SUMMARY

1. Albania is a small upper middle-income economy in the Western Balkans with a population of 2.8 million. Services account for more than 50% of GDP, while agriculture continues to play an important albeit declining role, as do remittances.

2. A major earthquake in 2019, the COVID-19 pandemic, and price effects resulting from the war in Ukraine affected economic growth during the review period. Despite these challenges and a real GDP contraction of 3.3% in 2020, the economy overall expanded on average by 3.2% annually in real terms between 2015 and 2022, and labour force participation increased. A significant share of imports is processed and re-exported, with some manufacturing and services activities growing in importance.

3. In response to these challenges, the Government adopted economic stimulus measures that aimed to support economic recovery and rapid reconstruction following the earthquake. In response to COVID-19, the Government implemented monetary, fiscal, and financial measures similar to those adopted by other economies. Albania also took measures to cushion higher transport and energy prices following the war in Ukraine.

4. During most of the review period, fiscal policy was overall neutral, but it became expansionary in 2020 as a response to the pandemic. Following the return to fiscal consolidation, the budget is expected to reach a primary balance again in 2023. Albania applies a free-floating exchange rate regime and the currency appreciated in nominal and real terms during the review period. Foreign reserves increased in all years except 2019, as the current account deficit was funded, *inter alia*, by workers' remittance, FDI inflows, and government borrowing. More than half of credits and deposits in the banking system continue to be issued in foreign currency.

5. Imports and exports doubled in value terms during the review period, and the European Union remained Albania's dominant trading partner. In 2022, imports and exports were dominated by mineral products (including electrical energy) and base metals, as well as machinery (imports) and textiles and footwear (exports). Roughly 20% of imports fall under the inward processing regime and a large and growing share are intermediate goods. More than half of total exports are classified as re-exports, indicating the active participation of companies in Albania in value chains. Services imports grew much more slowly than exports, driven by tourism, professional and management consulting services, certain manufacturing services, and road transport services.

6. Policies in Albania continue to be guided by the objective of becoming an EU member State, with a strong focus on judicial reform and ongoing efforts to approximate its legislation with the EU *acquis* in line with a regularly updated National Plan for European Integration. Efforts to restructure the judicial system and increase its independence and efficiency continued during the review period, and a new High Judicial Council, a High Prosecutorial Council, and the Justice Appointment Council started to operate in 2019. The re-vetting of officials in the Albanian judiciary also continued.

7. Trade and trade-related policies form an integral part of broader economic policies, aiming to attract foreign investment, foster economic growth, and generate employment. In addition to its efforts to join the European Union, Albania maintains four additional FTAs, among them a newly concluded agreement with the United Kingdom.

8. Albania remains committed to the open, non-discriminatory, and rules-based global multilateral trading system; contributes to discussions at the WTO; and participates in the four Joint Statement Initiatives (JSIs), *inter alia*. Under the JSI on services domestic regulation, Albania has requested the initiation of the certification procedure for its schedule of specific commitments. It accepted the Agreement on Trade Facilitation (TFA) in 2016 and the expansion of product coverage under the Information Technology Agreement in 2018. Negotiations to accede to the Agreement on Government Procurement, pending since 2007, are expected to resume shortly and Albania expects to deposit the instrument of acceptance of the Agreement on Fisheries Subsidies during 2023.

9. While Albania submitted many notifications to the WTO, at least 10 remained outstanding at the end of June 2023, and some relevant changes to laws and legislation had also yet to be notified. The most recent notification on agriculture domestic support is for calendar year 2017, and the

authorities are planning to request technical assistance from the Secretariat to help alleviate capacity constraints in particular relating to agriculture notifications.

10. The Business Development and Investment Strategy (BIDS) 2021-27 focuses on attracting investment, SMEs and innovation, and human capital development. During the review period, the Government undertook reforms to improve the investment and business environment. The authorities also intensified their efforts to formalize the economy, but despite some progress the informal economy remains large: it was estimated to account for around 30% of GDP in 2018 and 37% of employment in 2019.

11. Aimed at reducing investment-related risks, a Strategic Investment Law establishes specific procedures for domestic and foreign investors. With few exceptions, no restrictions on foreign ownership or control in domestic corporations are in place, and no prior authorization for FDI is required in principle. In 2017, a new Bankruptcy Law replaced a 2002 law.

12. Digitization is a cross-cutting policy priority. Information regarding permits and operating licences that businesses might require is generally provided online; companies have been able to apply for most licences and permits only via the e-Albania portal since 2020; and since May 2022, licences and permits have also been issued electronically, removing all physical interaction between businesses and regulators. Generally, the electronic provision and delivery of public services increased significantly during the review period, as services continue to be added to the e-Albania portal. According to the authorities, the 1,227 services offered electronically in 2023 via the portal account for about 95% of all services offered, and they are offered exclusively online.

13. Amid these positive developments, a number of challenges remain, affecting the business and investment environment. These include a lack of predictability regarding judicial outcomes, a shortage of workers with required skills, and the need to improve infrastructure. Aware of these challenges, the Government continues reform the judiciary and the Strategy against Corruption has been extended to 2023. The skills gap remains a major challenge and is particularly pronounced among younger workers, related to relatively high emigration rates.

14. E-commerce in Albania is growing fast and is seen as a key growth opportunity, but penetration still lags that of other economies in the region. Electronic signatures have full legal effect, consumer protection was reinforced during the review period, a legal framework for the protection of personal data is in place, small parcels arriving in Albania are not subject to import duties, and a simplified procedure for small non-commercial shipments is in place.

15. While some of its provisions had already applied since January 2015, Albania's new Customs Code fully entered into force in June 2017. Since May 2019, customs declarations must be filed online using an electronic signature. Customs uses a risk-based system embedded in ASYCUDA World, and the share of customs declarations classified in the green channel (no additional controls) increased from 4.0% to 19.7% between 2016 and 2022. A blue channel (post-clearance audit) was introduced in 2018 but only applied until 2022. Around 30% of consignments continued to be scanned at borders in 2022, regardless of their risk classification. Economic operators can apply for an advance decision regarding tariff classification or origin, but not customs valuation.

16. During the review period, available indicators pointed to improvements in trade facilitation, in particular regarding appeals, fees and charges, documents, procedures, and coordination at borders. More than 98% of Albania's commitments under the TFA had been implemented at the beginning of 2023, with the remaining commitments under Category C to be implemented by the end of 2024. A new Approved Economic Operator (AEO) scheme has been operational since 2019 and the process of establishing mutual recognition of AEOs with the Central European Free Trade Agreement (CEFTA) is under way. Efforts to create a national single window system are ongoing.

17. All tariff lines in Albania's tariff schedule are bound. Applied tariff rates are on average 4.1%, significantly lower than the average bound rate, and remain around three times higher for agricultural goods compared to non-agricultural goods. Both changed little between 2015 and 2023. Albania applies no *non-ad valorem* tariffs and the tariff schedule consists of six rates ranging from zero to 15%, with around half of tariff lines duty free, and 16.8% of tariff lines having a nuisance tariff of 2%. It applies no MFN, but some preferential, tariff rate quotas, affecting certain agricultural goods. For 24 tariff lines, applied rates exceed bound rates, with around half of these having been

in the same situation at the time of the previous Review. Customs also levies "scanning fees" for each customs declaration, regardless of whether the consignments are actually scanned.

18. Licensing requirements remain in place for a number of products, in most cases with economic operators licensed to import such goods without each individual shipment requiring a licence. Some temporary export restrictions relating to certain drugs, medical supplies, and medical devices were in place between March 2020 and July 2021, while export licences for military goods remain in place.

19. Albania continues to implement a scheme of Technology and Economic Development Areas (TEDAs) although they remain in their infancy. Four TEDAs have been established and one has been operational since 2022. The Albanian Investment Development Agency (AIDA) also administered a number of support funds for SMEs and supports some products via the "Made in Albania" campaign, launched in July 2020. Certain economic sectors benefited from a reduced corporate income tax during the review period; some continue to benefit. A VAT reform implemented in 2021 limited the use of investments eligible to benefit from VAT exemptions. There were little changes to excise duties, with some rates indexed to past inflation in 2021.

20. The framework relating to standards and technical regulations remains largely unchanged from the previous Review. According to the authorities, 90% of Albanian standards are aligned with European standards, while all technical regulations are harmonized with the EU technical regulations, most of them based on the European "new approach" to administering technical regulations. Albania adopted a new law on organic production in 2016 and a Law on Metrology in 2020. Parts of the regulatory SPS framework were updated during the review period as the Food Law and the laws regarding animal and plant health were amended. Imports of animal products are only permitted from establishments and countries that are listed for export to the European Union unless there is a prior agreement in place. Veterinary medical products and plant protection products must be registered in Albania, which requires their prior registration for marketing in an EU member State.

21. The competition policy framework remains broadly unchanged. During the review period, the Competition Commission allowed 166 mergers and blocked none. The Competition Commission initiated 86 investigations and took 559 decisions, concentrated in the financial, mobile telecommunications, wholesale, and hydrocarbon sectors. In response to the war in Ukraine, the authorities established temporary rules for transparency and the price monitoring of oil, gas, and their by-products, as well as some basic food products. These are no longer applied.

22. State-owned enterprises (SOEs) continue to play an important role in parts of the economy, in particular in backbone services such as transport, telecommunications, and energy, but also in the provision of certain social services. SOEs benefit from direct transfers and indirect budget support including public guarantees, with such contingent liabilities accounted for in the public debt stock. No central institution overseeing the performance of all SOEs is in place; each Ministry is responsible for the SOEs it owns. There were some changes to ownership of SOEs during the review period, in particular related to unbundling in the energy sector. Albania maintains a partial list of SOEs online, which does not include employment or financial information.

23. Albania revised its legislative framework for government procurement during the review period and indicated it would reactivate its accession process to the WTO Agreement on Government Procurement. The new procurement law introduced significant changes, largely aligning the framework to the EU *acquis*, while a revision of the framework for concessions and PPP aimed to limit the use of unsolicited tenders. Government procurement spending in Albania increased from 7% of GDP in 2017 to 8.9% in 2021 but was significantly higher in 2020 in response to the 2019 earthquake and the COVID-19 pandemic. The share of procedures awarded without the publication of a public notice declined from 38.8% in 2015 to 3.3% in 2022, and their value from 12.1% to 0.7% as the use of the electronic procurement system became also mandatory for the negotiated procedure in 2018.

24. Regarding intellectual property, Albania revised the Law on Industrial Property and adopted a new Copyright Law in 2016, aiming to align its framework with seven of the relevant EU Directives. Amendments to the Law on Industrial Property introduced the concept of trade secrets, clarified the framework regarding well-known trademarks, and changed the application process for geographic indications.

25. Support to the agricultural and fisheries sector increased significantly during the review period, with domestic support measures under the National Agricultural Support Scheme (NASS) reaching ALL 5 billion in 2022. A primarily EU-funded scheme complements the NASS. A reform in 2021 introduced a reduced VAT rate of 10% applying to certain agricultural inputs instead of the previous VAT exemption applying to such inputs. The completion of effective farm register and land parcel registration systems remains pending. Foreigners cannot own more than 49% of fishing companies that have fishing rights, and fish catch permits are issued only to vessels flying the Albanian flag.

26. Albania is rich in mineral resources, and mining and quarrying remains a significant economic activity, although its share has been declining. The most important products in volume terms are limestone, crude oil, clay, chrome, copper, coal, and ferro-nickel. Albania is a net exporter of crude oil. The Trans Adriatic Pipeline (TAP) for gas started commercial operations in November 2020 and a new combined operator of the transmission and distribution of gas in Albania was certified in 2017 under the unbundling ownership model.

27. Albania is a significant producer of hydropower, accounting for nearly all of its energy production. The transmission and distribution networks have been unbundled, and the liberalization of the electricity market has been completed for nearly all consumers. SOEs continue to dominate generation (alongside private hydropower producers), transmission, and distribution. In volume terms, Albania was a net exporter of electricity in 2018 and 2021, although it remained a net importer in value terms in both years due to price effects, as Albania exports hydroelectricity at low prices in winter and imports electricity at high prices in summer.

28. Banking continues to be dominated by foreign banks. During the review period, Albania updated prudential regulations for the banking sector, transposing the (evolving) EU *acquis*, and adopted various Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) measures. During the COVID-19 pandemic, regulatory changes to alleviate its possible effects on financial institutions and borrowers were put in place. In May 2022, the Bank of Albania requested a formal equivalence process with the EU framework. The share of non-performing loans declined significantly.

29. The insurance sector consists of 12 companies and has been growing broadly in line with GDP. Changes regarding insurance against civil liability in respect of the use of motor vehicles were introduced in 2021. A new law on Collective Investment Undertakings was approved in 2020 and one for private pension funds has been drafted. A new privately owned securities exchange (ALSE) has been operational since 2018 with predominantly government securities traded there.

30. The telecommunications sector developed further during the review period. Prices have decreased and penetration rates for fixed broadband have more than doubled, while those for mobile broadband grew by a third. As a result of sector consolidation, only two mobile operators remain active. Regarding fixed interconnections, the regulator imposed remedies on operators with significant market power. While the most important frequency bands for 5G cellular networks have been included in the National Frequency Plan, these bands have not yet been tendered but expectations are that the 700 MHz band will be released within 2023. The postal market was fully liberalized in 2017. Albania regulates cross-border parcel delivery services.

31. In the area of transport, two scheduled air carriers emerged during the review period, serving more than 20 destinations, with 28 foreign airlines also serving Tirana. A second international airport became operational in 2021 with others being built. The concession agreement for Tirana airport was amended in 2021 and that for the second international airport concluded. Nearly all served destinations fall under the European Common Aviation Area Agreement. For maritime transport, cabotage remains reserved to national flag vessels but waivers can be granted. The risk classification of Albanian-flagged ships improved in the review period, reaching the category of medium risk in 2023. Rail freight traffic remained overall limited with some variation across time, and efforts to rehabilitate the Tirana-Durrës line are under way. A new Railway Code was adopted in 2016, and in 2021 the former railway monopoly was unbundled into four different companies. Albania has updated its licensing regime for international road freight and passenger transport.

32. The importance of tourism continues to increase, and in 2022 Albania recorded its strongest tourism season on record. A new national strategy for sustainable tourism development 2019-23 aims to move away from a beach-based mass market model towards one that is more diverse and sustainable, including archaeology and culture. Certain incentives or investment facilitation is available for the tourism sector in specific areas.