



ALBANIA

Highlights

- **The economy has started to recover in 2021.** After a 3.3 per cent contraction in 2020, gross domestic product (GDP) rose by 17.9 per cent year-on-year in the second quarter of 2021, driven by a recovery in domestic and external demand.
- **A new law on climate change has been adopted.** The law is an important step towards a comprehensive legal and inter-institutional framework for climate action at the national level.
- **A large-scale overhaul of the railway network has started.** In early 2021 the contract to upgrade the railway linking the capital, Tirana, with the country's largest port, Durrës, was signed.

Key priorities for 2022

- **Fiscal reforms need to be strengthened to ensure sustainability of long-term public debt.** The authorities should maintain targeted support for those affected by the Covid-19 pandemic but also adopt an appropriate medium-term revenue strategy, improve public investment management and enhance the management of fiscal risks stemming from public-private partnerships, state-owned enterprises and government guarantees.
- **The business environment needs to be improved so that more private-sector companies can reach their potential.** Simplifying the tax system and procedures, strengthening the public administration capacity and fighting corruption would help reduce informality and level the playing field for businesses.
- **Financial stability should be monitored carefully.** The financial sector has remained liquid and stable throughout the Covid-19 pandemic but attention needs to be paid to the progress of restructured loans to detect any potential vulnerabilities early.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	3.8	4.0	2.1	-3.3	8.0
Inflation (average)	2.0	2.0	1.4	1.6	1.9
Government balance/GDP	-1.4	-1.3	-2.0	-6.9	-6.7
Current account balance/GDP	-7.5	-6.7	-7.9	-8.9	-8.6
Net FDI/GDP [neg. sign = inflows]	-8.6	-8.0	-7.5	-6.9	-6.7
External debt/GDP	68.8	65.1	60.0	66.0	n.a.
Gross reserves/GDP	25.9	26.5	24.4	30.3	n.a.
Credit to private sector/GDP	34.8	33.0	34.4	38.9	n.a.

Covid-19: macroeconomic implications

The economy has started to recover. GDP contracted by 3.3 per cent in 2020, mostly on the back of lower exports – especially of services, which make up nearly 75 per cent of all exports and primarily consist of tourism receipts – and a drop in household consumption. The GDP contraction was smaller than expected, mainly because of accommodative fiscal policies and an uptick in construction and real estate sector activities (especially in the second half of 2020), linked to rebuilding activities following the November 2019 earthquake. GDP rose by 5.5 per cent year-on-year in the first quarter of 2021 and by 17.9 per cent in the second quarter, driven by strong investment growth, higher consumption and a healthy export recovery in the second quarter. Exports of goods increased by more than 30 per cent year-on-year in nominal terms in the first nine months of 2021, largely on the back of construction materials, metals, mineral products and textiles and footwear. The tourism sector also seems to be recovering. After the government lifted all Covid-19 pandemic restrictions for foreigners entering the country, the number of tourists in June, July and August 2021 almost reached levels seen in the same months in 2019. This recovery was largely due to more tourists from neighbouring Kosovo and North Macedonia.

Public debt remains high. General government debt increased sharply in 2020 by around 10 percentage points, reaching 77.6 per cent of GDP at the end of the year. A further increase is likely, as in June 2021 the government announced plans to place another Eurobond by the end of the year.

GDP should exceed its 2019 level by the end of 2021. A rebound is under way in 2021, with GDP expected to grow by 8.0 per cent, as household consumption demand and the tourism sector are recovering well. The planned large public investment programme, including continued reconstruction activities after the 2019 earthquake, should also boost domestic demand. Goods exports are also picking up strongly. The economy is expected to grow further at 3.7 per cent in 2022. These forecasts assume that there will be no resurgence of the Covid-19 pandemic; downside risks include the possibility of further tourism disruptions during the post-pandemic phase.

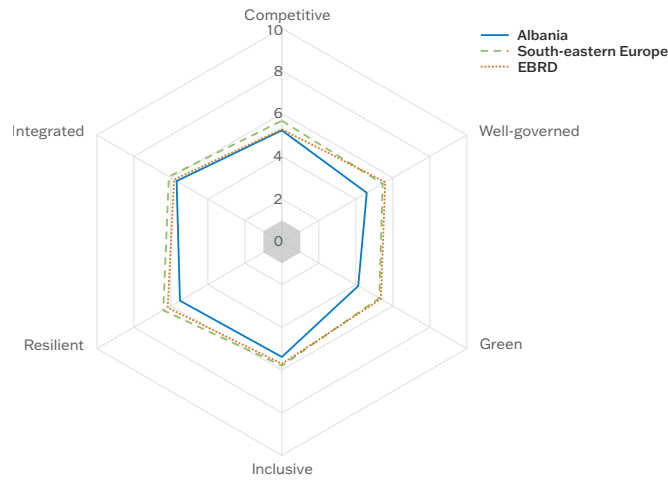
Policy response to Covid-19

A new guarantee fund is to be established. After two sovereign guarantee funds in 2020, in June 2021 the government announced plans to launch a third one. The €100 million fund is to issue loan guarantees to companies whose operations were negatively affected by the containment measures, primarily companies in tourism and manufacturing. The guarantees should be equally divided between the two sectors.

The total budget for Covid-19-related expenditures in 2021 is 1.0 per cent of GDP.

The budget targets extra spending on healthcare, including higher wages for healthcare workers, along with increased social assistance and unemployment benefits. In January 2021 the Bank of Albania (BoA) extended the suspension of dividend distribution by banks until the end of 2021. In February 2021 the BoA and the European Central Bank (ECB) agreed to prolong the duration of the repurchase agreement (repo) line set in mid-2020 until March 2022. The BoA can borrow up to €400 million from the ECB in exchange for adequate euro-denominated collateral.

Assessment of transition qualities (1-10)



Structural reform developments

No decision has been made on the opening of European Union (EU) accession negotiations.

Despite the green light in March 2020 and the fact that Albania subsequently met the conditions set by the European Council for organising the first intergovernmental conference (IGC), no consensus on the IGC (the formal start of negotiations) has been possible in 2021. In June 2021 the Council concluded that this issue ought to be addressed during Slovenia’s presidency of the EU in the second half of 2021.

The government is developing a strategy to promote business and investment.

In July 2021 a new Business and Investment Development Strategy 2021-27 and the associated action plan were adopted following public consultations held in June. The strategy aims to improve access to finance for businesses, introduce a financial scheme for human capital development and attract foreign investors while retaining existing ones. Also, new tax legislation entered into force in 2021. Taxpayers with an annual income of less than ALL 14 million (€115,000) now pay zero corporate income tax (versus 5 per cent previously). The same applies for local taxes for taxpayers with an annual turnover of less than ALL 8 million (€65,000), while the threshold for the application of value added tax (VAT) has been increased fivefold, to ALL 10 million (€80,000). In addition, a new fiscal reform was introduced to mandate online reporting of all issued invoices and receipts for all businesses, thus aiming to reduce informality and increase fiscal revenues.

The country has adopted the Law on Climate Change.

The law, approved in December 2020, envisions, among other measures, submitting the country’s Nationally Determined Contribution on reducing greenhouse gas emissions to the United Nations Framework Convention on Climate Change, and creating a comprehensive legal and inter-institutional framework for climate action at national level. In addition, it provides the legal basis for the country to adopt the National Energy and Climate Plan for the period 2021-30.

The construction of the third-largest solar park in the country is advancing.

In March 2021 French company Voltalia won the tender to build and operate the 100 MW Spitalle solar park in Durres.

The authorities are set to increase the number of international airports in the country to support tourism development. In April 2021 Albania opened its second international airport in Kukes in the north east of the country. The airport was built in 2006 but was not made operational until now. Progress has also been made in the past year towards building further airports. In November 2020 the government reopened a tender for the construction of a new airport in Vlora, in the south of the country. Four months later, a 35-year concession for operating Vlora Airport was approved. And in August 2021 a €37 million tender was announced for the construction of a fourth airport, in the southern city of Saranda.

A large-scale overhaul of the railway network in Albania has started. In February 2021 the first contract for upgrading works was signed, supported by the European Bank for Reconstruction and Development (EBRD) and the EU. Under the contract, more than 34 km of the existing railway between Tirana and the country's largest port (Durrës) will be upgraded. In addition, a new 5 km rail track connecting Tirana city with Tirana International Airport will be constructed.

The banking sector remains well capitalised and liquid but non-performing loans (NPLs) are still relatively high. At the end of March 2021 the capital adequacy ratio stood at 18.1 per cent and one-third of banks' assets were liquid. The NPL ratio has slightly declined over the past year but, at 7.8 per cent at the end of May 2021, it remains the highest in the Western Balkans and could start rising again if the economy fails to recover as predicted.

