

Economic developments January– June 2024

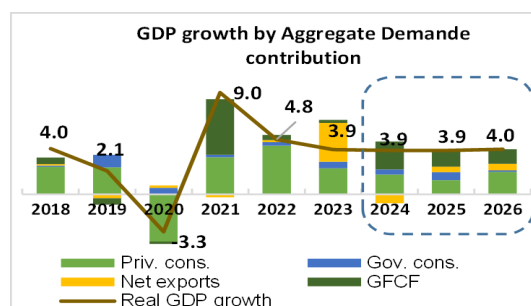
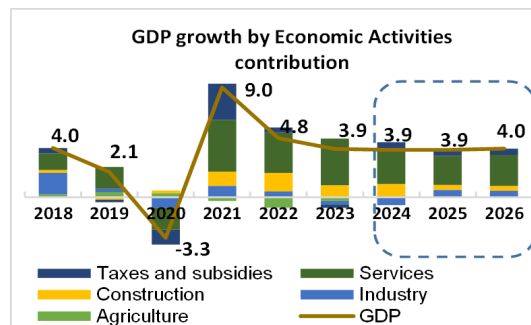


Albania - Resilient economy that continues to grow

Real Sector

The country's economy maintained its positive trajectory in 2023, registering a real GDP growth by 3.9% compared to 2022. In first half of 2024 real GDP continued to expand by around 3.94% compared to the same period of 2023. This growth was driven by rising demand for goods and services, which fueled expansion in the services and construction sector, while activity in the agricultural sector remained relatively stable. On the demand side, growth during this period was largely driven by domestic demand, with private consumption and investments, alongside robust performance in service exports, particularly in the tourism sector.

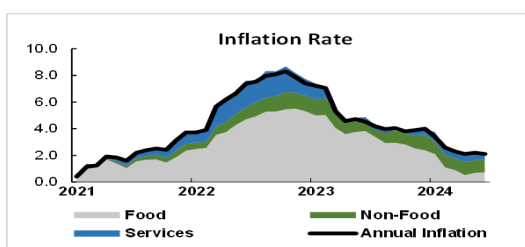
Looking forward, growth is expected to gradually converge towards its potential rate of around 4% over the medium term. Specifically, real GDP growth is projected at 3.9% for both 2024 and 2025, reaching 4% in 2026. This growth outlook will be underpinned by sustained consumer spending, continued investment in construction activity and service sector. Moreover, the rapid expansion of the tourism sector is expected to be a significant driver of economic growth.



Source: INSTAT, Ministry of Finance

Inflation

Average inflation for year 2023 stood at 4.8%, a decrease of 2 pp. compared to 2022. The disinflationary process accelerated in the second half of the year, influenced by falling global prices for energy and processed foods, the appreciation of the local currency in the foreign exchange market, and the effects of monetary policy. This downward trend continued into 2024, with inflation dropping to 2.7% in the first quarter and further declining to 2.1% in the second quarter.



Source: INSTAT

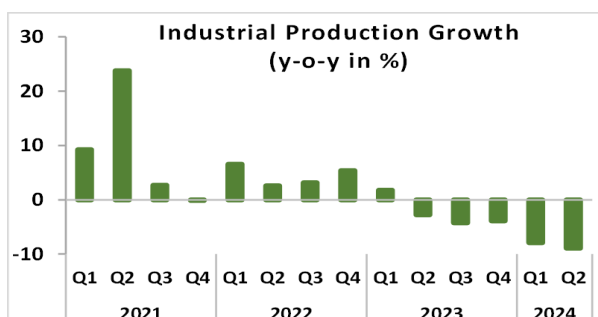
Labor market and wages

Employment in 2023 increased by an average of 1.6%, primarily driven by higher employment in the service sector. On the supply side, this growth can be attributed to sustained increases in both labor force participation and the employment rate, which reached 75.7 percent and 67.2 percent respectively in 2023, compared to 73.2 percent and 65 percent in 2022.

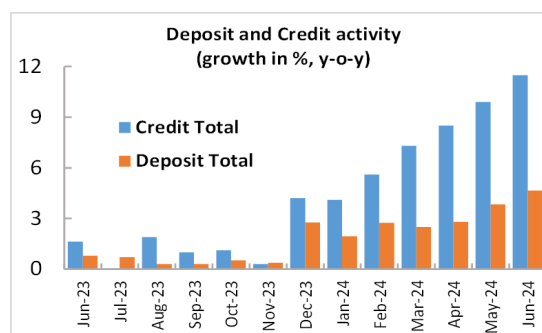
Credit activity during June 2024 increased by 11.5% on annual basis, where the lending to non-financial businesses (private and public) increased by 10.1%, while loans granted to individuals increased by 11.9%.

Deposits in the banking sector recorded an increase of 4.64% on annual basis, reflecting the sustainable increase of corporate deposits by 11.0%, while the total of individual deposits increased by 3.44%.

Industrial production in the first half of 2024 declined by an average of 8.4% year-on-year. This downturn was driven by an 8.4% contraction in the manufacturing industry, along with an approximately 8.5% decline in other industrial sectors.



Source: INSTAT, Ministry of Finance



Source: Bank of Albania

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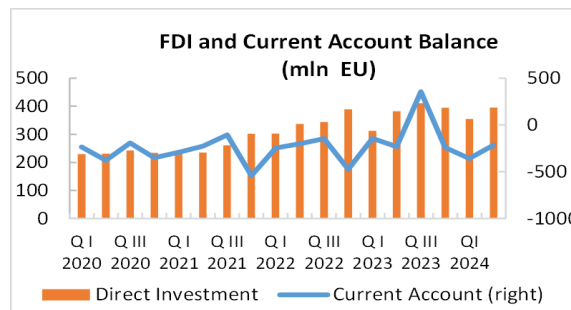
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External Sector

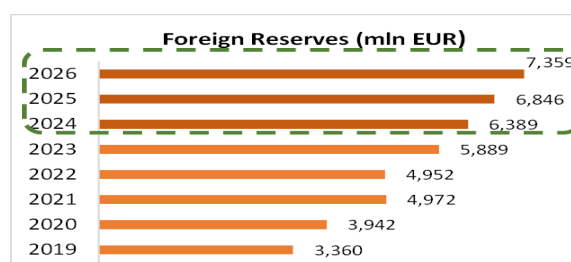
In 2023, the external position of the economy strengthened significantly, with the current account deficit (CAD) reducing to 1.2% of GDP, down from 5.9% in 2022 and a 7.7% average over 2017–2021. However, in the first half of 2024, the CAD increased by approximately 52.5% year-over-year, reaching EUR 575 million.

The overall balance of goods and services rose by 36.1% in the first half of 2024 compared to the same period in 2023, largely driven by growth in tourism exports. Foreign direct investment (FDI) also grew, in total EUR 750 million—a rise of 8.1% from EUR 694 million in the same period last year—primarily directed towards the real estate, hydrocarbons, extractive industry, and communication sectors.

As of June 2024, foreign exchange reserves stood at EUR 5,518 million, sufficient to cover 6.4 months of average annual imports of goods and services.



Source: Bank of Albania

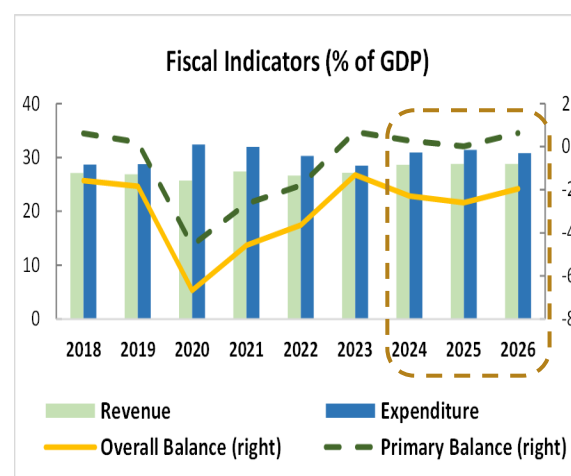


Source: Ministry of Finance, Bank of Albania

Fiscal Indicators

The total budget revenues for 2023 were achieved at 99.0%, an annual increase of 12.3%. Tax revenues rose by 10.6%, while revenues from special funds saw a notable increase of 17.6%. The largest contributors to tax revenue growth were personal income tax, corporate profit tax and excise duties. In the first 6 months of 2024, budget revenues grew by 7.2% year-on-year, exceeding the budget plan by 2.6%. Tax revenues increased by 11.1%, while revenues from special funds rose by 12.9%.

The total budget expenditures for 2023 were realized at 95.6%, with an annual increase of 3.6%. Current expenditure increased by 9.4%, and capital expenditure grew by 42.8% compared to the previous year. For the first 6 months of 2024 (January to June), budget expenditures increased by 6.4% year-on-year, with current expenditure rising by 9.0%. However, capital expenditure declined by 3.2% compared to the same period of the previous year.

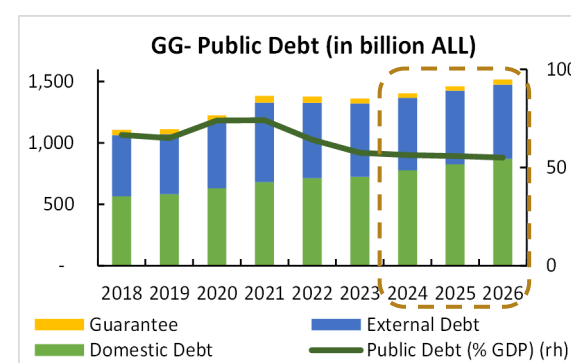


Source: Ministry of Finance

Debt Sustainability

The fiscal deficit in 2023 narrowed to 1.3% of GDP, down from an average of nearly 5.0% over the previous three years. Public debt decreased significantly to 57.5% of GDP, marking a decline of almost 6.6 percentage points compared to 2022. The fiscal deficit for 2024 is projected at level 2.3% of GDP.

Net public debt for 2023 was ALL 1,314.4 billion, or 55.5% of GDP, down from 63.5% of GDP in 2022. The ratio of gross debt stock, which includes liquidity for debt financing, is expected to decrease to 56.3% of GDP in 2024, representing a reduction of 1.2 percentage points from 2023 and falling below initial projections of about 58.2% of GDP.

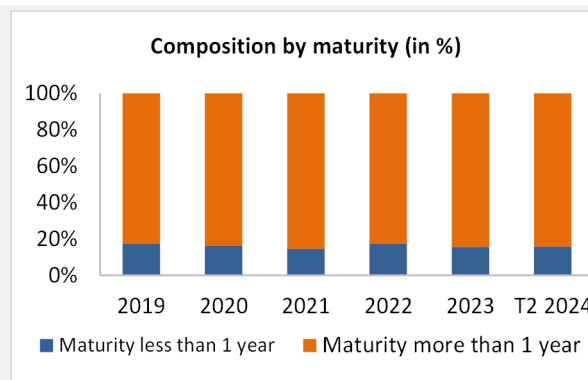


Source: Ministry of Finance

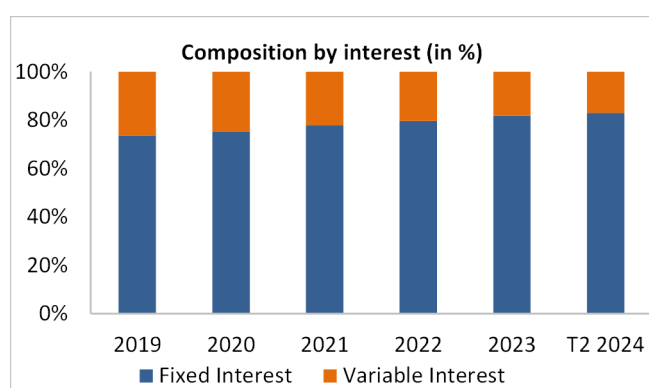
Debt Indicators

Composition of total debt by maturity

The debt portfolio primarily comprises instruments with maturities exceeding one year (more than 80% of the portfolio). Within the domestic debt portfolio, medium-term securities (2–5 years) constitute the largest segment, about 37% of total domestic debt portfolio as of June 2024. The proportion of long-term debt has increased due to new financing being secured mostly through long-term bonds. Additionally, a 15-year bond issuance was issued for the first time in 2021. Whereas, the external debt portfolio is totally composed of long-term instruments.



Source: Ministry of Finance



Source: Ministry of Finance

Composition of total debt by interest

The fixed interest rate debt accounts for more than 80% of the total debt. The share of fixed interest rate debt has increased in line with the strategic objective of reducing interest rate risk.

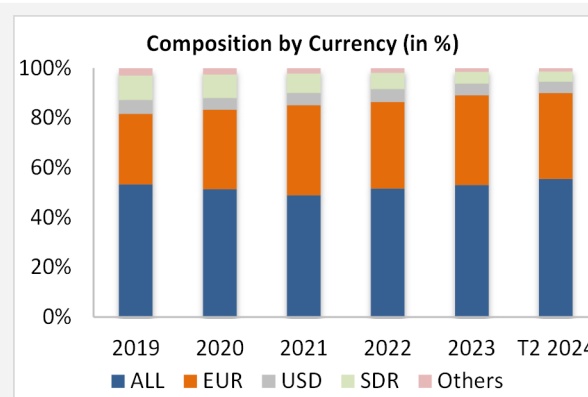
In the domestic debt portfolio, there have been no issuances of variable rate securities since 2016. Consequently, the proportion of variable interest rate securities is less than 1% of the domestic debt portfolio.

For the external debt portfolio, fixed interest rate debt represents more than 60% of the total share.

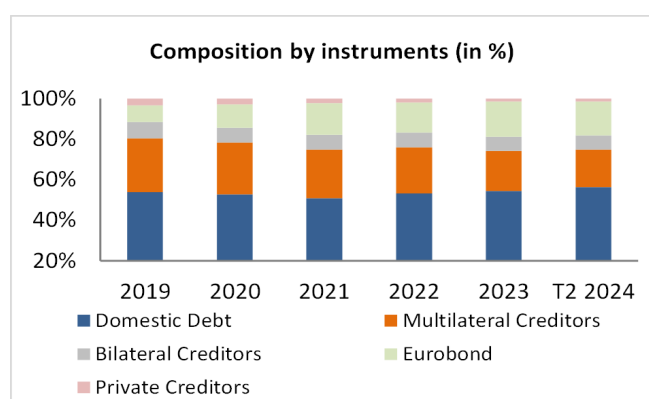
Composition of total debt by currencies

The largest portion of the total debt, exceeding 50%, is denominated in local currency, followed by the Euro and the US Dollar. Domestic debt is totally composed in local currency.

External debt is entirely denominated in foreign currencies, with over 70% in Euro, followed by the US Dollar and SDR. The significant share of debt in Euro aligns with the country's European Union integration policies.



Source: Ministry of Finance



Source: Ministry of Finance

Composition of total debt by Instruments

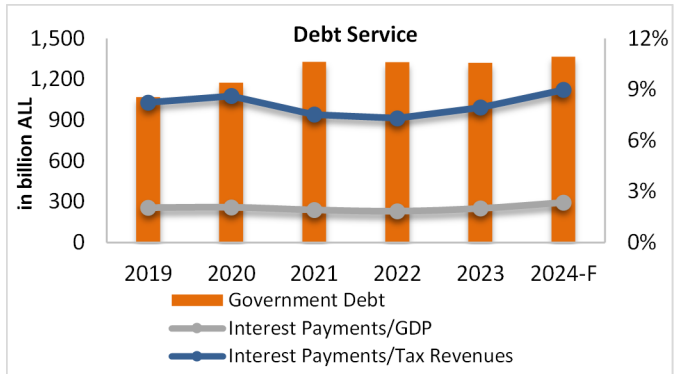
Albania benefits from a diversified funding mix, and from strong support from international finance institutions that allowed the country to withstand multiple crisis situations. The largest portion of the total debt, exceeding 50%, belongs to domestic creditors followed by multilateral creditors. In recent years, the share of the Eurobond has been increased from year to year due to the more frequent issuances in the international markets, where the most recent Eurobond was issued in June 2023 in the amount of EUR 600 million.



Debt Cost and Risk Indicators

Cost Indicators

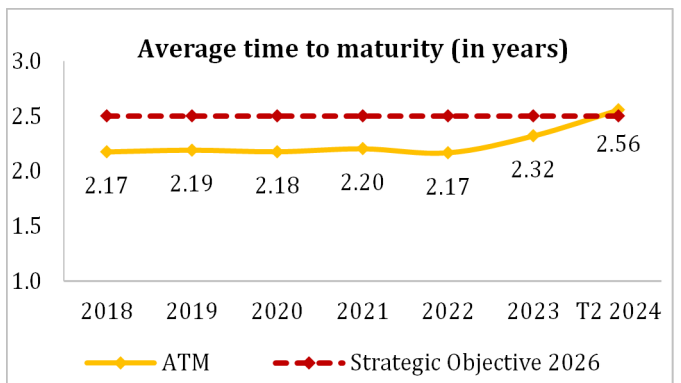
The debt portfolio has been effectively managed to maintain costs at the lowest possible level given the current market conditions. Beginning in 2022, there has been an increase in interest expenses attributed to rising interest rates in both external and domestic markets, but the increased interest rates impact has been mitigated as a result of the composition of the debt stock of more than 80% with fixed interest rates.



Source: Ministry of Finance

Refinancing risk

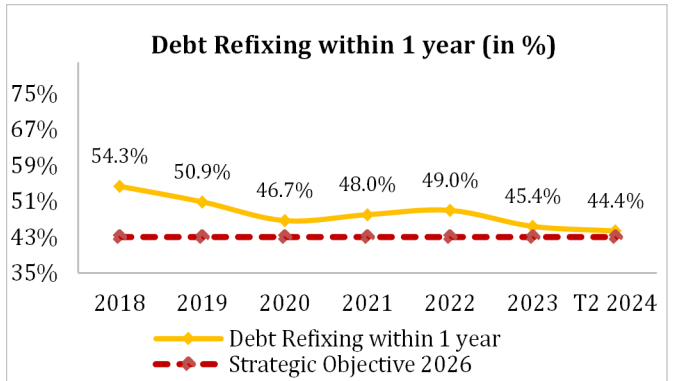
A key objective of the Debt Strategy is to mitigate refinancing risk, particularly within the domestic debt portfolio. This is because the external debt carries lower risk due to its composition of long-maturity instruments with extended amortization profiles. In recent years, indicators of refinancing risk have shown significant improvement. Notably, the average time to maturity of domestic debt has increased by over 100 days in the past five years, and more than 300 days in the last 10 years.



Source: Ministry of Finance

Interest rate risk

Interest rate risk has also been effectively mitigated, primarily due to the increased issuance of medium- and long-term securities and the exclusive use of fixed interest rates in the domestic market. Consequently, the proportion of total debt subject to interest rate re fixing within one year has decreased by over 6% in the last five years.

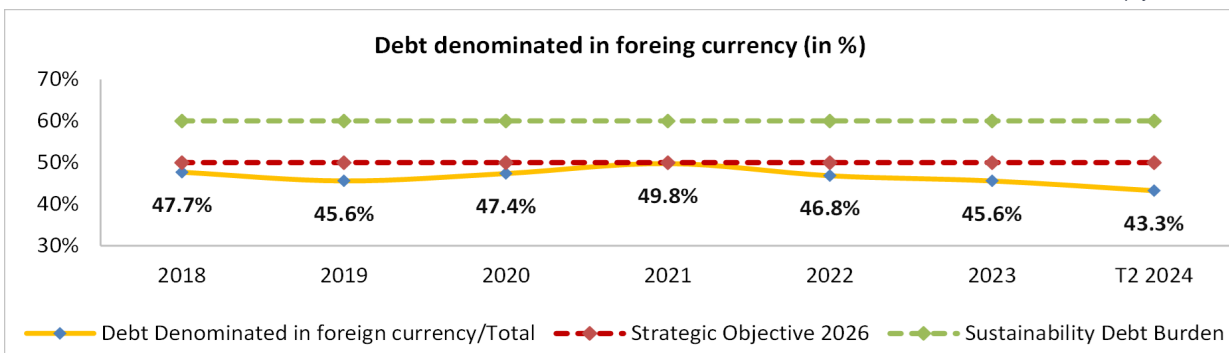


Source: Ministry of Finance

Exchange rate risk

Exchange rate risk has been effectively managed, remaining below the strategic limit objective. At the end of 2023, the proportion of total debt denominated in foreign currency was 45.6%, representing a decrease of 1.2 percentage points compared to the end of 2022 and a reduction of 4.2 percentage points compared to the end of 2021. This reflects a significant improvement in controlling exchange rate risk.

Source: Ministry of Finance



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Debt Indicators

Yields for domestic government instruments issued on primary market (%)

	3-M	6-M	12-M	2-years	3-years	5-years	7-years	10-years	15-years
Average Yield 2023	2.94	3.36	3.67	4.34	4.66	5.09	5.49	6.66	7.29
Average Yield Jan-Jun 2024	3.07	3.26	3.54	4.23	4.6	5.31	5.82	6.57	7.7

Sources:

Government Securities Report <https://financa.gov.al/raporti-mujor-i-titujuve-qeveritare/>

Auction Results <https://financa.gov.al/rezultatet-e-ankandev-te-titujuve-qeveritare/>

Auction Calendar <https://financa.gov.al/kalendaret-tremujore-te-emetimeve/>

Republic of Albania outstanding eurobonds, latest

Eurobond Status Maturity date	Rating		Original/ Outstanding size mn	Coupon	Price	Yield	Bid Spread vs. BM	Bid z-Spread vs. MS
	S&P	Moody's						
09-Oct-25	B+	B1	367	3.50%	99.695	3.55	290.7 bps	
16-Jun-27	B+	B1	650	3.50%	99.239	3.625	378.4 bps	
23-Nov-31	B+	B1	650	3.50%	97.947	3.75	402.5 bps	357.4 bps
09-Jun-28	B+	B1	600	5.90%	99.055	6.125	374.6 bps	305.8 bps

Key Macroeconomic Indicators

	2016	2017	2018	2019	2020	2021	2022	2023	2024*	2025*	2026*
Real GDP growth, %	3.3	3.8	4.0	2.1	(3.3)	9.0	4.8	3.9	3.9	3.9	4.0
Nominal GDP growth, %	2.7	5.3	7.1	3.1	(3.3)	12.7	15.2	10.2	5.2	5.1	5.2
Average annual inflation, %	1.3	2.0	2.0	1.4	1.6	2.0	6.7	4.8	2.3	3.0	3.0
Budget balance, % of GDP	(1.8)	(2.0)	(1.6)	(1.8)	(6.7)	(4.6)	(3.6)	(1.3)	(2.3)	(2.6)	(2.0)
Primary balance, % of GDP	0.7	0.1	0.6	0.2	(4.6)	(2.7)	(1.8)	0.7	0.3	0.0	0.6
Current balance, % of GDP	2.2	2.4	3.1	2.5	(0.5)	2.3	1.6	3.7	3.7	3.5	4.1
General government debt, e.o.p, % of GDP	72.4	70.2	66.7	65.0	73.9	74.1	64.1	57.5	56.3	55.8	55.0
Average unemployment rate (15-64)	15.6	14.1	12.8	12.0	12.2	12.0	11.3	11.2	10.2	9.8	9.5
Average Exchange rate, ALL/EUR	137.4	134.2	127.6	123.0	123.8	122.5	119.0	108.8	108.8	108.8	108.8
Monetary policy rate, %	1.25	1.25	1.00	1.00	0.50	0.50	2.75	3.25	3.20**
Foreign reserve, e.o.p., % of GDP	27.5	25.9	26.1	24.1	29.5	32.6	27.4	27.0	27.9	28.4	29.0

* MoF projections

** Average for the period January - October 2024

Credit Ratings 2024

	Rating	Outlook
Moody's, October 2024	Ba3	Stable
Standard & Poors, September 2024	BB-	Positive

Note: The country's credit ratings have remained stable, not only avoiding likely downgrades in the face of the pressure's from those shocks but recently achieving upgrades from both S&P in April 2024 (from "B+, stable" to "BB-, positive") and most recently by Moody's in October 2024 (from "B1, positive" to "Ba3, stable").

Key Macroeconomic Forecasts from International Organisations

	Real GDP growth, %	Average inflation, %	Public Debt % of GDP	Budget Balance % of GDP
IMF, WEO (October 2024)	3.3	2.2	58.3	(2.2)
European Commission (May 2024)	3.3	3.0	58.2	(2.4)
World Bank (October 2024)	3.3	2.2	58.3	(2.3)
MoF, Albania (October 2024)	3.9	2.3	56.3	(2.3)