

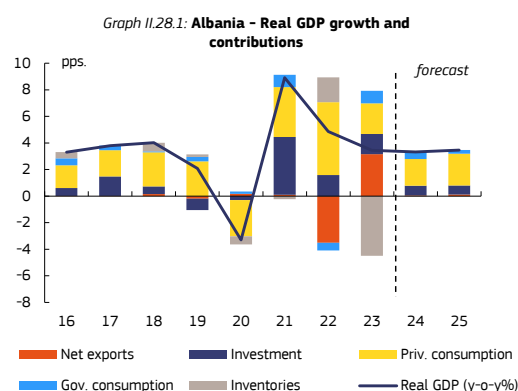
28. ALBANIA

Following robust growth in 2023, the Albanian economy is set to expand at similar rates in 2024 and 2025. The strong growth momentum is underpinned by a boom in the tourism sector, increasing investments and higher wages. Decelerating import prices and the continuing appreciation of the domestic currency are expected to bring the inflation rate to the 3% central bank target this year. Following an expected widening of the budget deficit in 2024, the fiscal position is set to improve with the deficit-to-GDP ratio falling to 2% in 2025. The public debt-to-GDP ratio is forecast to decrease only gradually.

Growth remains robust

The Albanian economy grew by 3.4% in 2023 driven by strong domestic demand and an exceptional performance of the tourism sector, which reached new heights. Public consumption was supported by sizeable wage increases due to the public sector wage reform. Private consumption growth decelerated in the second half of the year, with the annual growth rate reaching 3%. Investment witnessed a significant increase, spurred by private investments including high inflows of foreign direct investment. The boom in tourism pushed up services exports, while goods exports contracted on the back of lower demand from the euro area, declines in raw materials prices in international markets and the strengthening of the lek's exchange rate. Import growth was subdued, leading to a positive growth contribution of net trade.

GDP growth in 2024 is forecast at 3.3%, close to the 2023 performance. Household spending is expected to benefit from higher wages and moderating inflation. However, employment growth is set to slow down, slightly reducing household consumption growth. Despite softer private consumption and moderating investment growth, domestic demand is set to remain the key growth driver. Public consumption growth is set to slow down compared to the previous year, but remains elevated on the back of the second phase of the public wage reform (which foresees wage increases in July).



On the external side, services exports are expected to remain unaffected by sluggish growth in the euro area, as Albania is becoming an increasingly popular and cost competitive tourist destination. Nevertheless, the subdued economic performance of main trading partners, coupled with the continued impact of the strong lek on external competitiveness, is expected to lead to weak growth in goods exports. Overall, the growth contribution of net exports is expected to be slightly positive. In 2025, economic growth is forecast to pick-up slightly to 3.5% as the growth prospects of Albania's main trading partners improve and employment registers further growth amid a continuing mobilisation of inactive parts of the population.

This outlook is subject to downside risks, mainly related to the vulnerability of the dominant rainfall-dependent hydroelectric production to weather conditions, a possible resurfacing of inflationary pressures, exchange rate volatility and increasing shortages of skilled labour aggravated by emigration.

Inflation is set to reach central bank target

Following its peak of 8.3% in October 2022, inflation came down in 2023 and fell to 2.3% in March 2024. Inflation declined on the back of falling energy and food prices in international markets and thanks to the strengthening exchange rate and the tighter monetary policy stance. The Bank of Albania raised the policy rate in two steps by a cumulative 50 bps. to 3.25% in 2023. In March 2024, the Bank of Albania maintained the base interest rate unchanged. Average annual inflation is projected to decelerate to 3% in 2024, reaching the central bank's target, and then remain stable.

Fiscal deficit is set to widen before declining next year

Albania's fiscal position improved in 2023, but the budget deficit-to-GDP ratio is set to widen to 2.4% in 2024 on the back of higher spending on public wages, social insurance and interest costs. However, the primary balance is expected to remain in surplus, in line with the fiscal rule. In 2025, a lower expenditure-to-GDP ratio is projected to lower the budget deficit to 2% of GDP and further increase the primary surplus.

The government debt-to-GDP ratio fell more than expected in 2023, to below 60%, reflecting a positive primary balance and a favourable snowball effect. It is projected to continue its downward path in 2024 and 2025, but at a more moderate pace.

Fiscal risks stem from public guarantees and lending to state-owned enterprises such as hydroelectricity providers, and from public sector arrears.

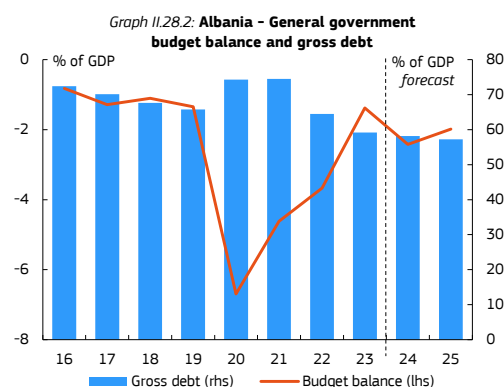


Table II.28.1:

Main features of country forecast - ALBANIA

	2023			Annual percentage change						
	bn ALL	Curr. prices	% GDP	04-19	2020	2021	2022	2023	2024	2025
GDP	2312.6		100.0	3.7	-3.3	8.9	4.9	3.4	3.3	3.5
Private Consumption	1745.4		75.5	3.8	-3.4	4.7	7.1	3.0	2.7	3.2
Public Consumption	256.3		11.1	2.2	1.5	7.8	-4.7	9.2	5.0	2.4
Gross fixed capital formation	563.2		24.4	1.7	-1.4	19.2	6.5	6.4	3.0	2.8
Exports (goods and services)	916.3		39.6	8.4	-27.9	52.0	7.5	10.1	4.4	4.9
Imports (goods and services)	1038.7		44.9	4.5	-19.8	31.5	13.1	1.3	3.8	4.0
GNI (GDP deflator)	2284.0		98.8	:	-3.6	9.2	4.5	4.0	3.2	3.3
Contribution to GDP growth:										
Domestic demand				3.4	-2.9	9.0	6.5	4.8	3.3	3.4
Inventories				-0.1	-0.6	-0.2	1.9	-4.5	0.0	0.0
Net exports				0.1	0.2	0.1	-3.5	3.2	0.1	0.1
Employment				:	-1.8	0.1	4.0	1.4	1.0	1.2
Unemployment rate (a)				15.0	12.3	12.2	11.5	11.2	10.9	10.4
Compensation of employees / head				:	:	:	:	:	:	:
Unit labour costs whole economy				:	:	:	:	:	:	:
Saving rate of households (b)				:	:	:	:	:	:	:
GDP deflator				:	0.7	3.5	9.9	4.6	3.3	3.3
Consumer price index				33.9	1.6	2.0	6.7	4.8	3.0	3.0
Terms of trade goods				:	-9.8	1.6	17.3	3.7	-0.6	-1.1
Trade balance (goods) (c)				-24.4	-22.4	-25.2	-23.7	-21.3	-20.8	-20.6
Current-account balance (c)				1844.7	-8.7	-7.7	-5.9	-0.9	-1.1	-1.2
General government balance (c)				3.4	-6.7	-4.6	-3.7	-1.4	-2.4	-2.0
Structural budget balance (d)				:	:	:	:	:	:	:
General government gross debt (c)				65.4	74.3	74.5	64.5	59.2	58.2	57.2

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.