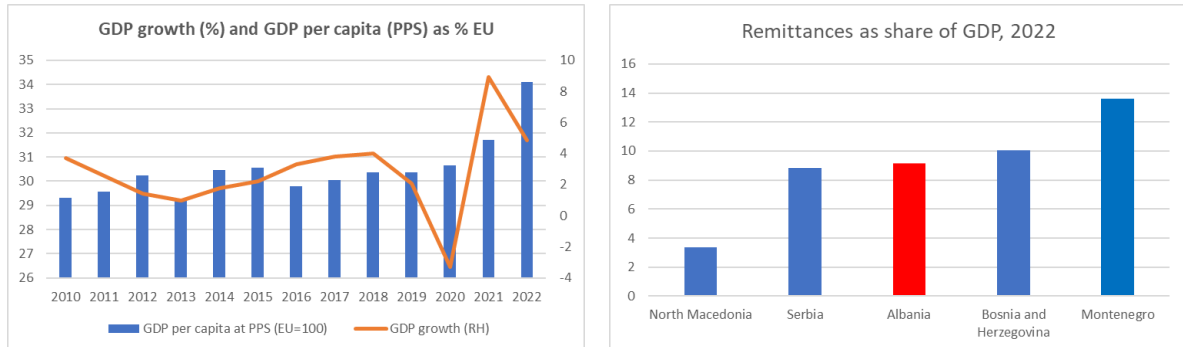


ALBANIA

Sustained economic growth but slow pace of convergence with the EU

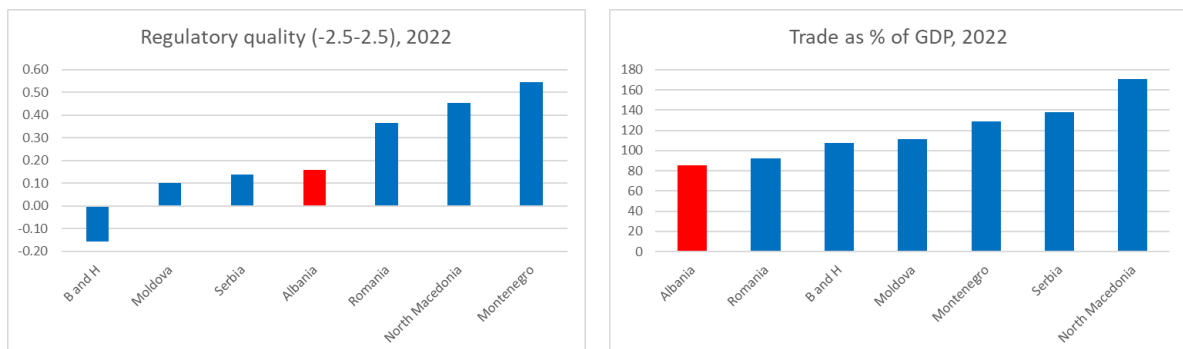
The economy of Albania has expanded at a slightly accelerating rate over the last decade, bouncing back strongly from the contraction induced by the COVID-19 pandemic. Despite this, the pace of convergence with the EU has been until recently rather slow and GDP per capita at PPS still represents around one third of the EU average. Given this difference in living standards, migratory outflows have been large, resulting in remittances that are close to 10% of GDP and a shrinking working-age population. Employment in agriculture has been declining steadily but it still accounts for around 35%.



Source: IMF, Eurostat, World Bank

Trade is below potential

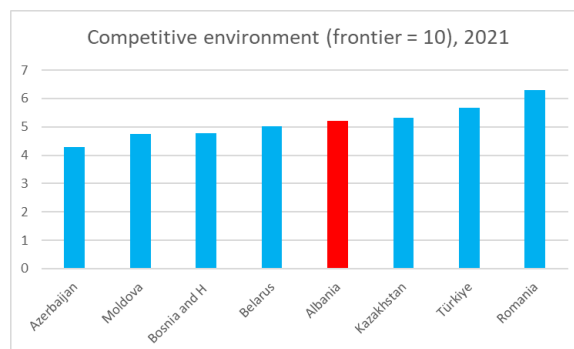
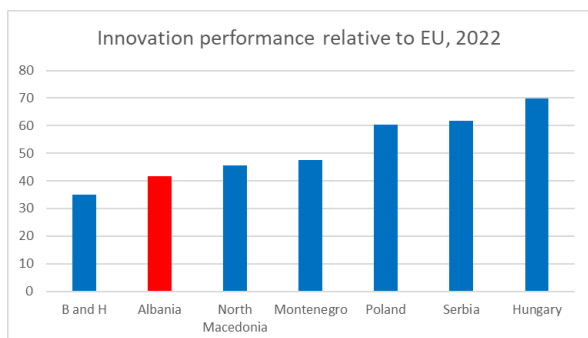
Trade openness is relatively low, which prevents the county from more fully overcoming the limitations of its small domestic market. The ability to more fully integrate into the global economy is constrained by the shortcomings of the regulatory environment and inadequate infrastructure, which impairs connectivity. Despite recent improvements, border crossing arrangements offer scope for significant improvement. Reducing regulatory risks and improving the quality of administration would have a positive influence on increasing trade and attracting FDI, thus supporting the diversification of exports and taking advantage of potential shifts of investment flows due to nearshoring.



Source: World Bank

Poor innovation performance and low productivity growth slow prosperity gains

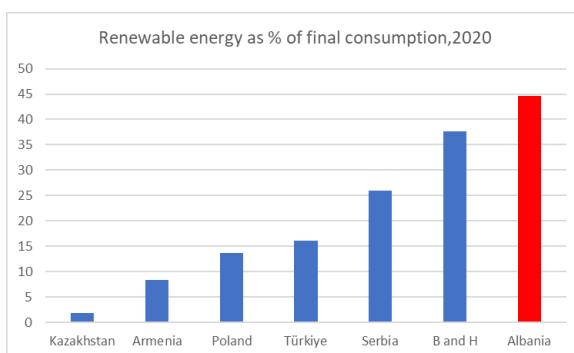
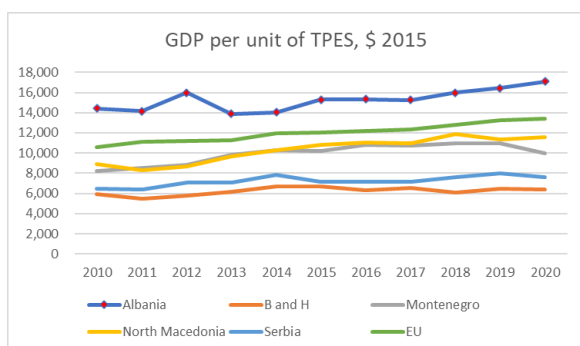
The labour market is characterised by high levels of unemployment, low participation rates and widespread informality. Coupled with skills shortcomings, these structural features limit productivity growth, while the share of employment in high skilled occupations is well below that observed in other Western Balkans countries. Innovation performance is poor, with a gap vis-à-vis the EU that is becoming larger. There is a significant scope to improve the business environment, judging by various international rankings, across multiple dimensions.



Source: EU Innovation Scoreboard, EBRD

Diversification and increased efficiency would add to energy security

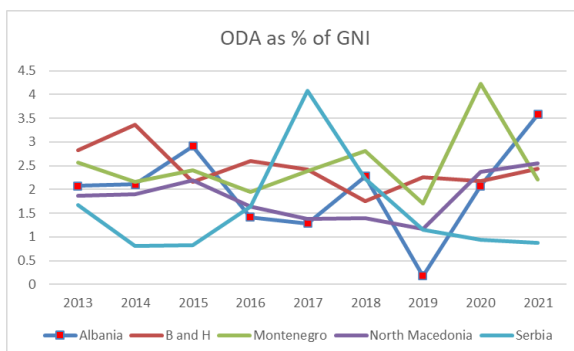
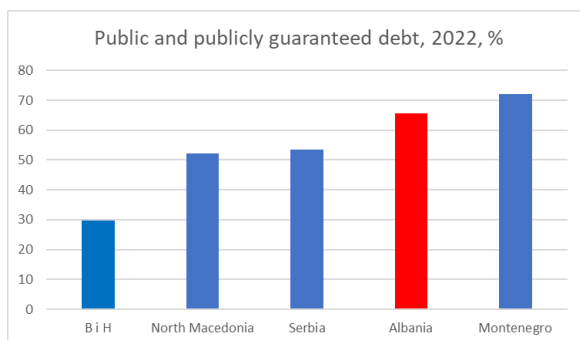
Albania greenhouse gas emissions are much lower than regional peers, while energy efficiency is comparatively high. Electricity generation relies almost exclusively on hydropower, which offers still an untapped potential for development. However, the country still needs to import electricity during dry spells, while losses in the sector represents more than one fifth of electricity supply. Albania is prone to earthquakes and floods, which adds to environmental vulnerability and, given the current supply structure, undermines energy security. Waste management presents serious deficiencies.



Source: OECD, SDG UNECE database

Investment effort requires mobilising private finance

Public debt is comparatively higher than in other countries in the region. Previous progress in containing it was derailed by the COVID-19 crisis. Public finances are undermined by a limited ability to mobilise revenues, which compares badly with peers. ODA flows have been decreasing in relative importance in recent years, being the lowest in the region as percentage of GNI in 2017-2020, before increasing sharply in 2021. Given these constraints, mobilising domestic and foreign financing for investment to meet infrastructure needs in support of sustainable development is critical.



Source: IMF, World Bank