



Albania

Highlights

- **Economic growth is slowing down.** Strong domestic demand and an expanding hospitality sector led the 8.5 per cent expansion in 2021, but the pace of growth slowed in the first half of 2022 as output grew 4.2 per cent year on year.
- **Most public services have been digitalised.** Continuous progress in this area since 2013 means that nearly all public services in Albania where an in-person meeting is not essential are now offered solely online, despite pervasive cyber security problems.
- **The national energy and climate plan (NECP) has been adopted.** Albania was the first Western Balkans country to adopt the framework, which includes accelerating the development of non-hydro renewables and energy efficiency measures to reduce greenhouse gas emissions.

Key priorities for 2023

- **Fiscal reform would create more policy space and improve longer-term sustainability.** The medium-term fiscal strategy should mobilise revenue and create space for targeted social protection measures by broadening the tax base, boosting tax compliance and reducing the cash economy. In terms of sustainability, it should account for fiscal risks stemming from public-private partnerships and guarantees for public companies.
- **Diversification of renewable energy should lead to greater energy security.** In light of energy security concerns, developing the sizeable pipeline of solar and wind projects should be accelerated.
- **The business environment should be further improved.** Key measures that should be given priority include simplifying the tax system and streamlining procedures, enhancing support for micro, small and medium-sized enterprises and incentives to formalise activities, ensuring the security of e-government services and increasing the effectiveness of the public-private dialogue.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	4.0	2.1	-3.5	8.5	3.0
Inflation (average)	2.0	1.4	1.6	2.0	6.2
Government balance/GDP	-1.3	-1.9	-6.7	-4.5	-4.1
Current account balance/GDP	-6.7	-7.9	-8.7	-7.7	-8.6
Net FDI/GDP [neg. sign = inflows]	-8.0	-7.5	-6.7	-6.4	-6.5
External debt/GDP	65.1	60.0	64.4	63.1	n.a.
Gross reserves/GDP	26.5	24.4	29.7	32.1	n.a.
Credit to private sector/GDP	33.0	34.1	38.0	36.0	n.a.

Macroeconomic developments and policy response

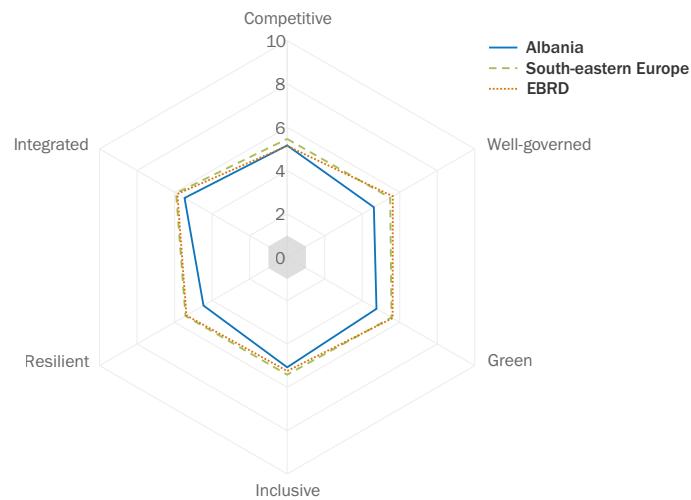
Economic expansion is slowing. The economy recovered by a strong 8.5 per cent in 2021 on the back of a major rebound of the sizeable tourism sector and heightened domestic demand. The expansion continued into the first quarter of 2022 as output grew by 6.5 per cent but slowed in the second quarter to 2.2 per cent as export and private investment growth were muted, though household consumption remained robust. Strong credit growth to residents, at 14 per cent year on year in August 2022, and steady inflows of remittances supported a 9 per cent annual increase of household consumption in the first half of the year. In spite of continually high credit growth to private companies, investment contracted by 7 per cent year on year in the second quarter given last year's strong expansion, with construction activity falling accordingly. As manufacturing output slowed and industrial activity contracted year on year in the second quarter, exports of goods continued to grow annually in real terms at a more moderate pace of 15 per cent compared with 44 per cent in the first quarter. In the first eight months of 2022 foreign tourist arrivals were up by 29 per cent annually and by 16 per cent compared with pre-pandemic levels while domestic trade posted double-digit growth in the first half of the year.

Inflation is rising but the exchange rate remains stable. Driven by globally higher prices of imported food and oil, annual inflation reached 8.1 per cent in September 2022. Though subdued by regional standards, this level of inflation is the highest in the last 20 years and weighs heavily on households for whom essentials such as food and utilities account for as much as 42 per cent and 10 per cent of consumption expenditure, respectively. Surging electricity prices in international markets did not affect Albanian consumers until October 2022, despite the country's frequent reliance on imports to supplement fluctuating domestic production from hydro sources, as the public sector absorbed the rising costs. The current account deficit narrowed in the first half of 2022, as robust goods and services export growth offset the rise in imports, supporting the relative stability of the exchange rate.

Policy measures are shielding the economy from rising prices. Following nearly two years of record low policy rates, the national bank tightened monetary policy four times in the first 10 months of 2022, raising the policy rate from 0.5 per cent in March to 2.25 per cent in October. In light of the start of the war on Ukraine and mounting energy security concerns, the government adopted the Social Resistance Package in March 2022. This includes measures such as pension indexation, subsidies for vulnerable groups, temporary tax relief on income (for all) and oil (for farmers), a slight increase in the minimum wage and a heightened energy price shield for firms. As another €100 million was pledged for inflation relief measures, further amendments in pension indexation, an increase in the electricity price for large consumers, and an increase in the minimum wage were approved in September 2022, alongside public sector wage indexation and the scaling up of social transfers. The fiscal deficit in 2022 was revised downwards in September, given better than expected fiscal performance in the first eight months of the year, and is projected at 4.1 per cent of gross domestic product (GDP), with public debt expected to decline in 2022.

Growth is expected to moderate further as downside risks increase. Economic growth is projected at 3.0 per cent in both 2022 and 2023. Key risks to the near-term outlook include rising inflation and tightened financing conditions, which dampen household consumption and investment. On the positive side, initial figures point to a strong tourism season which should boost external and fiscal accounts ahead of the challenging heating season and lead growth in the third quarter of the year.

CHART Assessment of transition qualities (1-10)



Structural reform developments

European Union (EU) accession negotiations have begun. The long-awaited formal opening of the EU accession negotiations, the first intergovernmental conference, took place on 19 July 2022. It was followed by the inaugural launch by the European Commission of the screening process.

Nearly all public services are now available online. According to the authorities, 95 per cent of services delivered by the public administration are to be provided solely online from May 2022, with in-person service windows set to be shut down, in a bid to reduce corruption and improve service quality and transparency. The now all-encompassing e-Albania portal has been active since 2013, with public services continually added to the platform in parallel to simplifying processes through deregulation reform. However, digitalisation has not been smooth sailing for the country, as security breaches in December 2021 and April 2022 exposed the personal and income data of over a fifth of Albanians. The government was additionally forced to briefly shut down the online provision of services in July 2022 due to a cyber attack. Some 91 per cent of Albanian households have access to the internet, the highest rate in the Western Balkans.

Albania has adopted the National Energy and Climate Plan (NECP). Adopted in December 2021, the plan represents the framework governing Albania's energy transition efforts until 2030 and will be continually updated. The Albanian energy sector is unique in the Western Balkans due to its near complete dependence on hydropower for electricity generation, giving the country the opportunity to focus its decarbonisation efforts on other emission-intensive sectors such as industry. While domestic energy production is largely green, consumption is frequently supplemented by imported fossil fuels. The plan's targets for the period considered include reducing greenhouse gas emissions by nearly a fifth, cutting energy consumption, and increasing the share of renewables in final energy demand to over a half.

The constitution was amended to allow the vetting of the judiciary to continue. The vetting process has been a cornerstone of judicial reform in Albania, initiated in 2016 and extended for another two years via a constitutional amendment in February 2022. Judicial reform was one of the key conditions set by the EU for the beginning of accession talks. Though judged by the European Commission as effective in fighting deep-rooted corruption in the judiciary, the vetting process has taken longer than expected and resulted in a backlog of cases for courts due to a high number of the judiciary leaving their posts. Out of over half of the vetting files processed so far, some 60 per cent have resulted in dismissals or terminations due to resignations or retirement age being reached.

The second and final tranche of the EU's macro-financial assistance (MFA) was disbursed. The tranche, equal in size to the first one and amounting to €90 million, was disbursed in November 2021 as Albania had fulfilled the policy conditions agreed with the EU, including measures to strengthen public finance and financial sector resilience, improve governance and enhance social protection.