



Weekly Briefing

**Albania economy briefing:
Stagflation with Albanian characteristics**
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Stagflation with Albanian characteristics

Summary

The global economy is at mounting risk of stagflation and potentially more recessions as fuel, food, and metal prices surge. Many international financial institutions are lowering forecasts for global growth and raising them for consumer prices as commodities prices are surging amid sanctions on Russia. The International Monetary Fund (IMF) is warning of the “very serious” economic consequences of this conflict. Furthermore, a Forbes report claims that professional investors are growing increasingly gloomy about the future, with the majority now predicting that stocks will fall into a bear market this year. All over the world, economies might be plagued by stagflation, meaning high inflation and slow economic growth.

This briefing is an analysis of this trend applied to the Albanian economy amidst the growing concerns about the decline of consumers’ purchasing power.

Introduction

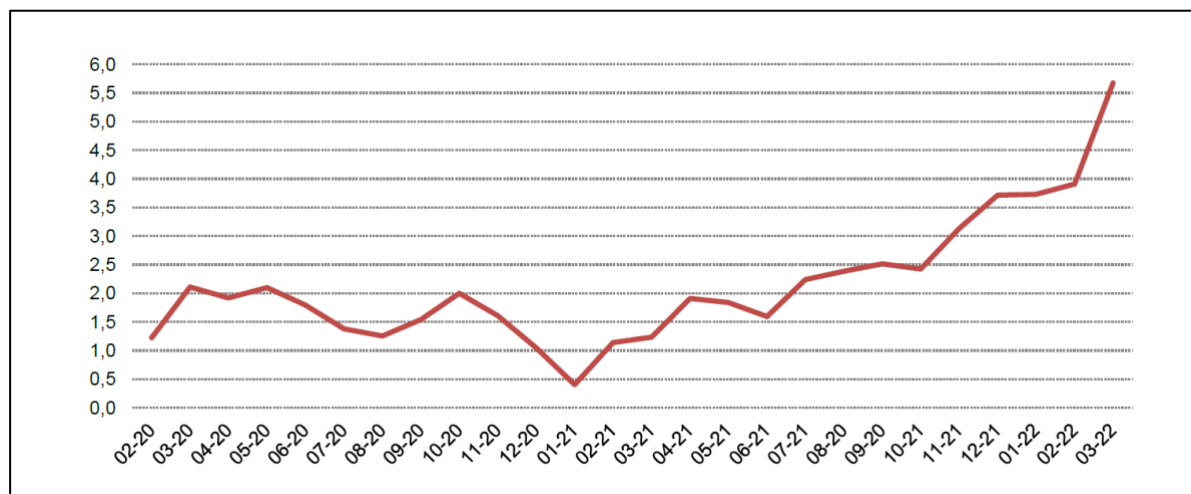
Prices have risen sharply in March, raising the cost of living for all Albanian households, which spend an average of 45% of their spending on food. This month, almost everything has been much more expensive. This is the highest level since 2002 making so a harsh reality for all in economic terms. Moreover, it has added to mounting concerns about a sharp slowdown, surging inflation and debt, and a spike in poverty levels. The continuing conflict and sanctions could push further energy, food, and commodity prices to rise, shrinking households’ purchasing power and consumption.

Data from the first quarter of 2022

According to the Albanian Institute of Statistics (INSTAT), the Consumer Price Index (CPI) in March 2022 arrived at 108.9 against December 2020 as the reference period. Compared

with February 2022 the monthly change of the consumer price index is 2.4%. The annual rate of CPI in March 2022 is 5.7%.¹

The annual rate of the consumer price index



Source: INSTAT

Yearly rates of main groups: Compared to March 2021, prices increased the most in the group ‘Transport’ by 19.9%, followed by ‘Food and non-alcoholic beverage’ by 9.3%, ‘Alcoholic beverages and tobacco’ by 4.9%, ‘Hotels, coffee-house and restaurants’ by 4.5%. Continuing with ‘Recreation and culture’ by 3.5%, ‘Housing, water, electricity, and other fuel’ by 2.3%, ‘Communication’ by 1.9%, ‘Clothing and footwear’ by 1.5%, ‘Furniture household goods and maintenance’ by 1.4 %, ‘Miscellaneous goods and services by 0.9%, ‘Education service’ by 0.7%.

Monthly rates of main groups: Compared with February 2022 prices of the ‘Transport’ group increased by 8.9%, followed by ‘Food and non-alcoholic beverage’ by 3.9%, ‘Alcoholic beverages and tobacco’ by 2.8%, ‘Hotels, coffee-house and restaurants’ by 1.3%, ‘Furniture household goods and maintenance’ by 0.8%, ‘Clothing and footwear’ by 0.7%, ‘Housing, water, electricity, and other fuel’ by 0.6%. Going further prices of the group ‘Rent, water, fuel and energy’ increased by 0.44 %, prices of the group ‘Alcoholic beverages and tobacco’ by +0.24%, and prices of the group ‘Hotels, cafes, and restaurants by +0.19%.

¹ INSTAT (2022 April 8). Indeksi i Çmimeve të Konsumit, Mars 2022. Press Release, Available at <http://www.instat.gov.al/al/temat/%C3%A7mimet/indeksi-i-%C3%A7mimeve-t%C3%AB-konsumit/publikimet/2022/indeksi-i-%C3%A7mimeve-t%C3%AB-konsumit-mars-2022/>

What does it mean in real terms?

The significant increase in prices is expected to significantly worsen the financial situation of Albanian households. Most of them stated as never before that they expect a deterioration in the financial situation of their income over the next 12 months. The most disturbing and harsh price increase is on the food group, which is essentially the most important of all. If they are analyzed deeper, the situation unfolds as follows: ‘*oils and fats*’ increased by 22.4%; ‘*bread and cereals*’ by 15.8%, ‘*vegetables*’ increased by 10.5%; ‘*milk, cheese and eggs*’ by 10.3%, ‘*sugar, jam, honey, chocolate and sweets*’ with 10.2% and ‘*meat*’ with 7.1%,²

How do the authorities cope with this situation?

The Ministry of Finance and Economy claims that the Government has taken appropriate measures to cope with the crisis via the so-called “Resistance Package”. In a statement to the Parliament, the minister argued that the government is being careful to support the neediest and take appropriate measures promptly so that this crisis has minimal effects on the overall economy. The Minister informed that the “Resistance Package” has been drafted, and helps 576,000 beneficiaries, who cannot afford the price increase, as their income is insufficient. What does this package entail – 3000 Albanian Lek (ALL), or 25 Euros per person, mostly pensioners. The Minister argues that the inflation of food prices within the total consumption basket of Albanian households in February, compared to February last year, is 6.9%. Taking into account the average consumption of Albanian households, this inflation is translated into the spending of 2,500 ALL per month. “*For this reason, we decided to give 3 thousand ALL per month for 3 months for all these categories of families in need*”, said the Minister of Finance and Economy.³

To local experts, this is not the case. Many argue that since January, the prices of basic products have increased by an average of 33%. An Albanian family in March pays for the basic products of the basket on average 1/3 more expensive than two months prior. Flour increased by 36% while bread by 17%. In addition, butter is paid almost double the price it costs in January. Even milk, yogurt, and cheese have risen in price by up to 35%, and the price of eggs

² Revista Monitor (2022 April 9). Shtrenjtohet gjithçka, inflacioni kërcen në 5.7% në mars, niveli më i lartë në 20 vjet. Available at <https://www.monitor.al/shtrenjtohet-gjithcka-inflacioni-kercen-ne-5-7-ne-mars-niveli-me-i-larte-ne-20-vjet/>

³ Ministry of Finance and Economy of the Republic of Albania (2022 March 24). Paketa e Rezistencës, Qeveria ka marrë masat e duhura për përbalimin e krizës. Available at <https://www.financa.gov.al/paketa-e-rezistences-qeveria-ka-marre-masat-e-duhura-per-perballimin-e-krizes/>

increased by 76% in two months. In response to the situation, the government has set up a board to control the prices of basic food products.⁴

The same ministry while taking pride in the “Resistance Package” to be applied for three months, in April stated that the increase in the prices of food and non-alcoholic beverages will continue throughout the year. The government has set up the “price transparency board” for basket products and declares that has taken care to determine the formula for traders' margins. They also stated that in addition to the boards recently set up for fuel and food prices there will be another one for agricultural inputs.⁵ Nevertheless, these boards, packages and more do not target the issue to the roots. They are just a temporary solution to a long-term problem.

The reality of price rise for basic survival products

Prices of food in Albania are also burdened with the highest Value Added Tax (VAT) in Europe or 20%. Rising commodity prices have prompted governments in some countries to cut VAT on food but from the Albanian government, there is no such decision. After the start of the conflict in Ukraine, which caused a rapid rise in prices of fuel and consumer goods, the governments of some countries reacted with a package of measures, which included reducing the level of VAT or abolishing it for basic products. The crisis caused by rising prices has causes and consequences completely different from the usual economic crises to which Albanians are accustomed.⁶ Local economists ask: Can such crises be met with liquidity injections from public institutions? - In short, no! Liquidity has value as long as the products and productive capacity of an economy are not affected. If there is a shortage of products on the market, the injected money cannot solve this problem. Rather, they may end up increasing the existing price of the products. For some local experts four are the main issues currently:

- This ongoing crisis is not a demand crisis, which can be easily resolved through fiscal maneuvers and the state budget. On the contrary, the excessive use of public funds could worsen the situation by further raising prices.

⁴ Euronews Albania (2022 March 29). Rriten me 33% çmimet e produkteve të shportës baze. Available at <https://euronews.al/vendi/ekonomi-1/2022/03/29/rriten-me-33-cmimet-e-produkteve-te-shportes-baze/?fbclid=IwAR04rke7Dx kEsW2ggP8avgeB9xKmAQ5fp61zQOtTdAeZBRPcrR3V0U5ylec>

⁵ HashtagAL (2022 April 4). Ministria Ibrahimaj: Rritja e çmimeve do zgjasë përtej vitit 2022. Available at <https://www.hashtag.al/index.php/2022/04/05/ministria-ibrahimaj-rritja-e-cmimeve-do-zgjase-pertej-vitit-2022/?fbclid=IwAR 1cO8cUVfB c6WNZIFKbNpFstkYkhsK4D3DwM42OUZITmtLHGbtV5vUclo>

⁶ OraNews (2022 March 27). Ushqimet me TVSH-në më të lartë në Europë. Available at <https://www.oranews.tv/ekonomi/ ushqimet-me-tvsh-me-te-larte-ne-europe-i1035667>

- The crisis is exposing long-term and systemic problems accumulated in key sectors of the Albanian economy.
- Hydrocarbons, energy, and agriculture continue to be non-competitive markets, technologically underdeveloped, and unable to cope with international crises.
- On the other hand, Albania's tax system, due to the inability to track the wealth of individuals, finds it impossible to provide targeted assistance to the most vulnerable of society.⁷

Reviewing growth forecasts

The first institution to review growth forecasts for 2022 in Albania was the European Bank for Reconstruction and Development (EBRD). In one report, they argue that energy and oil prices will slow down economic growth not only in Albania but also in the entire region. High fuel and electricity prices will hamper Albania's economic growth, which began last year after being hit by a pandemic. As of late March 2022, EBRD expects the economy to grow by 3.3% and not 3.7% as previously forecast. According to them, the Russia-Ukraine conflict has hit world markets harder since the crisis of the 1970s.⁸

The second to review economic forecasts for Albania was the World Bank. In their spring report, it is argued that the economic impact of the conflict has reverberated through multiple channels, including commodity and financial markets, trade and migration links, and the damaging impact on confidence. The war is also causing a destabilizing wave of refugees, financial stresses in vulnerable countries, runaway inflation expectations, and food insecurity. Poverty is expected to have declined below pre-pandemic levels, despite a sluggish labor market. With regards to Albania, they forecasted previously a growth of the Gross Domestic Product (GDP) of 3.8%, in the revised outlook they consider it will be about 3.2%. For 2022, prospects are uncertain with many downside risks. Additional risks include new, vaccine-resistant Covid-19 variants, tighter global financial and trade conditions, and renewed travel restrictions.⁹

⁷ Yzeiraj, I. (2022 March 21). Çmimet janë lajmësi, problemi është gjetkë. Available at https://www.ekon.al/2022/03/21/cmimet-jane-lajmesi-problemi-eshte-gjetke/?fbclid=IwAR3zBmx6l0UfXVzzKm1EMCKj4TTOlwtPPwSaT7mCGnAn7XT2NA_BBN_RMwrv

⁸ European Bank for Reconstruction and Development (2022 March 31). EBRD sees war on Ukraine causing major growth slowdown. Available at https://www.ebrd.com/news/2022/ebrd-sees-war-on-ukraine-causing-major-growth-slowdown.html?fbclid=IwAR0kWiLpAt_MtbKJB73FU2tgMZwnscDKI8qu553Q4-ZD08TzX7-0ELoyWU

⁹ The World Bank (2022). Europe and Central Asia Economic Update, Spring 2022; Europe and Central Asia Economic Update 13. Available at <https://openknowledge.worldbank.org/handle/10986/37268>

Conclusion

The adversity of this situation is way more dreadful than the numbers portray. In a country where the elderly in retirement have to choose between food and medicines, and normal households can barely make it to the end of the month, the price increase of necessities is another step towards economic collapse. While the authorities inject liquidity into consumption and not to production, or at least deduct taxes, every intervention is as futile as the amount granted per person. The future, like the present, is gloomy for the economic reality of Albania, and the latest events just uncovered what was mishandled for years, namely detrimental economic policies.