Country Context

The transition from a centrally planned to a market-oriented economy, together with abundant international aid and other strategic assistance over the last decades, helped Albania to make progress. Due to strong growth performance, Albania grew from the poorest nation in Europe in the early 1990s to middle-income status in 2008, with poverty declining by half during that period.

The country’s economic transformation continues to build on its huge potential and opportunities. However, the global financial crisis exposed the weaknesses of its growth model and highlighted the need to shift from consumption-fueled to investment- and export-led growth. In order to accelerate the pace of equitable growth, Albania needs to implement structural reforms that will raise productivity and competitiveness in the economy, create more jobs, and improve governance and public service delivery.

The Government of Albania has embarked during the last few years on a broad-based reform program focused on macroeconomic and fiscal sustainability, financial sector stabilization, energy concerns, pensions, and territorial administration.

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 for Albania’s continued economic growth and its 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 prepared that will reflect any potential change in the priorities of the new Government.

Key Engagement

Economic growth in the Western Balkans is picking up, but at current growth rates, it would take them over half a century to converge with EU living standards. With a shared vision to ensure macroeconomic stability, implement bold reforms, and enhance economic integration, the Western Balkans could accelerate growth and improve living standards. The Western Balkan countries are demonstrating strong political commitment to implementing reforms, but the region needs to be more competitive and attractive for investors.

The “Berlin Process” that was kick-started in 2014 promotes a “Connectivity Agenda” to strengthen regional cooperation for attracting new investment, generating economic growth, and reducing unemployment. A Joint Action Plan is leading regional efforts to facilitate trade and transport, establish a Regional Economic Area, and focus on investment, mobility, and digital integration, all with the aim of assisting the Western Balkan countries on the EU accession road. The process has included several official and non-official meetings, the last of which was convened on August 26, 2017 in Durrës, Albania. At this meeting, discussions focused on implementation of the Regional Economic Area Plan, which includes an exchange of goods, services, capital, and qualified workers to boost the regional economy.

To promote this agenda, the EU and World Bank are working closely to support implementation of broad, systemic reforms in the Western Balkans to improve the investment climate. The Bank also supports the Balkan governments’ efforts to improve the market for small and medium-sized enterprises.

In addition, through the “Road to Europe” Program of Accounting Reform and Institutional Strengthening, the Bank supports regulators and the accounting profession to introduce sound financial reporting practices in line with international standards, promoting integration within the region and with the European market.

The World Bank is currently supporting the implementation of the Joint Action Plan for Trade and Transport Facilitation by focusing on building institutions for greater regional connectivity. For example, a new Regional Trade and Transport Facilitation Project is under preparation, which aims to facilitate the cross-border movement of goods and services in the Western Balkans.
Recent Economic Developments

Albania’s economy expanded 3.4% in 2016, supported by robust domestic demand. Private investment in two large FDI-financed energy projects and a recovery in private consumption drove growth, contributing 1.8 and 2.1 percentage points respectively. Improvements in employment and credit growth encouraged private consumption. Net exports contributed 2.1 percentage points, driven by tourism services exports. With extractive industry affected by unfavorable commodity prices, services were the main driver of growth, followed by construction and agriculture. Recent data confirms stronger growth in early 2017. Business confidence strengthened, especially in services.

The fiscal deficit declined to 1.8% of GDP in 2016 (compared to 4.9% in 2015) in line with the country’s fiscal consolidation efforts. The primary surplus of 0.7% of GDP helped lower the debt to GDP ratio for the first time since the global crisis, reaching 72.4% of GDP in 2016. Despite the general elections, revenues and expenditure remained within budgeted targets in the first half of 2017, consistent with constrains in the new organic budget law. Average annual inflation fell from 1.9% in 2015 to 1.3% in 2016, below the Bank of Albania’s target of 3±1 percent. However, higher food prices lifted inflation to 2.2% in the first half of 2017.

The current account deficit (CAD) narrowed from 10.8% in 2015 to 9.6% in 2016, despite the increase in investment related imports. Lower electricity imports and higher services exports more than compensated for the increase in investment related imports. Remittances remained broadly stable despite weak growth in source EU countries.

Net FDIs increased to 8.9% of GDP from 8% in 2015, helped by inflows associated with energy projects, and financed 93% of the CAD. Despite the steady growth in exports, a pickup in imports of energy during the summer 2017 are expected to drive a widening of the current account in 2017.

Stronger growth stimulated job creation in 2016. In 2016 employment grew by 2.5 percentage points, reaching 48.7%, driven by industry and services.

Labor force participation increased to 57.5%, 1.8 percentage points higher than in 2015. The official unemployment rate declined by 1.9 percentage points to an average of 15.2% in 2016. Labor market recovery continued in the first half of 2017, with improvements in the employment rate (1.5 pp y-o-y) driven mostly by declining unemployment (2.3 pp y-o-y).

Poverty is estimated to have declined as growth and employment continued to pick up. The poverty rate (measured as US$ 5.5/day, 2011 PPP) is estimated to have decreased in 2016 to 33.9%, compared to 35.4% in 2015.

Economic Outlook

Albania’s economic outlook is expected to improve over the medium-term. Growth is projected at 3.5% during 2017-19 driven by private investments and private consumption. A

As the economy continues to accelerate and labor markets improve, further gains in poverty reduction are expected. Continued fiscal consolidation and other reform efforts are expected to gradually reduce the debt-to-GDP ratio below 60% of GDP by 2021.

Economic prospects are vulnerable to downside risks. Uncertain global market conditions, and a slower growth in the Euro area, could reduce Albania’s exports and FDI inflows, with implications for a slower output growth.

Harnessing growth will require continuous efforts to stabilize the economy and achieve fiscal consolidation. Importantly, the reform agenda should be informed by equity considerations to sustain and enhance the poverty and inclusion gains thus far.
Project Spotlight

Water Resources and Irrigation Project

The Government of Albania is implementing the Water Resources and Irrigation Project, which, through investments and institutional support, is helping municipalities restore the productive value of agricultural land and improve irrigation performance.

After territorial reform was implemented, irrigation management became a municipal responsibility. All planned rehabilitation works for 11 priority irrigation dams, in compliance with international dam safety requirements, have been successfully completed at a cost of €7 million. The rehabilitation of the irrigation schemes in Lushnja, Divjaka, Reskovec, and Devoll, at a cost of €16.5 million, covers an area of 20,000 hectares and will be finalized by end-2017. The number of direct beneficiaries of these investments is 41,000 (including farm families and workers).

The impact of these investments was evident in the 2017 summer irrigation season in the improved access to and quantity of water for irrigation and the increased frequency of the irrigation cycles. The project is providing training and technical support to municipalities on irrigation management to improve their performance and to ensure that they have a sufficient allocation of funding and human resources for operations and maintenance costs in the midst of the decentralization process.

On the national level, the project helped the Government prepare the Integrated Water Resource Management Strategy and two river basin management plans. These strategic documents will create the necessary institutional framework for the operational and governance functions of water resources, such as water allocation, river basin planning, pollution control, data management chain development for decision making, and inspection and monitoring.

The Water Cadastre was also established with project support, which will serve as a portal for a wide range of water resource data and information. The system is web-based and can run on multiple devices, including mobile phones, and supports open access by relevant institutions and the public at large to critical data and information.

The “Country Snapshot” is a bi-annual update, highlighting the country’s recent developments, economic outlook and major overview of the World Bank’s partnership with the country. You can find the latest updates at http://www.worldbank.org/albania.