

# Country Insight Snapshot

## Albania

January 2020





## OVERVIEW

### OVERALL COUNTRY RISK RATING: DB5b

**High risk:** Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high return transactions only.



**Rating Outlook:** Deteriorating

## CORE OUTLOOK

- + With its low production costs and advantageous geographical position, Albania has solid long-term growth potential.
- + The government has made great strides in opening the country up to trade and creating a commercial environment that is conducive to investment.
- The economy is burdened by high levels of debt and structural defects left over from the communist era.
- The country is exposed to external shocks, including renewed financial crises in Italy and Greece and ethnic instability in the Balkans.

## KEY DEVELOPMENT

Economic growth will accelerate in 2020 but remain weak by recent standards due mainly to negative external developments that are undermining exports.

## CREDIT ENVIRONMENT OUTLOOK



**Trend:** Improving

Key Development has had a neutral impact on the outlook.

## SUPPLY ENVIRONMENT OUTLOOK



**Trend:** Deteriorating

Key Development has had a negative impact on the outlook.

## MARKET ENVIRONMENT OUTLOOK



**Trend:** Stable

Key Development has had a neutral impact on the outlook.

## POLITICAL ENVIRONMENT OUTLOOK



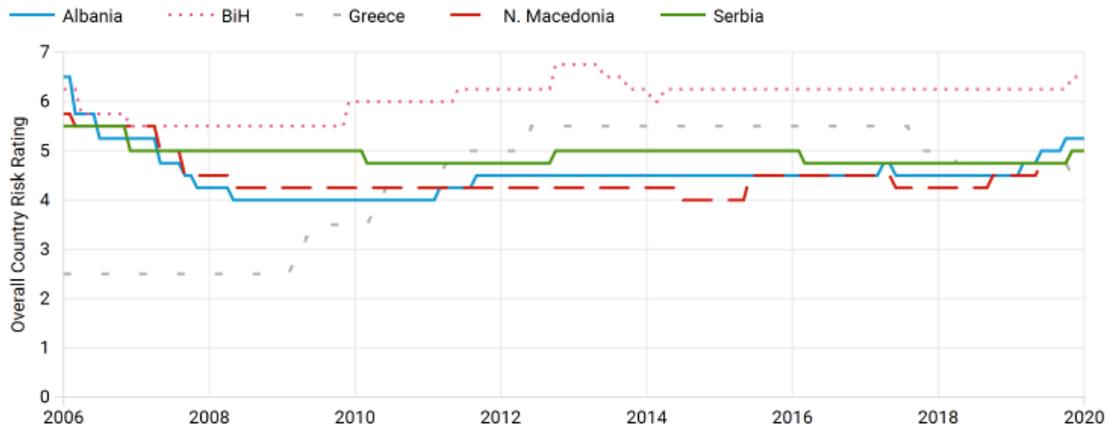
**Trend:** Deteriorating rapidly

Key Development has had a neutral impact on the outlook.



## KEY INDICATORS

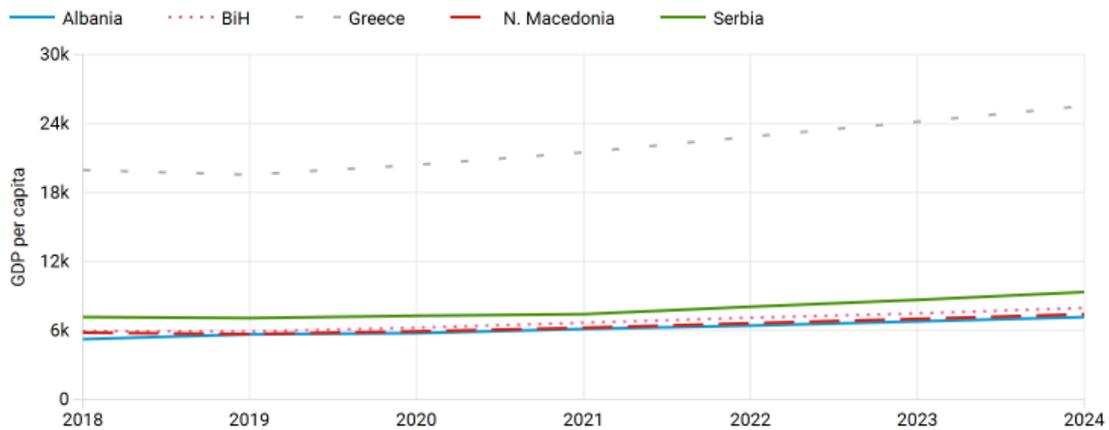
### Rating History and Comparison



Source: Dun & Bradstreet

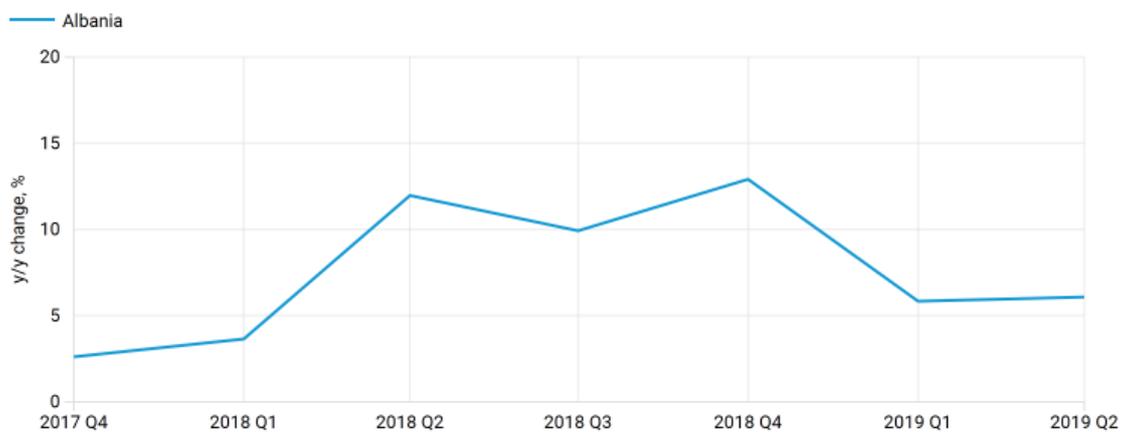
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

### Industrial Production Growth (Quarterly)



Source: Haver Analytics/Dun & Bradstreet



## Economic Indicators

Indicator	2017	2018	2019e	2020f	2021f	2022f	2023f	2024f
C/A balance % GDP	-8.0	-6.7	-7.5	-9.4	-10.6	-12.0	-13.3	-15.1
Govt balance, % GDP	-2.0	-1.6	-2.2	-2.0	-2.0	-1.8	-1.5	-1.2
Inflation, annual avge %	2.0	2.0	2.0	1.8	2.0	2.2	2.4	2.6
Oil Price, USD/b	54.4	71.1	63.8	60.3	58.0	55.0	51.0	53.0
Real GDP Growth, %	3.8	4.0	2.3	2.7	2.8	3.2	3.5	3.8

Source: Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

Business surveys routinely identify corruption as the single biggest problem when doing business in Albania, leading some foreign investors to quit the country because of the consequent risk and expense. Unfortunately, after some years of improvement, the results of Transparency International's latest *Corruption Perceptions Index* indicate that the problem of corruption in Albania is worsening, with the country ranking just 98th out of 180 states in the world. Similarly, a new survey by Tirana's Centre for Economic Research found that 44.8% of citizens admitted to having been asked for a bribe by public officials to resolve a problem, with most deciding to pay up. These findings expose the limits of reforms intended to de-politicise the judiciary, which are lagging far behind schedule. Although the government finally appointed a new State Prosecutor in December after a two-year delay, Albania still has no functioning Constitutional Court or High Court to which firms can file complaints, leading some to allege that the government is deliberately slowing matters to maintain a climate of legal impunity.

## TRADE TERMS AND TRANSFER SITUATION

### Minimum Terms: LC

*The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.*

### Recommended Terms: LC

*Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.*

### Usual Terms: 30-60 days

*Normal period of credit associated with transactions with companies in the stated country.*

### Local Delays: 0-2 months

*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### FX/Bank Delays: No delays reported

*The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.*



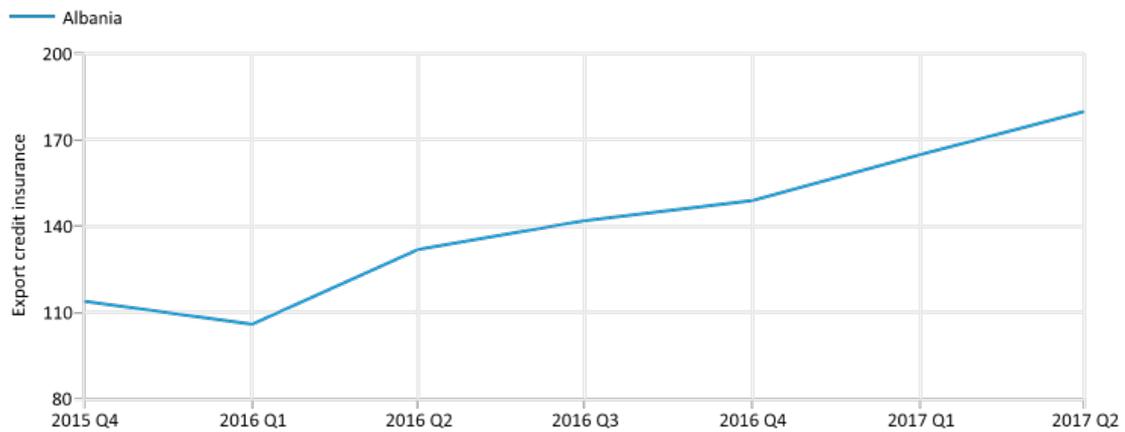
## Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

*LCU (local currency unit) = Albanian lek*

## Credit Conditions



Source: Export Credit Agencies

*Insured export credit exposures, USDm*



## RISKS AND OPPORTUNITIES

### Short-Term Economic Outlook

#### *Economic growth will accelerate in 2020*

Central bank estimates suggest economic growth remained flat in Q3 at 2.3% y/y as an expansion in revenues from tourism was offset by low production of hydroelectricity after a dry winter, a government clampdown on gambling, and the completion of work on the Trans-Adriatic Pipeline (TAP). Although growth will accelerate to 2.7% in 2020, due to a combination of base effects, heavy rainfall (which is replenishing Albania's reservoirs), and the start of gas deliveries to Italy along the TAP, the headline growth rate will be relatively low by recent standards, due mainly to negative external developments.

As a small, open economy, Albania is exposed to the downturn in the rest of Europe, especially its main trading partners, Italy and Greece, both of which are facing serious financial and economic problems. Already, this is having an adverse impact on Albanian exports, which fell by 9.5% y/y in real terms in the three months to November, and there is a significant risk of spillover into the domestic economy via falling corporate revenues, lower tax receipts and a freeze in wages that constrains investment and consumption. Meanwhile, the domestic political crisis is deterring local companies from investing or hiring new employees, with serious uncertainty about the short-term future of the country being prompted by the opposition boycott of the political process, impeachment proceedings against the president, and the effective end of Albania's hopes of ever joining the EU.

More positively, the credit environment is improving after a long period of stagnation. Data from the central bank indicates that the total supply of credit to private enterprises rose by 3.8% y/y in real terms in October, to ALL335.8bn. This is a consequence of two main factors. The first is the central bank's loose monetary policy, which saw lending rates fall to an average of 6.3% in the third quarter. And the second is the improvement of the banking sector's balance sheet, with non-performing loans at 9.5% of total bank loans in November, down from nearly 23.5% at their peak in 2013, following efforts by the central bank to force the cancellation of non-performing debts. However, growth in credit remains relatively subdued by the standards of the last decade because of the reluctance of many firms to borrow and the banking sector's reluctance to lend, except to customers who can offer high-value collateral.

### Business Continuity

#### *Recovery efforts continue after earthquake*

Albania is continuing to grapple with the aftermath of the massive earthquake which struck the Durres region in November, killing 51 people, completely destroying 1,741 buildings, heavily damaging another 5,497 and partially damaging 3,855. In December, the government requested a three-month extension to the state of emergency, with a focus on humanitarian relief and restarting businesses that have been forced to suspend operations because of material damage to infrastructure, buildings and equipment. Meanwhile, businesses in Durres have asked the government to provide fiscal relief for a three-year period to free up funds for repairs. In the background to these developments, the Durres police have issued warrants for the arrest of seventeen individuals, including local officials and the heads of construction companies, who are accused of failing to adhere to proper building standards.



## COUNTRY PROFILE AND STATISTICS

### Overview

Albania is bounded by the Adriatic Sea, Montenegro, Serbia, Macedonia and Greece. The Strait of Otranto links the Adriatic Sea to the Ionian Sea and the Mediterranean Sea.

Since the implosion of the communist system in 1991, Albania has been ruled by alternating governments led by the Democratic Party of Albania and the Socialist Party of Albania. High levels of corruption and organised crime are still severe problems, and political governance, legal administration and civil society also remain underdeveloped.

The pace of reform has increased in anticipation of the possibility of EU accession, and Albania has achieved a notable degree of macroeconomic stability and seen a withdrawal of the state from the economy over recent years. However, in the international arena, political risk is rising as Albania and the Balkan region is buffeted by political crises in the EU, Russia and the Middle East.

### Key Facts

Key Fact	Detail
Head of government	Prime Minister Edi RAMA
Capital	Tirana
Timezone	GMT +01-00
Official language	Albanian
Population (millions)	2.9
GDP (USD billions)	16.3
GDP per capita (USD)	5,663
Life expectancy (years)	78.2
Literacy (% of adult pop.)	98.1
Surface area (sq km)	28,750

Source: Various sources/Dun & Bradstreet

### Historical Data

Metric	2015	2016	2017	2018	2019e
Real GDP growth (%)	2.2	3.3	3.8	4.0	2.3
Nominal GDP in USDbn	11	12	13	15	16
Nominal GDP in local currency (bn)	1,434	1,472	1,551	1,631	1,712
GDP per Capita in USD	3,939	4,109	4,516	5,239	5,663
Population (year-end, m)	2.9	2.9	2.9	2.9	2.9
Exchange rate (yr avge, USD-LCU)	126.0	124.1	119.1	108.0	105.0
Current Account in USDbn	-1.2	-1.1	-1.0	-1.0	-1.2
Current Account (% of GDP)	-10.7	-9.6	-8.0	-6.7	-7.5
FX reserves (year-end, USDbn)	3.1	3.1	3.5	3.8	4.0
Import Cover (months)	7.3	6.7	7.3	7.8	7.4
Inflation (annual avge, %)	1.9	1.3	2.0	2.0	2.0
Govt Balance (% GDP)	-4.1	-1.8	-2.0	-1.6	-2.2

Source: Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2020f	2021f	2022f	2023f	2024f
Real GDP growth (%)	2.7	2.8	3.2	3.5	3.8
Nominal GDP in USDbn	17	18	18	19	20
Nominal GDP in local currency (bn)	1,798	1,906	2,039	2,182	2,335
GDP per Capita in USD	5,764	6,128	6,419	6,786	7,162
Population (year-end, m)	2.9	2.9	2.9	2.9	2.8
Exchange rate (yr avge, USD-LCU)	108.4	108.3	110.8	112.5	114.4
Current Account in USDbn	-1.6	-1.9	-2.2	-2.6	-3.1
Current Account (% of GDP)	-9.4	-10.6	-12.0	-13.3	-15.1
FX reserves (year-end, USDbn)	4.1	4.3	4.5	4.8	5.1
Import Cover (months)	7.1	6.7	6.5	6.3	6.1
Inflation (annual avge, %)	1.8	2.0	2.2	2.4	2.6
Govt Balance (% GDP)	-2.0	-2.0	-1.8	-1.5	-1.2

Source: Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Albania	BiH	Greece	N. Macedonia	Serbia
Income per Capita (USD)	5,764	6,240	20,406	5,919	7,276
Country Population (m)	2.9	3.3	10.8	2.1	7.1
Internet users (% of population)	66.4	69.3	69.1	72.2	67.1
Real GDP Growth (% p.a., 2020 - 2029)	1.5 - 4.5	1.0 - 3.0	0.5 - 3.0	3.0 - 5.0	1.5 - 3.5

Source: Various sources/Dun & Bradstreet



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