

### 3. MACROECONOMIC DEVELOPMENTS IN ALBANIA

(16) In 2017 Q1, economic activity in Albania accelerated its growth pace, at 3.94%. Services, production and agriculture sectors, particularly the branches of trade, construction, transport and industry contributed to growth. The expansion of the final consumption of population (with the highest share), increase of government consumption and the fixed capital formation supported the growth of aggregate demand. Also, the narrowing of the current account deficit in the balance of payments, mainly due to the expansion of the positive surplus in services account, contributed positively to the expansion of demand. The labour market recorded also positive developments. The unemployment rate stood at 14.2%<sup>7</sup>. Expectations for employment in 2017 H2 remain positive for all the sectors of the economy.

(17) During the period, following the contained inflationary pressures, the monetary policy remained accommodative to promote the expansion of economic activity. The stimulating monetary conditions supported crediting, contributing to the recovery of consumption and private investments, aiming at the gradual return of inflation close to the target level. In June 2017, annual inflation stood at 2.2%, upward compared to the same period in the previous year<sup>8</sup>. The steady inflation was mainly affected by the improved economic activity and the upward trend of prices in global markets. The Bank of Albania expects the effect of these factors to expand in the periods ahead, driving inflation values towards the target of 3% in the medium term.

(18) During the period, fiscal consolidation showed a slower pace. At the end of the period, budget surplus was positive, about ALL 3.1 billion, from ALL 17.2 billion in the previous year. The budget surplus narrowed due to the budget expenditures increasing at a higher pace than revenues<sup>9</sup>. Notwithstanding the positive impulse by the narrowed budget surplus in the economic growth in the short run, the fiscal consolidation process should continue to ensure the stability of economic growth in the longer term. An optimum planning of the main budget items and the improvement of the realisation level of capital spending are important to this process.

(19) The overall balance of payments was positive. Foreign assets (reserve) expanded during 2017 Q1. At the end of 2017 Q1, the current account deficit in the balance of payments decreased considerably, shrinking by 20%

<sup>7</sup> Unemployment rate was 16.6% in 2016 Q1, while it almost remains at the same level in December 2016: 14.17%.

<sup>8</sup> In more concrete terms, this rate stood at 2.2% in December, from 1.2% in June 2016.

<sup>9</sup> Annual income recorded an accumulative value of ALL 212.2 billion (7.0% annual growth), while general expenditure was ALL 209.2 billion (15.5% annual growth).



in annual terms, at EUR 179 million. This performance was determined by the positive surplus in the services account<sup>10</sup> and the slower expansion of trade deficit of goods due to the faster increase of exports<sup>11</sup>. The inflows in the secondary income account did not substantially change from the previous year<sup>12</sup>. In this category, remittances share around 80% of the total and are assessed to have provided foreign currency inflows at around EUR 137 million. The narrowing trade deficit in goods was attributable to: (i) increase in the export of mineral products in "Ores, slag and ash" and (ii) increase in the export of "Base metals and their items (cast iron and stainless steel)". The flow of financial liabilities of Albania to the world is assessed at EUR 272 million, recording an annual increase of 2%. Financial liabilities were at the highest level created from foreign direct investments, which stood at EUR 168 million, around 8% higher than in the previous year. Energy and hydrocarbon sectors provided the main contribution to the growth of foreign direct investments. Liabilities in the form of other investments grew around 4% in annual terms, or expanding by EUR 128 million.

<sup>10</sup> The expansion of surplus in this category was mainly attributable to the growth of income from business, transport and travel services (the latters' balance was EUR 76 million, 12% higher from the previous year). Positive surplus in services account was EUR 274 million, being EUR 98 million higher than in the same period in the previous year.

<sup>11</sup> Compared to the same period in the previous year, exports grew by 45%, while imports grew only 9%, standing at EUR 182 and EUR 769 million, respectively

<sup>12</sup> Secondary inflows stood at EUR 170 million.

