

ECONOMIC OUTLOOK 2018

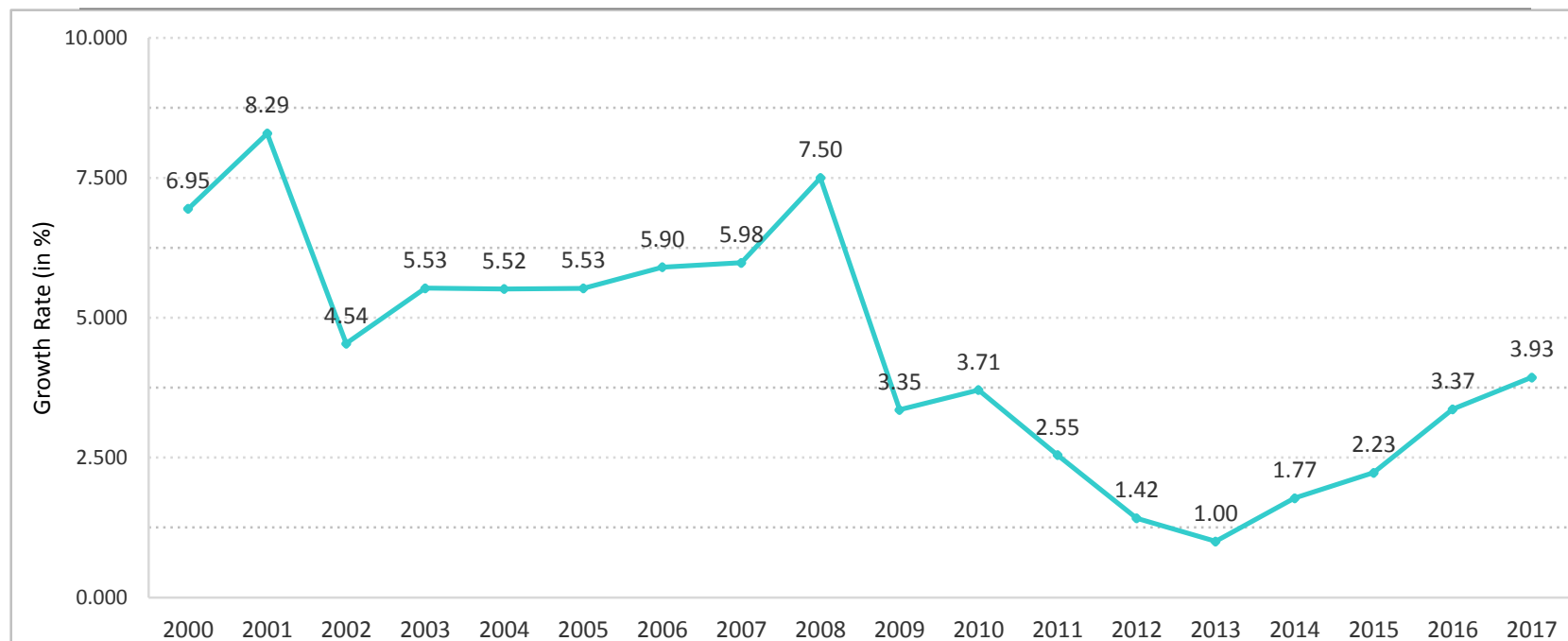
ALBANIA

*Secretariat
Investment Council Albania
October, 2018*

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.

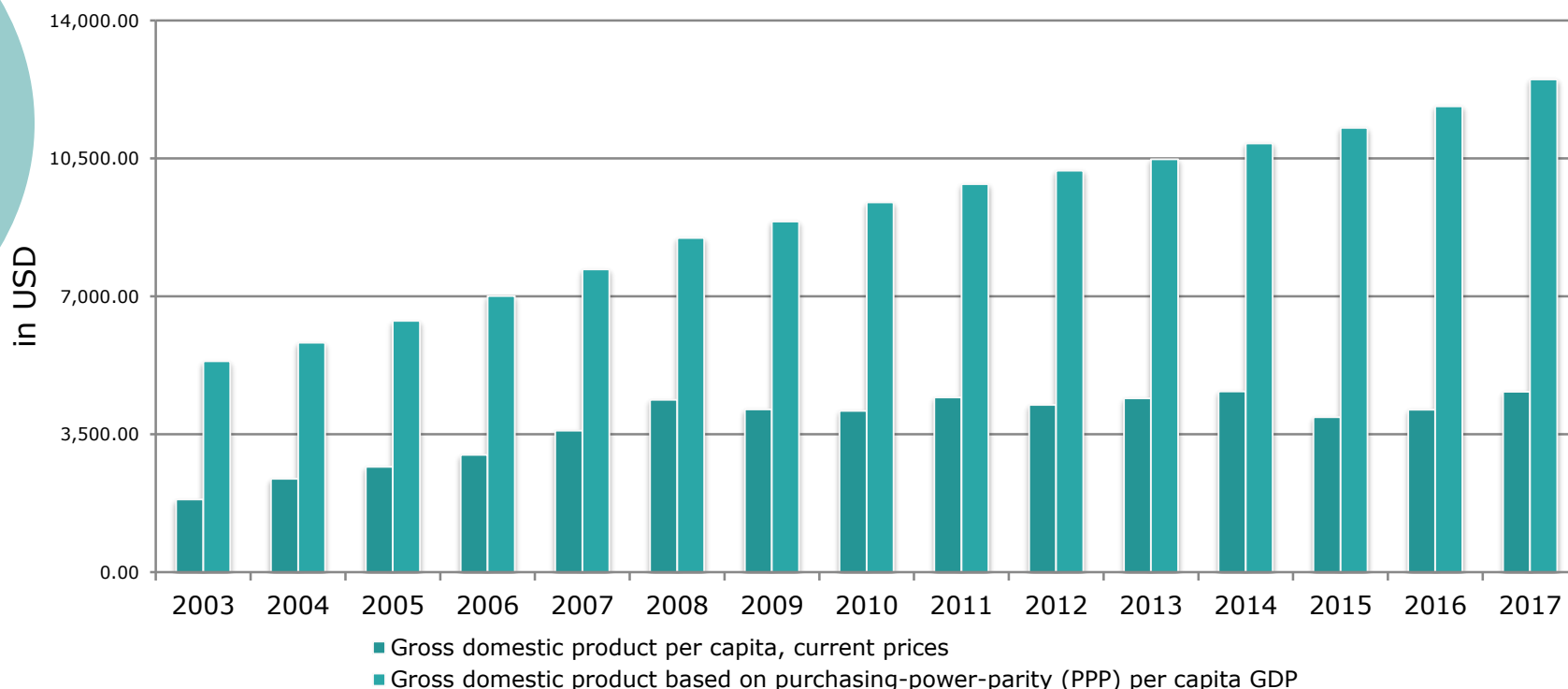
Economic Growth in Years



Source: IMF International Monetary Fund, World Economic Outlook Database, April 2016. After 2012 the values are estimations.

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. In the first half of 2018, economic growth was announce at the rate of 4.42%(see:

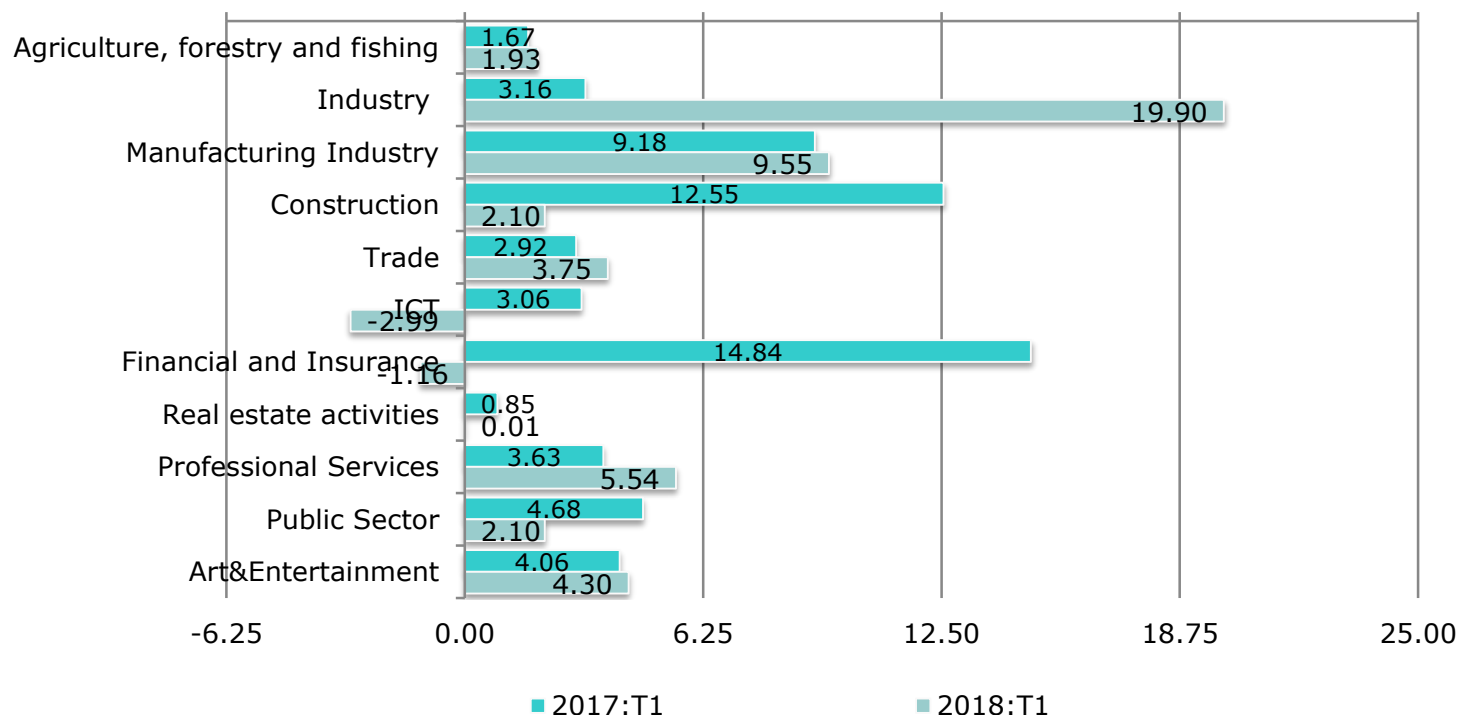
Gross Domestic Product per Capital



Source: IMF International Monetary Fund, World Economic Outlook Database, April 2018. After 2016, the values are estimations.

In 2017, GDP per capita was reported to estimated to reach 4,582 in current USD or 12,507 USD based on purchasing power parity (PPP).

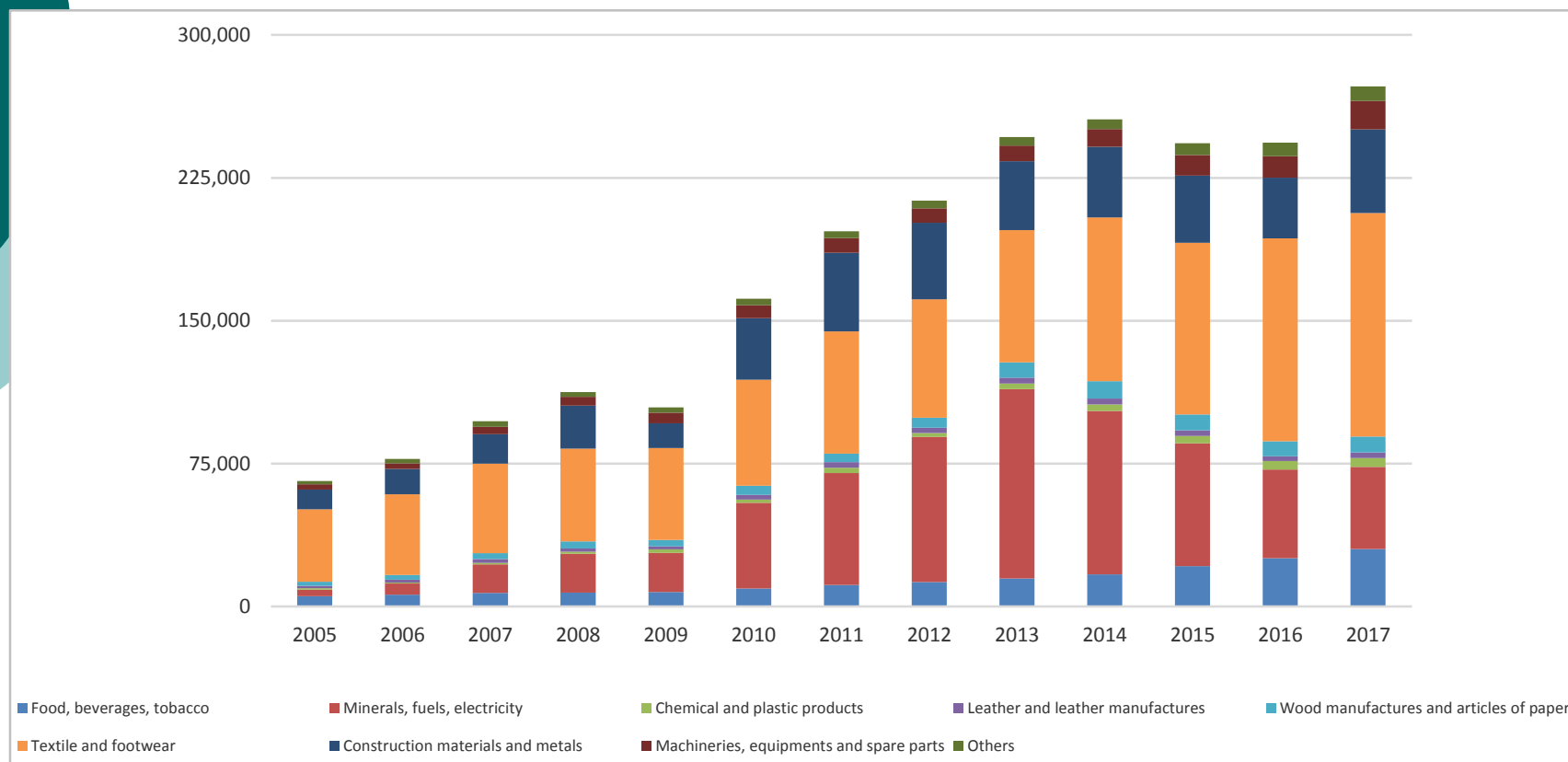
Sectors' Contribution to Economic Growth (yoy, in %)



Source: INSTAT, Annual National Accounts 2018 (Production Methods)

- Main sources of economic growth are industry, professional services and recreation activities.
- Construction sector, financial activities and ICT sector impact on growth manifests contraction in 2018 if compared to 2017.
- Agriculture sector, real estate activity and trade remain stable in their contribution to growth.

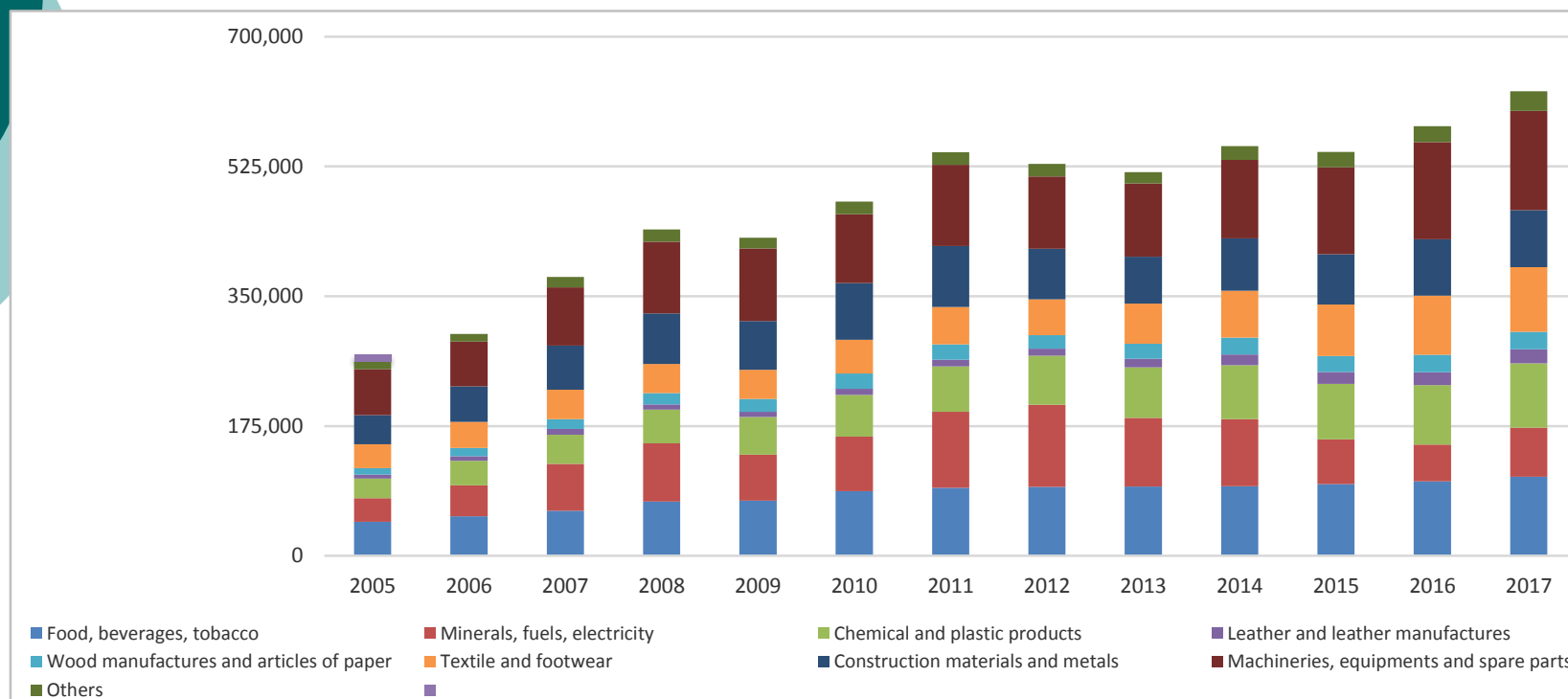
Albanian Exports 2015-2017 (Per group of commodities, in million ALL)



Source: INSTAT, Foreign Trade according commodities 2005- 2017

Main Exports are from textiles, mineral products, electricity and fuels, construction materials and metals followed by agro-food products.

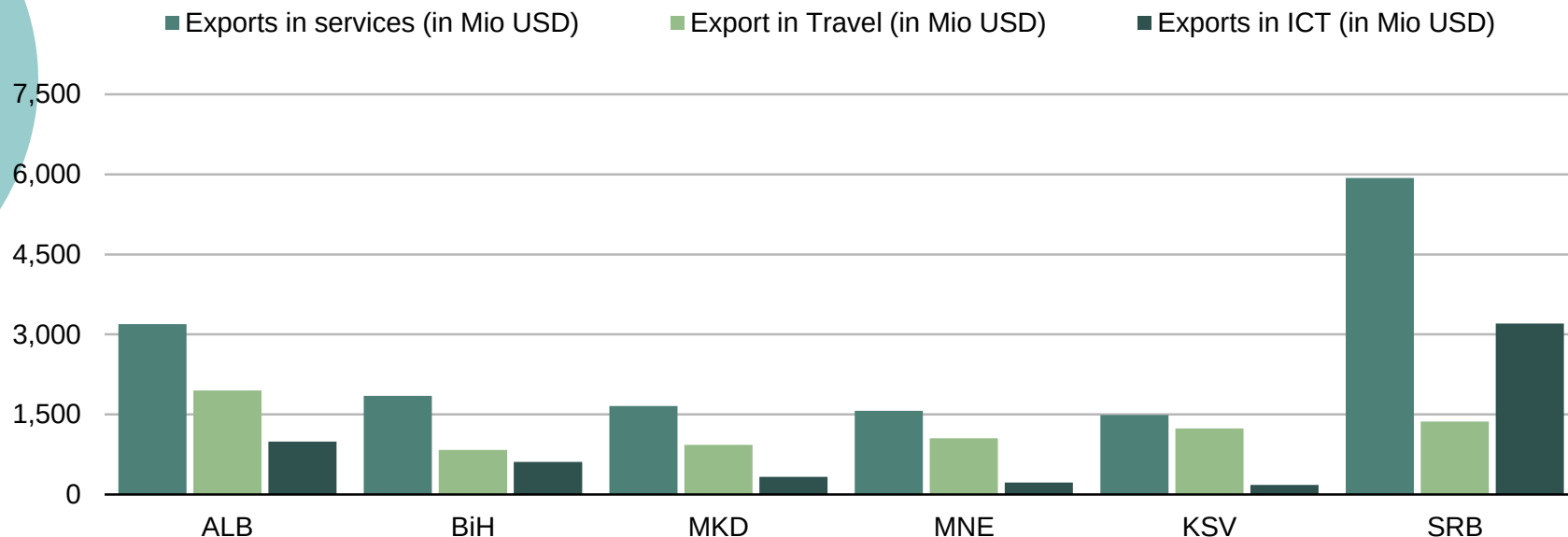
Albanian Imports 2005-2017 *(Per group of commodities, in million ALL)*



Source: INSTAT, Foreign Trade according commodities 2005-2017

Imports are dominated by machineries and equipments, followed by food, beverages and tobacco products, minerals and fuels as well as plastics

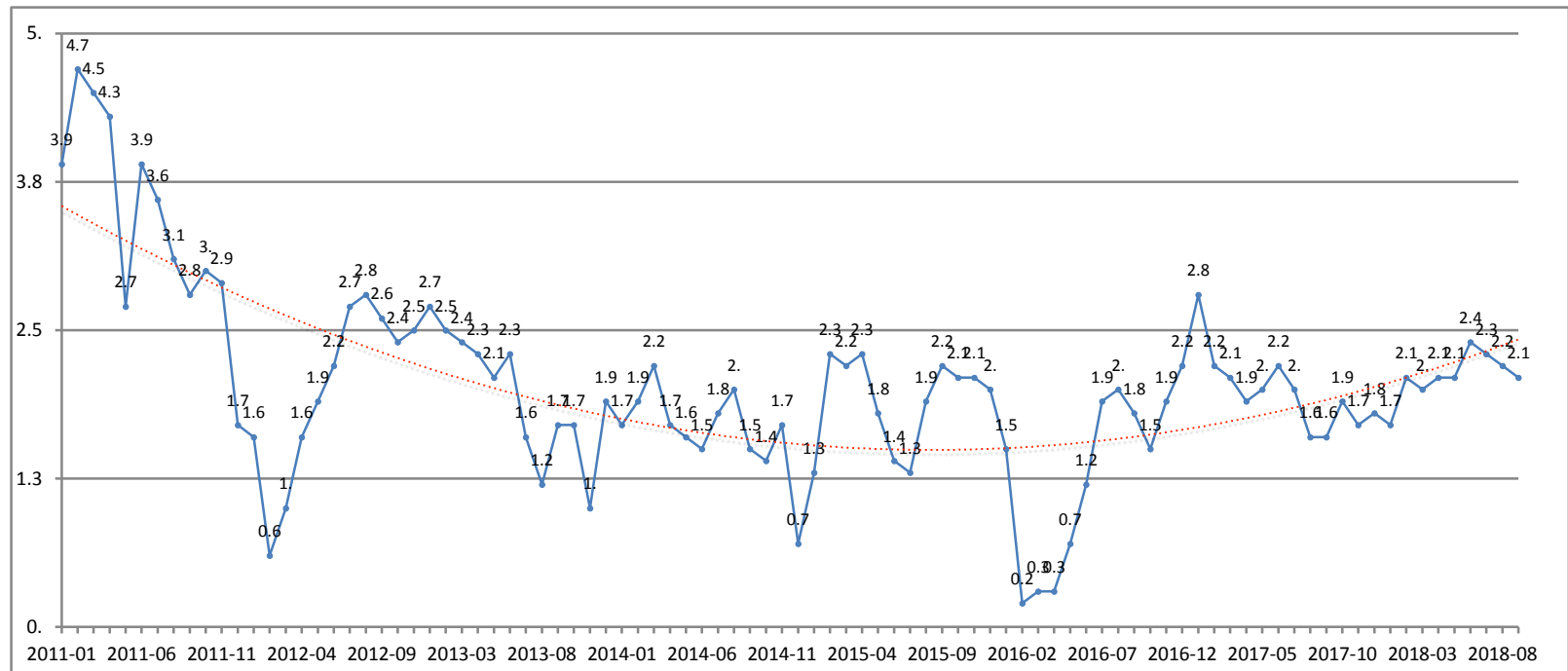
EXPORTS IN SERVICES IN 2017 – REGIONAL CONTEXT



Source: World Development Indicators,

Albania ranks second in the region regarding exports of services, which are mainly dominated by exports of tourism and travel. ICT exports in 2017 represented 31% of total service exports for Albania. ICT exports in the region (in value) are the highest in Serbia, while for FYR of Macedonia exports of ICTs represent 54% of exports in services. Travel exports represent the largest share of service exports for Kosovo, Montenegro and Albania,

Consumer Index Price



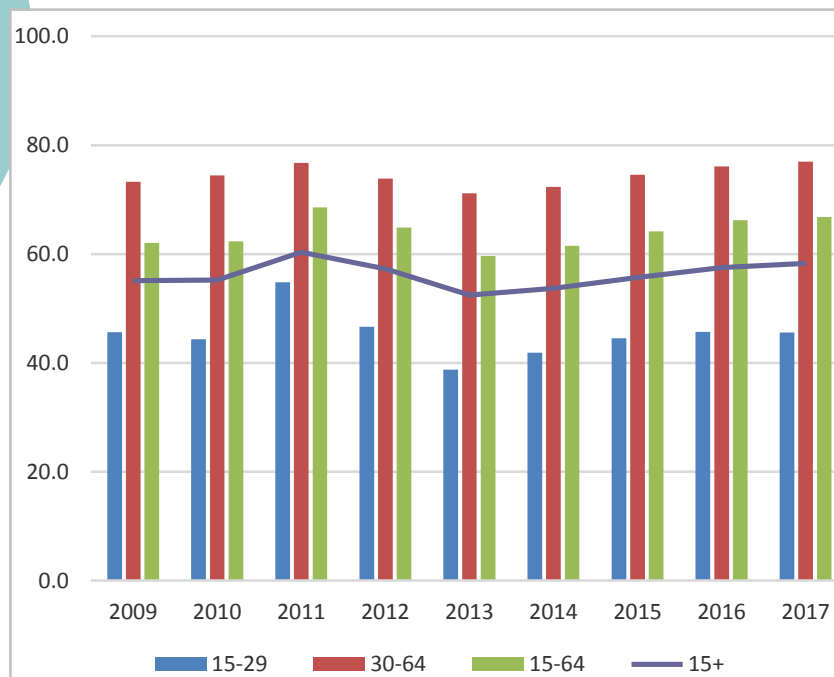
Source: INSTAT, April 2018

Inflation in all these years has been stable and within the threshold of monetary policy objectives, which is a 4% yoy rate of inflation.

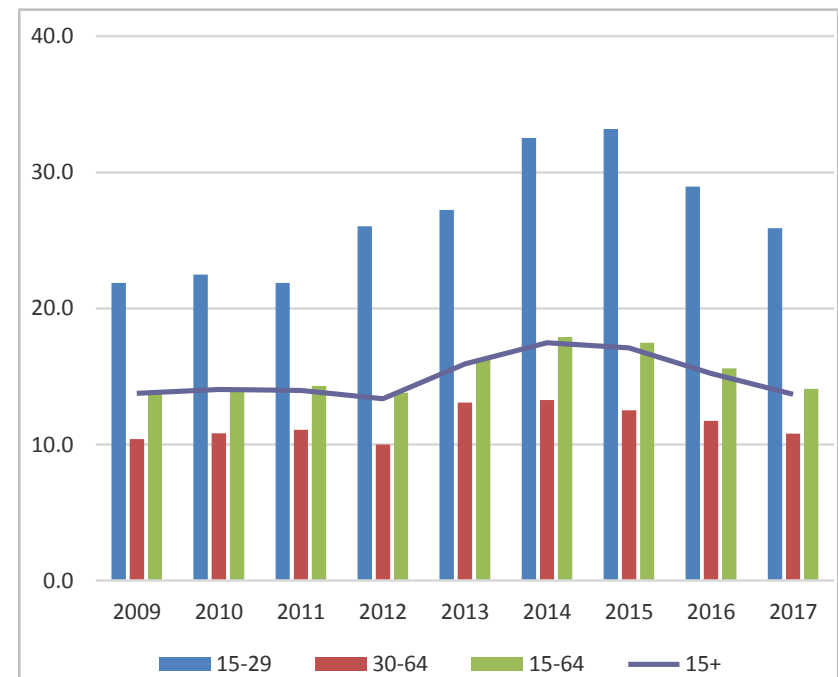
Inflation rate was reported to 2.1% (yoy) in September 2018.

Labour Force per Age Categories

Labour Force Participation rate in(%)



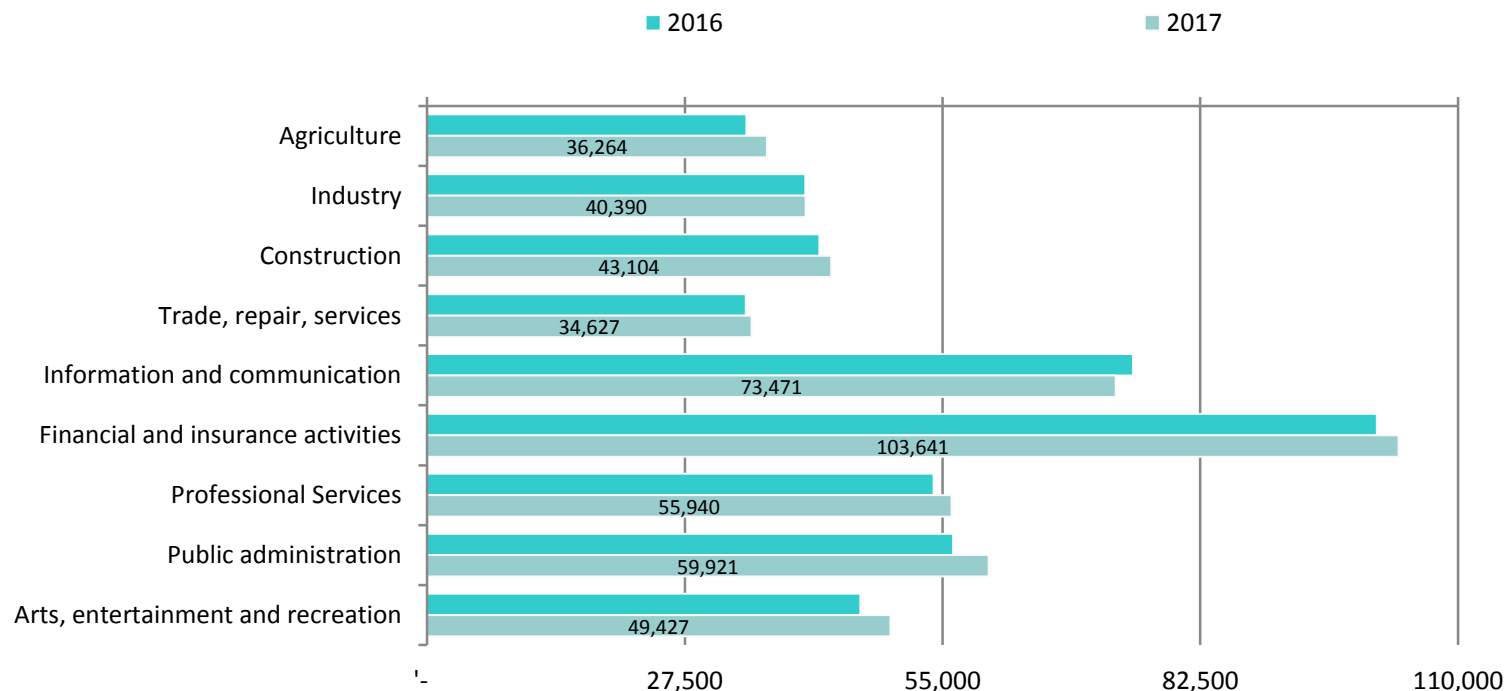
Unemployment %



Source: INSTAT, Labour Force Survey, 2017

- During 2017, Increasing labour participation and declining unemployment lead to higher employment.
- Youth unemployment remains still the highest if compared to other unemployed age groups.

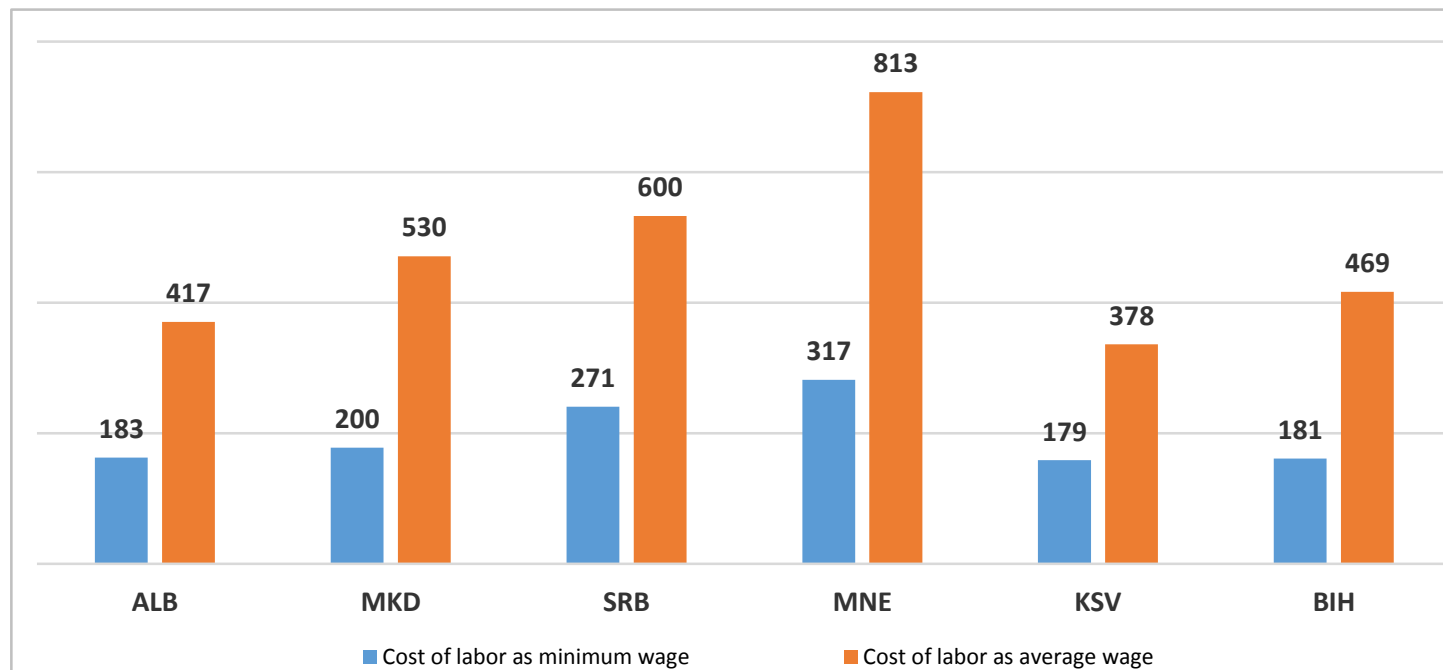
Average Wages per Sector (in ALL)



Source: INSTAT, General Directorate of Tax, 2016-2017

- The highest wages in 2017 were recorded in financial and insurance sector, followed by ICT. Lowest wages are reported in trade, repair services and transport.
- Fastest growing wages are reported in art and entertainment sector followed by public administration.
- Average wages in 2017 is reported to 55,198 ALL (442 Eur) and increased by 2.78% yoy.

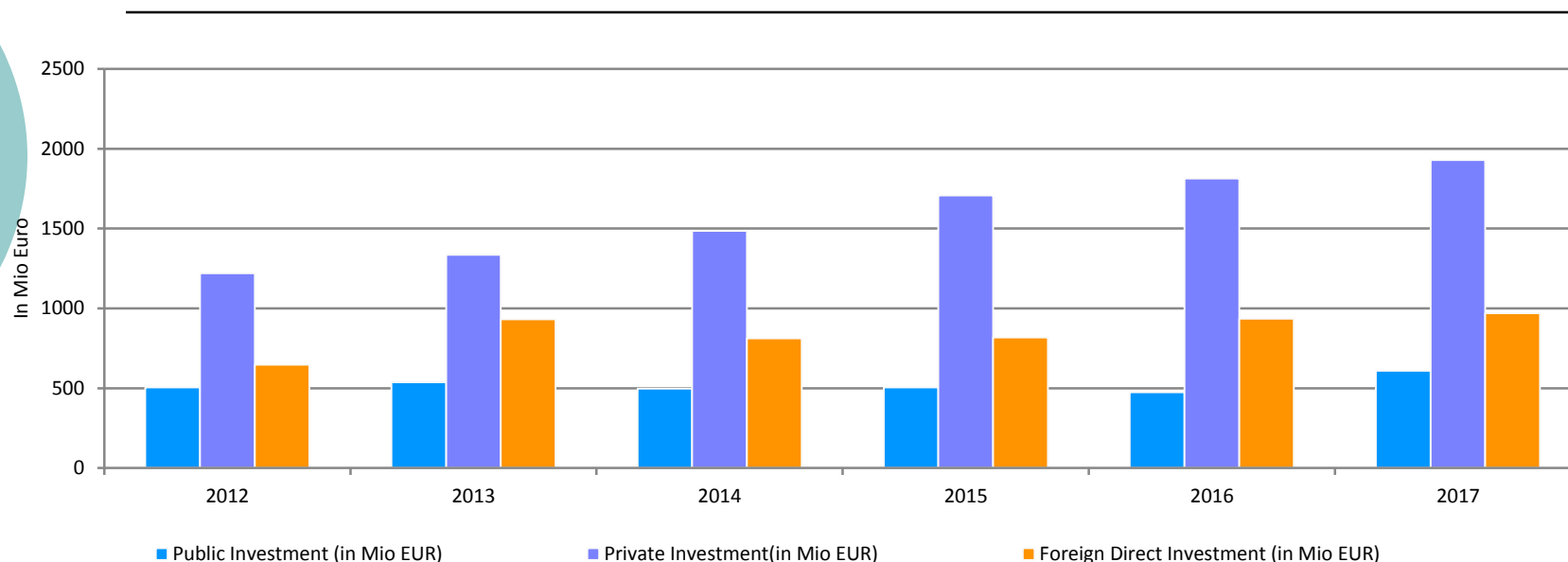
Cost of Labor for Western Balkans Countries, 2015 (EUR)



Source: Statistical Offices of Countries, for Albania is used as reference the public administration salary of 2015.

- Albania compared to other Western Balkans Countries has a lower cost of wage if measured through average wage
- If cost of labour is compared through minimum wage, the cost of labour in Albania is comparable with Kosovo, Bosnia and Herzegovina and Macedonia.

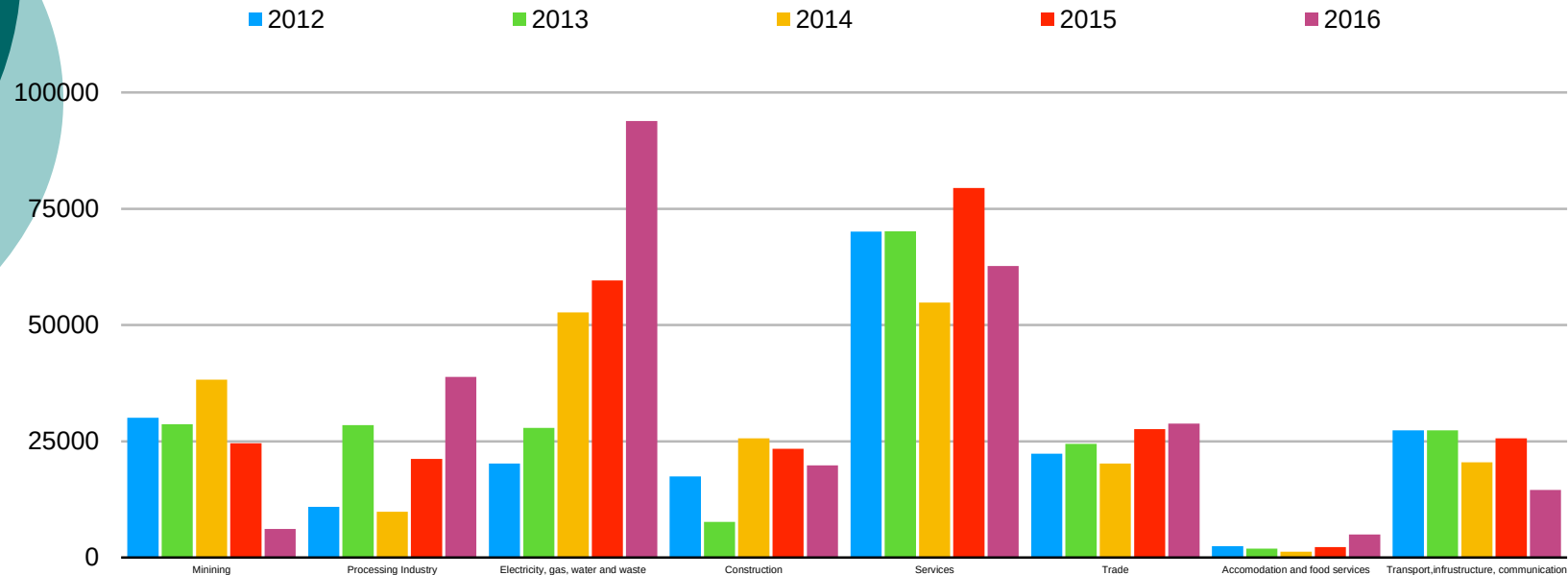
Public, Private and Foreign Investments in Albania (in Mio Euro)



Source: Ministry of Finance, Bank of Albania, INSTAT

- Positive trend in private investments after 2015 are observed;
- FDIs and public investment are slowly taking off and entering in a positive cycle.

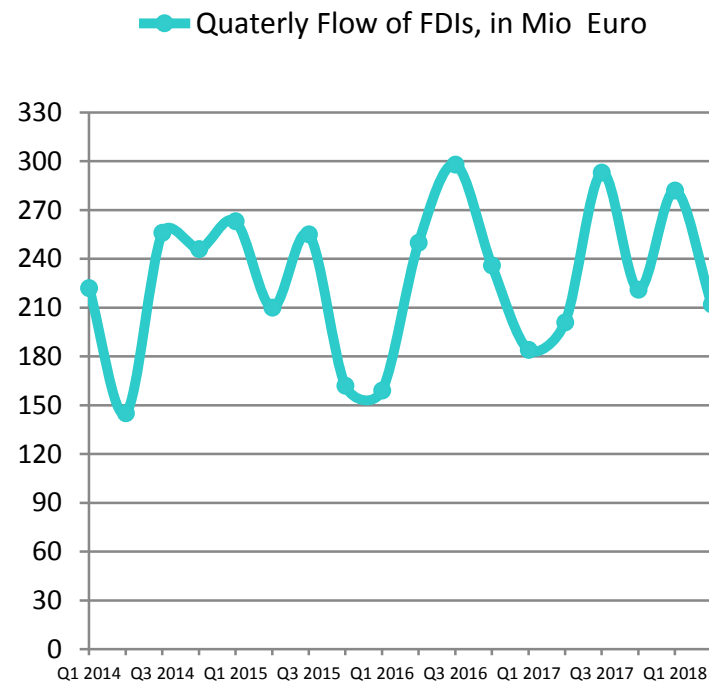
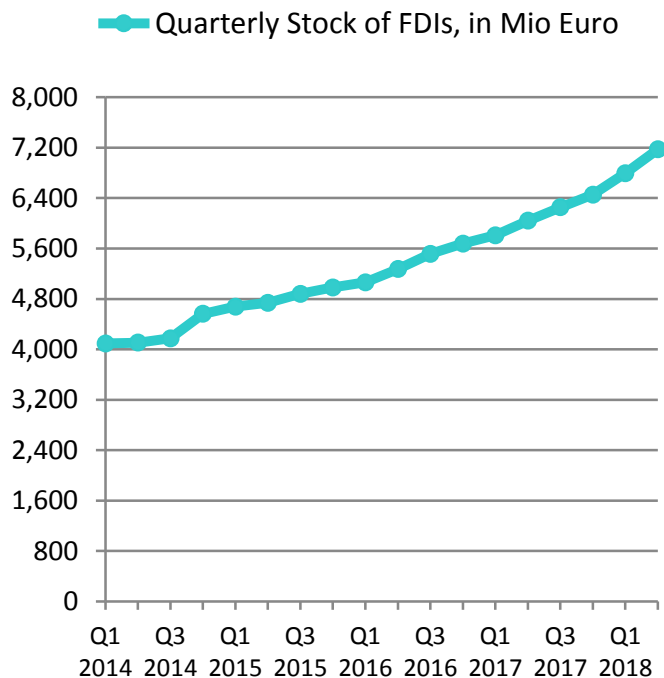
Investments per Sector (Mio ALL)



Source: INSTAT – Enterprises Surveys

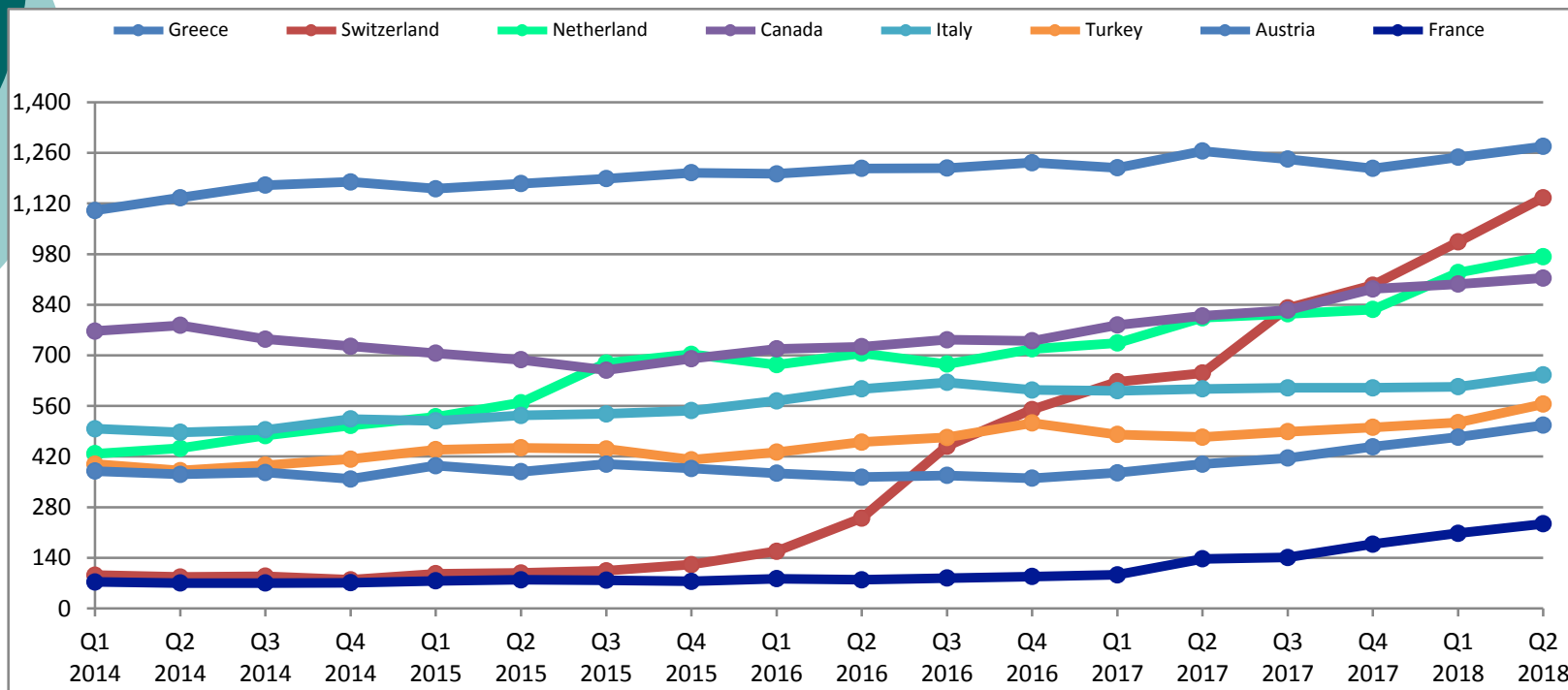
- Electricity, gas, water and waste sector as well as processing industry have reported the largest investments growth in 2016 (yoy).
- Investments in 2016 contracted in transport and communication sector and mining.
- Investment in accommodation and food services are the lowest in absolute values, while experiencing very positive dynamics in 2016.

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.

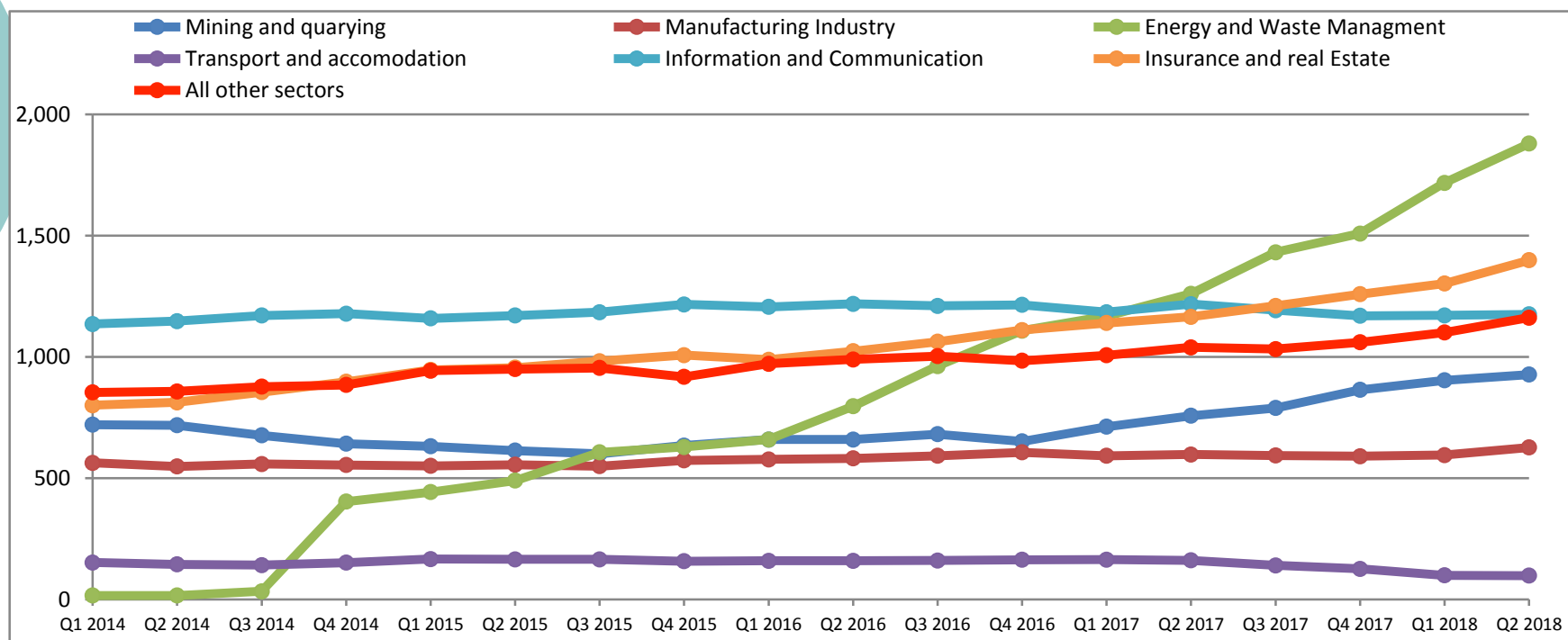
FDI Stock according to Countries of Origin (Mio EUR)



Source: Bank of Albania, October 2018

- Greece continues to lead the stock of FDIs in volume terms;
- Strong positive dynamics of FDIs from Switzerland, Netherland and France are observed in the first half of 2018.

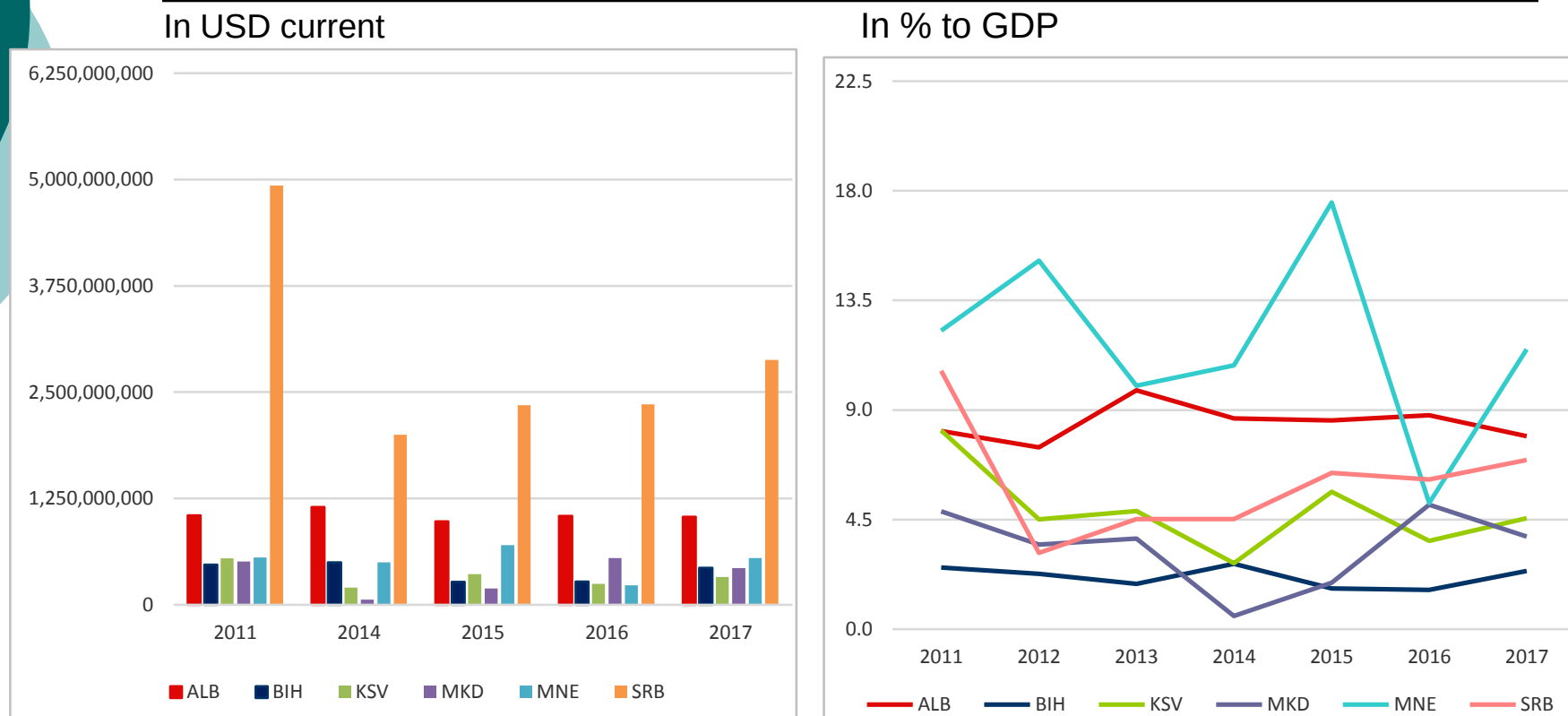
Quarterly Stock of FDI per Economic Activity (Mio EUR)



Source: Bank of Albania, October 2018

- 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



Source: World Development Indicators

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

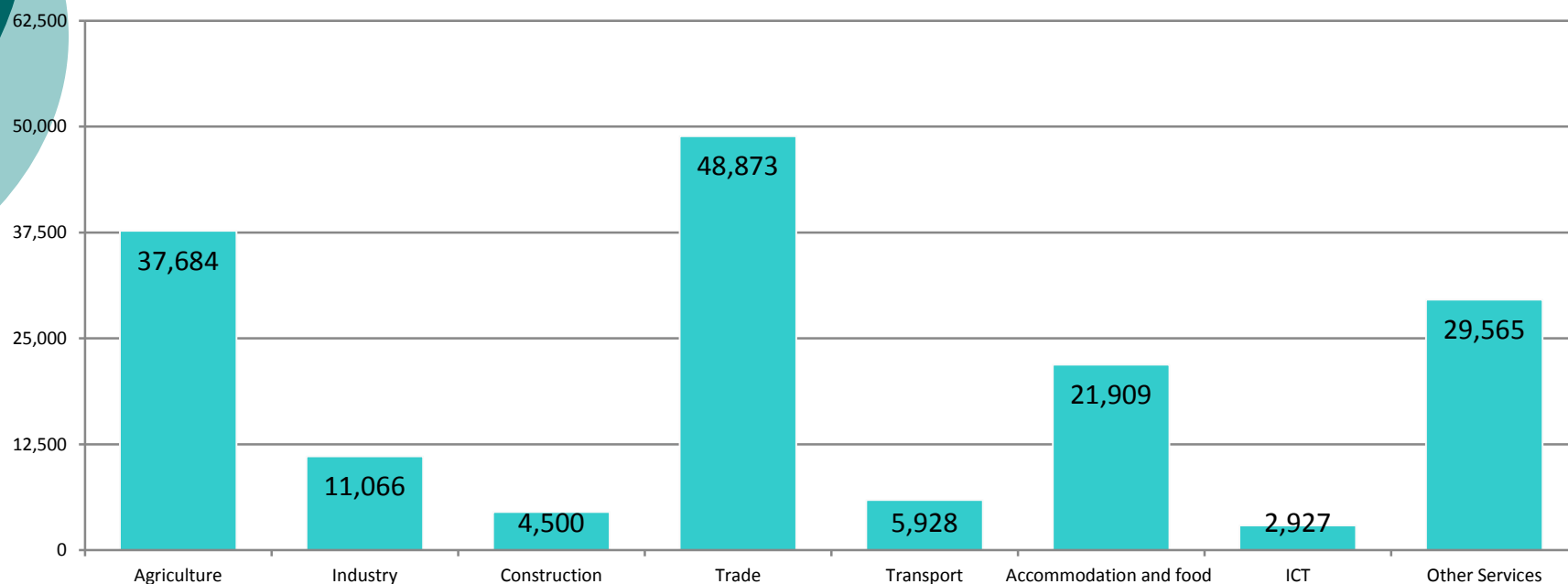
Stock and Profile of Enterprises 2010 - 2016

Per number of employees	Years						
	2011	2012	2013	2014	2015	2016	2017
Total	109,039	106,837	111,083	112,537	152,288	160,679	162,452
1-4	97,836	95,520	99,782	101,025	136,470	145,456	146,304
5-9	5,194	5,636	5,235	5,387	8,172	7,631	8,023
10-49	4,744	4,439	4,660	4,647	5,994	5,902	6,297
50+	1,265	1,242	1,406	1,478	1,652	1,690	1,828
Producers of goods	17,099	16,413	16,842	16,989	37,950	48,585	53,250
1-4	12,991	12,592	13,071	13,273	33,255	44,179	48,819
5-9	1,717	1,718	1,565	1,603	2,080	1,865	1,842
10-49	1,923	1,650	1,681	1,562	1,971	1,877	1,851
50+	468	453	525	551	644	664	738
Producers of services	91,940	90,424	94,241	95,548	114,338	112,094	109,202
1-4	84,845	82,928	86,711	87,752	103,215	101,277	97,485
5-9	3,477	3,918	3,670	3,784	6,092	5,766	6,181
10-49	2,821	2,789	2,979	3,085	4,023	4,025	4,446
50+	797	789	881	927	1,008	1,026	1,090

Source: Enterprise Survey, INSTAT

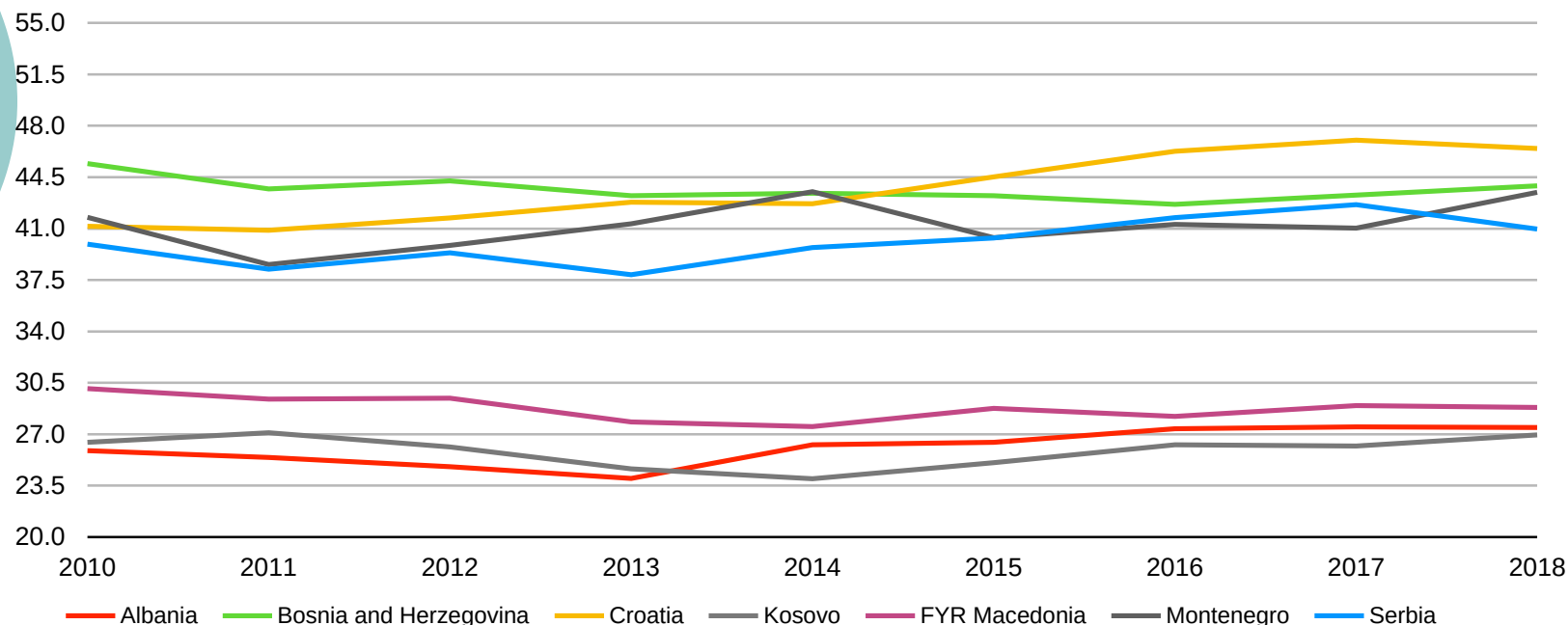
- Enterprise structure in Albanian economy is dominated by micro, small and medium enterprises which represent 99% of enterprises.
- In 2017, 33% of registered enterprises were operating as producers of goods, 67% were reported as operators in services sector.

Active Enterprises according to Economic Activity - 2017



Source: Enterprise Survey, INSTAT

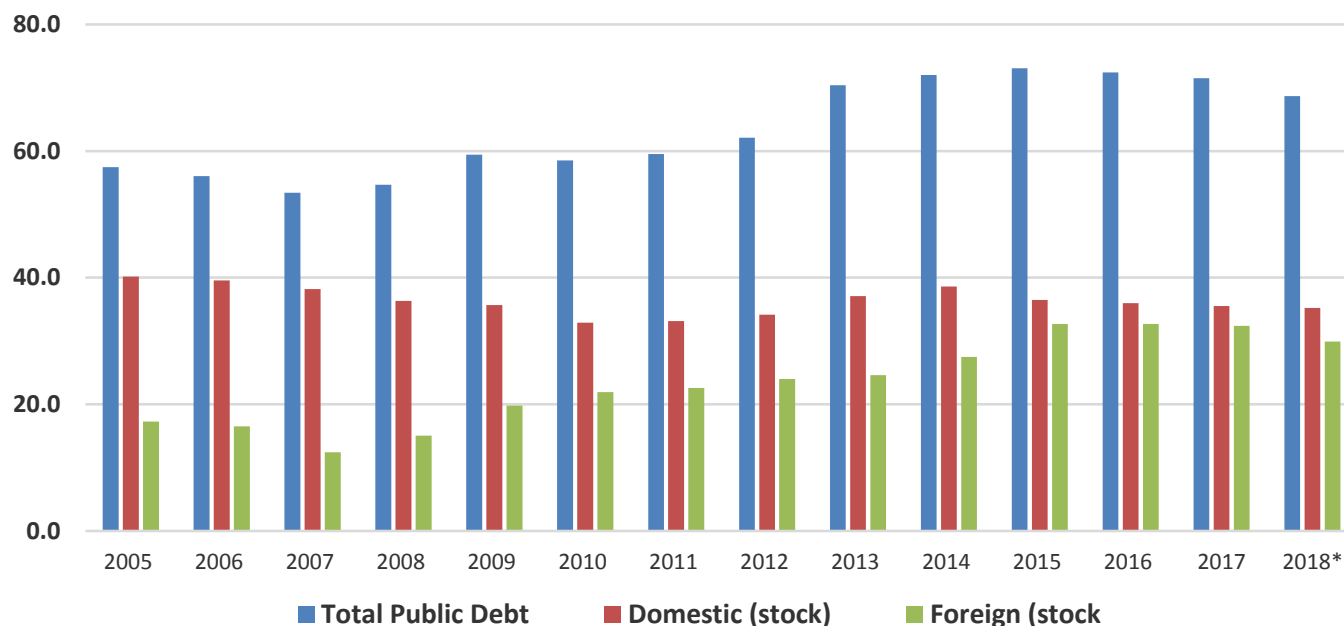
Government Revenues to GDP in the Countries of Balkan Region (in %)



Source: IMF, World Economic Outlook, October 2018

The share of government revenues to GDP for Albania ranks among the lowest in the region, however it has been on an increasing trend from 2013.

Dynamics of Public Debt 2005 - 2018



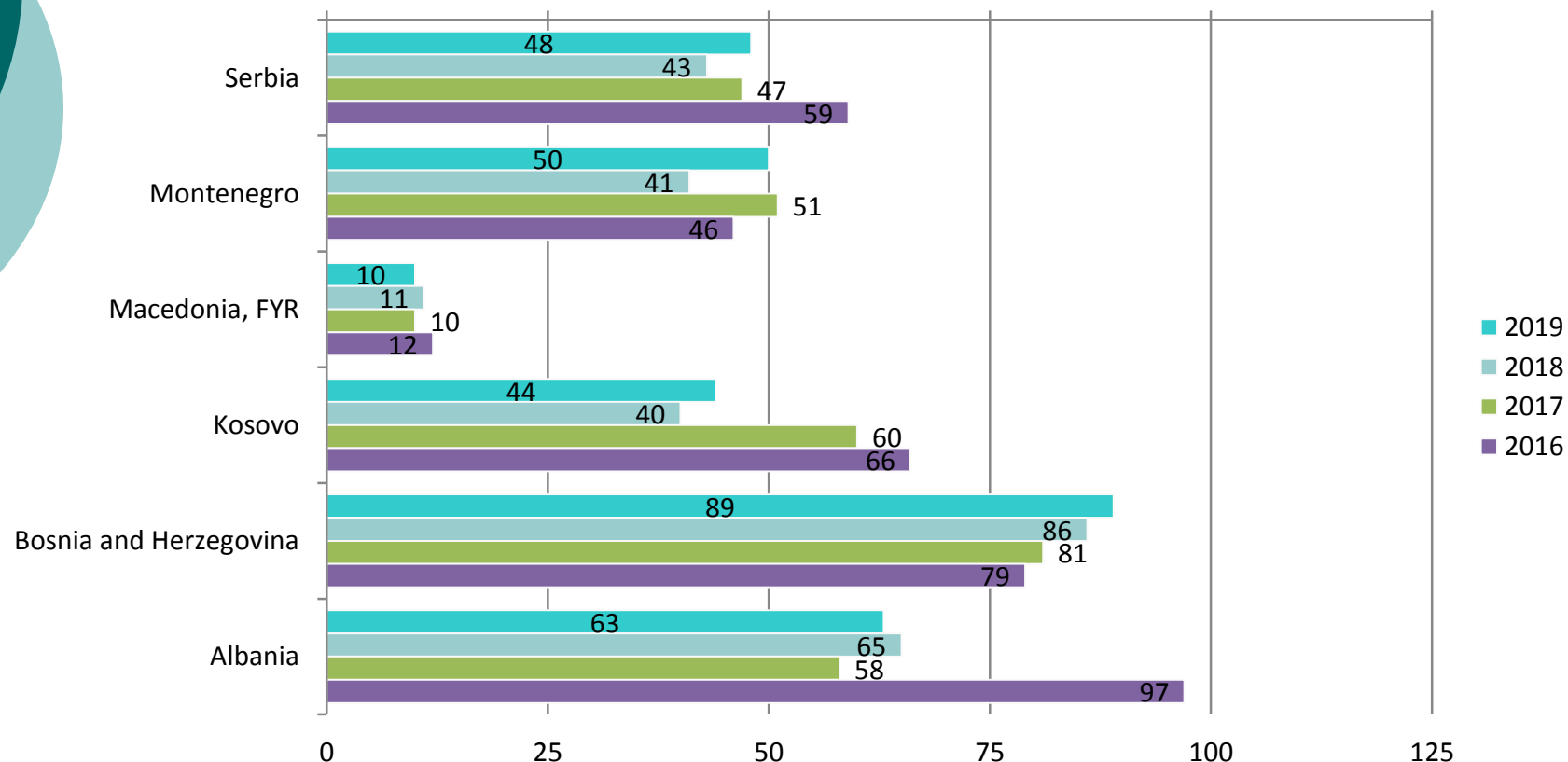
Source: Ministry of Finance, Macroeconomic and Fiscal Framework, 2018 – 2021

- 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 for 2018

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

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.

Ranking of Albania in International Reports and Indexes

Index/ Report	Organisation	2014/2015	2015/2016	2016/2017	2017/2018
Perception of Corruption	Transparency International	110 (out of 175 countries)	88 (out of 168 countries)	83 (out of 176 countries)	91 (out of 180)
Economic Freedom	The Heritage Foundation	54 (out of 178 countries)	63 (out of 178 countries)		65 (out of 180 countries)
Doing Business	World Bank	62 (out of 189 countries)	97 (out of 189 countries)	58 (out of 190 countries)	63 (out of 190 countries)
World Competitiveness Index	World Economic Forum	97 (out of 144 countries)	93 (out of 140 countries)	80 (out of 138 countries)	75 (out of 137 countries)

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, energy, fiscal procedures and property registration. There is improvement on energy, enforcing contracts and registration of properties. Albania ranks best in indicators relating to financial system.

Trading across Borders - DB 2017/2018

Export time and costs

	Albania	Europe & Central Asia
Time: Border compliance (hours)	9	28
Cost: Border compliance (USD)	55	195
Time: Documentary compliance (hours)	6	27
Cost: Documentary compliance (USD)	10	111
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

- Institutions, market efficiency and innovations have improved;
- Education and business sophistications are index of competitiveness in significant deterioration;

Economic Freedom Indicators

Indicator (ranked 65 th position)	2016	2018
Property Rights	86	79
Freedom from Corruption	113	156
Fiscal Freedom	34	47
Government Spending	72	77
Business Freedom	80	73
Labour Freedom	128	134
Monetary Freedom	49	56
Trade Freedom	37	14
Investment Freedom	50	58
Financial Freedom	19	35

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

- Corruption, labour market are the most problematic areas in the economic freedom index; whereas trade freedom is considered favorable.
- Investment freedom and financial freedom are reported as deteriorating.