



THE COVID-19 CRISIS IN ALBANIA

8 June 2020

COVID-19 update

- *Current COVID-19 situation:* The Ministry of Health of Albania monitors and holds daily press conferences on the COVID-19 outbreak. The detailed and updated number of cases – including statistics on patients in remission, number of new cases, deaths and the total of positive tests for COVID-19 – is published daily on the Ministry's [website](#).
- As the number of new cases decreases, the government has begun to put a de-confinement process in place to open the economy step by step, including the reopening of touristic activities under health and safety protocols and completely removing its curfew. On 1 June, Albania opened land borders with all neighbouring countries.
- *Assessment of the health system:* Two main hospitals were put into service for coronavirus patients in Tirana as “COVID 1” and “COVID 2”. According to the Albanian Ministry of Health, they had around 310 hospital beds for the hospitalisation of patients with coronavirus at their disposal. More hospitals have since been adapted to function as quarantine hospitals during the pandemic. Albania has the capacity of 500 COVID-19 tests per day with more than 15 000 persons tested to date. Additionally, the country possesses a total of 304 respirators. On 18 May, due to the decrease in the number of new cases, hospitals were allowed to start performing planned interventions and the “COVID 2” hospital returned to its usual activities. At the beginning of June, another hospital, named “COVID 3”, was adapted to prepare for a possible new wave of infections.

Economic impact

Short-term indicators of the economic impact

- Real GDP growth is expected to decline by 5% in 2020 from the estimated 2.2% growth in 2019.¹ According to the Ministry of Finance and Economy, the first phase of lockdown will cost the economy EUR 16 million in tax revenues. The Prime Minister announced that losses to the revenues will amount to more than half a billion euros. The most affected sectors will be tourism, transport and trade. 50 000 jobs have already been lost due to the crisis.
- It is expected that the COVID-19 outbreak will instigate a recession of the economy, which heavily relies on trade with and investments from the EU (e.g. almost 50% of exports are directed to Italy)². Within the domestic market's SMEs, manufacturing (6% of 2017 GDP) and tourism sectors (8.5%

¹ International Monetary Fund (2020), *World Economic Outlook (April 2020)*, Washington, D.C., https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD?year=2020

² WITS (2018), *Trade summary for Albania*, <https://wits.worldbank.org/countrysnapshot/en/ALB/textview>

of 2018 GDP) will be among the most affected.³ Unemployment rates (12.3% in 2018) may rise again and labour market conditions might be exacerbated, given that a notable share of the workforce lives abroad (around 30% of the population).⁴

Financial Market

- The government bond spread has increased by around 25% between 1 January and 31 March, signalling a deterioration of investor confidence and higher perceived risk of Albanian sovereign debt.
- The Albanian currency, ALL, has depreciated by almost 7% since the beginning of the COVID-19 crisis. This depreciation can affect enterprises' ability to make payments denominated in foreign currency, which is a problem due to the high percentage of foreign exchange denominated loans. The depreciation of ALL against EUR and the strong increase in food prices caused the CPI inflation in Albania to pick up from 1.4% in 2019 to 2.1% in March 2020, although still below the 3% target.

Policy reactions

- On 24 March, Prime Minister Edi Rama declared a 'state of natural disaster' across the country for a period of 30 days, which was later extended by two more months until 23 June.

Extent of containment measures

- *Containment:* As of 1 June, remain closed: public transportation, indoor bars and restaurants, swimming pools, theatres, cinemas and nightclubs, as well as indoor children's playgrounds. Mass gatherings, weddings, conferences, public hearings or gatherings of all kinds remain banned. Schools resumed only for high school graduates taking university admission exams and will resume for universities during the summer with fewer students per class.
- *Curfew:* As of 1 June, there is no longer a curfew in Albania. Cars are allowed to move freely in all of the country, as the separation between Green Zones (low risk) and Red Zones (high risk) was lifted.
- *Opening of the economy:* As of 20 April, the government allowed economic activity to resume for 600 sectors such as agriculture and animal husbandry, food production, mining and textile industry as well as the fishing sector. On 27 April, a new wave of businesses was able to resume their activities, enabling 27 589 employees to return to work. These include different types of stores such as clothing stores, shoe and leather goods shops, furniture and household items stores, florist shops, lighting, electronic and telecommunications equipment stores. Taxi services are now allowed for a maximum of two passengers from the same family per car. On 11 May, driving schools, hairdressers, barbershops, dental clinics and stores in shopping malls were allowed to resume activity. On 18 May, bars and restaurants resumed activities only on the exterior of their facilities. Museums, art galleries and archaeological sites also opened on 18 May and individual sports training resumed in open areas. On 24 May, places of worship opened for all religions under the necessary restrictions. The government plans to announce at the end of May the strategy on opening public transports gradually. On 1 June, kindergartens and day-care facilities reopened. In

³ OECD (2020), *Covid-19 crisis response in South East European economies*, https://read.oecd-ilibrary.org/view/?ref=129_129649-tclugxbw4j&title=COVID-19-Crisis-Response-in-South-East-European-Economies

⁴ World Bank Group (2018), *Western Balkans Labor Market Trends 2018*, <http://documents.worldbank.org/curated/en/565231521435487923/Western-Balkans-Labor-Market-Trends-2018>.

addition, sports championships are allowed only without an audience. All parks, educational and cultural training centres, internet centres and gyms are open under strict security rules.

- *Tourism:* Albania drafted a protocol for the summer season including measures such as thorough temperature checks for all beach goers, an anti COVID-19 coordinator overseeing the hygiene measures for staff, obligatory masks and gloves for staff, which must also be available for all tourists and more. From 1 June, beaches will open for hotels only and from 10 June, they will open for all tourists. A licensing authority will check to make sure all beach areas fulfil the required conditions. It is possible to apply online for the necessary certificate to use the beaches.

Border measures

- On 1 June, Albania opened land borders with all neighbouring countries. Although Greece has not opened its borders yet, starting from mid-May the two countries agreed for around 10 000 Albanian agriculture seasonal workers to go work in Greece temporarily.
- All other border crossings in Albania are closed, with a few exceptions (mainly transport of goods, diplomatic corps). Tirana International Airport is closed to air traffic except for state, military, medical and emergency flights.
- On 29 March, the Ministry of Europe and Foreign Affairs, in cooperation with the Diplomatic Representations of the Republic of Albania throughout the world, started repatriation operations for Albanian citizens.

Measures to cope with the health emergency

- On 3 April, Albania received 8 tons of personal protective equipment for medical staff, reaching a total of 23 tons of new equipment including masks, special clothing, goggles, protective helmets and other elements enabling the increase of the safety of doctors and nurses in dealing with COVID-19.
- An export ban has been placed on drugs and medical devices except if a special authorisation is provided by the Minister of Health.
- The elderly receive their reimbursable drugs at home.
- Family physicians across the country are performing online counselling and treatment of patients with chronic diseases, and monitoring all patients confirmed with COVID-19 who are at home with mild or moderate symptoms.

Monetary policy

- As of 25 March, the Bank of Albania decided to reduce its policy rate from 1.0% to 0.5%. It reduced the interest rate for the overnight lending facility from 1.9% to 0.9% and maintained the interest rate for the overnight deposit facility unchanged, at 0.1%.
- The Bank of Albania has increased the operational capacities to guarantee the supply of the economy with currency and banknotes as well as to ensure the smooth functioning of the electronic payment system.
- The Bank of Albania has adopted the operational strategy of unlimited liquidity into the banking system. Through this strategy, the banking sector, businesses, households and the public sector will have the possibility to withdraw at the Bank of Albania all the necessary liquidity required by them.
- The Supervisory Council decided to ease the postponement procedures by three months of loan instalments to businesses and households affected by the crisis, by providing the banking sector with the necessary regulatory space to do so.

- Until the end of June 2020, the distribution of dividends from 2019 and 2020 to banks is suspended. In addition, the supervisory board and top management of the Bank of Albania had their salaries halved for the duration of the pandemic.
- On 28 May, the Bank of Albania announced the temporary suspension of the payment of loan instalments for all categories of customers, for an additional period, from 1 June to 31 August 2020. It also suspended temporarily the creation of reserve funds for real estates obtained instead of the payment of loans until December 2020.
- As of 28 May, banks can restructure current loan agreements in order to find adequate solutions depending on borrowers' solvency until 31 December 2020 without additional provisioning costs and without deteriorating the status of the borrowers. The current regulation and requirements related to the restructuring of loans will be in place for one more year until January 2022.

Fiscal policy

- The government has allocated a total of ALL 45 billion (2.8% of GDP) through two support packages for the population and the private sector affected by the COVID-19 pandemic, which includes budget spending, sovereign guarantees and tax deferrals.
- On 19 March, the government amended the 2020 budget through a normative act announcing a package of support measures of ALL 23bn (1.3% of GDP). The package is a combination of spending reallocations, spending increases and sovereign guarantees to support affected businesses.
- A total of USD 65 million was made available for the immediate needs of the most disadvantaged part of the population, small businesses and for the potential unemployment due to the virus.
- USD 10 million was made available as a reserve fund to the Council of Ministers for any unforeseen emergencies.

Support to firms:

- *Support to salaries and firm liquidity:* USD 100 million, through the instrument of a sovereign guarantee, was allocated to companies that have difficulties in paying employee salaries. The government will support businesses who stopped working due to the COVID-19 pandemic with a benefit of not more than USD 14 000 by paying their employees the minimum wage, ALL 26 000. The self-employed will also receive the same amount.
- *Credit support:* The government will permanently erase late payment interests for active debtors who are current energy consumers, family or small business, with a financial effect of up to USD 150 million.
- The government announced a sovereign guarantee of ALL 5 billion (0.9% of GDP), providing loans for working capital of the tourism sector and active processing exporting companies with the government bearing interest costs.
- The government rescheduled the profit tax deadline until after September for all businesses that had to stop their activity due to the pandemic. However, tourism, active processing and call centres, small businesses with less than ALL 14 million in turnover were allowed to defer payments of profit tax to next year.
- On 5 June, the government announced a zero profit tax for small businesses with less than ALL 14 million (approximately EUR 100 000) turnover until 2029 as part of its National Plan "Albania 2030".
- The General Directorate of Road Transport Services announced the payment of 100% of the annual tax for 2020 for 7204 transportation vehicles such as buses, amounting to ALL 170 million.

- Balance sheet submissions are postponed until 1 June 2020 for businesses submitting balance sheets to NBCs online or directly.

Support to the population:

- *Unemployment measures:* Included in the first economic package, unemployment benefits were doubled during the pandemic. As of 20 April, from the expanded economic package, 176 000 families will receive ALL 40 000 during the COVID-19 pandemic. That includes 100 000 employees from small businesses affected by the situation, 66 000 employees from large businesses and 10 000 employees from the tourism sector. Businesses that do not apply for their employees will be fined. The unemployed jobseekers who were receiving unemployment benefits before 10 March will be able to process their requests online, and citizens that were unemployed after 10 March will be able to exceptionally apply online (by email) and receive unemployment benefits.
- *Support for vulnerable groups:* Persons receiving social assistance will receive double the amount during the pandemic. The payment of rent will be postponed for the months of April and May for small businesses, families that have stopped working due to the COVID-19 situation, and students that moved back home during the pandemic.
- *Support for education:* Albania has developed a range of televised courses for primary and secondary students that air on national TV channels. Distance learning is also available via online platforms such as Google Classroom, Zoom and Edmodo, and is organised at the school level. Online lectures will continue until the end of May.

Additional measures

- As of 20 April, citizens and businesses are able to get an authorisation online allowing them to go out or go to work.
- On 16 April, the parliament approved the government's proposal to introduce harsh prison sentences for those who violate COVID-19 measures, thus changing the Criminal Code.
- Any business that raises their prices abusively will be penalised.
- All passports and IDs that expire during the COVID-19 pandemic will continue to be valid until they are able to obtain new forms of identification. The renewal process has become operational again and citizens may now make their appointments online.
- On 1 April, the Prime Minister announced that the doctors, nurses and health workers on the front line will receive an additional EUR 1 000 payment. The supporting personnel (including ambulance drivers) will benefit from an additional payment of EUR 500 during the COVID-19 crisis.
- The Council of Ministers decided that the salary of the Prime Minister, the government cabinet and the deputies will be halved for a period of three months, while the Presidency offered to voluntarily give up 50% of their salary. Additionally, the assembly called for 30 other constitutional institutions to voluntarily join the initiative and give a part of their salaries.
- USD 20 million was made available to the Ministry of Defence for Humanitarian Operation.

International support

- The EU is mobilising a package of over EUR 410 million in reallocated bilateral financial assistance to support the Western Balkans during the coronavirus emergency. Out of this package, Albania will receive EUR 4 million of immediate support for the health sector and EUR 46.7 million of support for the social and economic recovery.

- The Commission has adopted a proposal for a EUR 3 billion macro-financial assistance (MFA) package to ten enlargement and neighbourhood partners to help them limit the economic fallout of the coronavirus pandemic. Albania will receive USD 180 million out of this package.
- On 10 April, the IMF approved USD 190.5 million in financial assistance to Albania.
- Albania is receiving USD 700 000 in health assistance from the USA to help prepare the response of the health sector to the COVID-19 pandemic.
- Albania is also receiving aid for its health care system from Turkey, China, Switzerland, Norway, Hungary and the UNDP.

Outlook

- *Situation prior to COVID-19:* In November 2019, Albania was hit by a high magnitude earthquake, which took a toll on physical infrastructure and economic activity, leaving a burden on the budget prior to COVID-19. Although in recent years the economy experienced a constant increase in real GDP growth, due to the earthquake and a decrease in energy production caused by a drought, it went from 4.1% to an estimated 2.2% in 2019. On the other hand, unemployment rates have been constantly declining, reaching 12.3% in 2018. The situation for youth has been improving (28% in 2019), as well as long-term unemployment (67.4% of all unemployment), although their high levels remain a concern. On the other hand, the share of informal workers kept increasing, reaching 37% in 2018. This situation has led to an outflow of the young and highly skilled from the country, with more than 30% of the population residing outside of the country. Net FDI had been decreasing at an estimated 7.6%, after peaking in 2016 due to the Trans Adriatic Pipeline and the Devoll Hydropower projects. General government debt stood at 66.7% of GDP.
- Given the small size of the Albanian economy, the policy action is considerable and covers many groups affected by the containment measures. In Fall 2019, the projected GDP growth for 2020 in Albania was 3.4%,⁵ while in April 2020 the GDP growth is projected to be -5%.⁶ Hence, the coronavirus pandemic is expected to produce a notable recession of the economy, which heavily relies on trade with and investments from the EU, particularly Italy. Within the domestic market, SMEs, manufacturing and tourism sectors will be among the most affected. Unemployment may rise again and labour market conditions may further deteriorate given that a notable share of the workforce live abroad (around 30% of the population). Amidst the crisis, the European Commission decided to open accession negotiations with Albania.

⁵ World Bank (2019), *Western Balkans Regular Economic Report: Fall 2019*, Washington D.C., <https://www.worldbank.org/en/region/eca/publication/western-balkans-regular-economic-report>

⁶ International Monetary Fund (2020), *World Economic Outlook (April 2020)*, Washington D.C., https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD?year=2020

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