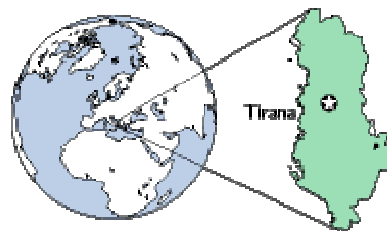


COUNTRY REVIEW

Albania



15 July 2011

ANALYST: Dr. Manfred Stamer

EULER HERMES COUNTRY RISK GRADE: D

EULER HERMES COUNTRY RISK LEVEL: HIGH

Country Risk Grades are on a scale of AA, A, BB, B, C, D

Country Risk Levels are on a scale of LOW, MEDIUM, SENSITIVE, HIGH

COUNTRY PROFILE

Capital city:	Tirana
GDP:	USD 11,773 mn (2010)
Population:	3.2 mn (2010e)
GDP per capita:	USD 3,677 (2010e)
Currency:	Lek (ALL)
Form of state:	Parliamentary democracy
Head of government:	Prime Minister Sali BERISHA (since 10 September 2005)
Next elections:	Presidential: 2012 / Legislative: 2013

Since the fall of the Stalinist dictatorship in 1991, Albania has seen much political turbulence and unrest. Progress in the transition from a communist regime towards democratic structures and a market-based economy has been gradual. All post-communist elections have been marred by allegations of fraud and were not fully accepted by the international community. The July 2005 parliamentary election brought back to power the Democratic Party of Albania (DPA) and its leader Sali Berisha after eight years in opposition, despite Berisha's reputation for authoritarian, unpredictable and erratic leadership in the 1990s. The outcome of the June 2009 election was very close and controversial, with the DPA (68 out of 140 seats) remaining in power thanks to forming a coalition with the Socialist Movement for Integration (SMI; 4 seats). The opposition Socialist Party of Albania (SPA; 65 seats) has since challenged the result and, in effect, boycotted parliament. The political stalemate intensified further following the May 2011 local elections, which took place in an environment of violence, high polarisation and mistrust. Preliminary results showed that the SPA candidate won the mayoral election in Tirana, but the Electoral Commission, dominated by DPA supporters, controversially overturned the result in favour of the DPA candidate. The SPA has appealed against the decision. All this undermines the legitimacy of the current administration and there is a risk that the political crisis will continue, with the possibility of violent street protests.

The country's international relations are mixed. The ongoing domestic political stalemate has halted progress on EU accession for which Albania applied in April 2009. In November 2010 the European Commission refused to grant it the status of candidate state and recently the EU expressed concern over the legality of Tirana's mayoral election. On a positive note, Albania joined the Central European Free Trade Agreement (CEFTA) in 2007, NATO in 2009, and has comparatively good relationships with the IMF and the World Bank. Regional stability in the Balkans is still fragile, however, and the Albanian government frequently calls for the protection of ethnic Albanians in neighbouring countries.

The economic structure is weak. Agriculture still accounts for 19% of GDP and 48% of employment, while the industrial base is small, accounting for just 23% of both GDP and employment. Italy is by far the largest trade partner, accounting for 50% of exports and 34% of imports. Albania continues to suffer from a largely antiquated and dilapidated energy and transport infrastructure, such that energy and water-supply shortages occur frequently. Average annual real GDP growth was 6% in 2003-2008 but declined to 3.4% in 2009-2010 and is forecast to remain moderate in 2011-2012. Inflation is fairly low and stable in the range of 3.0-4.5%. The fiscal deficit declined from 7.5% of GDP in 2009 to 3.7% in 2010, but is expected to rise again to about 4.5% in 2011-2012. Public debt is high at about 60% of GDP. Annual trade deficits have been very large at around 28% of GDP since 2007. Remittances, a significant growth accelerator, have financed a part of the trade shortfall but have fallen from 14% of GDP in 2002-2005 to 11% in 2010. The overall current account deficit has been high at 10-15% of GDP in 2007-2010 and is forecast to remain in double-digits. Foreign exchange reserves are adequate thanks to continued foreign aid inflows, covering almost four months of imports. Total external debt has rapidly increased from 21% of GDP in 2004 to 38% in 2010 and could reach 50% in 2012. The overall debt-service ratio appears manageable for now, but Albania will remain highly dependent on grants.

The business environment is below average. Areas of particular concern are corruption and the rule of law. The fallout of the global financial crisis on Albania's banking sector was limited though profitability and asset quality have suffered. The relatively high presence of Greek-owned banks and the high degree of euroisation increase liquidity and exchange rate risks in the future.

Dr. Manfred Stamer

Hamburg: +49 (0)40 8834 3607