ALBANIA

Table 1	2022
Population, million	2.8
GDP, current US$ billion	18.9
GDP per capita, current US$	6743.1
Upper middle-income poverty rate ($6.85)[a]	34.2
Gini index[a]	36.0
School enrollment, primary (% gross)[b]	95.9
Life expectancy at birth, years[b]	76.5
Total GHG emissions (mtCO2e)	8.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2021).

Growth in 2022 reached 4.8 percent as private consumption, exports, and investment expanded despite increasing energy and food prices. Growth is expected to moderate in 2023, despite another year of exceptional increase in tourism. Poverty is expected to continue its downward trend as employment and wages increase. Medium-term prospects hinge on the global recovery, structural reforms, and fiscal consolidation.

Key conditions and challenges

The Albanian economy has shown considerable resilience in the face of consecutive shocks during 2019-2022, including the 2019 earthquake, the pandemic and the ensuing economic turmoil, and Russia's invasion of Ukraine. The economy experienced a strong rebound, with real GDP expanding by 8.9 percent in 2021 and by 4.8 percent in 2022, and GDP exceeding its pre-pandemic level that year. Poverty rates continued their downward trend in 2022. A key factor in Albania's resilience has been the proximity to the European Union, which facilitates investment, remittances, and exports. As a consequence, construction and tourism are key growth drivers. The availability of hydropower, which meets 85 percent of domestic energy demand in a year with average precipitation, has provided some insulation from the ongoing energy crisis and contributed to containing the country's greenhouse gas emissions. Albania's key development challenges are its declining population, which is partially owed to large migration; 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 government responses to multiple crises, climate risks, contingent liabilities, and debt refinancing at a time of high interest rates. To address the gap in human capital investment and the need for climate-resilient infrastructure, while maintaining support for the most vulnerable, 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 on the EU accession aspiration, and built on reforms tackling productivity, including improving the business environment, streamlining government interactions with the private sector, and expanding Albania's integration into foreign markets.

Recent developments

In the first quarter of 2023, GDP grew by 2.7 percent. Services, including trade and real estate, led growth on the supply side, followed by construction and manufacturing. Consumption and investment remained the main growth drivers on the demand side. Net exports reduced growth, due to smaller foreign demand. Leading economic indicators suggest growth accelerated during the second and third quarters with tourist arrivals hitting a record high through July 2023, and construction activity accelerating. Increased income from employment, credit growth, business and consumers sentiment indicators, and strong tax revenues all suggest an increasing contribution to growth from consumption, investment and net exports in the second and third quarters.

FIGURE 1 Albania / Economic sentiment index (ESI) and GDP growth
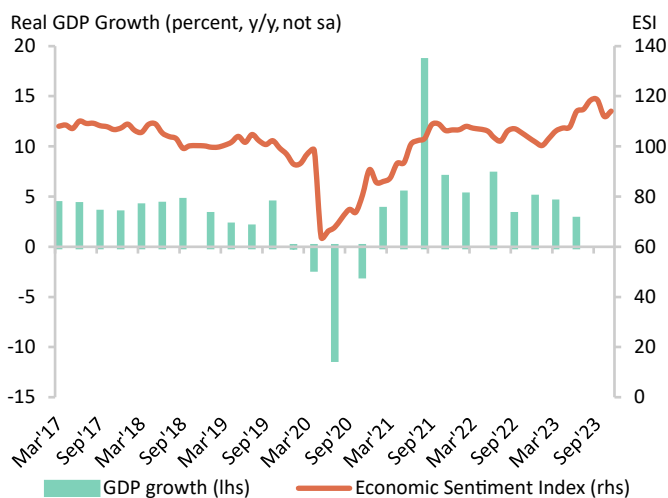
Sources: Instat and Bank of Albania.

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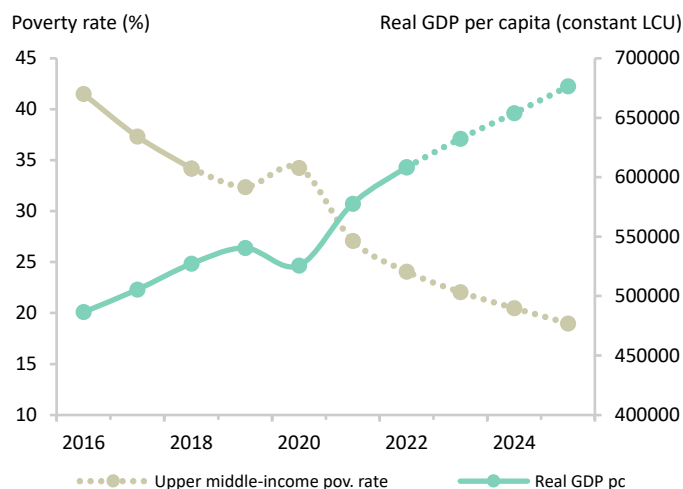
Source: World Bank. Notes: see Table 2.

Employment grew by 4.4 percent yoy during Q1 2023. Increasing wages and employment incentivized labor force participation (ages 15+), which reached 64 percent in Q1 2023, the highest level since 2019. Average private sector wage growth reached 9.5 percent, down from 14.2 percent in the previous quarter, mainly driven by wage increases in trade, transport, accommodation industry and public administration. Unemployment reached 10.9 percent in Q1 2023, slightly higher than the end-2022 rate. Given strong GDP per capita growth in 2023, poverty is projected to decline by 1.9 percentage points to reach 22.2 percent.

The annual inflation rate dropped to 4.2 percent in July 2023 from a record high of 8.3 percent in October 2022, as a result of downward pressures from lower import prices, domestic currency appreciation and monetary policy normalization; upward pressures on inflation included wage increases and high-capacity utilization.

For the first half of 2023, the government recorded a high surplus, on account of strong revenue collection and lower spending. Grants accounted for most of the revenue increase (14.5 percent yoy),

alongside social insurance contributions and personal income taxes, reflecting the increase in statutory minimum wages. The increase in expenditures was relatively small at 3.4 percent yoy but is expected to pick up during the second part of the year owing to increasing capital spending.

Outlook

Growth is expected to moderate to 3.6 percent in 2023, in the context of tight global financial conditions, limited economic growth in Europe, and the completion of programs for the post-earthquake reconstruction. Nevertheless, increased tourism and construction are expected to drive exports, consumption and investment growth at rates similar to the pre-pandemic period. The inflation rate is projected to start converging toward the 3 percent target by 2024. Economic sentiment remains positive (Figure 1), though it has recently outpaced economic performance.

Albania's primary balance is projected to reach 0.1 percent of GDP in 2023 and stay positive in observance of the fiscal rule.

Fiscal consolidation is expected on the spending side. On revenues, Government plans to introduce further tax policy measures, envisioned in the Medium-Term Revenue Strategy. Public debt is expected to decline slightly to 63.1 percent of GDP in 2023, and more significantly over the medium term, as a result of higher nominal growth and a gradual reduction of the fiscal deficit. Given Albania's growing reliance on external financing, exchange rate, interest rate, and refinancing related risks remain elevated.

Further increases in food and energy prices are a key risk to growth, as they could affect real disposable income, slow poverty reduction and potentially constrain the fiscal space. As a small, open economy, Albania is highly exposed to external shocks, such as a recession in Europe or further tightening of financing conditions in international capital markets beyond the current year.

Domestic risks emanate from natural disasters, public-private partnerships, and SOEs, in addition to fiscal risks stemming from the country's hydropower-based energy sector that are mainly due to variations in hydrology.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-3.3	8.9	4.8	3.6	3.2	3.2
Private consumption	-3.4	4.3	6.9	2.3	2.6	2.7
Government consumption	1.5	7.8	-4.8	4.6	1.5	1.0
Gross fixed capital investment	-1.4	19.2	6.5	-1.2	3.4	3.3
Exports, goods and services	-27.9	52.0	7.5	6.7	5.4	5.9
Imports, goods and services	-19.8	31.5	13.1	1.2	3.4	3.6
Real GDP growth, at constant factor prices	-2.9	8.2	5.2	3.6	3.2	3.2
Agriculture	1.3	1.8	0.1	0.3	0.3	0.3
Industry	-4.3	13.6	7.7	1.2	3.7	3.5
Services	-3.8	8.1	5.9	6.0	3.9	4.0
Inflation (consumer price index)	2.2	2.6	6.7	5.0	3.5	3.0
Current account balance (% of GDP)	-8.5	-7.8	-6.0	-5.6	-5.8	-5.6
Net foreign direct investment inflow (% of GDP)	6.7	6.5	6.7	6.8	6.8	6.8
Fiscal balance (% of GDP)	-6.7	-4.6	-3.7	-2.5	-2.3	-1.9
Revenues (% of GDP)	25.9	27.5	26.8	28.1	27.5	27.7
Debt (% of GDP)	75.8	75.4	65.4	63.1	62.1	60.8
Primary balance (% of GDP)	-4.6	-2.7	-1.8	0.1	0.3	0.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	34.3	27.1	24.1	22.0	20.5	19.0
GHG emissions growth (mtCO2e)	-5.7	4.8	-1.5	-4.0	-2.2	-1.9
Energy related GHG emissions (% of total)	46.3	49.6	49.4	48.1	47.8	47.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2014- and 2019-SILC-C. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection using point-to-point elasticity (2013-2018) with pass-through = 1 based on GDP per capita in constant LCU.