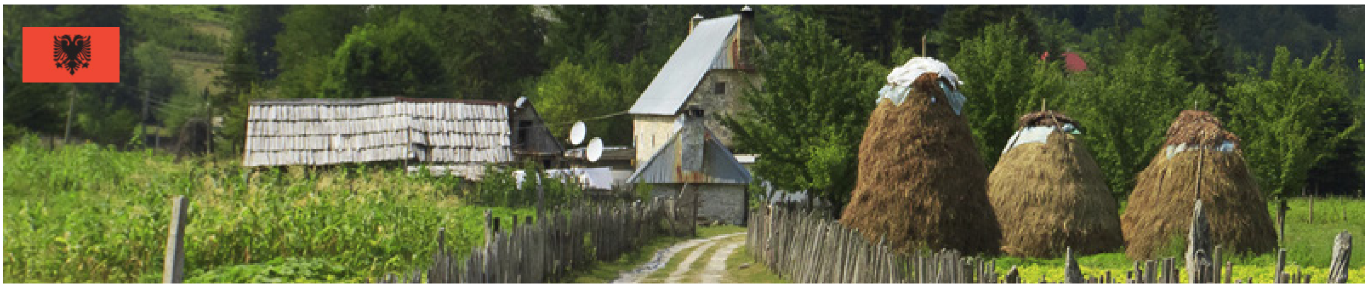

Albania

Highlights

- **The economy is growing steadily.** Real gross domestic product (GDP) growth slowed to 3.9 per cent in 2023 (from 4.8 per cent the previous year), according to the most recent data, revised in line with EU methodology, and is expected to remain at a similar level in the short term, thanks to continued tourism growth and rising private consumption as a result of lower inflation and higher wages.
- **Electricity market coupling with Kosovo has taken place.** This is the first coupling project in the Western Balkans region and has the potential to provide substantial benefits to both economies in terms of supply security and the price competitiveness of electricity.
- **The Public Finance Management Sectoral Strategy for 2023-30 has been approved.** The new strategy focuses on transparency, accountability and efficiency in managing public resources to enhance service delivery and drive economic development.

Key priorities for 2025

- **The business climate must improve if the private sector is to develop further.** Priorities include strengthening the enforcement of justice and anti-corruption reforms, adopting a unified investment law, implementing adequate consumer protection laws and reducing cash payments throughout the economy.
- **Reforms to enhance revenue generation should be followed through.** The amended income-tax law, which came into effect in 2024, broadened the tax base by making self-employed professionals subject to personal income tax. However, the adoption of a new law on property tax has been postponed. The draft Medium-Term Revenue Strategy, including measures to increase tax revenue as a share of GDP, is set to be adopted soon. Further efforts to implement these laws are needed in order to sustain investments in physical and human capital and to firmly anchor the downward trend in public debt.
- **The implementation of the National Single Project Pipeline (NSPP) should be high on the agenda.** Key short-term measures include ranking the projects on the list and integrating public-private partnerships into the NSPP. A new public finance management strategy for 2024-30 was approved in June 2024 to improve transparency, accountability, fiscal discipline and efficiency in the use of public resources, but implementation of the law and the strategy depends on the availability of funding and human resources.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	-3.3	8.9	4.8	3.9	3.5
Inflation (average)	1.6	2.1	6.7	4.8	2.3
Government balance/GDP	-6.7	-4.6	-3.7	-1.1	-2.2
Current account balance/GDP	-8.7	-7.7	-6.0	-1.2	-5.0
Net FDI/GDP [neg. sign = inflows]	-6.7	-6.5	-6.6	-5.8	-5.0
External debt/GDP	63.9	64.0	54.1	46.3	na
Gross reserves/GDP	29.5	32.6	27.4	26.8	na
Credit to private sector/GDP	35.2	33.9	31.5	30.6	na

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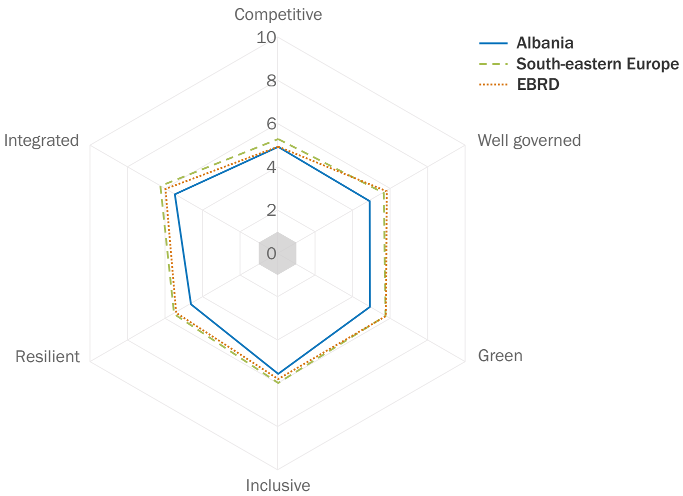
Macroeconomic developments and policy response

Economic growth in 2024 has remained similar to that of the previous year. Following the slowdown in real GDP growth to 3.9 per cent in 2023, according to revised data based on the new methodology, mainly driven by weaker domestic demand, real output rose by 3.9 per cent year on year in the first half of 2024. Growth was driven by construction and services, while industrial production contracted. This was also evident on the expenditure side, where the biggest expansion was recorded in private consumption and fixed investment. In contrast, net exports fell markedly due to a 15 per cent decline in goods exports, dented by currency appreciation and low external demand. As a result, in the first half of 2024, the current account deficit increased by 50 per cent from the first half of 2023 to almost €600 million, despite increasing remittance inflows.

Inflation is back within the target band. Having reached an annual rate of 8.3 per cent in October 2022, inflation has declined steadily ever since, reaching 1.9 per cent in October 2024, partly on the back of the strong local currency appreciation, but also due to a high base effect from 2023. In response to easing inflation, the Bank of Albania (BoA) cut the policy rate by 0.25 percentage point in July and again in November 2024 (to 2.75 per cent). Credit growth started to slow, to around 1 per cent in January 2024, but accelerated sharply to over 12 per cent in the third quarter. Fiscal policy remains expansionary, including a further public-sector wage increase from July 2024, with an estimated budgetary impact of ALL 40 billion (€400 million). The government's budget plan for 2024 forecasts a deficit of 2.5 per cent of GDP, even though a surplus of around 2.4 per cent was recorded in the first seven months. Public debt stood at 55.7 per cent of GDP in the first half of 2024, its lowest level since 2008. The Albanian lek has appreciated by 12.5 per cent against the euro in the past two years, but has remained stable in recent months, partly as a result of central bank intervention in the market.

Steady growth is set to continue in the near term. Real output growth is expected to be 3.5 per cent in 2024 and 3.7 per cent in 2025 on the back of the continued strong performance of the hospitality sector and an improvement in the global outlook. The main downside risks arise from a possible drought, which would negatively affect agricultural output and electricity supply.

Assessment of transition qualities (1-10)



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Structural reform developments

Reform plans are set to receive substantial external support. Under the European Union's (EU) Growth Plan for the Western Balkans, Albania would receive €922.1 million over 2024-27, conditional on fulfilling reforms set out in the country's reform agenda. Key areas of reform include: the improvement of the business environment, human capital development, judicial efficiency, the fight against corruption, freedom of expression, the deployment of renewables and energy market reforms, the digital transition, particularly in public services, and enhanced cybersecurity.

The Public Finance Management Sectoral Strategy 2023-30 has been approved. The new strategy, approved in June 2024, focuses on transparency, accountability and efficiency in managing public resources to improve service delivery and economic development. The strategy outlines several key objectives in six pillars, such as stronger fiscal and macroeconomic policies, enhanced planning and reporting, increased revenue mobilisation, improved budget management, strengthened internal controls and green economy integration. The indicative cost of implementing the strategy is around €11.5 million, most of which is expected to be provided by external development partners. Most of the costs relate to revenue mobilisation and management, including the enhancement of tax and customs administration capacities.

Measures have been taken to boost the attractiveness of jobs in the public sector. In line with the public-sector wage reform undertaken in 2023, the government approved a salary increase, averaging around 15 per cent, for the pre-university education, healthcare and security sectors. The education sector will see the biggest boost, with over €110 million allocated to teacher salaries alone, raising wages by a cumulative 35 per cent to 60 per cent over two years. This investment aims to improve the quality of education by attracting and retaining better-qualified staff. In addition, the government is working on a tax-relief package for young people up to 29 years old, aiming to promote youth employment by offering tax deductions based on age.

A National Employment and Skills Strategy 2023-30 has been approved. The new strategy, approved in March 2023, focuses on skills development and better matching of demand to supply in the labour market. It also aims to foster employment for both women and men through comprehensive labour-market policies.

Amendments to the law on the support and development of start-ups have been passed. These amendments, adopted by parliament in June 2023, allow the establishment of the Start-up Albania agency, which will be responsible for developing and supporting start-ups, both financially and by facilitating communication with third parties during the incubation period, which can last up to 24 months. It will periodically monitor start-ups and facilitators of start-ups that have received grants. In addition, two new bodies will be established to evaluate requests from start-ups and start-up facilitators – the Evaluation Commission and the Appeals Commission, respectively.

Albania has set in motion its "Youth Guarantee". The Youth Guarantee, announced in October 2023, aims to ensure that all young people under the age of 25 receive a good-quality offer of employment or the opportunity for continued education, an apprenticeship or a traineeship within four months of becoming unemployed or leaving formal education. The government has also approved a corresponding implementation plan. In the first quarter of 2024, the pilot phase of the Youth Guarantee was launched in three cities – Shkodra, Tirana and Vlora – to test the scheme and allow adjustments before the national roll-out.

The BoA is expected to officially submit an application for membership of the Single Euro Payments Area (SEPA) in 2024. As part of the EU growth plan, Albania has received the green light from the European Commission to join SEPA, a unified payment system encompassing most EU countries and several other European nations. Membership will significantly reduce fees for cross-border transactions between Albanian and EU financial institutions, fostering greater financial interconnectedness and facilitating smoother international commerce. The BoA and other relevant government agencies are actively pursuing the necessary regulatory steps to meet SEPA's stringent requirements.

Resilience in the banking sector is being strengthened. Fast credit growth in recent months has prompted the central bank to increase the countercyclical capital buffer (CCB) from 0 to 25 basis points, indicating that the BoA is taking additional measures to manage systemic risk. In times of strong credit growth, the CCB requires banks to increase their level of capital by 0.25 per cent of risk-weighted assets to build resilience in the banking sector during periods of stress, when losses occur.