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At the gates of Europe: Albania faces the challenge of convergence

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Contents

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Summary: After 45 years of isolation under a totalitarian communist regime headed by the Party of Labor of Albania (1944-1991), in the early 1990s, Albania engaged in a profound transition marked by considerable political and economic instability. However, for more than a decade now, the country has benefited from renewed stability, driven by major reforms addressing corruption, governance and justice, led by the Socialist Party, which has been in power since 2013.

These major structural transformations have benefited from a stable and resilient macroeconomic framework since 2019, despite the succession of external shocks. Albania has thus maintained dynamic growth, supported by moderate inflation. On the fiscal front, public finances have shown a remarkable performance, enabling a significant reduction in the deficit and a substantial decrease in public debt. At the same time, the consolidation of the banking sector has continued, while the country's external position has been strengthened: the current account balance has improved since 2023, supported by growth in tourism revenues, high levels of diaspora remittances, and increased inflows of foreign direct investment.

The formal opening of accession negotiations to the European Union in July 2022 triggered a new momentum for structural reforms in Albania. The talks are proceeding at a rapid pace. Between October 2024 and November 2025, all the six negotiation clusters have been opened with the European Commission. The Albanian authorities aim to conclude the negotiations in 2027, with the objective of accession to the European Union in 2030. With the changing and uncertain international environment, rapid accession constitutes a strategic issue both for the European Union and Albania, but also poses considerable challenges.

But the Albanian growth model remains marked by profound vulnerabilities. Cyclically, it remains exposed to a risk of over-specialization in tourism, while at the structural level, the economy faces a persistent population drain, limited productivity gains, and serious shortcomings in terms of governance. These weaknesses cast a shadow on the country's convergence path, especially as its GDP per capita remains well below the European average. In this context, the experience of countries that joined the European Union between 2004 and 2013 provides a particularly enlightening comparative framework.

TThematic area: **Macroeconomics**

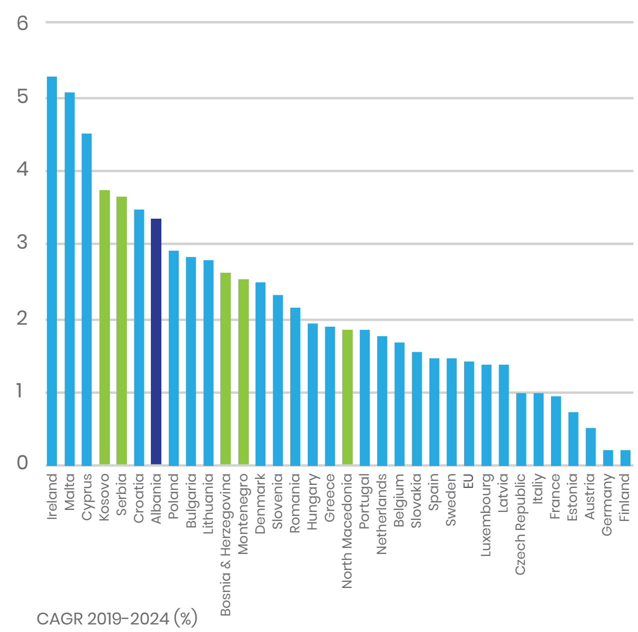
Geographical area: **Albania**

1. Despite the succession of exogenous shocks in recent years, Albania stands out for its stable and resilient macroeconomic framework

Dynamic economic growth since 2019

With an average annual real GDP growth rate of 3.3% between 2019 and 2024, **Albanian growth has been particularly resilient in recent years, despite three major exogenous shocks (Graph 1)**: the earthquake in 2019, the global pandemic in 2020 and the energy crisis in 2022. In 2024, the growth rate stood at 4.0%, the highest level on the European continent, behind Malta (6,8%) and Kosovo (4.6%). This level of growth not only exceeds the average recorded between 2008 and 2019 (3%), but also the potential growth rate (3.5%), despite tighter financial conditions, the slowdown in the euro area, and reduced fiscal stimulus.

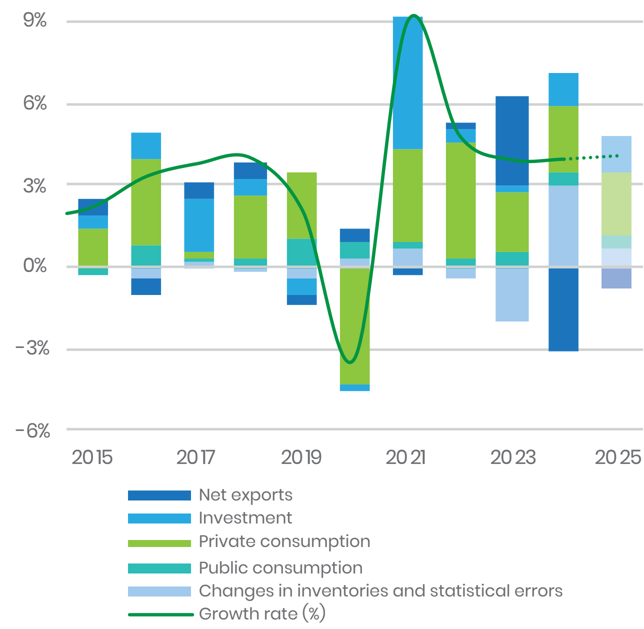
Graph 1 - Dynamic growth at the level of the continent and the Balkans



Source: EUROSTAT, IMF, AFD calculations.

While growth dynamics are driven by the tourism and construction sectors, they are also boosted by strong domestic demand, bolstered by private investment and household consumption **(Graph 2)**. This consumption has in particular benefited from the significant increase in the minimum wage (from €211 at the beginning of 2019 to €408 in 2025), and the continuing high level of diaspora remittances (4.1% of GDP in 2024).

Graph 2 - Economic activity is driven by private consumption and investment



Source: World Bank, EU, AFD calculations.

The strong economic activity has also been underpinned by moderate inflation (Graph 3), despite tensions caused by the energy crisis in 2022, which have been exacerbated by the conflict in Ukraine. While inflation averaged 13% in the Western Balkans[1] and 9.2% in the EU in 2022 (yoy averages), Albanian inflation

[1] The Western Balkans include Albania, Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro and Serbia.

remained at a more moderate level (6.7% on average), due to the country's almost exclusive dependence on hydropower and the progressive tightening of monetary policy, with the key interest rate gradually raised from 0.5% in 2021 to 3.25% at the end of 2023. While inflation stood at 2.5% year-on-year in July 2025, projections point to a return to the 3% target of the Bank of Albania (BoA) by 2026, with the gradual easing of its monetary policy (key interest rate lowered to 2.5% in July 2025).

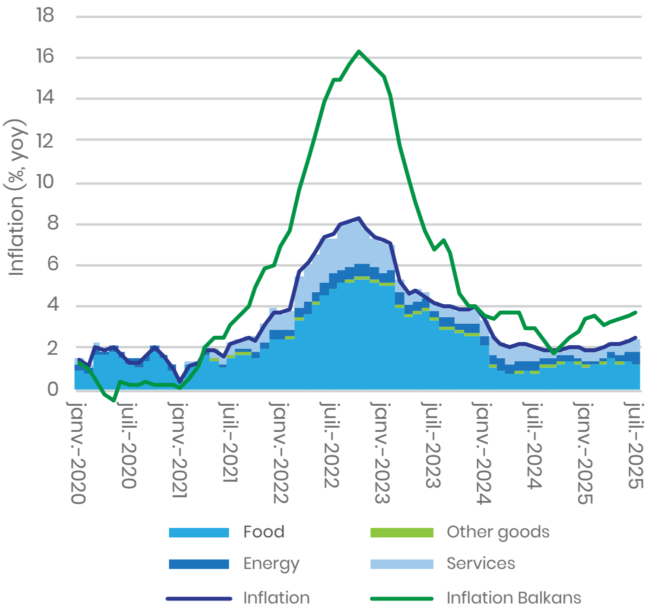
Albanian economic growth is expected to remain dynamic in 2025 (the IMF forecasts growth at 3.4%). In the medium term, real GDP is expected to increase at an average annual rate of 3.5%. This path will mainly be driven by domestic demand, underpinned by the increase in real wages, the strength of the construction sector, and investment, in particular in infrastructure and tourism. Exports are also expected to contribute positively to economic activity, while the increase in tourist arrivals, albeit more moderate, will continue to be an important driver of the economy.

Public finances have achieved a remarkable performance

Albania has been engaged in a fiscal consolidation process since 2016, mainly driven by steady growth in government revenue (from 24% of GDP in 2013 to 28% in 2024), and the establishment of a rigorous fiscal framework. This framework is based on legally binding fiscal rules, such as the obligation to maintain the primary balance in surplus[2] as of 2024 and ensure that the public debt-to-GDP ratio follows a downward trend.

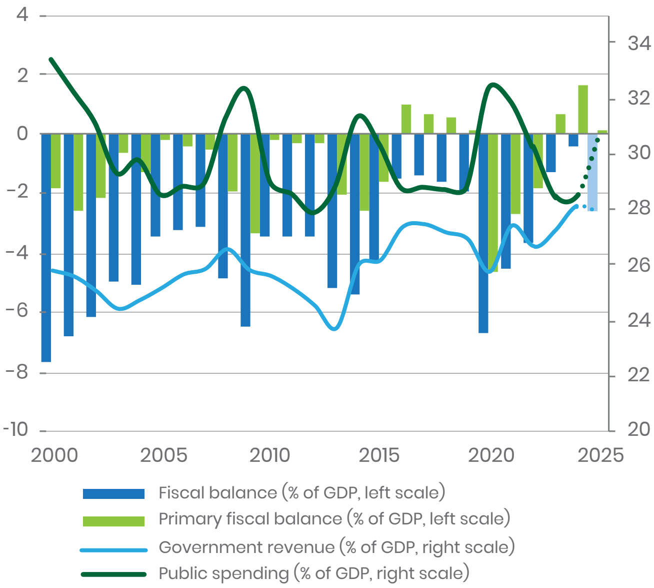
This discipline has significantly improved the Albanian fiscal situation since 2016 (average fiscal deficit of 1.6% between 2016 and 2019, against 4.2% between 2010 and 2015) **(Graph 4)**. Despite an unprecedented increase in 2020, as a result of the emergency measures deployed during the pandemic and post-earthquake reconstruction needs (-6.7% of GDP), the public deficit has since declined significantly.

Graph 3 - Inflation contained through a proactive monetary policy



Source: INSTAT, IMF, AFD calculations.

Graph 4 - Fiscal consolidation has exceeded the authorities' targets



Source: IMF, AFD calculations.

[2] The primary balance corresponds to the difference between government revenue (taxes, duties and contributions, for example) and government expenditure, excluding the cost of debt servicing.

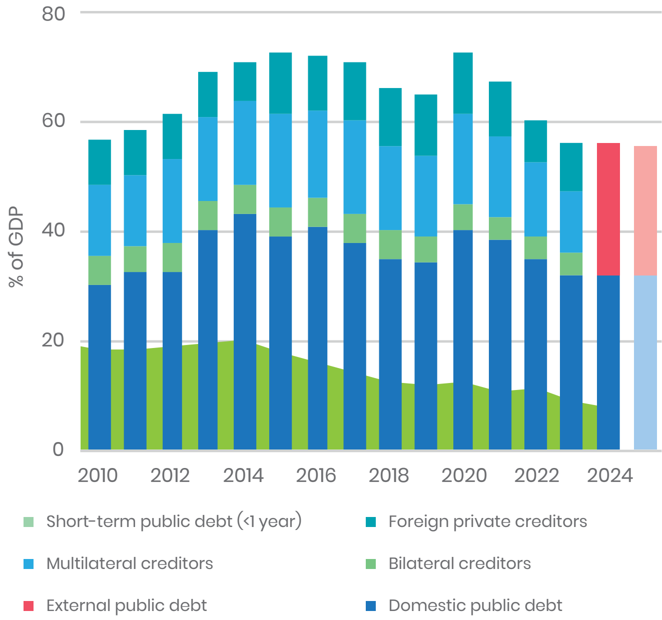
In 2023, the increase in government revenue, along with the under-execution of investment expenditure, resulted in a sharp decline in the fiscal deficit and achieved a primary surplus, one year ahead of the initial target. This path was maintained in 2024: the primary surplus reached 1.4% of GDP, reducing the public deficit to 0.7% of GDP, a level well below the initial projections of the Finance Law (2.4% of GDP).

The consolidation of public finances has also been based on tax reforms, including the introduction of new income tax brackets in 2024 and the adoption of the Medium-Term Revenue Strategy 2024-2027 (MTRS), which aims to increase revenue by 2.5 GDP points by 2027.

The performance of public finances is expected to continue in the medium term. The 2025 budget targets a primary balance in equilibrium, in line with the projections of the IMF, which expects a fiscal deficit of 1.7% of GDP. However, it should be noted that these projections do not include the majority of the measures set out in the MTRS, for which the detailed implementation arrangements are still unclear at this stage.

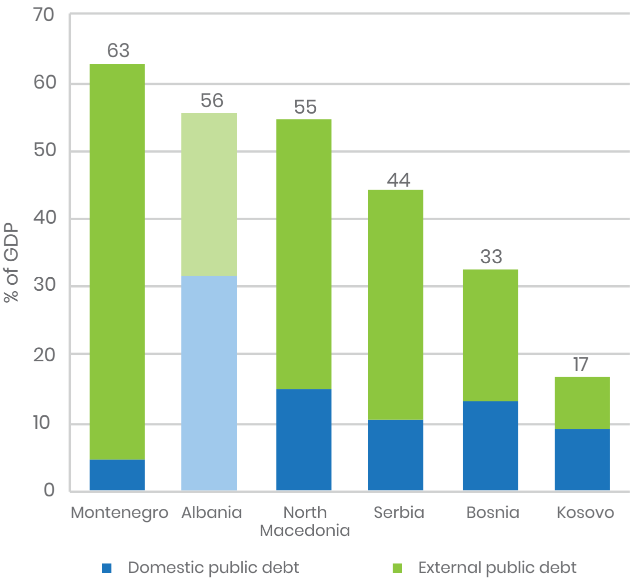
This positive path for public finances has also been coupled with a marked decline in the public debt ratio, from 73% of GDP in 2020 to 56% in 2024 (Graph 5). This is primarily due to the gradual reduction of the public deficit, the marked increase in nominal GDP, and the continued appreciation of the lek against the euro (+24% between January 2022 and July 2025), which reduces the foreign currency-denominated debt burden. This trend is expected to continue in the medium term. The IMF estimates that the public debt ratio could return to 50% of GDP by 2030. However, at the regional level, Albania has the highest level of debt behind Montenegro (63% of GDP in 2024). But external debt remains relatively contained and has declined sharply in recent years (24% of GDP in 2024, against 36% in 2021, the lowest level in the Western Balkans) **(Graph 6)**.

Graph 5 - Public debt is falling again after a series of shocks



Source: IMF, AFD calculations.

Graph 6 - Debt is mainly held by domestic creditors



Source: IMF, World Bank, AFD calculations.

There has been a marked improvement in the profile of Albanian debt. In addition to the ongoing support from official donors (multilateral and bilateral), in recent years, the State has mainly financed itself on the domestic market, while regularly issuing debt instruments in foreign currencies on international markets (four issuances on favorable terms since 2020). This strategy has helped extend the average maturity of public debt, which reached 2.3 years in 2024, against less than one year in 2011. There has thus been a sharp decline in the share of public debt with a short-term maturity. In 2024, it amounted to less than 15% of total debt, or about 8% of GDP, against over 20% of GDP in 2015. The aim of this rebalancing is to smooth the amortization profile and reduce refinancing risks. Albania's sustained presence on the markets also demonstrates the confidence of international investors. In recent years, foreign institutional investors have started to acquire sovereign bonds in local currency on the domestic market (increased presence since the beginning of 2025 when, according to the Ministry of Finance, they accounted for almost half the purchases of government securities). This marks a milestone in the diversification of the investor base.

At the same time, there has been an improvement in the perception of Albanian sovereign risk. The sovereign spread[3] has continued to decline steadily and stood at 238 basis points at the end of April 2025, against over 400 basis points at the end of 2022. This positive momentum has been coupled with an improvement in the sovereign ratings of agencies. S&P has upgraded Albania's rating to BB while, following an upgrade in 2024, Moody's has affirmed the Ba3 rating, commending the fiscal consolidation efforts.

However, certain vulnerabilities persist. The share of foreign-currency denominated debt remains high, accounting for almost 50% of the total debt stock in 2024, which exposes the country to foreign exchange fluctuations. Furthermore, the increasing recourse to private, domestic and foreign financing means a higher exposure to market conditions and investor confidence.

[3] The sovereign spread corresponds to the difference, in basis points, between the weighted average yield on a country's debt securities and the yield of the benchmark securities (U.S. Treasury securities in this case) for the same maturity.

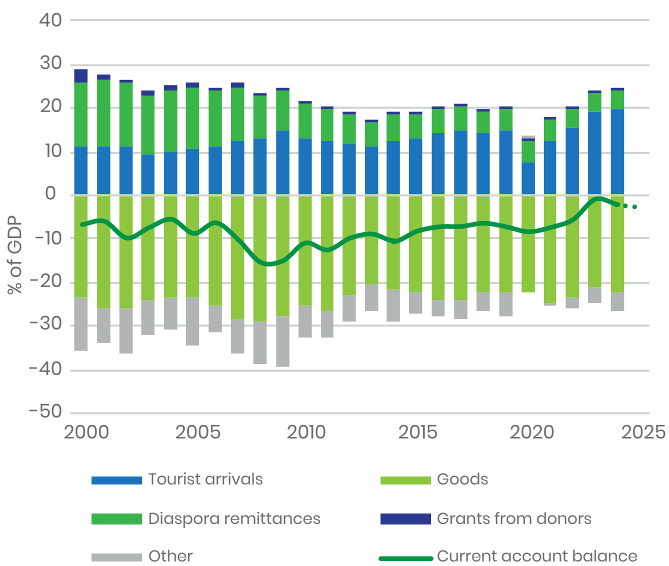
A healthy and resilient financial sector

Despite a high level of euroization (47% of deposits and 42% of euro-denominated loans at the beginning of 2025), which hinders the effectiveness of the transmission of monetary policy and increases the foreign exchange risk, **the financial system would generally appear to be healthy and has shown remarkable resilience**. It is relatively well developed, accounting for almost 95% of GDP, and remains overwhelmingly dominated by banks (90% of the country's financial assets). It is well capitalized (CAR of 20.2% at the end of 2024), with robust profitability ratios (return on assets of 1.9%, return on equity of 18.3%), while there has been a marked improvement in asset quality. The non-performing loan ratio, which reached 25% of gross loans in 2014, has fallen to 4% since 2023, reflecting a consolidation of the loan portfolio and the effectiveness of the financial reforms implemented by the BoA. **Indeed, Albania's financial sector has been subject to major structural reforms** focused on the digitalization of services and a progressive alignment with the European Union's regulatory framework. Its accession into the Single Euro Payments Area (SEPA) in November 2024 should reduce the cost of cross-border transactions, with the first such payments carried out at the end of October 2025. The country's removal from the FATF gray list in October 2023 illustrates the significant strides achieved in the fight against money laundering and terrorist financing. **However, the banking sector still only makes a modest contribution to financing the real economy**, with credit to the private sector only accounting for 31% of GDP in 2024 (against an average of 44% in the Western Balkans). This is due to the strong preference of banks for sovereign debt. The banking sector's exposure to public debt is thus one of the highest in Europe (24% of GDP in 2024, against an average of 9% in other countries in the region).

An improving trend in the external balances

While exports of services and diaspora remittances were not sufficient to cover the substantial trade deficit (15% of GDP on average between 2015 and 2020), **the development of the tourism industry** (tourist arrivals accounted for 15% of GDP on average between 2015 and 2024) and **the substantial foreign exchange inflows from diaspora remittances** (4.1% of GDP in 2024) **have contributed to reducing the current account deficit over the last decade (Graph 7)**. This deficit fell from 10% of GDP on average between 2010 and 2020 to 4% between 2021 and 2024. This momentum has been particularly visible since 2023, when the current account deficit fell sharply (- 1.2% of GDP, against -5.8% in 2022).

Graph 7 - A marked improvement in the current account balance



Source: IMF, AFD calculations.

The substantial foreign exchange inflows have also enabled Albania to build considerable reserves over the last 20 years. At the end of May 2025, they had reached $7.7 billion (against less than $4 billion at the end of 2019), or almost 24% of GDP. This comfortable level of foreign exchange reserves covers more than 6 months of imports of goods and services, meaning 131% of the adequacy metric calculated by the IMF.

However, this downward trend did not continue in 2024, when there was a slight increase in the current account deficit to 2.4% of GDP, as a result of the slowdown in the growth of tourist arrivals, a decline in exports of goods, as well as an increase in imports, driven by dynamic domestic demand and a decrease in domestic power generation. In addition, the positive effect of tourism on the current account balance is lessened by the resulting additional imports of goods (it is estimated that 60% of tourist consumer goods are imported). The current account deficit is expected to level off in the medium term around 2.7%, due to an increase in imports related to public investment and strong demand for inputs from the tourism industry. **The narrow export base, along with Albania's dependence on hydropower, tourism flows, and diaspora remittances make the current account balance particularly vulnerable to external and climate shocks.**

2. At the gates of Europe: the opening of accession negotiations to the European Union is giving a huge impetus for reforms in Albania

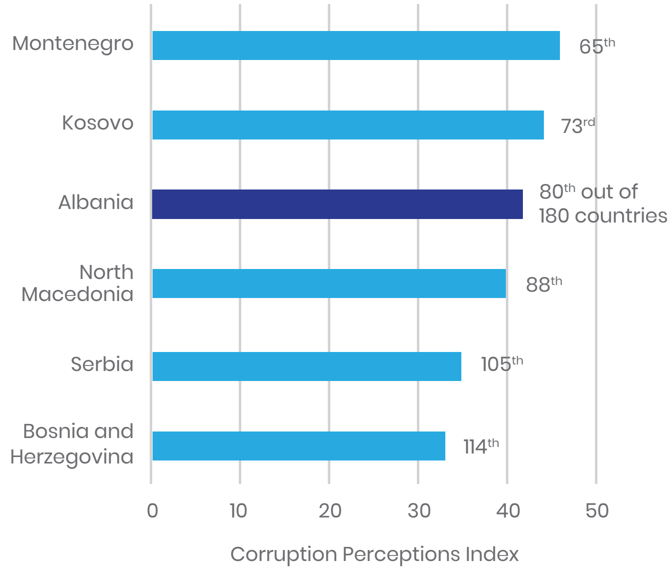
A lengthy process that benefits from public support and strong political consensus

Officially a candidate for accession to the European Union since June 2014, Albania has been engaged in the European integration process since the early 2000s. A member of the Council of Europe since 1995 and NATO since 2009, Tirana cultivates its relations with Brussels, while taking a moderate stance towards Russia and China. **The country's candidature benefits from public support and strong political consensus**. According to the Balkan Barometer, 77% of the Albanian population has a positive perception of the EU accession process, the highest rate in the Western Balkans. This is in particular due to the prospects for the economy and improving governance.

For almost a decade, the Albanian authorities have been engaged in major reforms in the fields of justice, the fight against corruption, and the electoral system, which were all prerequisites for the opening of accession negotiations to the European Union. In the judicial sector, the legislative framework is currently being harmonized with the acquis communautaire, while the vetting process, conducted between 2016 and 2024, reassessed all the judges and prosecutors in the country (examination of their assets and potential links with organized crime, for example). To date, almost 60% of Albanian judges have been removed from the judiciary, an unprecedented scale of clean-up. However, there are still shortcomings, in terms of both governance (public procurement) and the functioning of the judicial system (lengthy procedures, shortage of judges and qualified staff, inconsistent case-law, for example).

At the same time, Albania has made significant strides in the fight against corruption. Indeed, the country now ranks 80th out of the 180 countries in the Transparency International Corruption Perceptions Index, against 110th in 2014 **(Graph 8)**.

Graph 8 - Significant progress in the fight against corruption



Source: Transparency International, AFD calculations.

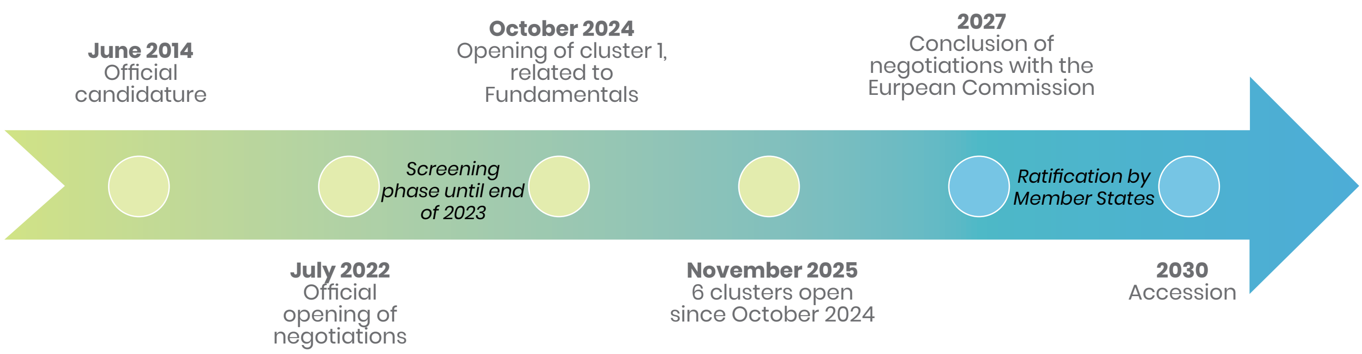
Created in 2019, the Special Structure against Corruption and Organized Crime (SPAK, Struktura e Posaçme Kundër Korrupsionit dhe Krimit të Organizuar), composed of a Special Prosecution Office and a National Bureau of Investigation, is the main institutional instrument in this action. The SPAK has a strengthened mandate and specifically targets grand corruption and criminal networks, including at the highest level of the administration. While its human, technical and financial resources have gradually been strengthened, the SPAK benefits from strong support from the Albanian population, enabling it to institute legal proceedings against key political figures, such as the former President and leader of the Democratic Party, Sali Berisha, and the Mayor of Tirana, Erion Veliaj. The legal framework for the fight against corruption is in place, albeit as yet incomplete: the Anti-Corruption Strategy 2024-2030 pays particular attention to the real estate sector, the revision of the national land registry, taxation, and public procurement. However, despite this progress, corruption remains deeply rooted at various levels of public administration and economic life. According to the European Commission, the perception of corruption in the public sector remains high and is one of the main barriers to improving the business climate.

Finally, and despite its improving democratic functioning, the country continues to be characterized by a strong political polarization, limited parliamentary oversight over the executive, and a centralization of power. Albania thus ranks 79th out of 179 countries in the V-Dem Liberal Democracy Index, which places it in the "gray zone", reflecting persistent structural weaknesses in the rule of law, civil liberties, and the functioning of democratic institutions. The freedom of the press remains fragile, with Reporters Without Borders (RSF) ranking Albania 80th out of 180 countries in its World Press Freedom Index. The Albanian media landscape remains characterized by a high concentration, dominated by a limited number of private operators often linked to political and economic interests.

A momentum for reforms in support of the EU accession process

All these reforms enabled negotiations with the European Union to be officially opened in July 2022, giving rise to a screening phase, meaning an analytical review of the EU acquis conducted until the end of 2023. **Between October 2024 and November 2025, all the the six negotiation clusters have been opened with the European Commission**. The Albanian authorities aim to conclude the negotiations in 2027, with the objective of accession to the European Union in 2030 **(Graph 9)**. While the timetable remains ambitious, it is driven by the country's long-term commitment (full alignment with the Foreign and Security Policy, for example), the willingness of European institutions, and a geopolitical situation that is now conducive to enlargement. Indeed, the war in Ukraine and the renewed geopolitical uncertainty have reignited consideration of the issue of enlargement in Europe, in particular with regard to the Western Balkans.

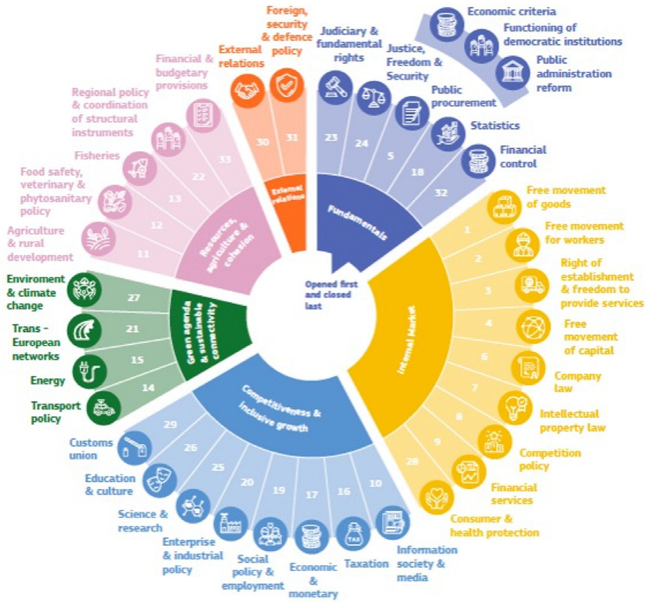
Graph 9 - An ambitious timetable, with a view to concluding the accession negotiations by 2027



Source: AFD.

Driven by this momentum and supported by a parliamentary majority, the authorities have engaged in a major institutional modernization program which aims to rapidly align the country with European standards (Graph 10). Beyond the reforms undertaken in the fields of justice and governance, there has been significant progress in the harmonization of the legislative framework with the acquis communautaire. The accession process acts as an accelerator of economic and sectoral reforms, supported by the Growth Plan for the Western Balkans led by the European Commission. This plan supports the priority structural reforms (business climate, human capital, digitalization, energy transition, rule of law and justice) by mobilizing financial aid conditional on concrete commitments. With a total potential of up to €922 million in the form of loans and grants by 2027, Albania already benefited from a first disbursement of €64.5 million in March 2025, followed by a second of €32 million in August 2025, targeting three strategic infrastructure projects (digitalization and extension of the electricity transmission network and rehabilitation of the Fierza Hydropower Plant). In terms of economic governance, the country has also introduced prudent fiscal and monetary policies which aim to strengthen the stability of the macroeconomic framework, in parallel with an economic dialogue with the EU. The business climate, which remains constrained by a high level of informal employment (estimated by INSTAT at 33% of employment, excluding the agriculture sector), has benefited from significant progress, in particular through the digitalization of public services: about 95% of administrative procedures are now available online via the e-Albania portal, making it one of the most advanced countries in the Balkans. In the financial sector, the authorities are close to completing the alignment of banking standards with European standards (required by the European Central Bank and European Banking Authority), by strengthening the prudential ratios and oversight requirements, and continuing the integration into the Single Euro Payments Area (SEPA), with the first such payments carried out at the end of October 2025. Beyond its direct institutional scope, this momentum for reforms generates significant economic externalities for the country, by improving the risk perception among foreign investors and enabling the disbursement of European funds and other international financial support.

Graph 10 - Albania has opened negotiations for all the 6 clusters



Source: European Commission.

A European ambition faced with multiple challenges

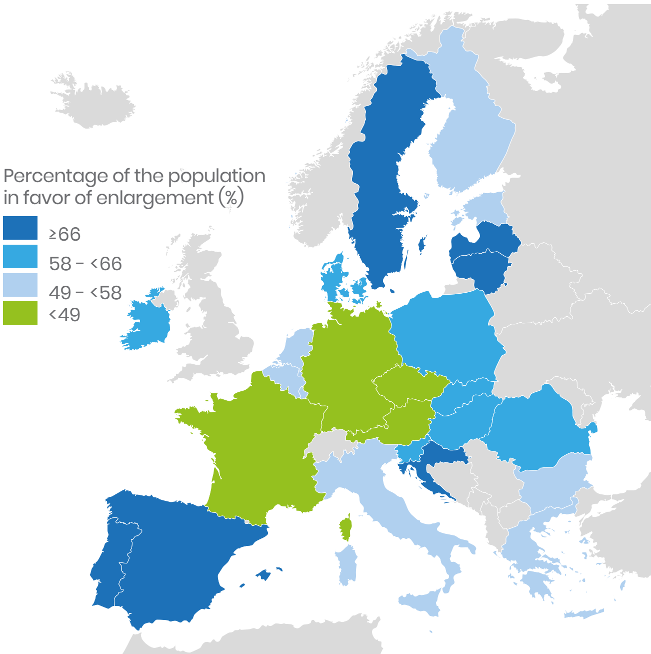
Albania's European ambition is faced with three considerable challenges: the conclusion of the negotiations by 2027, the ratification of the country's accession by the 27, and the success of the accession.

The timetable of concluding the negotiations by 2027 is a tight deadline, while the country's administrative and budgetary capacities remain limited, despite the technical assistance from the European Commission, international donors and European partners, including Italy, Albania's main trade partner. The accession process poses major sectoral challenges, in particular for the agriculture sector, which is highly fragmented. The sector has huge investment needs to enable it to meet European standards and face the competition related to the single market. In addition, cluster 4, covering the environment, is considered as one of the most difficult to align with the acquis communautaire. Indeed, it requires substantial investments (wastewater treatment, waste management, biodiversity, for example). Consequently, the government plans to negotiate a ten-year transition period after its accession in order to realize them. More broadly, the accession poses a major challenge for Albania's productive base, which is almost entirely composed of SMEs (99.8% of companies, 82.1% of employment). These companies generate almost 80% of national added value, excluding agriculture, but remain uncompetitive, especially on the export market. This is due to their limited access to financing, their low level of technological advancement, and a lack of investment. This calls into question their ability to cope with the opening of the domestic market to European competition. While Albania may request transition phases, which would enable it to extend the adjustment period in certain sectors, they must be kept to a minimum and must be approved by the European Council. This especially concerns certain areas such as taxation, the environment, the common agricultural policy, and the regulation of pharmaceutical products.

The ratification of the accession, which is subject to the approval of all 27 Member States, is also a sensitive political issue. According to the surveys conducted by the European Commission, four countries (Austria, Czech Republic, France and Germany) stand out for the fact that the majority of public opinion is against enlargement, with the share of negative opinions higher than the share of favorable opinions **(Graph 11)**. In this context, the resistance of certain Member States towards enlargement needs to be monitored, especially as there are several upcoming national elections.

The latency period between the conclusion of the negotiations and the effective accession also gives rise to uncertainties, in particular concerning the interim status that Albania may hold. The possibility of a status of "associate member" has previously been raised, but remains legally vague and gives rise to reservations, especially due to the limitations laid down by European treaties. Beyond the legal and diplomatic stages, the country's capacity to fully absorb the acquis communautaire and maintain the momentum for reforms is also a considerable challenge.

Graph 11 - Share of the population favorable to enlargement (%)

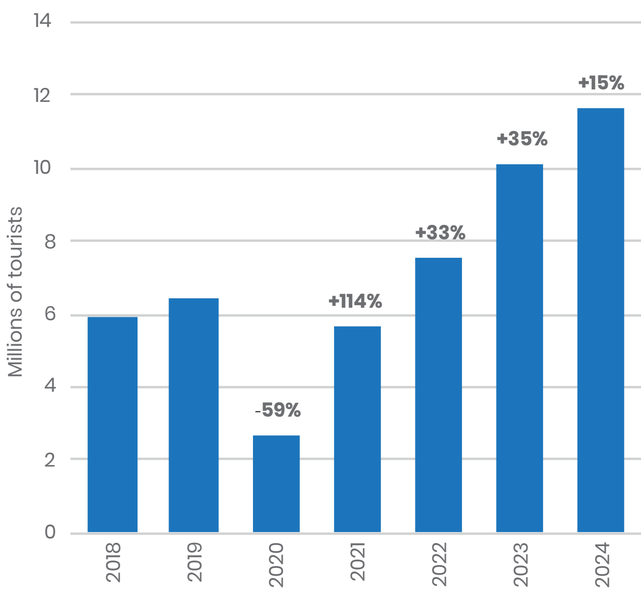


Source: European Commission, AFD map.

3. A fragile growth model: Albania faces the challenge of convergence

With an annual growth potential estimated at 3.5%, Albania's pace of convergence falls short of the ambitious timetable set for its accession to the European Union. GDP per capita in purchasing power parity stood at only $23,000 in 2024, one of the lowest levels in the Western Balkans, just ahead of Bosnia and Herzegovina (about $22,000) and Kosovo (almost $17,000), and the equivalent of only just over a third of the European average (about $62,000). The Albanian economy, which is now largely service-based, is increasingly based on a booming tourism industry. It is an engine of growth but increases the vulnerability to external shocks. In addition to these cyclical weaknesses, there are also structural challenges, including sluggish productive growth, a deteriorated business climate, and the size of the informal economy. They are exacerbated by a demographic crisis that penalizes growth potential and heightens tensions on the labor market.

Graph 12 - Tourism made a very rapid recovery after the pandemic



Source: INSTAT, AFD calculations.

Growth dynamics boosted by the boom in tourism, but vulnerable to external shocks

Albania is a small economy with a still limited diversification. Its exports of goods are concentrated on low value-added products, while services account for 55% of value added, largely driven by the retail and tourism sectors.

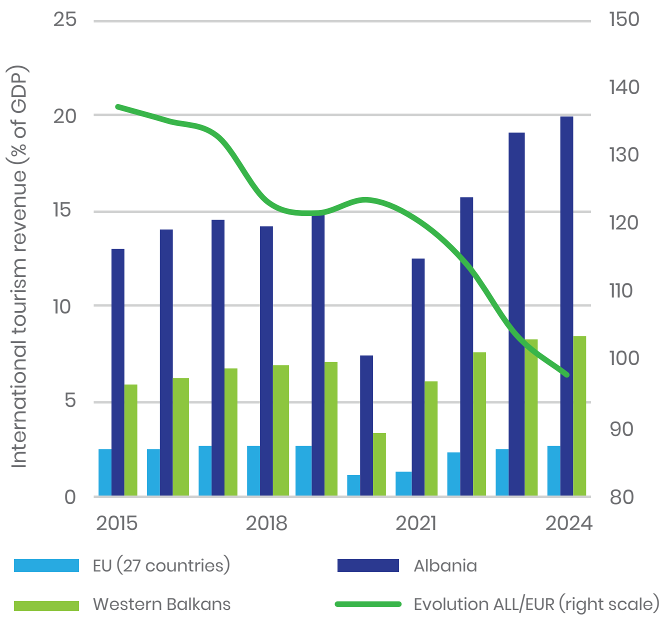
Until the early 2000s, the tourism industry was largely undeveloped, primarily due to inadequate infrastructure and political instability. However, the sector has experienced substantial growth over the past 15 years. In 2024, the number of tourist arrivals continued to increase (11.7 million arrivals, +15% year-on-year) and were double the pre-pandemic level **(Graph 12)**. Three-quarters of the foreign tourists who visit Albania are from southern Europe, especially Italy.

The authorities have identified the tourism industry as one of the five strategic sectors for the Albanian economy, along with agriculture, energy, infrastructure, telecommunications, and transport. International tourism revenues accounted for almost 20% of GDP in 2024, a particularly high level in comparison with the average in the Western Balkans (8.5% of GDP in 2024) and European Union (2.6% of GDP). Tourism has significant knock-on effects on its sub-sectors, in particular the hotel and catering industry, whose average annual growth exceeded 19% between 2018 and 2024. Tourism is also an important source of employment (over 10% of direct jobs, and over 25% of total employment when the associated activities are taken into account). This momentum has been boosted by a particularly attractive tax framework (VAT at 6% instead of 20%, full tax exemption on profits for luxury hotels for ten years).

However, the rapid development of tourism poses risks for the Albanian economy. The development of the sector is hindered by poor transport infrastructure and a shortage of skilled labor. As there is no clearly defined and structured strategy, the industry remains largely oriented towards relatively low-end tourism, which limits the economic benefits per visitor. In addition, the high level of informal employment in the tourism industry reduces the tax revenues actually collected by the State. The growing dependence of the economy on tourism also increases Albania's vulnerability to external shocks (economic downturn in the countries of the outbound tourists, for example). Furthermore, tourism still only has a limited knock-on effect on the rest of the economy, while the question arises of the continuing under-investment in other sectors (manufacturing and agriculture sectors, for example). The Albanian economy is thus exposed to the risk of over-specialization, a characteristic of "Dutch disease".[4] Indeed, since 2022, the huge foreign exchange inflows related to the boom in tourism have largely contributed to the continued appreciation of the lek (+24% between January 2022 and July 2025), which has automatically increased the price of Albanian exports in foreign currency **(Graph 13)**. This appreciation of the exchange rate directly penalizes the price competitiveness of export sectors, especially low value-added sectors. In the absence of remedial policies, this could end up weakening the country's productive base and increasing its dependence on a single growth driver.

[4] "Dutch disease" refers to the negative effects resulting from the dependence on a rent, generally from the mining sector, of an economy. It in particular leads to the decline of the local manufacturing industry and agriculture.

Graph 13 - A risk of over-specialization in the tourism industry



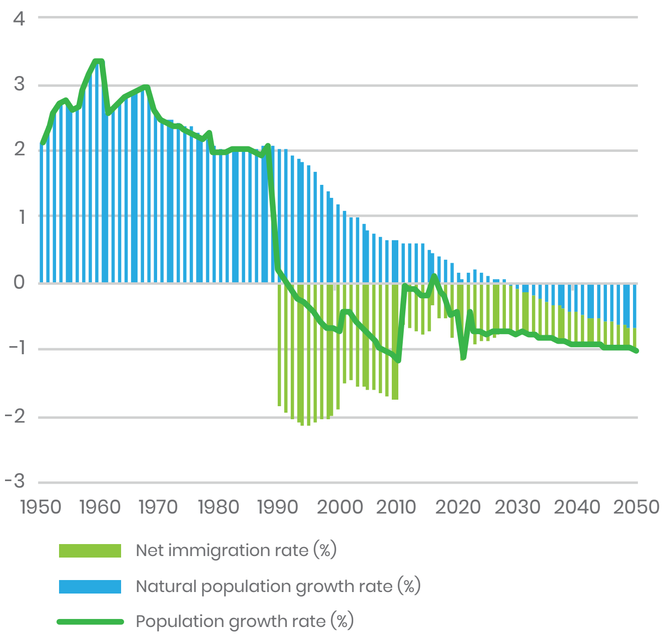
Source: EUROSTAT, BoA, AFD calculations.

Structural barriers that constrain the growth model

Albania is faced with a severe and prolonged demographic crisis. In the early 1990s, the opening of the borders, after several decades of isolation under the regime of Enver Hoxha, triggered a mass migratory movement, mainly towards neighboring countries. This momentum subsequently continued over time, fueled in particular by persistent poverty (in 2024, 17.3% of the population at the threshold of $6.85 PPP a day, the highest level in the Balkans), structurally low wages, and an inefficient social protection system. The demographic decline is also due to the structural decline in the birth rate (1.3 children per woman in 2023), combined with the rapid aging of the population (life expectancy of 80 years in 2023).

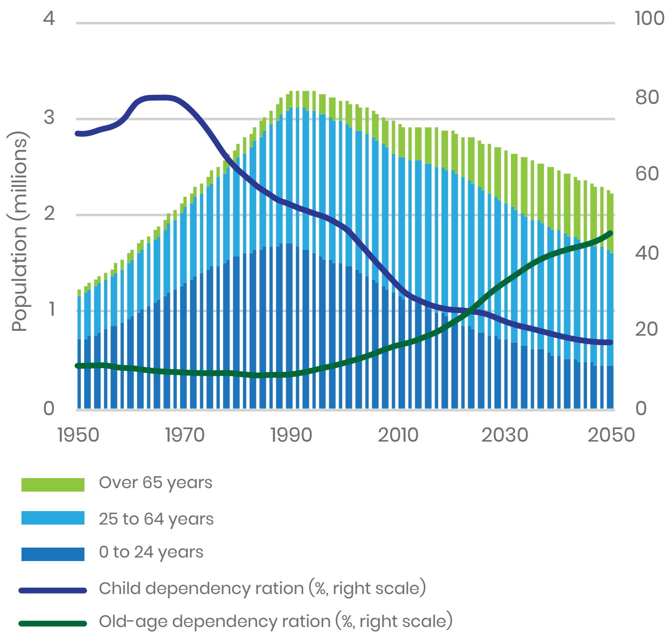
Since 1995, the country has almost continuously recorded a negative population growth rate (Graph 14). According to INSTAT, the resident population stood at 2.4 million people as of 1 January 2025, a decline of 14% compared to the 2011 census and 23% compared to the 2000 census. These data, which give greater cause for concern than the UN estimates (2.8 million inhabitants in 2025), highlight the scale of the demographic decline. At the same time, the Albanian diaspora exceeds 1.2 million people, a third of the total population, one of the highest rates in the world. The diaspora has historically been concentrated in Italy and Greece, but has now spread to other countries, in particular Germany, which attracts a growing number of skilled young people. **More than 75% of Albanians who leave their country are of working age (15 to 64 years old), resulting in a sharp decline in the labor force (-20% since 2011) and exacerbating tensions on the labor market**. According to UN projections (median scenario), the Albanian population will fall to 2.2 million by 2050 **(Graph 15)**. Albania, after Bosnia and Herzegovina, would thus appear to be the country in the Western Balkans the hardest hit by a demographic decline.

Graph 14 - A demographic decline fueled by persistent emigration



Source: United Nations, AFD calculations.

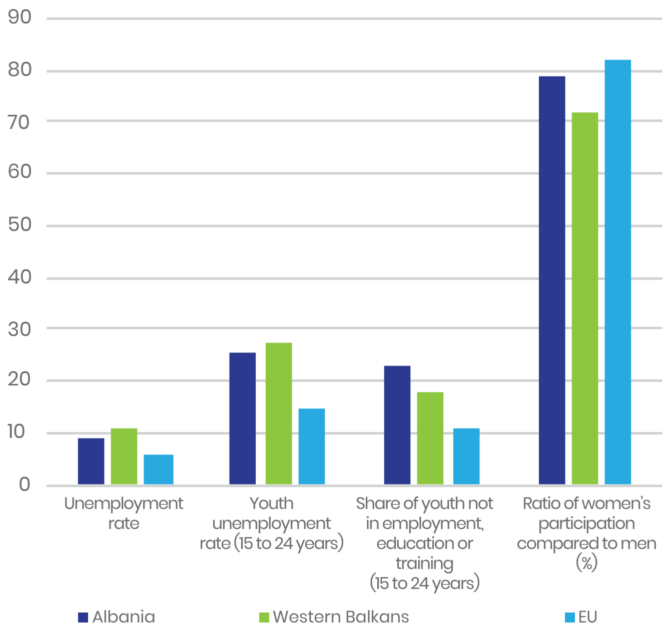
Graph 15 - A marked increase in the old-age dependency ratio



Source: EUROSTAT, BoA, AFD calculations.

This migration drain puts considerable pressure on the Albanian labor market, at least for the most skilled jobs. While the sustained and continuous emigration of young people contributes to growing labor shortages, the Albanian labor market is also faced with the persistent mismatch between skills supply and demand. This situation largely reflects the shortcomings of the education and vocational training system. This gap between training and the needs of the productive base adds to the difficulties that young people face in entering the labor market. This is illustrated by the particularly high rate of young people aged between 15 and 24 not in employment, education or training. This rate stands at 23.2%, double the European average (11.1 % in 2024) **(Graph 16)**.

Graph 16 - A labor market under pressure



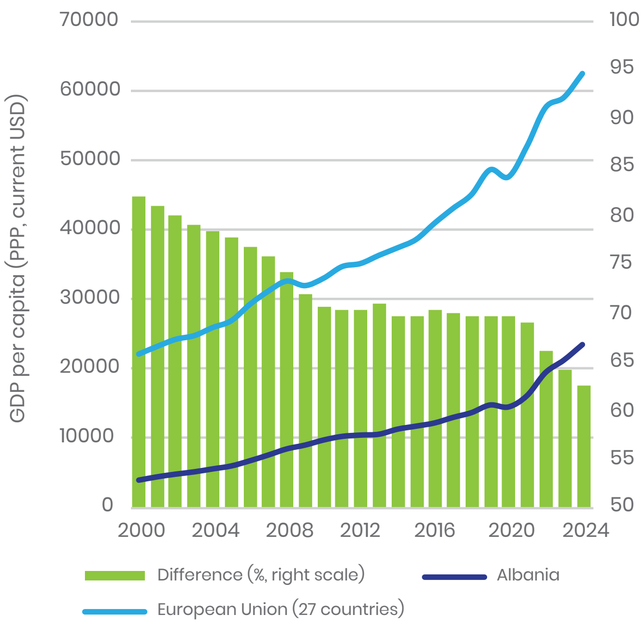
Sources: Eurostat, World Bank, National Statistical Institutes, AFD calculations.

At the same time, the youth unemployment rate remains structurally high, at almost 20% at the beginning of 2025, leading to a vicious circle: the difficulty of integration encourages emigration, which further weakens medium-term growth potential. More broadly, despite a significant decline since the pandemic, the unemployment rate remains structurally high (8.7% at the beginning of 2025), with persistent disparities depending on the regions and gender (workforce participation for women stood at 58% at the beginning of 2025, against 70% for men). **In this context, economic development is increasingly dependent on productivity gains, yet they remain low and below those of neighboring countries** ($40,000 PPP per worker, against an average of $58,000 in the Western Balkans). New jobs are mainly concentrated in low value-added sectors, such as the hotel and catering industry, while the agriculture sector, which is still relatively unproductive, continues to attract a large proportion of the Albanian workforce (35% of employment). More generally, productivity gains are held back by the high level of informal employment, poor infrastructure, and shortcomings in governance. Micro, small and medium-sized enterprises (MSMEs) are the backbone of the Albanian economy (virtually all companies and more than 80% of employment), but remain uncompetitive, especially in the export sector, due to a limited access to financing, a low level of technological advancement, and a lack of investment.

Furthermore, in its current form (pay-as-you-go scheme) and in view of Albania's demographic trajectory, **the country's public pension system is under strong pressure and poses a major risk for long-term public finances**. According to UN estimates, by 2070, the proportion of older people (aged 65 and over) will exceed 40% of the population, against only 17% in 2024, while the proportion of the working population (25-64 years-old) will fall from 59% to 49%. In addition to these demographic challenges, there are the structural weaknesses of the labor market (persistent unemployment, high proportion of self-employed workers, informal employment). In 2022, only 38% of people aged between 15 and 64 actually contributed to the pension scheme. Coupled with a near universal coverage for the elderly, this raises concerns over a substantial rise in public spending in the coming decades, especially as the pension scheme remains in deficit, despite the 2015 reform (including an increase in the duration of contributions and a higher retirement age). While the deficit remains low at the present time (about 1% of GDP in 2022), it could significantly deepen in the long term. The IMF estimates that if there are no further reforms, the additional financing requirement could reach a peak at between 4% and 5% of GDP by 2050, placing a heavy burden on public debt. The development of supplementary pension schemes remains very limited, despite the introduction of tax incentives. All this suggests that further parametric and structural adjustment measures will be necessary to ensure the long-term sustainability of public finances.

Finally, the business environment remains weakened by persistent structural deficiencies, in particular a governance gap, an unstable regulatory framework, and a large-scale informal economy. Informal employment especially affects low-skilled workers and remains widespread in the agriculture, retail and construction sectors, as well as in tourism, an industry that is booming but historically exposed to undeclared work. According to INSTAT, informal employment accounted for 33% of total employment, excluding agriculture, in 2022, a proportion that reaches over 55% when the agriculture sector is included, according to the ILO. Many factors contribute to this situation: persistent corruption, a lack of confidence in public institutions, the complexity of the tax system and the prevalence of cash payments. Furthermore, property rights, which are insufficiently defined and protected, are a major barrier to investment. While the digitalization of the land registry is underway, it has not yet been completed, and recourse mechanisms in the event of a land dispute are limited, which deters investors. These institutional weaknesses and the chronic level of informality thus constitute a structural default in the Albanian growth model, which restricts its long-term development potential.

Graph 17 - Gap narrowed with European Union standard of living



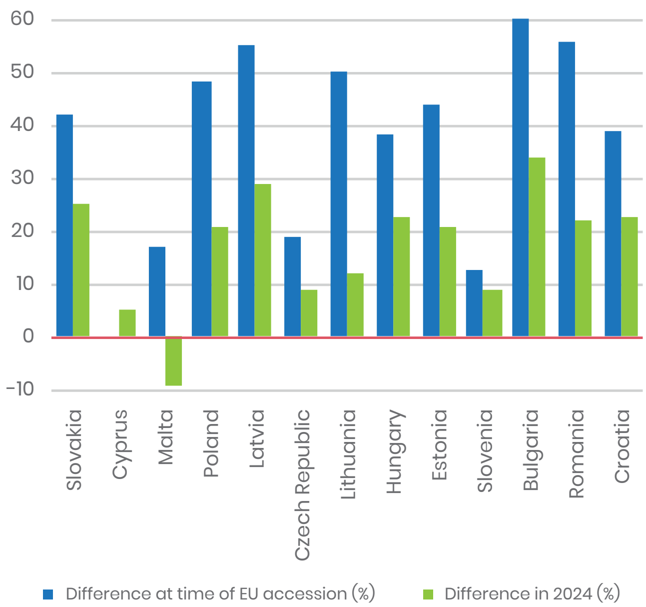
Source: World Bank, AFD calculations.

The challenges of convergence: What can be learned from recent enlargements?

Despite the persistent weaknesses in its growth model, since the early 2000s, there has been a marked improvement in the standard of living of people in Albania. Between 2000 and 2024, there was a sixfold increase in GDP per capita in purchasing power parity terms, reflecting both a gradual macroeconomic stabilization and sustained growth dynamics. Albania thus became an upper-middle-income country (UMIC) in 2012. At the same time, it has managed to considerably close the gap with the European Union: between 2000 and 2024, the difference between GDP per capita with the EU average was reduced by more than 20 percentage points **(Graph 17). However, there continues to be an extremely wide gap in living standards**. In 2024, Albania's GDP per capita stood at 38% of the EU average, compared to 18% in 2000.

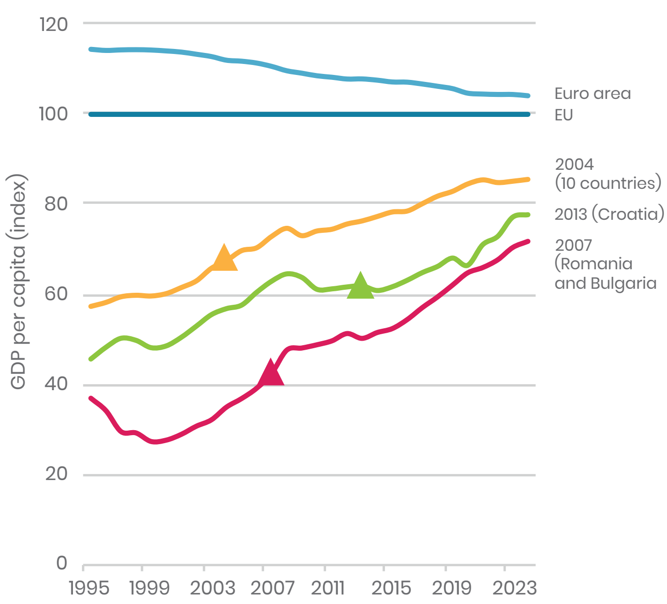
To put Albania's dynamics of convergence into perspective, it is useful to take a look at the dynamics of countries that previously acceded to the European Union during the enlargements in 2004 (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia), 2007 (Bulgaria, Romania) and 2013 (Croatia). **Since 2000, the countries of Central and Eastern Europe (CCEE),[5] along with Malta and Cyprus, have experienced a marked economic catch-up (Graph 18)**. While in 2000, the GDP per capita of 8 of the 13 new members stood at half of the European average, in 2024, only 2 of them had a level over 25% below this average: Bulgaria, whose per capita income remains 34% below the European average, and Latvia, where it remains 29% lower. This convergence is due to a two-pronged movement: firstly, rapid growth in the GDP per capita of the new entrants, which significantly reduced their gap with the European average, secondly, slightly slower growth in certain historical member countries, especially in euro area countries, which accounted for 104% of average per capita GDP in the EU in 2024, against 112% in 2004 **(Graph 19)**.

Graph 18 - A significant reduction in the gap in GDP per capita compared to the EU



Source: EUROSTAT, AFD calculations.

Graph 19 - A two-pronged movement of convergence



Source: EUROSTAT, AFD calculations.

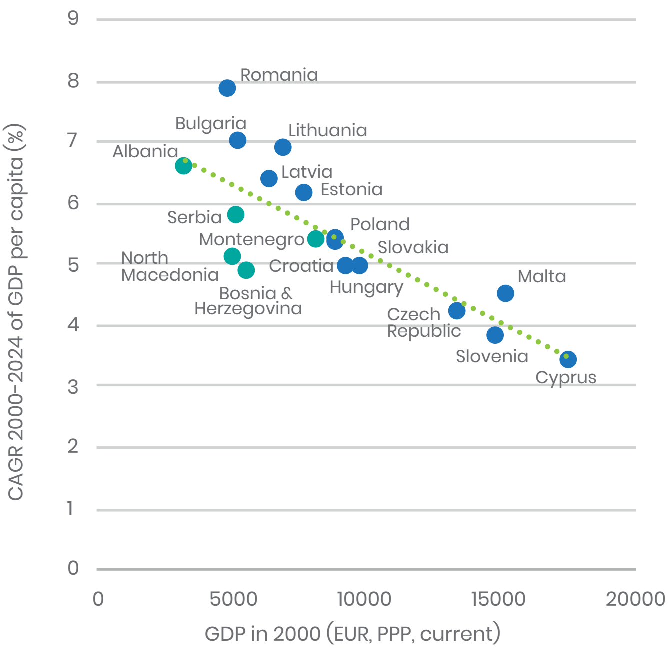
The catching up of CCEEs was already well underway during the decade preceding their accession to the EU. Between 1991 and 2003, the increase in their per capita GDP growth rate (CAGR of 3.3% over the period) largely exceeded the rate in the other Eastern bloc country members of the Commonwealth of Independent States (CAGR of -0.6%). This acceleration is due to the transition to a market economy, prospects for accession to the European Union, and strong international financial support, which has been a stabilizing factor. After 2004, access to structural funds and foreign investment also greatly accelerated convergence. The integration of the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia into European value chains also generated substantial flows of external investment. According to the counterfactual scenario presented by the European Union, the accession of these countries is estimated to have generated a 27% increase in GDP per capita, compared to a scenario without accession.

[5] Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia.

The dynamics of convergence of countries of Central and Eastern Europe also confirms the hypothesis that low initial levels of development lead to a faster growth rate (β-convergence) **(Graph 20)**. Countries that had the lowest levels of GDP per capita at the time of their accession, such as Romania, Bulgaria and Lithuania, thus experienced the most spectacular catch-up. A similar trend is emerging in the Western Balkans (Gashi and Avdulaj (2024)). Albania provides a particularly good illustration of these dynamics: with an average annual growth rate of 7.9% in its GDP per capita between 2000 and 2024, it has managed to considerably narrow the gap with the European Union (reduction in the difference between GDP per capita with the EU average of more than 20 percentage points over the period). However, this catch-up occurred before the global financial crisis of 2008. Through these dynamics, in 2024, Albanian GDP per capita (PPP, current USD) was at a level slightly below Romania and Bulgaria at the time of their accession in 2007 **(Graph 21)**.

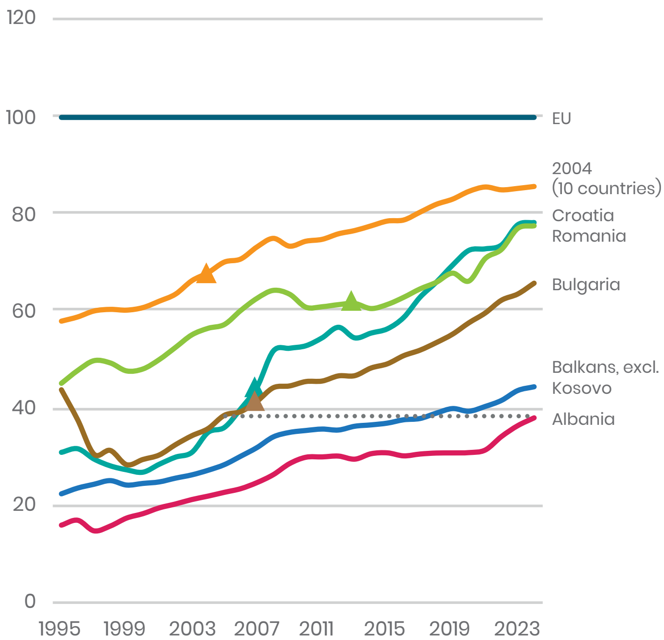
While the situation was relatively favorable in the 2000s, the current environment is much less so: the momentum related to the transition to a market economy would appear to have run out of steam and global growth is slowing down, while the accession process of the Western Balkans is both longer and more gradual. According to the EBRD (2024), the alignment of the Western Balkans with the average standard of living in the European Union may thus only be achieved between 2045 and 2093, depending on the scenarios used. In this context, the Western Balkans Growth Plan and the EU accession process are potential catalysts in Albania. According to the IMF, through the reforms implemented, they would make it possible to more than double the pace of convergence over the next 10 to 15 years. In this case, the per capita income gains could exceed 30% at this time, opening up the prospect of a much faster catch-up than observed to date.

Graph 20 - Lower initial GDP per capita leads to a higher growth rate



Source: World Bank, AFD calculations.

Graph 21 - A level comparable to Bulgaria and Romania before their accession



Source: World Bank, AFD calculations.

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