3. MACROECONOMIC DEVELOPMENTS IN ALBANIA

(9) The Albanian economy accelerated the annual growth rate to 4.45% at the end of the first quarter of the year. Production and service sectors contributed to the economic growth, with the branches of quarrying industry, trade, transport and construction as the main contributors. Growth in aggregate demand was driven by the expansion of the final consumption of the population, primarily sustained by the increase in government consumption and the fixed capital formation. Meanwhile, the expansion of the current account deficit in the balance of payments, where the shrinking of the positive balance in trade of services coincided with the expansion of the deficit of goods trade, contributed to the opposite direction. The continuation of positive developments in the labour market was confirmed with the fall of the unemployment rate down to 12.4%, marking the lowest level during the last two decades. For the rest of the year, expectations on employment levels remain positive and above average values.

(10) The eased monetary conditions helped to the rise of inflation to 2.4% in June 2018, the highest rate of the last year. The rise in inflation over the period was favoured by the expansion of aggregate demand, following also the further lowering of the policy rate by the Bank of Albania at 1%. The appreciation of the lek exchange rate had a decelerating effect against the inflation performance. The Bank of Albania assesses that the continuation of economic growth and the favourable financing conditions are expected to establish adequate premises for the increase of inflation and its return to target in the medium term.

(11) Fiscal policy maintained the positive budget surplus, albeit at lower values. At the end of the period, the budget surplus was positive, about ALL 1.7 billion, almost ALL 1 billion lower compared to the previous year. This lower pace of fiscal consolidation is due to the higher annual growth of expenditures versus budget revenues. During the period, the needs for debt servicing were met mainly in the domestic market. The fiscal consolidation process needs to continue in order to ensure the sustainability of economic growth in the long run. Adequate planning of the main budget items and the realization of capital expenditures remain important elements for fiscal policy effectiveness.

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11 The real annual growth of economic activity in the country during 2017 Q1 and 2017 Q4 was respectively 3.92% and 3.63%.
12 Data of the balance of payments for 2018 Q2, published on 10 September 2018, show a significant improvement in the current account balance (a decline of the deficit by about 33% in annual terms), suggesting a more positive contribution of external trade in the economic growth of the second quarter.
13 The unemployment rate was 13.4% in 2017 Q4 and 13.9% in 2017 Q2.
14 Revenues increased by 2.24% in annual terms, reaching ALL 217 billion, while total expenditures marked an annual growth of 2.74%, reaching ALL 215 billion.
(12) At the end of the first quarter of the year, the overall balance of payments was positive. Current account deficit resulted 11% higher in annual terms, rising to EUR 165 million. The trade deficit in goods expanded to around EUR 615 million, despite the higher growth rate of exports versus imports. In the services account, the positive balance contracted during the period by nearly EUR 16 million, registering EUR 260 million. In the primary income account, the negative value of the balance expanded, while in the secondary income account inflows increased by 19% compared to the previous year. In this category, remittances account for around 73% of the total and are assessed to have provided foreign currency inflows at around EUR 147 million, almost 8% higher in annual terms. The flow of Albania financial liabilities to the world is assessed at EUR 299 million, recording 3% annual growth, compared to the previous year. Foreign direct investments (FDIs) amounted to EUR 284 million, or EUR 108 million higher than a year earlier. Energy and hydrocarbon sectors and financial intermediation continue to provide the main contribution to their growth.

15 Balance of payments data for 2018 Q2 were published on 10.09.2018, several days after this report was approved. Preliminary analysis of these data shows a significant improvement of the current account (decrease of the deficit by about 33% in annual terms), dictated by the improvement of the trade balance in goods, by the substantial expansion of the positive balance of the services account and by the expansion of the positive surplus of secondary income. Overall, the balance of payments was positive and resulted in the expansion of foreign exchange assets by EUR 85 million. These results suggest a positive contribution by the balance of payments in the economic growth of 2018 Q2, (still unpublished at the time this report was finished).