

The World Bank in Albania Country Snapshot



An overview of the World Bank's work in Albania

April 2018

ALBANIA	2017
Population, million	2.9
GDP, current US\$ billion	12.5
GDP per capita, current US\$	4,297
Poverty rate (\$5/day 2011 PPP terms) (2017)	32.8
Life Expectancy at birth, years (2014)	78.2

At a Glance

- Albania's remarkable economic transformation since the 1990s has helped build on the country's potential and opportunities. The global financial crisis exposed the weakness of its growth model and highlighted the need to shift from consumption-fueled growth to investment- and export-led growth.
- Albania's challenges include maintaining macro-fiscal and financial sector sustainability, improving the investment climate, unleashing private sector growth, removing employment barriers, and improving governance and public service delivery.
- The Government is addressing these challenges through a set of new initiatives. Although progress has been made, it is important to strengthen reforms and institutional improvements.
- The World Bank Group is supporting the energy, environment, water, transport, social, and health sectors, as well as strengthening institutions across the board. Substantial analytical work is assisting the jobs agenda, land sector reform, and agriculture.

Country Context

The transition to a market economy, together with abundant international aid over the years has helped Albania make economic progress. Albania grew from the poorest nation in Europe in the early 1990s to middle-income status in 2008, with poverty declining by half during this period.

The global financial crisis exposed the weaknesses of Albania's growth model and highlighted the need to shift from consumption-fueled growth to investment- and export-led growth. The new model will need to help those with less access to economic opportunities to contribute to and benefit from economic growth.

In order to accelerate the pace of equitable growth, Albania needs to implement structural reforms that will raise productivity and competitiveness, create more jobs, and improve governance and public service delivery. Enhanced regional connectivity, access to regional and global markets, and export and market diversification can help promote faster growth.

Recognizing these challenges, Albania has embarked on a broad-based program focused on macroeconomic and fiscal sustainability, financial sector stabilization, energy, pensions, and territorial administration. Significant progress, propelled by ongoing reforms, has led to rebounding business confidence and domestic demand, including early signs of increased investment and an export-led recovery. Maintaining the reform momentum and implementation is critical to Albania's continued economic growth and aspirations for European Union (EU) integration.

The World Bank and Albania

The current WBG program in Albania is guided by the Country Partnership Framework (CPF) FY 2015–19, which provides analysis, advice, and financing in support of Albania’s equitable growth and integration into the EU. The CPF has significantly ramped up WBG engagement and laid out an indicative lending program of up to US\$1.2 billion, which focuses on three main areas:

- restoring macro-economic balances
- creating conditions for accelerated private sector growth
- strengthening public sector management and service delivery

Around 70% of the program has been delivered, supporting some of the Government’s main priorities, including macroeconomic and fiscal sustainability and competitiveness, as well as governance and accountability in the public services, energy, and water sectors. A Progress and Learning Review is being finalized, though no major changes are anticipated in terms of priorities and results.

Key Engagement

Understanding how the fiscal system affects households in Albania is particularly important in the current context of fiscal consolidation and the need to deliver on a structural reform agenda. Evidence across countries shows that fiscal systems, through revenue collection, social transfers, and social spending in education and health, have quantitatively important effects on poverty and inequality.

Assessing the comprehensive impact of Albania’s fiscal system on households—beyond the impact of one specific intervention—can shed light on the effect of reform on equity goals and help policy makers to compensate for the negative consequences, particularly for poor and vulnerable groups.

WORLD BANK PORTFOLIO

Number of Projects: 10
Lending: \$642.4 Million
IBRD: 10 Loans (\$579.7 Million)
IDA Lending: \$35 Million
Grants: 7 (\$14 Million)

A recent World Bank study uses 2015 Household Budget Survey data to explore whether the combined impact of taxes and social spending improves poverty and inequality outcomes in Albania.

The results of the World Bank Study can inform, for example, ongoing reforms in Albania’s social assistance programs. The study finds that Ndhimja Ekonomike (NE) is the most progressive program, as it concentrates the majority of funds on the less well-off.

The national rollout of the new scoring formula, which is expected to increase the overall coverage of the poor, can contribute to the poverty-reducing impact of this program and thus further compensate for the negative impact of indirect taxes.



Social Assistance Office in Kombinat, Tirana Municipality
(Photo by Jutta Benzenberg)

Recent Economic Developments

Albania's real GDP grew by 3.8% in 2017, up from 3.4% in 2016. Key drivers were private investment and consumption. Investment dynamics reflected two large energy projects financed by foreign direct investment (FDI), the Trans-Adriatic Pipeline and a hydropower plant. Private consumption was supported by a recovery in employment, wages, and credit. Public consumption made a small contribution to growth, reflecting the increase in public sector wages. High tourism exports and recovering commodity exports more than compensated for the high investment-related machinery and equipment imports and the drought-related energy imports.

Fiscal policy supported a reduction of public debt, but the pace of fiscal consolidation slowed in 2017. The 2017 fiscal deficit is estimated at 2% of GDP, slightly above the deficit of 1.8% in 2016. Revenue gains from increased economic activity and the recovery of commodity prices were estimated at an additional 0.9% of GDP in comparison to 2016. On the expenditure side, the under-execution of public investments and lower interest expenditures partially compensated for drought-related emergency support to the electricity sector and higher local government spending. Prudent fiscal policy supported the decline in public debt to 71% of GDP in 2017 compared to 72.4% in 2016.

The current account deficit widened in 2017, reaching 8% of GDP. FDI-related investments in the energy sector and drought-related electricity imports increased imports overall. Tourism and commodity prices increased the value of exports. With much of the financing coming through significant FDI inflows, external debt declined by 2 percentage points, reaching 70.4% of GDP in 2017. Foreign exchange reserves have remained stable, covering 6.5 months of imports of goods and services.

Growth stimulated job creation. Employment grew by 2.9% in the first three quarters of 2017, following a strong expansion of 6.5% in 2016.

Labor force participation increased to 58%, up by 0.4 percentage points year-on-year. Besides improved employment prospects, the increase in labor force participation may reflect the Government's anti-informality campaign, which included increased audits and higher penalties for non-compliance. The unemployment rate declined by 1.7 percentage points to an average of 13.9% in the first three quarters of 2017. Real wages in formal employment in construction, energy, and tourism started to pick up in 2017.

Poverty is estimated to have declined as growth and employment continued to pick up. The poverty rate (measured as US\$5.5/day, 2011 purchasing power parity [PPP]) is estimated to have decreased in 2017 to 32.8% compared to 33.9% in 2016. Women's labor force participation, particularly that of young women, started to decline in 2017, a trend that needs to be closely monitored to avoid a reversal of the previous gains.

Economic Outlook

Growth is projected to moderate to 3.6% in 2018, as two large FDI projects in the energy sector wind down, and then average 3.5% in the period 2019–20.

Economic prospects are vulnerable to downside risks. Given the high public debt, the Government needs to implement fiscal consolidation and strengthen tax compliance to preserve macro-fiscal stability as a foundation for growth. The Government also needs to strengthen its public-private partnership (PPP) management framework to contain the fiscal risks of PPPs and to ensure that investment is cost effective.

Harnessing growth will require that progress on structural reforms—including judiciary, financial, and energy reforms—improve the business climate, strengthen the skills of the labor force, and remove barriers to jobs. Reforms should be informed by equity considerations to ensure continued poverty reduction and inclusion.

Project Spotlight

Environmental Services Project (ESP)



Farmer women in Puka region (World Bank)

The Government of Albania is implementing the Environmental Services Project (ESP), which supports the sustainable management of the country's natural resources and increased benefits for the communities living in erosion-prone rural upland areas.

The project is directly supporting forest users associations (FPUAs) and individual farmers with forestry grants through a grant scheme that is similar to the Instrument for Pre-Accession Assistance in Rural Development. This activity will improve forest and pasture management, reduce poverty in rural areas, and increase the capacity of beneficiaries to absorb EU funding for rural development (IPARD) when such funds become available to Albania.

For the first grants call, 63 contracts were signed out of 137 applications received. Three women-led FPUAs were among the grant recipients. It is expected that the 63 signed contracts will improve management practices on about 6,380 hectares of land.

As gender is an important aspect of the ESP, the project includes a Gender Action Plan that outlines mainstreaming and integration activities in targeted areas. Thus far, the project has supported women in 33 FPUAs to access these grants on equal terms with men, and helped raise awareness of the benefits of female engagement and rights with local administrative units, municipalities, and FPUAs in general.

All FPUAs that receive grants have a minimum requirement of 30% female members. Of the 33 FPUAs, 16 (or 48.5%) applied for the first grants call and 12 were successful, which is 75% of the total number that applied and 36% of the total number of applicants.

The second grants call is expected to be launched in April 2018. An awareness program on IPARD-like grants for FPUAs and individual farmers will be implemented immediately after the launch.



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