

Albania Business Forecast Report Q1 2015

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Abstracts

Core Views

Albania's economy will remain on a low growth trajectory over the coming years.

Weak exports and anaemic private consumption will contribute to the country's economy losing ground on many other regional peers. Ailing eurozone demand will restrict export growth and contribute to Albania's current account deficit widening again over the next few years.

Declining inflation expectations, weak bank lending and sluggish domestic demand will keep the Albanian central bank in a dovish mode.

Rising tensions with Serbia and a lack of progress implementing fiscal reforms suggests full EU membership remains a distant prospect.

Major Forecast Changes

Even weaker demand from key eurozone trading partners (mainly Italy) has prompted us to downgrade our real GDP forecasts to 2.5% in 2015 and 3.0% in 2016, from 2.8% and 3.5% previously.

This same trend has prompted us to revise down our current account deficit forecasts to 12.4% of GDP in 2015 and 13.2% in 2016.

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A violence-marred football match between Albania and Serbia will push back the normalisation of relations between the two countries. Rising nationalist tensions will cast doubts on further progress on EU integration, particularly for Serbia.

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Stumbling Towards The EU

We expect Albania to continue progressing towards EU membership over the next decade, though caution that forward momentum will be sluggish. Lack of institutional development and endemic corruption remain key challenges to stability over the long term, whose presence will diminish efforts to address systemic problems regarding weak governance. Key risks through 2023 will largely revolve around EU accession progress, and we also highlight a possible deterioration in regional relations over the 'Kosovo Issue' as a particular flashpoint of instability.

CHAPTER 2: ECONOMIC OUTLOOK

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Ailing eurozone demand will restrict export growth and contribute to Albania's current account deficit widening again over the next few years.

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Although we project real GDP to expand by 3.4% between 2014 and 2023, we caution that Albania is expected to remain one of the least developed states in South East Europe. While small-scale export-orientated manufacturing will begin to take on a more prominent role over the next few years, remittance inflows from expatriate migrant workers will remain a key source of foreign capital, underscoring the relatively nascent stage of economic development in the Western Balkan state. Despite a low base, we see a relatively uninspiring macroeconomic trajectory for Albania, as subdued economic growth in key economic partners Greece and Italy, as well as ongoing political instability, make a return to pre-financial crisis growth rates unlikely.

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