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Albania diagnostic

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The views expressed in this paper are those of the authors alone and not necessarily those of the EBRD. The economic data, charts and tables in the report are based on data available as of November 2024.

Country diagnostics are a tool the European Bank for Reconstruction and Development (EBRD) uses to identify the main obstacles to entrepreneurship and private-sector development in the economies where it operates. They also help to shape the Bank's priorities and project selection in formulating new country strategies. Each diagnostic informs the EBRD's policy engagement with the authorities in that country.

Each diagnostic assesses national progress and challenges in developing a sustainable market economy. Private-sector development and entrepreneurship are at the heart of the Bank's mandate, but in all of the Bank's investee economies, the private sector faces a range of problems and obstacles. The country diagnostic highlights the key challenges facing private companies and shows where each economy stands relative to its peers on the Bank's six transition qualities – competitive, well governed, green, inclusive, resilient and integrated – highlighting the main deficiencies and gaps in each.

The diagnostics draw on a range of methodologies and best practices for assessing how big certain obstacles are. Extensive use is made of the Bank's in-house expertise and surveys, such as the Business Environment and Enterprise Performance Survey (BEEPS) and the Life in Transition Survey, as well as other cross-country surveys and reports from institutions such as the World Bank, the World Economic Forum and the Organisation for Economic Co-operation and Development (OECD). For some larger countries, the diagnostics also draw on specially commissioned studies of selected issues that are critical to private-sector development.

The EBRD's Country Economics, Strategy and Policy (CESP) team leads the diagnostics, drawing substantially on the expertise of sectoral, governance and political experts in the Policy Strategy and Delivery (PSD) department and consulting widely with experts across the Bank in preparing the final product. The diagnostics are shared with the EBRD Board during the country strategy process and published during the public consultation period.

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Executive summary

Albania has strong economic growth potential.

Although it is a relatively small Western Balkans country, it has significant natural resources, most notably beautiful landscapes that could generate additional tourism revenue. The country's long-term goal of European Union (EU) accession remains a key external anchor for reform. Albania's foreign and trade policies are well aligned with those of the bloc.

The economy weathered the Covid-19 pandemic and energy crisis well. After a devastating earthquake and resulting moderation in growth in 2019, gross domestic product (GDP) shrank by 3.3 per cent in 2020. A robust recovery in 2021 and early 2022 was slowed by the pandemic-induced global economic downturn. Strong foreign investment inflows have since helped Albania's tourism sector to expand, however, and it is now posting stronger growth figures than many of its peers.

Productivity and living standards remain far below EU levels and convergence has been slow since the global financial crisis. Albania's GDP per capita, adjusted for purchasing power parity, is just above one-third of the EU average. Over the past decade, income levels in Albania and the five other Western Balkans countries (WB-5: Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia) have converged with EU-27 levels more slowly than those of the EU-11 (Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia), despite their lower starting point and greater catch-up potential.

Albania lags its EU peers on the EBRD's assessment of six transition qualities. The biggest gaps between Albania and the EU-11 lie in the areas of "resilient" and "well governed".

The structure of the economy has shifted in recent decades from low-value-added and low-productivity agriculture and the inward-processing clothing industry towards tourism, but needs further sophistication. Fast wage growth in recent years has outpaced productivity growth and, together with the strong appreciation of the domestic currency, the lek, has been negatively affecting goods exports. Because of Albania's abundant natural beauty and relatively low price levels, tourism has been growing rapidly in recent years. However, it needs to diversify away from the "sun-and-beach" model to maintain competitiveness in the medium term.

Governance indicators have been improving over time but still lag those of the EU-11. Corporate governance, in particular, needs further improvement in order to attract more investment and boost economic sophistication. Regulatory and contract enforcement, as well as land titles, are key issues for improvement.

Albania's green agenda is focused on transitioning to a sustainable, low-carbon economy while aligning with EU environmental standards and targets. The country has made strides in various areas, but significant challenges and opportunities remain, especially in diversifying the renewable electricity generation mix to increase the share of wind and solar power (hydropower currently dominates). Several recently successful solar and wind auctions are helping Albania to progress in this regard.

Albania has a resilient financial system, but its energy system is import-dependent. The banking sector is small but well capitalised, with foreign bank ownership predominant. Euroisation is still high and stable, with risks mitigated by the recent strengthening of the lek. Albania's high reliance on hydropower for electricity generation makes the energy sector vulnerable to climate change, requiring the faster commissioning of alternative renewable energy sources.

The Albanian labour market has seen improvements over the past decade, with steady increases in labour force participation and employment, and a gradual decline in unemployment. However, these gains are overshadowed by ongoing demographic challenges, gender gaps in labour force participation, limited youth inclusion and the migration of skilled workers, hindering human capital development and productivity growth.

Infrastructural deficiencies and budgetary constraints due to relatively high public indebtedness pose significant obstacles to closing Albania's productivity divide with the EU. Consequently, enhancing the prioritisation, planning, execution and regulatory framework of infrastructure investments will be crucial to promoting compliance with the EU acquis and supporting Albania's integration both domestically and regionally. After decades of neglect, rail infrastructure has become a priority, and regulatory standards are gradually being enhanced. Improvements in road connectivity are underway, but additional work is necessary to meet EU road-safety standards and enhance sustainability.

1. Political and economic overview

1.1. Political economy

Albania, a Western Balkans country, began its transition to an open market economy in the early 1990s after almost five decades under a communist dictatorship that was highly isolationist and particularly brutal towards its citizens. After experimenting with alliances with the Soviet Union and China in the 1950s and 1960s, respectively, Albania's communist leader Enver Hoxha opted for national self-isolation, which lasted until the early 1990s, accompanied by mass surveillance, repression, and bans on private ownership and religion.

The legacy of past ideological extremes has complicated Albania's democratic evolution, particularly with regard to developing a culture of dialogue between political opponents and consensus building. In contrast, the desire to overcome this difficult legacy, including the self-isolation of the Hoxha era, has given a strong boost to the country's entrepreneurship, pursuit of freedom and embrace of the outside world. Throughout its transition, in various regional sociological surveys, Albanians have invariably emerged as the strongest believers among their peers in free markets, democracy and the benefits of Euro-Atlantic institutions. A desire to make up for the country's decades of isolation and deprivation has been supported by characteristics of Albanian society such as patriotism, solidarity, informality, entrepreneurial spirit, hospitality and respect for foreigners.

Albania benefits from a favourable location at the crossroads of corridors connecting the Adriatic and Black seas. It has direct access to the sea, giving it an advantage over some of its land-locked Western Balkans neighbours, as well as natural and mineral resources and a young population. Unlike most of its regional peers, it has a relatively ethnically homogenous population and no record of strong inter-faith tensions. Albania was the first Western Balkans country to acquire full membership of the North Atlantic Treaty Organization (NATO), which supports its stability. Albania does not have any major open issues in relations with its immediate neighbours and is an active participant in regional cooperation initiatives, making it part of the wider Western Balkans market of more than 20 million people.

Nevertheless, Albania's transition progress has been uneven. It shares common weaknesses with other Western Balkans countries, including a weak rule of law and a difficult business environment, excessive economic informality and limited administrative capacity. Tackling the latter will require further work to establish a stable, merit-based and depoliticised civil service.

Political polarisation and a patchy culture of political dialogue have complicated reform efforts by successive governments. Despite a wide range of political parties and examples of multi-party governing coalitions, the Albanian political system that emerged in the early phase of transition was effectively bipartite, with the two largest political parties, the centre-right Democratic Party (PD) and the centre-left Socialist Party (PS), swapping power over the course of two decades. During that period, Albanian society effectively remained divided into two main political camps, supporting either the PD or the PS. While the ideological differences between the parties have waned over time, personal political loyalties and animosities, fuelled by a cumulation of mutual grievances, have flourished.

The uncompromising political infighting has hampered the reform process. The reform objectives otherwise have strong, cross-party support, as well as overall public buy-in, with a view to turning the country into a well-functioning, modern market economy. Nevertheless, Albanian elections were often seen not just as a competition between political programmes and personal competences, but as a literal "fight for survival". Furthermore, the ethos of "winner takes all" has had an impact on the character of parliamentary debate and the role of the political opposition and civil society (which is also often divided, mirroring wider political schisms) in political and economic decision-making. Parliamentary walkouts and protracted boycotts by the opposition are frequent, and the logic of political infighting often compels the opposition to resist legislative proposals that it might have supported were it in power.

The PD governed Albania until 1997, then again from 2005 to 2013. The PS held power from 1997 to 2005. After eight years in opposition, it returned to power in 2013 after winning that year's general election. This proved something of a political watershed, since, in a break from previous electoral patterns, the PS subsequently won three more consecutive general elections (2017, 2021 and 2025). The most recent local elections in May 2024 and parliamentary elections in May 2025 further cemented the PS's dominance of the political system. In local elections the party won a landslide victory across the country (and largely across traditional regional divides), aided by bitter internal divisions that weakened the opposition PD. The 2025 parliamentary elections saw another landslide victory with PS increasing the number of seats in parliament to 83 (in the house of 140), allowing for a comfortable single-party parliamentary majority for the future government.

This unprecedented political continuity has brought stability and continuity of policy. Prime Minister Rama's fourth government, which is due to be formed in September 2025, is expected to continue the work started during his previous three terms, including an ambitious programme for the country's modernisation. This programme is underpinned, in the first instance, by the fact that Albania's leadership genuinely understands that without strengthening governance, improving the business environment and the rule of law, the country will not be able to attract the foreign investment necessary to cover its development needs and bring about sustainable growth. A second factor is the gravitational pull of, and scrutiny by, the EU, which is a key external anchor for reform. When granting Albania EU candidate country status in 2014, Brussels explicitly made further progress on the EU track conditional on comprehensive reform, with a particular focus on governance and public administration, as well as the fight against corruption and organised crime. The main areas of the modernisation agenda include the reform of governance and the business environment, the reform of public administration with a view to establishing a modern civil service, the reform of local self-government, the rule of law and fight against corruption, and addressing certain long-overdue structural issues, where several waves of past reform had not produced the desired results, such as the problem of restitution and land titles.

Prime Minister Rama's administration launched a comprehensive reform of the judiciary, previously one of the most corrupt parts of the system, in 2016. It has been one of its greatest achievements, alongside public administration reform. The European Commission has acknowledged the advances in both areas and cited them as key factors behind its decision to recommend to the European Council the opening of EU accession negotiations with Albania.

The entire justice system has been restructured, including reforms to the Constitutional Court and the establishment of new, self-governing judicial bodies. A unique "vetting" system – overseen by an international monitoring body put in place by the European Commission in cooperation with the United States of America – has involved a thorough re-evaluation of all sitting judges, prosecutors and other court officials and led to the dismissal of many. This has resulted in a significant improvement in the accountability and integrity of the judiciary, strengthening its independence from political interference.

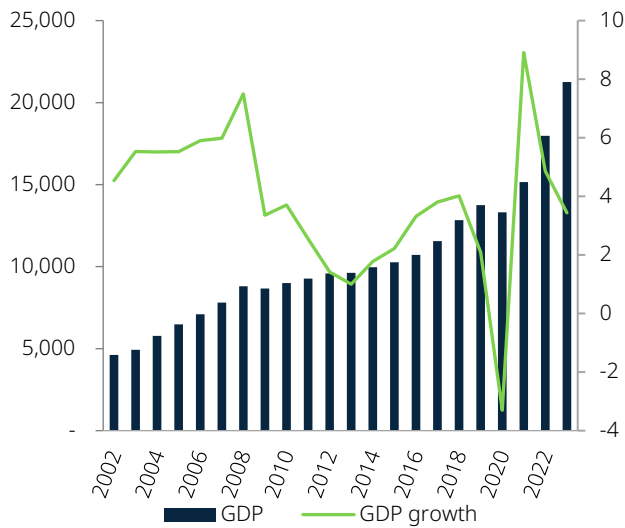
In 2022, based on the European Commission's assessment of the country's progress on implementing the EU's comprehensive reform agenda, the European Council decided to open accession negotiations with Albania. After a successful "screening", on 15 October 2024, the EU opened Cluster 1 ("fundamentals") of the accession negotiation process with Albania, comprising three areas and five negotiating chapters, with interim benchmarks for the critical rule of law chapters. On 23 October 2024, the European Commission approved Albania's reform agenda under the Reform and Growth Facility, which is part of the EU Growth Plan for the Western Balkans. Since then, progress in EU accession negotiations has been remarkable. By June 2025, Albania had opened 3 "areas" and 24 negotiating chapters (out of the total of 33 chapters), putting it on course for opening all remaining chapters by the end of 2025/beginning of 2026. This would bring the country closer to the ambition of completing the technical part of the EU accession negotiations by the end of 2027. In its latest EU enlargement package, released in October 2024, the European Commission expressed readiness to support the above-mentioned ambition, explicitly referencing the target of 2027.

The favourable factors underpinning Albania's prospects for accomplishing the comprehensive reform agenda and making the dream of bringing Albania into the EU a reality, include the strong majority enjoyed by the governing pro-EU party at both central and local levels. The government also benefits from cross-party consensus on the main fundamentals of economic policy and can tap into broad popular support for the modernisation agenda, as long as it is perceived to be bringing the country closer to Europe and other Western allies.

1.2. Economic background and outlook

Figure 1. GDP growth has been above the EU average over the past decade

Nominal GDP (€ million, left axis) and real GDP growth (% , right axis)

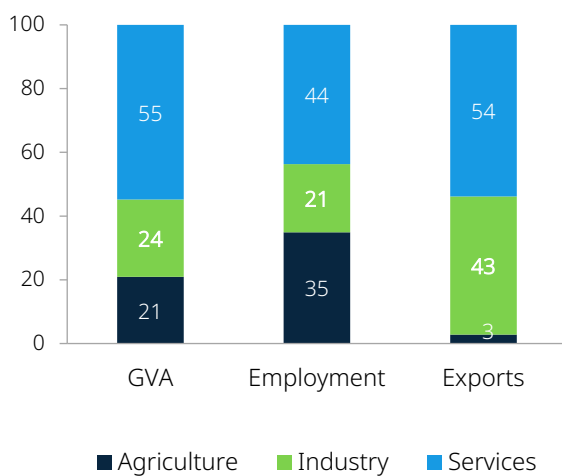


Source: INSTAT.

Economic growth needs to accelerate to fuel income convergence. Growth has slowed significantly since the global financial crisis (from around 5.5 per cent in the years beforehand to 2.6 per cent in the decade after) (Figure 1), keeping Albania far below the living standards of the EU and most Western Balkans peers (Figure 2). The Covid-19 pandemic caused additional disruption in 2020, leading to a decline of 3.3 per cent in GDP. The economy has been recovering apace since then, with average growth of close to 6 per cent in the past three years, driven primarily by a surge in tourism. The tourism industry, however, still relies on low prices and often lacks the sophisticated offering needed to increase value added and make it more sustainable.

Figure 3. Services dominate, but agriculture still plays a major role

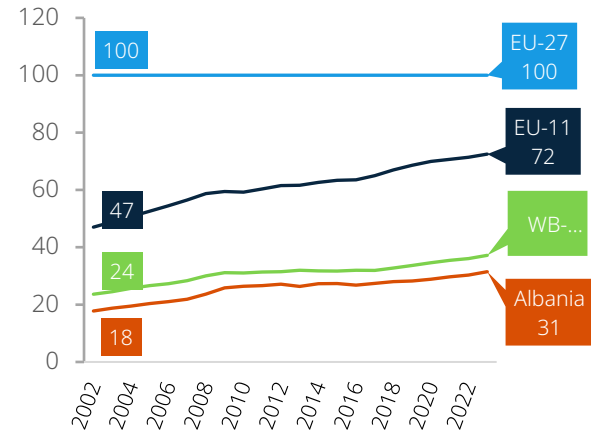
Sectoral share of gross value added (GVA), employment and exports, 2023 (%)



Source : INSTAT.

Figure 2 ... but too low to accelerate convergence with the EU and Western Balkans peers

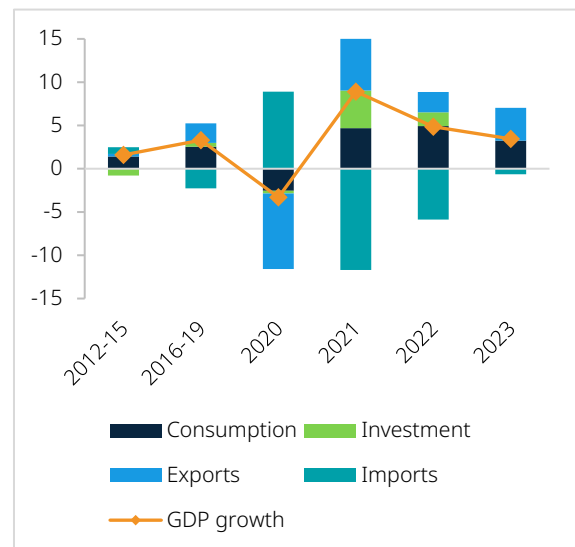
GDP per capita, 2017 US\$ at purchasing power parity (ppp)



Source: IMF World Economic Outlook, 2024.

Figure 4. Exports have become more significant since Covid-19 due to strong tourism growth ...

Contribution to GDP growth (pp)



Source: Eurostat.

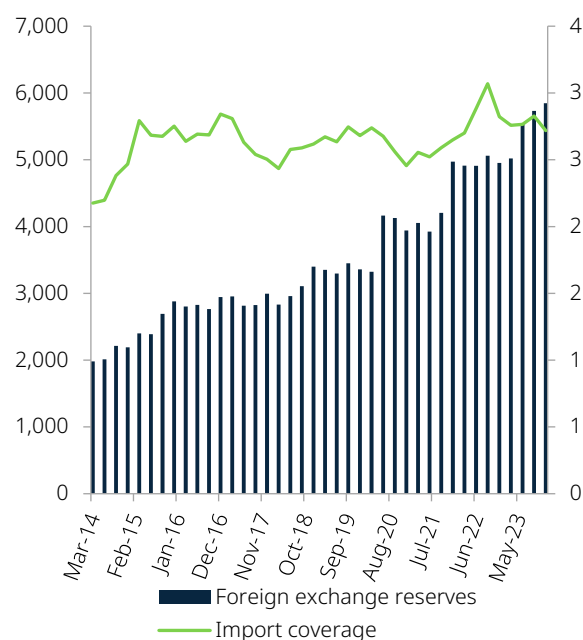
Note: 2012-15 and 2016-19 are simple averages. PP = percentage points.

As is typical for middle-income countries, Albania's economy is dominated by services, with a fast-growing tourism sector. In addition to tourism, inward processing in the shoe and clothing manufacturing sector, characterised by low complexity and value added, remains important. Agriculture also accounts for a relatively high share of gross value added (GVA) and employment, but is of low productivity (Figure 3).

Albania's exports and foreign-exchange reserves are increasing rapidly, mainly due to tourism, but there is room to increase trade openness further (Figures 4 and 5). The country is still heavily reliant on imports of basic products, such as oil, food and industrial equipment, resulting in a substantial but declining current account deficit (Figure 6). Foreign direct investment (FDI) inflows have, to date, been sufficient to cover the deficit, but would be better directed towards higher-value-added sectors. Foreign-exchange reserves have been increasing over the past decade, reaching an all-time high of €5.8 billion at the end of 2023.

Figure 5. ... resulting in increasing foreign-exchange buffers ...

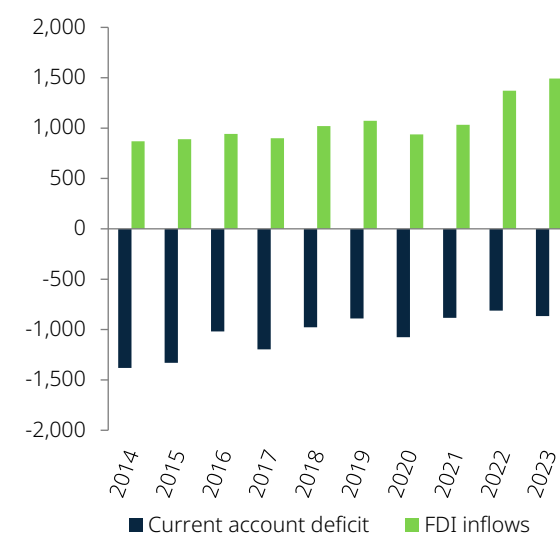
Foreign exchange reserves (€ million, left axis) and import coverage in months (right axis)



Source: Bank of Albania

Figure 6. ... also supported by FDI inflows that finance the current account deficit

Current account gap and FDI inflows (€ billion)



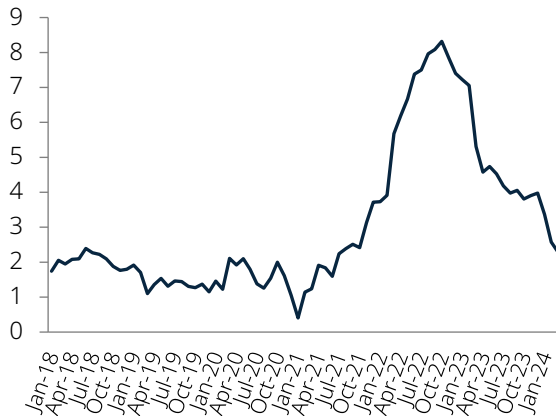
Source: Bank of Albania.

The effects of the global inflationary shock during and after the pandemic were largely held in check by Albania's strengthening currency. Inflation peaked at 8.3 per cent in October 2022, while in several neighbouring countries inflation was twice as high (Figure 7). The appreciation of the Albanian lek in the midst of an inflationary environment, coupled with rising wages, led to a decline in external competitiveness and goods exports, however (Figure 8).

Fiscal policy has gradually consolidated over the past decade, with a temporary spike in the budget deficit during the pandemic. The general government deficit declined from a peak of 7 per cent of GDP in 2020 to 1.4 per cent in 2023. Public debt has also been decreasing, to 60 per cent of GDP in 2023, but further fiscal consolidation and revenue-enhancing policies are needed to ensure sufficient room for growth-enhancing public investment.

Figure 7. Inflation rose to decadal highs in 2022, but was still the lowest in the Western Balkans ...

CPI annual growth rate (%)



Source: INSTAT.

Figure 8. ... restrained by currency appreciation

Change in ALL/EUR exchange rate (%)



Source: Bank of Albania.

Note: Cumulative change from December 2008. Decline = ALL appreciation.

Albania's medium-term growth prospects are similar to those of its Western Balkans peers, at 3 to 4 per cent annually.

Short-term growth is likely to be 3.5 per cent annually in 2025 and 2026 on the back of the strong performance of the hospitality sector. The main domestic downside risks lie in the negative effects of potential drought on agricultural output and electricity supply. However, in the medium term, growth momentum will decline without structural reform to improve the business environment and significant capital investment in infrastructure, digitalisation, energy sector sustainability and human capital development. A structural shift from low-value-added inward-processing industries to services (especially tourism and information and communications technology (ICT)) is welcome but needs a more strategic approach and comprehensive development policies to raise the quality of services.

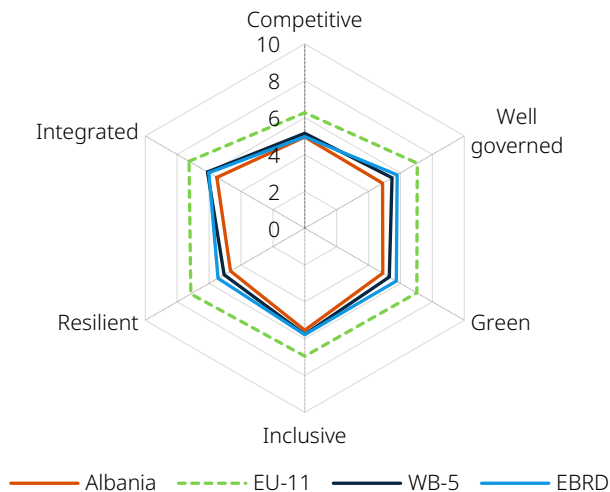
Reform plans are set to generate substantial external support. Under the EU's Growth Plan for the Western Balkans, Albania is set to receive around €1 billion in 2024-27 if it undertakes reforms set out in the country's reform agenda. Key areas of reform include the business environment and human capital development, green and digital infrastructure, and better governance in the areas of judicial efficiency and the fight against corruption.

2. Qualities of a sustainable market economy

In the Bank's 2023 assessment of transition qualities (ATQs), Albania ranked 22nd out of the 36 economies in which the EBRD invests.¹ Based on a methodology developed by the EBRD in 2016, ATQs measure six desirable qualities of a sustainable market economy: competitive, well governed, green, inclusive, resilient and integrated. Each quality is a composite index calibrated on a scale of 1 (worst) to 10 (best), obtained by combining information from a large number of indicators and assessments.² On average, Albania lags the EU-11 and the WB-5 countries on all six qualities. The biggest gaps are in resilience (EU-11) and governance (WB-5), while the smallest are in the competitive (EU-11) and inclusion (WB-5, almost negligible) qualities (Figure 9).

Figure 9. EBRD assessment of transition qualities, 2024

1 (worst) – 10 (best)



Source: EBRD (2024a).

Competitive: The structural shift from the low-value-added inward processing industry to tourism is an opportunity to increase convergence, but productivity growth needs a boost

Competitive ATQ score = 5.2/10

The structure of the economy has shifted in recent decades from low-value-added and low-productivity agriculture and inward processing of clothing to tourism, but it needs greater sophistication. Fast wage growth in recent years has outpaced productivity growth and, together with the strong appreciation of the domestic currency, has had a negative effect on goods exports. Thanks to the country's abundant natural

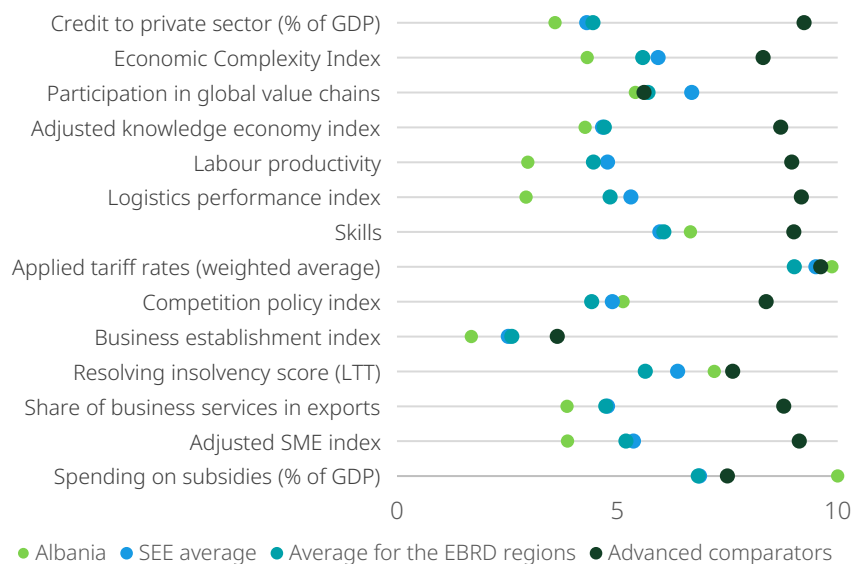
¹ The score is calculated as a simple average of scores for the six transition qualities.

² For more detail, please see EBRD (2017), pages 105-16.

resources and relatively low price levels, tourism has been growing rapidly in recent years. However, the industry needs to diversify away from the “sun-and-beach” model to stay competitive in the medium term.

Figure 10. Competitiveness ATQ indicators

1 (worst) – 10 (best)

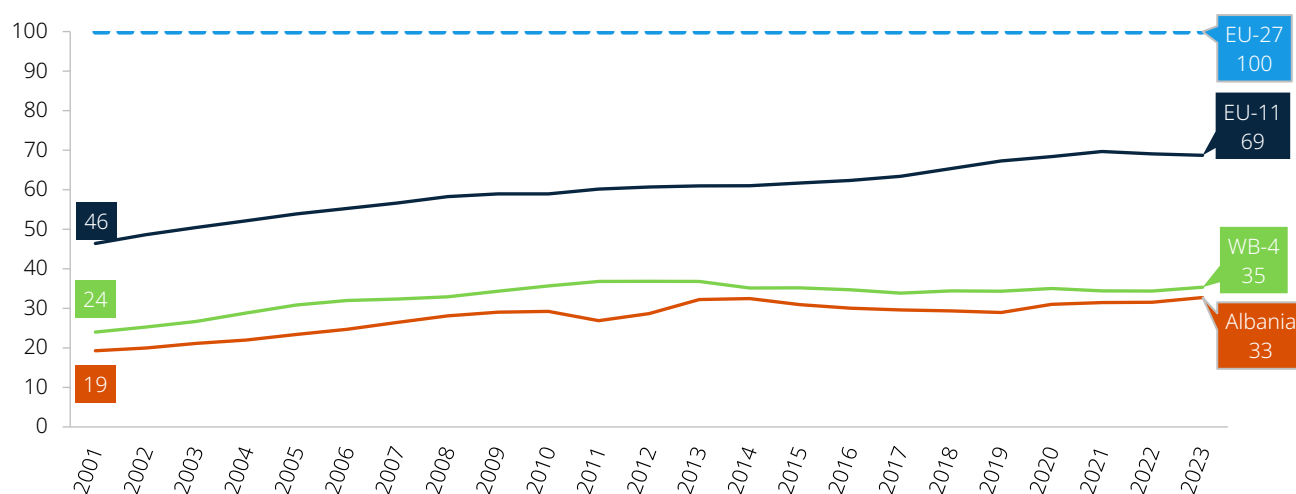


Source: EBRD (2023).

Labour productivity, measured by GDP per worker, is increasing, but convergence on the EU average has been slow. In 2023, GDP per worker was only a third of the EU-27 level and about half of the EU-11 level (Figure 11).³ As Albania's productivity growth has been lower than GDP growth, on average,⁴ economic growth has mainly been driven by an increase in employment rather than an increase in capital or total factor productivity (TFP).

Figure 11. Raising labour productivity is key to enhancing income levels

Output per worker in GDP, constant 2017 international \$ terms at ppp



Source: International Labour Organization data.

Note: WB-4 denotes Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia.

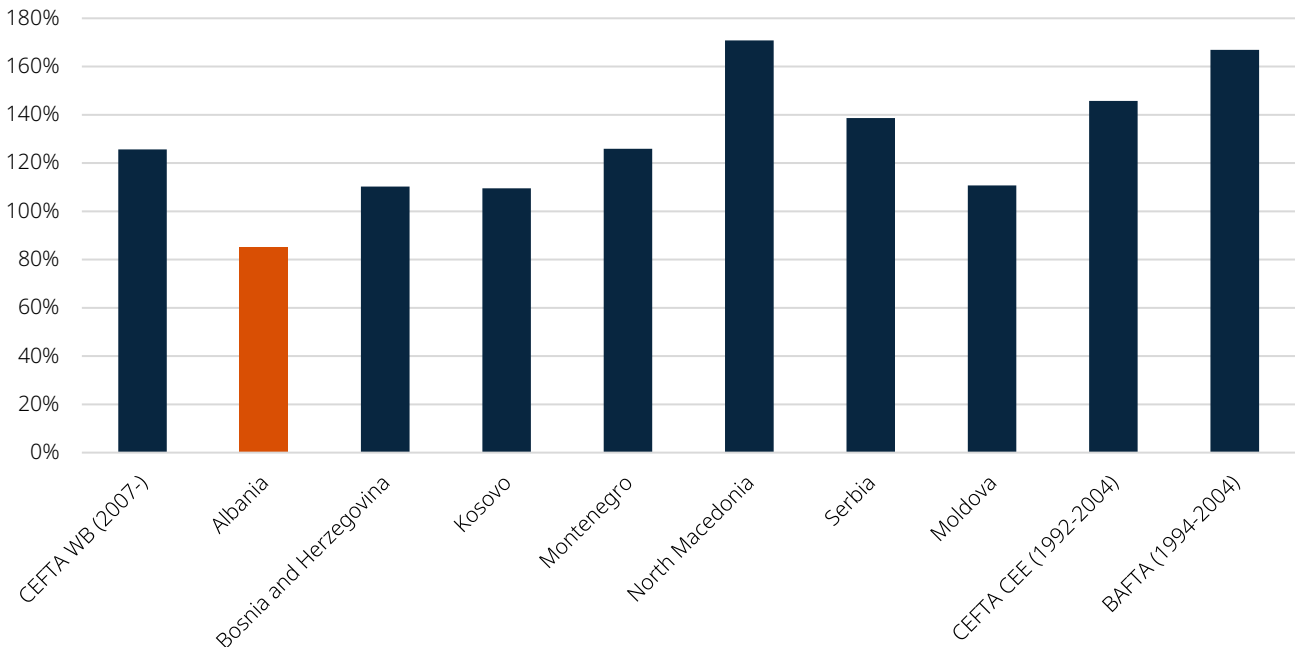
³ See World Bank (n.d.c).

⁴ See Eurostat (n.d.a).

The European Commission says Albania has reached some level of preparedness in terms of its ability to cope with potential competitive pressures and market forces within the EU and made some progress on structural reforms in the energy market, transport infrastructure, the digitalisation of the economy, and education outcomes, although significant gaps to regional and European levels remain.⁵

Figure 12. Albania's trade openness is below that of its peers

Total goods and services exports and imports, percentage of GDP, 2021



Source: World Bank, Kosovo Agency of Statistics.

Note: CEFTA = Central European Free Trade Agreement; BAFTA = Baltic Free Trade Area.

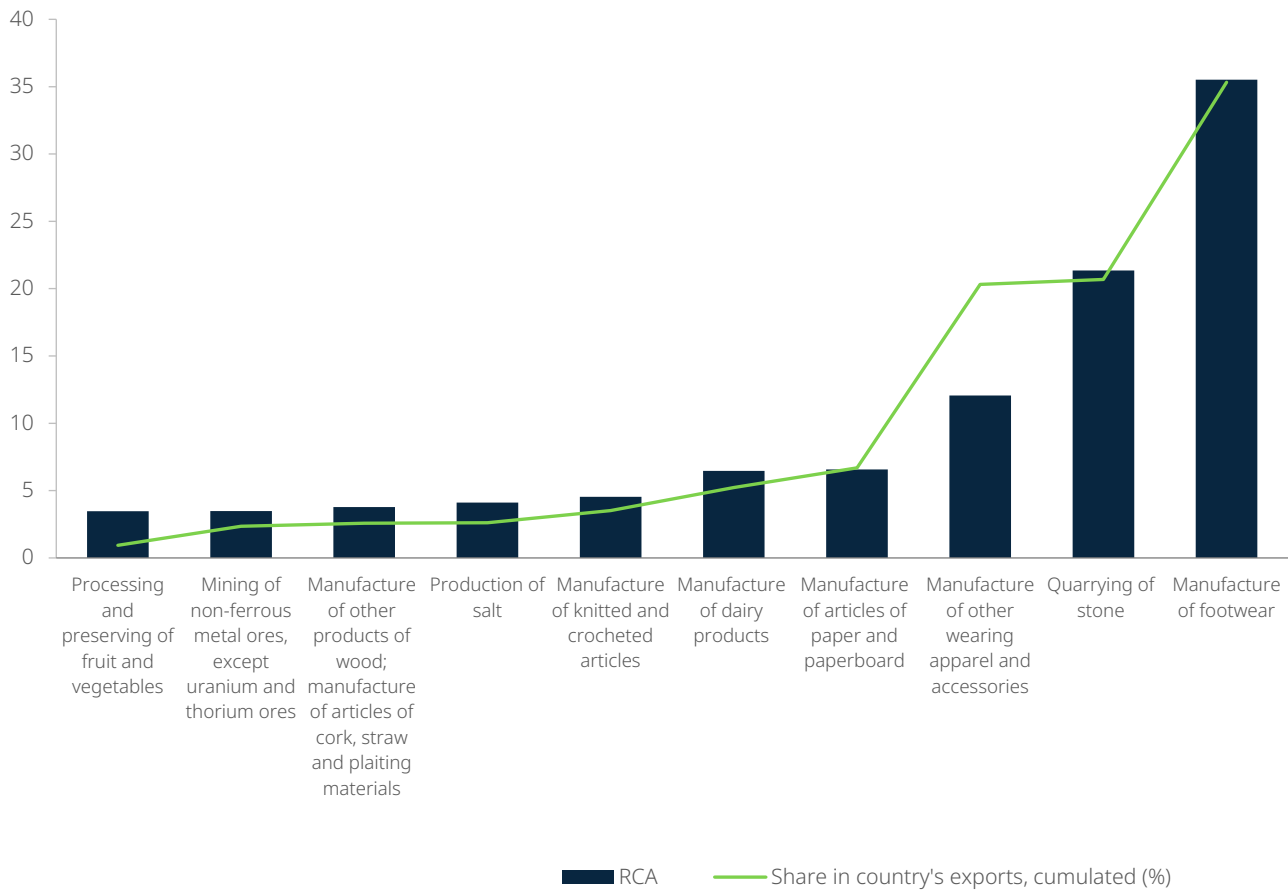
Albania's trade openness is low compared with that of its peers, despite its early membership of the World Trade Organization (2000) and a doubling of trade as a share of GDP from the early 1990s. Its overall trade-to-GDP ratio has hovered around 75 per cent for the past two decades (Figure 12).⁶ There was a notable increase in trade to GDP before the global financial crisis, but it has stagnated ever since, with just a mild increase to 85 per cent in the past two years.

⁵ See European Commission (2023a).

⁶ See World Bank (n.d.a).

Figure 13. Albania has a comparative advantage in old-economy exports

Revealed comparative advantage (RCA) in exports and cumulative export share of those products, per cent, 2021



Source: World Integrated Trade Solutions data.

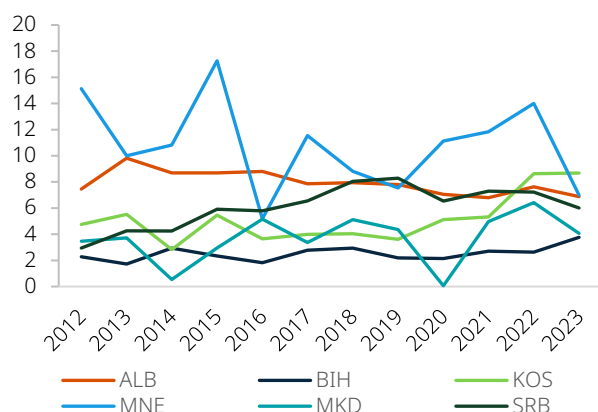
Albania is a net importer of goods, particularly food, fuels and electricity. Its goods export structure and comparative advantages reflect a blend of traditional manufacturing and low-complexity sectors, such as clothing and footwear manufacture, mining and agriculture, with a low level of sophistication (Figure 13). In addition, in the past year and a half, the Albanian lek has appreciated significantly against the euro and, together with large wage increases, has made Albanian exporters less competitive than their competitors. There have been efforts over the past decade to increase economic complexity, with an increase in FDI, but the country still lags the rest of the Western Balkans. While Albania's FDI levels are comparable to those of its regional peers (around 7 per cent of GDP),⁷ they largely consist of investments in the energy and mining sectors, followed by real estate and financial services (Figures 14 and 15).⁸

⁷ See Bank of Albania (n.d.a).

⁸ See Albanian Investment Council (2023).

Figure 14. FDI inflows comparable to those of regional peers ...

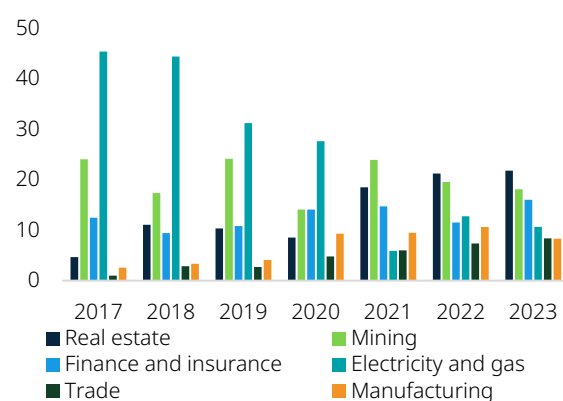
Share of FDI inflows to GDP, per cent



Source: World Bank (n.d.b).

Figure 15. ... with the majority in energy and mining

FDI inflows by economic activity as a share of total inflows, per cent



Source: Bank of Albania.

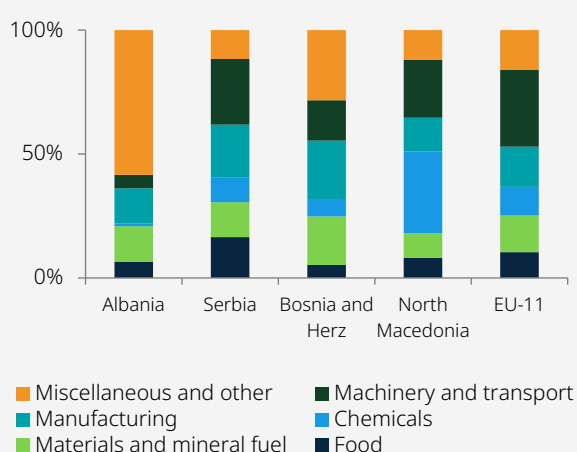
By destination, Albania's exports are primarily skewed towards EU countries, particularly Italy, Germany and Greece.⁹ The country's geographic proximity to these markets facilitates easier and cost-effective trade.

Box 1. "Upgrading" the Albanian economy: from "fasson" industry¹⁰ to tourism

The country is undergoing a structural shift from the low-sophistication, labour-intensive inward processing of clothing towards tourism (Figures 16 and 17). This trend, decades in the making, has been particularly notable in recent years, accelerated by the sharp appreciation of the Albanian lek (12.5 per cent against the euro in the last two years) and compounded by significant wage increases in the economy, including the manufacturing sector. While exports of clothing and footwear as a share of GDP are still significant, they are on a downward trend, decreasing from 7.6 per cent in 2018 to 5.5 per cent in 2023. Meanwhile, tourism exports to GDP increased from 14.8 per cent to 20 per cent in the same period.¹¹

Figure 16. Albania's goods exports are dominated by clothing and footwear ...

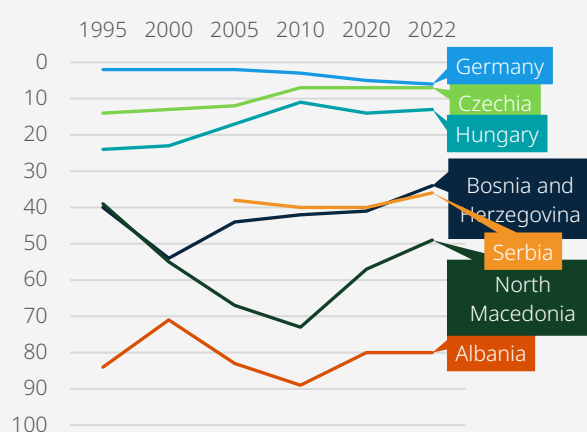
Sectoral share of goods exports



Source: UNCTAD.

Figure 17. ... with a relatively low level of sophistication

Harvard Growth Lab Country Complexity Index ranking from best (1) to worst (100)



Source: UNCTAD.

Note: Germany was chosen as the advanced country comparator, Czechia and Hungary as aspirational comparators.

⁹ See Bank of Albania (n.d.a).

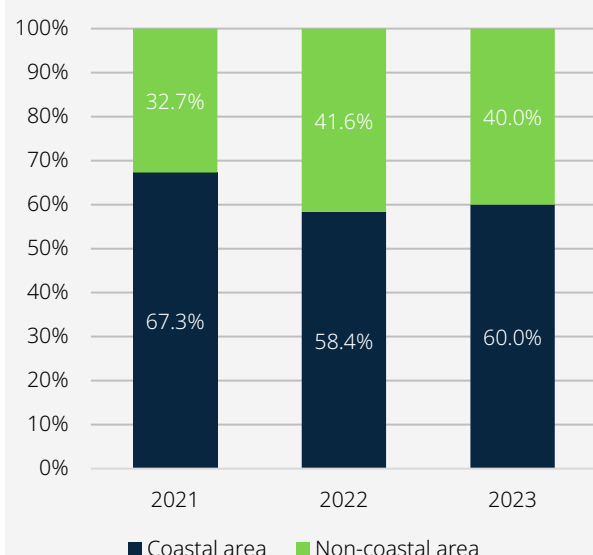
¹⁰ The "fasson" industry is the local name of the textile and leather footwear industry in Albania which manufactures its products from imported materials using cheaper local labour under the control of a foreign (usually Italian) company, and reexports the final products to the same foreign company. This scheme is also called inward processing.

¹¹ Authors' calculations based on Bank of Albania (n.d.) and INSTAT (n.d.a).

The shift to tourism undoubtedly contributes to greater economic diversification but, at this stage, Albania's tourism industry is also characterised by a low level of sophistication. It focuses mostly on a "sun-and-beach" offering, attracting mainly low-budget tourists (Figure 18). This is reflected in the fact that 65 per cent of annual tourist arrivals occur in the four months from June to September.

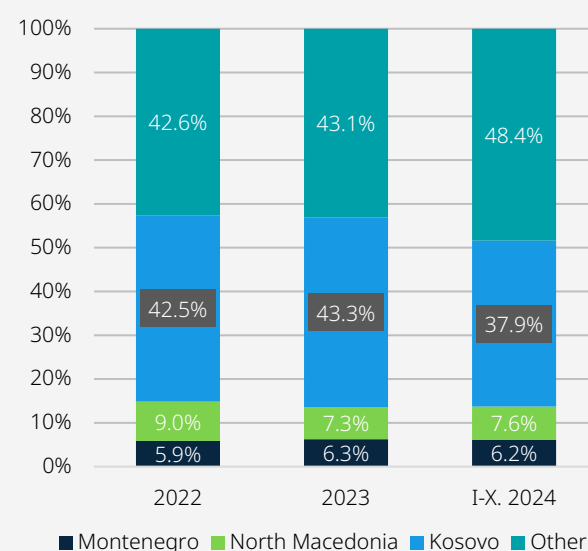
Figure 18. Coastal tourism still dominates, despite a recent decline in share

Coastal and non-coastal tourist destinations as a share of total foreign tourist arrivals



Source: INSTAT.

Figure 19. Share of tourists from outside the region is on the rise



Source: INSTAT.

The number of foreign tourists has doubled in the past two years, reaching well over 10 million arrivals in 2023 and 2024. Despite a recent increase in non-coastal tourism, coastal tourism still dominates, at 60 per cent of total tourist arrivals.¹² While most arrivals are still from neighbouring countries (Kosovo, Montenegro and North Macedonia), the share of tourists from other countries is increasing (Figure 19).

To further boost tourism revenues and strengthen the sector's resilience, Albania will require significant investment in areas such as marinas and nature-based activities. Addressing critical infrastructure bottlenecks is essential, including enhancing air connectivity and expanding road networks to develop inland tourism and facilitate tourist movement. Investments are also needed in water and waste management, and the country will need to step up environmental regulations and safeguards to ensure the long-term sustainability of the tourism industry. The growth of ecological and cultural tourism will depend on specialised accommodations and supportive infrastructure for national parks, inland villages and cultural heritage sites. In addition, it is crucial to develop a skilled workforce, support business innovation and technology transfer, and improve access to finance for tourism operators.¹³

Albania lags its regional peers in terms of both innovation inputs and outputs. This includes areas such as investment in research and development and the adoption of new technologies, as well as the registration of new patents and the introduction of new products and services.¹⁴ Albanian small and medium-sized enterprises (SMEs) could potentially benefit from the EU-backed Go Digital programme, which will be replicated at regional level through the Go Digital in the Western Balkans initiative. Some €27.6 million in funding has already been secured from the Western Balkans Investment Framework (WBIF) to facilitate €150 million of lending. The 2021 Global Innovation Index (GII) ranked Albania 71st out of 132 countries on innovation inputs and 92nd on innovation outputs,¹⁵ underscoring the urgent need to foster a more supportive environment for innovation. In addition, improving managerial practices is essential to enhancing firm-level capabilities and ensuring that productivity growth aligns with wage increases.

¹² See INSTAT (n.d.b).

¹³ See World Bank (2023).

¹⁴ See WIPO (2021).

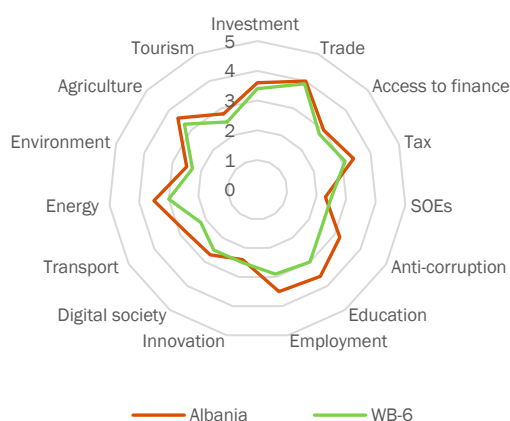
¹⁵ Ibid.

There have been some advancements in terms of technological adaptation, but the digital infrastructure of both the government and the private sector is still limited, particularly in rural areas. There is a pronounced lack of digital literacy and a need for more comprehensive data protection laws, according to a United Nations report. Internet usage is still lower (at 72.2 per cent in 2020) than the European regional average of 84.9 per cent, but it is growing at a rate of 3.3 per cent annually.¹⁶

Although there have been improvements in science, technology and innovation, Albania still lags its regional peers by some margin, according to an OECD report.¹⁷ In contrast, it has made significant progress over the last three years on agriculture, anti-corruption and employment policy, outperforming the Western Balkans in 13 of 15 policy dimensions (Figure 20). Other areas in need of reform are state-owned enterprise (SOE) governance and tax policy, including broadening the tax base and reducing informality, particularly among micro, small and medium-sized enterprises (MSMEs).¹⁸ The inadequately educated workforce and prevalent grey economy are also hindering competitiveness (Figure 21).

Figure 20. Innovation and green policy, as well as SOEs, need further reform

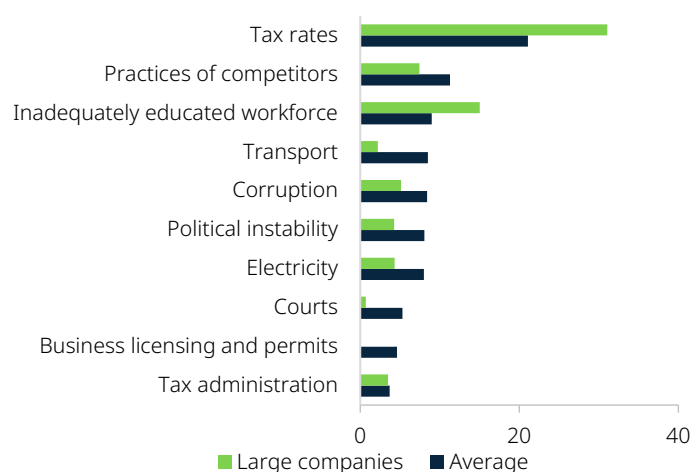
Competitiveness Index 2024, policy scores across dimensions; 0 (worst) – 5 (best)



Source: OECD (2024).

Figure 21. Inadequately educated workforce and grey economy hindering competitiveness

Top 10 obstacles to doing business; share of firms identifying it as such (%)



Source: EBRD, EIB and World Bank (2020).

Note: The survey covered firms in industry, construction and services.

Box 2. The role of the EBRD-supported Investment Council in boosting the business climate

The Albanian Investment Council, established in 2015, serves as a platform for public-private dialogue. It is chaired by the Minister of Finance and Economy and supported by a full-time Secretariat, financed by the EBRD. By June 2023 the council had endorsed 315 recommendations prepared by the Secretariat, with 48.6 per cent implemented and 16.8 per cent in progress. The recommendations implemented to date have improved the investment climate considerably, by simplifying tax and customs procedures, increasing the transparency of investment incentives, reducing regulatory burdens on businesses, standardising inspection procedures, streamlining the process for obtaining construction permits, and completing the legal frameworks in key sectors such as electronic communications and renewable energy.

Uncertainties over land ownership create significant issues, largely stemming from historical land reforms, a lack of clear property titles and ineffective legal frameworks. Key issues include:

- restitution and compensation: many former owners are still waiting for restitution or compensation for properties nationalised during the communist era
- legal and administrative barriers: inconsistent and outdated land registries complicate ownership claims

¹⁶ See United Nations (2022).

¹⁷ See OECD (2024).

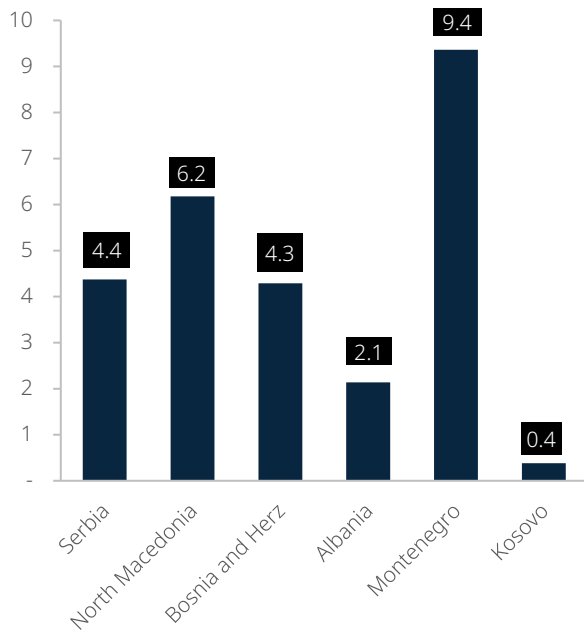
¹⁸ Ibid.

- fraud and corruption: property fraud and corruption in land administration further hinder the resolution of ownership disputes.¹⁹

This is reflected in the 2024 International Property Rights Index, where Albania ranked 82nd out of 125 countries, with a particularly low result when it came to the perception of physical property protection.²⁰

Figure 22. EU CBAM-affected exports are low compared with peers ...

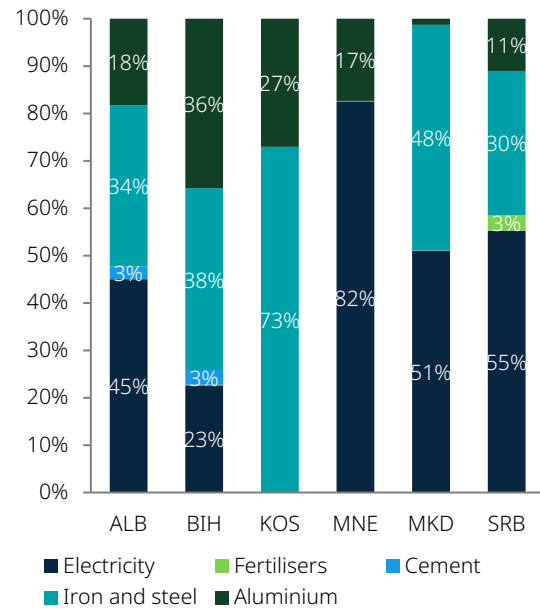
Exports subject to CBAM, 2023, percentage of GDP



Source: Eurostat and authors' calculations.

Figure 23 and dominated by iron and steel

Exports by sector, 2023, per cent



Source: Eurostat and authors' calculations.

Note: Hydrogen exports are insignificant and are not taken into account.

Albania will be less affected than its Western Balkans peers by the EU's Carbon Border Adjustment Mechanism (CBAM) due to its near-exclusive reliance on renewable energy for electricity generation (Figure 22).²¹ Overall, 16 per cent of its exports would fall under the CBAM, but almost half of that is electricity produced by hydropower (based on 2023 data). The hardest-hit sector will be iron and steel, which account for 6 per cent of total Albanian exports (Figure 23).²²

¹⁹ See Olldashi and Hoxha (2023).

²⁰ See Property Rights Alliance (2024).

²¹ The CBAM aims to level the playing field between EU producers that are subject to the EU's Emissions Trading System and foreign producers that are not. By imposing a carbon price on imported goods equivalent to the carbon cost borne by EU producers, the CBAM ensures that imports do not have an unfair advantage due to less stringent environmental regulations in their countries of origin. Sectors included in the CBAM are cement, iron and steel, aluminium, fertilisers, electricity and hydrogen, as these are sectors with a high risk of carbon leakage and a significant contribution to greenhouse gas emissions.

²² See Eurostat (n.d.b).

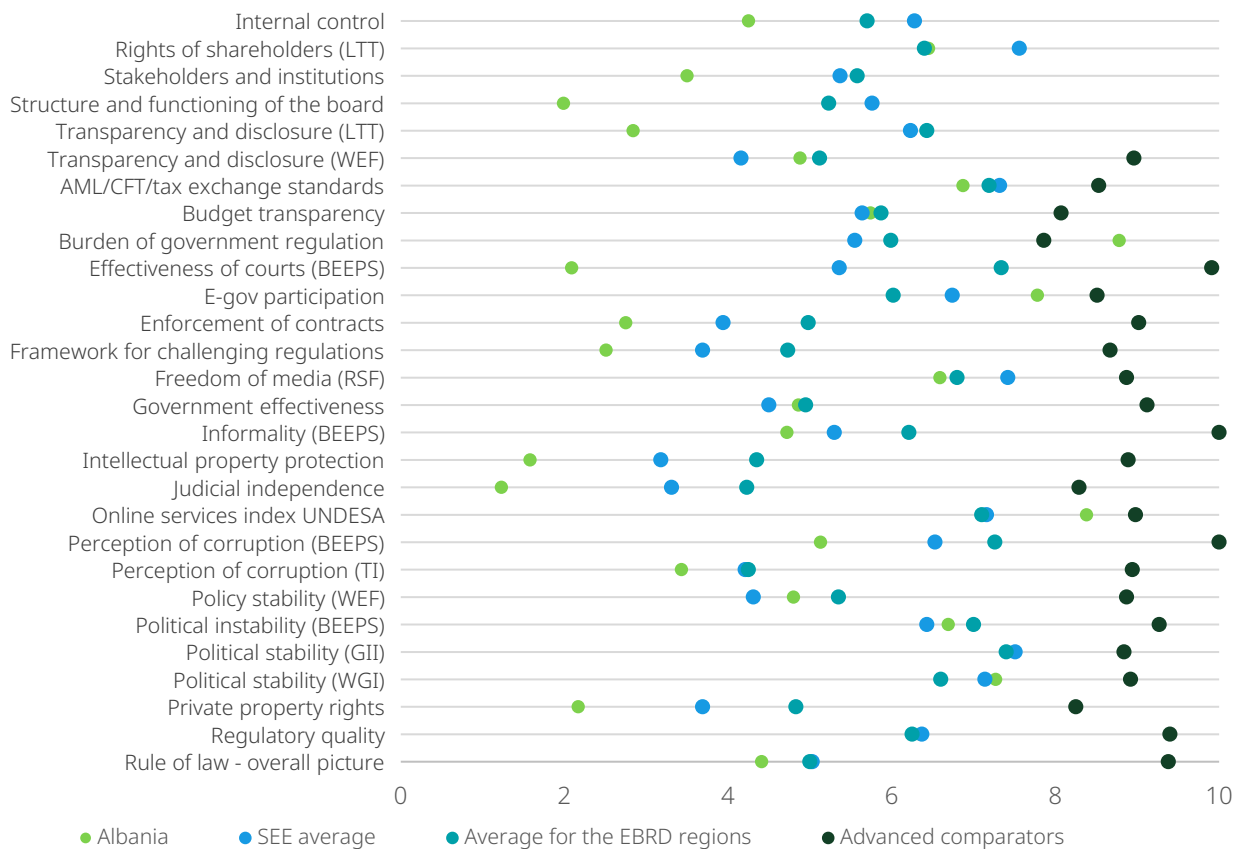
Well governed: Improving governance is key to attracting more investment and boosting economic growth

Well governed ATQ score = 4.6/10

Albania's governance indicators have been improving over time but still lag those of the EU-11. Corporate governance, in particular, needs to be further improved to attract more investment and increase the country's economic sophistication. Regulatory and contract enforcement, as well as land titles, are pertinent issues.

Figure 24. Well governed ATQ indicators

1 (worst) – 10 (best)



Source: EBRD (2023).

Note: AML/CFT = anti-money-laundering/combating the financing of terrorism; BEEPS = Business and Environment and Enterprise Performance Survey; GII = Global Innovation Index; LTT = the EBRD's Legal Transition Team; RSF = Reporters Without Borders; TI = Transparency International; UNDESA = United Nations Department of Economic and Social Affairs; WGI = Worldwide Governance Indicators.

Albania faces major challenges in governance, similar to other Western Balkans countries, but standards are improving. The biggest issues are corporate-level governance, including internal controls, shareholder rights, board structure and functioning, and transparency and disclosure. As far as national-level governance is concerned, the situation is slightly different, with Albania performing better than the region in terms of political stability and government effectiveness. It lags, however, on court effectiveness, contract enforcement, judicial independence and private property protection

(Figure 24).²³ Similar conclusions can be drawn from the World Bank's Worldwide Governance Indicators (Figure 25), which also show that standards are improving over time.²⁴

Figure 25. Albania outperforms Western Balkans peers on some aspects, but still lags the EU-11

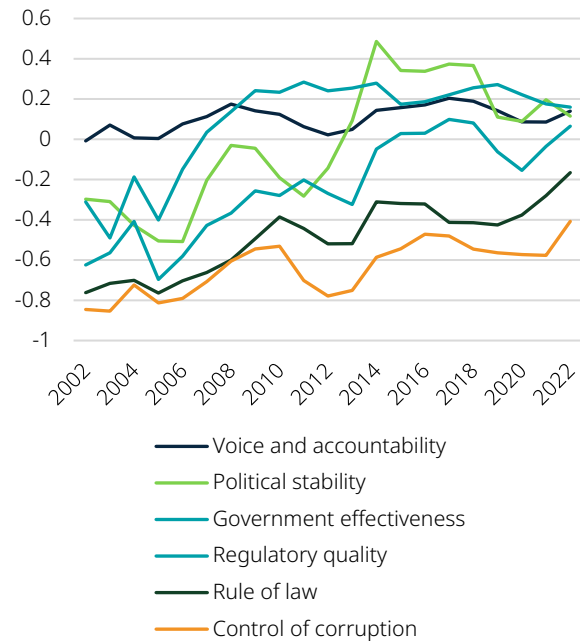
On a scale of -2.5 (worst) to 2.5 (best), 2022



Source: World Bank (n.d.b).

Figure 26. Governance standards are improving

On a scale of -2.5 (worst) to 2.5 (best), 2022



Source: World Bank (n.d.b).

There has been progress on governance over the past two decades, especially with regard to government effectiveness, regulatory quality and corruption perceptions, according to the World Bank's World Governance Indicators (Figure 26).²⁵ The European Commission says that Albania remains moderately prepared for EU accession when it comes to public administration, albeit with limited progress. Perceptions of corruption have improved, especially in the past year, with Albania's score on the Transparency International Corruption Perceptions Index jumping from 37 in 2023 to 42 in 2024, putting the country above the regional average (Figure 27).²⁶

Albania is advancing with investigation and prosecution in high-level corruption cases, but significant progress hinges on bolstering criminal justice legislation and ensuring robust oversight of the executive branch. The Special Anti-Corruption Structure (SPAK) was established in 2019 as an independent judicial entity tasked with investigating corruption and organised crime at the highest levels of government and society. It consists of the National Bureau of Investigation, the Special Prosecution Office and the Special Courts. Its foundation and a corresponding increase in budgetary support are promising, provided it implements effective integrity mechanisms. However, achieving these goals requires a more autonomous parliament and the ability of civil society organisations and the media to conduct public oversight without interference from the authorities.²⁷

There was some progress on judicial reform with the appointment of new judges to the Constitutional Court and the High Court, reducing the case backlog at the latter. However, the system still struggles with long proceedings, a low clearance rate and a significant case backlog, affecting its efficiency.²⁸ The vetting process for all judges and prosecutors has progressed steadily, overseen by the independent International Monitoring Operation of the European Commission. Albania ranks 91st out of 142 countries on the rule of law, with the lowest rankings in the areas of regulatory

²³ See EBRD (2023).

²⁴ See World Bank (n.d.b).

²⁵ See World Bank (n.d.b).

²⁶ See European Commission (2023a).

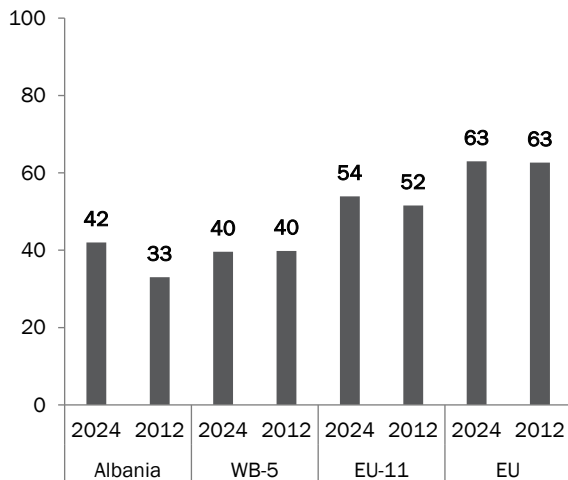
²⁷ See Transparency International (2023).

²⁸ See European Commission (2022).

enforcement, corruption and civil justice, according to the World Justice Project. When it comes to civil justice, the biggest issues are corruption and government interference, as well as unreasonable delays in the legal process.²⁹

Figure 27. The perception of corruption has improved

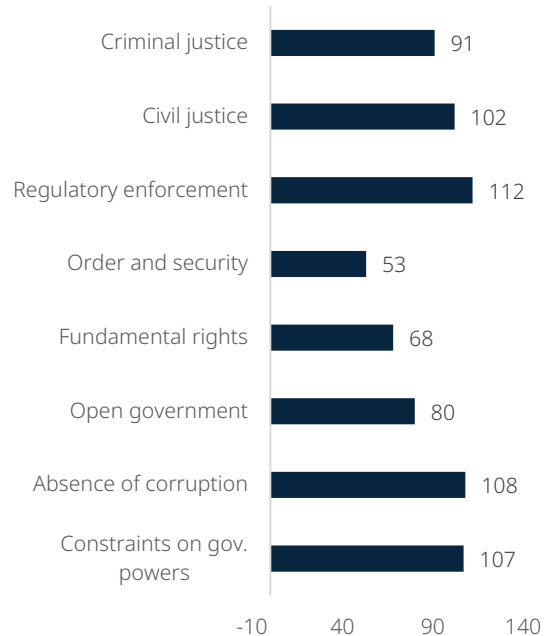
Corruption Perception Index, on a scale of 0 (worst) to 100 (best), 2023



Source: Transparency International (2023), authors' calculations.

Figure 28. Regulatory enforcement and constraints on government powers need to be improved

Rule of Law Index by sub-index, rank among 140 countries (1 – best, 100 – worst), 2023



Source: World Justice Project (2023).

Regulatory enforcement remains an issue in Albania, as highlighted by the World Justice Project Rule of Law Index,³⁰ with the regulatory process during administrative procedures the biggest obstacle in this area. Contract enforcement is slow, costly and unreliable. On average, contract enforcement takes around 525 days, which is somewhat faster than the OECD average (590 days), but considerably longer than the global leader (Singapore) on the World Bank's Doing Business index (120 days).³¹ Enforcing a contract is expensive: at 42.7 per cent of the claim value, it is well above the OECD average of 21.5 per cent (Figure 28).³²

Unfair competition, particularly from the informal sector, is a significant constraint on businesses in Albania. In the 2018-20 BEEPS VI survey, 44.7 per cent of firms said they competed against informal firms,³³ while in the 2020 World Bank Enterprise Survey, 37.2 per cent of firms said informal competition was a major obstacle to their business.³⁴

In contrast, Albania scores better than its regional peers when it comes to the perception of factors of success.

According to the 2024 Life in Transition Survey,³⁵ 24 per cent of survey respondents believe that political connections are the key to success, which is the average of all observed countries and the lowest in the Western Balkans region, while 45 per cent believe that effort and hard work are the main success factors, which is above the average value for the sample countries (Figure 29).

29 See World Justice Project (2023).

30 See World Justice Project (2023).

31 See World Bank (2020a).

32 Ibid.

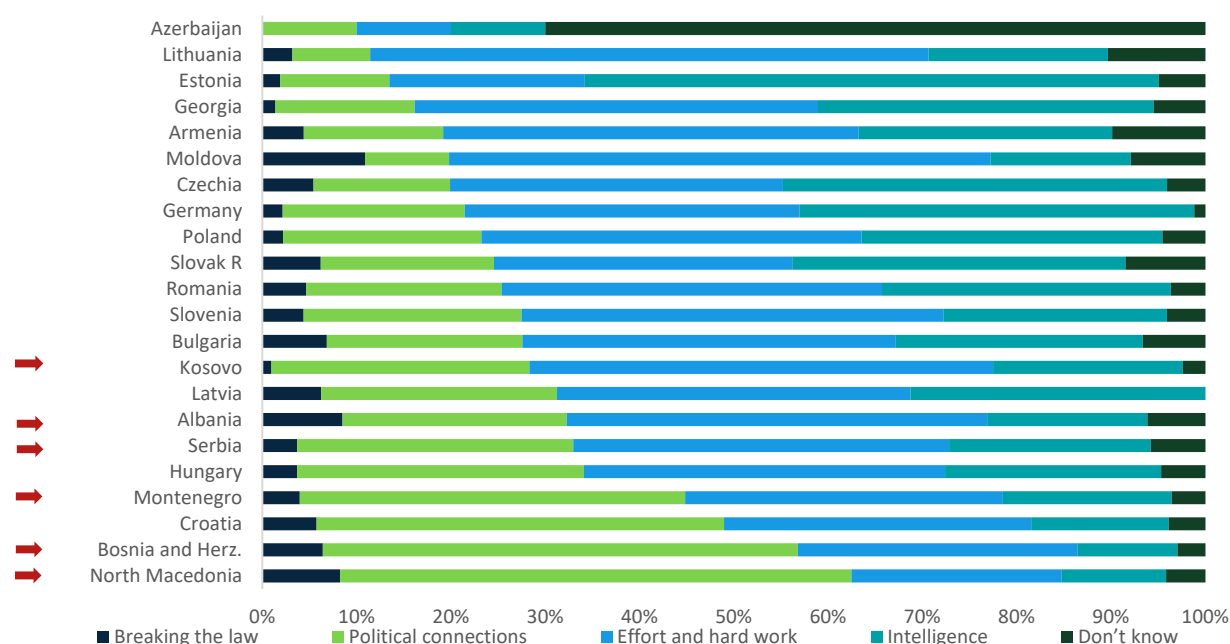
33 See EBRD, EIB and World Bank (2020).

34 See World Bank (2020b).

35 See EBRD (2024b).

Figure 29. Albanians view political connections as less of a success factor than the broader region

Percentage of respondents, 2023



Source: EBRD (2024).

The state's presence in the economy has increased slightly but remains limited overall. In 2022, state aid reported by Albania totalled 0.3 per cent of GDP, mostly in the form of tax exemptions and grants, excluding support for agriculture.³⁶ However, according to the European Commission, the country's State Aid Commission, which oversees state aid, is not operationally independent.³⁷ Its legislative and institutional frameworks are mostly in line with those of the EU. The Albanian Competition Authority, the body responsible for implementing the law to protect competition, is independent and reports to parliament, but its enforcement capacity still needs to be strengthened.³⁸

Box 3. Main corporate governance characteristics for SOEs and privately owned companies in Albania

While there is no published information or a public registry of SOEs in Albania, reports suggest that there are 285 SOEs from which 76 are in full or majority ownership by central government.³⁹ The former are mainly concentrated in the generation, distribution and transmission of electricity, oil and gas, railways, postal services, ports and air-traffic control. The latter are mainly water supply and sewerage companies and local football clubs.

There is little public information on how the government exercises its ownership function. Albania does not seem to have a state ownership policy informing ownership rationale, responsibilities and governance standards. From the information available, it seems that ownership responsibilities for SOEs are shared between the Ministry of Economy and other line ministries.⁴⁰ When the government split the Ministry of Finance and Economy into the Ministry of Finance and Ministry of Economy, Culture and Innovation at the start of 2024, the separation between the state budgetary role, legal responsibility for ownership rights and administration of SOEs remained unclear. Still, despite the decentralised model, ownership and policymaking roles in individual ministries seem to be separate. As recently as 2022, SOEs were the focus of government efforts to address fiscal risks, and it seems likely that fiscal risks arising from SOEs will be included in the government's forthcoming comprehensive fiscal risk statement.⁴¹

SOEs in Albania are predominantly structured according to a two-tier governance model. According to a 2021 OECD report,⁴² Albanian SOEs are not required to have independent supervisory board members. They are required under general corporate law, however, but there seem to be multiple definitions of independence, none of which is very specific. Also, standards of independence

36 See European Commission (2023a).

37 Ibid.

38 Ibid.

39 See OECD (2024).

40 See OECD (2021b).

41 See IMF (2023).

42 See OECD (2021b).

and corresponding monitoring mechanisms appear to be weak. Relevant legislation envisages one-third of SOE supervisory board members being proposed by the responsible line ministry, with the remaining two-thirds proposed by the body exercising ownership function. It would also seem that SOE boards are not truly empowered, as many supervisory board decisions require general shareholder approval (that is, the ownership entity for fully owned SOEs). That said, SOE boards have clearly defined oversight responsibilities. SOEs are required to have audit committees at supervisory board level, as well as internal audit functions. The 2021 OECD report voices certain reservations about how these requirements are implemented in practice.⁴³

In terms of corporate governance standards and the practices of large privately owned companies, there have not been many changes in the past few years. One notable change is the 2020 law on the register of beneficial owners, which mandated companies to disclose individuals that ultimately own at least 25 per cent of the equity/interests/voting rights in Albanian companies. Another positive development is the improvement of gender diversity on boards, which were screened for the upcoming update to the EBRD's Corporate Governance Assessment Report.

The Albanian Securities Exchange (ALSE) was licensed in 2017 and became operational in February 2018, marking the culmination of a concerted effort to establish the country's first private securities exchange after the closure of the long-dormant state Tirana Stock Exchange (TSE). In April 2023, the Albanian Financial Supervisory Authority approved the prospectus for the first public issuance of obligations by an Albanian company. The country has a corporate governance code, but it has not been reviewed since its adoption in 2011 and its application is purely voluntary. Companies do not seem to use it as a reference document.

Green: Further diversification of renewable energy sources will make Albania more resilient to climate change and economic shocks

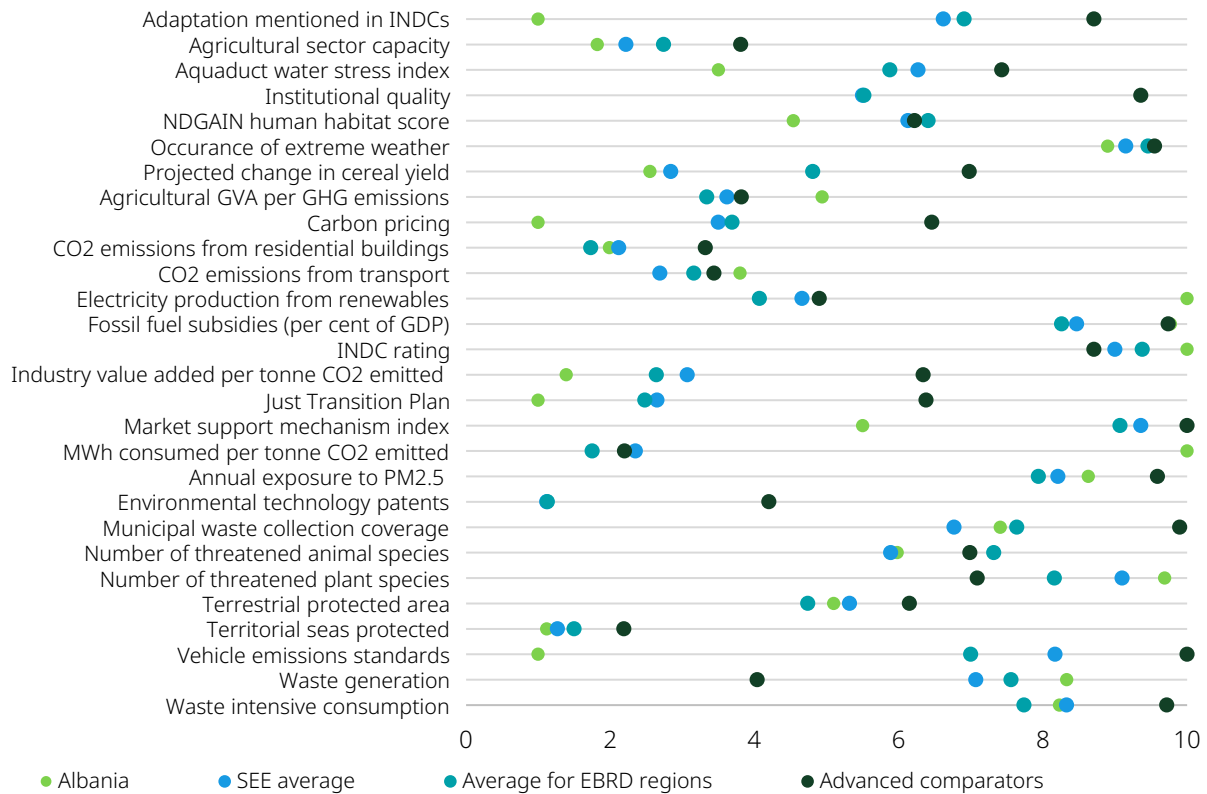
Green ATQ score = 4.8/10

Albania's green agenda is focused on transitioning to a sustainable, low-carbon economy while aligning with EU environmental standards and targets. The country has made strides in various areas, but significant challenges and opportunities remain, especially in diversifying the renewable electricity generation mix to increase the share of wind and solar power in addition to the currently dominant hydropower. Several successfully completed solar and wind auctions of late have helped Albania along this path.

43 Ibid.

Figure 30. Green ATQ indicators

1 (worst) – 10 (best)



Source: EBRD (2023).

Note: GHG = greenhouse gas; INDC = Intended Nationally Determined Contributions; NDGAIN = Notre Dame Global Adaptation Initiative; PM 2.5 refers to fine particulate matter.

In the past few years, Albania has progressed on aligning its regulatory framework with EU legislation, implementing the EU's Third Energy Package almost in its entirety.⁴⁴ The National Energy and Climate Plan (NECP) was adopted in 2021, targeting an 18.7 per cent decrease in greenhouse gas emissions, an 8.4 per cent reduction in final energy consumption and the integration of a substantial portion of renewable energy into final energy consumption, to as much as 54.4 per cent.⁴⁵ However, the NECP is being revised based on comments made by the Energy Community Secretariat and to bring it more closely in line with the country's legal framework. Further amendments are also being made to the Law on Climate Change to strengthen its alignment with EU legislation.⁴⁶

The framework on unbundling and third-party access rules is well advanced and mostly in line with EU best practices.

OST is the certified transmissions system operator, and compliance officers have been appointed for both it and distribution system operator OSSH. When it comes to third-party access, trade licences are only mutually recognised between Albania and Kosovo.⁴⁷

The power exchange, ALPEX, launched a day-ahead market in April 2023, but the intraday market is not yet operational.

State-owned power company KESH is required to sell electricity to the supplier of last resort at a price below market value, set by the Ministry of Infrastructure and Energy as shareholder. In addition, KESH has a public service duty, to

44 The EU's Third Energy Package is a legislative package for an internal gas and electricity market in the bloc, adopted in 2009. Its core elements include ownership unbundling and the establishment of a national regulatory authority (NRA) for each member state and the Agency for the Cooperation of Energy Regulators, which provides a forum for NRAs to work together. A new set of electricity market rules was established under the "Clean energy for all Europeans" package in 2019. The Third Energy Package still applies to natural gas.

45 See Ministry of Infrastructure and Energy of Albania (2021).

46 See OECD (2024).

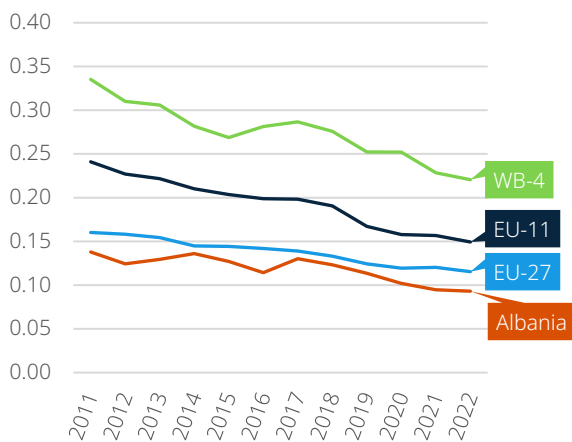
47 Ibid.

supply electricity for universal service and cover transmission network losses in emergencies. The balancing market is competitive, with four balancing service providers.

The EU Regulation on Wholesale Energy Market Integrity and Transparency (REMIT) has been adopted and implemented. Albanian consumers can choose their electricity supplier. The universal service supplier, FSHU, provides electricity to all households and small consumers at regulated prices. Since 1 January 2022, consumers connected to 20 kV, 10 kV and 6 kV grids have been supplied from the liberalised market, although they have been temporarily connected to the supplier of last resort for two years. The price for this supply is based on costs approved monthly by the regulator. FSHU acts as the supplier of last resort until a tendering process occurs. Consumers connected to 35 kV and high-voltage grids are supplied by the free market. Vulnerable customers are defined by primary legislation, with the government deciding when to provide financial support through compensation for electricity consumption.⁴⁸

Figure 31. Carbon intensity is lower than the EU average ...

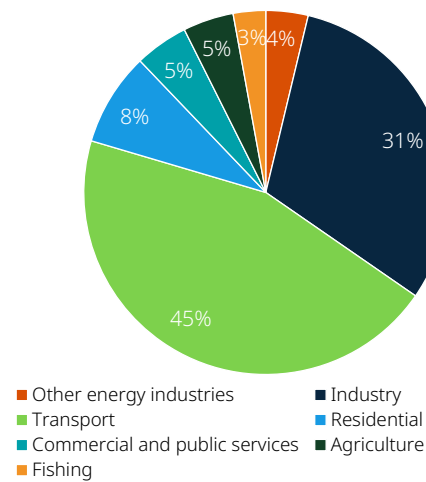
CO₂ emissions, kg per 2017 ppp US\$ of GDP



Source: World Bank (n.d.b).

Note: WB-4 refers to Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia.

Figure 32. ... with transport contributing most
CO₂ emissions by sector, per cent, 2021



Source: IEA (n.d.).

The carbon intensity of the Albanian economy, measured by CO₂ emissions per unit of GDP, is low, even compared with EU levels, due to the country's dependence on hydropower as its main source of electricity generation (Figure 31).

Transport and industry account for the largest proportion of CO₂ emissions, due to their reliance on oil as a fuel (Figure 32). The dominance of hydropower for electricity production, although it gives Albania strong green credentials, means that power generation is heavily reliant on climatic conditions and rainfall patterns (Figure 33). This is problematic in periods of drought, such as in 2022, when 11 of the country's 13 electricity turbines had to be halted and restrictions placed on public electricity consumption.⁴⁹ Imports of fuel and electricity increased by around €650 million in 2022 from 2021⁵⁰ amid the combined effects of more electricity imports and higher prices, as the drought and Russia's war on Ukraine made electricity prices surge across Europe. In the past decade, Albania has been a net electricity importer most of the time (Figure 34). Frequent imports in times when electricity prices are high poses a significant fiscal risk, as the higher cost of imported electricity has only been partially transferred to customers and the rest has been absorbed by the electricity companies or the state budget.

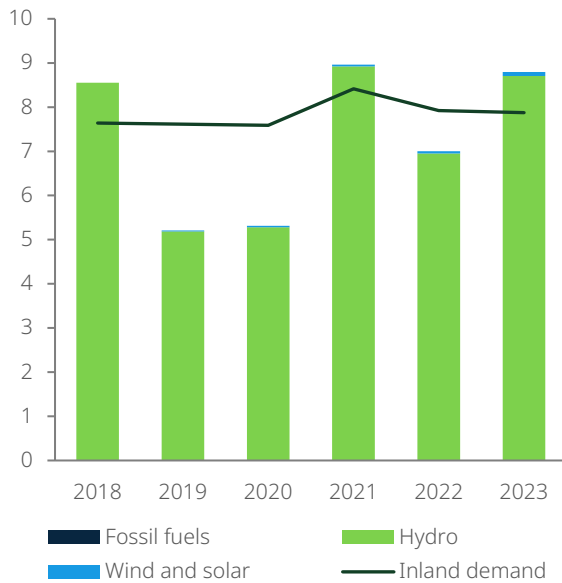
⁴⁸ See Energy Community (2023).

⁴⁹ See Reuters (2022).

⁵⁰ See INSTAT (n.d.a).

Figure 33. More than 90 per cent of Albania's electricity is produced by hydropower ...

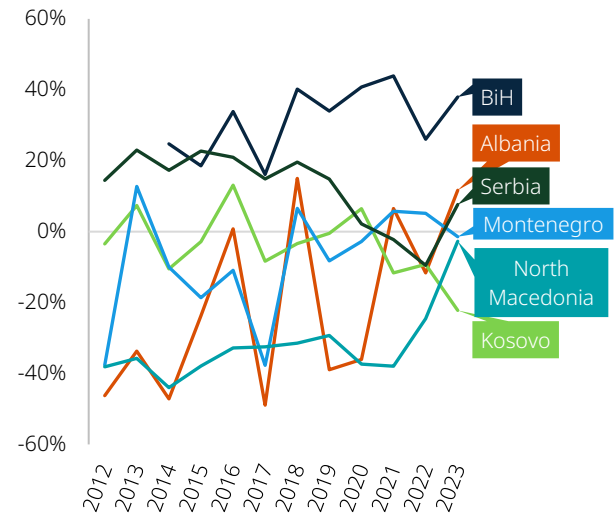
Electricity production and consumption, MWh



Source: INSTAT.

Figure 34. ...making the country heavily reliant on imports

Net exports as a share of electricity available for final consumption, per cent



Source: Eurostat, EMBER climate, national statistical offices, authors' calculations.

Albania has made substantial progress on renewable energy regulation, improving its alignment with the Energy Community Treaty.⁵¹ In April 2023 the country enacted a new Renewable Energy Sources Law, aligning its renewable energy laws with the Clean Energy Package.⁵² The Ministry of Infrastructure and Energy (MIE) is also drafting legislation on the production, transportation and trade of biofuels and other renewable transport fuels. The installed capacity for prosumers has increased significantly to 120 MW. In addition, competitive auctions have been used successfully to secure renewable energy. One major development is the Karavasta Photovoltaic (PV) project, with a capacity of 140 MW, operational since the end of 2023, which is a significant advancement in the expansion and diversification of Albania's renewable energy capacity. The government plans to add 350 MW of additional PV capacity in 2024. Furthermore, the MIE initiated and successfully concluded its first wind auction in the second half of 2023. Three companies were selected through this competitive process and are expected to finalise contracts with the MIE for a total installed capacity of 222 MW. In January 2024 the MIE launched another PV auction with an installed capacity of 300 MW. It announced eight winners in July 2024, with the lowest offer below €40 per MWh.⁵³ Additional solar and wind auctions are planned, underscoring Albania's commitment to enhancing its renewable energy capabilities and progressing towards a more sustainable and diverse energy sector.⁵⁴ However, given the low share of non-hydro renewables in electricity production (Figure 33), there is still a long way to go before they become a significant part of the energy mix.

In an attempt to diversify the energy mix, Albania has amended the law on the gas sector to partially align it with the EU Security of Gas Supply Regulation.⁵⁵ However, Albania currently does not have an internal gas infrastructure and does not possess any gas terminals. The Trans Adriatic Pipeline (TAP) crosses Albanian territory, but despite having an exit point, the country currently does not benefit from gas supply. There has also been no notable progress on the Albania-Kosovo Gas Pipeline (ALKOGAP), despite it being a project of Energy Community interest. The Albanian government is determined to establish the country as a regional gas supply hub, prioritising interconnectivity, security of supply and energy diversification, particularly through liquefied natural gas (LNG) and the TAP. A key element of this strategy is the

51 See European Union (2006).

52 See European Union (2019).

53 See Balkan Green Energy News (2024).

54 See OECD (2024).

55 See European Union (2017).

Vlora LNG Terminal Project, currently in the feasibility stage. The project envisions comprehensive infrastructure including regasification, offloading, mooring, shipping, storage and pipeline facilities. With an estimated capacity of around 5 billion cubic metres per year, the terminal is to supply the (potentially expanded) 100 MW Vlora thermal power plant, as well as provide small-scale solutions through virtual pipelines to meet both domestic and regional demand.⁵⁶

Resilient: The well-capitalised banking sector can withstand shocks, while more developed capital markets could support much-needed growth in investment

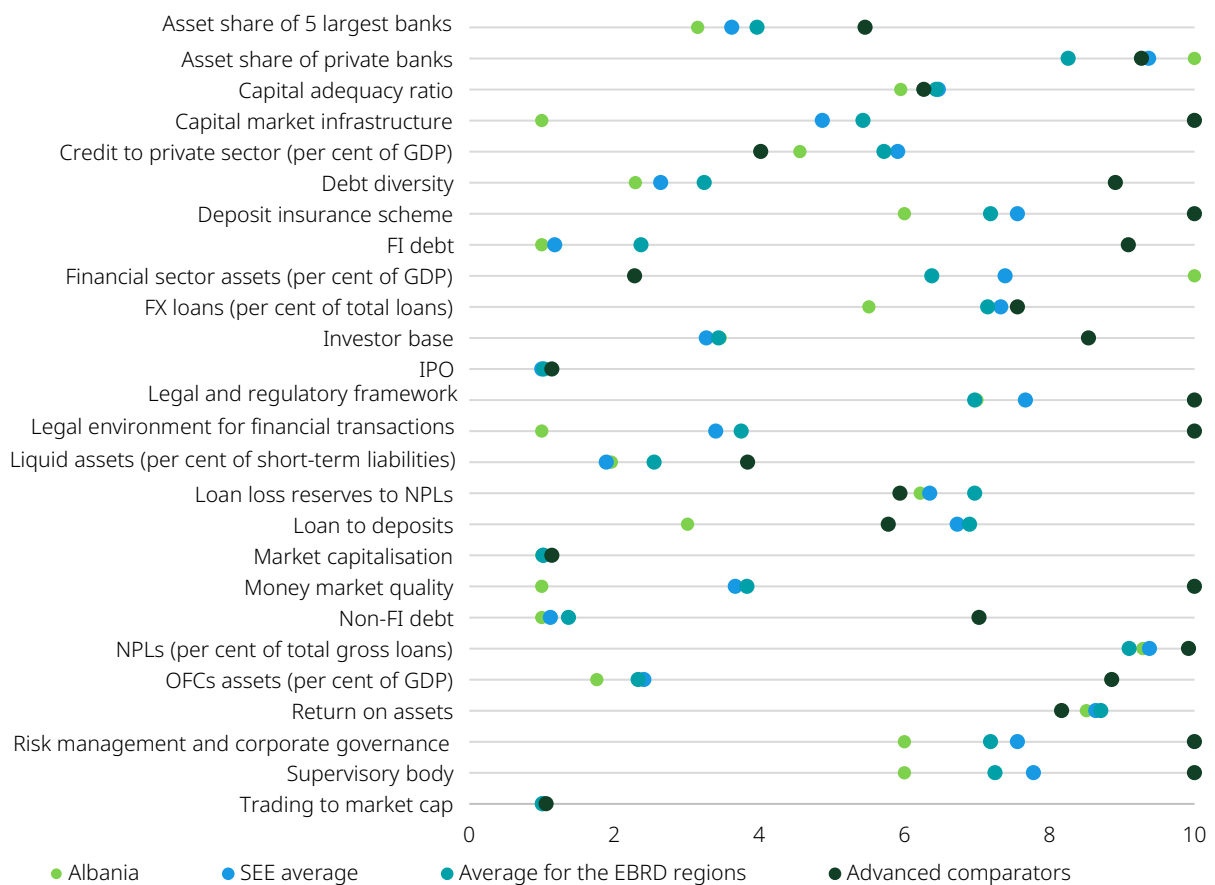
Resilient ATQ score = 5.1/10

Albania has a small but well-capitalised banking system, with ownership dominated by foreign banks. Euroisation is still high, but risks have been mitigated by the recent strengthening of the Albanian lek. The country's heavy reliance on hydropower for electricity generation makes the energy sector vulnerable to climate change, requiring faster commissioning of alternative renewable energy sources.

Financial sector

Figure 35. Resilient – financial stability ATQ indicators

1 (worst) – 10 (best)



Source: EBRD (2023).

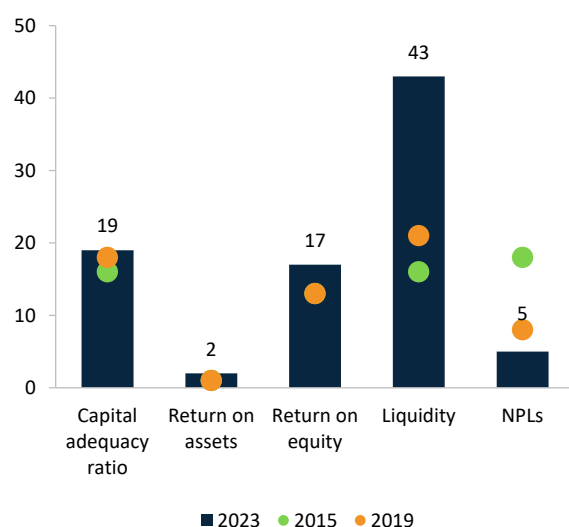
⁵⁶ See Energy Regulatory Authority (2023).

Albania's banking sector is mostly (over 70 per cent) owned by foreign banks. It is well capitalised and liquid, and proved resilient in the face of the Covid-induced crisis. The Bank of Albania is the regulatory and supervisory authority for banks and other institutions licensed by it, ensuring financial soundness and overall financial stability, depositor protection, market development and fostering market discipline, transparency and fair competition.

The country's macroprudential indicators have largely improved since the financial crisis. Liquidity has almost doubled over the past four years, the capital adequacy ratio is well above the minimum requirement and non-performing loans (NPLs) are in steady decline (Figure 36). Credit penetration, in contrast, is the lowest in the region, indicating further opportunities in both the household and corporate segments (Figure 37).

Figure 36. Macroprudential indicators point to a healthy banking sector ...

Per cent



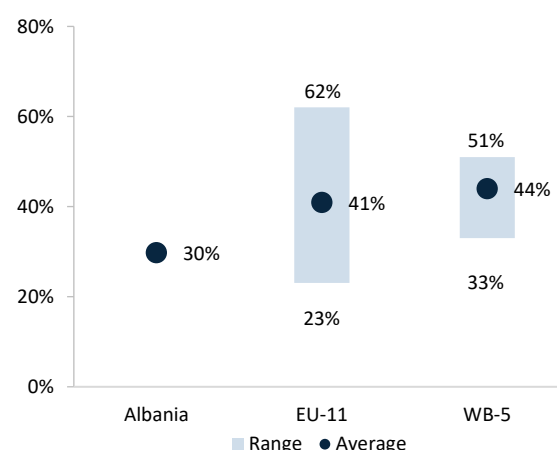
Source: Bank of Albania.

Deposits and own funds remain the main funding sources of banking-sector activity, accounting for 92 per cent of total liabilities. This has remained stable in recent years thanks to high remittance inflows.⁵⁷ Loans, in contrast, constitute only 38 per cent of assets, with the majority skewed towards treasury, interbank and securities transactions.

Euroisation, a vulnerability of the banking system, has been stable at around 50 per cent on both the asset and liability sides (Figure 38). However, any significant growth in euroisation has been hindered by the strong appreciation of the Albanian lek.⁵⁸ Deposits provide ample financing sources for lending due to the country's low credit penetration (Figure 39).

Figure 37. ... but credit penetration is the lowest in the region

Domestic credit to the private sector provided by banks, percentage of GDP, 2022



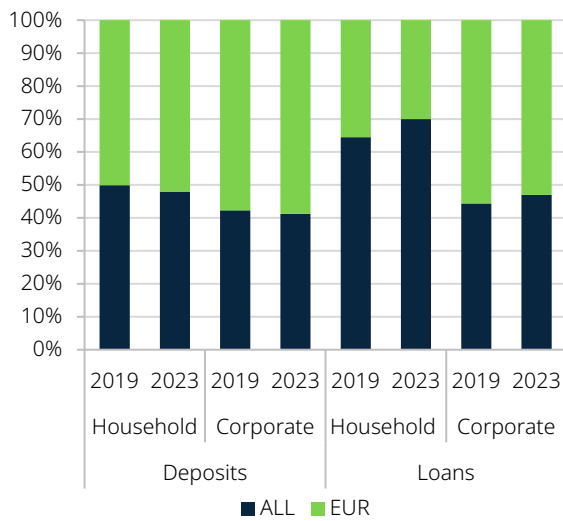
Source: World Bank (n.d.b), EBRD (2023).

⁵⁷ See Bank of Albania (2023).

⁵⁸ Ibid.

Figure 38. Euroisation has been stable at around 50 per cent

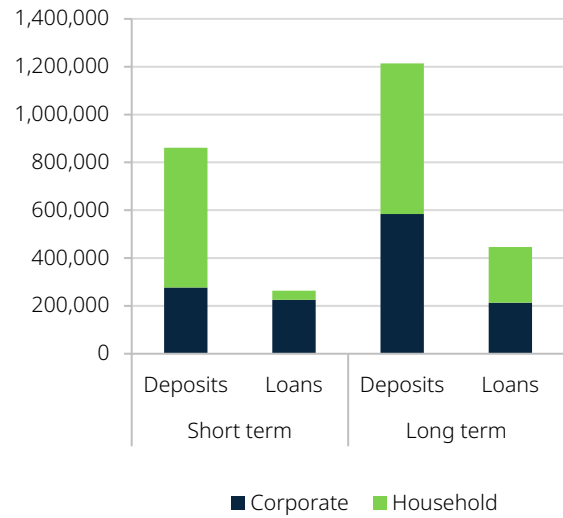
Share of EUR- and ALL-denominated deposits and loans, per cent



Source: Bank of Albania, authors' calculations.

Figure 39. Deposits provide ample financing for the current low level of credit activity

ALL (millions)



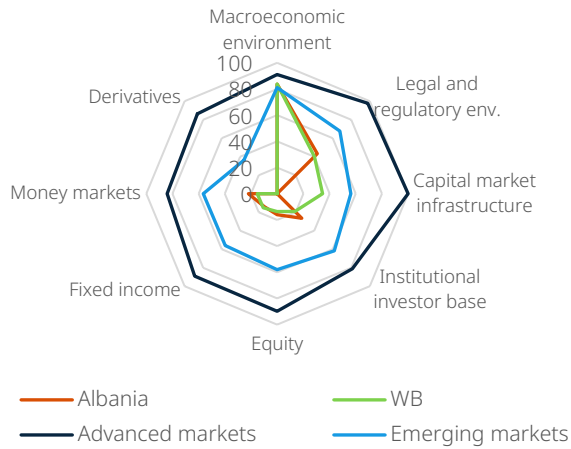
Source: Bank of Albania.

Capital markets play a small role in financing the economy. The TSE, established in 1996 to develop Albania's capital market and facilitate mass privatisation, was suspended in 2022. The failure of the TSE and its eventual licence suspension are attributed to several factors, including the halt of mass privatisation, the collapse of investor confidence following the 1997 pyramid scheme crisis and the lack of adequate market infrastructure for issuance, trading, clearance and settlement. The absence of essential institutions for a functioning capital market also contributed to these issues. Founded in 2014, the ALSE became the country's first licensed private securities exchange. Initially, it only traded government securities, until 2019 and the creation of the Albanian Securities Register (ALREG), a central securities depository for non-government securities. Although the ALSE and ALREG provide the technical infrastructure necessary for listing and trading corporate securities in Albanian lek, no Albanian companies are listed as yet. Approval of the 2020 Law on Capital Markets was a crucial development, aimed at enhancing investor confidence in the country's financial markets and providing better protection for their interests.⁵⁹ However, even with the improvement in the regulatory framework and the supportive macroeconomic environment, Albania's market infrastructure and diversification of financial assets are still below EU levels (though similar to regional peers) (Figures 40 and 41).

⁵⁹ See UNDP (2024).

Figure 40. Capital market development lags EU countries ...

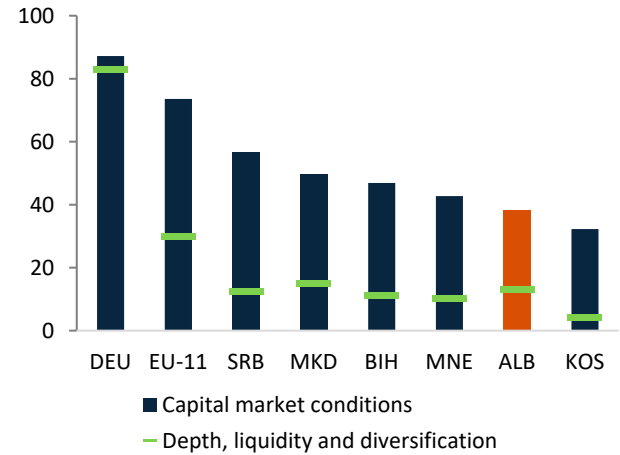
Financial Market Development Index, scores from 0 (least developed) to 100 (most developed)



Source: EBRD (2021).

Figure 41. ... but is at a similar level to regional peers

Financial Market Development Index, scores from 0 (least developed) to 100 (most developed)



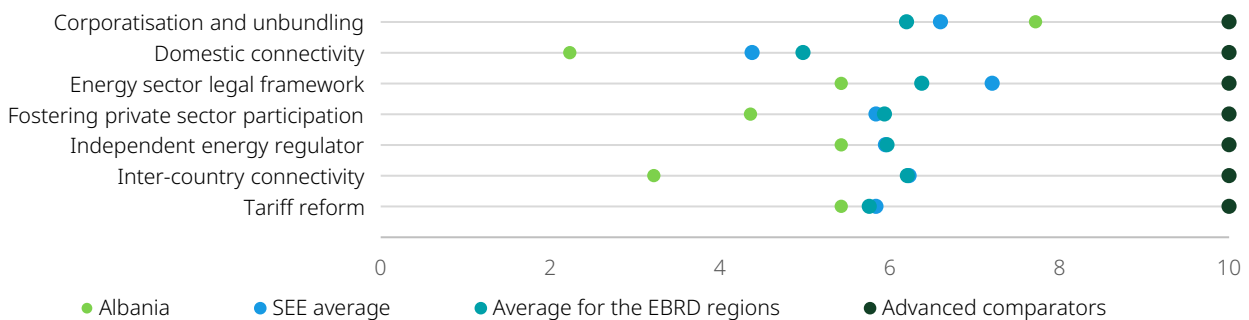
Source: EBRD.

Note: DEU = Germany.

Energy sector

Figure 42. Resilient – energy sector ATQ indicators

1 – 10 (best)



Source: EBRD (2023).

Electricity generation is vulnerable to climate change, as it relies mostly on hydropower. Efforts are being made to boost its resilience. The ongoing project of turning one of Albania's oldest hydropower plants into a hybrid one, with the recent addition of a 5.1 MW solar power unit on its dam, is the first example in the Western Balkans of combining hydropower and PV. However, the ambition does not stop there, as a tender procedure is underway to install a floating solar power plant on the reservoir.⁶⁰ Another project, co-funded by the EU, is the rehabilitation of Fierza, the country's second-largest hydropower plant, with a view to extending its lifespan and increasing its output by 10 per cent.⁶¹

Another focus in recent years has been resolving bottlenecks in the Albanian electricity transmission system, managed by national transmission operator OST. A study, financed by the Western Balkans Investment Framework, helped determine key priority projects in this regard.⁶² Several projects are in the implementation phase, such as the development of a reliable electricity transmission system in Tirana and the neighbouring region towards Durres, which should reduce electricity losses, as well as power cuts, which regularly affect 50 per cent of the region's residents and 30 per cent of its private businesses. The air pollution caused by diesel generators used during power outages is also

⁶⁰ See Balkan Green Energy News (2023a).

⁶¹ See WBIF (n.d.a).

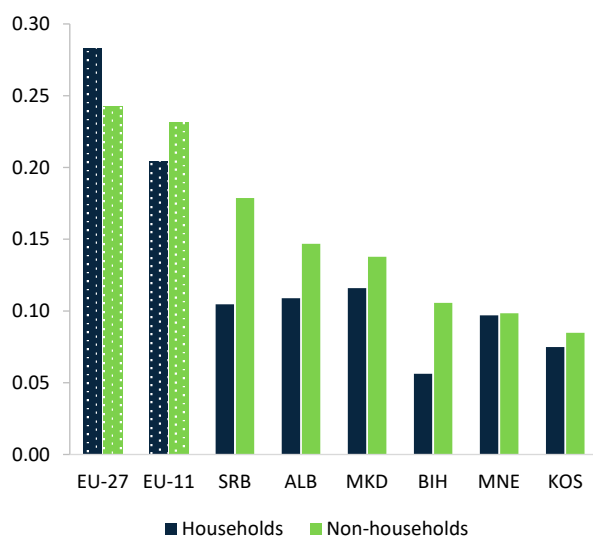
⁶² See WBIF (n.d.b).

expected to decrease.⁶³ In addition, Albania and North Macedonia are working on their first overhead 400 kV power line, which would enable market coupling and direct trade.⁶⁴

Market coupling with North Macedonia, as well as Kosovo, would increase the stability and predictability of electricity prices, already among the highest in the region (Figure 43). To mitigate the negative effects of high volatility in energy prices, particularly on the most vulnerable households, the International Monetary Fund (IMF) recommends a gradual adjustment of electricity tariffs to cost-recovery levels and the preservation of price mechanisms.⁶⁵ However, even though high volatility poses a risk for the more vulnerable part of the population, it seems that electricity prices constitute a smaller portion of the consumer basket than in the rest of the region (Figure 44), making overall inflation less susceptible to changes in electricity prices.

Figure 43. Electricity prices are lower than in the EU, but among the highest in the Western Balkans

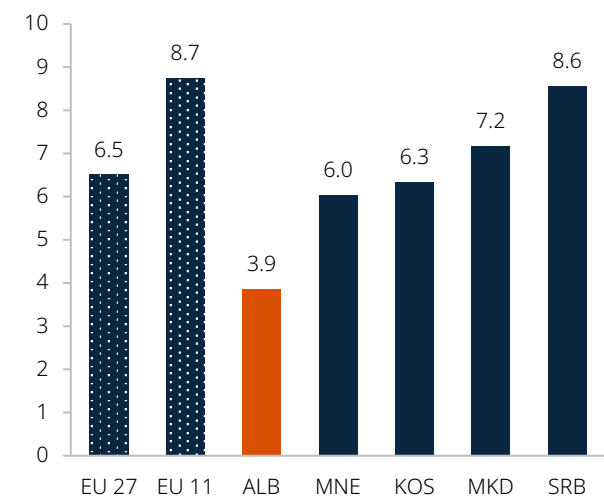
Electricity prices for medium-sized households and non-households, KWh, second half of 2023



Source: Eurostat and authors' calculations.

Figure 44. The electricity share of the consumer basket is still the lowest in the region

Share of electricity, gas and other fuels in HCPI, per cent, 2023



Source: Eurostat and authors' calculations.
Note: HCPI = Harmonised Consumer Price Index.

Efforts are ongoing to improve the legal framework and implement policies to boost energy efficiency, especially in relation to building renovations and energy performance. The government is currently preparing the Long-term Renovation Strategy, targeting both public and private buildings, with support from the EBRD.

Climate change risk

Albania is vulnerable to extreme heat and drought, and likely to suffer higher asset losses than OECD countries, according to the World Bank.⁶⁶ It is also the country in the Western Balkans that is most vulnerable to landslides and earthquakes, with an estimated 15.7 per cent of GDP likely to be lost in 2025 if policy remains unchanged and there is no investment in building adaptation. For other Western Balkans countries, the projected loss as a percentage of GDP is about one-third that of Albania. In addition, along with North Macedonia, Albania is at the highest risk of coastal flooding and sea-level rises.

⁶³ See WBIF (n.d.c).

⁶⁴ See Balkan Green Energy News (2023b).

⁶⁵ See IMF (2024).

⁶⁶ See World Bank (2024).

Cybersecurity

Cybersecurity remains a substantial challenge for Albania. The country ranks 80th on the global cyber security index and is currently the fifth-largest target of cybercrime in Europe, suffering at least 1.3 million cyberattacks yearly.⁶⁷

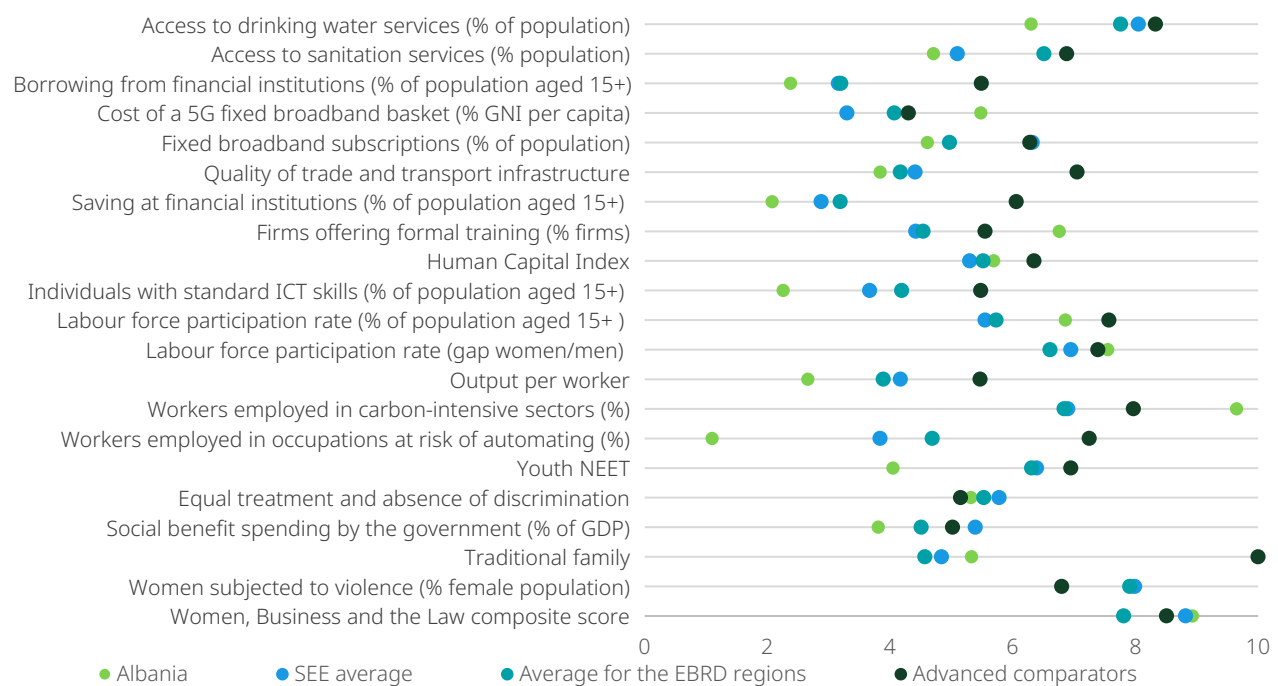
Inclusive: Albania needs to close the gender gap, increase youth employment and reduce the emigration of skilled workers to fuel further improvements in the labour market

Inclusive ATQ score = 4.5/10

The Albanian labour market has seen improvements over the past decade, with steady increases in labour force participation and employment, and a gradual decline in unemployment (Figure 46). However, these gains are overshadowed by ongoing demographic challenges, a gender gap in labour force participation, limited youth inclusion and the migration of skilled workers, which are hindering human capital development and productivity growth.

Figure 45. Inclusive ATQ indicators

1 (worst) – 10 (best)



Source: EBRD (2023).

Note: GNI = gross national income; NEET = not in employment, education or training.

Like other Western Balkans countries, Albania is facing the structural issue of a shrinking population. Despite being the second-youngest country in Europe after Kosovo, it has seen its median age jump from 33 years in 2012 to nearly 39 years in 2023.⁶⁸ This demographic shift, largely due to lower birth rates and high emigration, poses challenges when it comes to sustaining a strong labour force. The pressure on the working-age population is increasing at a rate

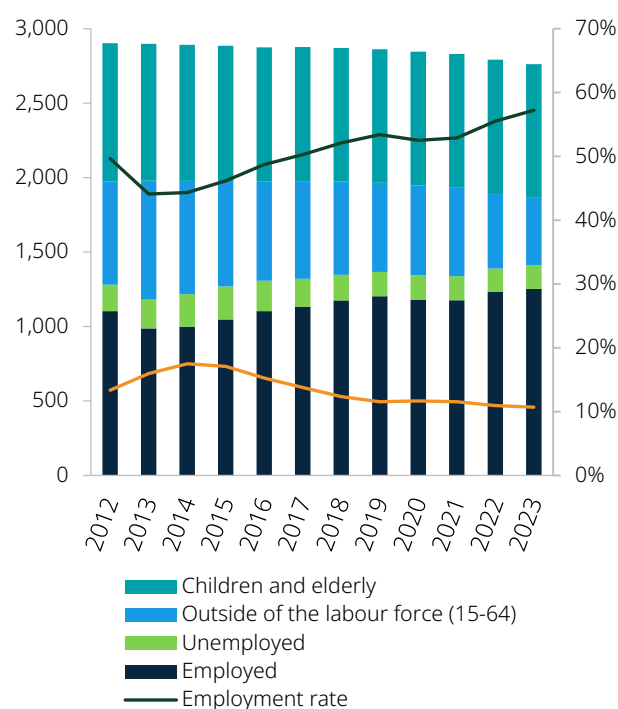
⁶⁷ See EU Cyber Direct (n.d.).

⁶⁸ See Eurostat (n.d.c).

comparable to that of wealthier European countries and is expected to widen the financing gap in the pension system, which is already in deficit (Figure 47).⁶⁹

Figure 46. Any further increase in employment may be constrained by the steady population decline

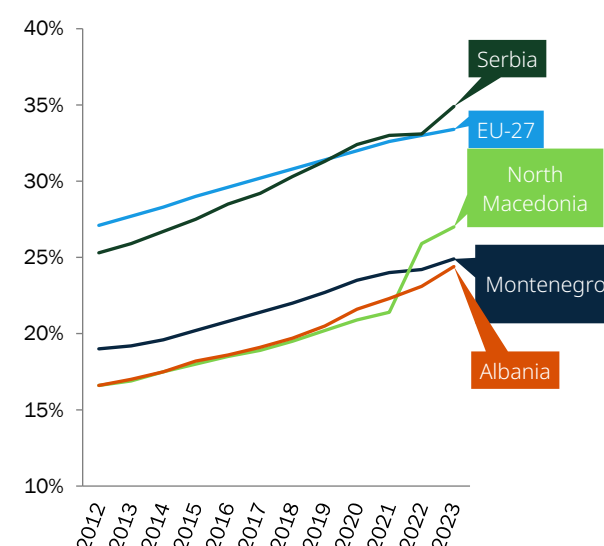
Population ('000s, left axis); employment and unemployment rates (percentage of working-age population, right axis)



Source: INSTAT.

Figure 47. The old age dependency ratio is increasing in line with regional trends

Ratio of people aged 65+ compared with the working-age population (per cent)



Source: Eurostat.

Albania is grappling with a significant emigration challenge, ranking among the top countries globally for emigration as a share of its population (Figure 48). Despite a brief decline during the Covid-19 pandemic, emigration has risen across socioeconomic levels and educational backgrounds.⁷⁰ The major drivers of this trend are low trust in institutional governance, poor employment opportunities and the perceived inadequacy of the Albanian education system, prompting many to seek better opportunities abroad.⁷¹ Albania has fewer highly skilled migrants than regional peers, but also accounts for the largest share of overqualified migrants, with more than a third of male migrants employed in construction and agriculture, and half of female migrants working as cleaners, personal service providers and carers.⁷² This suggests a low level of skill transferability abroad and a net loss of human capital in the long term. The brain drain is hurting the economy, as evident in the Fragile States Index, where Albania is among the top 10 countries on the Human Flight and Brain Drain Indicator.⁷³

⁶⁹ See IMF (2024).

⁷⁰ See ETF (2021).

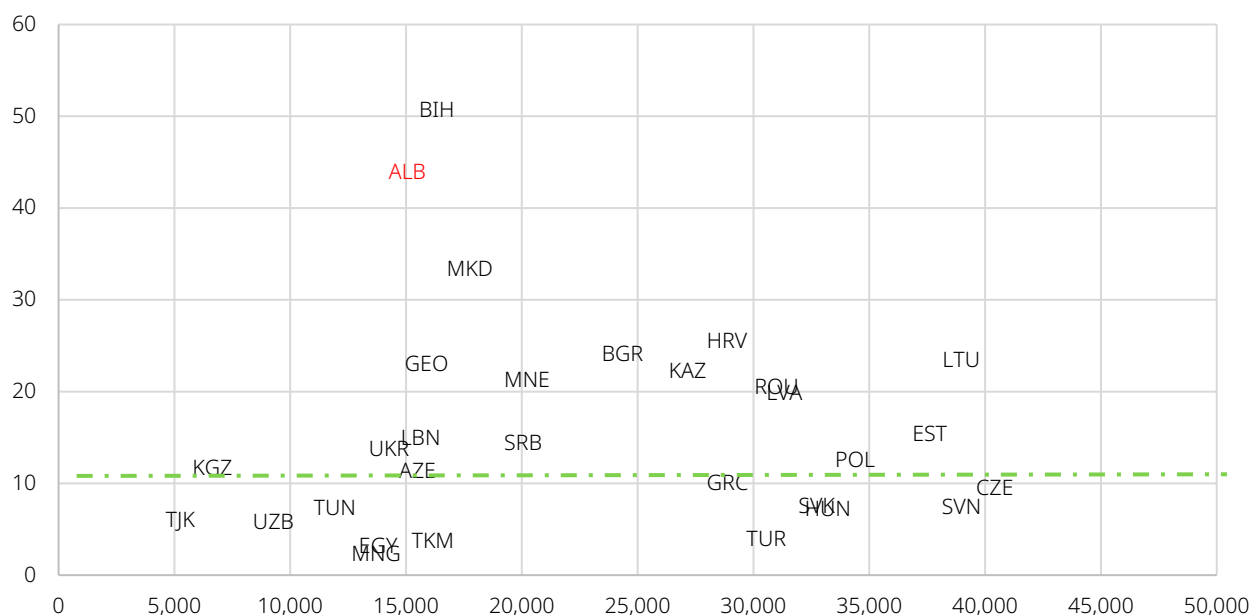
⁷¹ Ibid.

⁷² See OECD (2022).

⁷³ The Human Flight and Brain Drain Indicator assesses how the economic consequences of human displacement can affect a country's development. See Fund for Peace (2023).

Figure 48. Emigration is high among peer countries

Stock of emigrants as a percentage of total population in 2020 on the vertical axis; GDP per capita ppp in 2017 US\$ on the horizontal axis



Source: UN DESA, WB WDI, authors' calculations.

Long-term unemployment accounts for around three-quarters of total unemployment, more than double the EU average, showing inherent mismatches between demand and supply in the labour market. Occupational mismatches remain significant, particularly in the ICT sector, and increase significantly for those with higher levels of education.⁷⁴ Albania recently created a strategic and regulatory framework to enhance its human capital, with the prospect of EU accession serving as an anchor for aligning with EU standards. The National Employment and Skills Strategy (2019-22)⁷⁵ achieved important results in terms of consolidating the institutional framework for employment and skills development with targeted reforms in the vocational education and training (VET) legal framework; gaining approval for the Albanian referencing report, which allows certificates and diplomas awarded under the Albanian Qualification Framework (AQR) to have equivalence in the European Qualification Framework (EQF);⁷⁶ and establishing two sectoral skills councils. The reference report made it possible for Albanian students and professionals to easily compare their qualifications with the rest of the EU, an important milestone in the development of skills in the country.

The government approved a new National Employment and Skills Strategy (2023-30), with four key strategic priorities: (i) ensuring the efficiency of institutions, with complete enforcement and further consolidation of the legal framework; (ii) promoting effective engagement of the private sector in VET and employment, and enhancing the responsiveness of VET institutions to labour-market demands; (iii) ensuring high VET quality and employability rates; and (iv) implementing a comprehensive learning agenda across all age groups and environments.⁷⁷ Special attention is to be given to expanding VET learning for adults in remote areas and improving adult learning programmes to meet labour-market demands. However, stronger cooperation between VET institutions and the private sector is warranted in shaping curricula that meet industry's needs and improve employability. Since accession negotiations with the EU were officially launched in 2022 and the screening process has been completed, the opening of essential chapters related to human capital development, including chapters 26 (on education and culture) and 19 (on social policy and employment), may provide a tailwind for further reforms.

⁷⁴ See ETF (2022b).

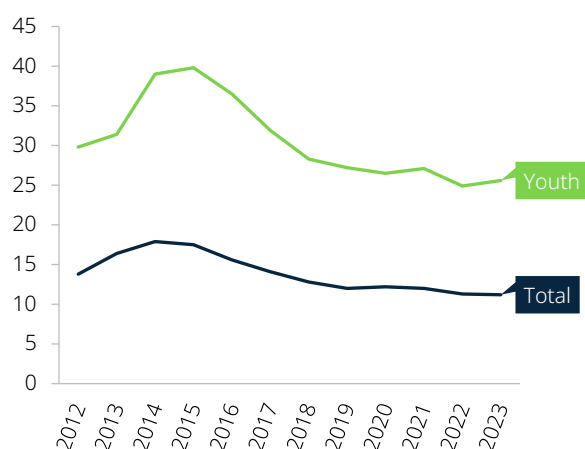
⁷⁵ See Ministry of Finance and Economy (2020).

⁷⁶ See ETF (2022a).

⁷⁷ See Ministry of Finance and Economy (2022).

Figure 49. Youth unemployment is still twice as high as working-age unemployment

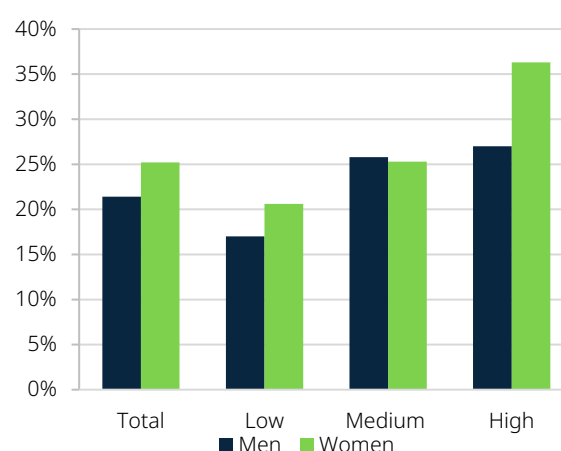
Youth (15-24) and working-age (15-64) population unemployment rate (%)



Source: World Bank WDI.

Figure 50. The NEET rate rises with higher education and is more pronounced for women

Share of youth not in employment, education or training (15-24), by sex and education level (2022)



Source: INSTAT.

Youth participation in Albania's labour market remains low, compounded by demographic challenges, with the youth population (aged 15-29) declining from 25 per cent of the total population in 2016 to 21.3 per cent in 2023.⁷⁸ Although youth unemployment remains high, at around 30 per cent, the proportion of young people who are not in employment, education or training (NEET) dropped from 30 per cent in 2010 to 23 per cent in 2023, although this is still high compared with EU norms and other countries in the region (Figures 49 and 50).⁷⁹ The NEET rate varies significantly by age, educational level and region, with the highest concentration in Tirana. Inadequate labour-market policies, insufficient employment and training opportunities (including low life-long learning participation rates) continue to weigh on the inclusion of young people in the labour force, and these challenges are more acute for those with higher levels of education and for young women, underscoring the need to address skills mismatches and support a smooth transition from school to work (Figures 51 and 52).⁸⁰

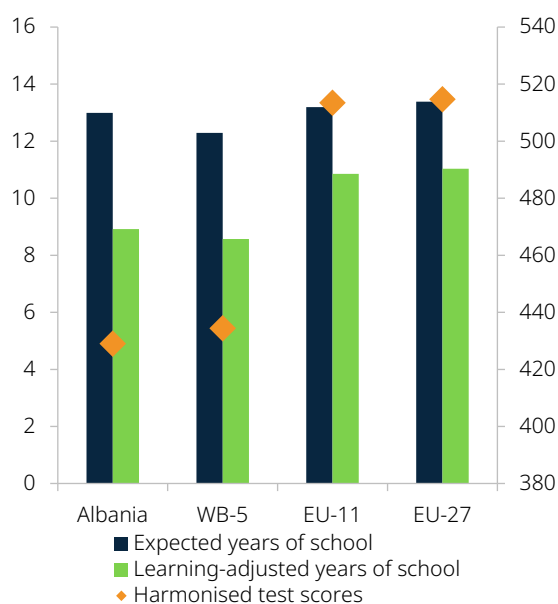
⁷⁸ INSTAT (n.d.c).

⁷⁹ INSTAT (n.d.d), Eurostat (n.d.d).

⁸⁰ See ETF (2021).

Figure 51. Education gaps are reflected in test results ...

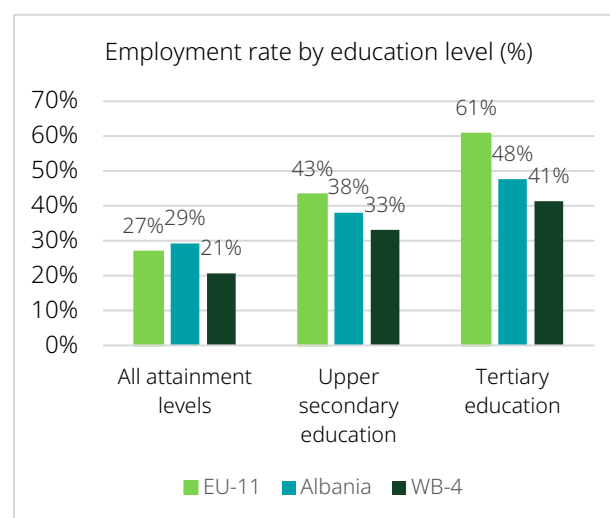
Years of schooling (left axis) and harmonised TIMSS-equivalent test scores, 0-650 (right axis)



Source: World Bank (n.d.b).

Figure 52. ... and in the difficult transition from school to work at higher levels of education

Employment rates of young (15-24) recent graduates (1-3 years) in 2021 based on educational attainment



Source: Eurostat, INSTAT.

Note: WB-4 denotes Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia.

Youth emigration is a structural challenge. According to a 2019 survey by the Westminster Foundation for Democracy, 71 per cent of Albanian young people consider emigration as part of their short- or medium-term plans.⁸¹ In 2022 alone, more than 46,000 Albanians emigrated, with the 20-24 age group seeing the greatest exodus.⁸² Western European countries are the first choice among young people willing to migrate (50 per cent), as they can benefit from less stringent migration rules.⁸³ In recent years, Germany has attracted many young Albanians, particularly after it introduced the Skilled Immigration Act, which aims to bring more highly qualified professionals to Germany to fill industry shortages.

To address youth migration and the NEET issue, the Albanian government has introduced several initiatives and strategies, including the Youth Agency of Albania in September 2020 and a National Youth Strategy for 2022-29. The strategy encompasses three key policy objectives: (i) to empower young people to actively participate in society by supporting coordinated and evidence-based youth policies to promote skills development and employability, particularly in the ICT and digital fields; (ii) to focus on the physical, social and mental well-being of young people, with an emphasis on those at risk of social exclusion; and (iii) to enhance access to quality education to bridge the gap to European peers. Within the framework of Chapter 19 for EU accession, the government committed to developing and implementing parallel initiatives, such as the Youth Guarantee programme, which focuses on mapping NEETs, reviewing the legislative framework and enhancing outreach, education/training and employment opportunities. The programme was launched in 2023 and led to the publication of an implementation plan to 2026 as part of the new National Youth Strategy.⁸⁴

While women are better integrated into Albania's labour force than regional peers, around 50 per cent of them are inactive and a considerable gender gap persists (Figure 53). Imbalanced household and care responsibilities hinder women's full engagement in the workforce, highlighting the need to improve the accessibility, affordability and quality of elderly care and childcare facilities to boost women's labour force participation. Furthermore, women in Albania are underrepresented compared with men when it comes to business ownership and management, especially when benchmarked against EU standards, although they perform better than their regional peers (Figure 54).⁸⁵

81 See Westminster Foundation for Democracy (2019).

82 INSTAT (n.d.c).

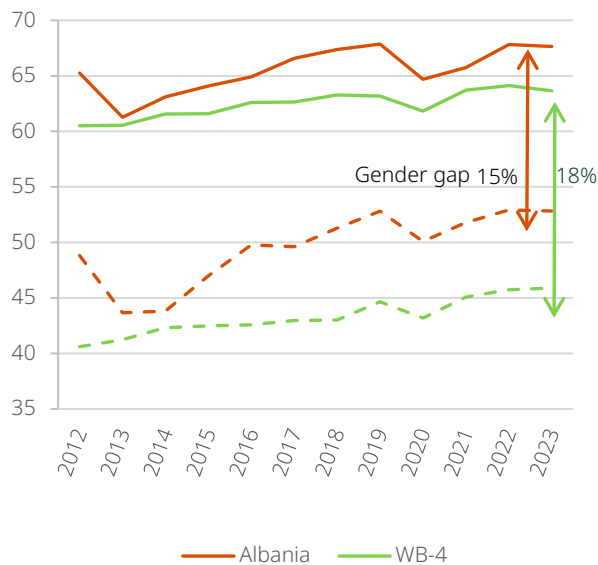
83 See Westminster Foundation for Democracy (2019).

84 See Minister of State for Youth and Children (2022).

85 See EBRD, EIB and World Bank (2020).

Figure 53. Although smaller than that of Western Balkans peers, the labour market participation gender gap persists

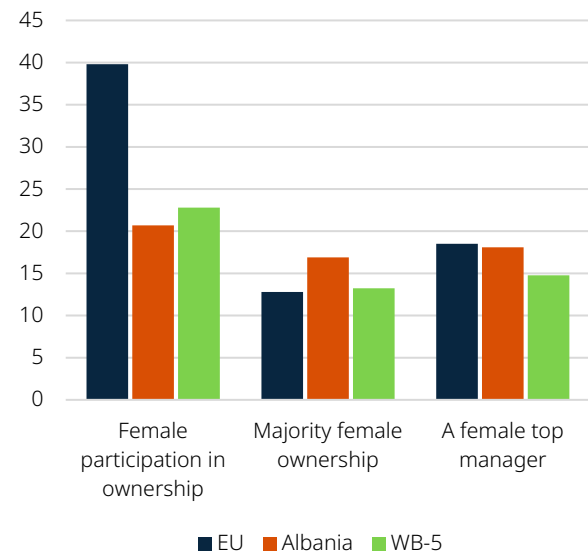
Labour force participation rate, per cent



Source: World Bank (n.d.b).

Note: WB-4 denotes Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia.

Figure 54. Women remain less represented in business
Percentage of firms, 2019-20



Source: EBRD, EIB and World Bank (2020).

Albania's progress on fostering comprehensive digital skills among its population is ongoing. While internet penetration is approaching EU levels (Figure 55), there is a significant urban-rural divide when it comes to broadband coverage, hindering the full benefits of digitalisation. The government is working to align educational outcomes with the demands of a digitally driven economy, with several national policies explicitly emphasising the development of digital skills, including the Digital Agenda of Albania 2022-26,⁸⁶ the National Employment and Skills Strategy 2023-30⁸⁷ and the National Education Strategy 2021-26.⁸⁸ Under the Digital Agenda 2022-26, the Ministry of Education approved an ICT educational curriculum starting from the first grade of elementary school, aiming to equip students with essential digital skills from an early age. In addition, Albania benefits from EU support through the Digital Agenda for the Western Balkans, which aims to enhance digitalisation in education by upgrading school infrastructure, increasing access to high-speed internet, and establishing digital communication channels between schools and regional education units.

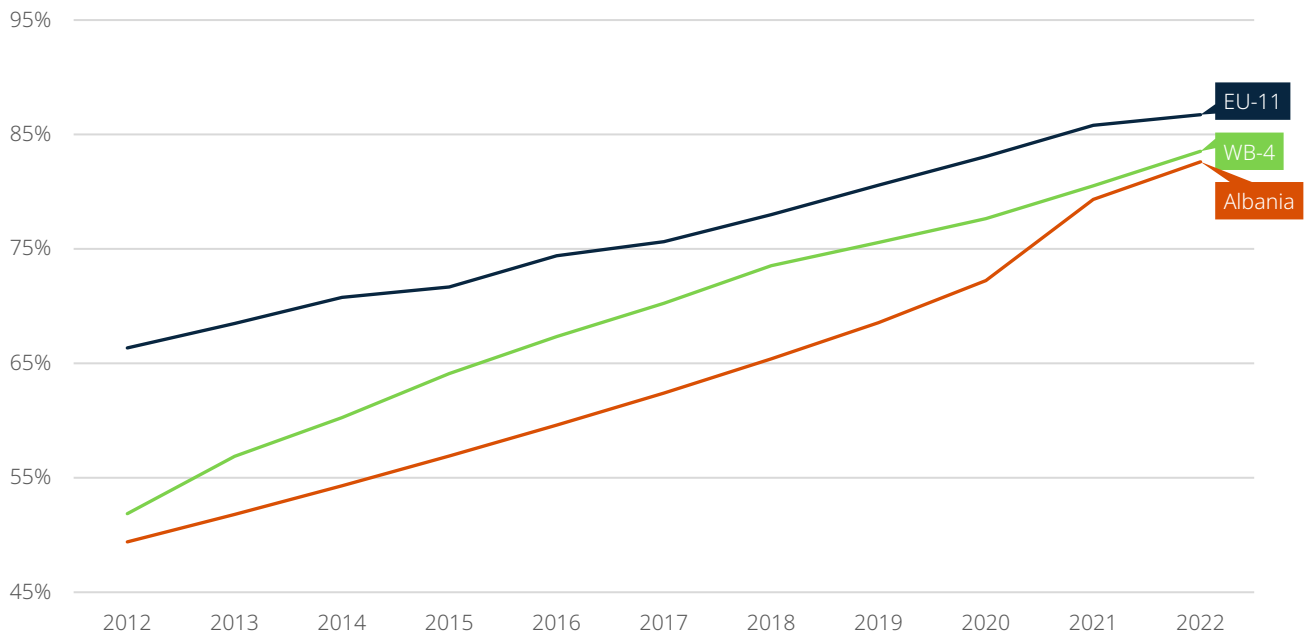
⁸⁶ See AKSHI (2022).

⁸⁷ See Ministry of Finance and Economy (2022).

⁸⁸ See AKSHI (2022).

Figure 55. Internet access

Individuals using the internet (percentage of the population)



Source: World Bank (n.d.b).

Note: WB-4 denotes Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia.

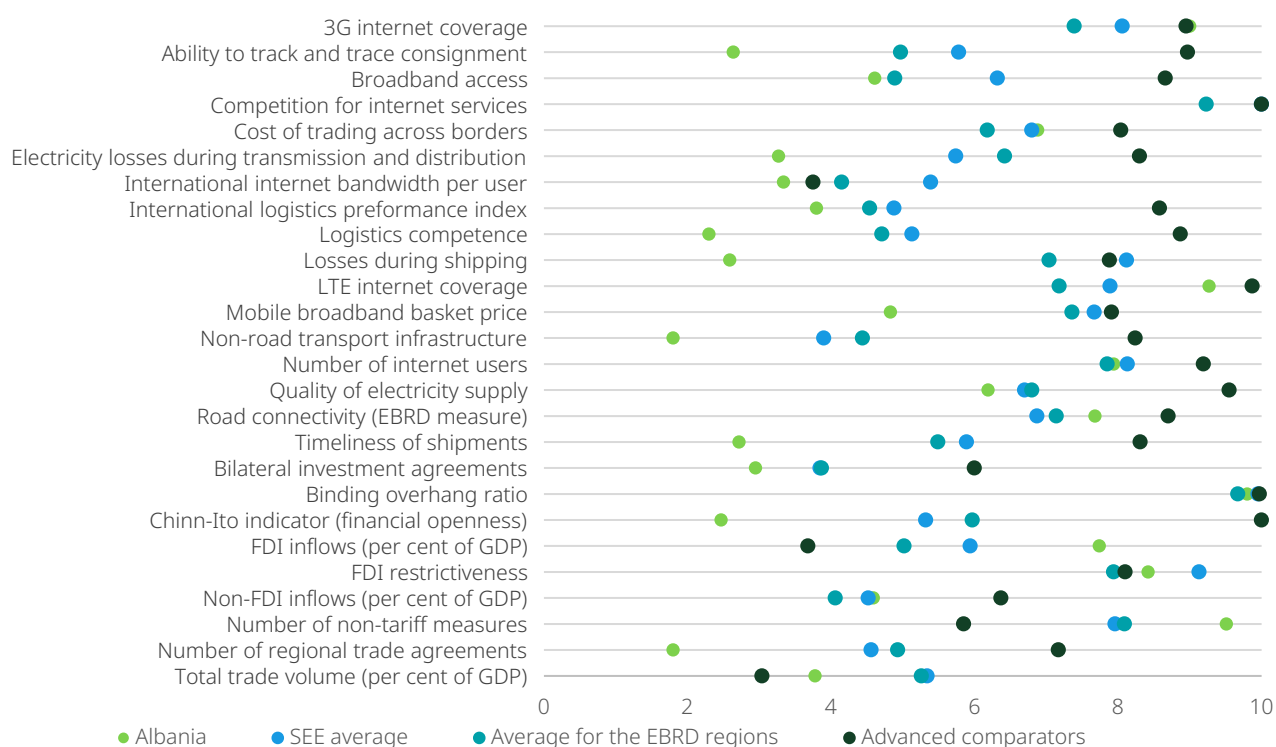
Integrated: Enhancing public infrastructure investment would support further trade openness

Integrated ATQ score = 5.5/10

Deficiencies in infrastructure and budgetary constraints due to relatively high public indebtedness are significant obstacles to closing Albania's productivity divide with the EU. Consequently, enhancing the prioritisation, planning, execution and regulatory framework for infrastructure investments will be crucial to promoting compliance with the EU acquis and supporting Albania's integration, both domestically and regionally. After decades of neglect, rail infrastructure has become a priority and regulatory standards are gradually being enhanced. Improvements in road connectivity are underway, yet additional work is necessary to meet EU road safety standards and to enhance sustainability.

Figure 56. Integrated ATQ indicators

1 (worst) – 10 (best)



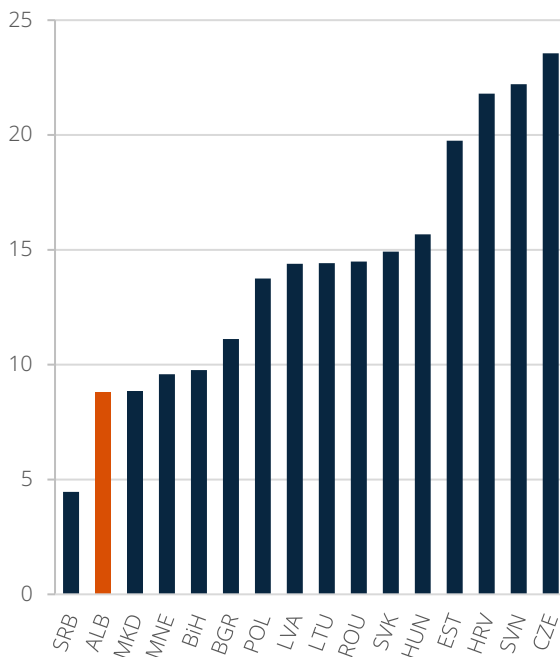
Source: EBRD (2023).

Gaps in infrastructure, coupled with limited fiscal space, are key hurdles to narrowing the productivity gap with the EU. Starting from a low level of public capital stock (Figure 57) and large infrastructure gaps (Figure 58), Albania's public investment increased to 6-7 per cent of GDP in 2020-21 due to its post-earthquake reconstruction efforts. However, significant further expansion is necessary to meet escalating demand for transport and municipal infrastructural upgrades.⁸⁹

89 See IMF (2023).

Figure 57. Capital stock is lower than the EU-11 benchmark, but similar to regional counterparts

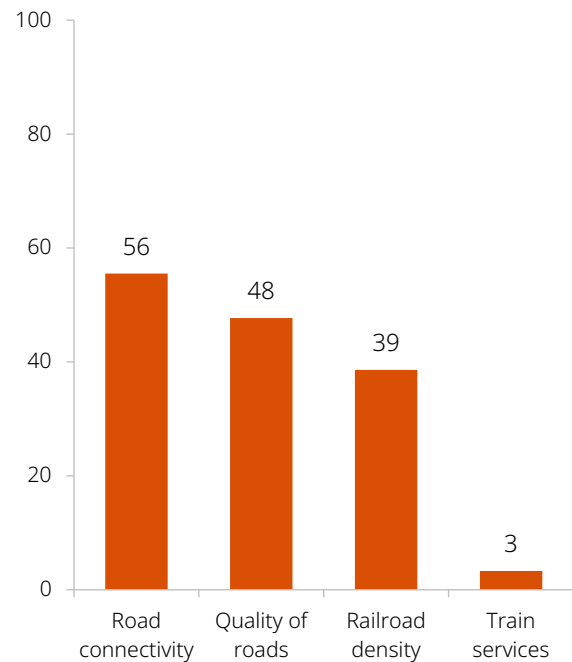
General government capital stock, thousand 2017 ppp dollars per capita



Source: IMF (2022), World Bank (n.d.b) and authors' calculations.

Figure 58. Infrastructure gaps are still sizeable, particularly in terms of quality

Perception of quality, score 0 (worst) – 100 (best)



Source: World Economic Forum (2019).

Stepping up infrastructure investment planning and implementation capacity will be key to supporting Albania's regional and domestic integration. The country's Public Finance Management Reform Strategy (2023-30) provides a comprehensive roadmap for improving the management of public investment projects, while its public investment management (PIM) guidelines, adopted in 2022, lay the groundwork for establishing a prioritised pipeline of large projects and bolstering capacity for project management and monitoring.⁹⁰ Because of the importance of public-private partnerships (PPPs) to the country, Albania will need to accelerate the preparation of a new PPP law in line with EU standards, with a view to incorporating PPPs into a national single project pipeline to promote efficient project prioritisation.⁹¹ Timely implementation of the PIM guidelines, together with increased efforts to tackle corruption and strengthen procurement processes, would lead to more efficient budget allocation. Albania has revised its legislative framework for government procurement to align to the EU acquis, while a revision of the framework for concessions and PPP has successfully limited the use of unsolicited tenders.⁹² Recent actions by SPAK, involving high-profile prosecutions related to some of the country's largest PPP projects, however, highlight the critical need to further curtail unsolicited PPPs and corruption. These measures, along with a robust PIM framework, are essential to prevent cost overruns in, and slow implementation of, public investments and to ensure efficient public spending in infrastructure projects.

Physical connectivity needs to be strengthened alongside the institutional framework to align with the EU acquis. The 2021-25 national transport strategy, which includes priority measures for intermodal and combined transport, has yet to be adopted. While funding from the EU and international financial institutions will advance flagship transport projects (the Adriatic Ionian Corridor and Corridor VIII), it is also important to ensure the country has sufficient funds for routine maintenance to preserve the benefits of the new infrastructure.⁹³

After decades of neglect, Albania's rail infrastructure has become a priority and regulatory standards are gradually being enhanced (Figure 59). As part of the connectivity agenda to improve links within the Western Balkans and across Europe,

⁹⁰ See Council of Ministers (2024).

⁹¹ See European Commission (2023).

⁹² See WTO (2023).

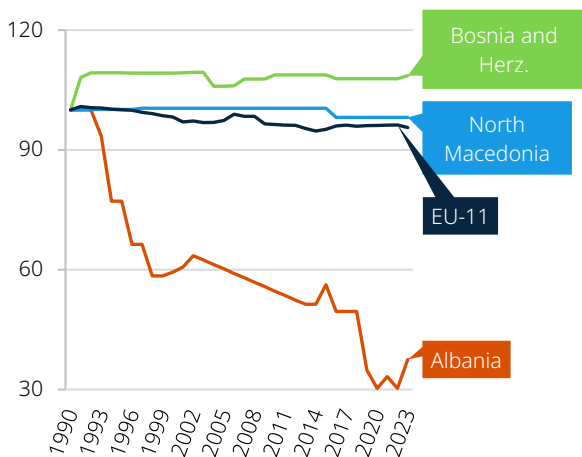
⁹³ See Transport Community (2022).

supported by the EU and the EBRD, Albania embarked on the reconstruction and modernisation of the Rinas–Tirana–Durrës railway line in 2022. This will include a direct rail link to Tirana airport, the first direct rail connection to an airport in the region. While funding was secured in 2024, Albania will need to tackle capacity constraints to avoid bottlenecks in the preparation and construction of the Vore to Hani i Hotit rail line, which will connect Albania and Montenegro.

Albania has approved or updated several laws to align with the EU's Rail Action Plan, supporting the establishment of key institutions, including the National Investigating Body, the Rail Regulatory Agency and the unbundling of the National Rail Company (HSH) into four separate entities responsible for infrastructure, freight operations, passenger operations and vehicle maintenance.⁹⁴ However, full operationalisation has been delayed by constraints on budgetary allocations and human resources.⁹⁵

Figure 59. Decades of underinvestment resulted in a deterioration in Albania's railway networks ...

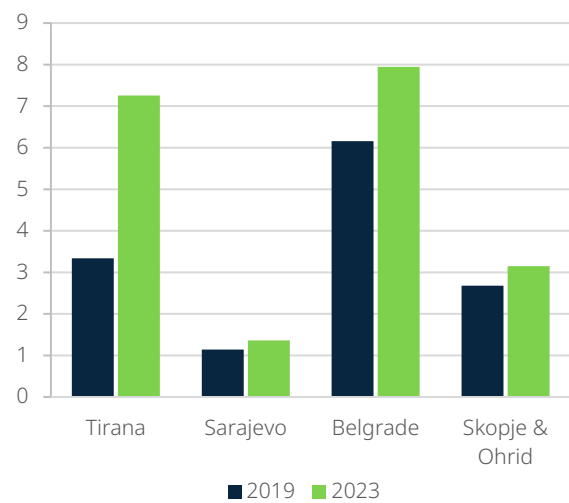
Railway network length (1990=100)



Source: Eurostat.

Figure 60. ... while air transport witnessed remarkable expansion

Number of passengers (million)



Source: National airport data.

Albanian road connectivity is improving, but more needs to be done to bring road safety up to EU standards. With the incorporation of Corridor VIII into the Trans-European Transport Network (TEN-T) network and progress on the Adriatic-Ionian corridor, Albania is enhancing its links to south-eastern and central Europe through the Western Balkans. There are six projects currently underway, involving the construction or enhancement of close to 140 km of roadways and total investment of more than €1 billion.⁹⁶ Although Albania has enhanced road safety to some degree with the assistance of the World Bank, the number of road fatalities remains high and increased further in 2023.⁹⁷ A new road safety strategy is being prepared, which should be accompanied by a step-up in inspection capacity.

The recent surge in tourism has led to remarkable growth in air travel, with passenger numbers at Tirana International Airport more than doubling over the past five years (Figure 60). Following a change in ownership and concession terms, which lifted the monopoly rights of an international consortium at Tirana International Airport, a second airport was opened in Kukës in 2021, although no flights currently operate from it. Meanwhile, the construction of a third airport in Vlorë, in southern Albania, is advancing, despite significant environmental concerns. The successful operation of the airport could significantly boost the local economy and tourism, as well as alleviate congestion on the main roads to Tirana. However, additional infrastructural development, including roads, logistics and built infrastructure, is essential to realise the potential of regional development.⁹⁸

⁹⁴ See Transport Community (2023a).

⁹⁵ Ibid.

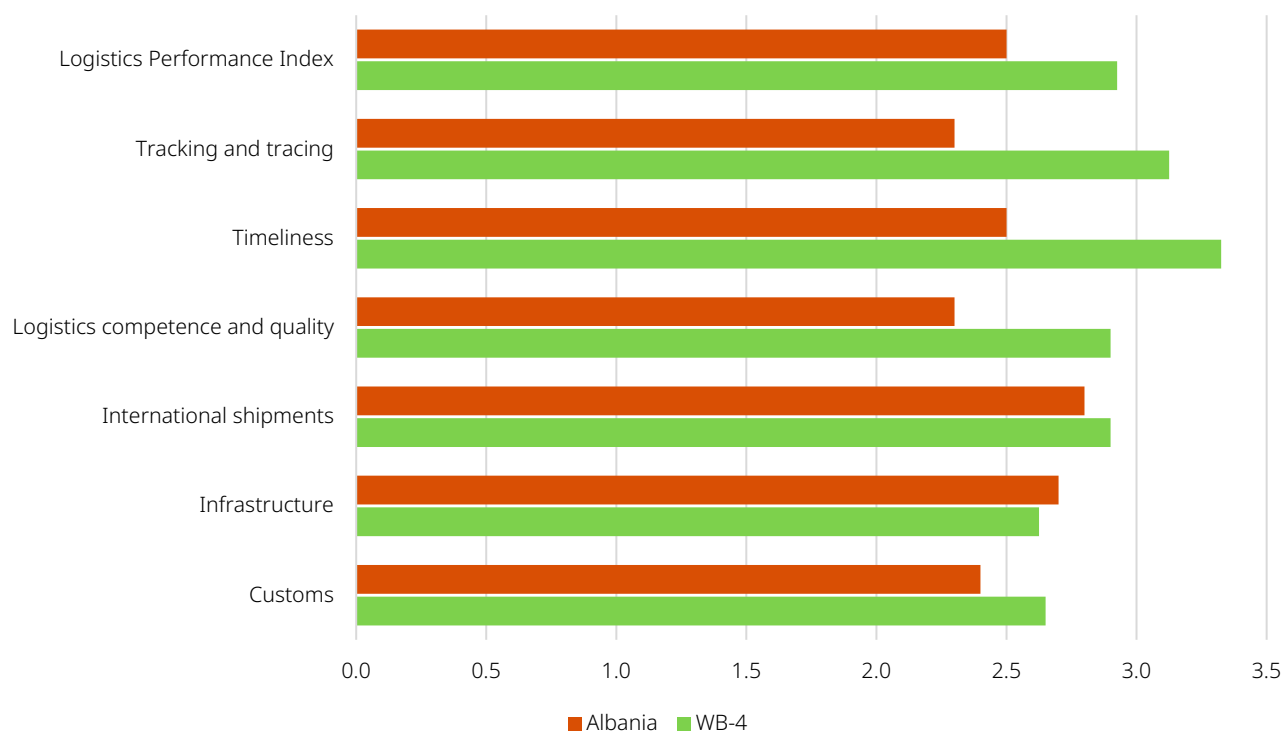
⁹⁶ See Transport Community (2023b).

⁹⁷ See Transport Community (2023c).

⁹⁸ See Gadgin Matha et al. (2020).

Figure 61. Logistics performance needs to catch up with the region

Logistics Performance Index and its subindices: 0 (worst) – 5 (best)



Source: World Bank (2023b).

Enhancing trade logistics is critical to Albania's integration into global value chains. Despite improvements in certain logistics indicators, such as customs quality and efficiency, Albania's overall logistics performance has declined over the past five years and continues to lag that of the EU and its regional counterparts (Figure 61).⁹⁹

Progress on digital connectivity has resulted in lower prices and greater access to fixed broadband. Nevertheless, there are still large regional differences. While urban areas have well-established ICT infrastructure, rural areas continue to face significant challenges due to higher investment costs and limited access.¹⁰⁰ The roll-out of 5G, which will play a crucial part in Albania's national infrastructure, is nascent. A national plan for 5G adoption was launched in 2020 with the aim of deploying 5G within five years. However, tender procedures to authorise 5G technology have been delayed for technical and bureaucratic reasons.¹⁰¹

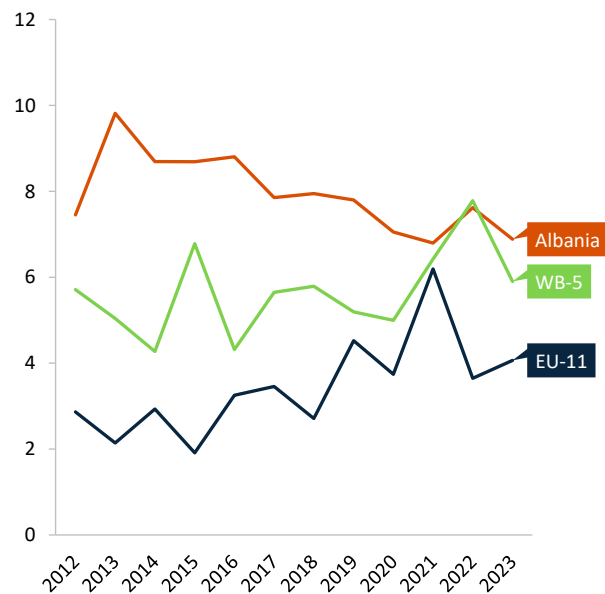
⁹⁹ See World Bank (2023).

¹⁰⁰ See United Nations (2022).

¹⁰¹ See AKEP (2022) and CNA (2024).

Figure 62. FDI inflows have remained above those of regional comparators ...

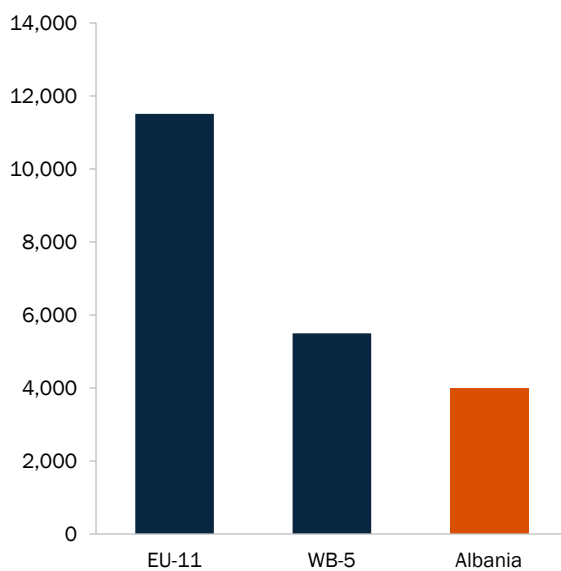
Net FDI inflows as a percentage of GDP (%)



Source: UNCTAD data, authors' calculations.

Figure 63. ... but the stock of FDI remains low compared with regional peers

FDI stock per capita, 2022, US\$ million at current prices



Source: UNCTAD data, authors' calculations.

Over the past decade, Albania has attracted FDI inflows worth 8 per cent of GDP annually, increasing its FDI stock **threefold in nominal terms and outpacing its regional counterparts** (Figure 62). However, starting from a lower level, FDI stock on a per capita basis still lags both the WB-5 and EU-11 countries (Figure 63). Switzerland has become a significant investor, responsible for around 16 per cent of the overall FDI stock, primarily through contributions to the Trans-Adriatic pipeline (which accounted for more than one-third of overall FDI between 2015 and 2022). Meanwhile, FDI from the EU has decreased to 54 per cent from nearly two-thirds in 2015, although it still accounts for the largest share. Albania is set to attract further significant FDI, with its growing tourism industry expected to lure more funds to the construction sector.¹⁰²

102 See IMF (2024).

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Abbreviations

BEEPS	Business Environment and Enterprise Performance Survey
CBAM	carbon border adjustment mechanism
EBRD	European Bank for Reconstruction and Development
ETS	emissions trading system
EU	European Union
EU-11	Member states that joined the EU after 2004 (excluding Cyprus and Malta): Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia
FDI	foreign direct investment
GDP	gross domestic product
GFC	global financial crisis
ILO	International Labour Organization
IMF	International Monetary Fund
INSTAT	Institute of Statistics of Albania
LNG	liquefied natural gas
MIE	Ministry of Infrastructure and Energy
NECP	National Energy and Climate Plan
OECD	Organisation for Economic Co-operation and Development
OSSH	Operatori i Shpërndarjes së Energjisë Elektrike (electricity distribution company)
OST	Operatori i Sistemit të Transmetimit (transmission systems operator)
PIM	public investment management
PPP	public-private partnership
ppp	purchasing power parity
PV	photovoltaic
REMIT	Regulation on Wholesale Energy Market Integrity and Transparency
SPAK	Struktura e Posaçme Anti-Korrupsion (Special Anti-Corruption Structure)
TAP	Trans-Adriatic Pipeline
TFP	total factor productivity
TSE	Tirana Stock Exchange
UNCTAD	UN Trade and Development
VET	vocational education and training
WB-5	Five countries in the Western Balkans region (Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia)
WBIF	Western Balkans Investment Framework
WDI	World Development Indicators
WGI	Worldwide Governance Indicators
WITS	World Integrated Trade Solutions

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