

Economic impacts of and policy responses to the coronavirus pandemic: early evidence from Albania

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Key messages

- The Albanian government has implemented an expansive and swift set of COVID-19 containment measures. As of 1 April, just 22 deaths have been attributed to the disease.
- An economic stimulus package of around €174 million (1.3% of GDP) has been announced to support those whose jobs are compromised by the lockdown, with an extension package to be announced in mid-April
- Tourism, which contributes 21.2% of GDP and 22.2% of total employment, is at a standstill, owing to the closure of land, air and sea borders.
- Albania's export of energy will be vulnerable to potential decreases in demand in the region as a result of lockdowns.

Introduction

As of 10 April 2020, Albania has 416 [identified cases of COVID-19](#) and 23 deaths, but testing has been limited, at just 3,385 in a population of 2.86 million. The first cases were identified on 8 March and stringent measures were put in place to contain the spread. On 24 March, the government [declared a state of emergency](#). Land and sea borders were closed and by the end of March all international flights had been suspended. Schools and nurseries were shut, followed by bars, restaurants, shopping centres, gyms and all non-essential retailers. Curfews have been put in place and movement outside the home for recreational purposes is banned. On 30 March, a permit system was established for leaving the home for essential purposes. The restrictions will be reviewed in mid-April.

At [1.2 physicians per 1,000 people](#), Albania has one of the lowest ratios of health care specialists per capita in Europe. Per capita, Albania spends \$314.17 (PPP current international \$), equivalent to 2.77% of GDP; external health spending is estimated at \$5.05 (PPP current international \$) per capita (World Bank 2016).

Albania's short-term economic outlook was already compromised, with [hydro-energy exports](#) dampened by exceptionally poor rainfall. Further, in November 2019, a 6.4 magnitude earthquake killed 51 people, injured at least 913, made over 14,000 homeless and left [~€1 billion in reconstruction costs](#). The damage will slow economic growth, particularly in tourism, in 2020.

Economic and social impacts

With over 50% of Albania's GDP and 40% of its employment in the services sectors, restrictions to limit the spread of COVID-19 will have substantial impacts, though unemployment figures are not yet available.

Albania's economy had initially been forecast to grow between 3.5% and 4.1% in 2020; however, between the post-earthquake recovery and the COVID-19 crisis, the Ministry of Finance and Economy has now downgraded this to a [2% rate of economic growth](#).

In 2019, tourism made up [21.2% of GDP](#) (~€2.85 billion) and 48.2% of total exports. The sector employs 254,300 people (22.2% of total employment). The EBRD has flagged [Albania's tourism sector as having low resilience](#) to the COVID-19 crisis. With all travel to and from Albania banned indefinitely, the summer season, normally peak tourism season, will not see much revenue generation. This will have significant longer-term implications for employment and GDP.

The EBRD has rated Albania as highly resilient to commodity price and global value chain shocks, and cargo ships and commercial activity in the shipping industry are expected to continue normally; however, relying on the EU for [over 75% of its exports and 60% of its imports](#), Albania is potentially vulnerable to the economic contraction expected in much of the EU.

Social impacts

The Roma community in Albania has been one of the hardest hit by the lockdown, since much of their income-generating activities, such as litter and scrap collection and sale, are impossible under current restrictions. The Council of Europe's ROMACTED programme is implementing short-term measures to improve access to water supplies in settlements and hygiene and food supplies for vulnerable households.

Albanian citizens resident outside of Albania are not allowed to enter the country as of 6 April 2020.

Finance

Remittances in 2018 were equivalent to at least [9.65% of Albania's GDP](#). Closely linked to Italy, both

economically and socially, with ~400,000 Albanians living and working there, Albania is particularly vulnerable to the severity of the crisis in Italy.

As of 7 April, the [value of the Albanian Lek](#) against the US\$ has depreciated the past month from 107.71/US\$ to 115.90 Lek/US\$, an average fluctuation of 0.75%. Over the same period, the Lek to euro exchange rate has remained fairly stable, going from 122.86/euro to 125.92/euro, an average fluctuation of 0.7%.

While information on the impact of COVID-19 on FDI is not yet available, as Albania's FDI is concentrated in energy and oil, metal ore, infrastructure, construction and telecommunications, with [Switzerland, the Netherlands and Italy](#) the top investors in 2019, the country's FDI is vulnerable to the current and expanding economic contraction across Europe.

Fiscal impacts

To finance its economic stimulus package, Albania has [nearly doubled its budget deficit](#) from a planned deficit of 2.2% to 3.9% of GDP. The Ministry of Finance and Economy has announced that it expects public debt to rise from 64.8% to 68.8% of GDP and a drop in revenue of ~€160 million, or around 1.12% of GDP.

On 31 March, the prime minister announced the [release of Eurobonds](#) in international markets in May, to be 'a financially viable and not ruined country'.

Monetary and financial policy

On 25 March, the [central bank governor](#) announced unlimited liquidity to second-level banks for as long as required, a three-month moratorium on interest payments to second-level banks and suspension of bankruptcy procedures. The Supervisory Council of the Bank of Albania lowered the policy interest rate from 1% to 0.5% and overnight loan rates from 1.9% to 0.9%; the deposit rate of 0.1% was maintained.

The Bank of Albania has also increased operational capacity to facilitate the increased demand for liquidity and support increased use of electronic payment.

Fiscal policy

On 21 March, the prime minister outlined a three-month stimulus package as part of an [amended 2020 budget](#) equivalent to ~€174 million or 1.3% of GDP. The package combines spending reallocations, spending increases and sovereign guarantees:

- Additional funding of ~€20 million to the health sector towards medical supplies and equipment;
- ~€51 million in cash transfers to cover wages, at the legal minimum for the self-employed and those working for small businesses who have lost their income owing to the COVID-19 crisis;

- Reallocated defence spending of ~€16 million to humanitarian relief, food, medications, etc., to the most vulnerable and those on the lowest income;
- Sovereign guarantees up to ~€79 million (~0.6% of GDP) to give companies the liquidity to pay employees' wages;
- ~€7.9 million designated as a reserve fund for COVID-19-related emergencies.

Fees for late payments of utility fees will be waived for households and small businesses, and the tax deadline is extended from 31 March to 1 June. Tax payments on profits of small businesses will be deferred to the second half of the year. Businesses that close for fear of infection, lack of clientele or supply chain disruptions had not been eligible for benefits under the initial stimulus package; however, on 10 April the [Prime Minister announced](#) that extensions to the package would be detailed in mid-April. As travel agencies and tourism operators are permitted to operate under the current restrictions, despite closure of all borders, much of the tourism industry was excluded; however, the extended package will include provisions for the tourism sector.

Social policy

Suppliers of goods and medication are required to hold at minimum three months of stock to ensure supply, whose sale the state should guarantee if it remains at the end of the crisis. Emergency legislation also makes provisions to allow fines against traders putting '[unacceptable prices rises](#)' on food and medicines.

The Ministry of Internal Affairs is coordinating the delivery of food to those affected by the November earthquake living in temporary accommodation, and the elderly living alone/other vulnerable households.

Donor support

The EU reallocated over €410 million in [bilateral financial assistance](#) to support the Western Balkans during the COVID-19 crisis. Albania will receive:

- €4 million of immediate support to the health sector;
- €11 million to support social protection;
- €35 million towards economic recovery. The EU has also launched a social media campaign raising awareness on how to behave during the emergency, targeted at the most vulnerable.

EBRD shareholders approved a [€1 billion package to support its clients](#) across the 38 economies it works in. It is unclear how much will be accessible to Albania: the EBRD has 91 projects and a current portfolio totalling €615 million.

Information in this note is correct as of 10 April 2020. The author is an ODI Fellow with the Prime Minister's Office, Government of Albania; this note is written in a personal capacity. Comments welcome to c.mclaren.fs@odi.org.uk