



Growth and Competitiveness in Albania

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JVI workshop for MPs June 201



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





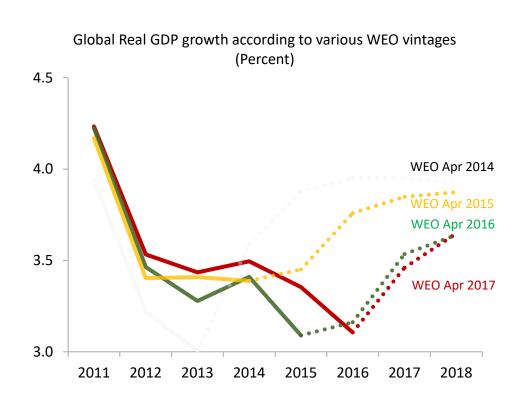
Global and Regional Economic

Outlook



Global growth used to disappoint...





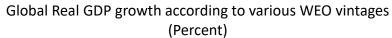
From gloom...

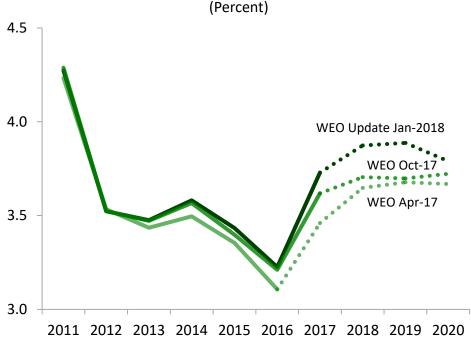
- Global output growth continued to disappoint, as an expected pickup in activity did not materialize.
- The Fund thus repeatedly revised its projections down in the past years.



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.

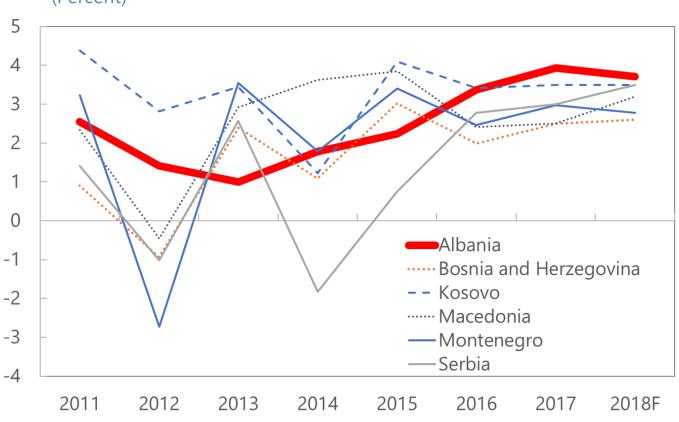


...supporting higher growth in the region in the near-term...



Real GDP Growth





Source: IMF, WEO database.

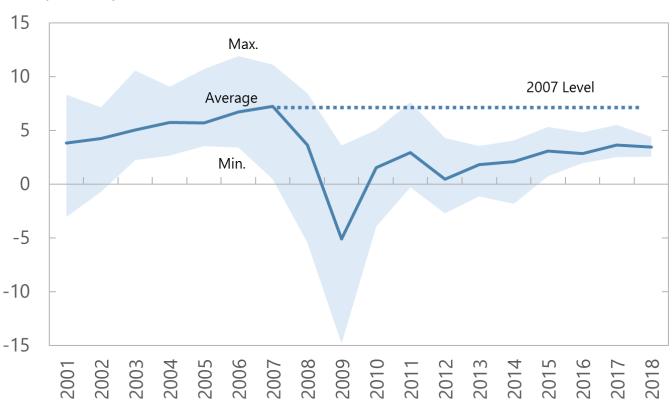


...but not as high as in the past.



Real GDP Growth

(Percent)



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

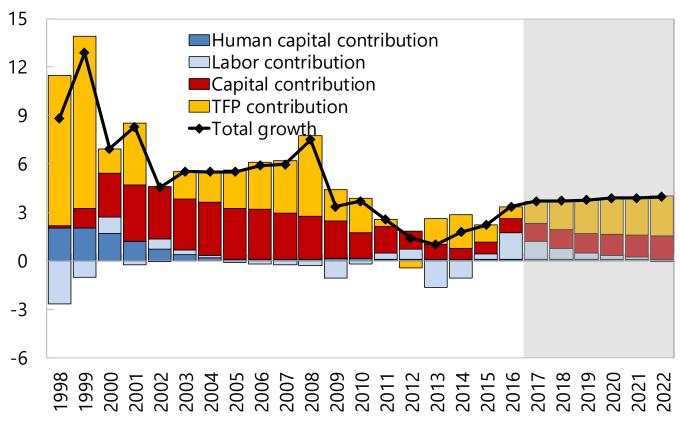


Increased growth will require higher investment and productivity...



Growth Accounting

(In percent)



Source: IMF Staff estimates.

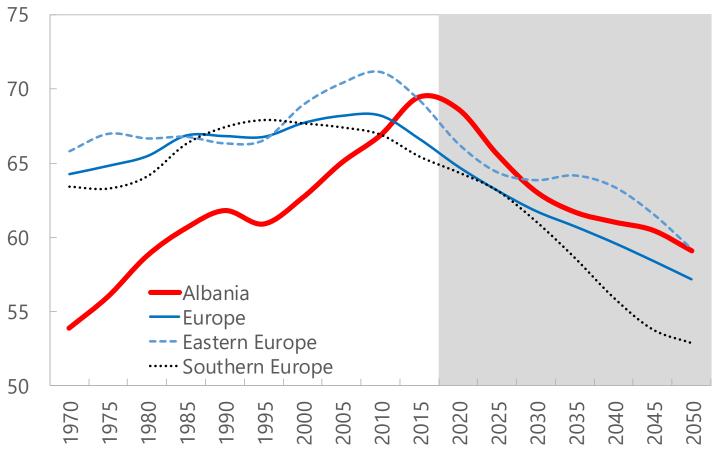


Growth will be adversely affected by a declining working age population



Population 15-64 Years Old





Source: UN Population Prospects, Revision 2017.

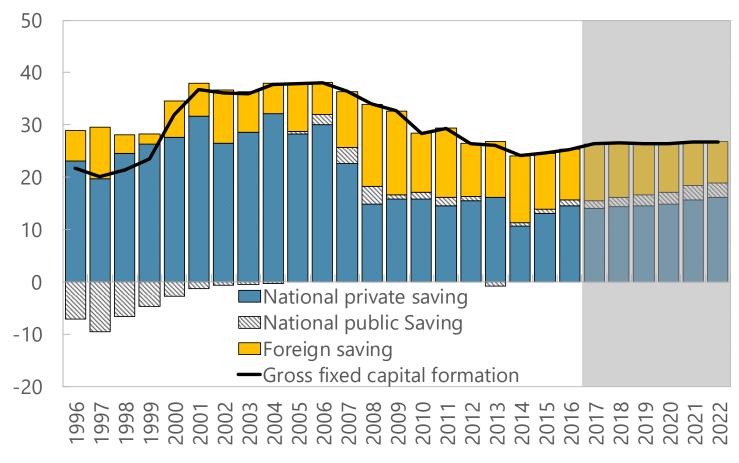


Increasing investment will require higher saving...



National Saving

(Percent of GDP)



Sources: INSTAT; and IMF staff estimates.

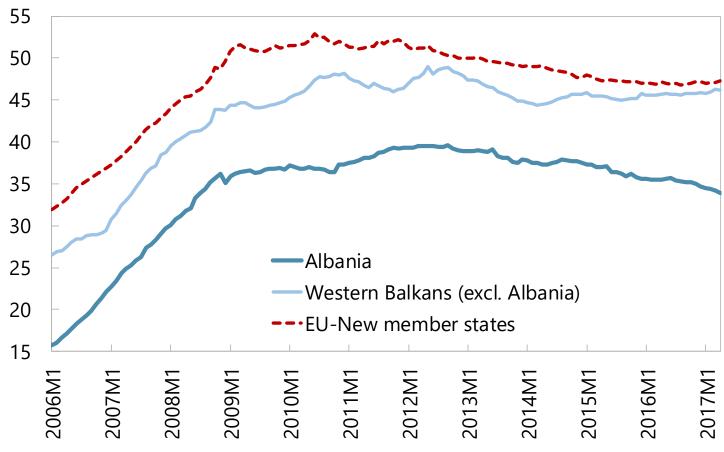


...and deeper financial development



Credit to the Domestic Private Sector

(Percent of GDP)



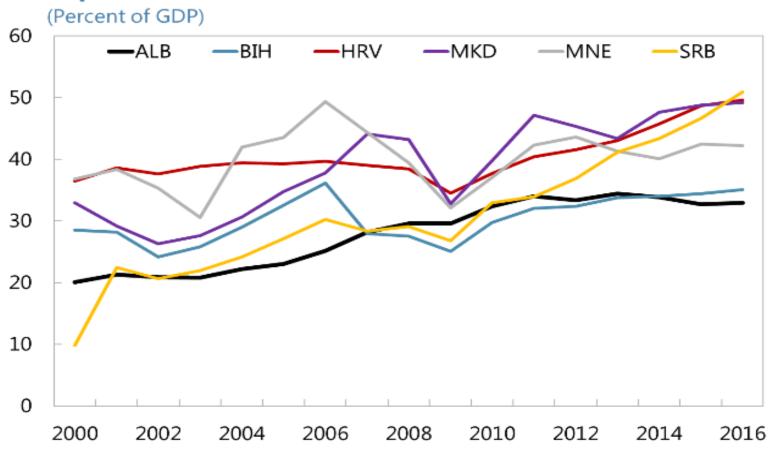
Sources: HAVER; IMF, IFS; and IMF staff estimates.



Competitiveness: export to GDP is low and export market share is growing slowly



Exports



Source: WEO database.

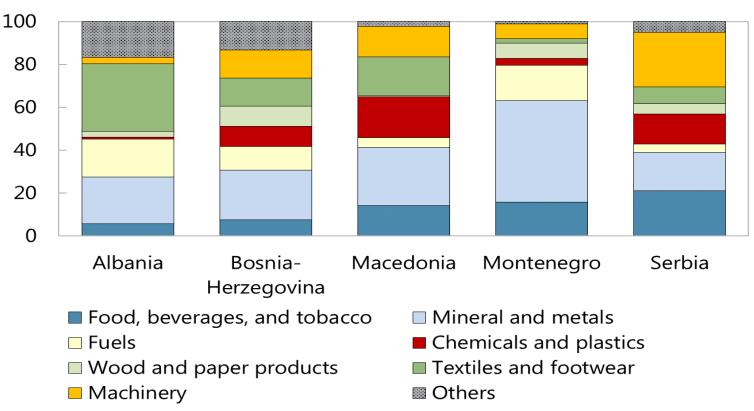


Competitiveness: exports are undiversified and mainly in low value-added sectors



Western Balkans: Structure of Goods Exports

(Pecent; 2010-15)



Sources: World Bank, WITS database; and IMF staff estimates.

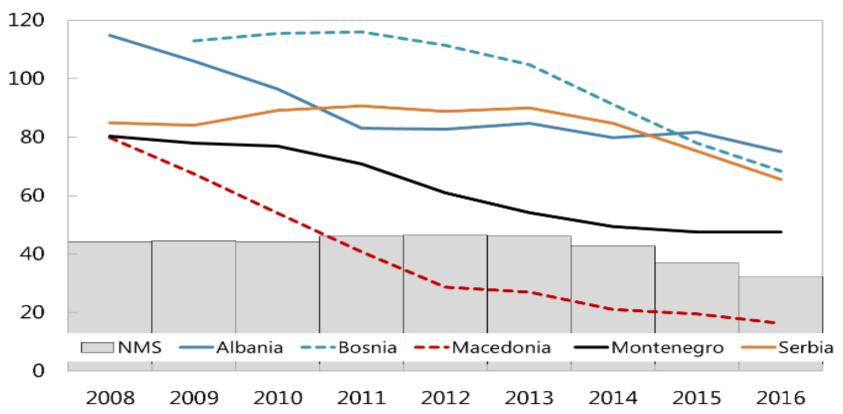


Competitiveness: Regional peers have improved their rankings more quickly



Doing Business Indicators

(Ranking; 5-years moving average)



Source: World Bank, Doing Business Reports.

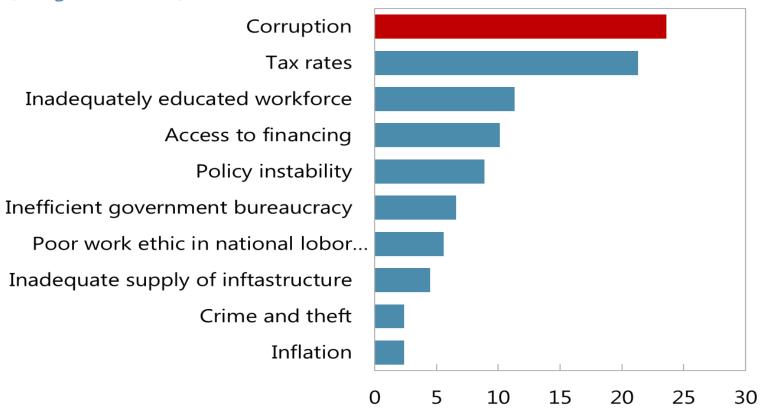


Competitiveness: key constraints are structural



Top Ten Problematic Factors for Business in 2016

(Weighted scores)



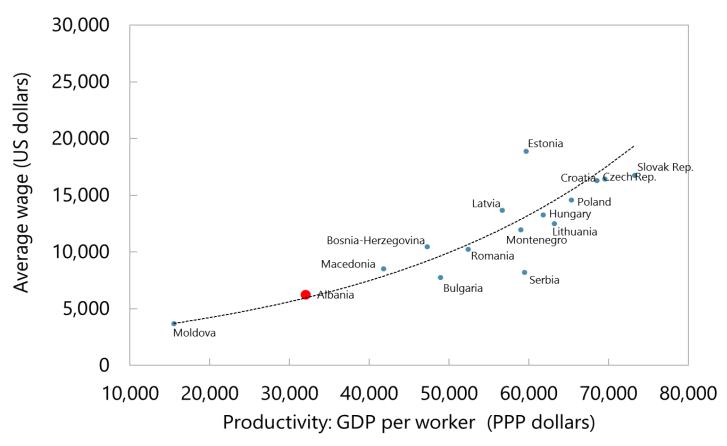
Source: Global Competitiveness Report, 2016-2017.



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



CESEE: Average Wages and Productivity, 2016



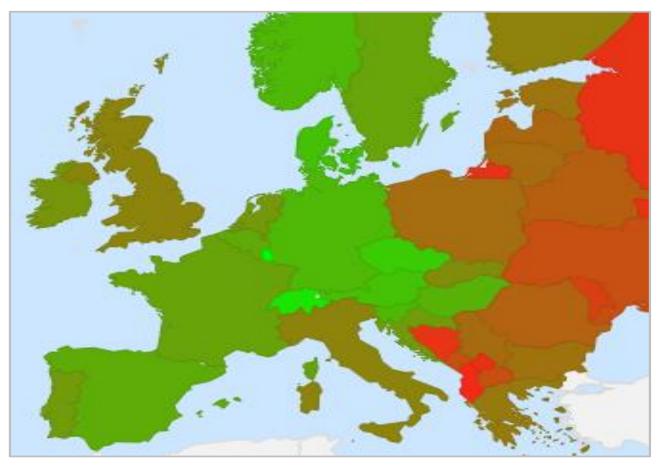
Sources: Haver Analytics; OECD; IMF, WEO database; and IMF staff estimates.



infrastructure gap is among the largest in Europe



Infrastructure Gap Index, 2015 1/



-66 51



Recommendations



- 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.