ALBANIA

Table 1	2021
Population, million	2.8
GDP, current US$ billion	17.2
GDP per capita, current US$	6089.5
Upper middle-income poverty rate ($5.5)[a]	32.4
Gini index[a]	36.0
School enrollment, primary (% gross)[b]	100.2
Life expectancy at birth, years[b]	78.6
Total GHG Emissions (mtCO2e)	9.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

A robust recovery took place in 2021 thanks to policy stimulus and resurgence of travel, construction, and extractive activity. Private investment, consumption, and public spending drove growth, while public debt remained high. Poverty is expected to have declined below pre-pandemic levels, despite a sluggish labor market. Growing inflation and the war in Ukraine threaten economic and poverty prospects in 2022.

Key conditions and challenges

Albania's growth was robust in 2021. It averaged 10.4 percent over the first three quarters, fully offsetting the losses caused by the pandemic-induced recession. Growth was driven by continued accommodative monetary and fiscal policies, reconstruction investment, abundant hydroelectric production early in the year, and the tourism recovery, all of which boosted private demand.

For 2022, prospects are uncertain with many downside risks. The war in Ukraine and continuing sanctions could push energy, food, and commodity prices even higher, shrinking households' purchasing power and consumption. Additional risks include new, vaccine- resistant Covid-19 variants, tighter global financial and trade conditions, and renewed travel restrictions.

Public debt increased further in 2021, reaching 78.4 percent of GDP. The government suspended the fiscal rule of a declining debt-to-GDP ratio and issued a Eurobond of EUR650 million, benefitting from the country's stable B+ rating. At its current level, the high government debt is at significant rollover risk. Given the current inflation and expected monetary policy tightening in high-income economies, reducing Albania's public debt and strengthening its fiscal policy credibility are vital.

Productivity-enhancing public investment is crucial to boost growth but will require stronger revenue mobilization. At the same time, despite a 3.3 percent average GDP growth rate over 2015-2019, private investment continues to be discouraged by low firm productivity, an unskilled labor force, limited access to finance, burdensome logistics and poor market integration. However, at 28.4 percent of GDP, public revenues provide little space to increase much-needed investment in public infrastructure and human capital. A Medium-Term Revenue Strategy is under preparation, which has the potential to increase revenues over the medium run.

Recent developments

Higher consumer confidence, increased demand for Albanian exports, and fiscal stimulus supported the strong growth recovery in 2021. Growth in trade and construction—the latter connected to reconstruction and new infrastructure projects—contributed the most. Favorable hydrologic conditions have boosted extractives and energy production and tourism exports.

Jobs did not increase in 2020/2021. There were over 16 thousand fewer employed people in 2021 than in 2019. Employment grew only in ICT, construction, transport, retail and wholesale, and utilities. At the same time, labor force participation fell for the second consecutive year among all age groups. As a result, the unemployment rate was stable at 11.5 percent. The formal real wage increased by 3.7 percent in 2021, close to the 2019 increase, while

FIGURE 1 Albania / Headline inflation and core inflation
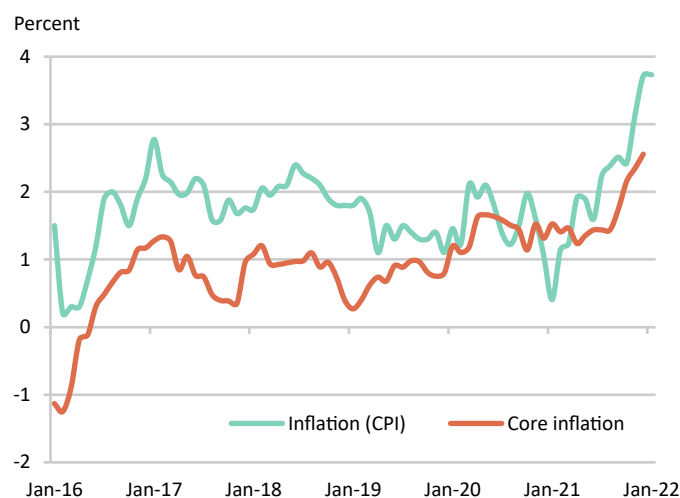
Sources: INSTAT and World Bank.

FIGURE 2 Albania / Actual and projected poverty rates and real GDP per capita
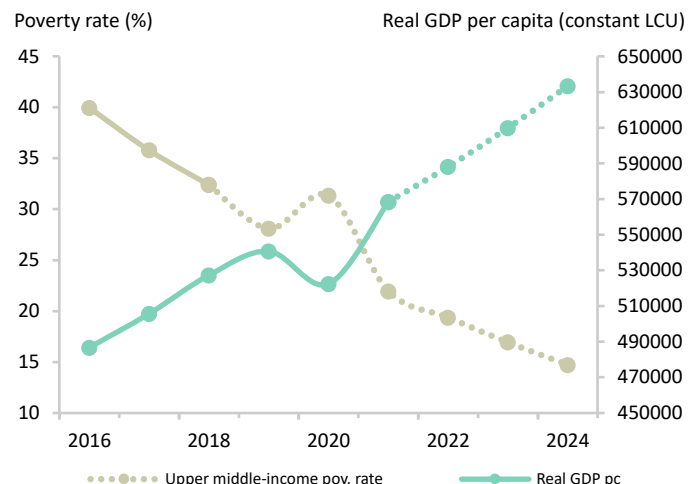
Source: World Bank. Notes: see Table 2.

the minimum wage increased by 13.1 percent in real terms.

Still, given the strong growth in GDP per capita in 2021, poverty is estimated to have dropped significantly from 31.4 percent in 2020 to 22 percent in 2021.

Inflation rose rapidly during the fourth quarter, reaching 3.7 percent in December 2021. Rising food, energy, transport and commodity prices risk undermining domestic demand and increasing vulnerability. Food prices increased by 3.9 percent in 2021, close to double the increase of the overall basket. This will hurt the bottom 40 percent, whose food consumption is over half of total consumption. The Central Bank kept the policy rate unchanged but recently announced an expected tightening through 2022.

Higher tax revenues and new debt allowed the government to increase infrastructure spending. The government also raised subsidies to the energy State-Owned Enterprises (SOEs) to ensure energy supply during the last quarter of 2021. Contingent liabilities from SOEs pose major risks for the budget.

Outlook

As of March 2022, the baseline scenario projects economic activity to expand at its pre-pandemic, pre-earthquake historical rate. However, the war in Ukraine could further increase inflation, disrupt supply chains, disturb financial markets and undermine confidence; all of which could dim Albania's growth prospects. In turn, a sluggish job market combined with diminished purchasing power could dampen poverty reduction.

Government spending is expected to decline gradually, in line with fiscal consolidation plans. However, higher spending may be needed to guarantee energy supply through more costly energy imports and support to the fragile energy SOEs. Service exports, including tourism and fast-expanding business-process operations should return to their pre-pandemic growth trends. The current account deficit is expected to reach 7.9 percent of GDP only in 2024, as terms of trade worsen due to high infrastructure investment and subsequent demand for imports.

In the baseline scenario, public debt is expected to decline slightly to 78.1 percent of GDP in 2022, and more significantly over the medium term. However, the fiscal balance could further deteriorate in a worsening international context, forcing the government to cut capital spending to prevent a hike in the debt-to-GDP ratio. Given Albania's growing reliance on external financing, the exchange rate, interest rate, and refinancing related risks remain elevated.

Consistent with the baseline scenario in the years following, private consumption is projected to return as the primary driver of GDP growth. Private investment could provide further support to growth if business climate reforms are implemented. A key medium-term reform priority is the need to boost revenue collection and achieve fiscal consolidation, while allowing for significant growth-enhancing spending.

TABLE 2 **Albania** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.1	-4.0	8.6	3.2	3.4	3.5
Private Consumption	3.2	-2.4	3.7	2.6	2.7	2.9
Government Consumption	2.9	1.6	9.4	6.9	-1.0	2.6
Gross Fixed Capital Investment	-3.7	-2.0	18.5	-0.9	1.7	3.4
Exports, Goods and Services	2.6	-25.6	29.2	4.8	8.0	6.2
Imports, Goods and Services	2.3	-19.9	18.5	1.9	3.3	4.1
Real GDP growth, at constant factor prices	2.4	-3.4	8.6	3.1	3.4	3.5
Agriculture	0.6	0.3	-0.2	0.2	0.3	0.5
Industry	0.9	-3.5	10.8	5.0	5.0	5.0
Services	3.8	-4.7	10.9	3.2	3.6	3.7
Inflation (Consumer Price Index)	1.4	2.2	2.6	5.0	4.0	3.0
Current Account Balance (% of GDP)	-7.9	-8.8	-8.3	-9.6	-8.7	-7.9
Net Foreign Direct Investment (% of GDP)	7.5	6.8	6.4	6.5	6.6	6.6
Fiscal Balance (% of GDP)	-1.9	-6.8	-5.8	-5.2	-2.8	-2.7
Debt (% of GDP)	67.4	77.2	78.4	78.1	76.4	75.1
Primary Balance (% of GDP)	0.1	-4.7	-3.8	-2.5	0.0	0.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	28.1	31.3	22.0	19.4	16.9	14.7
GHG emissions growth (mtCO2e)	-1.5	-6.5	1.6	-1.2	-1.0	-0.8
Energy related GHG emissions (% of total)	47.4	45.4	46.2	45.7	45.2	44.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2016-SILC-C and 2018-SILC-C. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using customized elasticity (2016-2018) with pass-through = 1 based on GDP per capita in constant LCU.