



## Albania

### Highlights

- **Economic growth is moderating.** Following a sharp rise in 2022, fuelled by a record tourist season, growth slowed in the first half of 2023 as domestic demand eased as a result of elevated inflation.
- **The legal environment has become more conducive to the development of renewables.** A new law, in force since April 2023, which aligns legislation with that of the European Union (EU), sets out rules on financial support for renewable energy producers and the use of renewable energy in heating, cooling and transport. It also gives market access to “prosumers” (entities producing electricity mainly for self-consumption).
- **Public-sector wages are being reformed.** New laws have given the government more power to determine salaries in the public sector, authorised salary increases for judges and prosecutors, and introduced a new salary-increase scheme for the public administration.

### Key priorities for 2024

- **Meaningful revenue-enhancing measures would help medium-term fiscal consolidation following public-sector wage increases.** The government should further decrease arrears, increase the tax-revenue ratio and improve compliance, including with the recently approved income-tax law.
- **Financial and exchange-rate risk should be carefully monitored.** The financial sector is liquid and stable, but vigilance should be maintained in light of the economic slowdown and tighter monetary policy. Ongoing efforts to build higher capital buffers are welcome.
- **Better-targeted fiscal support would help fiscal balances and benefit vulnerable groups.** Despite robust economic growth, the poverty rate remains stubbornly high, highlighting the need to increase the efficiency and scope of social assistance, including through a system of annual indexation of economic and disability benefits.

 Main macroeconomic indicators (per cent)

	2019	2020	2021	2022	2023 proj.
GDP growth	2.1	-3.3	8.9	4.8	2.5
Inflation (average)	1.4	1.6	2.0	6.7	4.8
Government balance/GDP	-1.9	-6.7	-4.6	-3.7	-2.5
Current account balance/GDP	-7.9	-8.7	-7.7	-6.0	-6.0
Net FDI/GDP [neg. sign = inflows]	-7.5	-6.7	-6.5	-6.6	-6.8
External debt/GDP	60.0	64.2	64.2	53.9	n.a.
Gross reserves/GDP	24.4	29.6	32.7	27.3	n.a.
Credit to private sector/GDP	34.1	37.9	36.6	34.0	n.a.

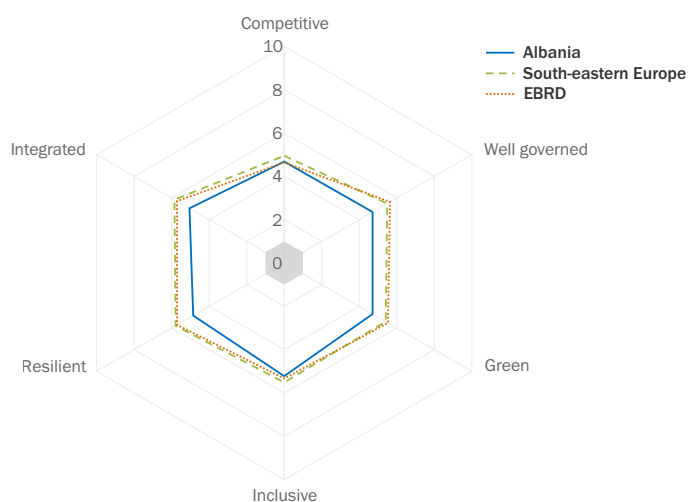
## Macroeconomic developments and policy response

**Economic growth continues in 2023, but at a more moderate pace.** Following a rise in gross domestic product (GDP) of 4.8 per cent in 2022, supported by a record tourist season, growth moderated to 2.8 per cent year on year in the first quarter of 2023 before accelerating to 3.2 per cent in the second quarter of the year. The slowdown was mainly driven by weaker domestic demand resulting from elevated inflation. Goods exports contracted on an annual basis in the first half of the year amid sluggish growth in Albania's key trading partners and sharp currency appreciation. The lek strengthened due to record levels of tourist arrivals alongside robust inflows of remittances and foreign direct investment. In line with lower domestic and external demand, agriculture and industry posted muted growth rates, while service sectors such as real estate, construction, information and communications technology (ICT) and retail trade were the fastest-growing sectors of the economy. Service exports were robust in 2022, as Albania's booming tourism sector recorded its best performance ever in terms of tourist arrivals and overnight stays. The sector is in for another strong performance this year, with the first eight months of the year showing a 27 per cent annual increase in tourist arrivals.

**The government has been gradually withdrawing measures that supported the economy during and after the Covid-19 pandemic.** In response to elevated inflation, the central bank raised the policy rate several times, from 0.5 per cent in March 2022 to 3.25 per cent in November 2023. Due to higher borrowing costs, credit growth has slowed markedly, but remained positive at 2 per cent year on year in August 2023. Following the implementation of two comprehensive Social Resistance Packages in 2022, aimed at shielding households and businesses from rising prices, the authorities began to reform and increase public-sector wages, and raised the minimum wage by 18 per cent in 2023. The Fuel Transparency Board, which had been setting fuel prices since March 2022, was abolished in June 2023 following a decision by the Constitutional Court. In light of significant local-currency appreciation, the authorities put in place measures to support exporters' liquidity, such as a temporary freeze on profit tax prepayments, an acceleration of value-added tax (VAT) refunds and a full refund of excise taxes on petroleum gas and certain types of oil. The government has committed to maintaining a budget surplus in 2023, one year ahead of the deadline set by the Organic Budget Law. To support the state budget and help repay an existing Eurobond that matures in 2025, Albania tapped into external markets by way of an oversubscribed five-year €600 million Eurobond in June 2023.

**Growth is expected to moderate in the near term because of the unfavourable external environment.** Economic growth is expected to slow to 2.5 per cent in 2023 as the growth prospects of Albania's key trading partners remain muted, persistently high inflation constrains disposable income at home and abroad, and tight global and domestic monetary policies restrict credit growth. Nonetheless, the continued strong performance of the hospitality sector tilts the risks to the upside. Growth is set to pick up in 2024 – we forecast to 3.3 per cent – in line with an expected improvement in the global outlook, bringing it closer to the economy's medium-term potential.

### Assessment of transition qualities (1-10)



## Structural reform developments

**The Albanian Power Exchange (ALPEX) became operational with the launch of the day-ahead market.** With the regulatory framework for the joint power exchange in Albania and Kosovo having been completed in 2022, the day-ahead market was launched in April 2023. The ALPEX exchange was awarded the status of a nominated electricity market operator in both countries in July, paving the way for market coupling. Starting in June 2023, responsible bodies in Albania can issue guarantees of origin for electricity, enabling trading in line with EU rules.

**The authorities are tackling money laundering and terrorist financing.** Since June 2022, the Albanian authorities have been addressing notable shortcomings with regard to trustees being subject to anti-money laundering/combating the financing of terrorism (AML/CFT) requirements, and have streamlined access to beneficial ownership information for competent authorities. Improved measures for regulating and supervising notaries and real-estate agents are now in place, with the licensing authority for notaries now empowered to revoke licences in case of infringement of AML/CFT legislation. Risk-based supervision of real-estate agents has also been introduced. Albania is acknowledged to have made significant progress on addressing strategic deficiencies and was removed from the so-called grey list of jurisdictions, subject to increased monitoring by the Financial Action Task Force (FATF) in October 2023.

**Parliament has passed a law establishing a court of arbitration.** The law, adopted in July 2023, aims to settle in-country any commercial disputes between the Albanian state and private businesses, rather than use the internationally acknowledged International Centre for Settlement of Investment Disputes (ICSID) procedures often favoured by foreign investors.

**The legal framework for renewable energy has progressed.** The Law on Promotion of the Use of Energy from Renewable Sources, adopted in April 2023, lays down rules on financial support for renewable energy producers and the use of renewable energy in heating, cooling and transport. It also gives market access to “prosumers”. The law further introduces a renewable energy operator, a public joint stock company that will serve as a contracting party for producers eligible for support under the law.

**Public-sector wage reform has begun.** The package of three laws adopted in May 2023 gives the government greater power to determine salaries in the public sector, authorises salary increases for judges and prosecutors, and introduces a new salary-increase scheme for the public administration. The laws were accompanied by an 18 per cent increase in the minimum wage and should, according to the authorities, spark a follow-on increase in wages in the private sector, with the ultimate goal of the average monthly wage reaching €900 by 2024.