



## **Weekly Briefing**

**Albania economy briefing:  
The costs of the pandemic for Albania  
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## **The costs of the pandemic for Albania**

*The COVID-19 pandemic will likely end up costing between \$8.1 and \$15.8 trillion globally. In Albania the losses were worse than predicted, the recovery will take more than one year (what was initially estimated) and the aid declared for the ones in need is not even half of what was publicly claimed. 2020 has tested the resilience of the Albanian economy and it has placed immense social and economic strain on households and businesses, and has forced the authorities to act hastily in order to address the health crisis and to introduce major policy initiatives to contain its impact. In the beginning of this year, economic forecasts for Albania were calculated with a projected growth of 3.4–3.6% in Gross Domestic Product (GDP) according to the main international financial institutions. It was expected that this growth would spark from internal/private consumption, investments and tourism. Sadly, all three main hopes were heavily impacted by the lockdown and uncertainties afterwards, thus the consequences were extensive and far-reaching.*

### **A year in review: chronological analysis**

Even though what hit the Albanian economy the most was the total lockdown of the country for three months due to the pandemic, the effects of the same were present prior to that time; in the first quarter, Albania's main trading partner, Italy, was hit during February, so slight setbacks, especially in travel, and exports anticipated the coming of the downturn. The first quarter noted a decline on the overall GDP by - 2.5%, while investment contracted sharply by 16.7%, consumption growth was marginal at 1.1 % and net exports decreased by 8.13%.

However, the total economic devastation arrived starting from March, when the total lockdown was executed. While almost all small businesses had to either close or partially operate, thousands of families were left without income. Service, recreational and tourism business were hit the most hit from the lockdown and an estimation of 60-70 thousand people were left jobless according to official data, while other experts see this index around 200 thousand people (in country where the total working force is 1.15 million persons). All working groups and their income were affected at different extent, except the ones working in the public sector.

During the second trimester of 2020, Albania was standing in the shock-phase of this new economic setting due to COVID-19 and the first support package from the government was granted. A special Normative Act allocated a Financial Package of 12 billion Albanian Lek

(ALL). Initially the salary subsidy scheme support was just for small businesses and the self-employed but was quickly expanded to over 75,000 businesses and self-employed that together had 170,000 employees. The total cost was €76 million. A credit guarantee scheme (€85 million) was introduced for Small and Medium Enterprises (SMEs) to pay three months of wages, which enabled local banks to issue loans totaling €53 million for salaries to 550 companies, benefiting about 46,000 employees.

Still the damage of this period is immense, according to INSTAT (the official governmental institute of statistics in Albania) the GDP shrank by -10.2% in the second quarter and -6.6% in the first half of 2020 compared to the corresponding periods of the previous year. However, according to data from the World Bank, the decrease in tourism inflows and exports of goods and services, together with lower incomes, widened the account to roughly 12.1 % of GDP in the second quarter of 2020. Inflation rates peaked at 2.1% in March and May because of supply chain disruptions and minor inflationary pressures from imports during the lockdown.

While the third trimester exposed Albania's heavy dependence on tourism, an industry that in 2020 has seen the worst of its existence since 1997. This was also the time where the economic ramifications of the pandemic started to be clear, small and medium businesses were the ones hit harder and the evident truth is that the situation only highlights the structural weaknesses of the country's overall economy. As these new economic indicators suggest a slower growth and a longer readjustment period, the hopes were placed into government intervention asked to reshape the economy towards more sustainable development and be present where mostly needed.

The estimations for the third quarter are around -7% while no projections are available for the fourth quarter; however, what the available data as of date demonstrate is that the most pessimistic views were right. Indeed, Albania will most probably close the national balance sheets with a recession of 9-11%.

### **A year in review: sectorial analysis**

**Business and bankruptcy:** In just four months, about 2800 businesses have gone into passive status (which for a small country like Albania is a real disturbing figure). Almost 80% of this group declared closure of activity due to drop in turnover from COVID-19, high local taxes, fines, cancellation of contracts and other related. Many entities, which acknowledged that they had received assistance with Financial Packages 1 and 2, but declared that state aid was insufficient to survive.

**Tourism (and service industry):** The tourism sector, a key driver of growth, was hit especially hard because of containment measures and travel restrictions. In absolute value are

€ 904 million less revenue to the economy in this period, as a result of the impact that the pandemic gave to the tourism sector in the country. Albanians have also spent less on their travels abroad. According to the Bank of Albania, they spent € 507 million on trips abroad, with a contraction of 58%. For the first 9 months of 2020, Albania was visited by a total of 2.12 million foreign nationals, consisting so in a decline of 61% compared to the same period of 2019.

**Decline in exports:** Exporters are afflicted due to falling orders especially from European Union (EU) customers, but also in the domestic market, although the government is resisting a strong shutdown as is happening in many European countries, consumption has been curbed and many sectors are facing harsh difficulties. Overall fewer textile processing orders, and lower oil prices are expected to suppress exports by 37 % annually.

**Falling in remittances:** which decreased by almost one-fifth in 2020 compared to the previous year have hurt in large scale private consumption. But what is more problematic is the fact that the most vulnerable of the society, usually the elderly or the “left behind children” are the ones that benefit the most from money sent from abroad, and for this year they had to cope with 20% less.

**Fund for reconstruction after the earthquake:** As the country started its reconstruction phase in the beginning of 2020, the global pandemic forced it to put key economic sectors in lockdown, so did the reconstruction process. In total, during February 2020 € 1.15 billion were raised during the Donors' Conference, however, in October 2020 Prime Minister Rama declared that so far all the work has been done with the funds of the state budget and not with the money received and other countries as promised in the beginning. It is uncertain if the pledges of donation were reversed due to the pandemic or only postponed, on stance is sure, only 8% of what as promised is actually distributed.

**Labor market:** the crisis has been reflected in the labor market. In the second quarter of 2020, employment declined by 3.6 percent year-on-year, unemployment rose to 11.9%, and labor force participation declined. The other main issue is that informality is high in the Albanian reality, thus many workers have informal arrangements with employers becoming so more vulnerable to economic stress. These people were the first to be fired if needed, and were the ones that did not benefit from government support since they could not claim their job loss. To the most precarious strata of the labor market, the crisis meant economic collapse.

**Public debt:** in 2020 lower revenues and a higher fiscal deficit pushed up Albania's public debt to an expected 81.3 % of GDP according to the World Bank, however, Albanian economists are more pessimistic, in many claim that the public debt is a ticking bomb for the country. While it is acceptable that it increased this year (officially reaching 80% of GDP) to

cope with the aftermath of the earthquake and the health emergency, the concern remains with the efficiency of its use and, above all, with what they call “hidden debt”. Including arrears and off-balance sheet liabilities of Public Private Partnership (PPP) real debt is expected to exceed 90% of GDP, reaching volatile levels, turning into an even greater risk than the pandemic, at the moment that the latter, hopefully, will end and the country will focus on recovery. Furthermore, the current account deficit (CAD) is expected to rise to about 11.9 % of GDP for 2020.

### **Conclusions**

Unemployment, negative spillovers from contraction of EU markets, decline of internal consumption due to further impoverishment of households, business closures, stalled tourism, scaled back operations, and disrupted supply chains hurting manufacturing – this is the new reality of the Albanian economy in 2020.

Consumption and investment decisions have been delayed by the uncertainty about the duration of the crisis.

The pandemic will further impoverish Albanians: in the best-case scenario it turns out that about 100 thousand citizens and in the worst case more than 250 thousand individuals will suffer a serious decrease in economic well-being. Several uncertainties, mainly influenced by the change in expectations for the recovery time from the pandemic are sending shockwaves of fear to all. And what is more worrisome is that, the more data become available the more it is realized that the full picture of the actual losses is not complete yet.