

3. MACRO-ECONOMIC DEVELOPMENTS IN ALBANIA

(14) At the end of 2018 Q3, the economy grew by 4.5%¹³ in annual terms. Production and service sectors were main contributors to economic growth, notably with the branches of: "Industry, energy and water", "trade, transport, accommodation and food services", and "construction". Aggregate demand grew supported by the expansion of the final consumption of the population and the fixed capital formation, as government consumption decreased during the period. The expansion of the current account deficit contributed to the decelerating trend, mainly due to the expansion of the negative balance in the primary income account. In the labour market, the unemployment rate continued the downward trend started in December 2015, marking 12.3% at the end of the year¹⁴. Expectations on employment remain largely positive, in the short-term.

(15) Monetary policy maintained the accommodative stance during the period. Although the results of economic analysis point to positive developments in economic activity, employment and confidence of economic agents, their values are yet to be reflected in inflation values,. Thus, in December 2018, annual inflation was 1.8%, unchanged from the previous year¹⁵. Inflation reflected the temporary supply-side shocks and the curbing effect of lek exchange rate appreciation. However, the Bank of Albania expects the effect of positive economic developments to extend in the following period, pushing inflation rates toward convergence with the target of 3% in the medium-term.

(16) The fiscal policy has maintained the consolidation trend. The budget deficit, in 2018, amounted to ALL 27 billion, about ALL 4 billion less than in the previous year. Increase in budget revenues by 4.4% against 3.1% in budget expenditures contributed to the annual narrowing of the budget deficit. The speed of budgeted deficit creation was faster in the last quarter of the year, thus highlighting the need to allocate expenditures, especially capital expenditures, in line with the objectives and consistently throughout the financial year.

(17) At the end of 2018 Q4, the overall balance of payments resulted in expansion of foreign exchange assets to about EUR 274 million. The current account deficit widened by 17% y-o-y, at EUR 364 million, due to the

¹³ This is the value published by INSTAT on the date of submission of this report for review by the Supervisory Council of the Bank of Albania. Since then, INSTAT has revised the economic growth rate for 2018 Q3 at 4.66%, and has also published economic growth rate for 2018 Q4, which is 3.1%. It is estimated that these values do not bring significant changes to the report's analysis.

¹⁴ Unemployment rate was 12.4% in 2018 Q2 and 12.2% in 2018 Q3.

¹⁵ In 2018 Q3 and 2017 Q4, inflation rates were respectively 2.2% and 1.8%.



deepening of the deficit in goods by 8% and the narrowing of the positive balance in the account of secondary income by around 6%. Regarding the latter, remittances were estimated at EUR 170 million, down by 2%. The positive balance of services account shrank slightly, by 1.3%, whilst the positive balance of primary income nearly doubled. The deficit of the capital account and the financial account, covered entirely the current account deficit. In the financial account, inflows (increase in financial liabilities with the world) in the financial account, grew by 29% and were EUR 541 million, almost equally divided between flows in the form of foreign direct investments and flows in the form of financial liabilities. During 2018, the current account deficit is estimated to have narrowed by 0.7% to EUR 860 million, while foreign direct investments grew by 14% or EUR 1,022 million.

