

# The World Bank in Albania Country Snapshot



An overview of the World Bank's work in Albania

April 2019

ALBANIA	2018
Population, million	2.9
GDP, current US\$ billion	15.3
GDP per capita, current US\$	5,319
Life Expectancy at birth, years (2018)	78.3

## At a Glance

- Albania's remarkable economic transformation during the past few decades has aimed to build on the country's huge potential and opportunities. The global financial crisis exposed the weakness of its growth model, however, and highlighted the need to shift from consumption-fueled to investment- and export-led growth.
- The country's main challenges include maintaining macro-fiscal and financial sector sustainability, improving the investment climate and unleashing private sector growth, removing barriers to employment for job creation, and improving governance and public service delivery.
- The Government is trying to address these challenges through a set of initiatives. Although some progress has been achieved, it is important that reforms and long-term governance and institutional improvements be continued or strengthened.
- The World Bank Group is supporting important sectors, such as energy, the environment, water, irrigation, transport, health, and social assistance, strengthening institutions across these sectors as well as other areas. Substantial analytical work is assisting the jobs and growth agenda, financial sector reform, and energy efficiency.

## Country Context

Albania has made remarkable economic progress during the past three decades. Due to strong growth performance, Albania grew from one of the poorest nations in Europe to a middle-income country, with poverty declining by half during that period.

However, the global financial crisis exposed the weaknesses of Albania's growth model and highlighted the need to shift from consumption-fueled to investment- and export-led growth. The new model will need to help those people with less access to economic opportunities to contribute to, and benefit from, economic growth.

In order to accelerate the pace of equitable growth, Albania is implementing structural reforms that will raise productivity and competitiveness in the economy, create more jobs, and improve governance and public service delivery. Enhanced regional connectivity and access to regional and global markets, coupled with export and market diversification, can also help promote faster growth.

Recognizing these challenges, the Government of Albania has embarked on a broad-based reform program focused on macroeconomic and fiscal sustainability, financial sector stabilization, energy concerns, pensions, and territorial administration.

Significant progress, propelled by the ongoing reforms, has created the conditions for rebounding business confidence and domestic demand, including early signs of increased investment and an export-led recovery. Maintaining the reform momentum and implementation is critical to Albania's continued economic growth and aspirations to European Union (EU) integration.

## The World Bank and Albania

The current World Bank Group (WBG) program in Albania is guided by the Country Partnership Framework (CPF) for FY15–20, which provides analysis, advice, and financing in support of equitable growth in Albania and integration into the EU. The CPF, which now enters into its final year of implementation, focuses on three main areas:

- restoring macroeconomic balances
- creating conditions for accelerated private sector growth
- strengthening public sector management and service delivery

Around 70 percent of the program has been delivered, supporting some of the Government's main priorities, including macroeconomic and fiscal sustainability and competitiveness, as well as governance and accountability in the public services, energy, and water sectors.

The Progress and Learning Review (PLR) was delivered in February 2019. No major changes were introduced in terms of priorities and outcomes, but an additional year was granted for CPF implementation primarily to allow for the achievement of most of the results.

The PLR also reflects some changes in the program, including engagement in the regional agenda. The Regional Trade and Transport Facilitation Project is expected to be approved by the World Bank's Executive Directors in Spring 2019. This will bring the number of projects in Albania to 12, totaling US\$738 million.

### Key Engagement

With a 66 percent debt-to-GDP ratio and 53 percent of the debt stock in local currency, Albania relies heavily on the domestic market. However, this creates cost and poses risks, as the secondary market for government bonds is not deep enough to allow the market-based pricing of securities.

### WORLD BANK PORTFOLIO

Number of Projects: 11  
Lending: \$718 Million  
IBRD: 11 Loans (\$683 Million)  
IDA Lending: \$35 Million  
Grants: 10 (\$24 Million)

The World Bank and the Albanian authorities started an innovative pilot project to develop a secondary market for government securities.

The Ministry of Finance and Economy (MoFE) picked a five-year fixed coupon bond to build benchmark security. The pilot aimed to raise its volume to foster increased trading, eventually making it a liquid bond. Five banks that agreed to act as market makers were granted access to auctions. World Bank recommendations were implemented by redesigning auction rules.

Within a six-month period from July to December 2018, the secondary trading volume of bonds jumped from insignificant figures to ALL 3.2 billion, where buyers were banks and other institutional investors.

The results of the pilot project were encouraging, as the secondary market turnover picked up and there is a five-year benchmark reference rate in the Government's yield curve.

The project enabled the MoFE to streamline its benchmark issuance program; facilitated communication between the Bank of Albania and the MoFE; and helped the market makers improve their bidding procedures, develop reporting tools, and improve communication with investors.

Secondary market development, which has been elusive for so many years, is now becoming a reality, with potentially large benefits for savers, investors, and the Government.

## Recent Economic Developments

Growth sped up to 4.2 percent in 2018 because favorable hydrological conditions boosted energy production. On the expenditure side, household consumption and investment contributed to much of the growth.

Economic growth was accompanied by job creation, particularly in industry (by 3.9 percent year-on-year [y-o-y]) and services (2.5 percent). The unemployment rate declined by 1.5 percentage points to 12.3 percent in 2018.

Although fiscal consolidation alleviated debt-financing risks, risks from public off-balance and contingent liabilities still need attention. The stock of public debt and arrears declined to 68.6 percent of GDP (mostly due to an appreciation of the exchange rate), while budgetary arrears totaled around 1.5 percent of GDP in 2018.

New infrastructure projects were implemented through a rapid increase in public-private partnerships (PPPs). Though they alleviate short-term funding constraints, PPPs increase contingent liabilities and may limit the fiscal space for new investments.

With inflation averaging 2 percent at the end of 2018 (below the target of 3 percent), monetary policy was further eased. A strong export performance and lower import growth improved external balances.

The current account deficit narrowed to 6.3 percent of GDP in 2018 from 7.5 percent in 2017. Foreign direct investment (FDI) grew by 6.4 percent and now fully covers the current account deficit.

## Economic Outlook

Economic growth is expected to fall to 3.8 percent in 2019 and level off at around 3.6 percent on average over the medium term. Growth will continue to be led by domestic demand, followed by fixed capital formation growth.

Net exports are also expected to support growth, albeit to a lesser extent, as imports expand in line with domestic consumption. Poverty is expected to decline because of economic growth.

The fiscal deficit is likely to increase over 2019–21 as the Government speeds up the clearance of arrears and implements several fiscal incentives.

On the expenditure side, current expenditures are expected to remain stable, while government capital spending is projected to increase to 4.8–4.9 percent of GDP. Additional projects are expected to be financed by PPPs, which will increase contingent liabilities.

Medium-term growth projections depend on the pace of structural reforms and progress on EU accession. Albania needs to continue its fiscal consolidation and mitigate risks from off-balance activities. Improving the business climate and addressing the gaps in infrastructure and labor force skills are necessary to reap the early benefits of EU accession and make Albania attractive for FDI.



Economic growth has been accompanied by job creation, particularly in industry.

## Project Spotlight

### Albania Development Fund: Gender Assessment



By addressing gender gaps, Albania can benefit from higher female labor force participation.

Current and future infrastructure projects in Albania provide a huge opportunity to create more jobs and boost the local economy, and just as importantly, to provide equal employment opportunities to women and men alike in a largely male-dominated sector.

A new Gender Assessment, carried out by the Albania Development Fund (ADF) and discussed recently at a workshop in Tirana, explored women's

participation in road construction, rehabilitation, and maintenance in Albania. The ADF is implementing several infrastructure projects financed by the World Bank. Although men are employed in a wide range of roles across the construction sector, women are mostly employed in the areas of engineering or accountancy. Their share in the sector is only 3 percent, and the gender pay gap is 14 percent in favor of men.

Females comprise one-third of graduates of tertiary-level engineering, manufacturing, and construction courses, but very few enroll in vocational education because of the prevailing stereotypes about "jobs for women" and "jobs for men."

In the private sector, recruitment usually happens through informal networks that comprise only men. There is little collaboration between education institutions and businesses, resulting in very few recruitment opportunities for female students and graduates.

The public sector offers more job security for women, including regular contracts, social insurance, and convenient working schedules. In Shkoder, road maintenance is outsourced to a private company, and there are no women employed in this work.

In Pogradec, on the other hand, road maintenance is overseen by the local municipality, and 57 percent of road maintenance workers are female. Thus, when the right conditions and incentives are in place, women are just as willing and able as men to work in the construction industry.

During the workshop, a range of initiatives were discussed that could potentially boost women's employment in the construction sector. These ideas included addressing gender stereotypes, improving workplace health and safety issues, and increasing the capacity of the ADF to systematically reflect gender considerations in the development of its infrastructure projects.



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