

The World Bank in Albania

Country Snapshot



An overview of the World Bank's work in Albania

October 2019

ALBANIA	2018
Population, million	2.9
GDP, current US\$ billion	15.8
GDP per capita, current US\$	5,448
Life Expectancy at birth, years (2018)	78.3

At a Glance

- Albania's economic transformation during the past decades has worked to build on the country's huge potential and opportunities. However, the country's growth model needs to adapt to the new global economic reality and shift from consumption-fueled to investment- and export-led growth.
- The country's main challenges include maintaining macro-fiscal and financial sector sustainability, improving the investment climate and unleashing private sector growth, as well as removing barriers to employment for job creation, and improving governance and public service delivery.
- A set of reforms initiated in recent years has been addressing these challenges. Although some progress has been achieved, it is important that reforms and long-term governance and institutional improvements be continued or strengthened.
- The World Bank Group is supporting important sectors, such as energy, the environment, water, irrigation, transport, health, and social assistance, strengthening institutions across these sectors as well as other areas. Substantial analytical work is assisting the jobs and growth agenda, financial sector reform, and energy efficiency. Trust funds are also supporting the financial sector and public financial management.

Country Context

Albania has made remarkable economic progress during the past three decades. Due to the strong growth performance, Albania grew from one of the poorest nations in Europe to a middle-income country, with poverty declining by half during that period. However, Albania's growth model needs to shift from consumption-fueled to investment- and export-led growth.

The new model will need to help those people with less access to economic opportunities to contribute to, and benefit from, economic growth.

In order to accelerate the pace of equitable growth, Albania is implementing structural reforms that will raise productivity and competitiveness in the economy, create more jobs, and improve governance and public service delivery.

Enhanced regional connectivity and access to regional and global markets, coupled with export and market diversification, can also help promote faster growth.

Recognizing these challenges, the Government of Albania has been working on a broad-based reform program focused on macroeconomic and fiscal sustainability, financial sector stabilization, energy concerns, social assistance and disability reform, and territorial decentralization.

Significant progress, propelled by the ongoing reforms, has created the conditions for 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 to European Union (EU) integration.

The World Bank and Albania

The current World Bank Group (WBG) program in Albania is guided by the Country Partnership Framework (CPF) for FY15–20, which provides analysis, advice, and financing in support of equitable growth in Albania and integration into the EU. The CPF, which now enters its final year of implementation, focuses on three main areas:

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

Around 80 percent 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 (PLR) was delivered in February 2019. No major changes were introduced in terms of priorities and outcomes, but an additional year was granted for CPF implementation primarily to allow for the achievement of most of the results.

The PLR also reflects some changes in the program, including engagement in the regional agenda. The Regional Trade and Transport Facilitation Project was approved by the World Bank’s Executive Directors in summer 2019. As soon as it becomes effective, the number of projects in Albania will increase to 12, totaling US\$738 million.

Key Engagement

The World Bank Group (WBG) is preparing a Systematic Country Diagnostic (SCD) Update for Albania. The first SCD, submitted to the WBG Board and published in 2015, is serving as the evidence base in preparation for the next CPF, which is

WORLD BANK PORTFOLIO

Number of Projects: 11
Lending: \$718 Million
IBRD: 11 Loans (\$683 Million)
IDA Lending: \$35 Million
Grants: 10 (\$24 Million)

essentially the Bank’s strategy for engagement with Albania over the next five years.

The SCD Update focuses on measuring Albania’s progress toward reaching the WBG “Twin Goals” of eliminating poverty and advancing shared prosperity. It identifies key binding constraints to achieving those goals and the policy priorities needed to tackle them.

The team preparing the SCD is currently gathering evidence based on analytical work done by the WBG, partner institutions, the academic community, and the Government of Albania.

As part of this process, the World Bank office in Tirana organized a series of consultations with a range of stakeholders in Albania, including the Government, development partners, the private sector, and civil society.

Discussions focused on achievements in recent years but also on important issues such as growth, inclusion, resilience, and institutions.

Participants offered their views on key questions, including: Can Albania’s growth model deliver high and sustained growth? Is Albania ensuring equal opportunities and protection to the most vulnerable? Is Albania resilient to macroeconomic shocks, and does it make sustainable use of its natural resources? Are social and public institutions conducive to a more prosperous economy and cohesive society?

Recent Economic Developments

After expanding by 4.1 percent in 2018, annual growth for 2019 is projected to slow to 2.9 percent, as a drastic decline in rainfall cut hydroelectric power production.

An expansion in domestic demand led growth in 2019. Net exports reduced growth, as stagnant growth among trade partners limited traditional exports, while energy exports declined.

Employment continued to grow. Unemployment reached a record low of 11.5 percent in the second quarter of 2019. Poverty remains high, however; it is estimated that roughly 34.6 percent of Albanians are living on less than US\$5.5 dollars per day per capita (in 2011 purchasing power parity) in 2019. Inflation declined compared to end-2018, reversing the trend of the recent past.

The Bank of Albania has maintained its policy rate at a record-low 1 percent since June 2018. The monetary easing and improvements in the loan portfolio has facilitated private sector credit growth.

Although Albania's fiscal position improved in 2019, risks from contingent liabilities and state-owned enterprises (SOEs) remain high. In 2019, fiscal revenue growth was limited by lower GDP growth and especially by the increased repayment of value added tax refund arrears.

The budget deficit is projected to widen to 2.2 percent of GDP in 2019, while the public debt, including guarantees and arrears, is expected to decline to 68.4 percent of GDP.

Economic Outlook

Growth is projected to accelerate slightly to 3.4–3.6 percent by 2020–21, as labor income gains fuel private consumption. The slowdown in global growth will contain net exports. Investment will also contribute to growth, fueled by public projects and—assuming continued progress on structural reforms in the judicial and financial sectors—private investment.

Over the medium term, fiscal consolidation will continue, as the Government further reduces expenditures on the wage bill, goods and services, and transfers to social insurance beneficiaries and local governments.

A gradual fiscal consolidation, combined with continued economic growth, should eventually lower the debt-to-GDP ratio to 60 percent of GDP beyond 2022.

The country's economic prospects are vulnerable to significant downside risks. Lower demand from foreign trade partners may constrain growth, worsen labor market conditions, and increase poverty.

Preserving macro-fiscal stability is crucial to supporting sustainable growth, which includes continuing to streamline expenditures, increasing tax revenues, and managing fiscal risks from public-private partnerships and SOEs.

Further, fostering inclusive growth requires the creation of better conditions for private sector development, including improving the business environment and increasing financial access, energy security, and human capital.

Project Spotlight

Albania Dam Safety Program



A Dam Safety Program is helping improve the safety and performance of dams in need of major rehabilitation.

Albania's internal electricity generation capacity is entirely dependent on hydropower.

The country's three biggest power plants are located in Fierza, Komani, and Vau Dejes and were built several decades ago in the Drin River cascade in Northern Albania. Together they generate about 70 percent of the total supply.

These dams had long been in dire need of major rehabilitation. The very real possibility of dam failure could have resulted in significant loss of life and damage to property for those living in downstream areas.

A Dam Safety Program totaling €100 million, financed by the World Bank, European Bank for Reconstruction and Development (EBRD), Swiss Economic Cooperation (SECO), KfW, and Albanian Energy Corporate (KESH), is helping to improve dams' safety and performance, extend their lifetime for 30 years, and increase their compliance with environmental and safeguards best practices. These interventions will allow Albania to reduce its dependence on regional lignite-based thermal power imports, improve energy generation efficiency, and enhance the stability of the power supply for the regional electricity market.

The project has marked significant progress on both physical infrastructure investments, with technical assistance completing most of the works so far. Among other outcomes, the dams' instrumentation and monitoring systems are now in operation; the Komani Dam's toe rehabilitation and dredging works for the tailrace channel have been completed; rockfall protection has been fully implemented in all three power plants; electromechanical rehabilitation works on the Komani Hydropower Plant (HPP), the largest HPP in Albania, has been completed; and the refurbishment and rehabilitation of all four units have increased the power plant's benefit from the cascade operation during good hydrology seasons as well as its efficiency, meaning that water leakages have been eliminated and the estimated 11 GWh lost each year have been reduced to zero.

Ongoing work is focused on the Fierza and Komani Spillway Gates and stoplog rehabilitation, which will increase the benefits stemming from the optimization of the Drini cascade and totally eliminate water leakages that are currently costing a loss of 20 GWh every year. The rehabilitation work is expected to be completed by December 2020.



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