

3. MACROECONOMIC DEVELOPMENTS IN ALBANIA

(18) In 2017 Q4, the economic activity in Albania continued to improve, although at a lower growth pace from the three previous quarters. In 2017 Q4, the annual growth was 3.36%¹⁰, with positive contribution almost from all branches of services and production, mainly: “trade, hotels and restaurants”, “transport”, “construction” and “industry, energy and water”. Aggregate demand was based on the expansion of the population's final consumption and the gross fixed capital formation, while the final consumption of the Government was down, unlike in the first nine months of 2017. In the labour market, the unemployment rate continued the falling trend since December 2015, down at 13.4%¹¹.

(19) Amid continued subdued inflationary pressures, the monetary policy remained accommodative over the period, although the policy rate did not change. Although the available data suggest that economic activity, employment and confidence of economic agents have been improved these developments are not yet reflected in the inflation values. Hence, in December, annual inflation stood at 1.8%, down, both in annual and half-yearly terms¹². The Bank of Albania assesses that the continuation of economic growth and the good anchoring of inflationary expectations will establish the adequate premises for the increase of inflation and its return to target in the medium term.

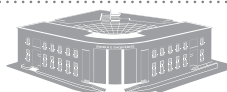
(20) At the end of 2017, budget surplus was negative, around ALL 31 billion, up by around ALL 4.3 billion from the previous year. In relative terms, budget deficit is assessed to have increased 0.25 percentage point over 2017, at 2.15% of GDP. The budget surplus dampened due to the budget expenditures increasing faster than revenues¹³. Deficit was mainly financed by external funds, thus lowering the need for government borrowing from the domestic market. Volatility in budget deficit is expected in the short term, but fiscal consolidation is assessed as necessary to ensure the stability of economic growth in the long term. The need to realise budget expenses, in particular the capital ones, and compliance with the targets, remain challenges to planning and realising the budget.

¹⁰ INSTAT preliminary estimations show that domestic economic activity annual growth is assessed at 3.84%.

¹¹ Unemployment rate marked 14.2% in 2016 Q4 and 13.9% in 2017 Q2.

¹² In more concrete terms, in December 2016 and June 2017, inflation rate was 2.2%, respectively.

¹³ Annual income recorded and accumulative value of around ALL 431 million (5.7% annual growth), while overall expenses marked the value of around ALL 461 million (6.4% annual growth).



(21) The overall balance of payments was positive. Foreign assets (reserve) expanded in 2017 Q4. After a downward performance till 2017 Q3, the current account deficit expanded considerably in annual terms, over 2017 Q4, up at EUR 295 million at the end of 2017, or around EUR 117 million higher. The further expansion of the trade deficit in goods, followed by the fall in positive surplus in the services and primary income account provided the main contribution to this performance. The dampening of trade deficit in goods derived from high imports of electrical energy and pharmaceuticals products, and the fall in the exports of oil and its products. Inflows in the secondary income increased by 13% from the previous year, reaching at EUR 253 million. In this category, remittances share around 68% of the total and are assessed to have provided foreign currency inflows at around EUR 172 million. The flow of Albania financial liabilities to the world is assessed at EUR 359 million, almost doubled from the previous year. Foreign Direct Investments (FDIs) account for the major part of the financial liabilities. Net FDIs inflow marked EUR 232 million, around 2% lower from the previous year. Energy, hydrocarbon sectors and financial intermediation continue to provide the main contribution to their growth. Last, liabilities in the form of other investments expanded by EUR 123 million, while this category fell by EUR 60 million in the previous year.

