

ALBANIA

Key conditions and challenges

Table 1 2020

Population, million	2.8
GDP, current US\$ billion	15.1
GDP per capita, current US\$	5290.1
Upper middle-income poverty rate (\$5.5) ^a	33.8
Gini index ^a	33.2
School enrollment, primary (% gross) ^b	104.8
Life expectancy at birth, years ^b	78.5

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

Notes:

(a) Most recent value (2017), 2011 PPPs.

(b) WDI for school enrollment (2019); life expectancy (2018).

Albania was hit hard, first by an earthquake in November 2019 and then the COVID-19 pandemic. As tourism and services contracted sharply, GDP and employment slumped. Reconstruction and COVID19 related stimulus alleviated the shocks, but at the cost of fiscal space erosion in a context of high economic uncertainty for the years ahead. Reconstruction is likely to be the main driver of the recovery in 2021, followed by a milder growth in private demand due to ongoing travel restrictions.

Albania's economy grew by 3.3 percent in 2015-2019, achieving significant reform progress while aspiring to EU membership. A few large renewable energy projects and expansion in tourism¹ and garments' manufacturing exports drove GDP and employment growth. However, productivity has stagnated below that of peer countries, and wage pressures could reduce competitiveness. Small and Medium Enterprises (SMEs) represent more than 90% of private firms and rely on low-skilled, low-wage labor. Limited access to finance, burdensome logistics and poor market integration discourage private investment, while scarce public revenues limit public infrastructure and human capital investment.

Growth halted in 2019, as the earthquake further exposed the country's low buffers. Fiscal consolidation was put on hold and external vulnerabilities reemerged.

The pandemic hit Albania's key sectors of tourism and manufacturing through the recession in the EU, supply chain disruptions, travel limitations and social distancing measures.

GDP is projected to have declined by 4.7 percent in 2020 due largely to a slowdown in tourism, though smaller than initially projected as domestic tourism demand partially compensated for the drop in foreign visits. Public support packages for reconstruction and to mitigate the crisis

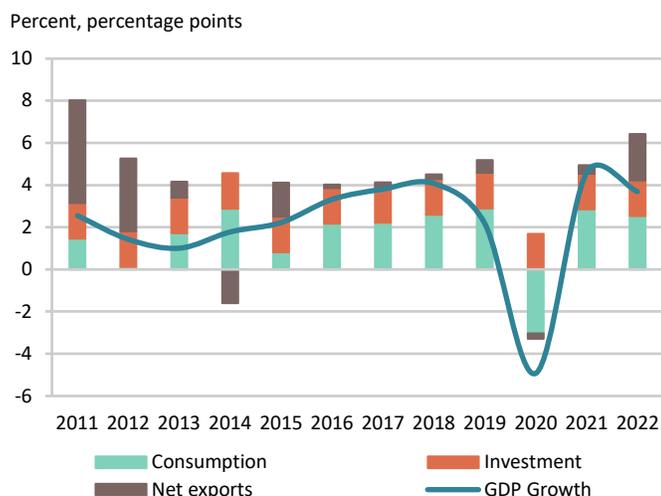
had a small estimated success in preventing an increase in poverty and had a significant fiscal cost. Recently introduced tax incentives further stress already declining revenues. Delayed global vaccine rollout could cause long-lasting travel restrictions and prevent a recovery of the country's services and manufacturing, worsening the performance of businesses and delaying the full recovery in employment. The normalization of the global economy will have a significant impact on the shape of the recovery.

Recent developments

As key economic sectors were put in lockdown, the economy experienced a sharp contraction of 10.2 percent in Q2. Travel and tourism services were among the first sectors hit and a combination of official restrictions and post-COVID behavior change reduced both supply and demand. Sales, profits and employment losses affected SMEs disproportionately. Unemployment rose to 11.9 percent in Q2. Social distancing measures were lifted in the summer and employment bounced back, with tourism and reconstruction partially absorbing job losses in manufacturing. While total job losses have been relatively

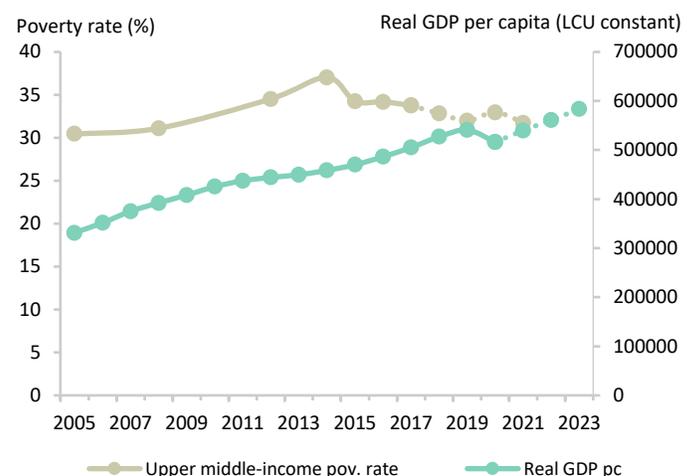
¹n = up to 2016 poverty is measured using consumption data from the Household Budget Survey; starting in 2017 income data from the Survey of Income and Living Conditions are used to measure and forecast poverty.

FIGURE 1 Albania / Real GDP growth and contributions to real GDP growth



Sources: INSTAT and World Bank.

FIGURE 2 Albania / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

small, the quality of jobs has likely decreased, as Albania employs a large share of labor in the informal economy. Despite the employment recovery, economic activity continued to contract by 3.4 percent in Q3. Private consumption and investment declined sharply, as the number of infections consistently rose during the year. Declining garment processing orders led a sharp decline of 6.7 percent of goods exports, while tourist visits decreased by 60 percent.

Poverty (at USD 5.5 per day) is estimated to have increased in 2020 by 1 percentage point, equivalent to 28 thousand new poor. Response measures included increased social assistance benefits, wage subsidies, credit guarantees to ease salary payments and working capital, which are estimated to have prevented a further poverty increase of about 1.7 percentage points. Tax deferrals and further VAT exemptions were introduced to help SMEs, while public spending rose to 33.7 percent of GDP and public revenues slumped to 26.7 percent of GDP, despite large grants financing reconstruction. The fiscal stimulus package increased public debt to 80 percent of GDP, a first-time increase since 2017, as the fiscal rule mandates that debt-to-GDP ratio should decline annually².

Outlook

Tourism and travel are likely to remain limited until global vaccination rollout is completed. In this scenario, GDP is forecasted to grow by 4.4 percent in 2021 as exports, consumption and investment partially rebound. The services sector, led by tourism, and construction are expected to be key drivers of the recovery, in part thanks to reconstruction investment, following evidence from similar disasters in developing economies. Poverty is expected to decline in line with the recovery by about 2 percentage points. In the years following, private consumption will play an increasingly important role in growth, supported by reconstruction efforts. Private investment will contribute to growth, provided that the government continues to implement business climate reforms. Beyond 2021, government spending will likely be constrained by limited fiscal space. The fiscal situation could deteriorate in a downside growth scenario and in the absence of expanded revenue collection. In this case, the government may need to further reduce capital spending to keep the debt to GDP ratio from rising.

The current account deficit is expected to narrow to 8.8 percent of GDP in 2021 and further decline to 6.5 percent in line with the pre-crisis trends, driven by projected improvements in the trade balance. Service exports, including tourism and fast-expanding business-process operations should narrow the trade deficit over the medium term. Import growth will be high at 13 percent in 2021, as infrastructure investment speeds up.

With economic activity picking up, revenues are projected to recover to 27.6 percent of GDP by 2022-2025. Albania's public debt is projected to only marginally decrease to 79.5 percent of GDP in 2021. The employment outlook is largely dependent on the recovery of the services sectors and reconstruction, where jobs are mostly low pay and vulnerable to economic uncertainty.

^{2/} The fiscal rule includes an escape clause in the case of an emergency, which applied in 2020.

TABLE 2 Albania / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.1	2.2	-4.7	4.4	3.7	3.7
Private Consumption	3.3	3.3	-4.1	2.6	3.2	3.2
Government Consumption	0.7	3.8	2.3	6.4	0.9	3.3
Gross Fixed Capital Investment	2.4	-3.3	-7.1	5.4	-4.6	2.3
Exports, Goods and Services	4.1	6.0	-30.6	20.5	13.7	6.9
Imports, Goods and Services	2.4	3.0	-21.8	12.3	4.3	4.3
Real GDP growth, at constant factor prices	4.1	2.2	-4.6	4.3	3.6	3.6
Agriculture	1.2	0.4	1.7	1.7	1.5	1.5
Industry	9.3	1.8	-2.1	6.9	5.0	5.0
Services	2.9	3.1	-8.1	4.1	3.8	3.7
Inflation (Consumer Price Index)	2.1	1.4	2.2	2.6	2.9	2.8
Current Account Balance (% of GDP)	-6.8	-8.0	-9.3	-8.8	-7.4	-6.5
Net Foreign Direct Investment (% of GDP)	8.0	7.6	5.7	6.2	7.7	7.3
Fiscal Balance (% of GDP)	-1.7	-2.0	-6.9	-5.5	-4.1	-3.9
Debt (% of GDP)	69.5	67.9	80.0	79.5	78.8	77.8
Primary Balance (% of GDP)	0.5	0.1	-4.8	-2.9	-1.4	-1.4
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	32.8	32.0	33.0	31.7		

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate. f = forecast.

(a) Calculations based on ECAPOV harmonization, using HBS until 2016 and SILC from 2017. Actual data: 2017. Nowcast: 2018-2019. Forecast: 2020-2021.

(b) Nowcast 2018-2019 using neutral distribution (2017) with pass-through = 1 based on GDP in constant LCU. Projections 2020-2021 use sector GDP projections with pass-through = 1.