

The World Bank in Albania Country Snapshot



An overview of the World Bank's work in Albania

April 2017

ALBANIA	2016
Population, million	2.9
GDP, current US\$ billion	11.4
GDP per capita, current US\$	4,146.8
Poverty rate (\$5/day 2005PPP terms) (2012)	47.5
Life Expectancy at birth, years (2014)	77.8

At a Glance

- Albania's economic transformation since the 1990s has been profound and aims to build on the country's huge potential and opportunities. The global financial crisis exposed the weakness of its growth model, however, and highlighted the need to 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, removing barriers to employment for job creation, and improving governance and public service delivery.
- The Government has embarked on a set of ambitious structural reforms to address these challenges. Significant progress has been achieved, but it is important to maintain the reform momentum.
- The World Bank Group (WBG) is providing a major contribution through supporting reforms, strengthening institutions, and financing investments across a range of sectors in Albania.

Country Context

After Albania emerged from 50 years of communist rule, the transition from a centrally planned to a market-oriented economy, together with abundant international aid and other strategic assistance, helped the country make progress. Thanks 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.

Albania's economic transformation continues to build upon its huge potential. 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. Enhanced regional connectivity and access to regional and global markets, coupled with export and market diversification, can also help to promote faster growth.

Recognizing these challenges, the Government of Albania has embarked 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 reforms, has created conditions for a rebound in 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) for FY15–19, which provides analysis, advice, and financing in support of Albania’s equitable growth and integration into the EU. To design this new strategy, a Systematic Country Diagnostic (SCD) was carried out to identify the challenges that Albania faces, as well as key priorities and possible solutions on the road to growth and prosperity.

The Government’s main priorities, including macroeconomic and fiscal sustainability and competitiveness, as well as governance and accountability in the public services, energy, land, and water sectors, are well aligned with the priorities highlighted in the SCD. The new CPF 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

Key Engagement

Albania’s sustained high economic growth in the decade prior to the 2008 global financial crisis. However, since 2010, the Albanian economy has slowed down significantly, with weak credit growth and a high level of nonperforming loans (NPLs).

High financial euroization, strong financial links between banks and government debt holdings, and the dominant presence of subsidiaries of foreign banks, mostly from the Eurozone, have increased the banking sector’s vulnerabilities to shocks. The NPL ratio in Albania has been among the highest in the region (almost 25% in mid-2015 from 3% at end-2007), exposing deep weaknesses in the judiciary and collateral execution regime. New risks emerged in 2013 in the nonbank financial sector.

WORLD BANK PORTFOLIO

Number of Projects: 10
Lending: \$615 Million
IBRD: 10 Loans (\$579.7 Million)
IDA Lending: \$35 Million
Grants: 7 (\$14 Million)

The 2013 Financial Sector Appraisal Program crystallized the urgent need for reforms to strengthen and modernize the financial sector regulatory and supervisory framework, and its findings formed the basis for the reforms undertaken by the Government with the support of the World Bank.

The Government and the Bank of Albania engaged in intensive legal, regulatory, and supervisory reforms to mitigate risks in the financial sector. The World Bank has strongly supported the reforms through several technical assistance projects and two lending operations. The Financial Sector Development Policy Loan Programs in 2014 and 2017 have focused on supporting measures geared toward: reducing the number of NPLs; enhancing the financial safety net, strengthening the regulation, supervision, and resolution regime of banks; and strengthening the regulation and supervision of nonbank financial institutions.

The World Bank’s technical assistance and lending operations have helped to: strengthen the Bank of Albania’s capacity to identify and manage weaknesses in the financial sector; expand deposit insurance coverage for enterprises and Savings and Credit Associations (SCAs); (reduce NPLs from a peak of 25% to 18% in February 2017; consolidate the SCA sector through the introduction of new regulatory and supervisory frameworks; enhance the financial and operational independence of the Financial Supervisory Authority with strengthened powers and tools; and strengthen the regulatory framework for the investment funds and insurance sectors.

Recent Economic Developments

Albania's economy expanded by 3.5% in 2016, supported by robust domestic demand. Private investment in two large energy projects, financed by foreign capital and a recovery in private consumption, drove growth. Net exports also contributed positively to growth on the back of expanding exports of tourism services. The services sector was the main driver of growth, followed by the labor-intensive construction and agriculture sectors.

Prudent fiscal and monetary policies sustained macroeconomic stability. The fiscal deficit for 2016 declined to 1.8% of GDP from 4.6% in 2015 supported by higher revenues and lower public expenditures. A primary budget surplus in 2016 is expected to start bringing down the debt-to-GDP ratio for the first time to 72.9% of GDP. Average annual inflation fell from 1.9% in 2015 to 1.3% in 2016, with monetary policy geared toward supporting growth.

Higher transfers and strong services exports drove the narrowing of the current account deficit (CAD) to 9.6% of GDP in 2016 from 10.8% in 2015. The trade deficit expanded by 2% as investment-related imports picked up and exports of commodities slowed down. The CAD was financed at 93% by steadily increasing foreign direct investments (FDIs).

Stronger growth stimulated job creation in 2016. Employment grew by 5.8% in the fourth quarter of the year (year-on-year [y-o-y]), driven by job creation in industry and services. Labor force participation further increased to 67.3%. The official unemployment rate declined by 2.5 percentage points to a year average of 15.2%.

Poverty is estimated to have declined as economic growth and labor markets have picked up, suggesting a more inclusive growth pattern. The improvements in employment included a reduction in youth unemployment as well as higher female labor force participation rates.

Economic Outlook

Albania's economic outlook is expected to improve over the medium term. Growth is projected at 3.5% during 2017–18 and is expected to increase further to 3.8% in 2019, driven by private investments and private consumption.

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 Eurozone could reduce Albania's exports and FDI inflows, with implications for a slower output growth.

Harnessing growth will require macroeconomic stability and the implementation of structural reforms to improve the business climate, including continuing reforms in the judicial and energy sectors, enhancing public investment management, addressing the high ratio of NPLs, and improving the skills of the labor force. Importantly, the reform agenda—in, for example, energy and skills—should be informed by equity considerations to sustain and enhance the poverty and inclusion gains made thus far.

Project Spotlight



The recently opened one-stop shop center in Kruja city.

Since 2014, the Government of Albania has pursued an innovative reform program of public service delivery, supported by the World Bank's **Citizen-Centric Service Delivery Project**.

The reforms are based on a holistic approach to improving public services through a range of interventions to enhance both front office customer

service and back office service delivery, impacting simultaneously the manner and channels of delivery. The Agency for the Delivery of Integrated Services in Albania (ADISA) manages the delivery of public services by setting up and administering service windows for citizens and one-stop-shop and in-one-place Citizen Service Centers, as well as by establishing service standards and monitoring the performance of institutional service owners.

Interventions have aimed at establishing integrated one-stop shops to offer administrative services; re-engineering business processes to streamline the service delivery chain; increasing the number of services provided online within a well-articulated e-government strategy; introducing performance monitoring for government institutions on service delivery; and creating information and communications technology (ICT)-based mechanisms for citizen feedback on service quality to improve transparency and accountability.

Early evidence shows that the reforms are reducing the scope for corruption, increasing citizen focus, and improving the quality of public services in Albania based on customer care standards. The reforms also include special outreach to women and minority populations such as the Roma to improve access to services for traditionally disadvantaged groups.

So far, with World Bank support, 1,400 services of 134 central government agencies have been classified and coded for digitalization purposes. Information is offered on more than 400 public services from 10 institutions, and standardized forms are being prepared for 115 services. One-stop-shop centers have been established for the first time in the cities of Kavaja and Kruja, where public services for over 200 public services are offered in one single place, and work is on going for two other centers.



CONTACTS

Tirana

(355 4) 2280 650/1

34 Ibrahim Rugova St.,
Tirana, Albania.

Washington, DC

+1-202-458-2736

1818 H Street NW,
Washington, DC 20433,
United States.

More about the World Bank in Albania

Data:

<http://data.worldbank.org/country/albania>

Projects:

<http://www.worldbank.org/en/country/albania/projects>

Research:

<http://www.worldbank.org/en/country/albania/research>

News:

<http://www.worldbank.org/en/country/albania/news>



Follow us on Facebook

World Bank Albania

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>