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Albania in a snapshot
Deloitte Albania
Tirana, October 2019

This Economic Snapshot presents an overview of Albania, in terms of country's perspectives for development in comparison with Western Balkan region.

What does Albania have to offer? What are the key performance indicators based on the latest economic reports? How do they change in short-term and long-term projections? How is the market developing? Next new opportunities…

Deloitte aims to provide a general understanding on opportunities and risks of the current economy in order to support local and international companies in the pursuit of their key objectives.
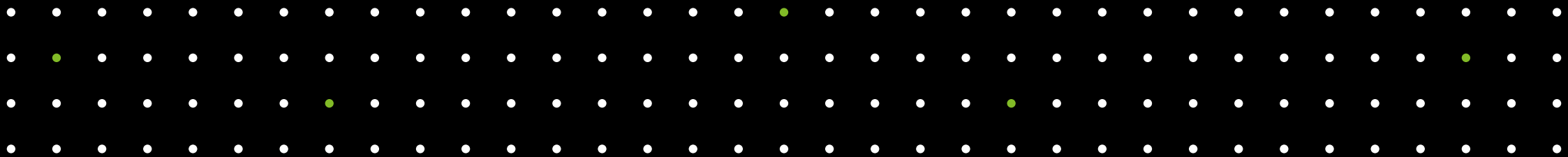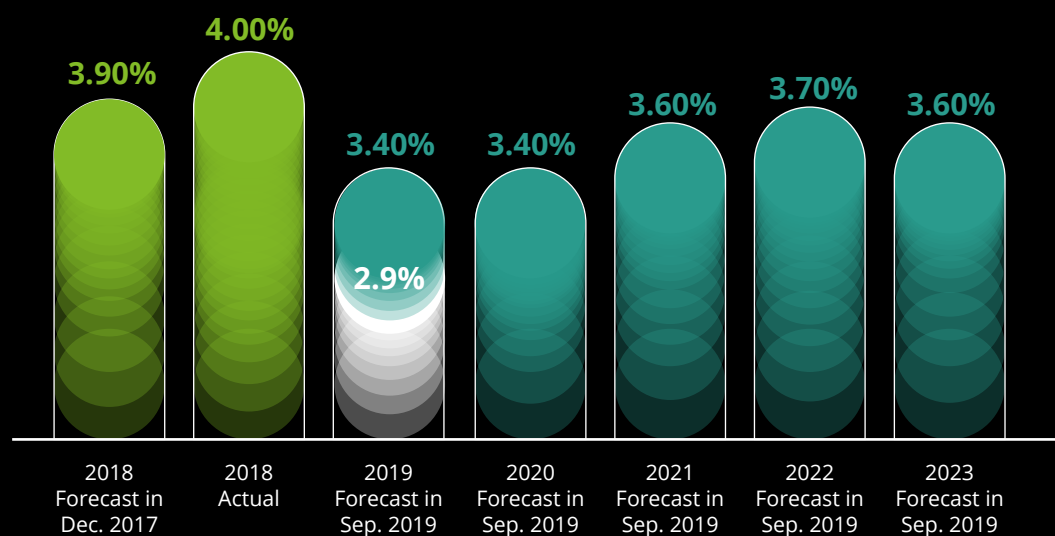
GLOSSARY

B&H	Bosnia & Hercegovina
CAGR	Compound Annual Growth Rate
CPI	Consumer Price Index
EIU	Economist Intelligence Unit
EU	European Union
EUROSTAT	European Statistics
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
INSTAT	Instituti i Statistikave
NPL	Non Performing Loans
ROA	Return on Assets
ROE	Return on Equity
WB6	Western Balkan 6 countries: Albania, Bosnia & Hercegovina, Kosovo, Montenegro, Macedonia, Serbia.
TAP	Trans Atlantic Pipeline

Economic Insights
GDP Trends

Real GDP growth rate, Albania

3.90% — 2018 Forecast in Dec. 2017
4.00% — 2018 Actual
3.40% / **2.9%** — 2019 Forecast in Sep. 2019
3.40% — 2020 Forecast in Sep. 2019
3.60% — 2021 Forecast in Sep. 2019
3.70% — 2022 Forecast in Sep. 2019
3.60% — 2023 Forecast in Sep. 2019

Source: Economist Intelligence Unit, September 2019
Note: According to World Bank, the GDP growth rate in 2019 is forecasted at 2.9%

According to EIU, GDP growth for Albania in 2018 is at 4.0%, surpassing the forecasted GDP growth of 3.9% and registering the strongest performance since 2008. The growth has been driven by robust household consumption, stemming from the decline in unemployment and continuing strong demand from euro zone markets. However, economic growth slowed in the fourth quarter of 2018. This trend continued in first quarter of 2019, when growth was 2.2% year on year, down from 3.3% in the previous quarter.

Economic expansion is forecasted to slow down from 2019 onwards, specifically is expected to decrease to 3.4% in 2019 and remaining on a steady average of 3.6% for the 2020-23 period, as demand for Albanian exports moderates in the country's main EU markets. However, World Bank published a revised expansion forecast estimating real GDP growth rate for 2019 at 2.9%.

Economic Insights
GDP Trends

Economic Growth by sectors, actual figures
(Albania 2018)

1.10%
Government Consumption

2.80%
Investments

3.00%
Private Consumption

-0.50%
Net Exports

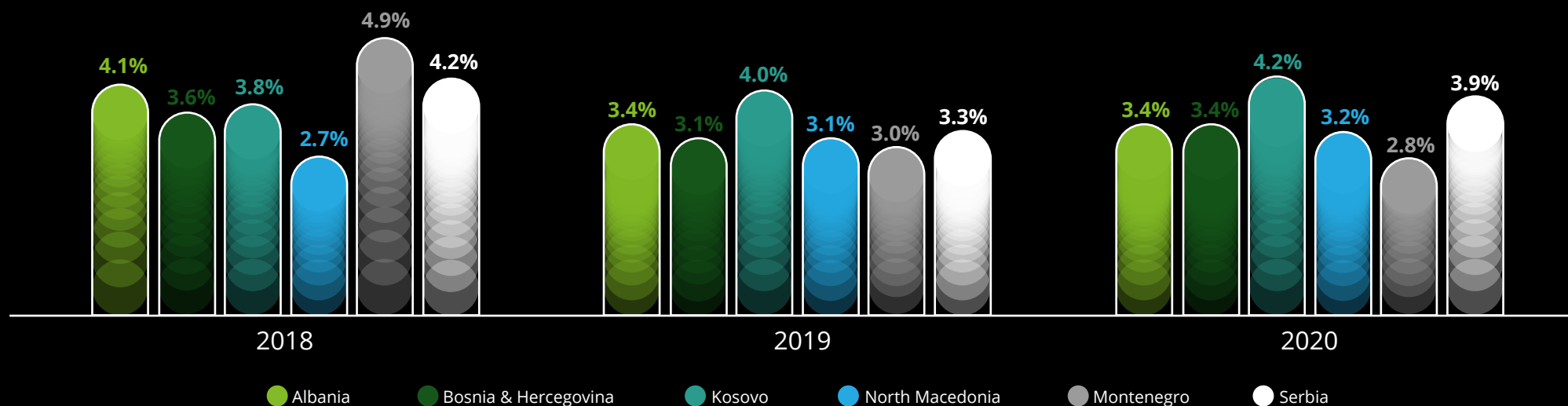*Source: Economist Intelligence Unit, September 2019*

The growth rate of Western Balkans (WB6) region is estimated at 3.9% in 2018 and it is expected to average c.3.4% during 2019-20. At country level, the highest average growth for 2019 is projected to be registered in Kosovo at 4.0%, followed by North Macedonia with 3.1%.

The growth in the WB6 region is expected to be driven by successful tax reforms and public investments, thus impacting wages and spending through faster growth in consumption and household credit.

GDP growth (Albani vs. WB6 Countries)

2018
- 4.1%
- 3.6%
- 3.8%
- 2.7%
- 4.9%
- 4.2%

2019
- 3.4%
- 3.1%
- 4.0%
- 3.1%
- 3.0%
- 3.3%

2020
- 3.4%
- 3.4%
- 4.2%
- 3.2%
- 2.8%
- 3.9%

● Albania ● Bosnia & Hercegovina ● Kosovo ● North Macedonia ● Montenegro ● Serbia

Source: Economist Intelligence Unit, September 2019, World Bank, WB Regular Economic Report No. 16, Fall 2019.

Economic Insights
FDI, Budget Balance, CPI Trends

The inflow of FDI in Albania for the last years has been driven by two large energy projects, the Trans-Adriatic Pipeline (TAP) and the Devoll Hydropower plant in the south of the country, both financed by foreign private capital.

Total value of both investments was estimated at around EUR 2.1bn for the total duration, however both projects are expected to finalize in 2020 with a remaining value of around EUR 300mln to invest in 2019.
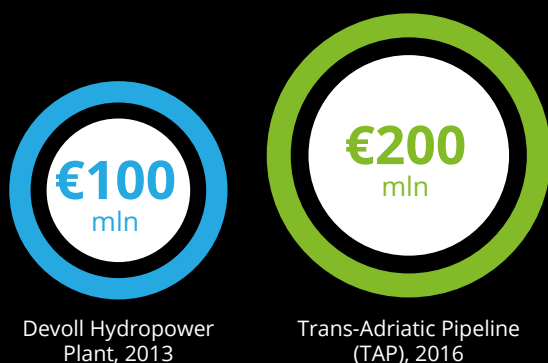
The budget balance narrowed to 1.6% of GDP, from 2% of GDP in 2017, as a result of fiscal consolidation in 2018, which is the best performance since comparable data became available in 1994.

According to EIU, budget deficit is expected to decrease in average by 1.5% during 2019-20 forecasted period. Further fiscal consolidation will result in budget deficits averaging 1.3% of GDP per year in 2020-23.
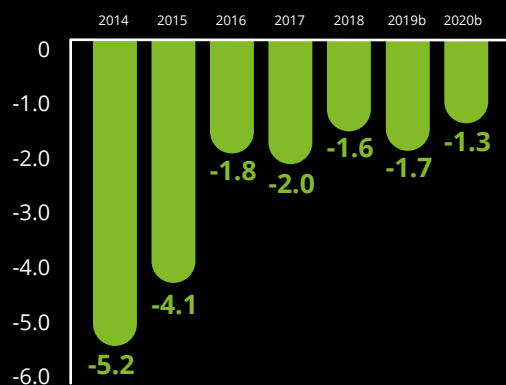
According to World Bank report, core inflation has remained relatively stable in the WB6 region and Albania, despite the pick-up in inflation due to tax-related price hikes and increasing domestic demand. Inflation in the WB6 decreased from 2.2% in 2017 to 1.8% in 2018, mainly impacted by the decrease of oil prices at the end of 2018.

In Q2 2018, the ALL strengthened sharply against the euro due to one-off inflows of euros, according to EIU. Since then ALL has continued to appreciate modestly, reflecting strong real GDP growth.

Remaining investment value for the two largest projects, 2019

€100 mln
Devoll Hydropower Plant, 2013

€200 mln
Trans-Adriatic Pipeline (TAP), 2016

Source: Monitor.al

Budget Balance in Albania (% of GDP)

2014	2015	2016	2017	2018	2019b	2020b
-5.2	-4.1	-1.8	-2.0	-1.6	-1.7	-1.3

Source: Economist Intelligence Unit, September 2019
Note: ᵇ EIU forecasts

Albania & WB6 CPI (%)

Albania: 1.6 (2014), 1.9 (2015), 1.3 (2016), 2.0 (2017), 2.1 (2018), 1.5 (2019), 2.7 (2020)

WB6: 1.0 (2014), 0.9 (2015), 0.4 (2016), 2.2 (2017), 1.8 (2018), 1.8 (2019), 1.8 (2020)

Albania — WB6

Source: World Bank, WB Regular Economic Report No. 16, Fall 2019

Economic Insights
FDI, Budget Balance, CPI Trends

Foreign Direct Investment in the Western Balkans (WB6)

FDI in the region is quite limited, where the average FDI stock per capita in the WB6 is less than half of the FDI stock per capita in Eastern European EU members, and just one-seventh of the EU average, according to World Bank. However there is still investment potential in WB6, attracting investments from EU-28 countries and East Asian countries also.

The European Bank for Reconstruction and Development (EBRD), is an important multilateral source of investment in the Western Balkans, especially for countries like Serbia and Bosnia and Hercegovina with projects such as, transport corridors (Route 7 in Serbia and the Corridor Vc motorway in BiH). Specifically, there are 173 active projects going on in these countries. In 2018 the EBRD invested more than USD 1.2bn in the WB6 countries through 67 projects. This follows a total of 57 projects for just under €700 million the previous year.
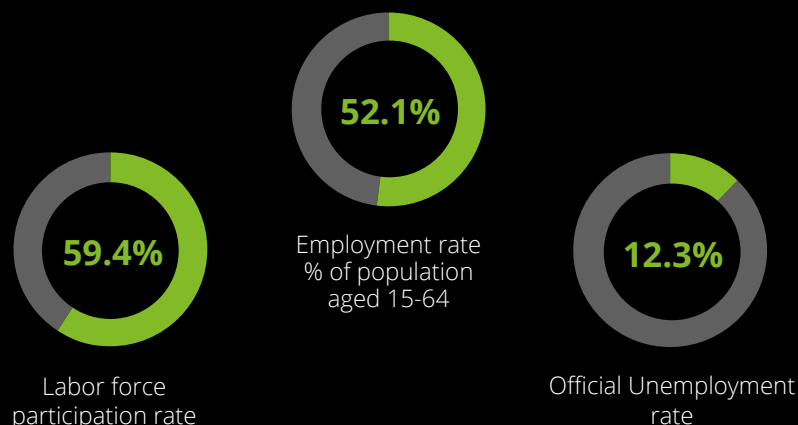
According to EIU, the bank will invest USD 1.24bn in the region in 2019, focusing mainly on private sector and regional integration. Therefore, it is expected that the EBRD will continue to play an extremely important role in helping in the investment gab in the Western Balkans.

Economic Insights
Labor Market in Albania

59.4%

Labor force participation rate

52.1%

Employment rate % of population aged 15-64

12.3%

Official Unemployment rate

Population % according to gender January 2019

1,429,594 male
49.9% of population

1,432,833 female
50.1% of population

The total population in WB6 countries is projected to fall from 2017 to 2050 by 0.3% per year on average, caused by the low birth rates and an ageing population. Albania follows the same pattern as the regional countries. Its population is expected to increase at a lower rate, specifically at 0.3%, while the decline of the working age is expected to be higher, at 0.7%.

Age Group	15-29	30-64
Offical Unemployment rate	23.1%	9.2%
Employment rate % population aged 15-64	38.5%	70.9%
Labor force partecipation rate	50.1%	78.1%

Country	Population, in '000 2017	Population, in '000 2050	2017-50% change	%Population growth/year	% working age growth/year
Albania	**2,930.0**	**2,664.0**	**(9.1)**	**(0.3)**	**(0.7)**
B&H	3,507.0	3,058.0	(12.8)	(0.4)	(0.5)
Macedonia	2,083.0	1,931.0	(7.3)	(0.2)	(0.7)
Montengro	629.0	588.0	(6.5)	(0.2)	(0.5)
Serbia	8,791.0	7,447.0	(15.3)	(0.5)	(0.8)

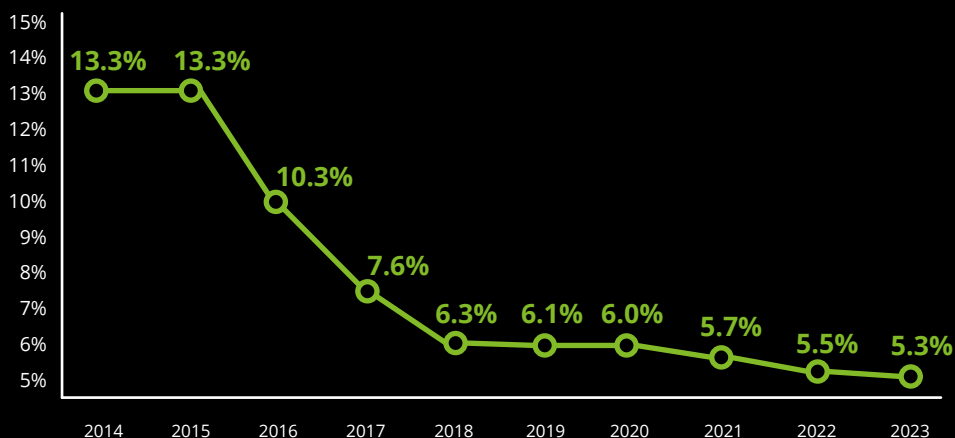*Source: Instat,"Labour market", 2018*

The unemployment rate in Albania decreased significantly in 2015-2018 period and according to EIU, it is projected to reach a rate of 5.3% in 2023. Unemployment remains relatively high in the region, averaging at 19.4% in 2017. According to the World Bank, economic growth combined with recent labor market reforms have helped create more than 91,400 jobs in the region for the first half of 2018, favoring mostly industry and services sectors.

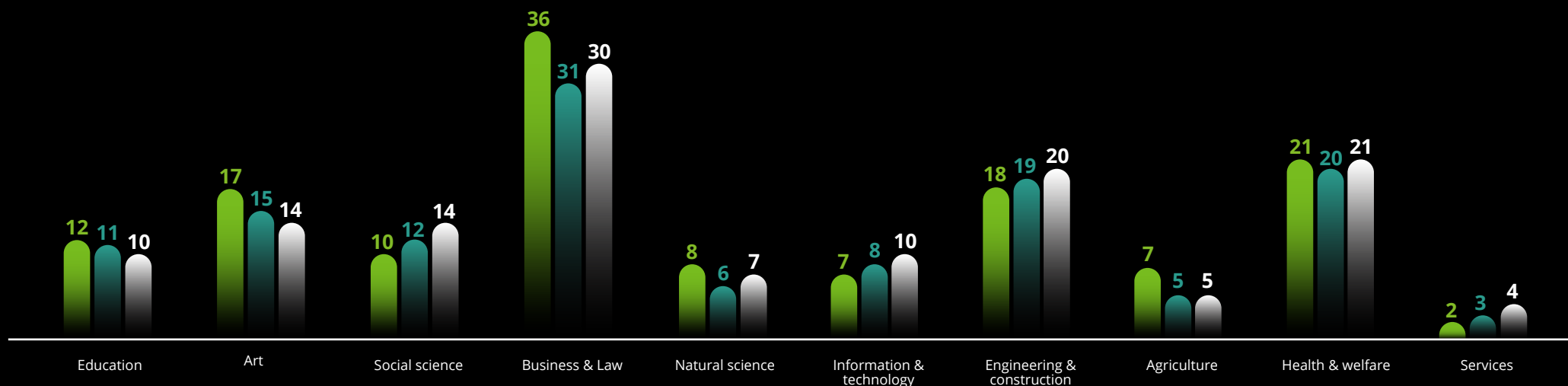# Economic Insights
Labor Market in Albania

Unemployemnet rate (%)

Year	Rate
2014	13.3%
2015	13.3%
2016	10.3%
2017	7.6%
2018	6.3%
2019	6.1%
2020	6.0%
2021	5.7%
2022	5.5%
2023	5.3%

Source: Economist Intelligence Unit, September 2019

There is a positive correlation between the degree area chosen and the average wage of occupation. Thus, the highest number of graduates preferred business and law studies which are associated with chief executives, legislators, and business managers occupations. In contrast, as per INSTAT, the agricultural sectors has the highest share of employed individuals with respectively 40% of the total employment for 2018.

Graduates according to degree area, in thsd

Degree area	2016-17	2017-18	2018-19
Education	12	11	10
Art	17	15	14
Social science	10	12	14
Business & Law	36	31	30
Natural science	8	6	7
Information & technology	7	8	10
Engineering & construction	18	19	20
Agriculture	7	5	5
Health & welfare	21	20	21
Services	2	3	4

Source: INSTAT

Economic Insights
Albania Risk Assessment

	Sovereign Risk	Currency Risk	Banking Sector Risk	Political Risk	Economic Structure Risk	Country Risk
February 2017	B	B	B	CCC	CCC	*B*
February 2018	B	**+BB**	B	**↑B**	CCC	*B*
February 2019	B	BB	B	B	CCC	*B*

+ Improvement   **↑** Upgrade

Sovereign risk – The sovereign risk rating remains at B and the score is unchanged, at 51, reflecting stable economic growth and steady progress in fiscal consolidation. Therefore, the budget deficit is expected to narrow from an estimated 2% of GDP in 2018 to 1.5% in 2020.

Currency risk – In 2018, improved to BB, from B in 2017, as the political stability increased since the June 2017 parliamentary election. EIU expects the Albanian Lek to be supported by the relatively high local-currency interest rates, and resilient growth of exports of goods and services. Additionally, to strengthen modestly on average against the euro and more strongly against the US dollar in the 2019-20 forecast period.

Banking sector risk – The rating remains steady with a score of 55 as the banks are well capitalized and liquid, but the level of non-performing loans remains high (11.1% as of December 2018).

Political risk – Upgraded to B in 2018, from CCC in 2017. The score is unchanged in 2019, at 56, reflecting a broadly stable political environment since the June 2017 election. However, political stability has come under strain since the resignations of opposition legislators from parliament in February 2019.

Economic structure risk – The economic structure risk remains at CCC and the score has deteriorated by 3 points, to 63, owing to an increase in the volatility of real GDP growth. In addition, the dependence on the relatively sluggish Italian and Greek economies poses a considerable obstacle to a B upgrade.

Economic Insights
Albania Risk Assessment

From the aggregate supply optics is expected for all main sectors to perform in line with their average historical growth rates.

Agriculture is expected to grow in real terms considering that there is abundant untapped potential. Furthermore, there are various programs financed by the World Bank, the EU, donor and international organizations (IPARD II, ISARD, IPESA project etc.) that are aimed at developing the value chain, capacity building, development of services in the sector, etc.
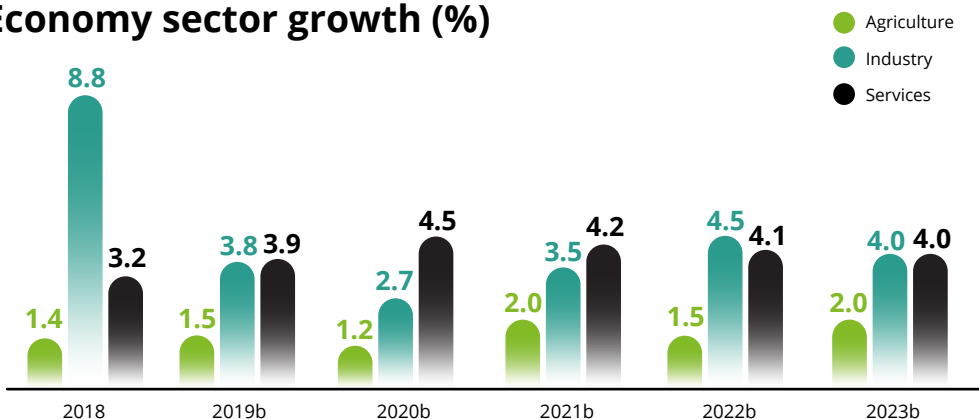
According to EIU, for the forecasted period 2019-23, the average growth of the agriculture sector is forecasted to be higher at 1.6%. Meanwhile, for the industry segment, a deceleration is expected, which will bring the average growth rate to 3.7%. For the services a higher growth rate is foreseen, at an average of 4.1%.

Agriculture still remains one of the main sectors of the Albanian economy contributing 18.4% to national GDP (2018). This rate is a much higher share than in the United States, European Union and even the other Western Balkan countries.

Even though the services sector accounts for almost half of the GDP, from 2015 to 2018, on average, industry reflected a higher growth rate, at 4.8%, compared to 4.1% for services. Agriculture, on the other hand, reflected a growth at an average rate of 1.2%.
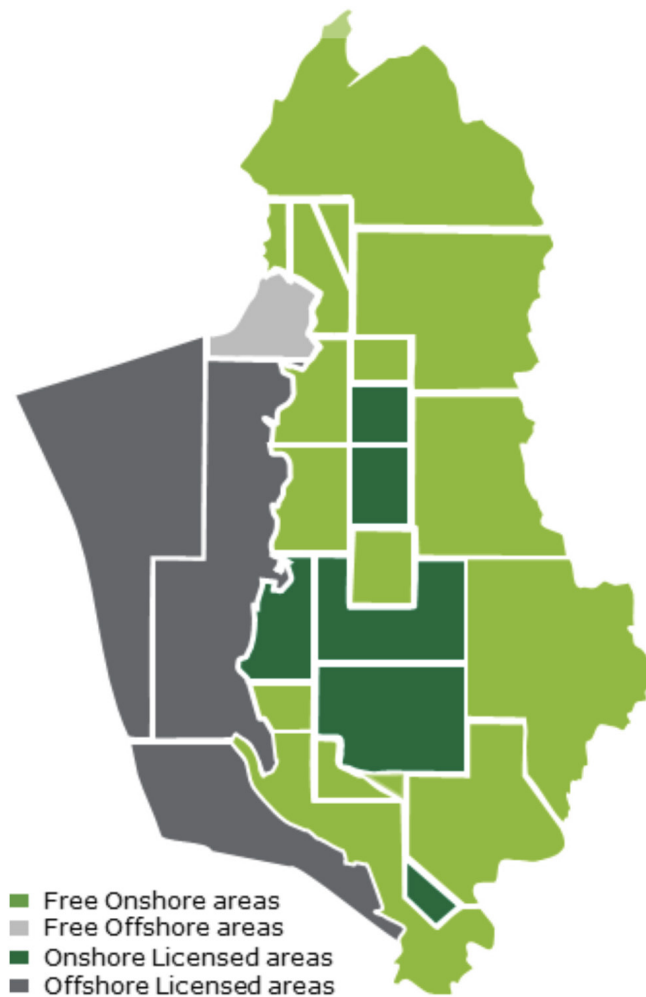
Due to its weight to aggregate supply structure, services are expected to contribute significantly more than the other sectors in the GDP growth.

Economy sector growth (%)

Legend: ● Agriculture ● Industry ● Services

Year	Agriculture	Industry	Services
2018	1.4	8.8	3.2
2019b	1.5	3.8	3.9
2020b	1.2	2.7	4.5
2021b	2.0	3.5	4.2
2022b	1.5	4.5	4.1
2023b	2.0	4.0	4.0

Source: Economist Intelligence Unit, September 2019
Note: b EIU forecasts

Agriculture, 2018 (% of GDP)

Albania 18.4%

WB6 5.6%

EU 1.4%

Economic Insights
Hydrocarbon Industry - Oil and Gas
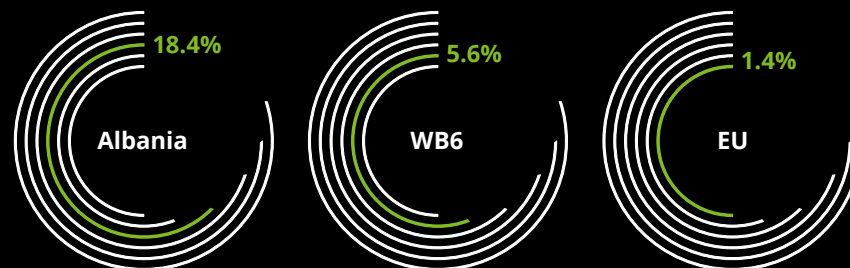
Legend:
- Free Onshore areas
- Free Offshore areas
- Onshore Licensed areas
- Offshore Licensed areas

Albania has considerable reserves of oil and gas that constitute an important segment for the overall economy of the country.

State-owned oil company Albpetrol has divided the country into 18 on-shore and 7 off-shore oil exploration blocks, for which 9 on-shore and 3 off-shore blocks are free for companies interested in obtaining an exploration license. Albania also has the largest on-shore oil field in Europe, Patos-Marinza, with an oil-in-place resource estimation of 5.4 billion barrels.

Oil production in Albania has seen a recent downward trend due to financial and operational issues of the performing companies. According to Fitch Solutions Report on Albania's Oil & Gas Industry, the country's crude oil output will continue to decline at an average annual rate of 1.4% during 2019-2028, mainly due to uncertainty of the main operating companies, as well as the aging of infrastructure causing inefficiency in oil production.

The differences in amounts of extracted versus refined oil create a supply gap which is resolved by exporting the majority of the oil extracted in Albania and importing the difference from abroad to fulfill the demand gap.

Compared to crude oil, the gas reserves are more limited in amounts and have had inconsistency over the years in terms of production. Delvina region holds the main prospects to restart production, therefore containing the highest growth potential for the country's natural gas industry.
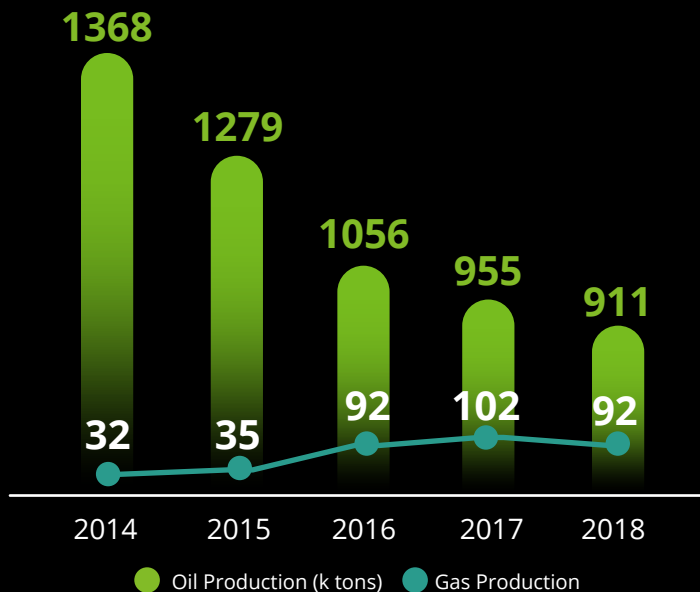
Economic Insights
Hydrocarbon Industry - Oil and Gas

Opportunities in Oil & Gas

Oil production has decreased over the last years, however, new investments and more advanced recovery techniques could help refresh the forecasts. Shell Upstream Albania B.V, a wholly owned subsidiary of Royal Dutch Shell, found significant light oil reserves at the mountain Shpirag near Berat. In 2018, according to the Ministry of Infrastructure and Energy, Albania finalized an oil exploration contract of a value around EUR 42.5 million with Shell for the next seven years in the South of the country. If Shell Upstream explorations prove positive, Albania could see a revitalization of the oil industry. Another investment in mid-2018 from the Swiss company Gunvor helped to partially re-launch the Balsh refinery which had been temporarily halted.

As for the Natural gas resources, Delvina is the country's most promising gas field, constituting the majority of the reserves with 5.5-33 bcm of estimated recoverable gas. However, the field is yet to be fully appraised from the owner of its concession, Delvina Gas Company (a subsidiary of Ionian Gas Company). Outside of Delvina, natural gas prospects remain largely non-existent with negligible proven gas reserves, and the greatest potential comes from offshore field developments and Block F for which Bankers Petroleum holds the exploration license.

Oil & Gas Production in Albania 2014-2018

- ● Oil Production (k tons) ● Gas Production

Source: Ministry of Energy and Infrastructure (MIE)

Amount of exported versus refined crude oil in Albania (2016)

16%

84%
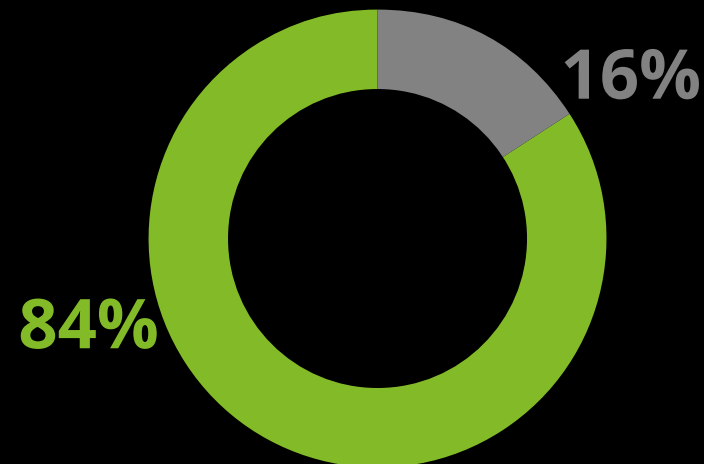
Source: EUROSTAT ● Refined Oil ● Exported Oil
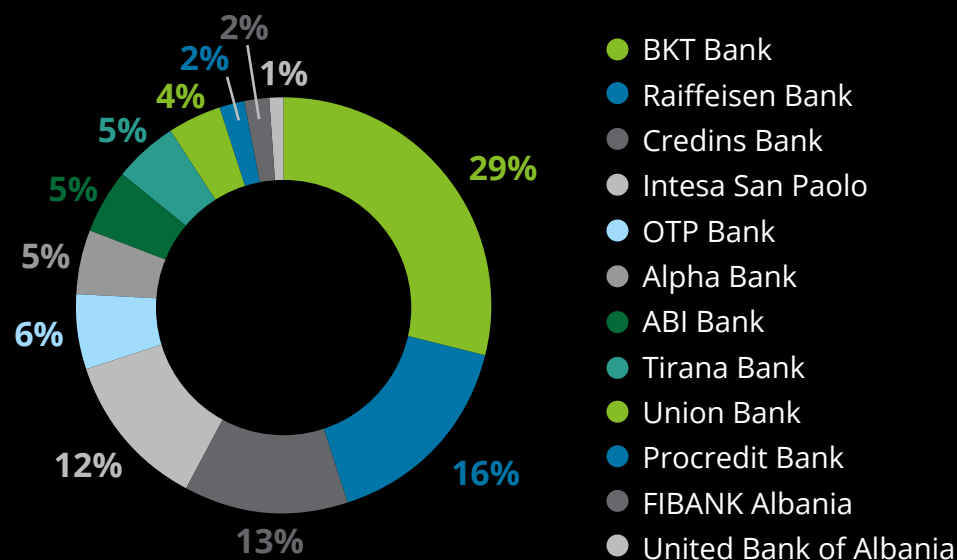
Economic Insights
Financial Service Industry - Bank

Albania has a total of 12 second tier banks, decreasing from 16, due to several Merger & Acquisitions which took place 2018. The largest five banks hold about 76% of the system's total assets and deposits.
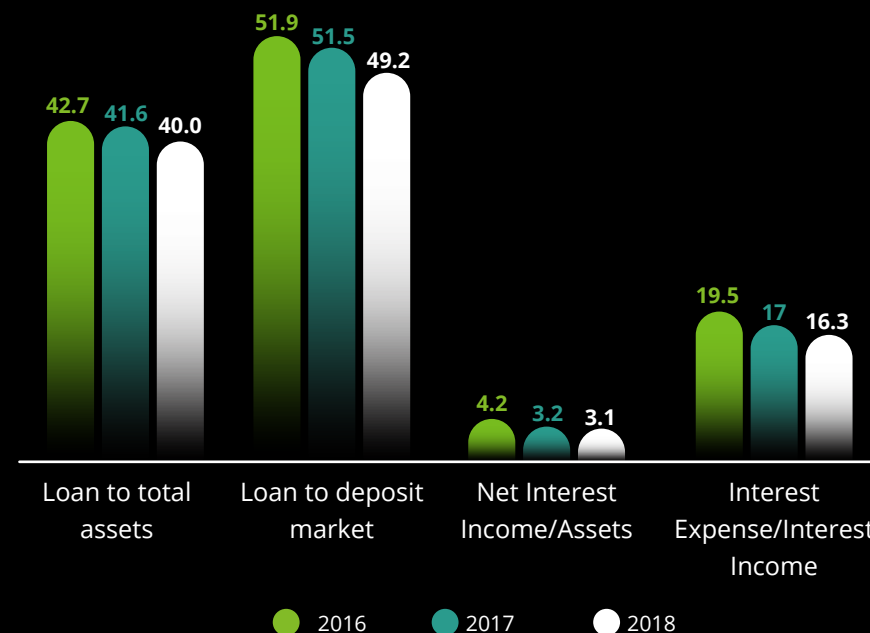
Foreign capital continues to dominate the capital structure in banking sector accounting for around 83.46% of paid-in capital at the end of 2018, decreased by around 4.92 % from the end of 2017. During 2016-2018, average total assets for the second tier banks increased by a CAGR of 1.6%, reaching ALL 1.45 tn.

The average loan to total assets in the banking sector decreased from 42.7% in 2016 to 41.6% in 2017, lower compared to the peers in the Region of 61.2%. This trend continued in the following year (2018), decreasing to 40.0%.

Market share of Banks in Albania 2018

- 29%
- 16%
- 13%
- 12%
- 6%
- 5%
- 5%
- 5%
- 4%
- 2%
- 2%
- 1%

- ● BKT Bank
- ● Raiffeisen Bank
- ● Credins Bank
- ● Intesa San Paolo
- ● OTP Bank
- ● Alpha Bank
- ● ABI Bank
- ● Tirana Bank
- ● Union Bank
- ● Procredit Bank
- ● FIBANK Albania
- ● United Bank of Albania

Source: Bank of Albania

Bank Ratio Analysis

	2016	2017	2018
Loan to total assets	42.7	41.6	40.0
Loan to deposit market	51.9	51.5	49.2
Net Interest Income/Assets	4.2	3.2	3.1
Interest Expense/Interest Income	19.5	17	16.3

● 2016   ● 2017   ○ 2018

Source: Deloitte Analysis

Economic Insights
Financial Service Industry - Bank

Total deposit volume in the market increased by 1.25% during 2017-18, therefore the loan to deposit ratio has decreased to 49.2% in 2018, following the trends of the historical period from 51.9% in 2016 to 51.5% in 2017, significantly lower compared to the regional data of 89.0%, which have higher loan portfolio level (more developed financial sector).

Profit (net,cumulative)
Based on Bank of Albania, the structure of regulatory capital appears favorable as regards its capacity to cover any potential losses, since Tier 1 capital continues to dominate. The higher increase in the regulatory capital to risk weighted assets led to rise in the capital adequacy ratio to 18% in 2018, from 16.6% a year earlier.

ROE/ROA
The NPL ratio followed downward trend in line with the pattern recorded in recent years. Specifically, in 2017, the Bankruptcy Law and old loans write-offs have improved Albanian NPL ratio over total loans to 13.2%, or c.5% less than a year before. The ratio decreased further in December 2018, to 11.1%. This decrease was due to the 19% fall in the level of NPLs, affected to almost the same degree by loans write offs.

General Data for the Banking System in Albania

ALL million	Dec-16	Dec-17	Dec-18	CAGR
Total assets	**1,407,286**	**1,445,330**	**1,452,926**	1.6%
Total loans	**600,367**	**600,876**	**580,686**	(1.7%)
Retail loans	168,667	178,001	184,701	4.6%
Corporate loans	431,700	422,874	395,986	(4.2%)
Total deposits	**1,157,753**	**1,165,679**	**1,180,239**	1.0%
Retail deposits	965,893	970,378	977,397	0.6%
Corporate deposits	191,860	195,302	202,843	2.8%
Profit (net, cumulative)	**9,270**	**22,074**	**18,391**	40.9%
Equity Capital	136,883	146,953	147,454	3.8%
Capital adequacy in %	15,7	16.6	18.0	7.1%
ROE	**7.2%**	**15.7%**	**13.0%**	34.4%
ROA	**0.7%**	**1.5%**	**1.2%**	30.9%
Problem Loans/Total loans Ratio	18.3%	13.2%	11.1%	(22.1%)
No. of outlets	506	494	474	(3.2%)

Source:Albania Association of Banks, 2018

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