



Weekly Briefing

**Albania economy briefing:
Maneuvering in the shadow of another lockdown**
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Maneuvering in the shadow of another lockdown

In early November 2020, the Minister of Finance presented to the Parliament the preliminary draft budget for next year. In her statement the Minister argued that negative indicators of economic growth have affected all countries of the world, thus Albania, cannot be immune to pandemic developments and impact. The highest financial institution of the country expects according to their projections that in 2021, the overall Gross Domestic Product (GDP) will increase to 5.5% by so significantly returning the Albanian economy to the trend of sustainable growth. The bases for this kind of confident approach for next year were to be found, according to the Minister, not only on the fact that the situation is well managed, but also in the knowledge that the basic foundations of the economy are stable and solid. But, are they really so? This optimistic expectation apparently does not take into account what has happened so far in this year, and how fiscal policies have impacted every cell of the country's economy.

In case of another lockdown

The fears for yet another lockdown, be this partial or total, are taking grounds not only in the public discourse but also in the declarations of many high exponents of the Government. This is due to the drastic increase in new cases of COVID-19 nationwide, as well as the incapacity of the healthcare system to properly accommodate incoming patients. To this end, mild restrictions are already in place (like mandatory masks in public, nighttime curfew etc.) as well as forecast for more rigid opening hours schedule for bars and restaurants.

In late October 2020, in an interview for a polish journal, Prime Minister (PM) Edi Rama stated that *a second closure would be fatal for Albania* and therefore the imposed restrictions must be followed by all citizens without exception. The fatality in that context was by all consideration the Albanian economy. Some restrictions can be handled but a total lockdown would be catastrophic for businesses. There is no doubt that Albania is currently on its second wave of COVID-19 cases and the seriousness of the situation is visible by all. As of mid-November 2020, there are in average 500 new cases per day, and what is more devastating is the fact that this number is only rising. If this wave will keep the aforementioned trend, chaos will be the least of Albanians worries.

Worrisome reports form World Bank (WB) and International Monetary Fund (IMF)

Recently the WB released a report on the economic performance of the Western Balkans during the pandemic named *An Uncertain Recovery*.ⁱ At this point in time the WB expects a drop in GDP levels by 8.4%, the same institution initially forecast that the economic recession would be at 5%. But even this forecast may change as the uncertainty is too great. The report claims that a persistent pandemic and a delayed vaccination may require a longer period of social distancing and slow down the recovery of services and production, pushing many businesses into bankruptcy and delaying employment recovery. But what was more alarming were the figures of the raise of people living in poverty. This deterioration in economic terms will translate automatically into lower incomes for citizens. This year the poverty rate in the country is expected to reach 41.5%, from 35.6% in 2019. The crisis is increasing poverty through rising unemployment. Poverty or the percentage of the population living on less than 5.5 Dollars US \$ per person/day is expected to increase. The main hopes for recovery, according to the report, are the reduction of public debt, which is expected to reach 81.4%, the promotion of consumption and private investment, and the increase of revenue collection.ⁱⁱ Meanwhile, the rehabilitation of the economy will depend on the end of the pandemic, the reconstruction process, consumption, but also on the normalization of the global economy. The isolation of the economy to prevent the spread of COVID-19, has had the most serious impact on the deterioration of the economic situation.

On the same line, the IMF predicted that Albanians will receive less income this year due to the pandemic.

The economic contraction in the country will be accompanied by the reduction of money in the pockets of citizens. The IMF has made an update of the per capita in its fall edition, according to which in Albania income estimate during 2020 where it turns out that the reduction for Albanians will be 425 US\$.ⁱⁱⁱ

The crisis also caused problems in the labor market in Albania; many workers have informal arrangements which are more vulnerable to economic stress. To respond to the crisis, the Albanian authorities decided to subsidize salaries for businesses most affected by the situation, increased spending on social support, approved a temporary moratorium on loan repayments and offered loan guarantees to facilitate access to working capital.

Sovereign guarantees, businesses have used only 36% of the funds available

Businesses have used only Albanian Lek (ALL) 9.3 billion of sovereign guarantee funds allocated by the Albanian government to cope with the crisis created by COVID-19. The figures

are particularly disappointing, especially for the second scheme, approved in mid-May, which aimed to secure loans to finance the recovery of commercial activity. Except at modest values, the sovereign guarantee schemes offered by the Albanian government proved to be not very functional and inefficient for businesses. The first guarantee, which offered businesses the option to borrow so they could pay the employees left at home from the forced closure of the activities, aroused surprise and skepticism, until the government decided to take over the interest rate itself. The second scheme was even less successful because the government undertook to guarantee only 60% of the loan, while the rest of the risk had to be borne by the lending bank itself. Added to the above there were some initial uncertainties about how collateral or guarantee income would be allocated in the event of a loan default. As they had to take some of the risk themselves, banks were generally conservative in their analysis, which made it difficult for businesses to benefit from the guarantee line in question.

Another factor that significantly discouraged the use of this scheme was the 5% interest rate ceiling. For businesses such an interest was not particularly facilitative or attractive because it stood close to the loan interest offered by the market under normal conditions. But even some of the banks were not very convinced about this ceiling, given that the duration of loans was projected at up to five years, which would expose them to losses in the event of future interest rate hikes.

The value of sovereign guarantee packages approved by the Albanian government is estimated at about 1.6% of GDP and was significantly lower than the regional average. In the Western Balkans, governments have introduced sovereign guarantee packages averaging about 2% of GDP, with Serbia and Montenegro accounting for above 4.4% and 2.7%, respectively. Also, in a broader comparison with other countries in Europe it is noticed that countries which have had it as an instrument, have used it more intensively. Mainly in developed EU countries, funds made available by the government for sovereign guarantees amounted to about 12% of GDP, while for other EU countries such as Poland this ratio is around 8.5%.^{iv}

Due to the continuing effects of the pandemic many businesses have appealed for a third package to come to their aid especially the tourism sector which turned out to be the most damaged. The Albanian economy long before the pandemic was gradually changing its structure; with small enterprises failing and the big ones getting stronger, while continuing to generate most of its revenue from trade. The pandemic highlighted this trend even more, the decline of small enterprises is endangering a segment that has had about 30% of employees in the economy.

Domestic consumption in the first three quarters of 2020 has fallen by 5.2% which is worrying as well as expected; in the conditions where the pandemic caused thousands of job

losses, this individuals and their families had less disposable income. The ones that were lucky enough to have government support could somehow manage to get through, but in this stance it is important to be highlighted that a large portion of Albanians work under the conditions of informality. These were the first to lose their jobs, and never had support because of their informal employment did not allow them to benefit from the scheme.

Conclusions

The strong consumption crisis, a very weak tourist season, collapse in large number of small businesses, are the key factors of the decline of the Albanian economy in 2020 due to the pandemic. As the looming risk of another lockdown is closer than ever imagined, uncertainties for the future could mean economic collapse for a large portion of the country. As with the given figures it is estimated that 41% of Albanians are living in poverty already, what is feared most is that this figure will increase or deepen. The protections of the vulnerable groups living in/in risk of poverty requires the available financial sources of the country to be used diligently and properly. The amortization of the effects of the crisis and the level of engagement form government entities to financial institutions, now has become a matter of survival.

ⁱ World Bank Group. Western Balkans Regular Economic Report No.18. *An Uncertain Recovery*. Retrieved from: <https://openknowledge.worldbank.org/bitstream/handle/10986/34644/153774.pdf>

ⁱⁱ Ibid.

ⁱⁱⁱ ABC News Albania. Shqiptaret varfërohen me shumë prej pandemisë, FMN: Gjatë 2020 të ardhurat ulen me 425 USD. Translated from: <https://abcnews.al/shifrat-e-fmn-se-cdo-shqiptar-pritet-te-varferohet-me-425-usd-ne-2020-n/>

^{iv} MonitorAL. Garancitë sovrane, bizneset kanë shfrytëzuar vetëm 36% të fondit. Translated from: <https://www.monitor.al/garancite-sovrane-bizneset-kane-shfrytezuar-vetem-36-te-fondit/>