# An Overview of the Construction Sector in Albania

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### **ABSTRACT**

The Construction sector during the last decade has turned out to be an important pillar and one of the most dynamic sectors of the Albanian economy, comprising an average of 10% of GDP and above during this period. Mostly the construction activities are focused in the major urban centers of the country. In the last two years insufficient domestic demand and higher financing costs caused a slowdown on this sector of the economy causing the investment pace to relatively slow down, compared with the previous years. In this paper we will try to give an overview of the construction sector in Albania during the period 2002-2012 by focusing mainly on the contribution share this sector has had on GDP throughout the years and it Gross Value Added, the effect this sector has on employment rates, building permits and their value on periodical basis. After making a thorough literature revising we will give our own insights upon the trend this sector has had and its current and prospective role it will have in the Albanian economy.

## INTRODUCTION

Albania's economy has been enjoying very impressive growth lead by the intensive macroeconomic restructuring driven by the Reforms and Privatizations. At a time when most of the countries had a negative economic growth rate Albania succeeded to keep a positive growth rate of 3.4% during 2011 and managed to stay unaffected by the world financial crisis. The World Bank<sup>1</sup> states that "Albania has made great strides over the last years and is considered a success story". Scholars relate this prosperity mainly to infrastructure construction, foreign investment attraction and privatization of Public owned companies.

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<sup>&</sup>lt;sup>1</sup> World Bank Country Brief 2011.

Construction is one of the most dynamic sectors of the Albanian economy because of its weight in the overall GDP and the high growth rates evidenced in this sector during the last decade. Composition of GDP by sector as published by INSTAT<sup>2</sup> in 2011 was lead by service sector with 47.1%, followed by agriculture (18.5%), construction (14.9%), industry (9.8%) and transport (9.6%).

As a result of the reports taken from INSTAT, the construction activity is concentrated in the major urban centers. State participation in the construction sector is mainly focused on infrastructure and engineering constructions. Private sector construction is mainly focused on flats and buildings for families, which comprise about 82% of the total financing of private construction. The total number of enterprises involved in construction as of end of 2011 is over 4543 with 35000 employees. In the construction sector, the number of private clients is higher than the public ones especially in dwellings, hotels, trade buildings, industrial buildings and a small part of the infrastructure objects. On the contrary, the cult buildings, social-cultural buildings, health buildings, administrative buildings etc, are financed by public clients.

Albanian investors are the most interested in investing in the construction sector. They finance about 87.1% of the total value of construction. During 2009- 2010, insufficient demand and higher financing costs caused a slowdown on this sector of the economy, which relies on domestic demand. Activity in this industry in terms of new construction fell by 22.5% for 2009 according to the Bank of Albania<sup>3</sup>. Nevertheless the house price market had a slower decline. In such circumstances, investment pace was relatively lower, compared with previous years.

The American Chamber of Commerce in Albania<sup>4</sup> announced it expected the upward trend in infrastructure construction to continue in the short run and to compensate for the decline in construction of private buildings induced by the saturation of real estate market during 2011. In the third quarter of 2010 construction recorded a 22% year-on-year decrease in terms of value, and was the only sector in the Albanian economy with a negative growth rate of -2.5% compared to the previous quarter. The sector shred some 20% off its value in the period mainly due to a contraction in private construction. The Albanian Institute of Statistics (INSTAT) reported a significant decrease of 21.1% on a yearly basis in the value added of construction from 2010 to 2011. The growth in the first two quarters of 2009 was mainly driven by civil engineering projects financed predominantly from public sources. The construction confidence index decreased continually throughout 2009. In the fourth quarter it went down by 13 percentage points compared to the third quarter, falling to its lowest level since 2002 when its measurement started.

According to the Bank of Albania Financial Stability Report<sup>5</sup>, the Albanian economy contracted by 0.2% year-on-year and 1.2% quarter-on-quarter in 2012 Q1. Construction as a sector in whole

<sup>&</sup>lt;sup>2</sup> INSTAT- National Institute of Statistics of Albania

<sup>&</sup>lt;sup>3</sup> Bank of Albania; supra at 23; p 47.

<sup>&</sup>lt;sup>4</sup> The American Chamber of Commerce in Albania <a href="http://www.amcham.com.al/">http://www.amcham.com.al/</a> accessed on May 16, 2013

<sup>&</sup>lt;sup>5</sup> Bank of Albania, Financial Stability Report 2012 H1, p.22

deepened significantly its annual contraction in 2012 Q1 by 17.6%. Employment in the public sector at year start continued falling by 0.5% in annual terms. According to the Businesses Confidence Index, in 2012 Q1, the Employment Expectation Index was -7.6 for the construction sector and in the second quarter Q2, expectations for the labour market are again assessed as downward for the construction sector.

In the following sections we will make an analysis of various construction indicators during the 2002-2011 periods. Among others we will talk about Construction Permits, Construction Costs, Credits and Financial Issues in Construction, GDP and its share, Employment situation, Value of Permits in Construction etc.

### CONSTRUCTION SECTOR IN TERMS OF SOME INDICATORS

#### 1. Construction Permits

In this section construction permits are examined between 2002 and 2011 in terms of construction type and its value in ALL. Construction types include two main classification. In first there are building types and in second one general infrastructure modes. Building group includes residential buildings and non-residential buildings and non-residential buildings includes hotels, whole/retail trade center buildings, industrial buildings and other.

In second classification Transportation infrastructure, pipelines, communication and electricity lines, complex constructions and other engineering works are included under the general infrastructure. All of them given for 2002-2011 term in table 1 below.

Table 1. Value of Building Permits (in mil LEK)

Construction Type	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total (I + II)	49217	71726	38905	109742	86757	38743	93949	71136	229693	90756
II.1.Transport infrastructure	1230	2170	2450	30437	17189	4177	7932	3530	118791	2245
II.2.Pipelines, comun.and eletric lin.	1455	787	1999	3304	1836	1017	1703	2107	10981	11624
II.3.Complex constructions	0	34	980	1	8	511	48	1290	2405	570

II.4.Other engineering	497	215	205	267	272	552	188	1564	659	300
I. BUILDINGS	46035	68520	33271	75733	67452	32486	84078	62645	96857	76018
I.1.Residental buildings	40088	58340	25452	65173	55346	23137	60199	49390	77464	63124
I.2.Non residental buildings	5947	10180	7819	10560	12106	9349	23879	13255	19393	12894
I.2.a. Hotels	1149	2408	353	594	1079	282	330	866	1137	1440
I.2.b.Wholesale and retail trade	2190	3717	4083	3994	4723	3273	7924	6237	8265	5204
I.2.c.Industrial buildings	536	1443	1430	2468	2589	2029	5904	3060	2630	4069
I.2.d.Other buildings	2072	2612	1953	3504	3715	3765	9721	3092	7361	2181
II.Civil engineering works	3182	3206	5634	34009	19305	6257	9871	8491	132836	14738

Source: INSTAT, www.instatalbania.gov.al

When we examine the table above it is seen that total value of construction permits follows an fluctuation. It has the highest value in 2010 and smallest value in 2004. When we examine subgroups of construction permits, we see that Buildings has followed steadily increase between 2002-2011, except 2011. At the same period general infrastructure modes have followed fluctuated pattern. Most interesting value for infrastructure is seen in transportation infrastructure by very extreme increase (it was 118.791) in 2010. Before and after 2010 transportation infrastructure permit so small compared this year, 3.530 and 2.245 respectively. It shows that there was a big transport infrastructure project applied for permit in this year.

### 2. Construction Costs

In this section, it is examined that how average unit construction costs are changed and how much ALL were they. For this purpose National Housing Statistics (Enti Kombetar i Banesave-www.ekb.gov.al) are used. Average unit construction costs changes per square meter between 2000 and 2010 is calculated as shown in table 2 below.

Average cost calculation for 31 Albanian cities are done by using average unit construction cost that are given by National Housing Albania (kosto-mesatare-ekb-ne-vite-1995-2010.xlsx). In cost calculations, 1.engineering networks cost, 2. Projects costs, 3. Geological and seismic studies cost, 4. Building permits cost, 5. Lots cost are not included:

Table 2. Average Construction Costs between 2000-2010

Year	Average	Cost Indices	% Change	Cost Indices	% Change
	Cost (ALL/m2)	(Chain)	(Chain)	(base 2000)	(base 2000)
2000	24,417	-	-	100.00	-
2003	23,271	95.31	-4.69	95.31	-4.69
2005	24,244	104.18	4.18	99.29	-0.71
2008	27,681	114.18	14.18	113.37	13.37
2010	28,678	103.60	3.60	117.45	17.45
Average	25,658				

National Housing Website; <a href="http://www.ekb.gov.al/kosto-mesatare-e-ndertimit-te-banesave-ne-tregun-e-lire/kosto-mesatare-e-ekb-ne-vite">http://www.ekb.gov.al/kosto-mesatare-e-ndertimit-te-banesave-ne-tregun-e-lire/kosto-mesatare-e-ekb-ne-vite</a> Retrived: 15/05/2013

When we examine the cost 2000 average cost (24,417) raised sharply by 83 % compared to 1995 costs (12,899 ALL/m2). If we use cost of 2000 as basement then we see that in 2003 and 2005 unit construction cost decreased by 4.69% and 0.71% respectively. After that unit costs raised up 13.37% in 2008 and 17.45% in 2010. So we can say that between 2000-2005 a decrease has occurred in unit cost, after that between 2005-2010 an increase has occurred.

When we look at the chain index column in the table it can be seen that there is a sharp increase change in cost by 14.18%, in 2008 compared to 2005. But after that year increase level became 3.60% in 2010 compared to 2008.

#### 3. Credit-Financial Situation of Construction Sector

Because of decreasing in the demand in construction and in sales of new buildings makes construction sector nowadays less creditable by banks. Construction loans have been downward since end-2010, with a slight recovery at end-2011 H1. <sup>6</sup>

The credit level on the sector of construction has shown a pro cyclical behavior during 2009-2011, where the decreasing trend of crediting of this sector comparing to others it was faster.

When it is analysed by sectors of economy, loans were mainly extended to trade, construction, industry and production of electrical energy, while lending to other sectors recorded modest growth.<sup>7</sup>

As at the end of 2012 Q2, the performance of new loans reflected banks' tendency to support businesses with lending at a time when lending to households shrank. Out of total new business loans, 37.3% was extended to 'Trade, repair of vehicles and household appliances', 16.3% to the construction sector and 6.7% to processing industry. On the other hand, the business loan portfolio quality deteriorated more than households. Broken down by sectors, the construction sector stand at 29.6%. It results that the construction sector has a negative correlation index between new loans and the loan portfolio quality over the entire post-crisis period.<sup>8</sup>

#### 4. The Effects of Construction in GDP

Construction sector is a very important sector in Albania. It makes up a very significant portion of Albanian GDP. As it is seen from the table, especially after year 1998, there is a rapid increase in the output from construction mainly from residential and nonresidential buildings, transport infrastructure, roads and highways. By looking at the contribution of construction to the GDP of Albania, it is very significant especially starting from the period of 2003 up to 2008 which gives the maximum of 13.4 percent. Nominal GDP from construction shows the portion of construction contribution to GDP measured in current prices.

<sup>&</sup>lt;sup>6</sup> Financial Stability Report- Bank of Albania, 2011 H1, p.48)

<sup>&</sup>lt;sup>7</sup> Financial Stability Report- Bank of Albania,2012 H1, p.53

<sup>&</sup>lt;sup>8</sup> Financial Stability Report- Bank of Albania, 2012 H1, p.56

**Table-3 Macroeconomic Indicators** 

	1997	1998	1999	2000	2001	2002	2003	
Annual real	-16.904	-13.301	19.408	46.732	32.748	21.473	23.100	
GDP growth from	2004	2005	2006	2007	2008	2009	2010*	2011**
construction	7.000	6.282	10.541	12.156	10.873	0.402	-17.851	2.979
	1997	1998	1999	2000	2001	2002	2003	
	20,171.6	19,334.6	26,942.5	39,979.4	56,450.2	69,164.7	87,046.7	
Nominal GDP from	2004	2005	2006	2007	2008	2009	2010*	2011**
construction	94,431.9	101,759.5	113,723.7	129,585.4	145,450.6	146,043.6	119,973.1	124,126.9
	1997	1998	1999	2000	2001	2002	2003	
	49,132.3	62,777.1	87,314.1	134,036.4	174,310.1	186,737.5	229,288.0	
Output from	2004	2005	2006	2007	2008	2009	2010*	2011**
constraction	269,766.2	301,331.2	336,801.9	369,772.0	448,202.0	477,863.4	399,049.8	412,866.2
	1997	1998	1999	2000	2001	2002	2003	
Construction	5.8	4.7	5.7	7.6	9.7	11.1	12.5	
as a percentage	2004	2005	2006	2007	2008	2009	2010*	2011**
of GDP	12.6	12.5	12.9	13.4	13.4	12.7	9.8	9.7

Source: Albanian Institute of Statistics (INSTAT)

Two important points that should be mentioned are the periods after 2005 and after 2009 which are the periods after general elections. This is a very important point as the government was very concerned in the construction of roads and highways and hydropower stations, thus increasing the portion of budget addressed and spent for construction sector.

<sup>\*</sup>semi final

<sup>\*\*</sup>flash

By looking at the graphs below it can also be inferred about the trend of annual real GDP growth and the construction as a percentage of GDP. While the trend of real GDP growth has been volatile especially after 2001, the portion of construction to GDP, have been stably increasing over time. This shows also the consolidation of this sector up to 2009. After that period the negative effects of financial crisis impacted also the construction sector.

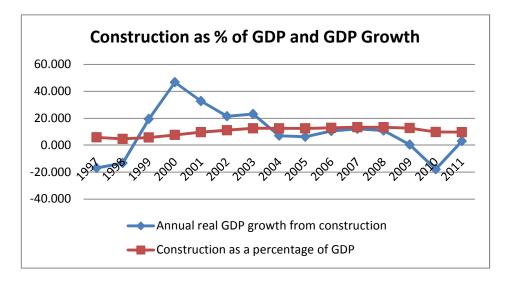


Fig.1 Construction as % of GDP, Source: Observed by the author using data from Albanian Institute of Statistics (INSTAT)

## 5. The Effects of Construction in Employment

As construction sector was making up a very important portion of GDP going over 10 percent, it doesn't look the same in the employment level.

Table-4- Employment in Construction Sector

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011**
Total												
Employment												
in Albania (in												
thousands)	1068	919.8	920.1	926	931.2	932.1	935	939	974	899	917	928
Employment												
in												
Construction												
Sectors (in												
thousands)	13	55.724	56.097	56	51.8	51.8	53.2	52	46	40	39	35

Employment													
in													
Construction													
Sectors as a %													
of Total													
Employment	1.22	6.06	6.10	6.05	5.56	5.56	5.69	5.54	4.72	4.45	4.25	3.77	

Source: Albanian Institute of Statistics (INSTAT)

By looking at the employment in construction sector as a percentage of total employment level, it is noticed a pick during the period 2001- 2003 reaching the level of 6 percent. As construction sector makes up more than 10 percent of the Albanian GDP, the contribution to employment is almost half of it. By the late years it can be noticed a decrease in the employment level in construction sector. This is due to the surplus especially in residential buildings and apartments which are stuck in the marked waiting to be sold. By looking at this situation, it seems like for a short term period there will be not much need for new buildings thus leading to a continuous decrease in the employment level in construction sector.

## **CONCLUSION**

The Construction sector during the last decade has turned out to be an important pillar of the Albanian economy. However probably affected by the mortgage crisis in the United States and the following worldwide financial crisis this sector in Albania seems to have been affected in a moderate way even though the Albanian economy in general resisted such crisis. Still the highest customers of this sector are the private individuals in their demand for dwelling. Interestingly in 2010 there was an unusual fluctuation in transportation infrastructure permits value, showing that a stronger importance is being given to the infrastructure in general and especially transportation infrastructure. In the last two years insufficient domestic demand and higher financing costs caused a slowdown on this sector of the economy causing the investment pace to relatively slow down, compared with the previous years.

#### REFERENCES

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<sup>\*</sup>semi final

<sup>\*\*</sup>flash

- 3. INSTAT- Statistical Institute of Albania www.instat.gov.al/
- 4. National Housing- National House Website; <a href="http://www.ekb.gov.al/kosto-mesatare-e-ndertimit-te-banesave-ne-tregun-e-lire/kosto-mesatare-e-ekb-ne-vite">http://www.ekb.gov.al/kosto-mesatare-e-ndertimit-te-banesave-ne-tregun-e-lire/kosto-mesatare-e-ekb-ne-vite</a> Retrived:15/05/2013
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