Growth and Competitiveness in Albania

June 12, 2018
Joint Vienna Institute
Outline

The Role of IMF in Albania

Outlook

Medium-term Challenges
  Growth
  Competitiveness

Recommendations
The Role of IMF in Albania

The IMF has been engaged with Albania since 1991, in all core areas:

**SURVEILLANCE**
The IMF has conducted Article IV Consultations and numerous missions to provide tailored policy advice. Albania is currently under intensive surveillance.

**LENDING**
The IMF has supported Albania’s reform agenda with seven programs. Albania’s current credit outstanding to the Fund is €355 million.

**CAPACITY DEVELOPMENT**
The IMF has provided TA in all core areas of expertise:
- **Central bank**: institutional framework, emergency liquidity assistance, banking and insurance supervision
- **Fiscal policy**: fiscal rule, tax administration, public investment, social protection
- **Macroeconomic statistics**
Global and Regional Economic Outlook
Global growth used to disappoint...

From gloom...

- Global output growth continued to disappoint, as an expected pickup in activity did not materialize.
- The Fund thus repeatedly revised its projections down in the past years.
But has turned the corner…

… to boom?

- The recovery in growth is *gathering strength* and is broad-based across the major economies.

- But the *medium-term outlook remains subdued* for advanced economies.
...supporting higher growth in the region in the near-term...

**Real GDP Growth**

(Percent)

Source: IMF, WEO database.
...but not as high as in the past.

Real GDP Growth
(Percent)

Max.
Average
Min.

2007 Level

Sources: IMF, WEO database.
More growth is needed to catch up.

**GDP per Capita in PPP relative to EU**

*Index, EU = 100*

Source: IMF, WEO database.
Medium-Term Challenges

• Growth
• Competitiveness
Increased growth will require higher investment and productivity...

Growth Accounting
(In percent)

Source: IMF Staff estimates.
Growth will be adversely affected by a declining working age population.

Population 15-64 Years Old
(Percent)

Increasing investment will require higher saving...

National Saving
(Percent of GDP)

Sources: INSTAT; and IMF staff estimates.
Credit to the Domestic Private Sector
(Percent of GDP)

Sources: HAVER; IMF, IFS; and IMF staff estimates.
Competitiveness: export to GDP is low and export market share is growing slowly

Exports
(Percent of GDP)

Source: WEO database.
Competitiveness: exports are undiversified and mainly in low value-added sectors.

Western Balkans: Structure of Goods Exports
(Percent; 2010-15)

Sources: World Bank, WITS database; and IMF staff estimates.
Competitiveness: Regional peers have improved their rankings more quickly.
Top Ten Problematic Factors for Business in 2016
(Weighted scores)

Corruption
Tax rates
Inadequately educated workforce
Access to financing
Policy instability
Inefficient government bureaucracy
Poor work ethic in national labor...
Inadequate supply of infrastructure
Crime and theft
Inflation

Competitiveness: Albania’s wages are low but so is productivity

CESEE: Average Wages and Productivity, 2016

Sources: Haver Analytics; OECD; IMF, WEO database; and IMF staff estimates.
infrastructure gap is among the largest in Europe

Infrastructure Gap Index, 2015 1/
To close Albania’s competitiveness gap and strengthen its external position, the authorities should:

- improve governance and the rule of law;
- raise labor market efficiency by reducing skills shortages;
- complete key infrastructure projects to improve transport connectivity and address energy sector reliability;
- And increase domestic savings and advance financial deepening.