

ALBANIA

Table 1 **2023**

Population, million	2.8
GDP, current US\$ billion	23.0
GDP per capita, current US\$	8300.4
International poverty rate (\$2.15) ^a	3.9
Lower middle-income poverty rate (\$3.65) ^a	11.3
Upper middle-income poverty rate (\$6.85) ^a	34.2
Gini index ^a	36.0
School enrollment, primary (% gross) ^b	95.6
Life expectancy at birth, years ^b	76.8
Total GHG emissions (mtCO ₂ e)	7.9

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2018), 2017 PPPs.

b/ Most recent WDI value (2022).

Growth in 2024 is expected to remain robust at 3.3 percent, on the back of private consumption, tourism, and construction. Price pressures have continued to ease. Poverty is expected to continue to decline as labor income increases. Medium-term prospects hinge on the recovery of the global economy and on the pace of structural reforms. The European Union (EU) accession aspirations provide an anchor to speed up convergence.

Key conditions and challenges

The Albanian economy has shown considerable resilience as prudent macroeconomic policies supported a strong economic rebound, with real GDP growth averaging 4.2 percent in 2022 and 2023. A key factor in Albania's resilience has been the proximity to the EU, a key source of investment and remittances, and a main destination for exports. Tourism remains a key growth driver, helping to improve external imbalances and partially contributing to a steady appreciation of the LEK in recent years. The availability of hydropower, which meets 85 percent of domestic energy demand in years with average precipitation, has contributed to containing the country's greenhouse gas emissions.

Albania's key development challenges are its declining population, partially due to outmigration; the poor quality of the labor force and the low quality of jobs created; the moderate pace of structural reforms, especially in the areas of private sector environment and governance; and rising fiscal pressures, due to climate risks, contingent liabilities and debt refinancing at a time of the high cost of external financing. To create the needed fiscal space and address these challenges, Albania will need to implement a Medium-Term Revenue Strategy to strengthen domestic revenues. Unlocking further growth is conditional on the swift implementation of the government's program, anchored in

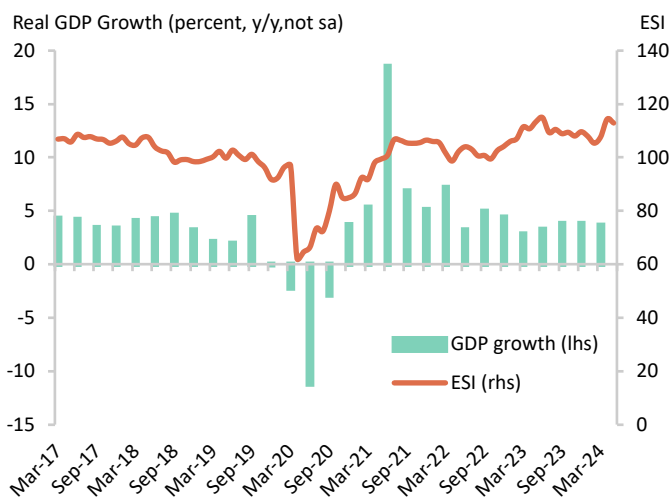
the EU accession aspiration, and built on reforms tackling productivity, including improving the business environment, and expanding Albania's integration into foreign markets.

Recent developments

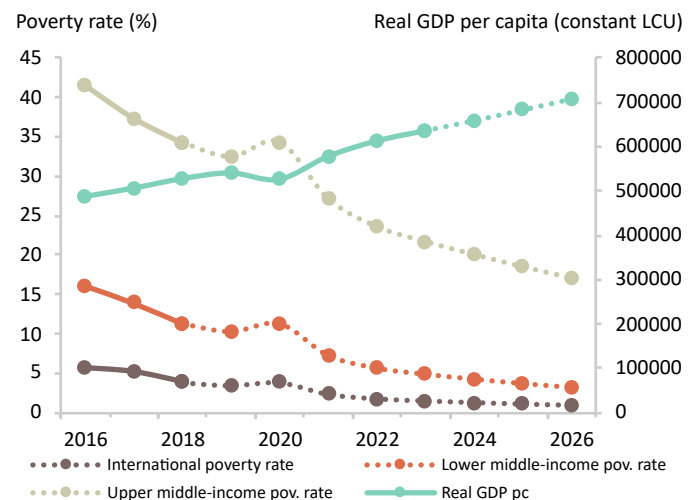
Following a 3.4 percent real growth rate in 2023, Albania's economy grew at a higher pace of 3.6 percent in Q1 of 2024. On the supply side, growth was primarily driven by services and construction. Private consumption and investment were the main drivers on the demand side. In the coming quarters, investment and services exports are expected to strengthen. Economic sentiment remains positive (Figure 1), though showing signs of moderation.

At the end-2023, the employment rate reached 66.7 percent with variation across demographics, with a 0.7 percentage point increase for men and 0.3 percentage point decrease for women. Overall, poverty declined by 1.9 percentage points to reach 21.7 percent. Based on administrative data for Q1 2024, employment grew by 1.1 percent y-o-y, driven by the private sector. The average private sector wage increased by 12.7 percent, reflecting growth across all economic activities.

Annual inflation rate continued its declining trend, averaging around 2.7 percent in Q1 of 2024, as a result of downward pressures from lower import prices, domestic currency appreciation, and monetary policy normalization. In the subsequent months up to July 2024, inflation

FIGURE 1 Albania / Economic sentiment index (ESI) and GDP growth


Sources: Instat and Bank of Albania.

FIGURE 2 Albania / Actual and projected poverty rates and real GDP per capita


Source: World Bank. Notes: see Table 2.

has remained stable at around 2.1 percent, mainly driven by wage increases in the private sector, while food and non-alcoholic beverages, which constitute close to 35 percent of the consumption basket, had a deflationary trend.

As of July 2024, the government reported a fiscal surplus, on account of robust revenue collection and sluggish execution of capital investment. Budget revenues increased by over 8 percent y-o-y as of July 2024, with growth observed in all categories, except grants and profits, which were mostly affected by the base effect (as they had picked up in the previous year). Overall credit increased by 13 percent y-o-y through July 2024. Both private businesses and household loans registered double digit growth, at approximately 12.0 percent and 14.5 percent. Gross non-performing loans reached the level of 4.7 percent in July 2024.

The current account deficit (CAD) widened in H1, primarily driven by the rapid growth of imports and the decrease in exports of goods. Net foreign direct investment

(FDI) continued to perform strongly, increasing by 8.5 percent. Foreign currency reserves reached the level of 5.7 billion Euros as of July 2024.

Outlook

Growth is expected to remain robust at 3.3 percent in 2024, with increased tourism and construction expected to drive exports, and consumption and investment growth at rates similar as in the pre-pandemic period. The inflation rate is projected to remain below the 3 percent target in the medium term, despite the increase in wages, which has partially been offset by the appreciation of the LEK. The current account deficit is expected to hover at 3.8 percent of GDP in the medium term. With higher growth expected, poverty is also projected to decrease. A tighter labor market could further boost wages.

Albania's primary balance is projected to improve and reach zero percent of GDP

from 2024 onwards. Government plans to continue improving tax administration, as envisioned in the Medium-Term Revenue Strategy. Public debt is expected to decline further in the medium term.

Leading indicators are pointing upwards: there is strong tourism data and increased construction activity, rising credit growth, positive business and consumer sentiment indicators, and strong tax revenues. Given Albania's growing reliance on external financing, risks related to the exchange rate, interest rate, and refinancing remain elevated.

As a small, open economy, Albania is highly exposed to external shocks, such as a recession in the EU or further tightening of financing conditions in international capital markets. Risks to growth emanate from natural disasters and unfavorable global conditions (including geopolitical developments). Fiscal risks emanate from public-private partnerships and state-owned enterprises (SOEs), in addition to the country's hydropower-based energy sector, due to variations in hydrology.

TABLE 2 Albania / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	8.9	4.9	3.4	3.3	3.4	3.4
Private consumption	4.3	7.4	3.1	3.1	3.1	3.0
Government consumption	7.8	-4.7	9.2	10.4	-0.5	0.9
Gross fixed capital investment	19.2	6.5	6.4	9.7	3.4	3.1
Exports, goods and services	52.0	7.5	10.1	0.5	6.5	6.5
Imports, goods and services	31.5	13.1	1.3	5.8	4.3	4.4
Real GDP growth, at constant factor prices	8.2	5.3	3.8	3.0	3.5	3.3
Agriculture	1.8	0.1	-0.7	-0.5	0.2	0.2
Industry ^a	13.6	7.7	4.0	1.0	2.0	2.0
Services	8.1	5.9	5.2	5.2	5.2	4.8
Inflation (consumer price index)	2.0	6.7	4.8	2.2	2.7	2.9
Current account balance (% of GDP)	-7.7	-5.9	-0.9	-3.9	-3.8	-3.7
Net foreign direct investment inflow (% of GDP)	6.5	6.6	5.9	5.3	5.3	5.4
Fiscal balance (% of GDP)	-4.6	-3.7	-1.3	-2.3	-2.3	-1.8
Revenues (% of GDP)	27.5	26.8	27.8	29.2	28.4	28.5
Debt (% of GDP)	75.4	65.3	59.8	58.3	57.6	56.3
Primary balance (% of GDP)	-2.7	-1.8	0.7	0.0	0.0	0.5
International poverty rate (\$2.15 in 2017 PPP)^{b,c}	2.4	1.8	1.5	1.3	1.1	1.0
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{b,c}	7.3	5.7	4.9	4.3	3.7	3.2
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{b,c}	27.1	23.6	21.7	20.1	18.5	17.1
GHG emissions growth (mtCO₂e)	2.4	-4.2	-4.6	-1.5	-0.7	-0.2
Energy related GHG emissions (% of total)	46.7	46.5	46.0	47.4	49.1	50.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Includes construction.

b/ Calculations based on ECAPOV harmonization, using 2014- and 2019-SILC-C. Actual data: 2018. Nowcast: 2019-2023. Forecasts are from 2024 to 2026.

c/ Projection using point-to-point elasticity (2013-2018) with pass-through = 1 based on GDP per capita in constant LCU.