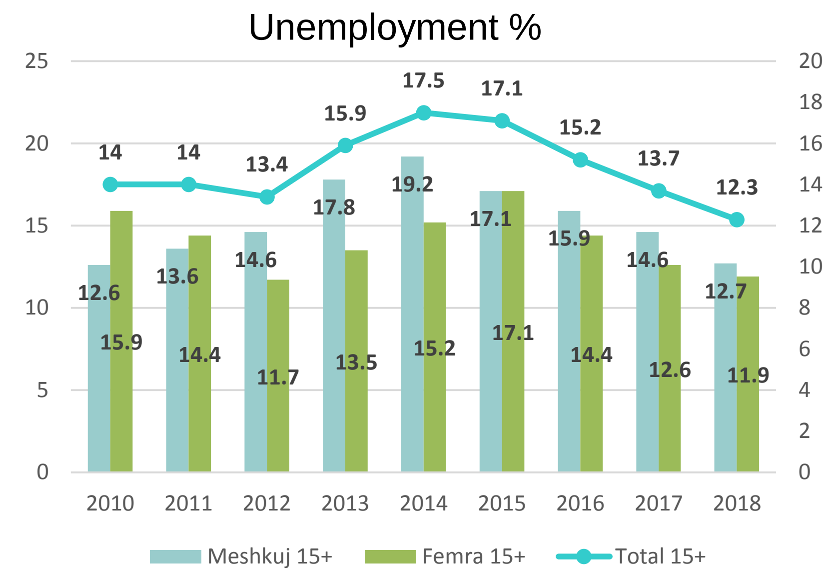
Source: INSTAT

The graph shows the monthly annual inflation rate. As seen from the chart, inflation from the end of 2011 has been steadily below the BoA target, 3% in the medium term.

Inflation rate was reported to 1.3% (yoy) in June 2019, while in June 2018 inflation rate was 2.4%. Compared to may 2019, CPI decreased by 0.3%.

Labour Force 2018





Source: INSTAT

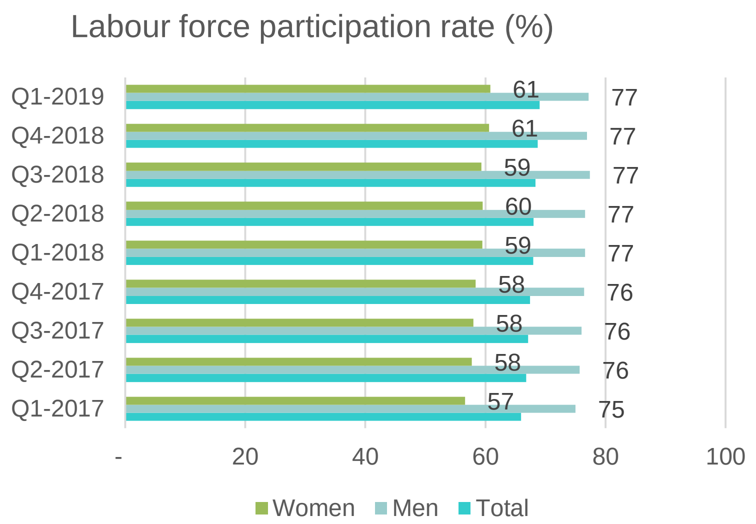
During 2018, employment continued to pick up. The employed are estimated to be 1 230 000 people, of whom 43.7% are women. The number of unemployed is estimated to be 173 000 people, of whom 42.3% are women.

In 2018, the services sector and the agricultural sector recorded the highest percentage of employed, respectively 42.9% and 37.4% of total employed.

The unemployment rate has continued to decline in the last four years, marking a 1.4% decrease in year 2018 compared to the previous year.

In 2018, the regions with the highest employment rates for the population aged 15-64 are: Elbasan (61.5%) and Korça (59.5%), while the district with lower employment rate is Lezha (45.6%). The highest unemployment was recorded in the districts of Vlora (21.9%) and Lezha (19.2%).

Labour Force QI 2019

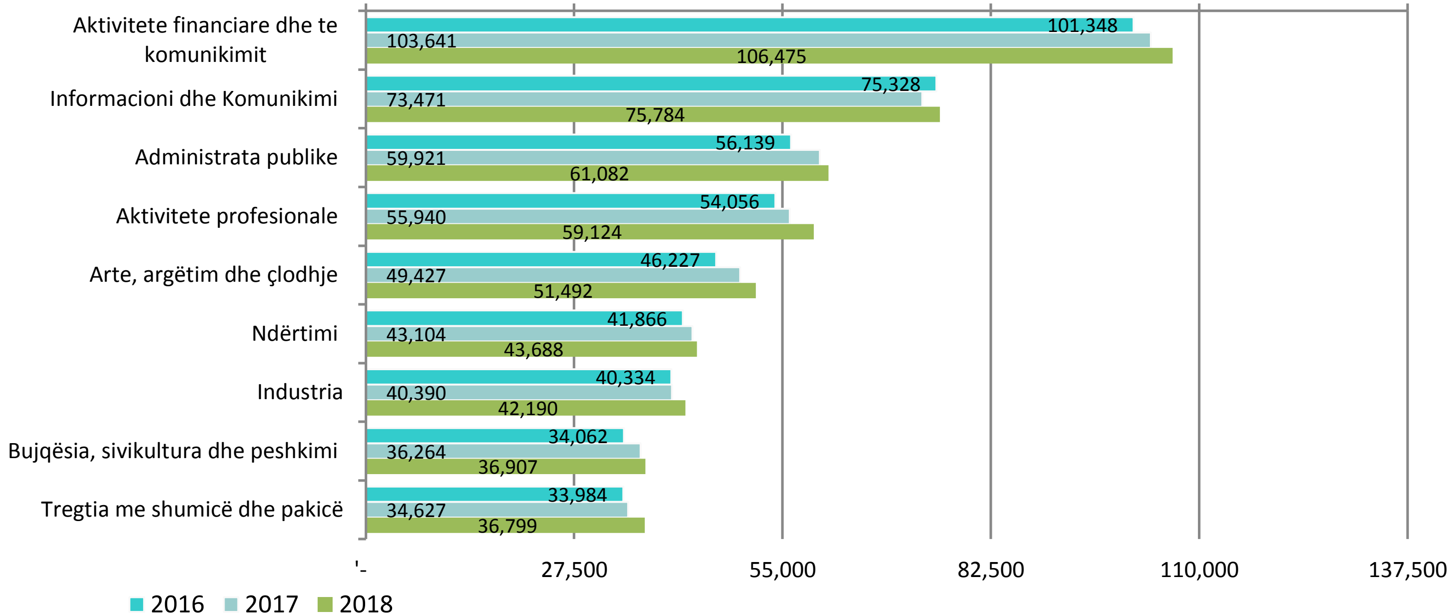


Source: INSTAT

In the first quarter of 2019, the employment rate for the population aged 15-64 is 60.3%. During this quarter, compared to the same quarter of 2018, the total number of employees grew by 1.4%. Compared with the fourth quarter of 2018, this indicator increased by 0.6%.

In the first quarter of 2019, the official unemployment rate in Albania, for the population aged 15 and over, is 12.1%. Compared to the first quarter of 2018, the official unemployment rate decreased by 0.4 percentage points. Compared to the fourth quarter 2018, the official unemployment rate decreased by 0.2 percentage points.

Average Wages per Sector (in ALL)



Source: INSTAT

The highest salaries in 2018 were recorded in the "Financial and communication activities" section, followed by "Information and Communication". Lower salaries are reported in the "Wholesale and Retail Trading" section.

The fastest growing salaries are reported in the arts and entertainment sector followed by professional activities and public administration.

The average salary in 2018 was reported at 50,589 ALL (416 EURO) and increased by 3.3% in annual terms.

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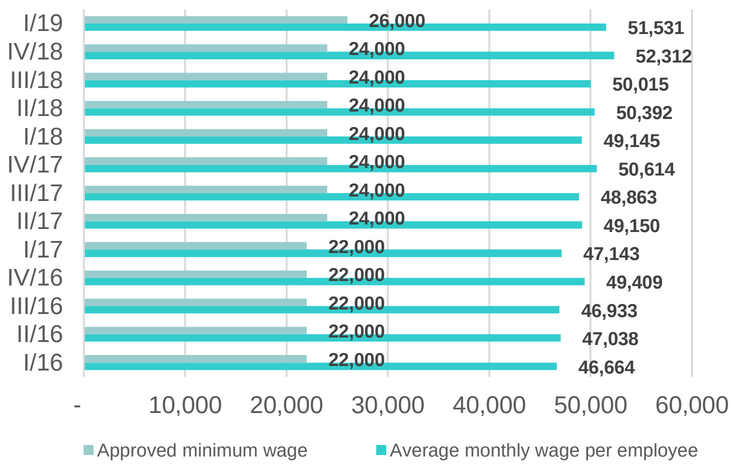
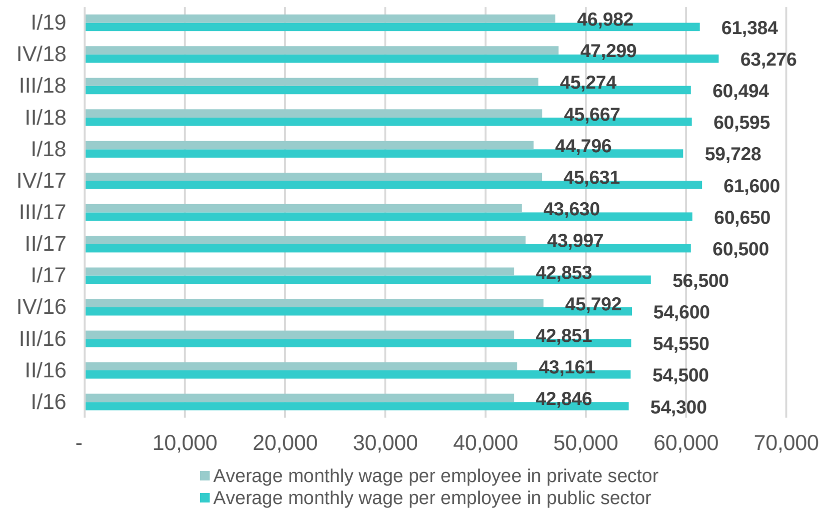
Average Wages – Q1 2019





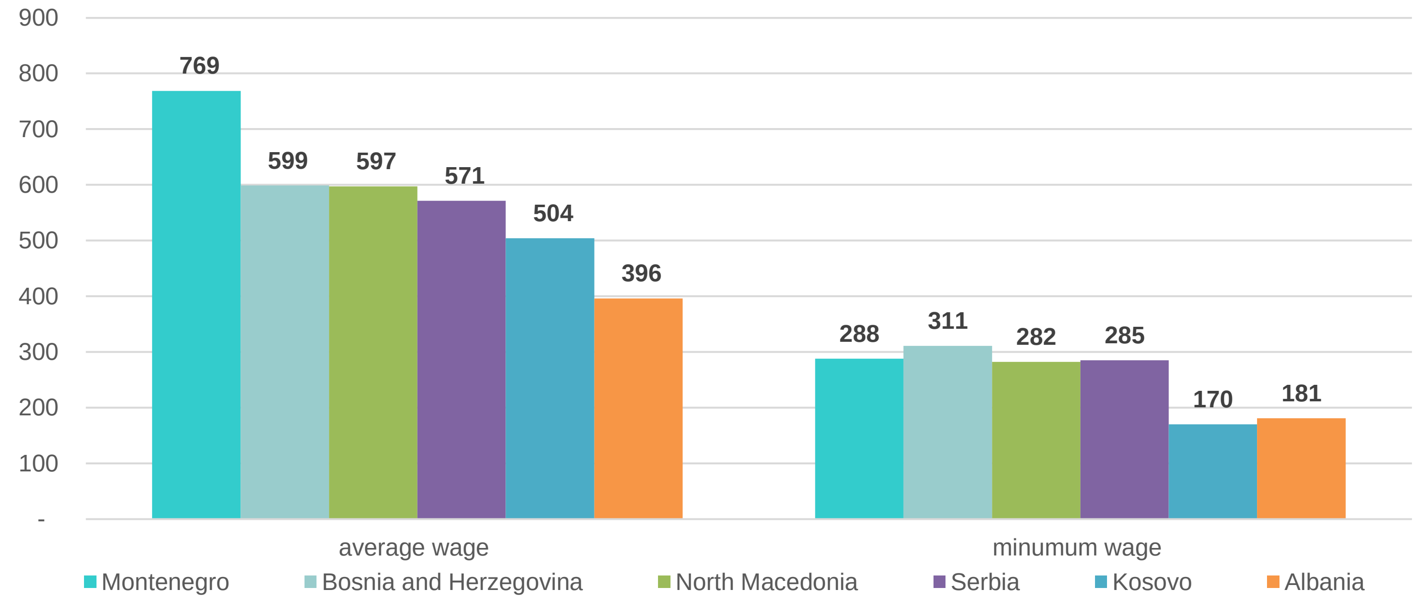
Source: INSTAT

The average monthly gross salary during the first quarter of 2019 is 51,531 ALL, up 4.9% compared to the same quarter last year.

During the first quarter of 2019, the average monthly gross in the sector of financial and insurance activities is 97.4% higher than the national average, while in the agriculture, forestry and fisheries sector there are 26, 3% lower.

During the first quarter 2019, the average gross salary for group-activity, entertainment and recreation; Other service activities have the highest growth of 16.3% compared to the same quarter last year, while construction is the only group activity that has 2.8% decrease.

Cost of Labor for Western Balkans Countries, 2018 (EUR)

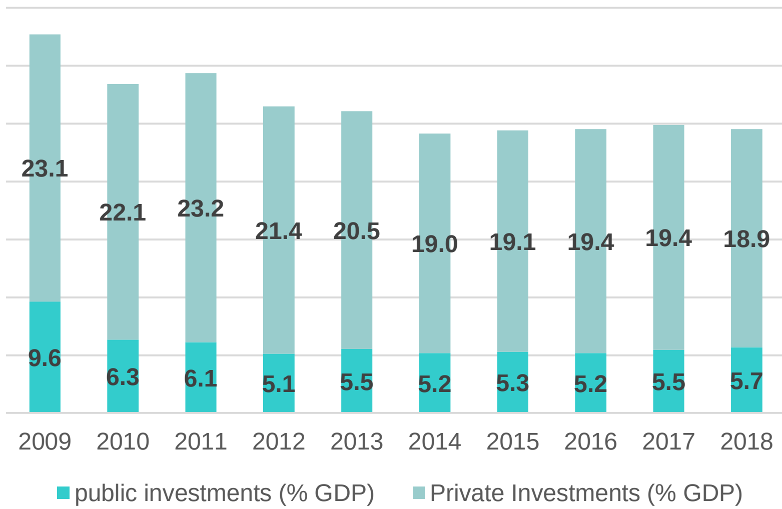


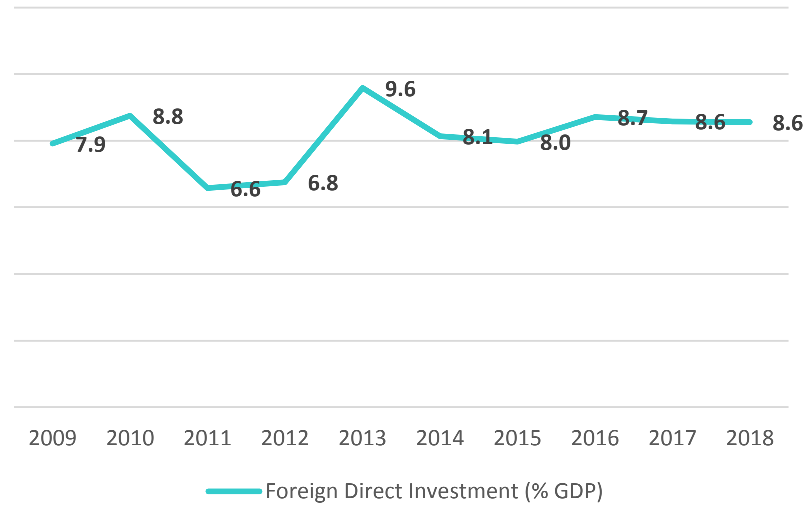
Source: Statistical Offices of Countries

Kosovo has the lowest minimum wage in the region followed by Albania and North Macedonia; The highest minimum wage in the region is recorded in Bosnia and Herzegovina.

The highest gross average salary in the region is in Montenegro and the lowest is registered in Albania.

Public, Private and Foreign Investments in Albania (in % of GDP)



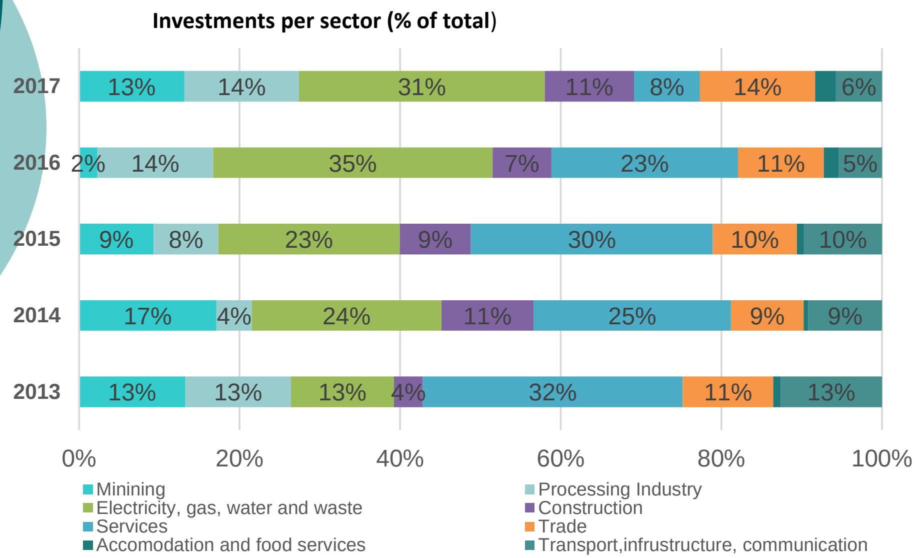


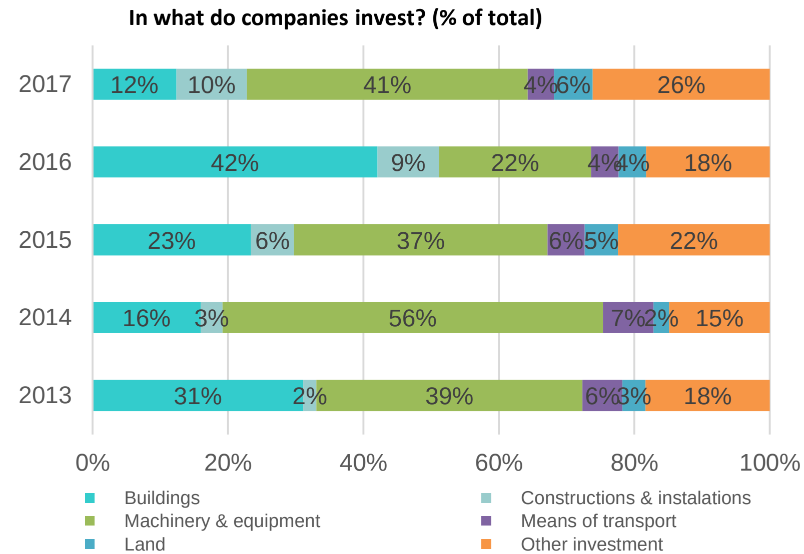
Source: Ministry of Finance, Bank of Albania, INSTAT

Investments in Albanian count for The largest share of investment in the economy comes from the domestic sector, which on average contributes to 21% of Gross Domestic Product; Public investment is in average 6% of GDP.

FDI is about 8.2% of GDP in average for period 2009-2018

Investments per Sector





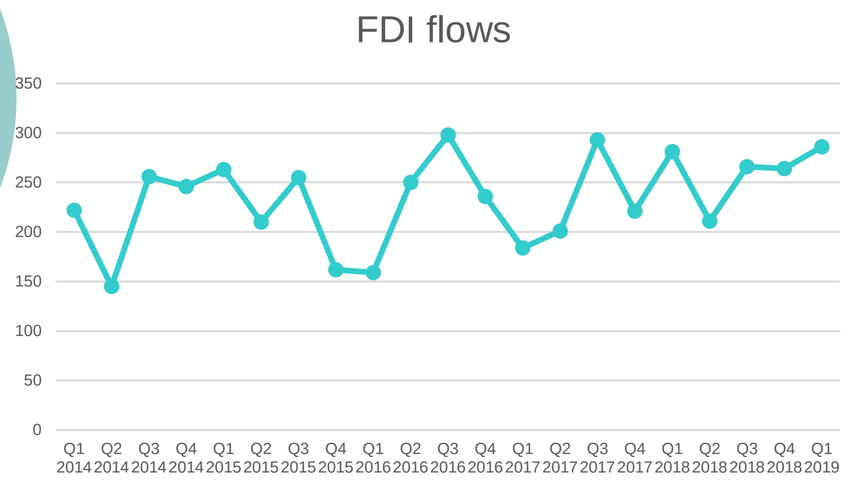
Source: INSTAT – Enterprises Surveys

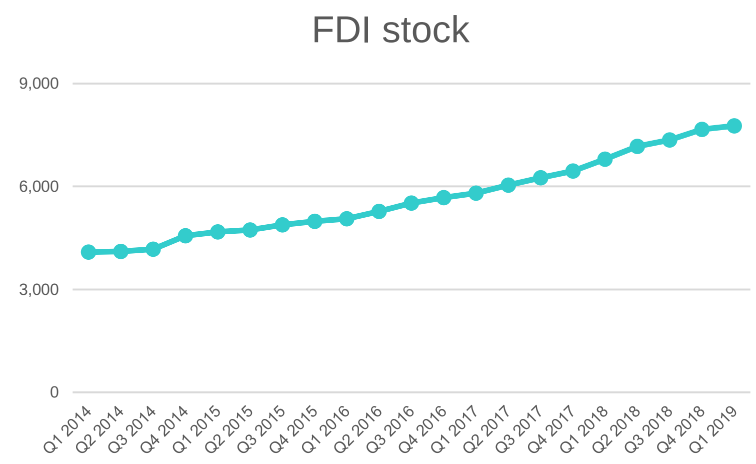
During 2017, investments increased by 4.7%, and service providers accounted for 30.9% of total investments from 28.3% in the last year.

The sector with the highest value of realized investments is electricity, gas, water and waste treatment sector (31%), while the lowest share of investment is at housing and restaurant sectors (2.6%) and transportation, information and traffic (5.7%).

Most of the investments, during 2017, went to Machinery and Equipment, 41% of total investments.

Flow and Stock of Foreign Direct Investment





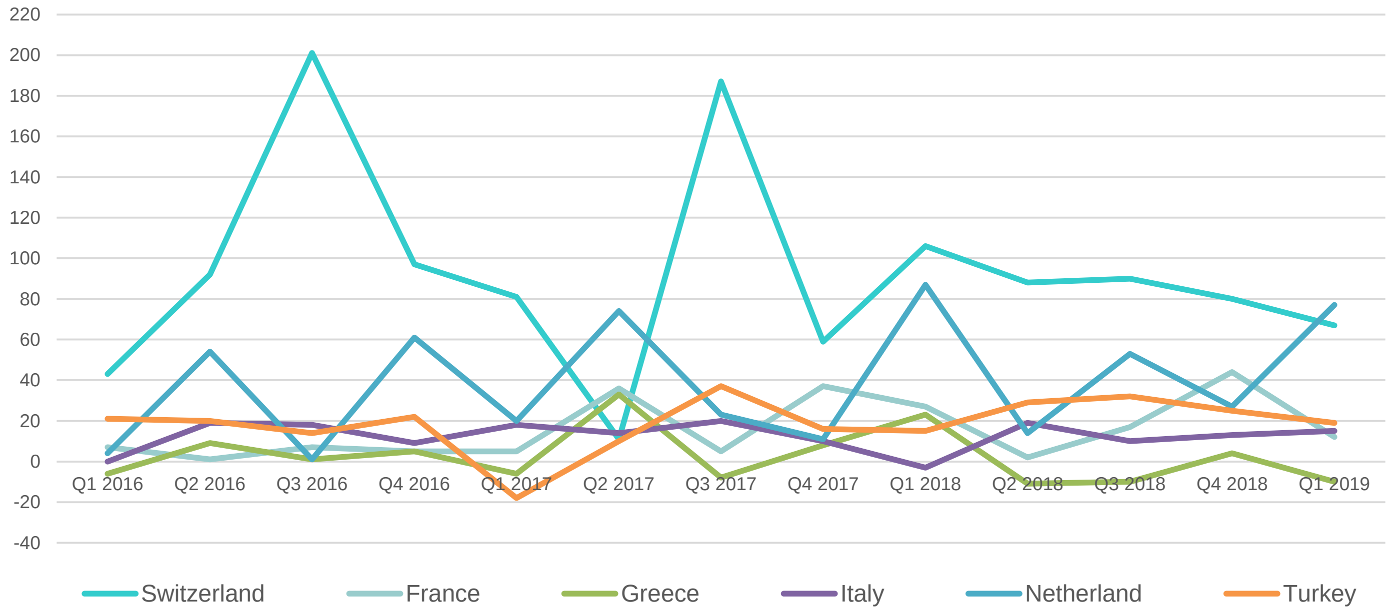
Although the flow of FDI has been volatile and following business cycles, after 2015 the stock of FDIs has entered positive dynamics.

FDIs (in stock) increased 3% if compered to previous quarter.

During 2018, FDI inflows increased by 13.7% compared to the previous year.

Meanwhile, during the first quarter of 2019, foreign direct investment stock amounted to 7771 million euros, and FDI inflow increased by 8% compared to the previous quarter.

FDI Stock according to Countries of Origin (Mln EUR)

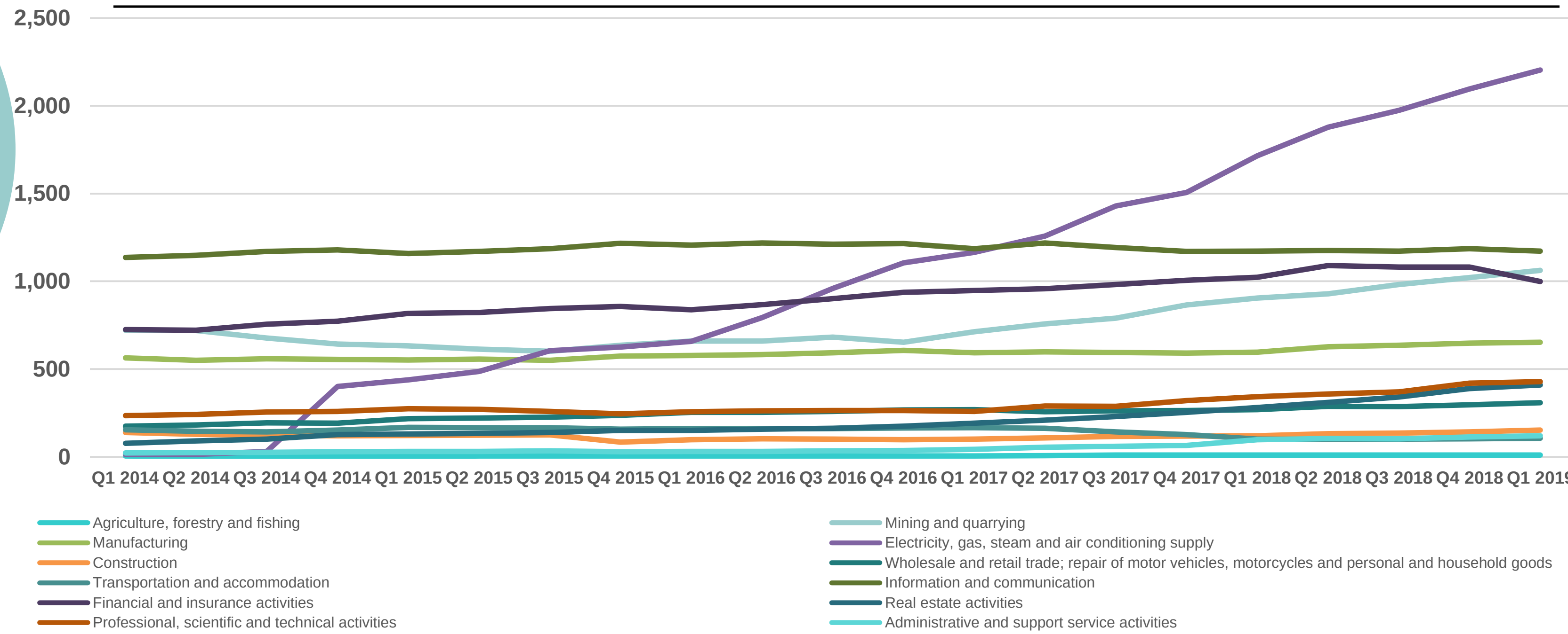


Source: Bank of Albania

Switzerland leads FDI stock in volume terms, 17.7%, followed by Greece with 14.7%.

Strong positive dynamics of FDI from the Netherlands (77mln), Austria (45 mln) and France (12 mln) are observed during first quarter of 2019.

Quarterly Stock of FDI per Economic Activity
(Mln EUR)



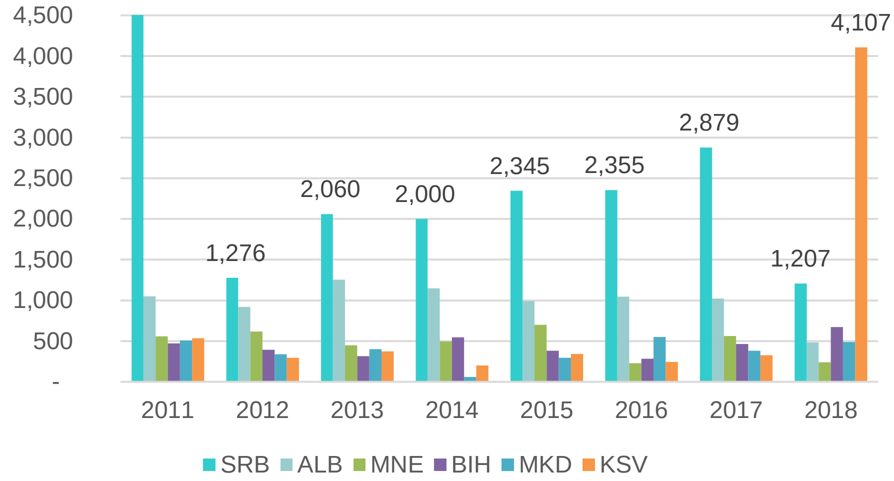
Source: Bank of Albania

The most attractive sectors for FDIs are Energy and Waste Management, Mining and Quarrying, Insurance and Real Estate.

A slow down in stock of ICT and Transport/Accommodation tor Sector is observed starting from the second quarter of 2017.

Flow of FDI in the Western Balkans

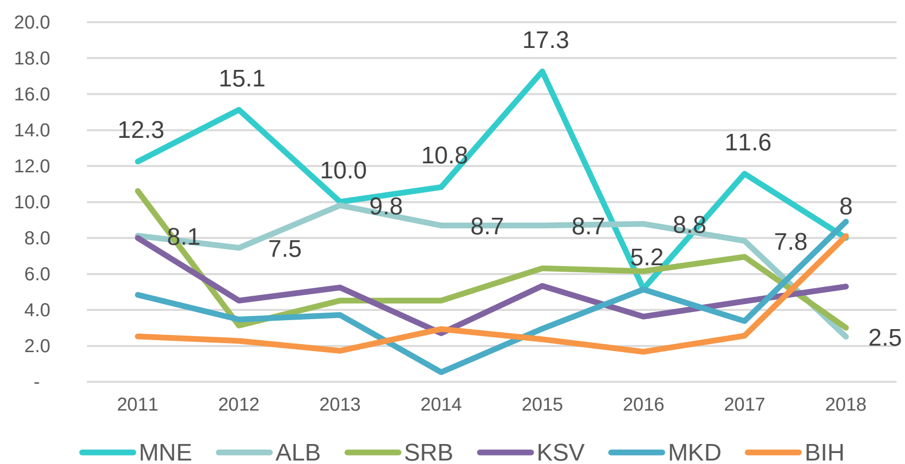
In mln USD



Albania is ranked second in the region for the value of the foreign investments in years and as % to gross domestic product.

Source: World Development Indicators

In % to GDP



Stock and Profile of Enterprises, 2010 - 2016

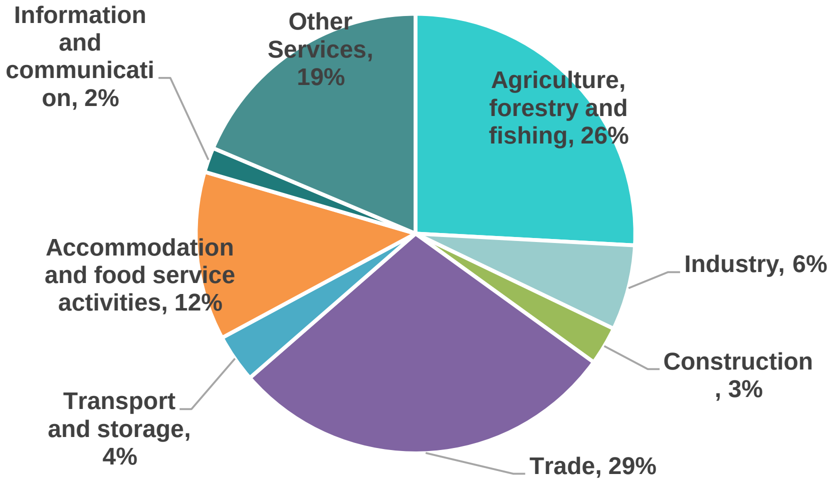
Per employee number	Year						
	2012	2013	2014	2015	2016	2017	2018
total	**106,837**	**111,083**	**112,537**	**152,288**	**160,679**	**162,452**	**162,835**
1-4	95,520	99,782	101,025	136,470	145,456	146,304	145,549
5-9	5,636	5,235	5,387	8,172	7,631	8,023	8,518
10-49	4,439	4,660	4,647	5,994	5,902	6,297	6,801
50+	1,242	1,406	1,478	1,652	1,690	1,828	1,967
Goods producers	**16,413**	**16,842**	**16,989**	**37,950**	**48,585**	**53,250**	**56,916**
1-4	12,592	13,071	13,273	33,255	44,179	48,819	52,269
5-9	1,718	1,565	1,603	2,080	1,865	1,842	1,858
10-49	1,650	1,681	1,562	1,971	1,877	1,851	1,987
50+	453	525	551	644	664	738	802
Service producers	**90,424**	**94,241**	**95,548**	**114,338**	**112,094**	**109,202**	**105,919**
1-4	82,928	86,711	87,752	103,215	101,277	97,485	93,280
5-9	3,918	3,670	3,784	6,092	5,766	6,181	6,660
10-49	2,789	2,979	3,085	4,023	4,025	4,446	4,814
50+	789	881	927	1,008	1,026	1,090	1,165

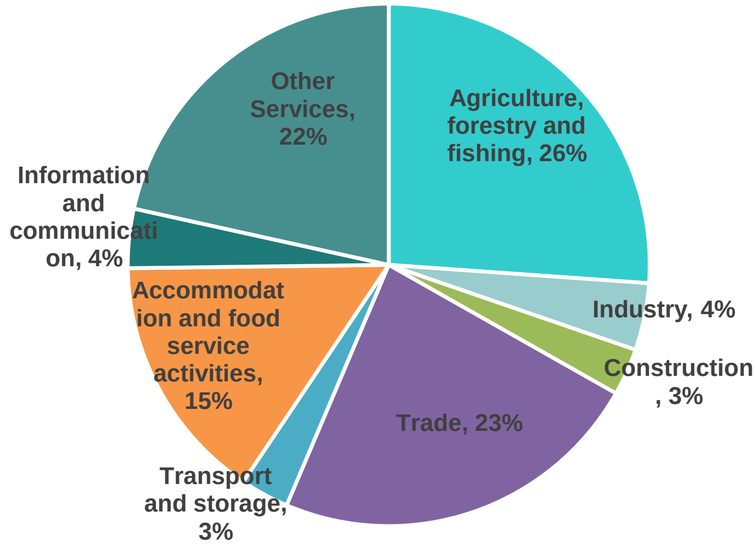
Source: Enterprise Survey, INSTAT

Enterprise structure in Albanian economy is dominated by micro, small and medium enterprises which represent 99% of enterprises.

In 2018, 35% of registered enterprises were operating as producers of goods, 65% were reported as operators in services sector.

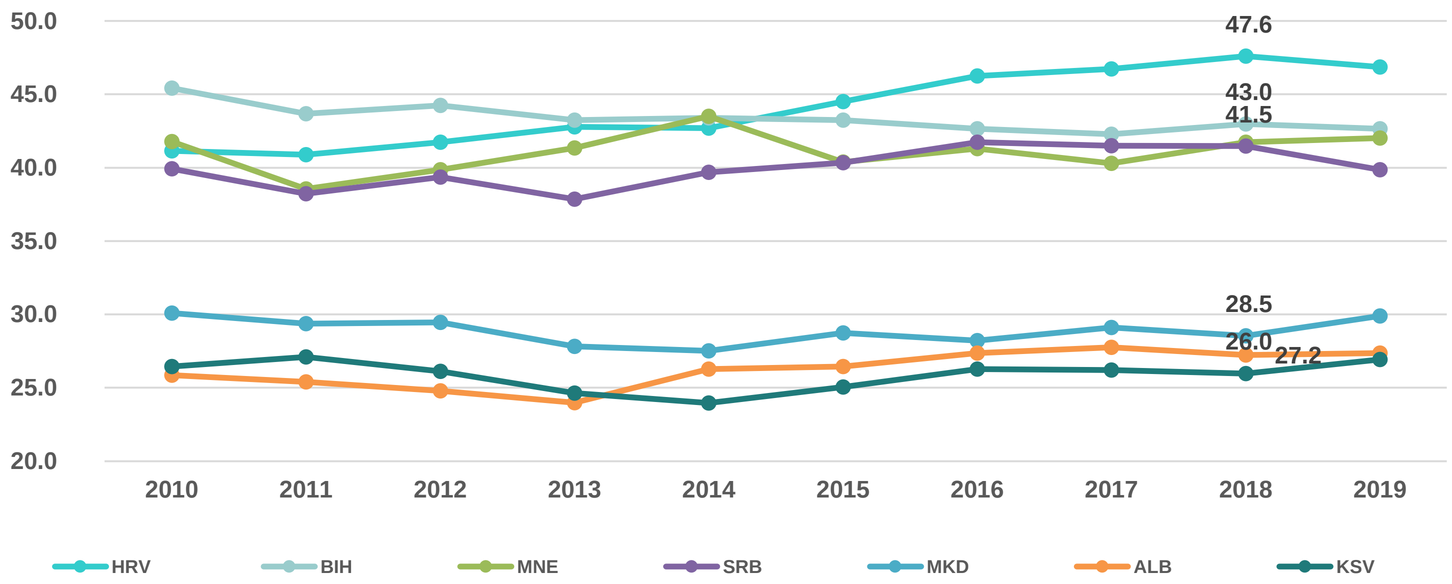
Active Enterprises according to Economic Activity - 2018





Source: Enterprise Survey, INSTAT

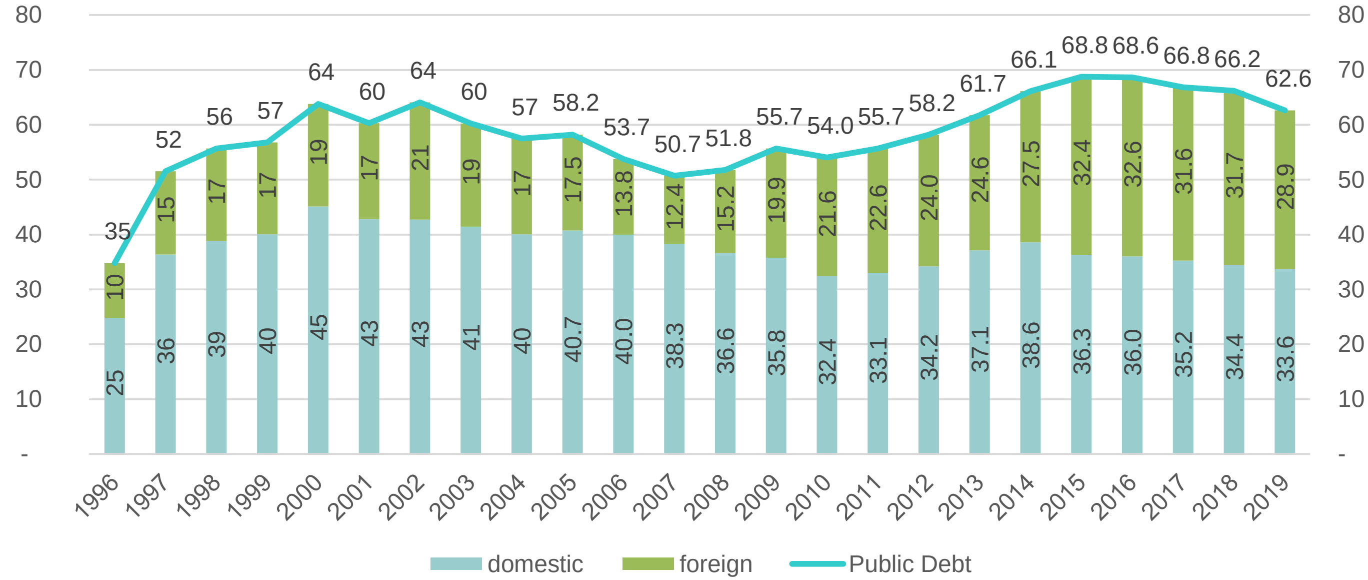
Government Revenues to GDP in the Countries of Balkan Region (in %)



Source: IMF, World Economic Outlook

Kosovo, Albania and North Macedonia have the lowest share of public sector revenues in the region economies, respectively 26%, 27.2% and 28.5% during 2018.

Dynamics of Public Debt 2005 – 2018 % of GDP



Source: Ministry of Finance, Macroeconomic and Fiscal Framework, 2018 – 2021

Public debt remains high, with a very slight trend of contraction after 2017.

Fiscal consolidation measures are reverting the dynamics of public debt toward a declining debt to GDP. More fiscal consolidation measures will ensure stable reverting trend of public debt.

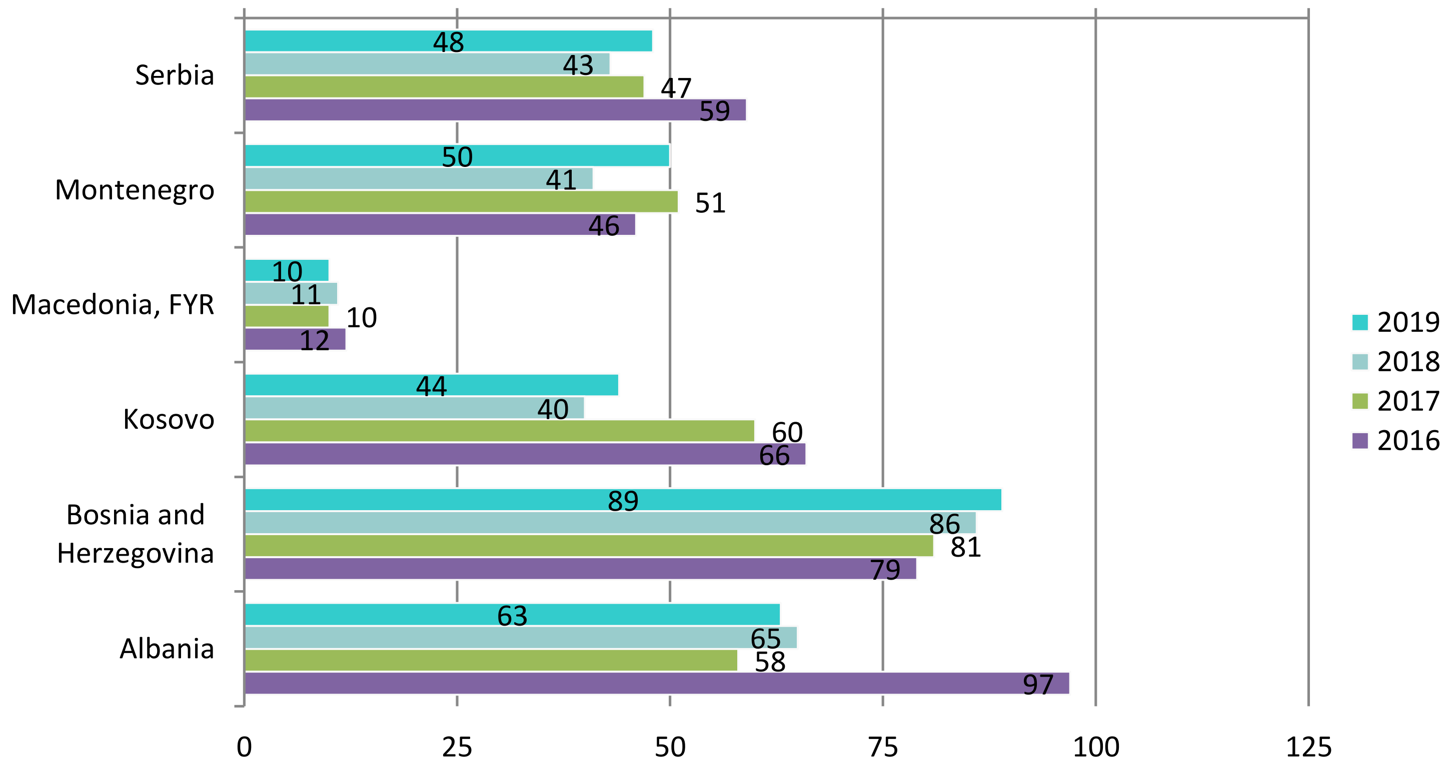
Main Taxes

- Value Added Tax - 20%
- Profit Tax on Annual Turnover:
  a) 0-5 Million ALL (≈ 36,500 EUR) – 0%
  b) From 5 Million ALL – 8 million ALL (≈ 58,400 EUR) – 5%
  c) Over 8 Million ALL – 15%
- Dividend Tax – 15%

Ranking of Albania in International Reports and Indexes

Index/ Report	Organization	2015/2016	2016/2017	2017/2018	2018/2019
Perception of Corruption	Transparency International	88 (out of 168 countries)	83 (out of 176 countries)	91 (out of 180 countries)	99 (out of 180 countries)
Economic Freedom	The Heritage Foundation	59 (out of 178 countries)	65 (out of 180 countries)	65 (out of 180 countries)	52 (out of 186 countries)
Doing Business	World Bank	97 (out of 189 countries)	58 (out of 190 countries)	65 (nga 190 vende)	63 (out of 190 countries)
World Competitiveness Index	World Economic Forum	93 (out of 140 countries)	80 (out of 138 countries	75 (out of 137 countries)	76 (out of 140 countries)

Ranking of Western Balkan Countries on Ease of Doing Business Indicator



Source: http://www.doingbusiness.org/data/exploreeconomies/

Albania ranking improved by 2 positions in 2018/2019 report.

Doing Business Indicators

Indicator	2014/ 2015	2015 / 2016	2016/ 2017	2018/ 2019
Starting a Business	54	58	46	50
Dealing with Construction Permits	122	189	106	151
Getting Electricity	159	162	156	140
Registering Property	104	107	106	98
Getting Credit	36	42	44	44
Protecting Minority Investors	18	8	19	26
Paying Taxes	130	142	97	122
Trading across Borders	37	37	24	24
Enforcing Contracts	96	96	116	98
Resolving Insolvency	40	42	43	39

Albania ranks the lowest in the area of dealing with construction permits, fiscal procedures and starting a business, protecting minority investors.

There is improvement on energy, enforcing contracts and registration of properties.

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Trading across Borders - DB 2017/2018

Export time and costs

	Albania	Europe & Central Asia
Time: Border compliance (hours)	9	22.1
Cost: Border compliance (USD)	55	157.5
Time: Documentary compliance (hours)	6	24.3
Cost: Documentary compliance (USD)	10	97.9
Ranking	**24 out of 190 economies**	

Competitiveness Indicators

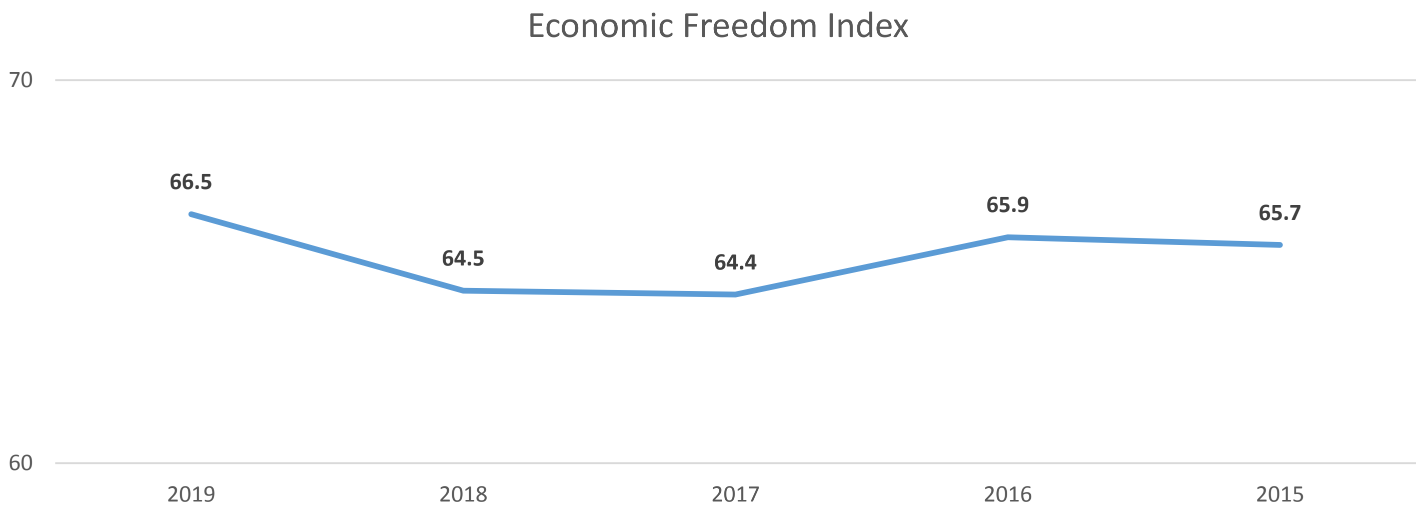
Indicator	2015-2016	2016/2017	2017/2018
Institutions	103	76	68
Infrastructure	90	91	94
Macroeconomic Environment	122	93	75
Health and Primary Education	62	33	36
Higher Education and Training	60	42	80
Goods Market Efficiency	93	69	49
Labour Market Efficiency	93	98	57
Financial Market Development	114	94	91
Technological Readiness	91	82	81
Market Size	105	109	78
Business Sophistication	104	94	105
Innovation	120	109	74

Source: World Economic Forum - Competitiveness Report 2017-2018

Institutions, market efficiency and innovations have improved.

Education and business sophistications are indicators of competitiveness in deterioration.

Economic Freedom Indicators



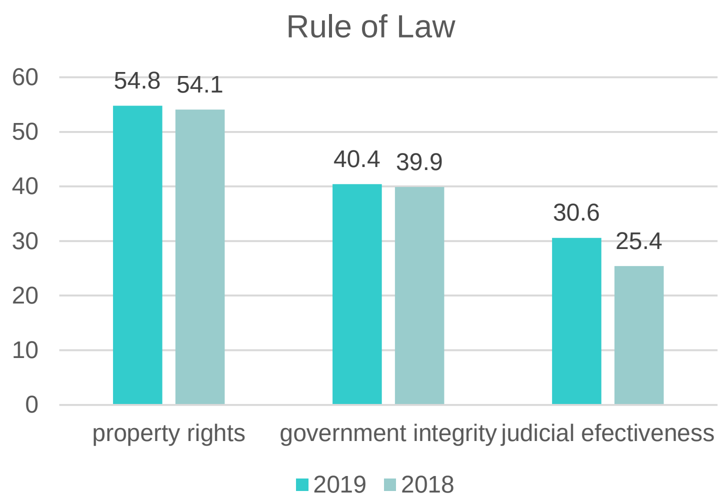
Source: https://www.heritage.org/index/about

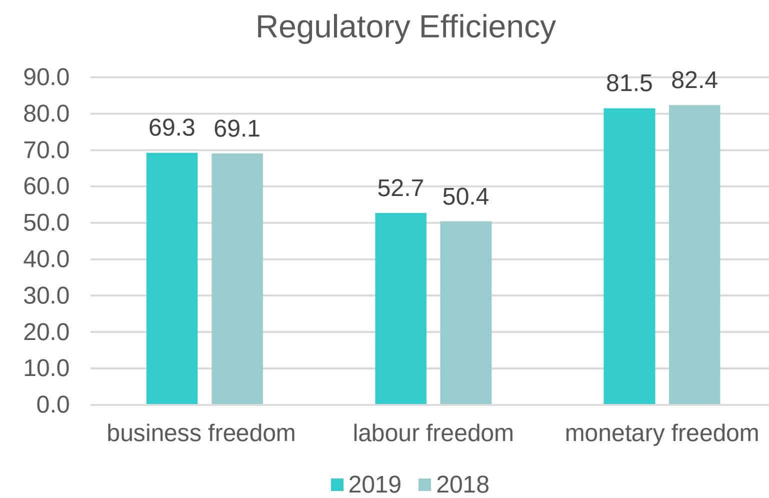
Albania ranks 52nd in the world, improving by 2 points since last year.

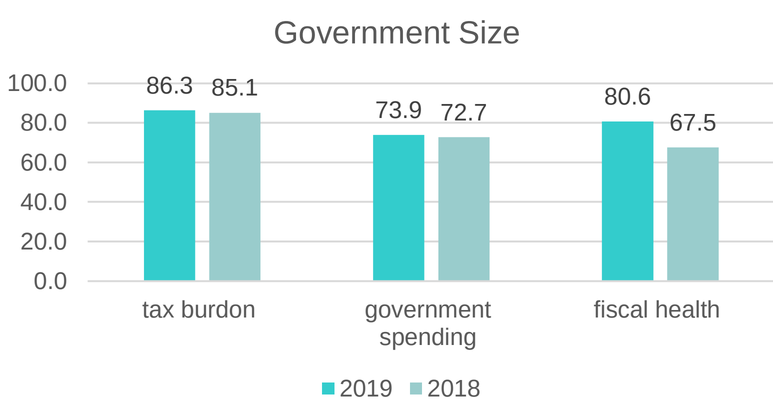
At the regional level, Albania is ranked 27th out of 44 European countries.

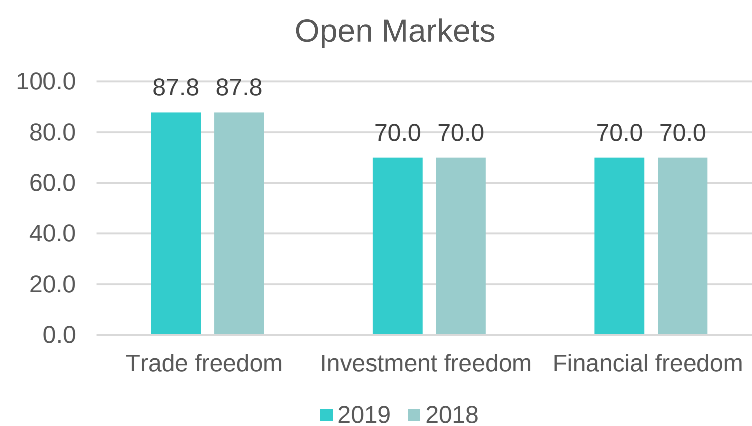
The country stands below the European average (68.8), but it is above the world average (60.8).

Economic Freedom Indicators









2018 EBRD Knowledge Economy Index

	Ranking (46 EBRD economies)	Total score (out of 10)	Institutions for innovation	Skills for innovations	Innovative systems	ICT infrastructure
Serbia	13	5.13	5.76	5.46	3.26	6.02
Montenegro	14	5.04	6.20	5.16	2.88	5.92
North Macedonia	22	4.50	5.74	3.83	3.27	5.18
Albania	25	4.36	5.64	4.79	2.36	4.67
Bosnia and Hercegovina	29	4.10	5.04	4.13	2.88	4.35
Kosovo	35	3.22	4.81	2.75	3.12	2.20

Source: https://www.ebrd.com/news/publications/brochures/ebrd-knowledge-economy-index.html