

Albania Watch: Stronger than expected economy points to more tightening ahead

In Q4 2022, the real GDP exceeded the most optimistic expectations and increased by 4.7% yoy versus our expectations for a 3.1% yoy jump. In addition, all the previous three quarters data were revised upwards (+0.7% in Q1 to 7%, +0.4% in Q2 to 3.1% and +0.9% in Q3 to 4.9%). The figures for 2020 and 2021 were also stronger than initially estimated with the recession 0.2% shallower than the initial figure in 2020 at -3.3% and in particular a stronger rebound in 2021 at +8.9% versus +8.5% previously. The preliminary figure for GDP growth rate for the year 2022 resulted at 4.8% and came as a surprise compared to our estimate of a growth rate of 3.9%.



Growth powers ahead in Q4, lifting full year figure for 2022

In an environment of bumpy economic conditions worldwide, the **economic activity** in Albania blew away the geopolitical crisis in Europe and closed the year in an optimistic note. In **Q4 2022** the GDP growth rate past the most optimistic expectations and increased by **4.7% yoy versus our expectations of a 3.1% jump**. In addition, all the previous 3 quarters data were revised upwards (**+0.7% in Q1 to 7%, +0.4% in Q2 to 3.1% and +0.9% in Q3 to 4.9%**). The figures for **2020 and 2021** were also stronger than initially estimated with the **recession 0.2% shallower than the initial figure in 2020 at -3.3%** and in particular a stronger **rebound in 2021 at +8.9% versus 8.5% previously**. The preliminary figure for GDP growth rate for the year **2022 resulted at 4.8%** and came as a surprise compared to our **estimate of a growth rate of 3.9%**.

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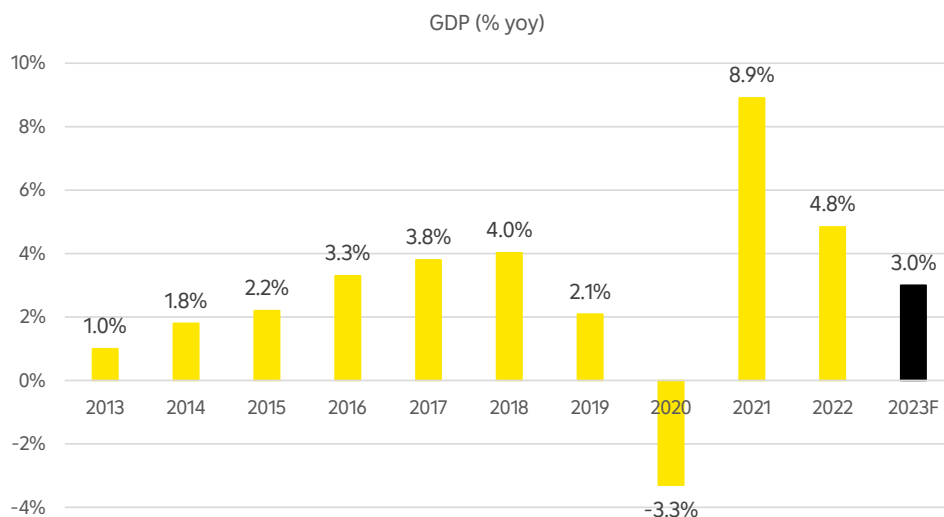
Fjorent RRUSHI

Analyst
+355 4 2381000-2504
Fjorent.Rrushii@raiffeisen.al

Aristea VLLAHU

Analyst
+355 697881313
Aristea.Vllahu@raiffeisen.al

Growth rates of the last two years revised significantly upwards

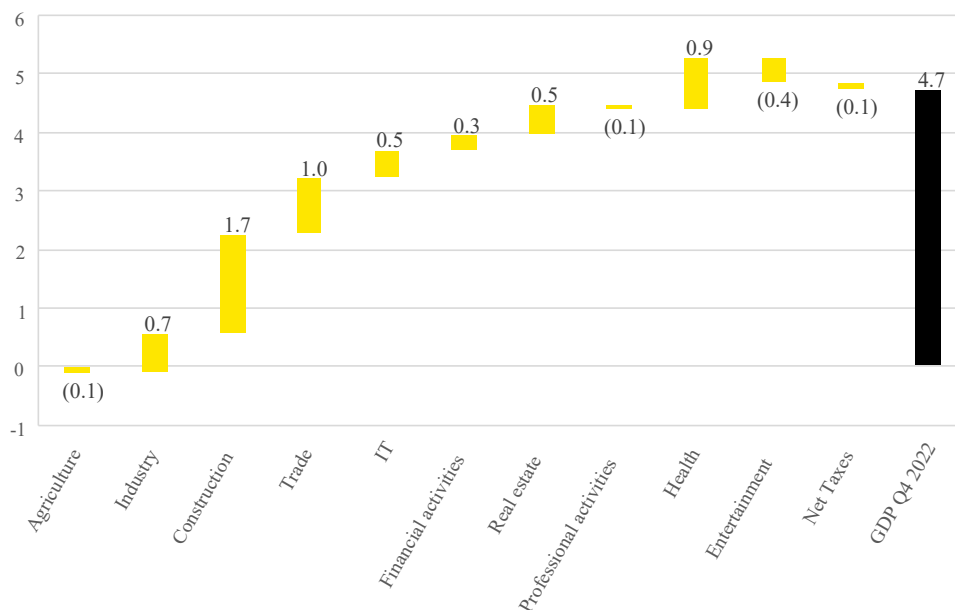


Source: Instat, RBI/Raiffeisen Research

Construction accounted for more than third of GDP growth rate in Q4 2022

Construction once again made the highest positive contribution to the GDP growth rate with **+1.9%**, followed by **Trade (+1%)**, **Health (+0.9%)**, **IT and Real Estate (both with contributions of +0.5%)**. An eye-catching contribution pertains to Entertainment, with a negative contribution of 0.4%.

Sectoral contributions to Q4 GDP (in pp)



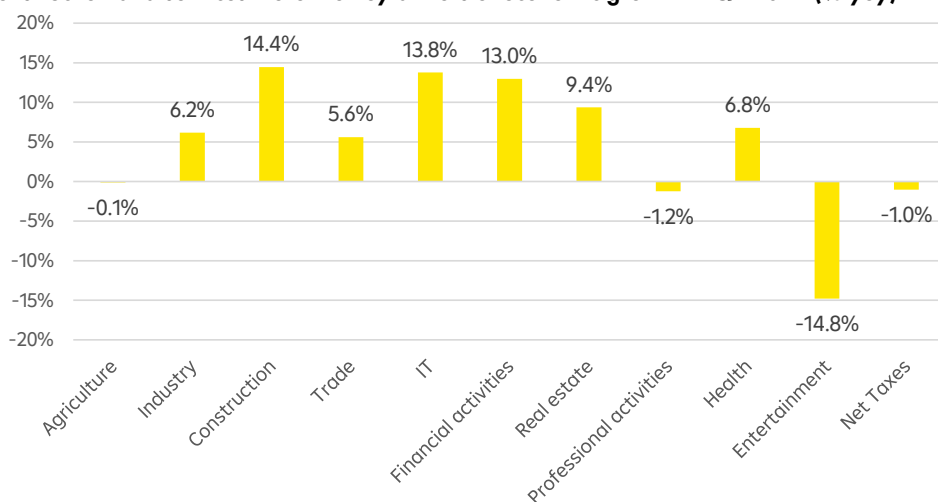
Source: Instat, RBI/Raiffeisen Research

Construction & services were the engine of growth in Q4 2022

In terms of growth rates yoy, three categories registered **double digits**, namely **Construction** (the fastest-expanding activity during Q4 by **14.4%**), followed by **IT (13.8%)** and **Financial Activities (13%)**. **Real estate, Health and Industry** also expanded by **9.4%, 6.8% and 6.2% respectively**. On the other hand, Entertainment shrank by -14.8%.

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Construction and services were the key drivers of economic growth in Q4 2022 (% yoy)

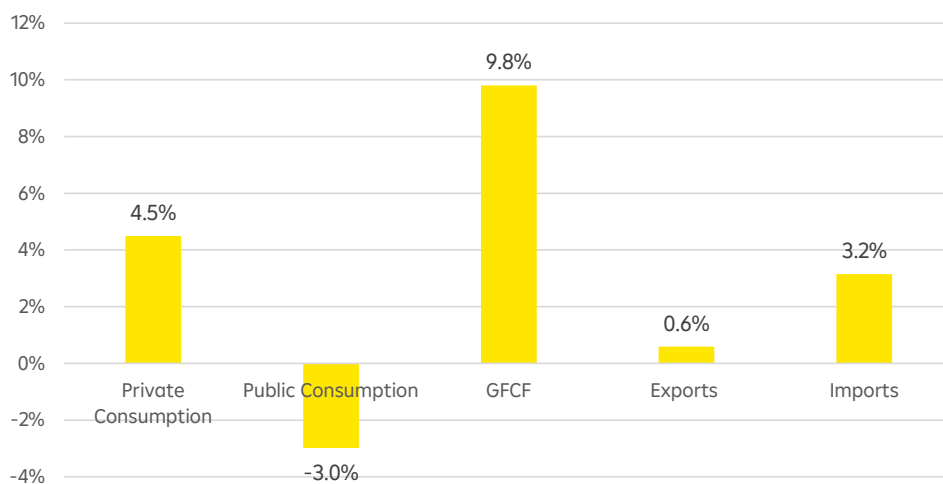


Source: Instat, RBI/Raiffeisen Research

Government fiscal restraint continued to act as a drag on growth in Q4

On the expenditure side, **GFCF continued to expand at a rate of 9.8%** (up from the previous quarter's growth rate of **7%**), followed by **Private Consumption** posting a growth rate of **4.5%**. However, Imports posted a growth rate (**3.2%**), significantly down from the previous quarter's double-digit growth of **16%**. **Exports of products and services** again logged a sluggish increase of **0.6%**. **Public Consumption** was the only group to shrink (**-3.0%**) in Q4.

Annual advance of GFCF remained fast in Q4 2022 (% yoy)



Source: Instat, RBI/Raiffeisen Research

Core inflation keeps up pressure for further tightening by BoA

Inflation decelerated during the last four months, mainly due to the reduction in **oil prices and in some food items** in the international markets. However, the inflation remains **high, at 7.1%** respectively and **core inflation even more elevated, at 8.7% in February**. Taking into consideration these underlying conditions, **Bank of Albania (BoA) resumed** the monetary policy normalization during March, by **raising the base rate by further 25bps, to 3%**. Expectations for economic growth have increased and Bank of Albania may still need to engineer **further tightening** without risking a hard landing. According to central bank's statement, the Albanian economy has been resilient towards the price shocks that came from the foreign environment. **BoA's expectations** for further economic growth and higher than expected inflation figures, seem to have allowed the supervisory board to **resume** interest rate hikes after the **halt in December and**

January. We believe that **further key rate increases** are necessary to bring **domestic inflationary pressures under control.**

BoA increased the base rate by 25bps, to 3%



Source: Bank of Albania, RBI/Raiffeisen Research

Growth expected to slowdown slightly in 2023 compared to 2022

We estimate the GDP growth to slowdown in 2023 and recover thereafter. Our full year forecast for **GDP growth is confirmed at 3% in 2023**, on the back of tighter financial conditions, a slowdown in the euro, and further fiscal consolidation.

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Symbol	Date	Recommendation	Company
AL	24.11.2022	Under Revision	Albania
AL	07.07.2022	Under Revision	Albania
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Symbol	Date	Recommendation	Company
AL	24.11.2022	Not rated	Albania
AL	07.07.2022	Not rated	Albania

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Thomas Sternbach
Legal and Compliance
Raiffeisen Bank International AG
Am Stadtpark 9, 1030 Wien
Tel: +43-1-71707-1541
Fax: +43-1-71707-761541
thomas.sternbach@rbinternational.com


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FABIAN BLASCH

📍 Austria 
 ✉️ fabian.blasch@rbinternational.com

AMADEA HIESS

📍 Austria 
 ✉️ amadea.hiess@rbinternational.com

MARKUS TSCHAPECK

📍 Austria 
 ✉️ markus.tschapeck@rbinternational.com


VALBONA GJEKA

📍 Albania 
 ✉️ valbona.gjeka@raiffeisen.al


OLGA ZHEGULO

📍 Belarus 
 ✉️ olga.zhegulo@priorbank.by


MIRZA ZORNIC

📍 Bosnia Herzegovina 
 ✉️ mirza.zornic@raiffeisengroup.ba


ZRINKA ZIVKOVIC-MATIJEVIC

📍 Croatia 
 ✉️ zrinka.zivkovic-matijevic@rba.hr

LEVENTE BLAHÓ

📍 Hungary 
 ✉️ levente.blaho@raiffeisen.hu


DOROTA STRAUCH

📍 Poland 
 ✉️ dorota.strauch@raiffeisen.pl


IONUT DUMITRU

📍 Romania 
 ✉️ Ionut.Dumitru@raiffeisen.ro


STANISLAV MURASHOV

📍 Russia 
 ✉️ stanislav.murashov@raiffeisen.ru

SERHII KOLODII

📍 Ukraine 
 ✉️ serhii.kolodii@raiffeisen.ua


GUNTER DEUBER

📍 Austria 
 ✉️ gunter.deuber@rbinternational.com


MATTHIAS REITH

📍 Austria 
 ✉️ matthias.reith@rbinternational.com


FRANZ ZOBL

📍 Austria 
 ✉️ franz.zobl@rbinternational.com

FJORENT RRUSHI

📍 Albania 
 ✉️ Fjorent.Rrushi@raiffeisen.al


ASJA GRDJO

📍 Bosnia Herzegovina 
 ✉️ asja.grdjo@raiffeisengroup.ba

ANA LESAR

📍 Croatia 
 ✉️ ana.lesar@rba.hr

HELENA HORSKA

📍 Czech Republic 
 ✉️ Helena.Horska@rb.cz

GERGELY PÁLFFY

📍 Hungary 
 ✉️ gergely.palfy@raiffeisen.hu

NICOLAE COVRIG

📍 Romania 
 ✉️ Nicolae.Covrig@raiffeisen.ro

ANASTASIA BAYKOVA

📍 Russia 
 ✉️ ABAIKOVA@raiffeisen.ru


LJILJANA GRUBIC

📍 Serbia 
 ✉️ ljiljana.grubic@raiffeisenbank.rs

OLEKSANDR PECHERYTSYN

📍 Ukraine 
 ✉️ oleksandr.pecherytsyn@raiffeisen.ua


CASPER ENGELEN

📍 Austria 
 ✉️ casper.engelen@rbinternational.com

GOTTFRIED STEINDL

📍 Austria 
 ✉️ gottfried.steindl@rbinternational.com


BRISIDA BUZI

📍 Albania 
 ✉️ Brisida.BUZI@raiffeisen.al

ARISTEA VLLAHU

📍 Albania 
 ✉️ Aristea.Vllahu@raiffeisen.al


IVONA ZAMETICA

📍 Bosnia Herzegovina 
 ✉️ ivona.zametica@raiffeisengroup.ba


ELIZABETA SABOLEK-RESANOVIC

📍 Croatia 
 ✉️ elizabeta.sabolek-resanovic@rba.hr

DAVID VAGENKNECHT

📍 Czech Republic 
 ✉️ david.vagenknecht@rb.cz

ZOLTÁN TÖRÖK

📍 Hungary 
 ✉️ torok.zoltan@raiffeisen.hu

ANDREEA-ELENA DRAGHIA

📍 Romania 
 ✉️ Andreea-Elena.DRAGHIA@raiffeisen.ro

GREGORY CHEPKOV

📍 Russia 
 ✉️ grigory.chepkov@raiffeisen.ru

TIBOR LORINCZ

📍 Slovakia 
 ✉️ tibor_lorincz@tatrabanka.sk

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