

**JCR-ER
 SOVEREIGN RATING**

**Sovereign
 2009 April Review**

ALBANIA		Long-Term	Short-Term
Sovereign	Foreign currency	BB+	B
	Local currency	BB+	B
	Outlook	Negative	Negative

Analyst: Mehmet İŞIK/ +90 212 352 56 73
misik@jcravrsyarating.com.tr

Editor: Faryal AHMAD/ +90 212 352 56 73
faryal@jcravrsyarating.com.tr

THE REPUBLIC OF ALBANIA			
Data	2008*	2007*	2006*
GDP Current Prices LEK (bn)	1,064	983	896
GDP Current Prices USD (bn)	11.73	10.30	9.10
Population (mn)	3.20	3.17	3.15
Unemployment Rate (%)	12.62	13.20	13.80
Annual Inflation Rate (%)	2.20	2.90	2.50
Real GDP Growth (%)	6.00	6.20	5.50
Current Account Balance/GDP (%)	-15.42	-10.70	-6.50
Broad Money LEK (bn)	805.10	727.70	650.60
Official International Reserves USD (bn)	2.33	1.62	1.48
Average Exchange Rate LEK per USD	90.68	90.43	98.10

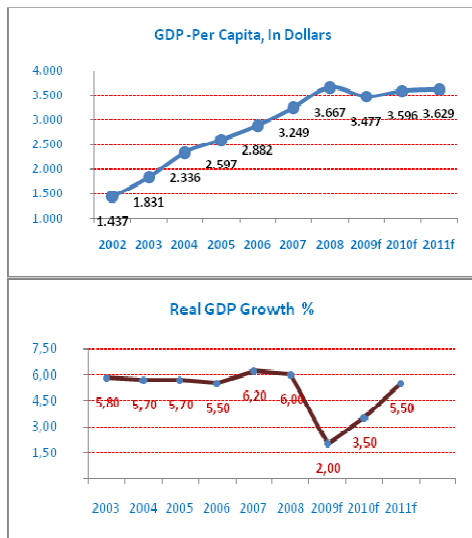
*End of year

Country Outlook and Rating Perspective

Albania is a parliamentary democracy, established under a constitution renewed in 1998. It is however, the last of the central and eastern European countries to embark on democratic and free market reforms. Albania remains one of the poorest countries in Europe. Per capita income was USD 3,667 at the end of 2008. The official unemployment rate is 12.6%, and more than 18% of the population lives below the poverty line. Almost 60% of all workers are employed by the agricultural sector.

In the recent past, Albania had signed an IMF aid agreement which granted it short-term financial assistance to alleviate poverty and encourage economic growth. The funds under this agreement have been fully disbursed as at January, 2009. Nevertheless the country's trade deficit remained high at over 70% and the current account deficit as a proportion of GDP increased to 15.42% (FY2007: 10.7%) at the end of FY2008. The budget deficit also widened to 5.2% (FY2007: 4.5%) of GDP and is expected to grow further due to the anticipated pre-general election expenditure planned by the ruling party.

The hit in the level of remittances flowing into the Albanian economy, due to the ongoing financial crisis, is a source of concern given that the country's economy is significantly dependent on this source of liquidity.



Positive Factors

- Financial liberalization and well-functioning market economy
- Well-capitalized banking system
- Geopolitical importance and geographical closeness to EU countries
- Floating exchange rate regime
- Progress on reforms for EU membership

Negative Factors

- Decreased inflow of remittances impacted current account deficit and reduced domestic demand
- Poor infrastructure and energy shortage
- Low level of income per capita
- High unemployment rate
- Weak market institutions
- Increased trend in external debt

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