

ALBANIA

Table 1 **2023**

Population, million	2.8
GDP, current US\$ billion	22.7
GDP per capita, current US\$	8219.5
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	76.5
Total GHG emissions (mtCO2e)	7.6

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

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

b/ WDI for School enrollment (2022); Life expectancy (2021).

Growth in 2023 is estimated at 3.3 percent, led by private consumption, tourism and construction. Price pressures continued to ease. Growth is projected at the same levels in 2024, led by services. Poverty is expected to continue declining as labor income increases. Medium-term prospects hinge on the recovery of the global economy and on the pace of domestic reforms. The EU accession aspirations provide an anchor to speed up convergence.

Key conditions and challenges

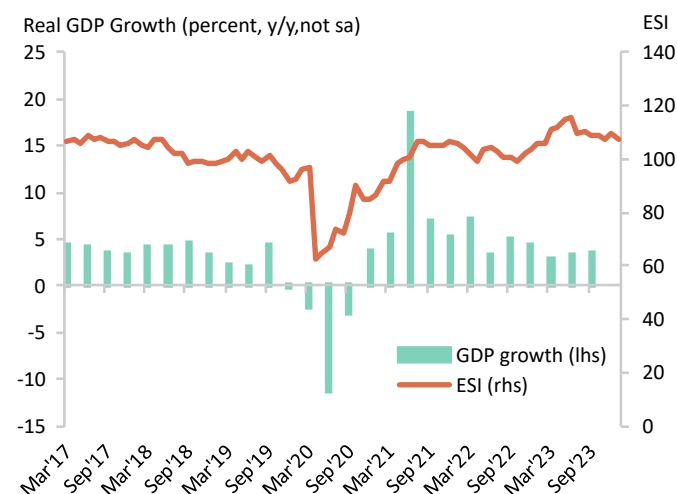
The Albanian economy has shown considerable resilience in the face of consecutive shocks during 2019-2022, which included the 2019 earthquake, the pandemic and the ensuing economic turmoil, and Russia's invasion of Ukraine. Prudent macroeconomic policies supported a strong economic rebound, with real GDP growth averaging 6.9 percent in 2021 and 2022, and GDP exceeding its pre-pandemic level in 2022. A key factor in Albania's resilience has been the proximity to the EU, which is a source of investment and remittances, and a main market for exports. Tourism has emerged as 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 a year with average precipitation, has provided some insulation from the energy crisis and 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 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 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

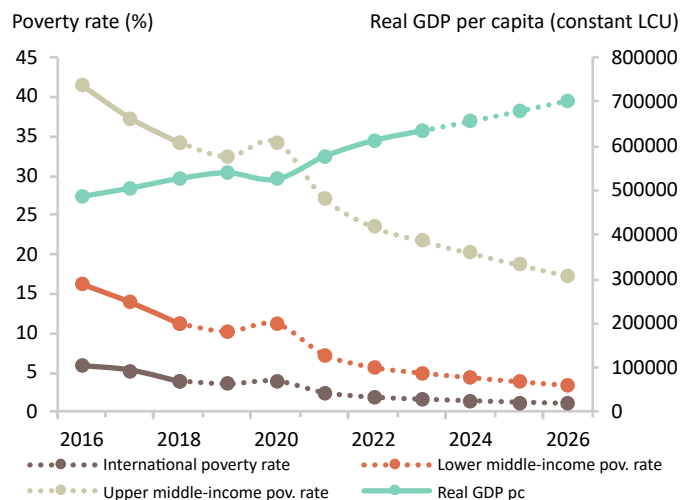
In 2023, GDP growth is estimated at 3.3 percent. Based on the performance of the first three quarters of 2023, trade, tourism and real estate led growth on the supply side, followed by construction and energy production. Private domestic demand and net exports drove growth on the demand side. Leading economic indicators suggest growth accelerated during Q4 with tourist arrivals hitting a record high, and construction activity accelerating. Increased income from employment, economic sentiment indicators and strong tax revenues, suggest a steady growth in Q4. Employment grew by 1.2 percent yoy in Q3 2023 notably in services, while declining in agriculture and manufacturing. Increasing wages and employment incentivized labor force participation (ages 15+), which peaked at 76.1 percent. Average private sector wages grew by 14.5 percent

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.

in Q3 2023. Unemployment went down to 10.5 percent in Q3 2023 marking a further decline in annual terms. Given strong GDP per capita growth in 2023, poverty is projected to have declined by 1.8 percentage points to 21.7 percent.

The annual inflation rate dropped to 3.9 percent in December 2023 from a record high of 8.3 percent in October 2022, as a result of downward pressures from lower food and energy import prices, domestic currency appreciation and monetary policy normalization. The banking system remains resilient, despite increasing interest rates.

The government recorded an improved fiscal position in 2023, on account of both stronger revenue collection and lower spending. Revenues from profits, personal income taxes and social security contributions increased, reflecting higher statutory minimum wages and private sector wage growth. A five-year Eurobond of EUR 600 million was issued with a 5.9 percent coupon, higher than the 3.5 percent in 2021, to prefinance

spending in 2024 and buy back an existing Eurobond maturing in 2025.

Outlook

Growth is expected to remain robust at 3.3 percent in 2024, in the context of tight global financial conditions and limited economic growth in Europe. 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 early 2025. Economic sentiment remains positive (Figure 1), though showing signs of moderation.

Albania's primary balance is projected to reach 0.2 percent of GDP in 2024 and stay at similar levels in observance of the fiscal rule. Fiscal consolidation is expected both revenue and spending side. On revenues, Government plans to continue improvement of tax administration,

envisioned in the Medium-Term Revenue Strategy. Public debt is expected to decline further to 58.2 percent of GDP in 2024, and also in the medium term, as a result of higher nominal growth and the achievement of a positive primary balance. Given Albania's growing reliance on external financing, risks related to the exchange rate, interest rate, and refinancing 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 the EU or further tightening of financing conditions in international capital markets beyond the current year.

Risks to growth emanate from natural disasters, and unfavorable global conditions. Fiscal risks emanate from public-private partnerships and SOEs, in addition to the country's hydropower-based energy sector, mainly due to variation in hydrology.

TABLE 2 Albania / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	8.9	4.9	3.3	3.3	3.4	3.5
Private consumption	4.3	7.4	2.5	2.6	2.7	2.8
Government consumption	7.8	-4.8	2.8	3.8	6.6	3.2
Gross fixed capital investment	19.2	6.5	1.3	3.2	1.4	2.6
Exports, goods and services	52.0	7.5	6.5	5.1	5.8	5.7
Imports, goods and services	31.5	13.1	3.4	3.6	3.9	3.7
Real GDP growth, at constant factor prices	8.2	5.3	3.2	3.3	3.4	3.5
Agriculture	1.8	0.1	-0.2	1.6	1.6	1.6
Industry	13.6	7.7	1.2	1.0	1.1	1.1
Services	8.1	5.9	5.4	4.9	5.0	5.1
Inflation (consumer price index)	2.6	6.7	4.8	3.0	3.0	3.0
Current account balance (% of GDP)	-7.8	-6.0	-3.8	-4.5	-4.5	-4.4
Net foreign direct investment inflow (% of GDP)	6.5	6.7	6.8	6.7	6.7	6.7
Fiscal balance (% of GDP)	-4.6	-3.7	-1.4	-2.3	-2.7	-2.9
Revenues (% of GDP)	27.5	26.8	27.9	27.8	27.8	27.9
Debt (% of GDP)	75.4	65.3	59.8	58.2	57.3	56.7
Primary balance (% of GDP)	-2.7	-1.8	0.7	0.2	0.2	0.2
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	2.4	1.8	1.6	1.4	1.2	1.0
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	7.3	5.7	4.9	4.3	3.8	3.3
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	27.1	23.5	21.7	20.2	18.7	17.4
GHG emissions growth (mtCO₂e)	1.1	-4.0	-3.4	-2.9	-2.7	-2.3
Energy related GHG emissions (% of total)	45.5	44.5	44.2	43.8	43.5	43.3

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: 2019-2023. Forecasts are from 2024 to 2026.

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