



PRIORITIES FOR EQUITABLE GROWTH IN ALBANIA

Ellen Goldstein

Country Director South Eastern Europe

January 20, 2016

Tirana



WORLD BANK GROUP

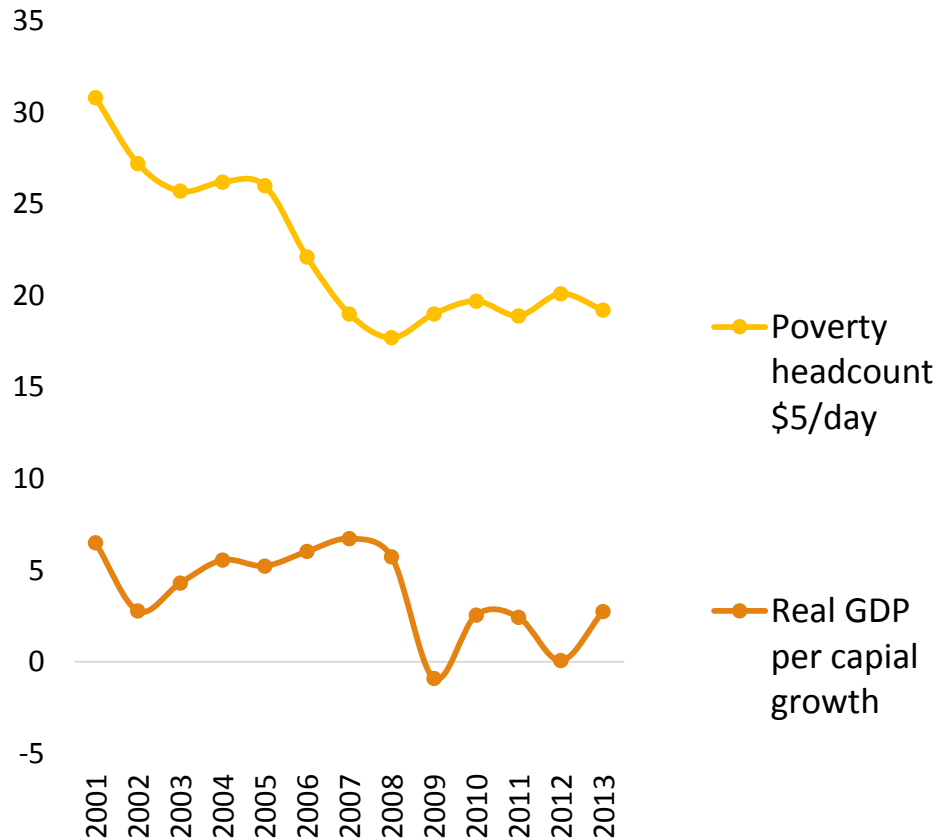
Key Messages

- Pre-2009 drivers of growth not sustainable
- Need to rekindle and rebalance growth:
from consumption-led to investment- and export-led
- Macro-structural reform agenda with equity and sustainability goals
- Reforms starting to deliver results – stay the course!

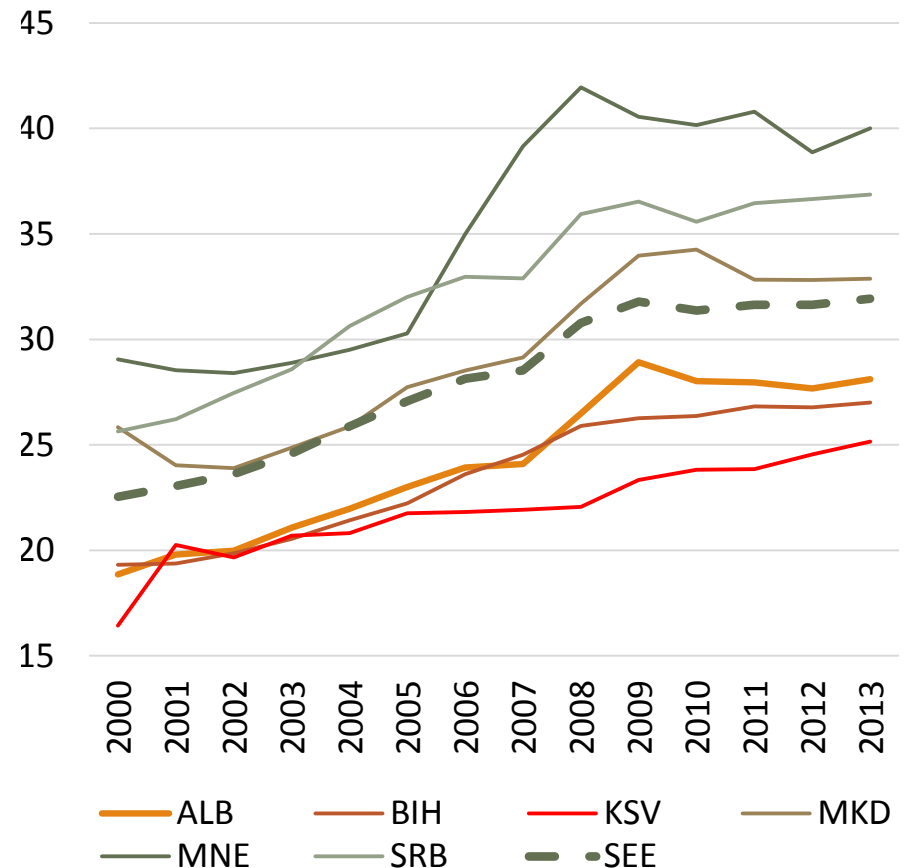


Strong pre-2008 growth in Western Balkans good for poverty reduction and income conversion with EU

SEE6 Economic Growth and Poverty, 2000-2013



Real GDP per capita, % EU average income per capita



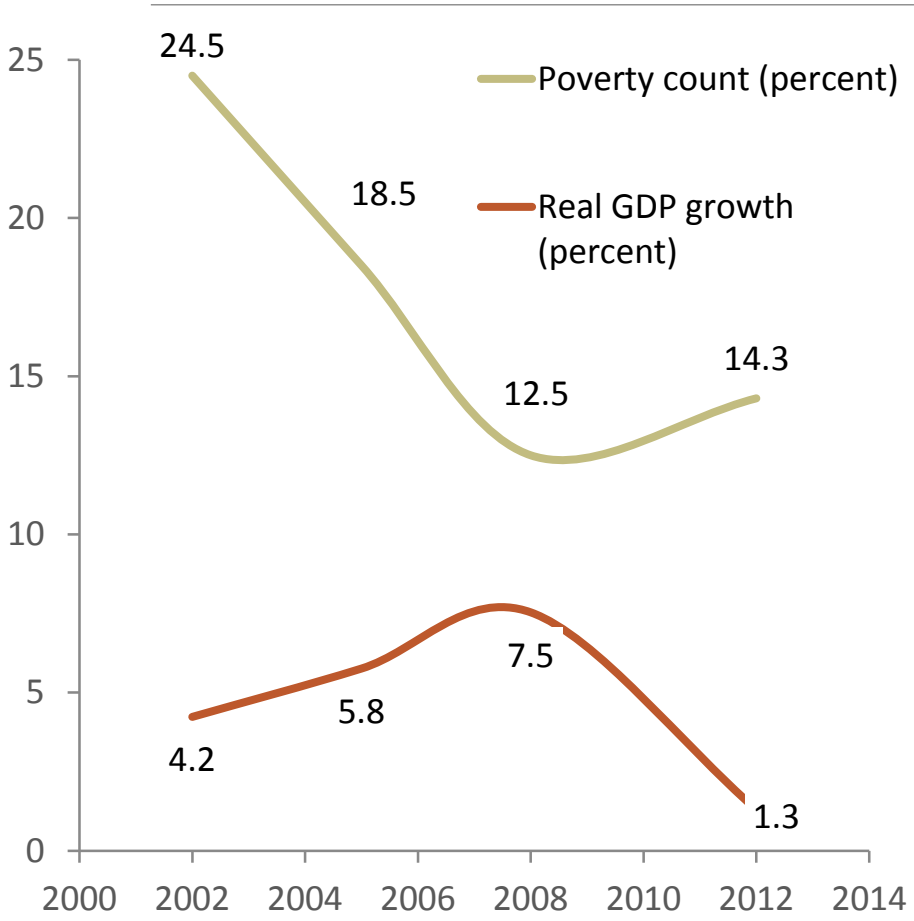
Source: World Bank Staff estimates

Note: SEE6 includes Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro, and Serbia

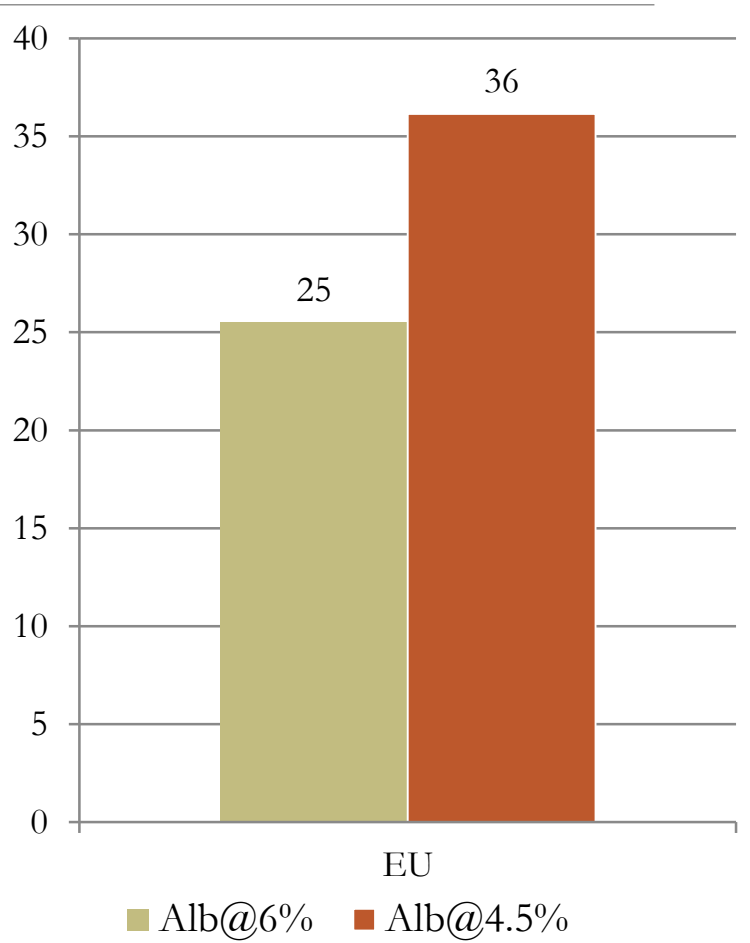
Sources: World Bank staff calculations based on national statistical offices.

Strong growth and poverty reduction over the past 2 decades in Albania, but wide gap with EU income average

Real GDP and poverty headcount, 2002-2014

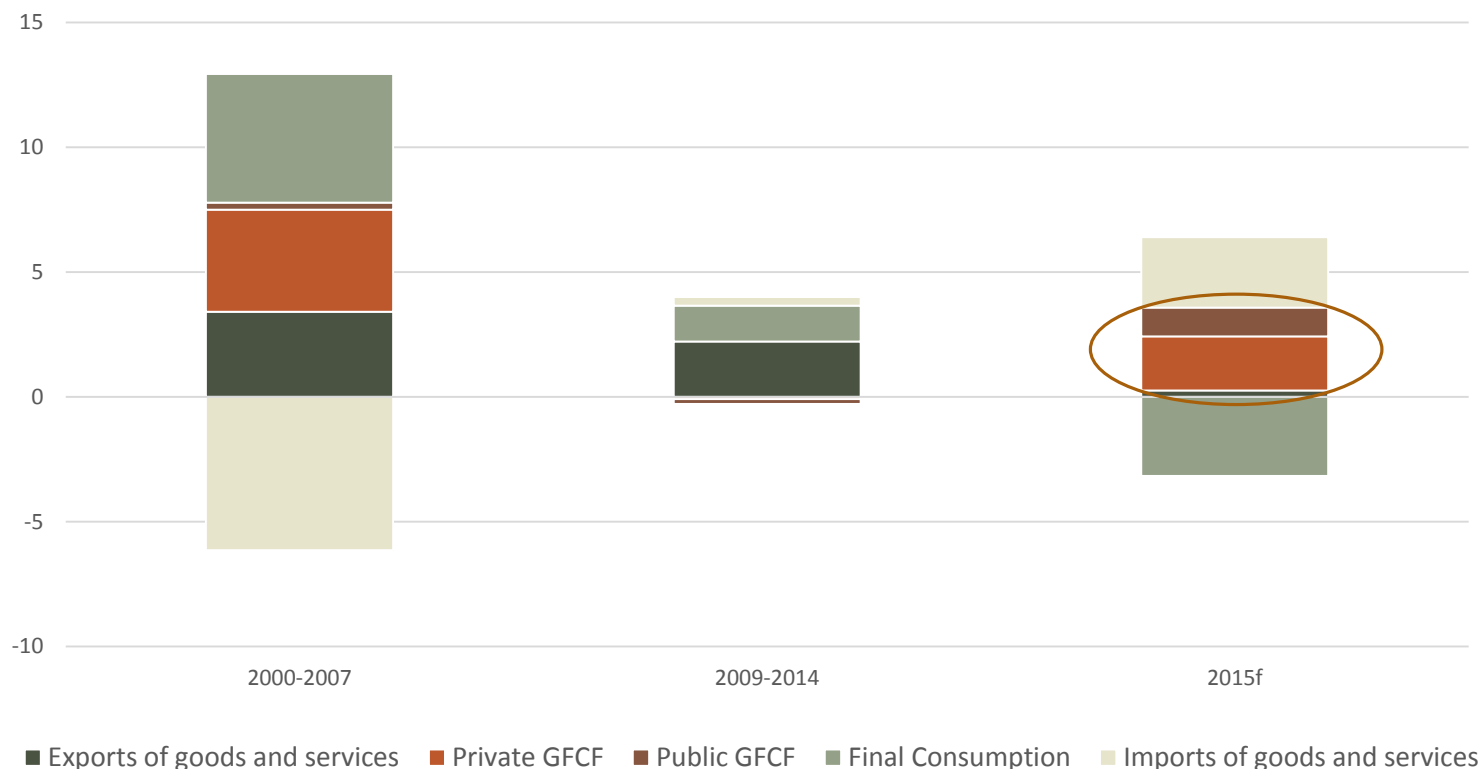


Years Needed for Convergence to EU Average Incomes at Different Pace of Growth



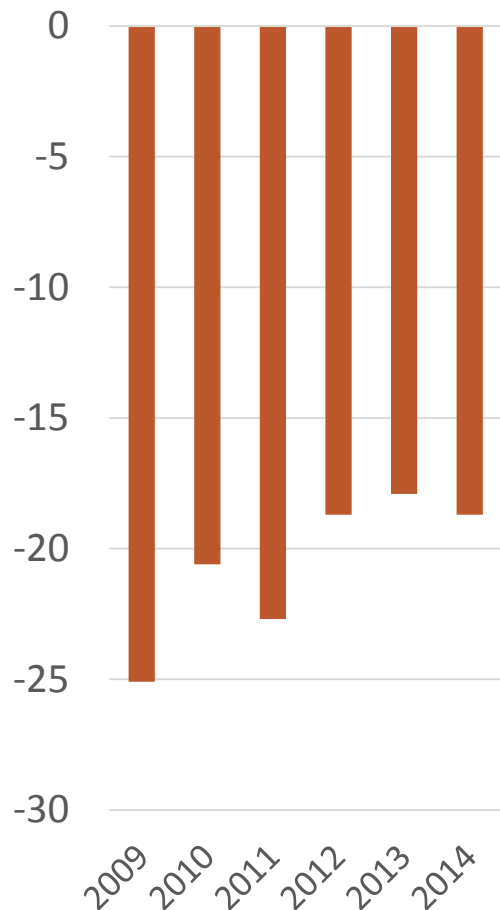
Investment contributes little to growth post-crisis, with upturn in 2015

Demand decomposition of real GDP growth, 2011-15s

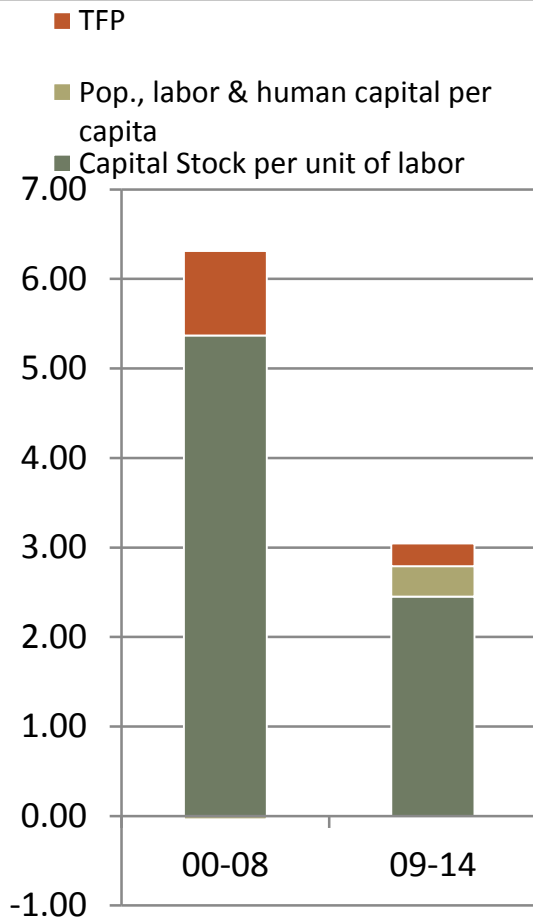


... external imbalances remain and productivity makes limited contribution to growth.

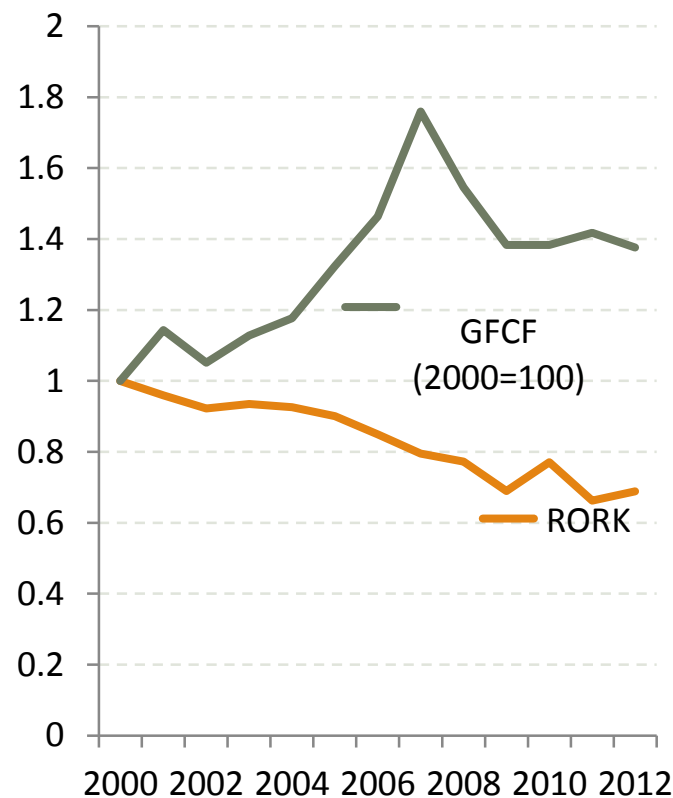
Trade balance, percent of GDP



Factor decomposition of growth, percentage point



Rate of Return on Capital and Investment Index, 2000=100



FOSTER MACRO-FISCAL & FINANCIAL SECTOR STABILITY

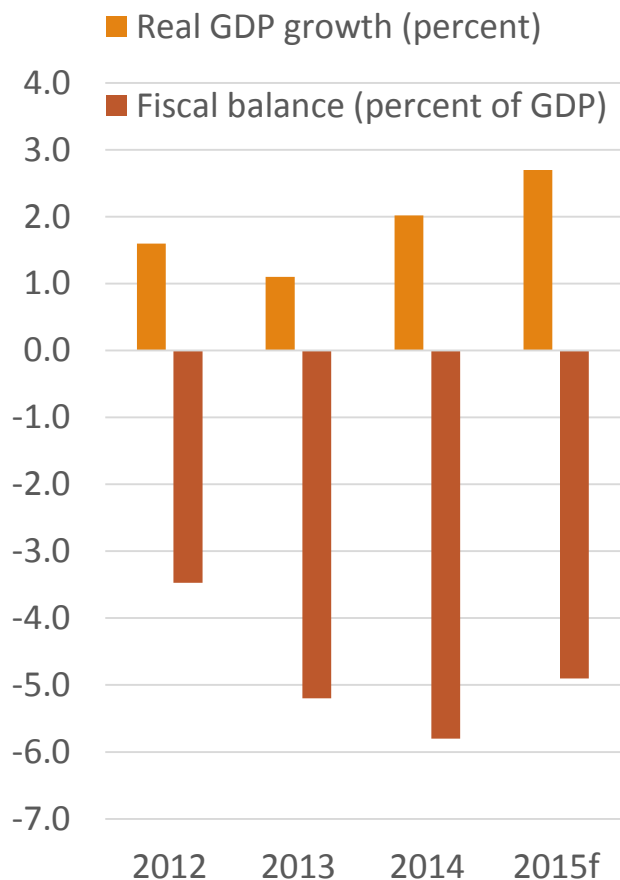


Stay the course of fiscal consolidation to ensure debt sustainability

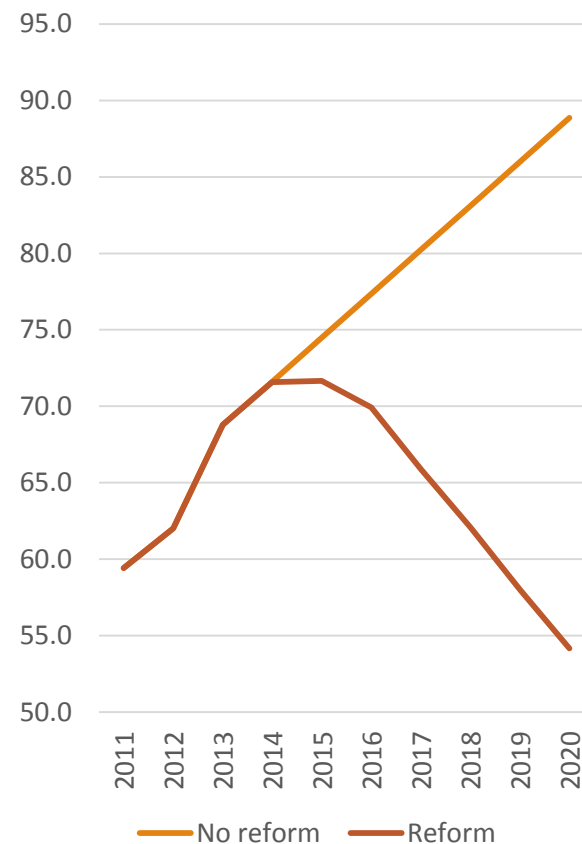
Fiscal Balance, percent of GDP and GDP Growth, percent

Example: Public Finance Policy-Based Guarantee

Scenarios of Public Debt, percent GDP

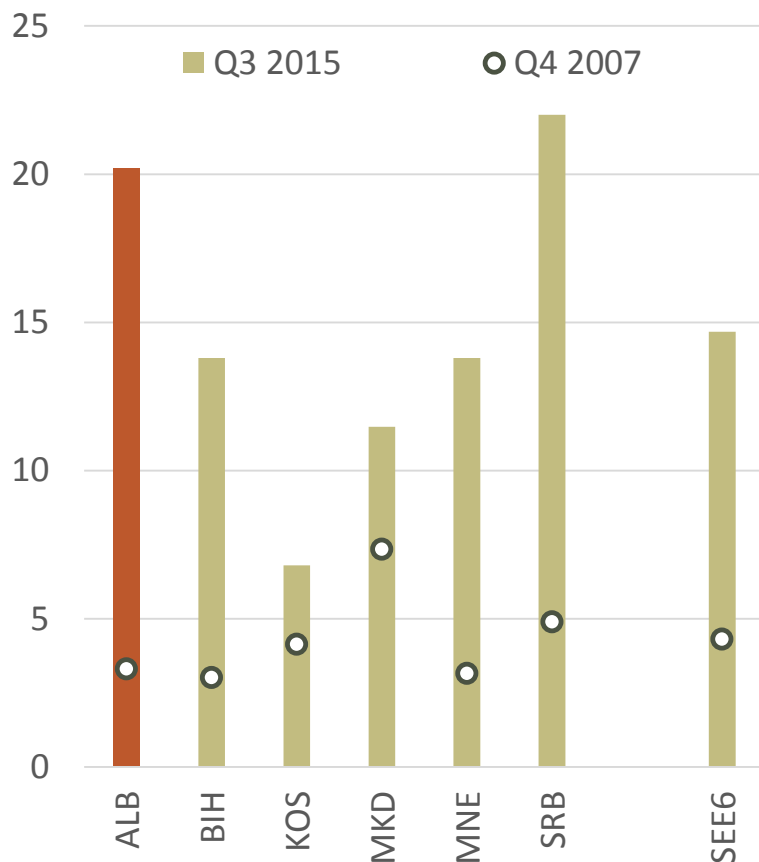


- ✓ Transparent arrears clearance of 5% GDP
- ✓ Process in place to prevent future accumulation of arrears

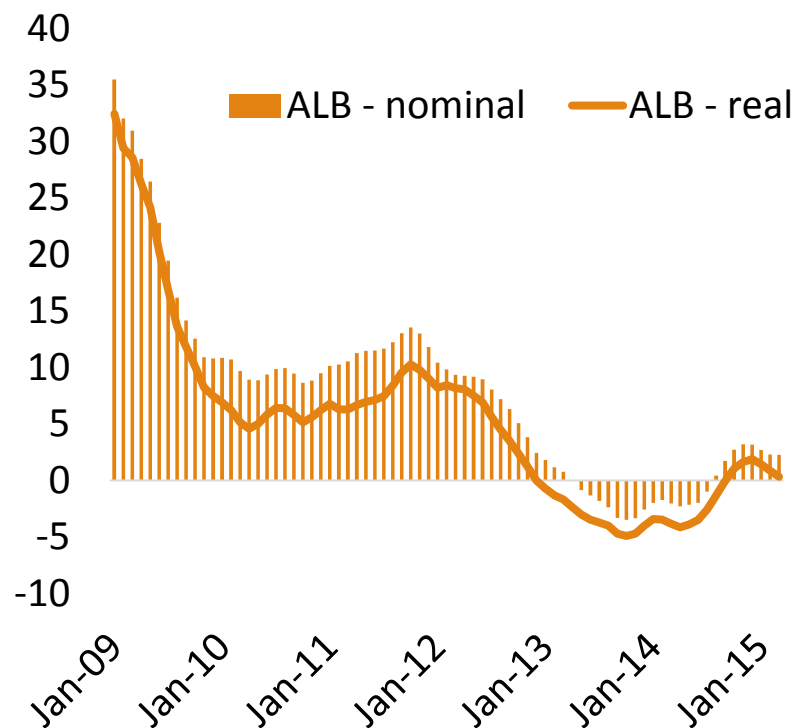


Well-capitalized and liquid financial sector, but asset quality concerns amidst weak credit growth

Non-performing loans, percent total



Credit growth, percent

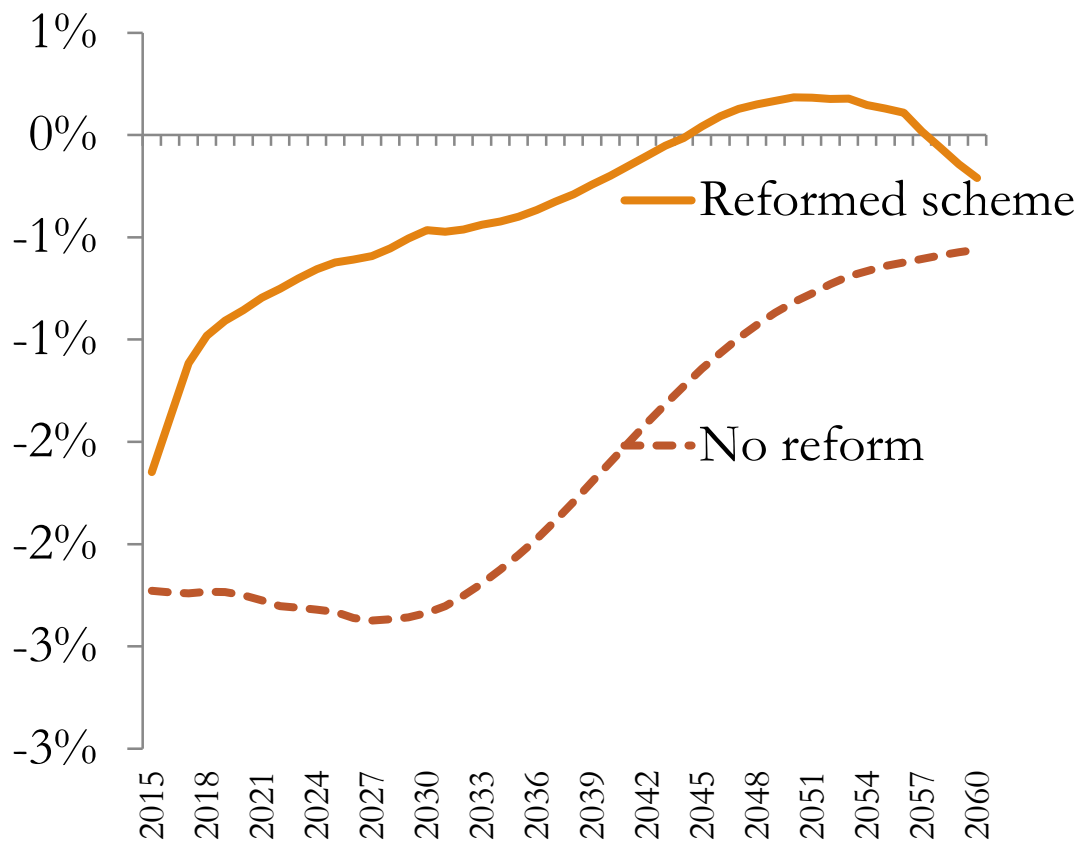


**ENHANCE EQUITY, QUALITY AND EFFICIENCY OF
SOCIAL SERVICES AND INFRASTRUCTURE**

Regulatory changes enhance social and fiscal stability of the pension system

Pension system projected fiscal balances before/after reform, percent of GDP

Since the enactment of the Pension Law ...

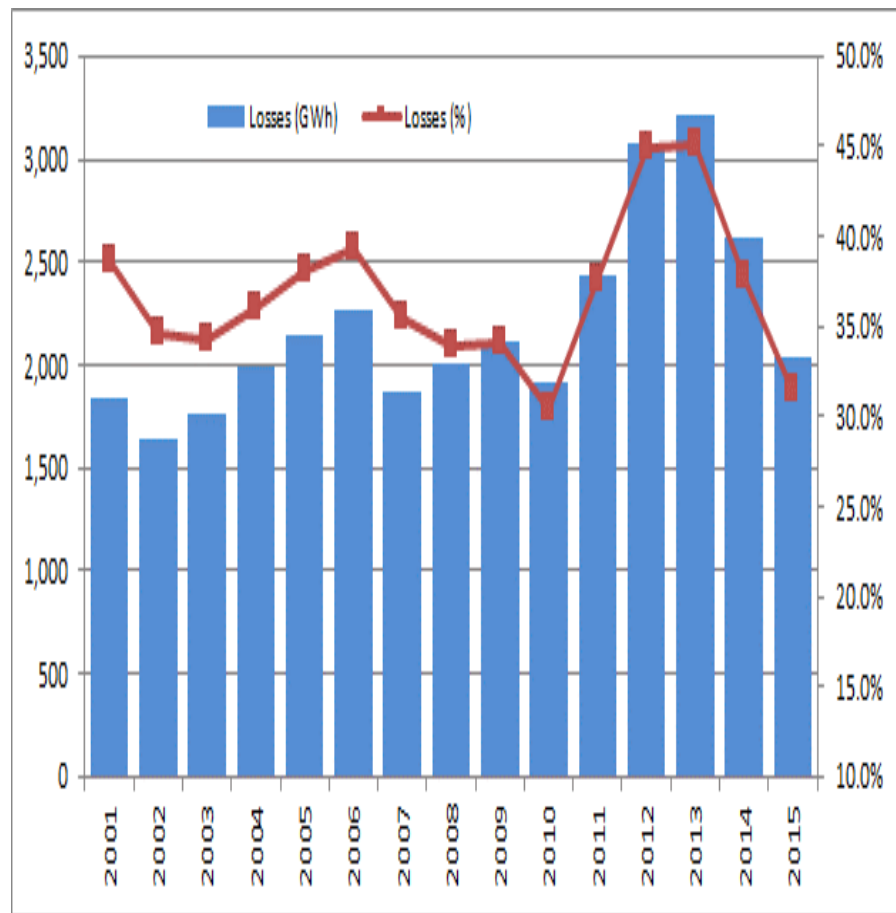


- ✓ 14% increase in SII revenue in 2015
- ✓ 167,000 new workers added
- ✓ Government funding of pension system drops from >46 to <40%
- ✓ 1000 new beneficiaries collecting the social pension

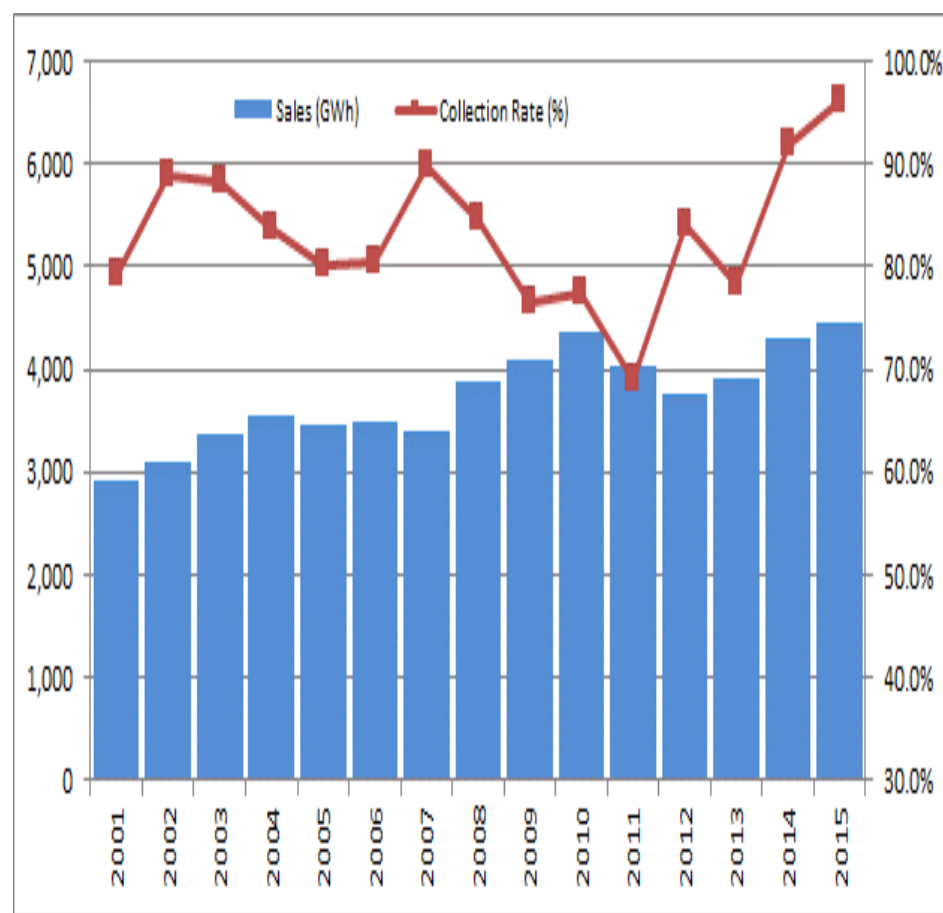


Further cut losses and maintain collection rates to ensure energy sector sustainability

Energy sector losses, GWh and percent of total

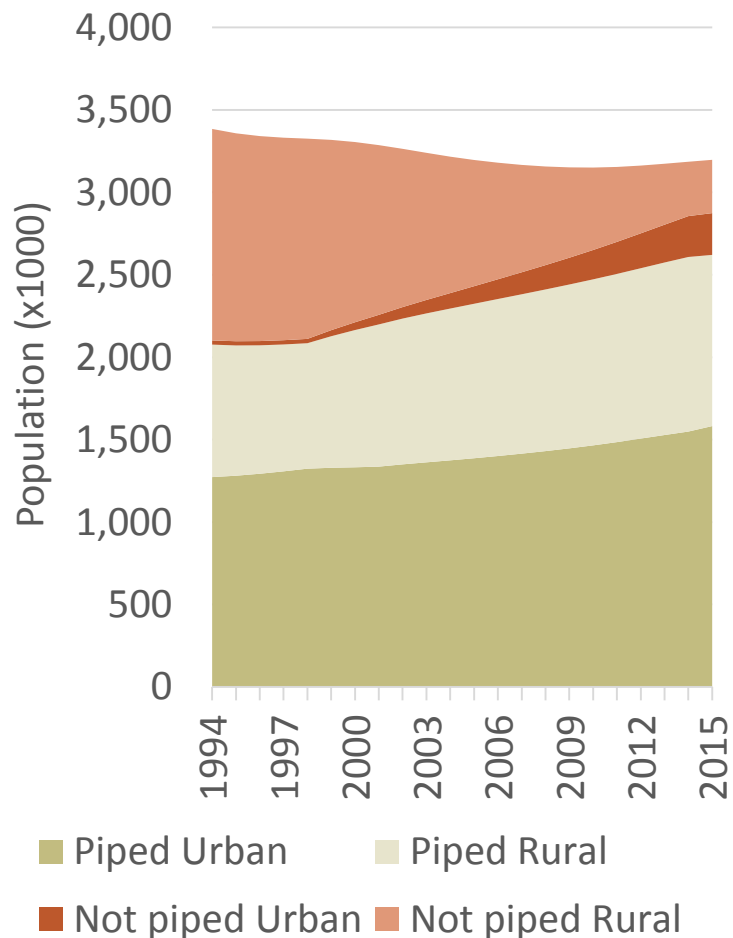


Energy sector sales, GWh and collection rate, percent

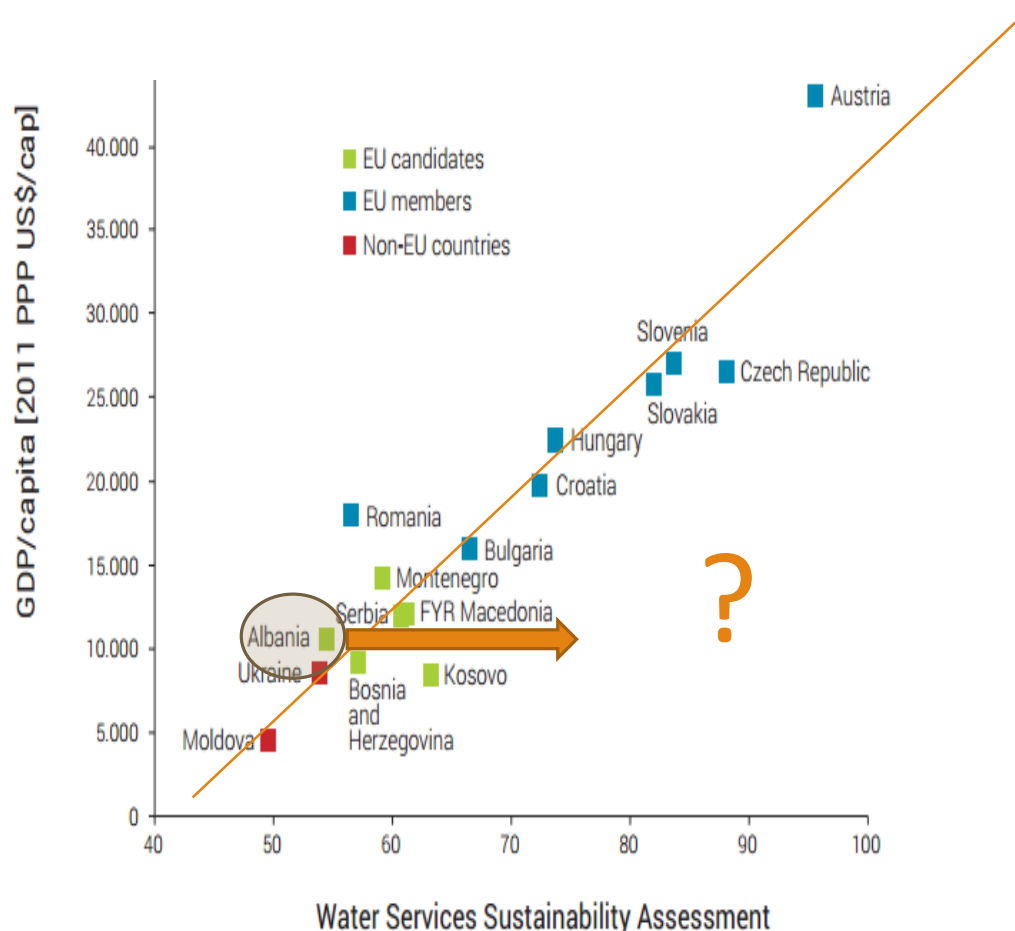


Continue improvements in access to piped water and of the water sector

Access to piped water



Water services sustainability assessment

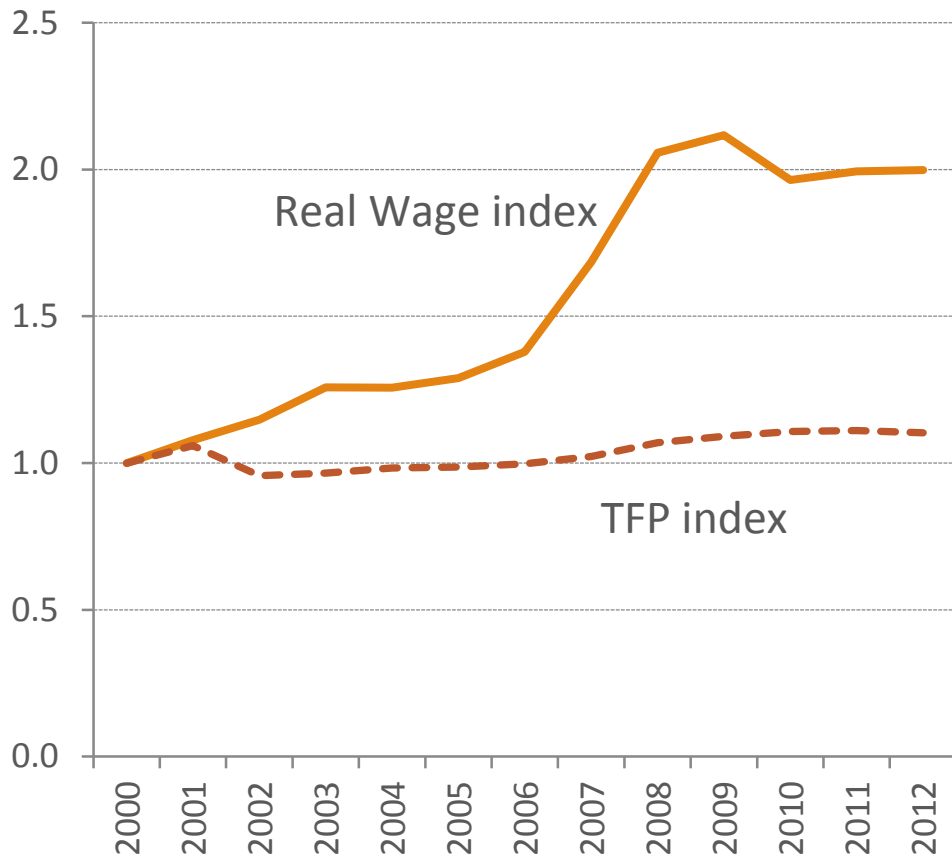


**IMPROVE QUALITY OF THE BUSINESS AND
GOVERNANCE ENVIRONMENT**

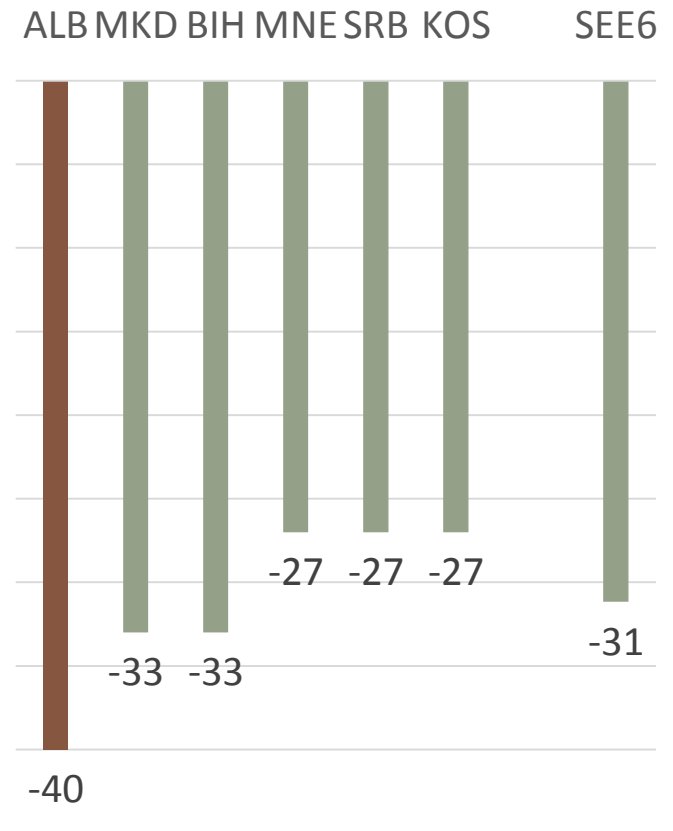


Private sector still to unleash its potential

Real wage and TFP indexes

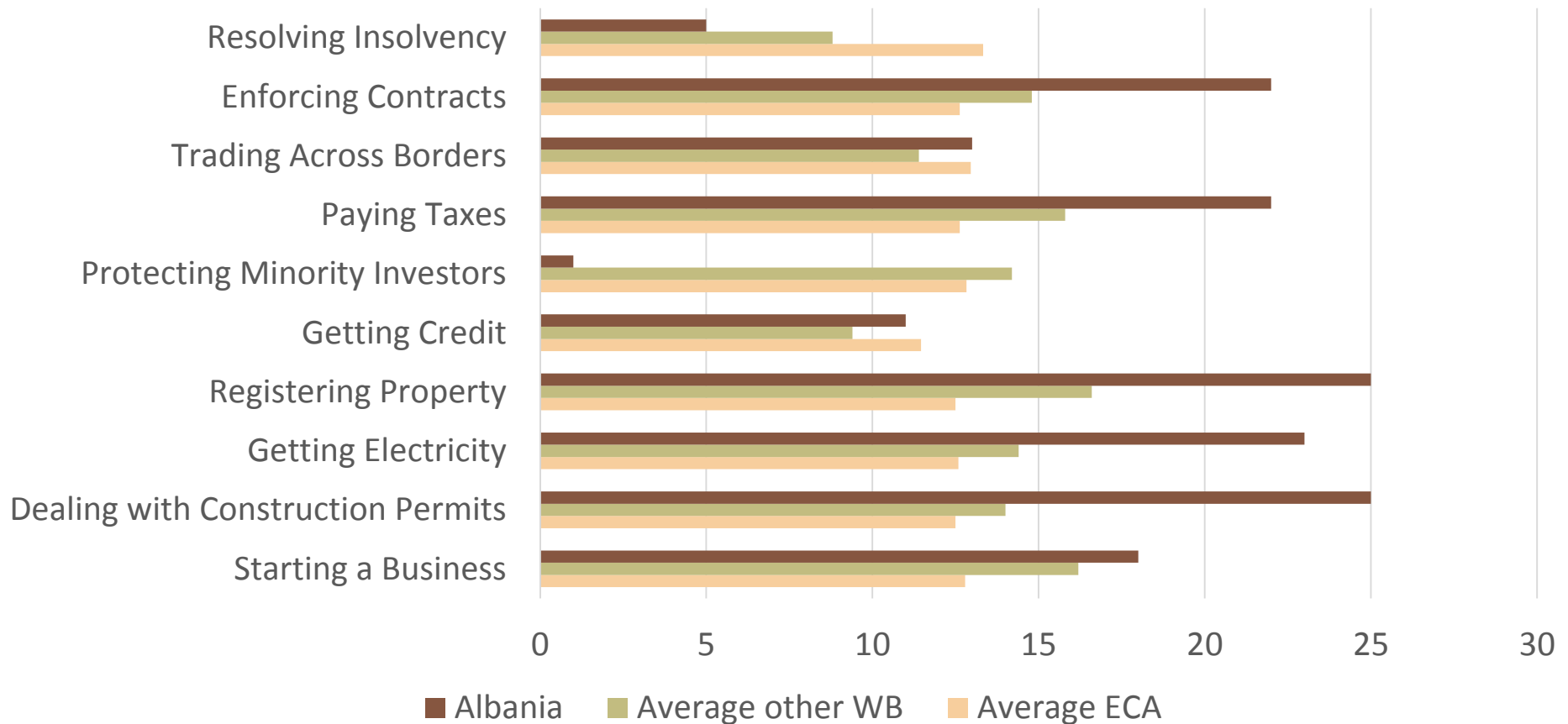


Exports gap, percent of potential exports, period average 2006-12



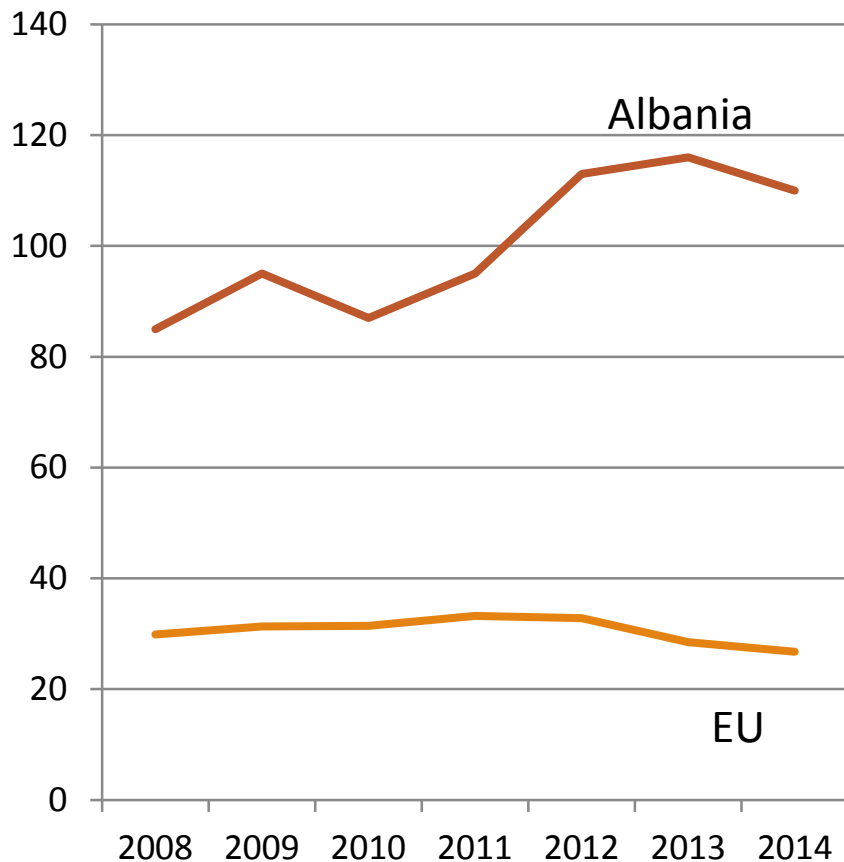
Ensure world-class institutional and business environment

Doing Business 2016 Ranking



Continue the fight for transparency and good governance

Corruption Perception Index,
2008-2014



Example: The Citizen Centric Service
Delivery Project

- ✓ Objective: more transparent, faster and improved citizens' access to public services
- ✓ Support streamlined service delivery of more than 300 services through re-engineering and digitalization
- ✓ Separation of front- from back offices (done at PRO Tirana); digitalization of property registration (10 % done)
- ✓ SMS campaign help monitor the quality of service delivery; reached 33,500 citizens and 20 percent response rate



PROMOTE STEWARDSHIP OF THE ENVIRONMENT



Address legacy and new pressures on environmental assets and climate risks

Pollution hotspots along the Adriatic coast line



Example: The Integrated Coastal Zone Management and Cleanup Project

- ✓ Objective: remediation of contaminated industrial site
- ✓ Safe disposal 45,000 m³ of hazardous waste
- ✓ Improved quality of life of Porto Romano community

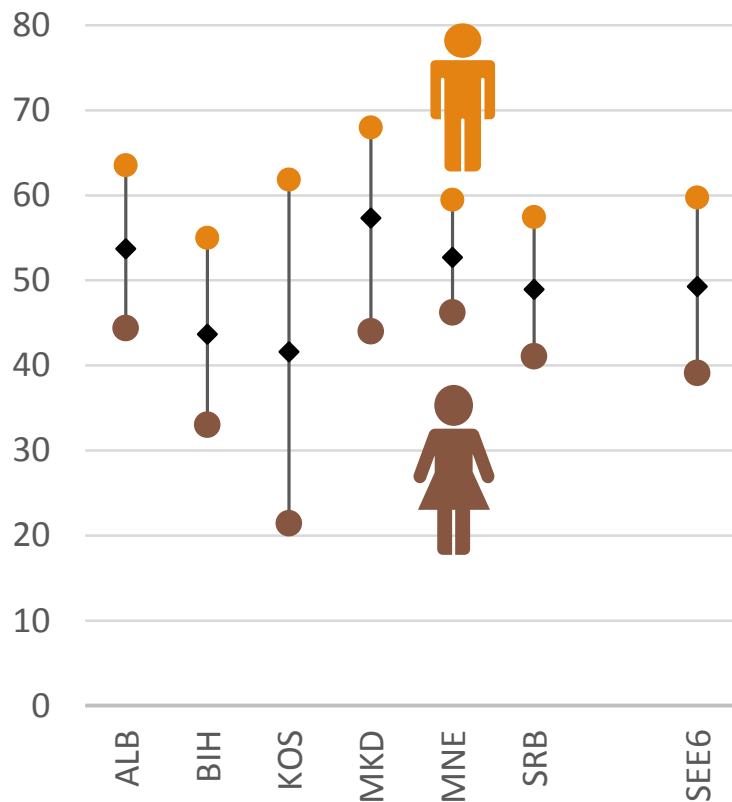


ELIMINATE DISINCENTIVES AND BARRIERS TO JOBS

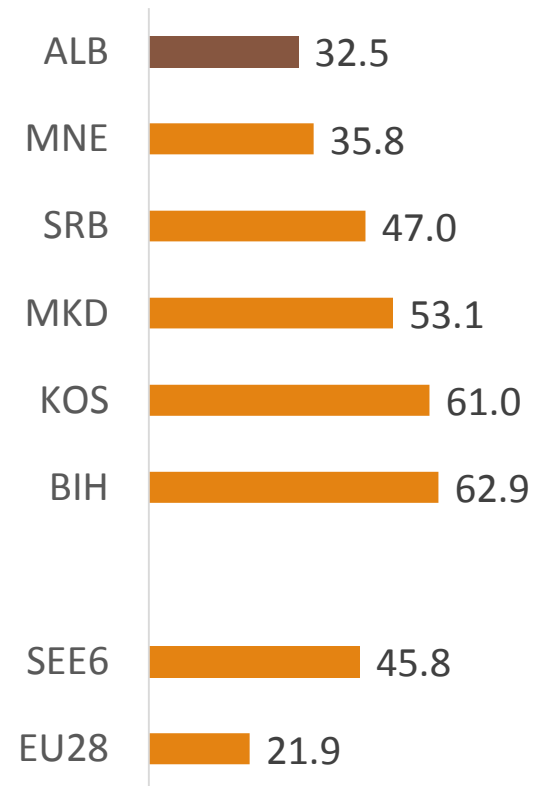


Provide better job opportunities particularly for youth, women, minorities

Labor force participation, % population aged 15+, 2015



Youth unemployment, 2014, % labor force (15-24)



Priority areas for sustainable economic growth and poverty reduction in Albania

- ✓ Foster macro-fiscal & financial sector stability
- ✓ Enhance equity, quality and efficiency of social services & infrastructure
- ✓ Improve quality of the business and governance environment
 - ✓ Promote stewardship of the environment
 - ✓ Eliminate disincentives & barriers to (formal) jobs





THANK YOU!



WORLD BANK GROUP