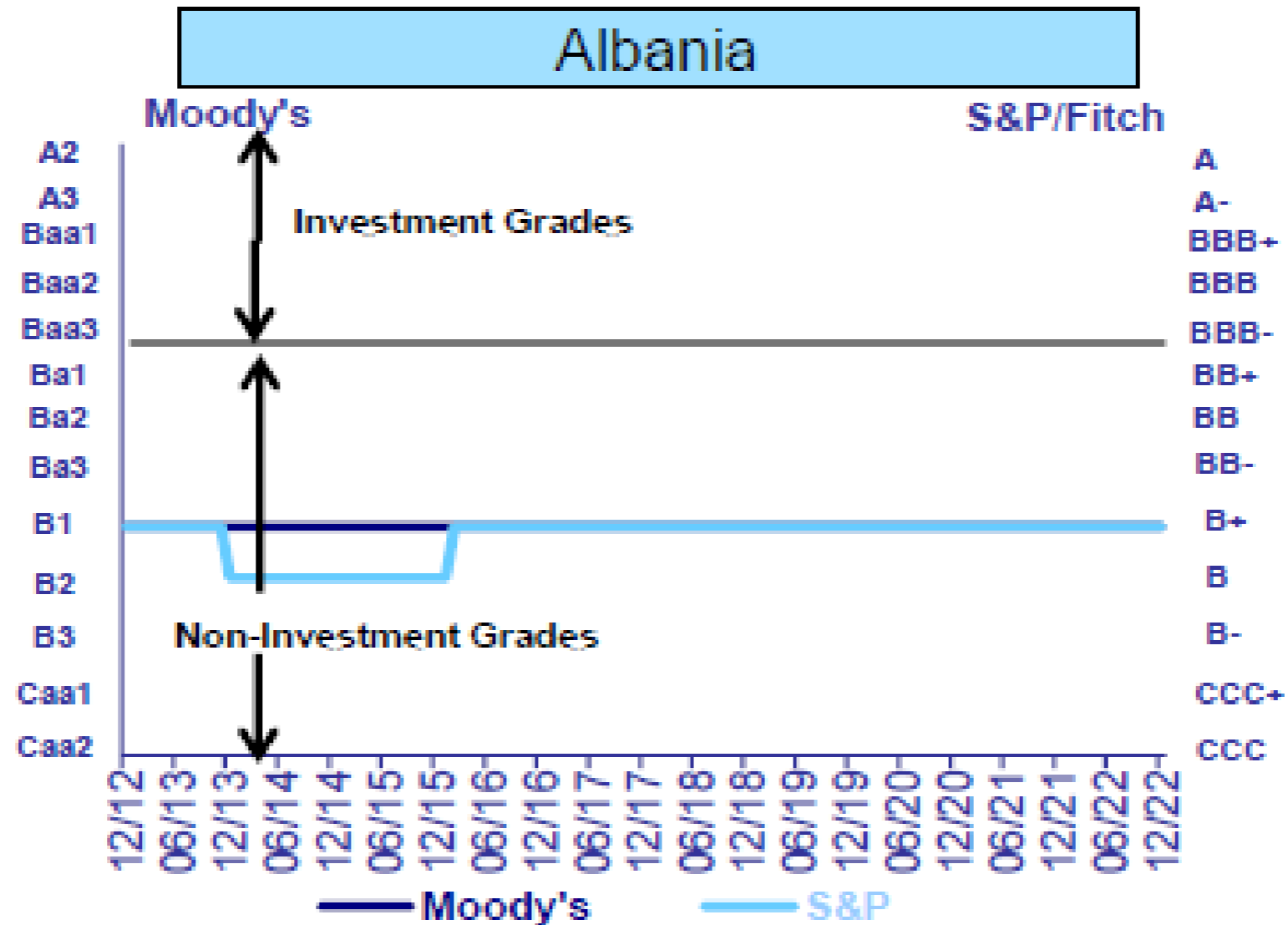


Albania

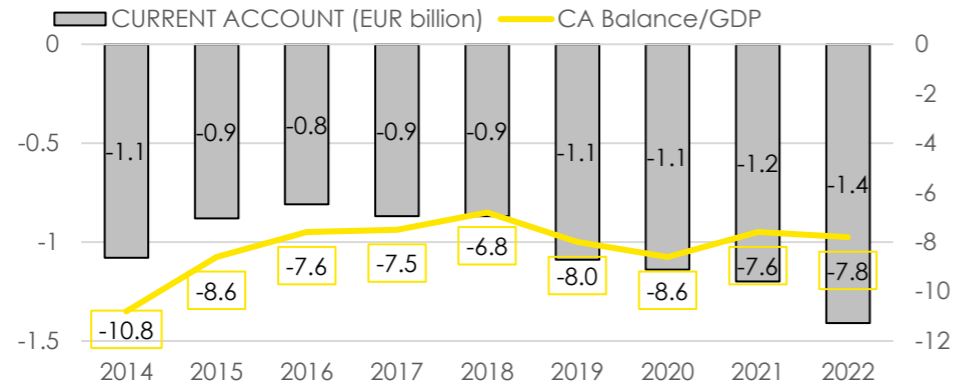
Economic and Banking System Development



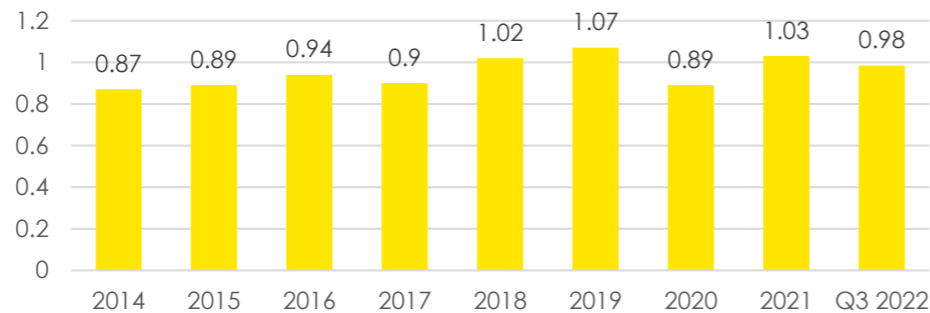
Country Rating



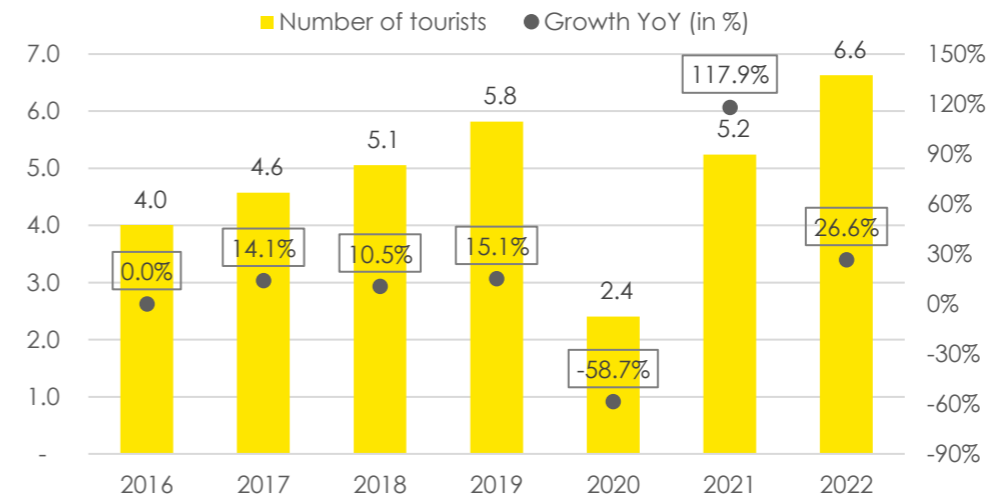
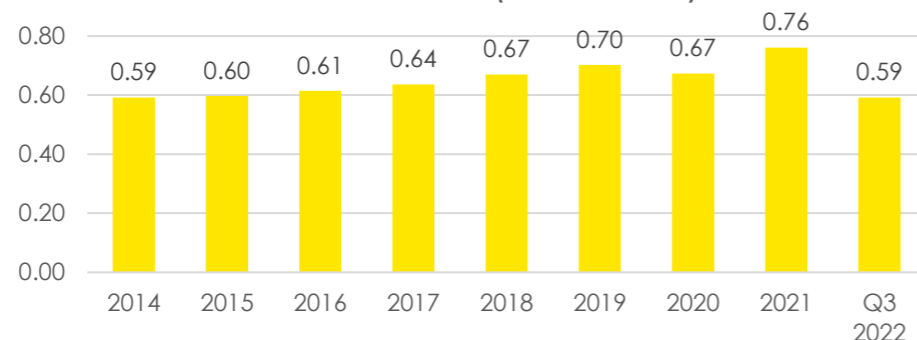
Foreign position to improve in 2023



FDI (EUR billion)



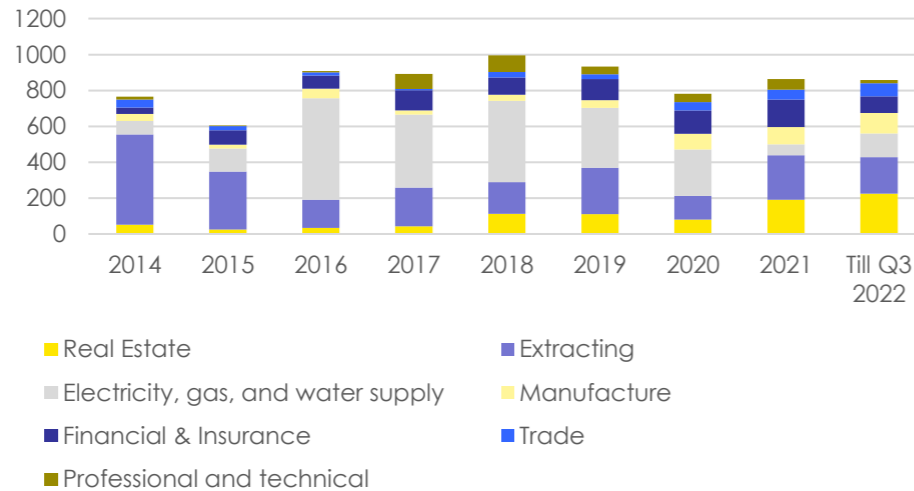
Remittances (EUR billion)



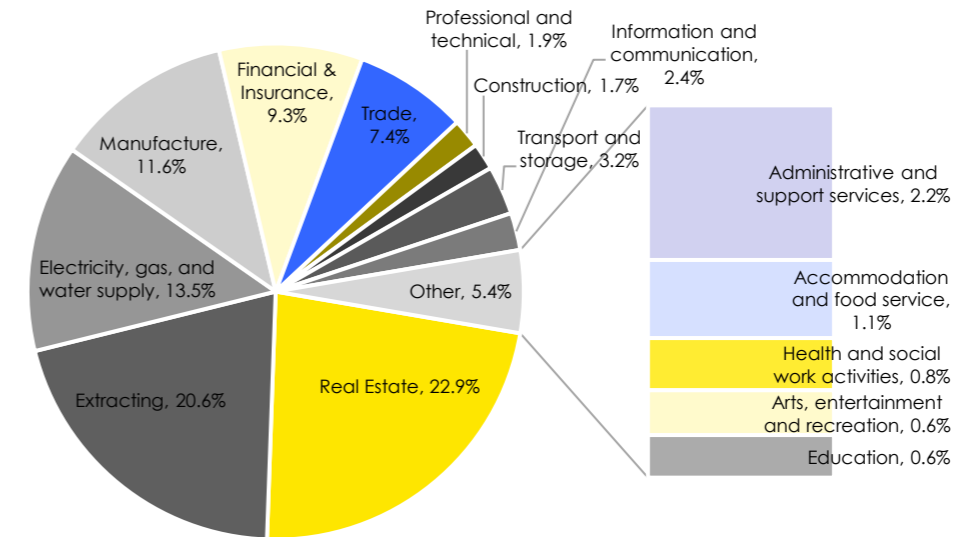
- We expect the current account deficit in 2022 to reach 7.8% of the expected GDP, supported mainly by services.
- The foreign currency inflows especially from a strong tourism season have kept the local currency appreciating and in a good position to weather any unexpected shock in the following quarters.
- Lately, inflows of FDI have been directed towards real estate which has brought an increase in prices based on the Fischer index (+39.2% yoy in H1 2022 for the whole country, +39.5% for Tirana and +60% for seaside properties).

FDI – by economic sectors

FDI according to Economic sector (Mn EUR)



FDI inflows _Jan-Sept 2022 (in % of Total)



Extracting industry continues to be one of the main sectors that foreign investors have been attracted to, as FDI inflows have been consistently high each year as the country is rich in minerals and oil.

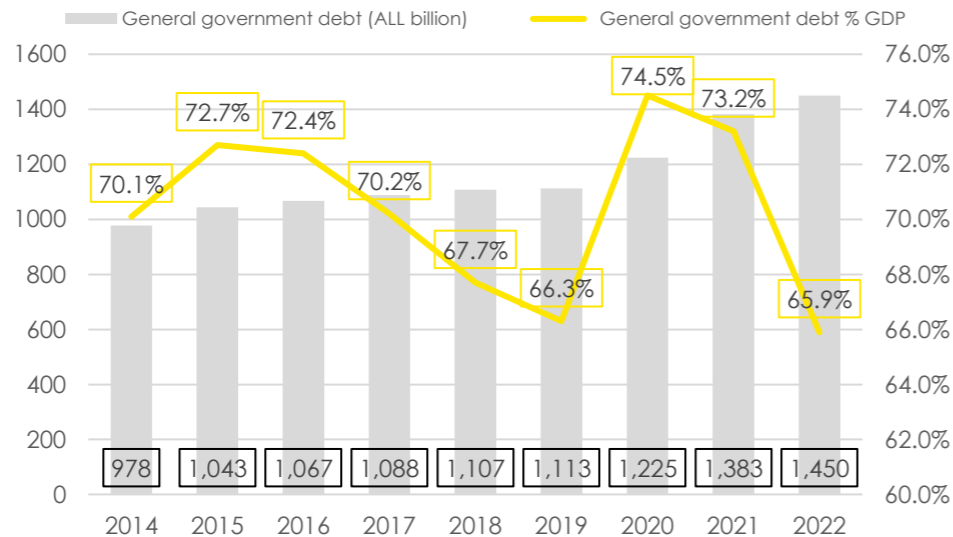
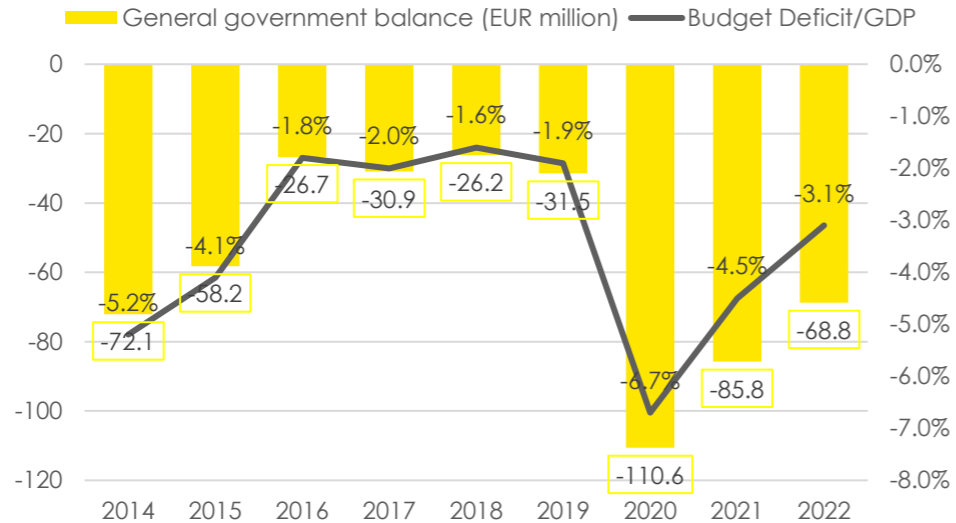
Electricity, gas, and water supply is another sector with major contribution in FDI, especially TAP project till 2019, but also Devoll hydropower, etc.

The latest years, real estate sector has become one of the most attractive, as prices of residential areas but not only are seen as favorite by diaspora and foreign investors. In the first nine months of 2022, real estate was the largest sector accounting for 22.9% of total FDIs.

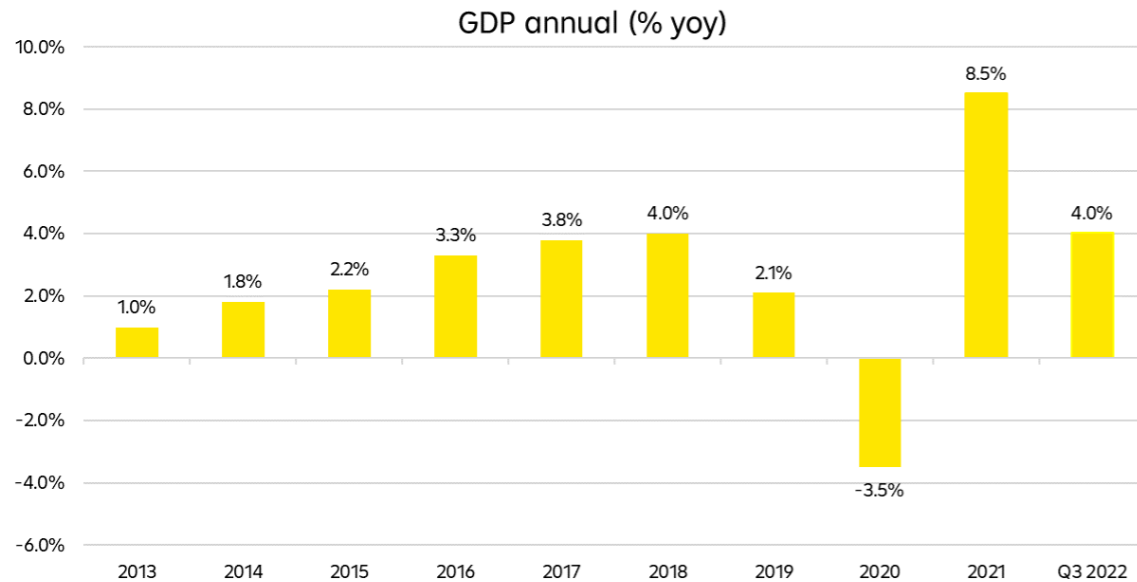
Likewise, but at a lesser extent, is manufacturing, which is a sector that has lately attracted more foreign investors in automotive industry.

Historically, there have been investments in Financial and Insurance activities especially by foreign large banking groups.

Budget Performance



- The public sector continued its good performance in the first 11 months of the year 2022, benefiting from high prices in the international markets and solid economic activity
- Revenues reached circa 522.9 billion lek or 14% more than the same period of last year. Revenues overall were also 0.6% overbudget. For the same period expenditures were 513.6 billion lek, or just 4.5% more than 11M 2021. As a result, there was a surplus of 9.2 billion lek, or 0.4% of expected GDP.
- We expect the government to ramp up its expenditures in December and reach a deficit to GDP ratio at 3.1%.
- However, due to high nominal growth of GDP in 2022 we expect debt to GDP ratio to fall to 66% in 2022.

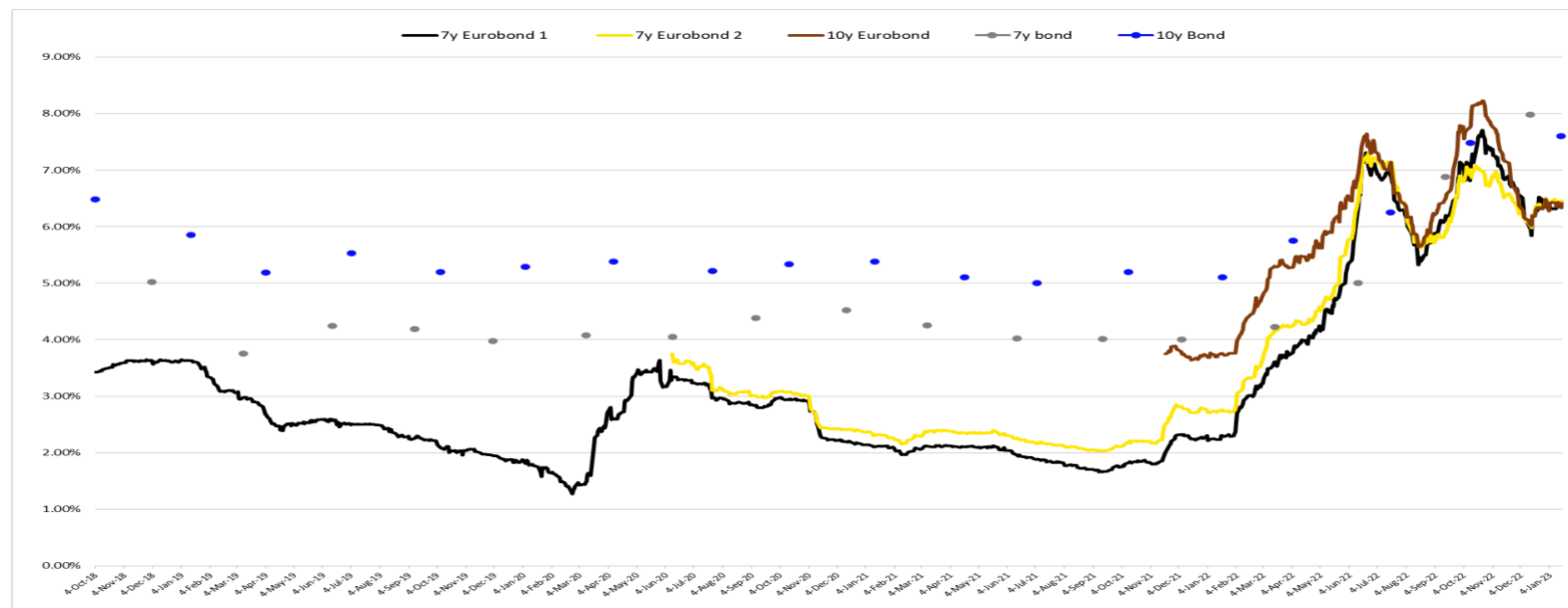


- The recovery of the economy came with broad-based growth thanks to tourism performance and rebounded domestic demand.
- During Q3 2022, economic activity accelerated, reaching a 4% yoy growth rate. The GDP figure for Q3 2022 pertains to robust contributions from Trade, Tourism and Accommodation (1.9pp), Construction (1pp) and Real Estate (0.8pp). The contribution from Trade and services related to Tourism is a nexus for this quarter's economic growth, as it accounts for approximately 50% of GDP growth.
- GDP per capita has followed a steady path until the pandemic shock to the economy, where economic activity significantly slowed down. After the strong recovery in 2021, GDP per capita is expected to jump also in 2022 at 6460 EUR due to high nominal GDP growth..



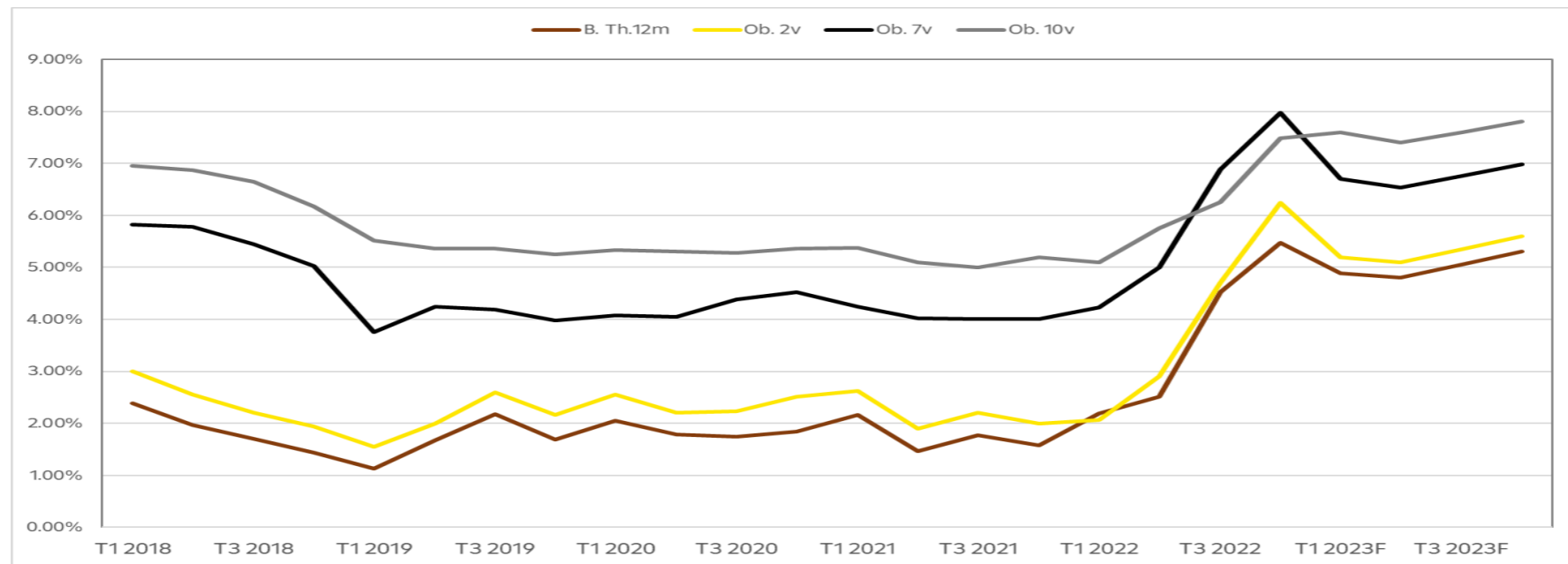
- The impact of the economic slowdown in 2013-2016 was reflected in a stagnation of the minimum wage.
- However recently, there has been a pickup in the wage growth due to rampant inflation and a decrease in the unemployment rate.
- Another hike by almost 17% of the minimum wage is expected in 2023 to be followed by an increase of the average salary in the private sector, which posted an increase of more than 12% in 2022.
- Albania remains one of the most competitive countries when considering labor costs.

Eurobonds YTM vs. Local Currency Bonds Yields



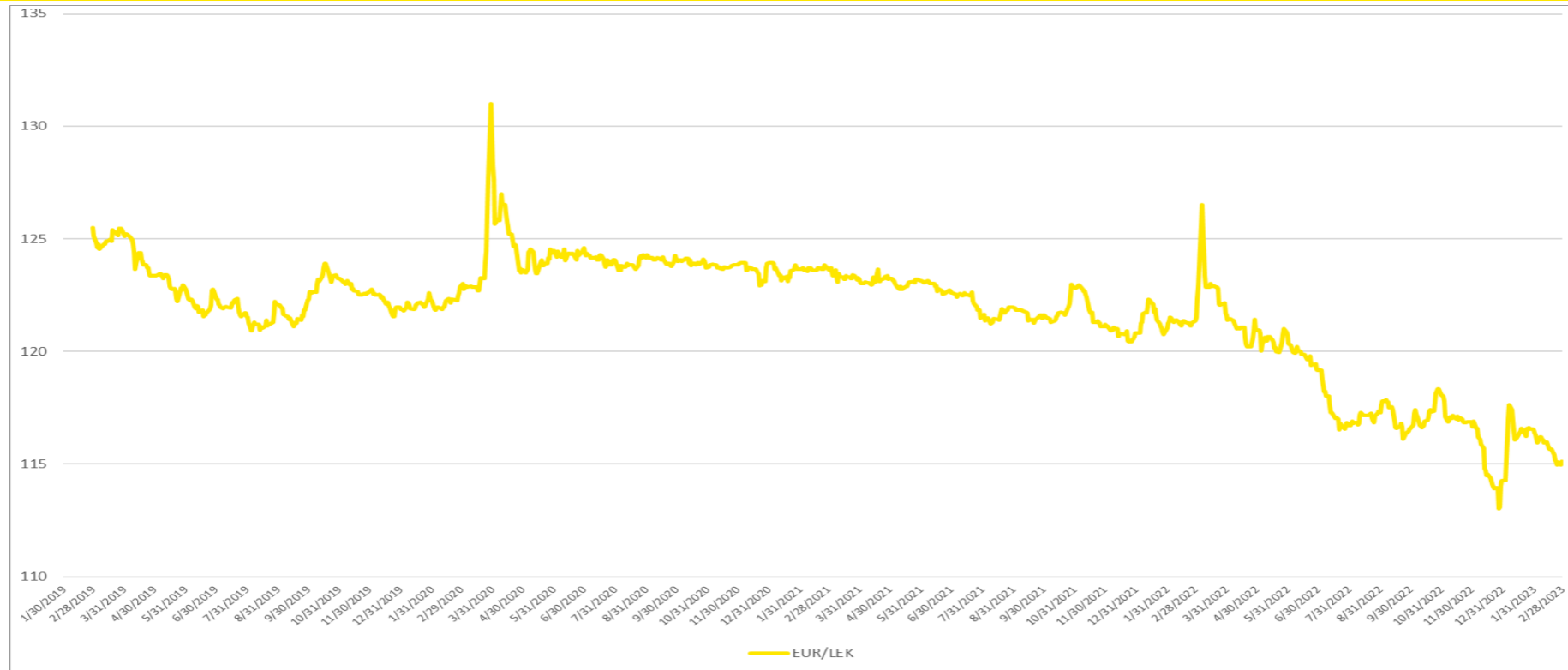
- **2021** - After a few successful Eurobond issues, with the last one being in June 2020, Albania tapped the market again in November 2021 issuing a Eurobond at an amount of €650 mn and 10-year maturity. The issue was approximately 1.8 times oversubscribed and the yield resulted relatively high at 3.75%.
- **2022** - With the international markets jittering, the yields of Albanian Eurobonds increased sharply during Q1 and Q2 2022 and as shown in the graph the yield of all traded Eurobonds exceeded the yield of the respective government bonds in LEK. Given the inflationary pressures and shocks to the economy during the year, the government did not tap the market with a new Eurobond.
- **2023** - The government has expressed interest in issuing another Eurobond this year, with indicative amount of €500mn, if the conditions align. Part of the proceeds from this Eurobond are expected to be used for retiring an old Eurobond which matures in 2025.

Yields of the Albanian Government securities



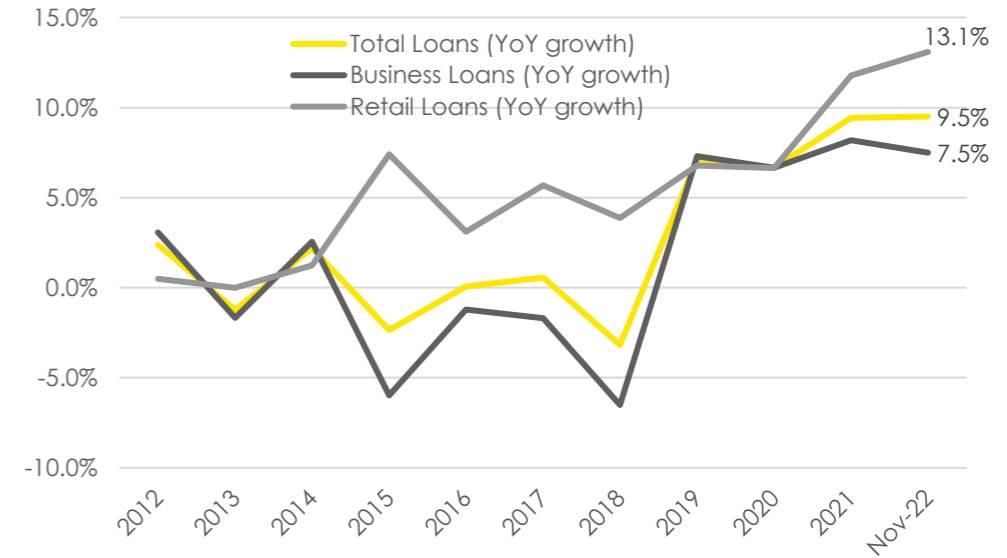
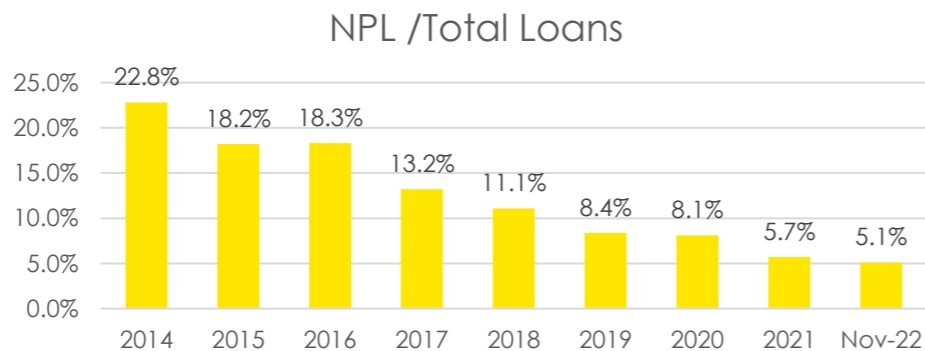
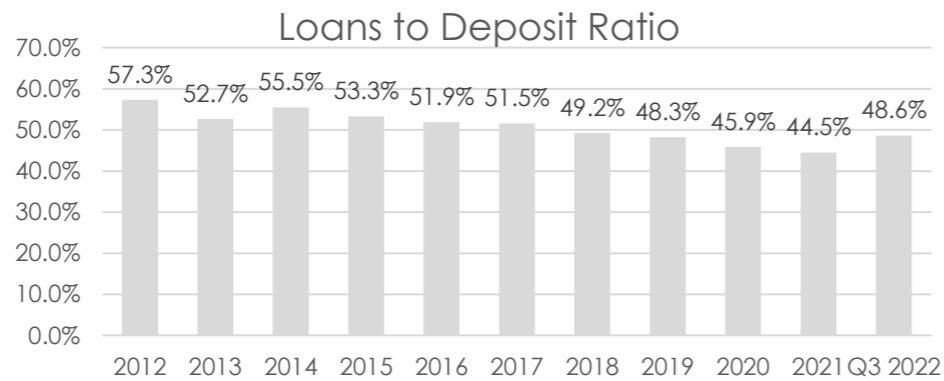
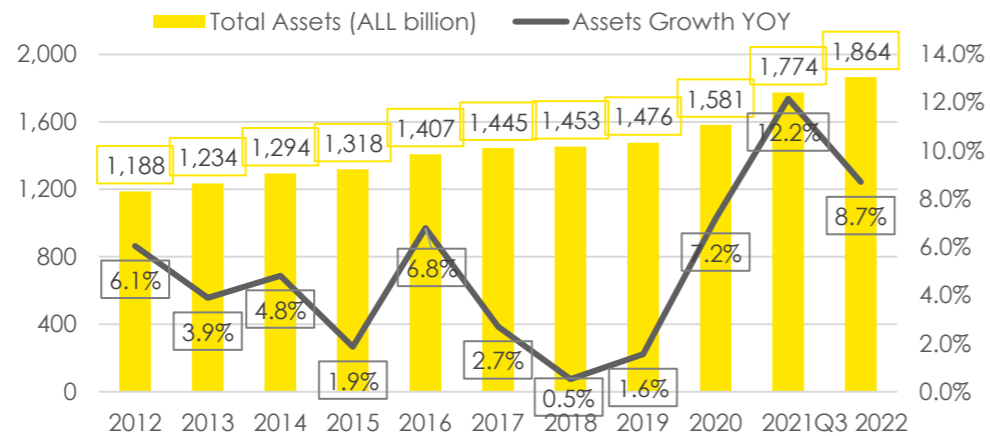
- Following the tightening Monetary Policy, the rates of government securities yields have shown continuous growth during 2022.
- Rates have continued their upward trend at a rapid pace through Q4 2022. Currently, interest rates on government securities are signaling a decline, with the 12-month Treasury note rate peaking to 5.8%, dropping to 4.4% in the last auction.
- In this environment where uncertainty has increased, we expect that interest rates in the market will continue to fluctuate with a slight decrease during the first part of the year and then resume the upward trend, in line with expectations for high inflation during 2023 as well as further tightening of monetary policy.

EUR/LEK exchange rate



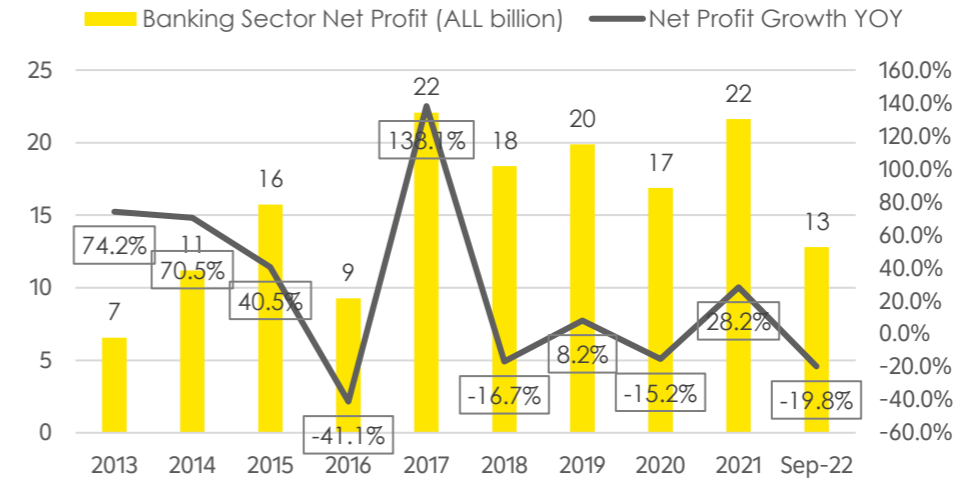
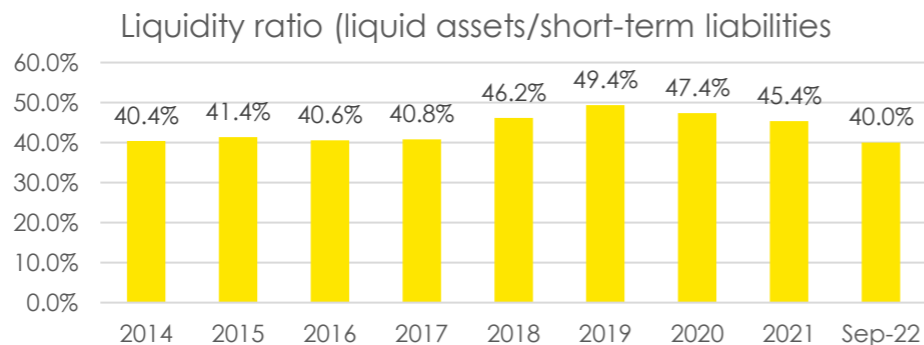
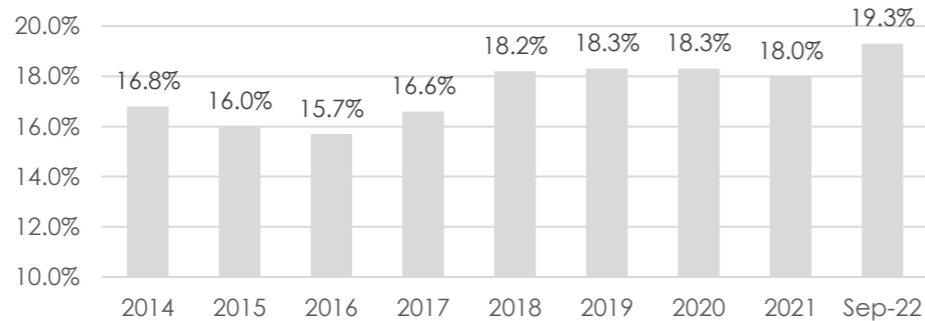
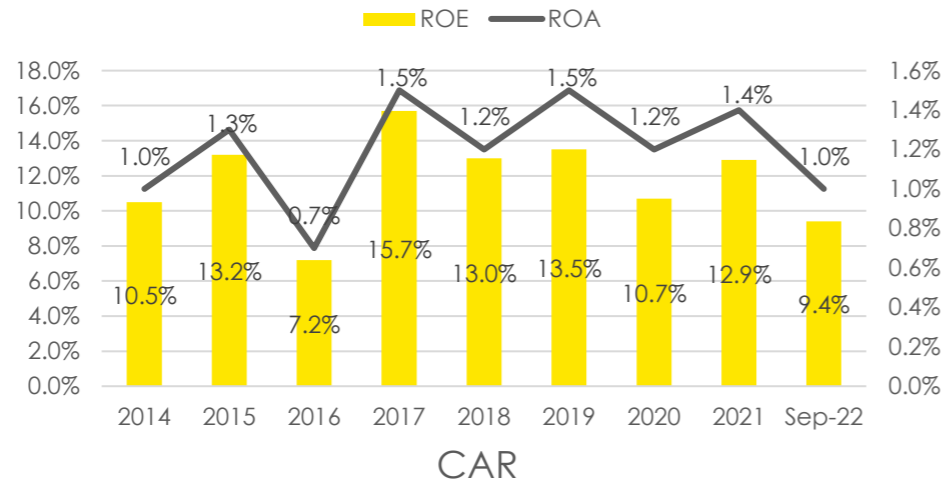
- The exchange rate showed temporary fluctuations at the beginning of the war in Ukraine due to the panic buying of foreign currencies, but it quickly stabilized after the intervention of the Bank of Albania in the domestic foreign exchange market, and with the beginning of the monetary policy tightening.
- During 2022, the Lek appreciated further and broke a new record with the historical minimum of 112.8 at the end of December. Summer and December are the two periods of the year when tourists and Albanian immigrants who work abroad, add pressure to the appreciation of Lek. The local currency seemed to stabilize during January but reverted to appreciating trend during February. Currently, the exchange rate hovers around 115 EUR/LEK.

Banking sector development 1/2



- The banking sector remains liquid and well capitalized
- This is reflected in a very healthy increase of loans for businesses and households
- Loans to deposit ratio is below 50%, pointing to untapped potential in the future
- After the dramatic increase in 2014, NPL ratio has decreased to 5% in 2022
- CAR of the banking system is 18.1% in 2022

Stability of the banking sector 2/2



- The banking sector profitability has been also sound in the last years.
- ROA in 2022 was 1.4%, similar to 2021, while ROE was 12.3% or slightly lower compared to 12.9% in 2021.
- CAR of the banking system was 18.1% in 2022
- The Central Bank is steadily aligning the regulations with those in the EU. The process is expected to accelerate, especially after the start of the negotiations for EU accession.