SHARED CONCERNS, RESILIENT CONSUMER CONFIDENCE: UNDERSTANDING CONSUMER SENTIMENT IN ALBANIA

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Motivation

- **Recent EC ad-hoc survey revealed consumers in Albania share similar concerns with their European peers.**

- **Despite facing the same shocks as their EU peers and facing a sharp drop after the Russian war against Ukraine, Albanian confidence recovered faster, standing above its long term average level. Why consumers in Albania are optimistic?**

- **Understanding the drivers of this resilience can help policymakers anticipate consumer spending and design better communication strategies**

CONTENT

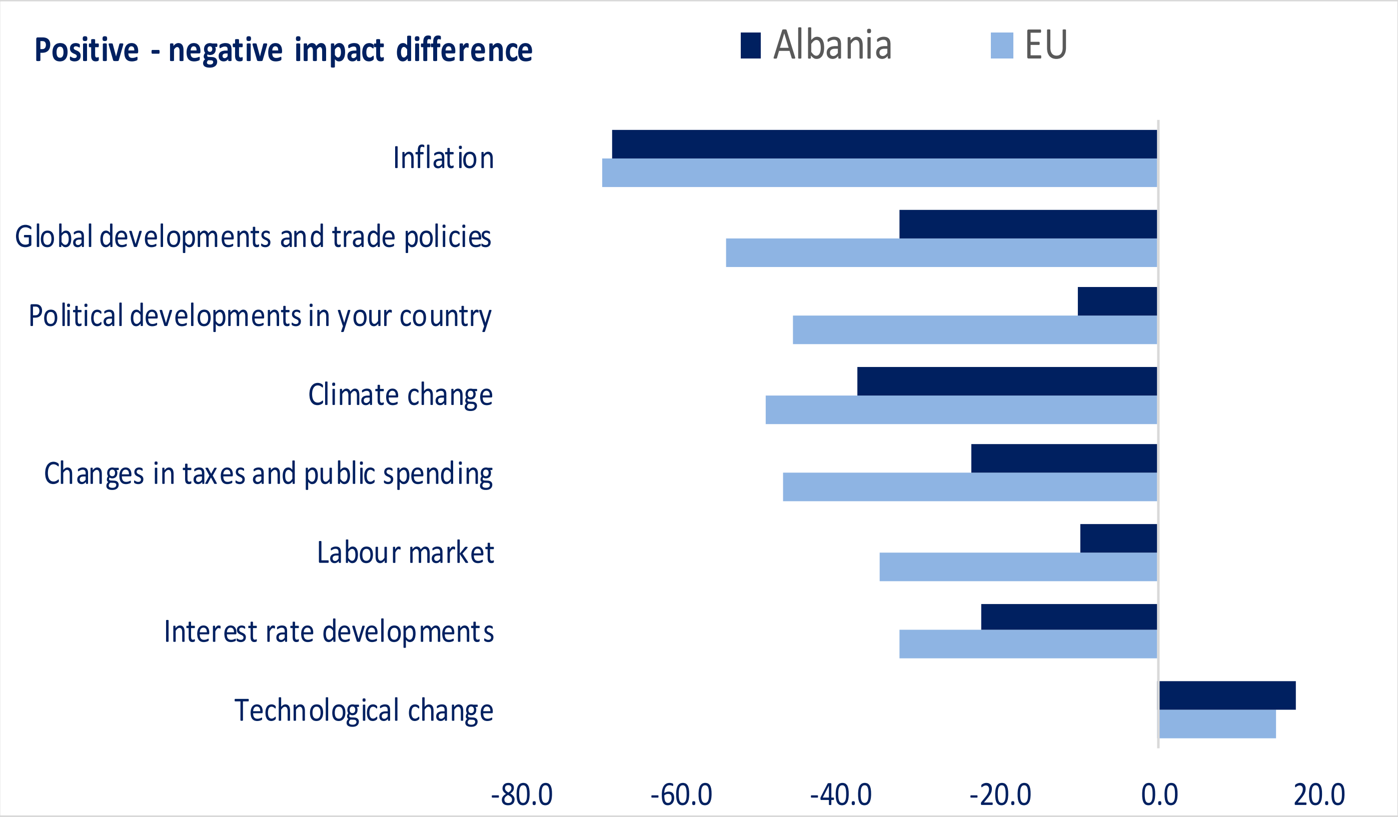
1. Context: Shared concerns, resilient confidence

2. How Albanian sentiment compares with Europe

3. What drives that resilience

4. Conclusions and policy implications

Over the past 12 months, what factors have influenced your views about the economy of your country?

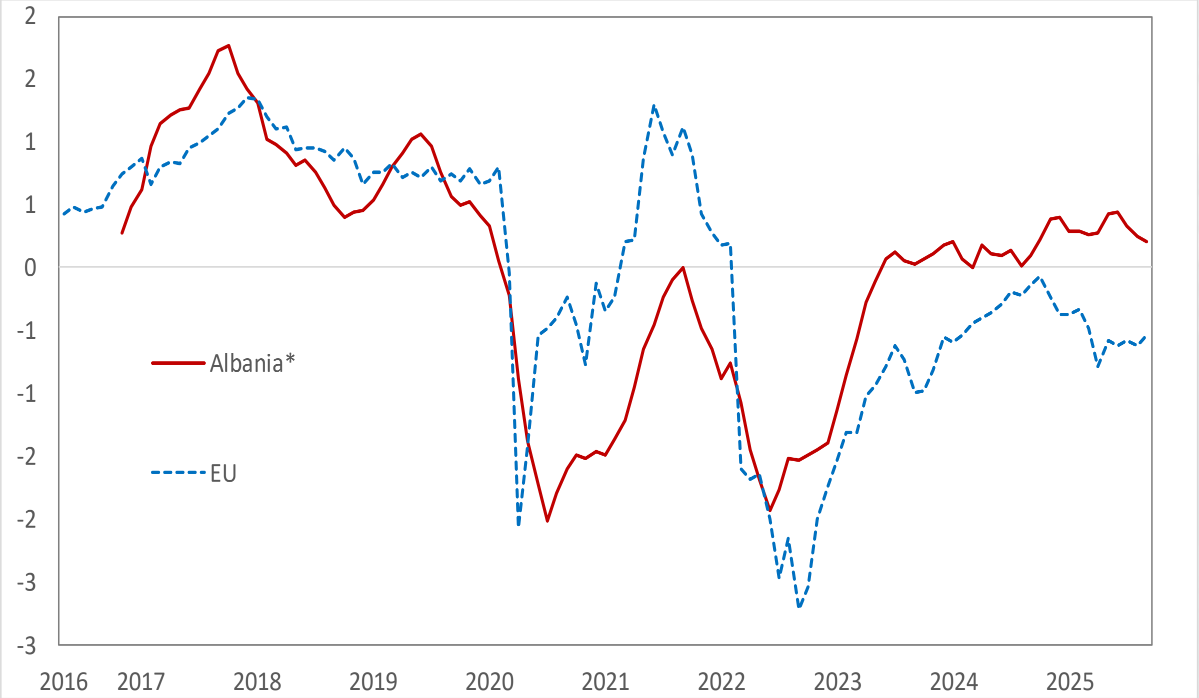


Source: Ad-hoc question, Consumer Confidence Survey, February/March 2025

"**Shared concerns:** Inflation is the top concern everywhere,

- followed by "Global developments" and "Climate change"
- "**Technological change**" is the only factor with net positive impact on consumers' views

Consumer confidence indicator in EU and Albania



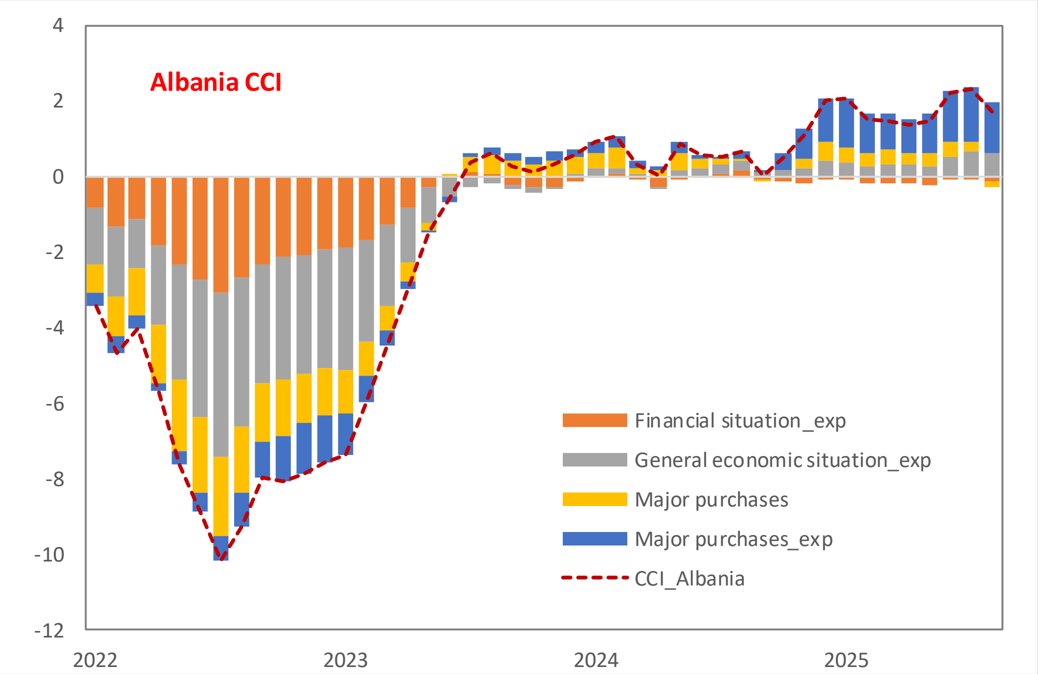
*) Presented as 4-quarter moving average for Albania

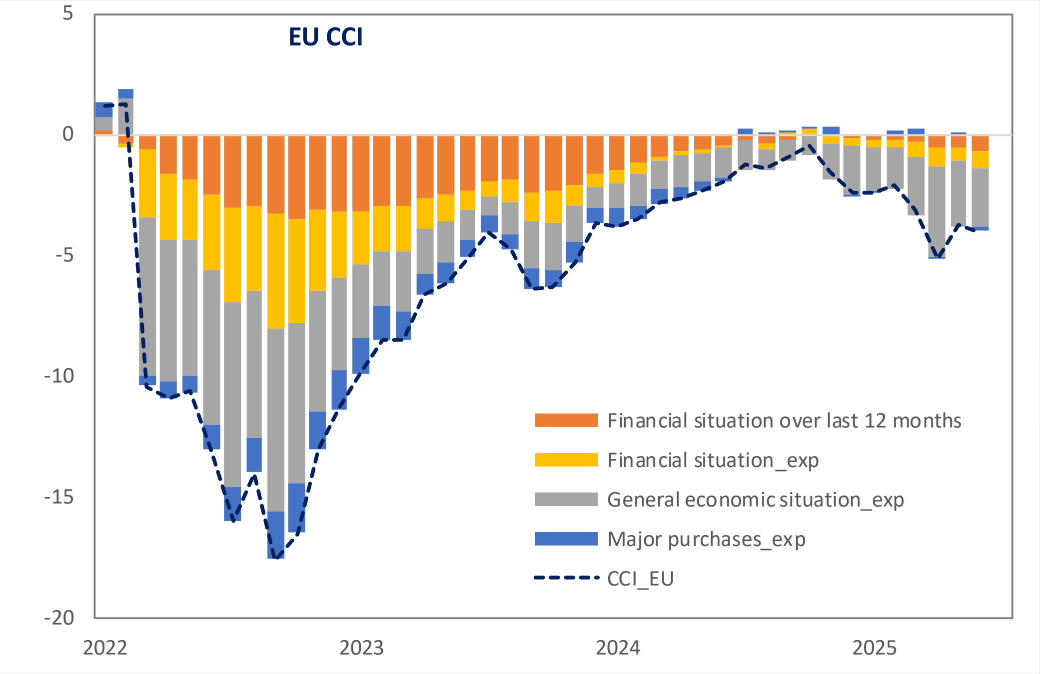
Source: Consumer Confidence Survey EC and BoA

Resilient confidence: Albanian confidence recovered faster than in the EU after 2022

- CCI dropped sharply in March 2022 after Russian aggression of Ukraine for both EU and Albania
- Beginning in 2023, CCI in Albania improved markedly, reaching above average levels
- CCI in EU recovering but below long-term average

Consumer confidence indicator in Albania and EU and the contribution from its components (differences from long-term averages)





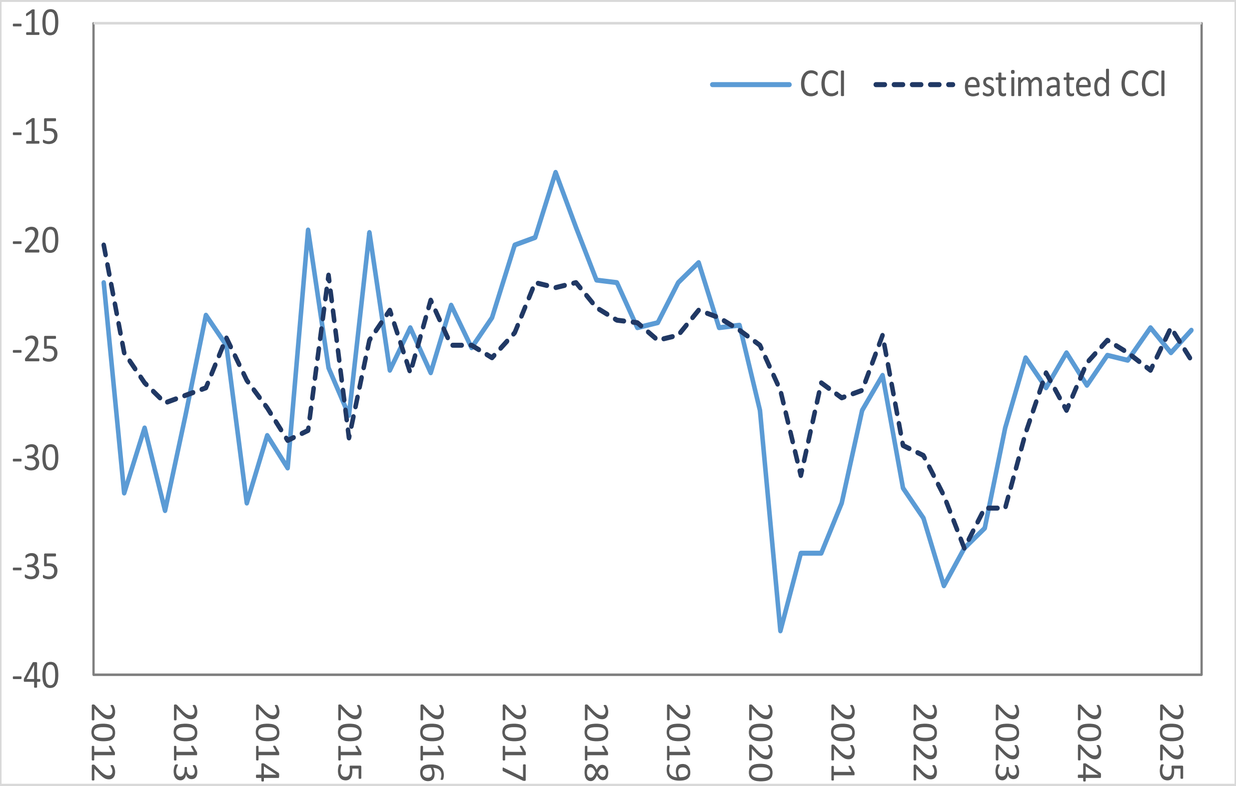
Source: Consumer Confidence Survey EC and BoA

- **Similarities**: more pessimistic about the general economic situation in the country than about other, more personal aspects (financial situation and major household purchases).
- **Differences**: all Albania-CCI components above average from 2023, driven mainly by “major purchases” components

Recent literature focuses on how inflation, global uncertainty and "*referred pain*" impact consumers mood and ultimately their spending:

- *Bobasu, A. et.al (2024): Why are euro area households still gloomy and what are the implications for private consumption?*
  - ➢ Inflation the initial cause, followed later by borrowing costs and declining house prices. Possibly reflecting also elevated uncertainty.
- *European Commission, EBCI (2024): Low consumer confidence and the economy – insights from the EA*
  - ➢ There is a disconnect btw sentiment and underlying economic fundamentals. The inclusion in the model of inflation expectations help explain the gap.
- *Harris and Sojourner (2024): Why are Americans so displeased with the economy?*
  - ➢ Assume that the negative bias of information from news, growing in recent years, has negatively affected sentiment measured by surveys.
- *Cummins, R. et.al. (2024): The paradox between the macroeconomy and household sentiment*
  - ➢ The gap btw sentiment and fundamentals is split into thirds: (i) residual impact of inflation (ii) impact of partisanship (iii) mix of media bias/"referred pain"/aging of the population

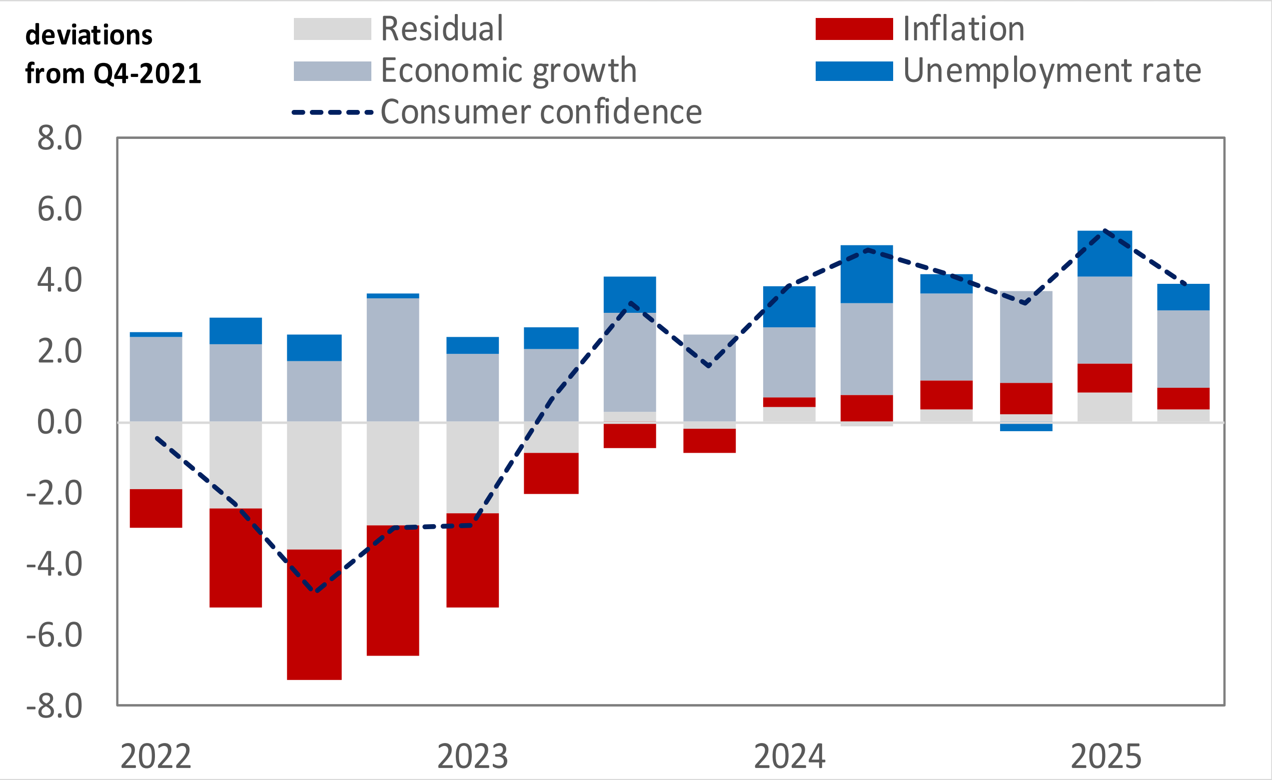
Actual and estimated Consumer Confidence Indicator in Albania



Source: authors' calculations

- We estimate a linear regression analyzing the relationship btw consumer confidence and economic determinants.
- The equation is estimated on quarterly data for the period: 2012Q1-2025Q2
- Dependent variable is the quarterly CCI
- Explanatory variables include:
  - Annual Inflation
  - Real GDP annual growth
  - Unemployment rate
  - A dummy variable for the first three quarters of 2020.
- Adjusted R^2 is 0.55.

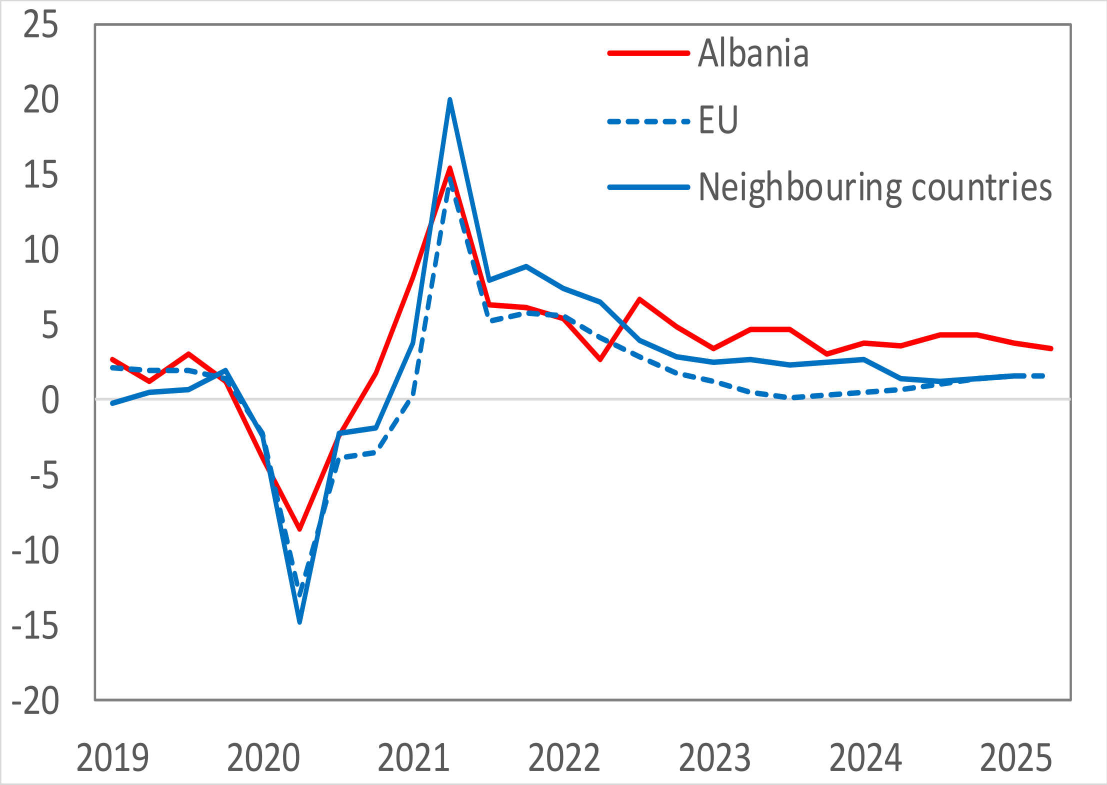
Drivers of CCI in Albania, percentage point contribution



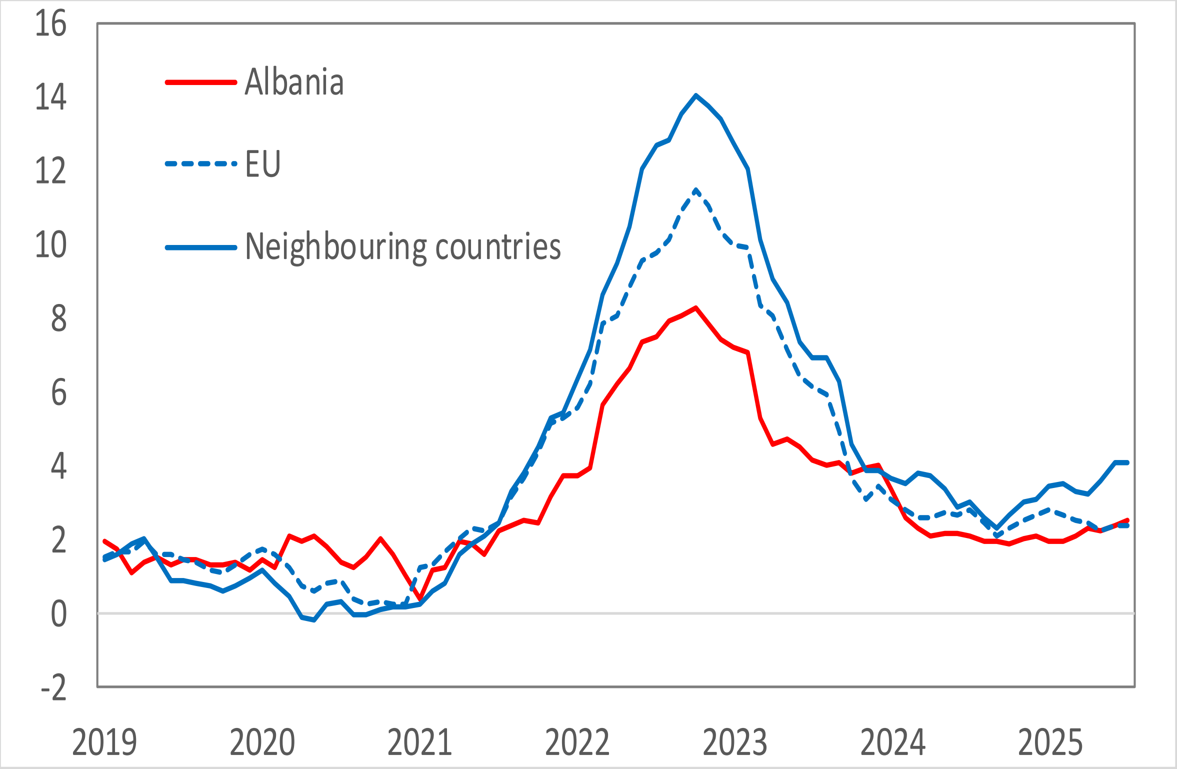
Source: authors' calculations, based on Bobasu, A. et.al (2024)

- Initial decline in 2022 mainly driven by rising inflation and other factors related to geopolitical uncertainty (captured by the residual term).
- Beginning from 2023, falling inflation helped recovery in consumer confidence.
- Economic growth and later falling UN has supported the CCI recovery.

Strong domestic demand and record tourism kept GDP growth robust — reinforcing household optimism



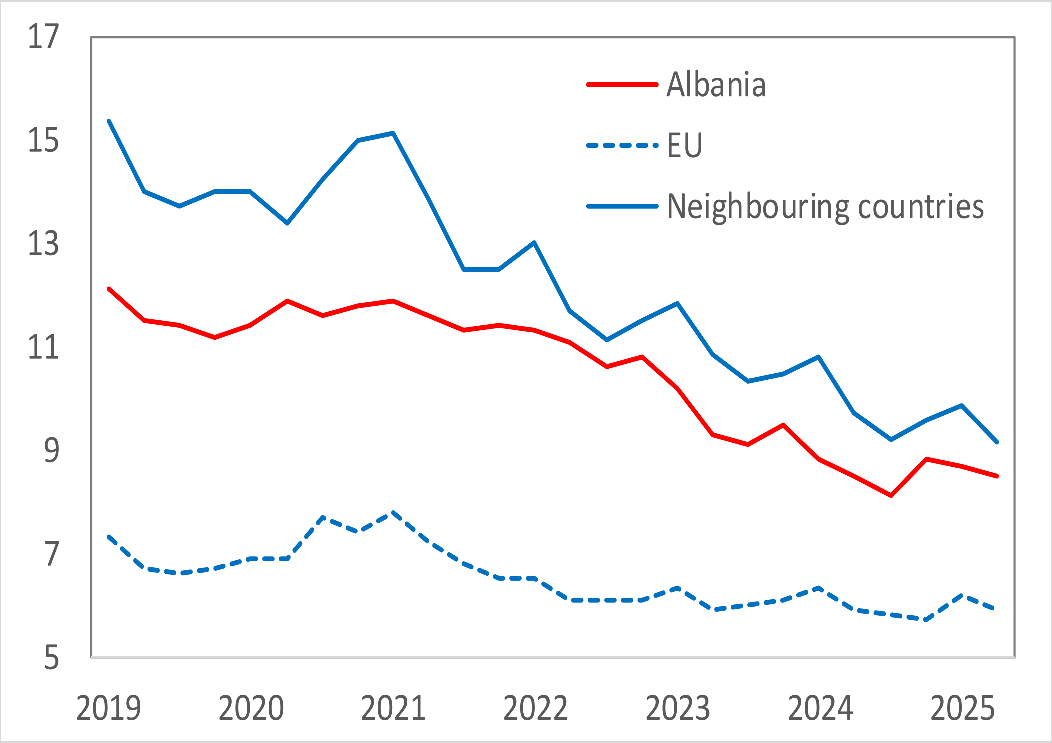
Low inflation, helped also by exchange rate appreciation, supported purchasing power



* Neighbouring countries include: Greece, North Macedonia, Kosovo, Montenegro, Serbia and Italy

Source: Instat and Eurostat

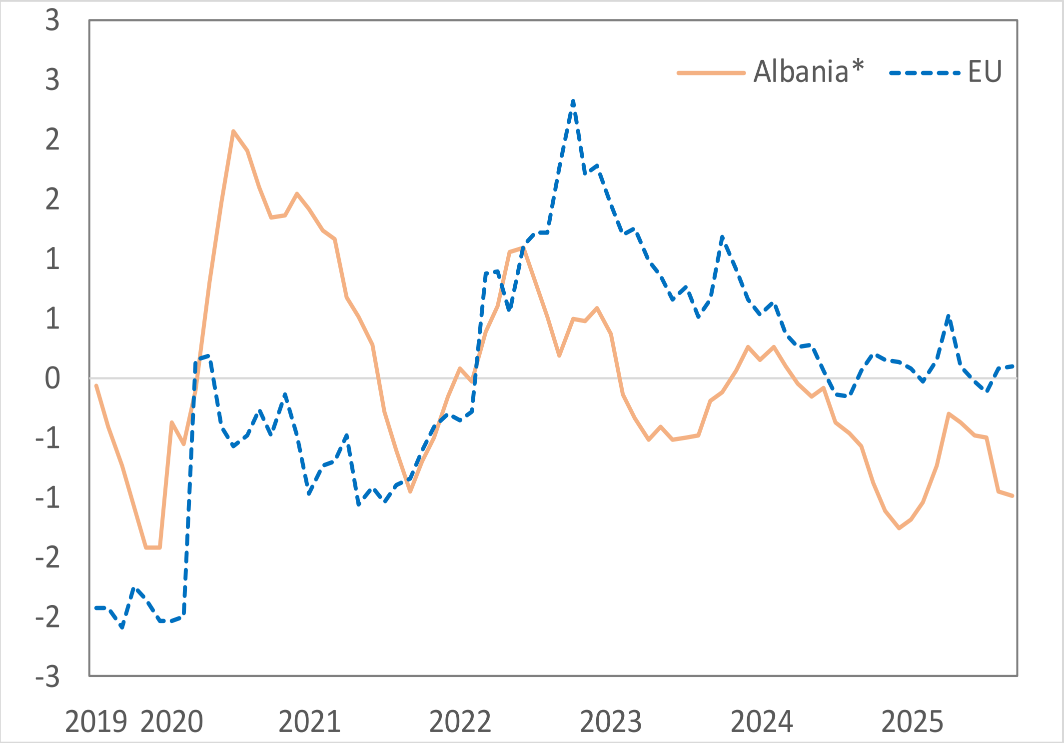
Strong job creation and falling unemployment underpin the CCI recovery



*Neighbouring countries include: Greece, North Macedonia, Kosovo, Montenegro, Serbia and Italy

Source: Instat and Eurostat

Lower uncertainty aligns with the rebound in consumer confidence



*) Series are standartized. Presentes as 4-quarter moving average for Albania

Another reason for optimism is the prospect of EU accession

- Public support for EU integration remains very high in Albania (Balkan Barometer survey 2025)
- Optimism is primarily driven by the reform process, rather than expectations of a rapid accession
- Renewed progress in EU accession negotiations has increased public hope and confidence

- Shared concerns, different responses: Albanian consumers faced similar shocks, but recovered faster

- The combination of macroeconomic stability, improved forward-looking indicators and renewed momentum in EU accession negotiations have likely contributed the rising consumer confidence in Albania, despite the global uncertainty and geopolitical tensions.

- These findings underscore the value of consumer sentiment as a real-time signal of household expectations and provide useful insights for shaping economic policy in a small, open economy like Albania.

References

Bobasu, A. et.al (2024): “*Why are euro area households still gloomy and what are the implications for private consumption?”,* ECB Economic Bulletin, Issue 6/2024.

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Thank You!

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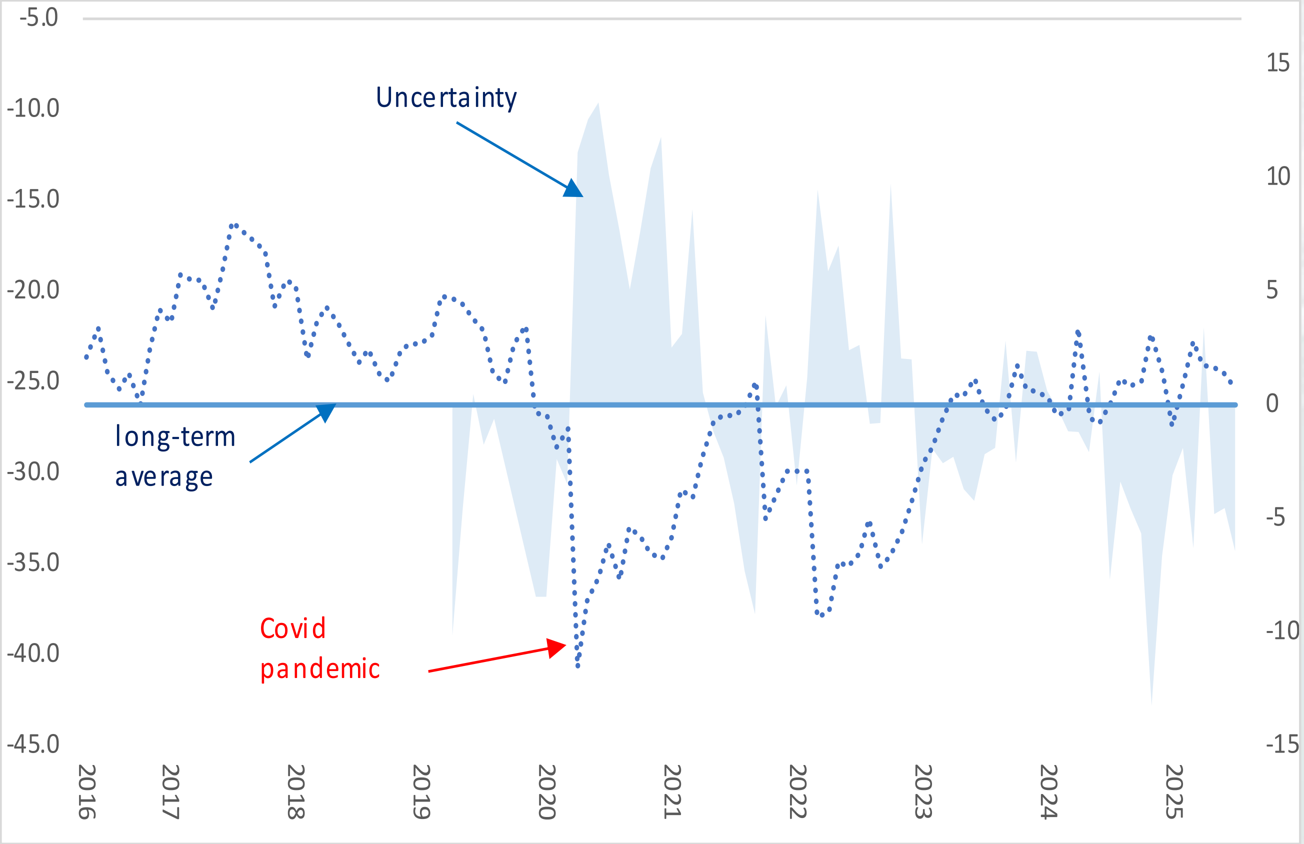
Albanian consumer confidence indicator



- **Constructed as the average of 4 balances:**

  (i) expectations of financial situation (ii) expectation of general economic situation, (iii) actual major purchases and (iv) expected major purchases