

## Sovereign Rating

New  Update

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### Chief Analyst

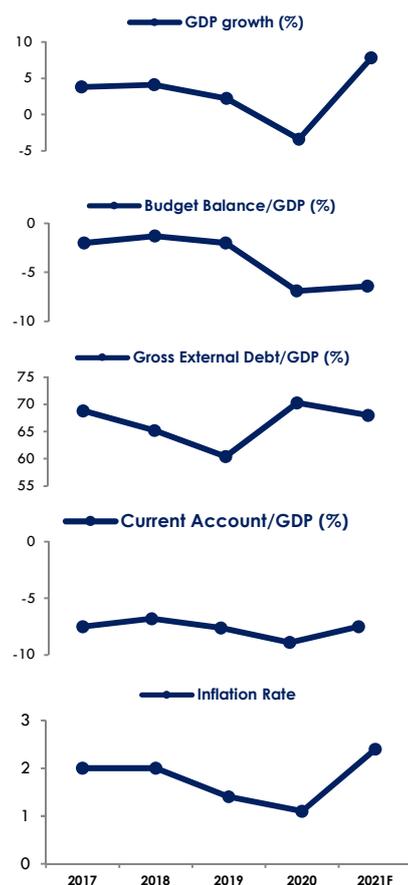
Özgür Fuad Engin, CFA

+90 212 352 56 73-74

[ozgur.engin@jcrer.com.tr](mailto:ozgur.engin@jcrer.com.tr)

### RATINGS

		Long Term	Short Term
Sovereign	Foreign Currency	BB	B
	Local Currency	BB	B
	Outlook	FC	Stable
LC		Stable	Stable



(\*) F: Forecast

## Albania

JCR Eurasia Rating has affirmed the sovereign ratings of **Albania** as **'BB'** on the Long-Term Foreign and Local Currency and as **'B'** on Short-Term Foreign and Local Currency scales with **'Stable'** outlooks for both terms.

Data	2021F	2020	2019	2018	2017
<b>GDP, Current Prices (USD bn)</b>	15.51	14.8	15.28	15.32	13.04
<b>GDP per capita (USD)</b>	5,442	5,193	5,269	5,283	4,497
<b>GDP growth (%)</b>	7.8	-3.4	2.2	4.1	3.8
<b>Inflation Rate (%)</b>	2.4	1.1	1.4	2	2
<b>Unemployment (%)</b>	12	12.3	11.5	12.3	13.4
<b>Budget Balance/GDP (%)</b>	-6.4	-6.9	-2	-1.3	-2
<b>Public Debt/GDP (%)</b>	73	77.6	67.3	69.5	71.9
<b>Current Account (EUR mn)</b>	-1,163	-1,153	-1,089	-866	-866
<b>Current Account/GDP (%)</b>	-7.4	-8.8	-7.6	-6.8	-7.5
<b>Gross Ext. Debt/GDP (%)</b>	68	70.3	60.4	65.2	68.8
<b>LEK per USD (eop)</b>	106	100.8	109.9	107.8	111.1

\* JCR-ER, IMF, Bank of Albania, Instat

In the recent years, two major shocks had affected the Albanian economy in rapid succession, the earthquake of November 2019 and the global pandemic of Covid-19. The earthquake caused great physical and humanitarian damages while the pandemic disrupted supply chains, decimated demand and significantly increased uncertainties across the world. Particularly Covid and related lockdowns resulted in falling tourism revenues in 2020. On the other hand, recovery is under way, as the world reopens and fiscal packages support the economy. Tourism revenues have rebounded considerably and medium-term growth outlook is positive.

High public debt burden is a persisting issue, exacerbated by the fiscal packages introduced as a response to the pandemic. Ongoing fiscal consolidation efforts had to be halted, resulting in a widening budget deficit in 2021. External fiscal support has been helpful as well though commitment to abide by the fiscal consolidation agenda is important. According to Organic Budget Law, debt to GDP is expected to reduce to 45%. On the other hand, potential debt service requirement from PPP projects accounted as contingent liabilities could induce pressures.

Banking sector is well-capitalized, and asset quality while improving is still an important issue. High public debt and subsequently large financing needs of the government results in absorption of funds as securities. Euro is prevalent in the banking system, comprising half of loans and deposits. On the other hand, EU candidacy process is still ongoing, and the EU maintains its position as an important financial and governance anchor.

#### Strengths

- Commitment to fiscal discipline and track record, despite mandatory diversion due to pandemic
- Stimulatory monetary policy of Bank of Albania, supporting growth
- Well-capitalized and liquid banking sector
- Realized and potential external support from the EU and IFIs
- Accession process and EU candidate country status and positive externalities stemming thereof,

#### Constraints

- High public sector debt burden, in both domestic and external segments
- Supply and demand side shocks introduced by Covid-19 pandemic and potential further impact on the economy
- Despite improvements, sustained NPL ratio of the Banking Sector and significant share of Euro deposits in the system
- Contingent liabilities and off-balance sheet exposures stemming from PPPs and energy investments
- Room for improvements in the governance and reforms

Considering the aforementioned factors and developments, JCR Eurasia Rating has affirmed the Long-Term Foreign and Local Currency Ratings of Albania as **"BB"** with **"Stable"** outlooks.