

Albania Business Forecast Report Q2 2014

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Abstracts

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Core Views

Albania's economic recovery will remain sluggish in 2014, hindered by anaemic consumer spending and the government's deteriorating fiscal position. We forecast Albania's economy to grow by 1.8% in 2014.

The current account deficit will continue shrinking in 2014, with exports set to benefit from recovering external demand and imports restricted by weak consumer and corporate spending. Weak domestic demand will ensure that inflationary pressures remain subdued over the coming quarters. With low bank lending also stifling Albania's economic recovery, we expect the Bank of Albania (BoA) to continue its rate cutting cycle in 2014, lowering rates by 50 basis points to 2.50% by year-end.

Although it is looking increasingly likely that Albania will be granted EU candidate status in June 2014, full membership of the bloc remains a distant prospect. Corruption and crime will continue undermining Albania's regional profile over the next few years, alongside growing fears over the sustainability of the country's rising public debt load.

Major Forecast Changes

We have revised our forecast for Albania's current account to shrink to an 8.6% of GDP deficit in 2014, from 8.2% previously, against the backdrop of lower-than-anticipated remittance inflows from neighbouring Greece and Italy.

Key Risks To Outlook

The unbalanced nature of the economic recovery means that Albania is overly reliant on recovering exports, and we would therefore be tempted to revise-down our real GDP forecast for 2014 if leading and high frequency indicators point towards a slower-than expected recovery in external demand in the first half of 2014.

Albania's growing public debt load also represents a serious risk to the country's attractiveness as an investment proposition. Although we expect the government to remain relatively committed to fiscal consolidation, we caution that as of yet not enough has been done to instil confidence in the country's ability to prevent its debt load from growing even further. We believe a deteriorating sovereign credit risk profile could weigh on foreign direct investment inflows over the next few quarters, slowing down the country's recovery.

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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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Economic Outlook
Recovery Struggling To Gather Momentum

Although Albania's economy will continue recovering in 2014, growing by an estimated 1.8% y-o-y, the recovery will be a sluggish one.

Consumption will be limited by stagnating credit, dire corporate balance sheets and declining remittances, while the country's growing public debt load will prevent the government from contributing as significantly to growth over the next few years.

Table: ECONOMIC ACTIVITY**Balance Of Payments****Current Account To Continue Narrowing, Slowly**

Albania's current account deficit will continue shrinking in 2014, due to recovering exports and weak domestic demand. We have pencilled in an 8.6% of GDP current account deficit in 2014, noting that faster deficit contraction will be prevented by weak remittance inflows and the struggling tourism sector.

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Though we project real GDP to expand by 3.5% between 2014 and 2023, we caution that Albania is expected to remain one of the least developed states in South East Europe. Over the long term we believe that while small-scale export-oriented manufacturing will begin to take on a more prominent role, 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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