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COMMISSION STAFF WORKING DOCUMENT

ECONOMIC REFORM PROGRAMME

OF

ALBANIA
(2026-2028)

COMMISSION ASSESSMENT

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1. EXECUTIVE SUMMARY

Albania's economy maintained a solid growth momentum in 2025, and the economic reform programme (ERP) projects real GDP to remain stable at around 4.0% in 2026-2028¹.

Growth in 2025 was supported by strong domestic demand, characterised by increased public spending along with steady growth in investment (supported by more favourable financing conditions) and private consumption. The latter was bolstered by continued robust wage growth, rising employment, particularly in the services sector, and consistently low inflation. Tourism played a significant role in boosting service exports, despite indications of a slowdown. Goods exports continued to decline, primarily due to the ongoing appreciation of the lek. However, overall net exports contributed positively to growth as imports grew at a more moderate pace. In a slightly optimistic scenario, the ERP projects real GDP growth to remain stable at around 4% in 2026-2028, predominantly driven by domestic demand, especially from private consumption and strong investment, with a modest positive contribution from net exports. The current account deficit is expected to widen from 2.2% of GDP in 2025 to above 3% of GDP in 2026-2028, which is still below its historical average and largely financed by net foreign direct investment (FDI) inflows.

Amid an under-execution of capital spending, the fiscal deficit rose but was below the target in 2025, and the ERP commits to a gradual reduction of deficit and debt levels in line with the country's fiscal rules.

The budget deficit, at 1.8% of GDP, increased compared to 2024 but remained below both the budget target and the ERP projection, supported by strong revenue performance, moderate expenditure growth and robust nominal GDP growth. Revenue collection was driven by personal income tax and social contributions, supported by increases in public and private sector wages, by measures to curb informality and the continued implementation of the medium-term revenue strategy, while customs revenues, affected by the appreciation of the lek, underperformed relative to plan. On the expenditure side, spending increased notably on wages, reflecting the public wage reform, and social insurance. Capital spending grew in annual terms but remained significantly under-executed, contributing to the better-than-planned overall fiscal outcome. The ERP projects the budget deficit to widen in 2026, compared to the 2025 outcome, before narrowing gradually over the following two years, reflecting higher investment and social spending, including pension bonuses, alongside continued revenue mobilisation. Public revenues are projected to increase as a share of GDP, while total expenditure is expected to decline gradually after peaking in 2026. The deficit is projected to reach around 2.3% of GDP in 2026, before declining to 1.6% in 2027 and 1.3% in 2028. The public debt ratio declined in 2025 and is projected to continue its downward trajectory over 2026-2028, supported by projected non-negative primary balances and favourable nominal growth dynamics.

The main challenges facing Albania are the following:

- **Raising government revenue remains essential in view of medium- and long-term spending pressures.** Total revenues reached 28.6% of GDP in 2025, supported by the implementation of the medium-term revenue strategy, which focuses on tax collection improvements rather than on changes in tax policy. Personal income tax and social contribution revenues grew strongly, reflecting efforts to formalise salaries and strengthen

¹ The assessment is based on the ERP submitted on 15 January 2026, prior to the escalation of the conflict in the Middle East. The war may significantly affect economic growth, inflation, and the external balance, depending on its duration and severity. However, detailed information on these effects was not available when the assessment was prepared, as the cut-off date was mid-March.

compliance. Albania continues to face structural spending pressures from population ageing, climate change and defence investment needs, while a sizeable informal economy and tax expenditures constrain the tax base and revenue growth over the medium term. Planned measures, including a market value-based property tax, may help diversify revenues, but temporary measures such as the forgiveness of tax and customs debt create short-term gains with potential long-term risks for tax compliance.

- **Fiscal risk monitoring and governance have strengthened but vulnerabilities remain, particularly regarding contingent liabilities.** State-owned enterprises (SOEs) and public-private partnerships (PPPs) continue to pose fiscal risks, though the stock of guarantees slightly decreased in 2025. The establishment of the National Development Bank raises additional concerns due to its planned deposit-taking role, governance, and oversight challenges. While fiscal risk monitoring has improved, coverage of ageing- and climate-related risks remains limited. Setting up the planned fiscal council swiftly would strengthen fiscal oversight and governance. Public investment execution remains constrained by weaknesses in project preparation, highlighting the importance of operationalising the public investment management (PIM) framework effectively.
- **Structural challenges continue to constrain growth, productivity, and income convergence with the EU.** Albania's EU-supported Reform Agenda for 2024-2027 identifies long-standing obstacles, including a large informal economy, weak governance of SOEs, weaknesses in property registration, and regulatory bottlenecks. Human capital challenges persist, with skills mismatches, relatively low female labour participation, and emigration of skilled workers limiting productivity and economic diversification. Energy and digital transformation remain critical, as dependence on hydropower exposes the economy to climate variability, while broadband coverage and cybersecurity gaps hinder competitiveness. The Reform Agenda aims to address these constraints. Quantitative ERP estimates suggest its full implementation could raise GDP by 1.65% and annual growth by 0.8-1.0 percentage points (pps) over 2026-2028. However, the realisation of these gains will depend on progress in strengthening institutional capacity and a timely execution of reforms.

The policy guidance jointly adopted at the Economic and Financial Dialogue of 13 May 2025 has been partially implemented. Albania continued to comply with the fiscal rules, resulting in public debt reduction, and the implementation of the medium-term revenue strategy is progressing broadly as planned, focusing primarily on tax administration measures. While a review of tax expenditures was conducted, no concrete plan to reduce them was put forward. Despite preparatory work, a fiscal council has yet to be set up. The Fiscal Risk Directorate strengthened capacity for fiscal risk assessment with increased SOE monitoring, although regular publication of comprehensive fiscal risk data is needed. Albania strengthened its evidence-based analysis of pension sustainability through pension modelling tools to produce long-term projections. Despite the steps taken to enhance public investment management, effective project execution remained a challenge, indicating ongoing issues with project preparation and capacity constraints, resulting in persistent capital spending under-execution. Amid low inflation, monetary policy easing has contributed to raising inflation towards the 3% target and to anchoring inflation expectations. The establishment of the National Development Bank remains subject to concerns, particularly regarding its supervision.

2. ECONOMIC OUTLOOK AND RISKS

Albania's economy maintained strong growth momentum in 2025. The ERP estimates annual real GDP growth at 3.9% for the year as a whole², marginally lower than the 4.0% in 2024. Over the first three quarters of 2025, economic growth averaged 3.7% year-on-year, reflecting a stable growth profile across each quarter. Domestic demand remained the main growth driver, supported by higher private and public consumption as well as investment. Public consumption growth accelerated markedly, whereas private consumption and investment grew more moderately. Private consumption was supported by higher wages³ and consistently low inflation levels, as well as slightly rising employment⁴, mainly driven by the services sector, and a continued downward trend in the unemployment rate⁵. A more accommodative monetary policy stance contributed to investment growth, while the still strong, albeit moderating, performance of tourism continued to support services exports. On the other hand, exports of goods contracted at an accelerating pace, in particular in the third quarter, mainly due to sustained appreciation of the lek. Over the first three quarters of 2025, imports grew more moderately than exports, resulting in a positive contribution of net exports to growth. On the production side, services, mainly public administration, education and health and tourism-related activities, together with real estate and construction, were the main contributors to growth. In contrast, agriculture and industry, especially mining and manufacturing, contracted.

The ERP's baseline projects real GDP growth to remain broadly stable at around 4% over 2026-2028. In the baseline scenario, economic activity is expected to be driven predominantly by domestic demand, which contributes an average of 3.7 pps per year to overall growth. Private consumption and investment are anticipated to be the key growth drivers, while government consumption is projected to have a negligible contribution. Specifically, private consumption is set to increase by 3.1% on average per year, contributing 2.1 pps to GDP growth. Gross fixed capital formation is projected to grow robustly by 6.6% on average, with a contribution to GDP growth of about 1.7 pps. External demand is expected to make a slightly positive impact on GDP growth over 2026-2028, with average annual growth of exports of goods and services (4.7%) expected to outpace that of imports (3.2%). Goods exports are forecast to return to positive growth from 2025 onwards, recovering from their weaker performance in recent years, while services exports are projected to moderate following recent strong growth. Overall, exports are projected to contribute to growth by an average of 1.7 pps per year, partly offset by imports, which subtract 1.4 pps per year. Employment is expected to remain virtually stagnant (average

² Macroeconomic and fiscal estimates and forecasts covering the period 2025-2028 have been taken from the ERP; if available; preliminary macroeconomic and fiscal out-turn data for 2025 have been taken from the relevant national sources (Statistical Office, Ministry of Finance, Central Bank).

³ The average monthly nominal wage increased by 7.3% year-on-year in Q3-2025, according to the Wage Statistics report published by INSTAT in December 2025. This included the effects of the second phase of the public wage reform implemented from July 2024. As of 1 January 2026, Albania has increased the national monthly minimum wage from ALL 40 000 to ALL 50 000 (approx. EUR 525), following the Council of Ministers Decision No 776, 19 December 2025.

⁴ The employment rate for the population aged 15-64 was 69.6% in Q3-2025 (up from 69.1% in Q3-2024), according to the Quarterly Labour Force Survey published in December 2025.

⁵ The unemployment rate for people aged 15 years and above fell to a historic low of 8.1% in Q3-2025. The unemployment rate for the age group 15-64 was 9.0% in Q3-2025 (Labour Force Survey data).

growth of 0.1%)⁶, driven by higher labour force participation amid a projected declining population. The ERP estimates the output gap to be slightly positive at 0.1% in 2026, shifting to marginally negative at -0.1% in 2027-2028, suggesting that economic activity will remain close to potential over the period. The programme also presents two alternative scenarios: a 'pessimistic' one, with real GDP growth 2.5 pps lower in 2026 and 1.5 pps lower in both 2027 and 2028, compared with the baseline projections, and an 'optimistic' one, with growth exceeding the baseline by 0.5 pps in each year. Against this background, the ERP expects medium-term growth to increasingly rely on productivity gains, amid continued emigration and tight labour market conditions. Achieving this transition will require sustained structural reallocation from low-towards higher-productivity sectors identified by the Albanian authorities, notably renewable energy, industry and IT-related services, and productivity-enhancing reforms and investments in agriculture, transport and rail infrastructure.

Table 1:

Albania - comparison of macroeconomic developments and forecasts

	2024		2025		2026		2027		2028	
	COM	ERP	COM	ERP	COM	ERP	COM	ERP	COM	ERP
Real GDP (% change)	4.0	4.0	3.6	3.9	3.5	4.0	3.5	3.9	n.a.	4.1
<i>Contributions:</i>										
- final domestic demand	4.7	4.7	4.2	4.2	3.9	4.0	3.9	3.5	n.a.	3.7
- change in inventories	1.9	1.9	0.0	-0.2	0.0	-0.1	0.0	-0.1	n.a.	0.0
- external balance of goods and services	-2.6	-2.6	-0.6	-0.2	-0.4	0.1	-0.5	0.5	n.a.	0.4
Employment (% change)	1.4	-1.6	1.1	0.1	0.9	0.1	1.0	0.0	n.a.	0.1
Unemployment rate (%)	8.5	9.4	8.5	9.2	8.4	9.0	8.3	8.8	n.a.	8.5
GDP deflator (% change)	2.4	2.4	1.8	1.1	2.9	1.3	2.8	1.3	n.a.	1.3
CPI inflation (%)	2.2	2.2	2.4	2.3	3.0	3.0	3.1	3.0	n.a.	3.0
Current account balance (% of GDP)	-2.5	-2.4	-2.6	-2.2	-2.7	-3.5	-2.7	-3.3	n.a.	-3.2
General government balance (% of GDP)	-0.7	-0.7	-2.2	-2.3	-1.9	-2.3	-1.7	-1.6	n.a.	-1.3
Government gross debt (% of GDP)	54.2	54.2	53.6	54.1	52.9	53.6	52.1	52.2	n.a.	51.0

Sources: Economic Reform Programme (ERP) 2026, Commission Autumn 2025 forecast.

The baseline GDP growth projections appear slightly optimistic and are subject to downside risks. Compared to the previous programme, ERP growth estimates for 2026 and 2027 remain unchanged, presenting a more optimistic outlook than the European Commission's autumn 2025 forecast and projections by international institutions. Both the ERP and the Commission forecast expect final domestic demand to remain the main growth driver, albeit with differences in its composition. Investment is projected to expand robustly over 2026-2028, supported by favourable financing conditions and strong credit growth. However, the assumed average pace of growth of 6.6% per year appears elevated compared to past performance, particularly in view of the historical record of public investment under-execution. Differences also arise regarding external demand assumptions. The ERP expects a positive net export contribution, assuming export growth to outpace import growth, contrasting with the Commission's forecast of a negative contribution due to stronger import growth driven by rising disposable income and public investment, a widening merchandise trade deficit, and a moderation in tourism growth. Downside risks stem mainly from heightened global uncertainty and geopolitical tensions, which could weaken external demand from Albania's key EU trading partners and adversely affect

⁶ While total employment only increased slightly, this masked a pronounced sectoral reallocation: non-agricultural employment expanded robustly, particularly in services, whereas agricultural employment continued to contract.

tourism, FDI and remittances. Domestically, demographic pressures such as emigration⁷ and an ageing population could exacerbate labour shortages, further tighten labour market conditions, push up inflation and dampen growth prospects. On the upside, effective implementation of the Reform Agenda and progress in EU accession could support productivity gains, improve economic sentiment and strengthen medium-term growth. According to the ERP, full and timely implementation of the Reform Agenda package could raise real GDP growth by 0.8-1.0 pps per year above the baseline.

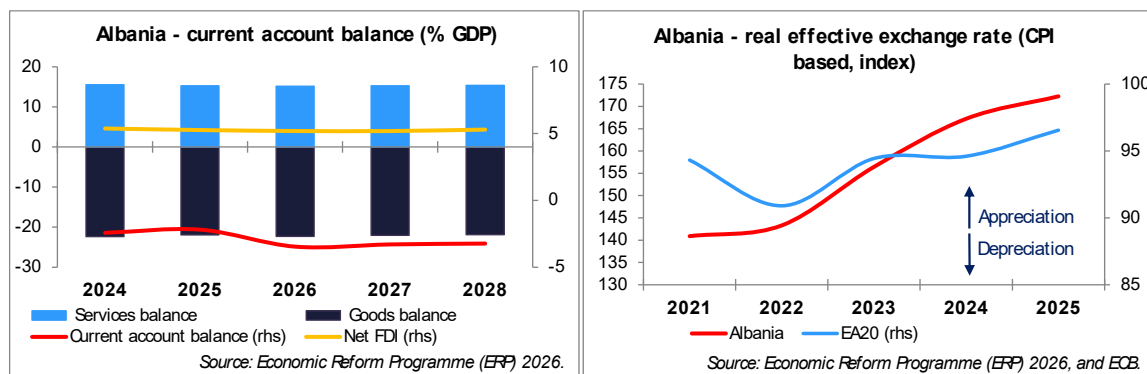
Inflation remained low in 2025 with the ERP expecting it to converge to the 3% target in 2026 and remain stable thereafter, which appears plausible. Average annual inflation stood at 2.2% in 2025, unchanged from 2024. Annual consumer price inflation rose from 1.9% in January 2025, its lowest reading of the year, to 2.3% in December. The gradual pick-up in inflation was mainly driven by stronger domestic price pressures, in particular higher rents and prices in tourism-related services, which offset the disinflationary impact from food prices linked to supply-side shocks. Core inflation was hovering around 3% last year, as a tight labour market fed through to wage growth, while overall inflationary pressures remained contained, partly as firms absorbed part of the higher labour costs through lower profit margins. By contrast, imported⁸ inflation remained weak and fell to historically low levels, driven by low commodity prices in international markets and the continued appreciation of the lek, which led to intensified foreign exchange interventions by the Bank of Albania (BoA)⁹. In July 2025, in response to below-target inflation, the BoA eased its monetary policy stance by lowering the key policy rate by 25 bps to 2.5%, and has kept it unchanged since then. The ERP projects average annual inflation to gradually rise towards the 3% target by 2026 and remain aligned with it thereafter. This trajectory is expected to be supported by imported inflation - driven by stabilising global commodity prices and moderating exchange rate appreciation - together with the fading of supply-side effects on food prices, and the stability of domestic inflation.

External competitiveness and current account

⁷ Eurostat data released for January 2025 show that Albania recorded the largest year-on-year decline in the population aged 15-29 among European countries. The youth population fell by around 18 300 persons (-4.3%), a contraction four times larger than in Serbia (-1.0%), and well above the declines observed in countries such as Slovakia, Austria and Türkiye (all below 1%). Key destination countries for Albanian emigrants were Germany and Italy. The sustained decline of Albania's youth population has potential implications for the labour market, the pension system and long-term development prospects.

⁸ The contribution of imported inflation to overall inflation was around 7.3%.

⁹ The appreciation trend of the Albanian lek against the euro continued throughout 2025 despite intensified foreign exchange interventions by the Bank of Albania, with the ALL/EUR exchange rate reaching 96.7 by Q4-2025. In response to sustained appreciation pressures, the Bank of Albania purchased EUR 630.8 million (around 4% of GDP) through a combination of scheduled auctions aimed at increasing foreign exchange reserves and direct purchases intended to moderate further appreciation of the lek. Interventions were sterilised, while broad money growth accelerated over the course of the year.



The ERP projects the historically low current account deficit to widen to above 3% of GDP.

In the first three quarters of 2025, the current account posted a surplus of 0.3% of GDP, outperforming the results of the same period a year earlier, when a deficit of 1.3% of GDP was recorded. This outcome mainly reflected improvements in the services and income accounts, which offset the deterioration in the merchandise trade balance. The goods trade deficit widened over the first three quarters of 2025, as exports of goods¹⁰ declined, while imports increased, reflecting the expansion of domestic demand. By contrast, the services trade surplus expanded, supported by robust export growth that outpaced the rise in services imports, partly offsetting the large merchandise trade deficit. Additionally, the primary income deficit narrowed significantly compared to the previous year, while the secondary income surplus increased somewhat, supported by higher remittances. The ERP estimates the current account to record a deficit of 2.2% of GDP for 2025 overall. A notable widening of the deficit to 3.5% of GDP is forecast for 2026, on the back of higher investment and consumption, both of which are import-intensive, alongside slower growth in services exports and secondary income. The deficit is then projected to narrow gradually to 3.3% and 3.2% of GDP in 2027 and 2028, respectively. Despite the persistent deficits, the projected levels remain well below the long-term historical average, pointing to underlying structural changes in the economy, most notably the sustained expansion of tourism, which continues to play a central role in driving exports of services.

Net foreign direct investments (FDI) are projected to largely finance the external deficit.

For January-September 2025, net FDI inflows rose by 1.9% year-on year, decelerating relative to the growth rate recorded a year earlier, mainly driven by investments in the real estate sector. The full-year expectation for 2025 is a minor decline in net FDI inflows to 5.3% of GDP, from 5.4% in 2024. According to the ERP, these inflows are projected to continue growing in nominal terms, but to inch down as a share of GDP to 5.2% in 2026 and remaining broadly stable at around 5.2%-5.3% over 2027-2028. Net FDI inflows are therefore expected to comfortably exceed the current account deficits projected for 2026-2028. Albania's net international investment position strengthened further to -38.6% of GDP in 2025, from -41.9% in 2024 and -44.1% in 2023. Gross external debt increased by 3.5% year-on-year in the third quarter of 2025, mainly in the form of higher general government borrowing related to the Eurobond issuance in February 2025. Despite the increase in debt stock, the external debt-to-GDP ratio continued its downward trajectory, on the back of robust nominal GDP growth and the continued appreciation of the lek against the euro. Gross external debt is projected to decline to around 40.5% of GDP by the end

¹⁰ Goods exports, which make up a much smaller share of GDP (some 7%) than services exports (close to 30%), are dominated by low value-added textile products on the one hand and commodities (cement, steel, oil and electricity) on the other. Manufacturing exports were hit by increasing competition from lower-cost producers in Asia, rising labour costs and the appreciation of the lek, while commodity exports were subject to idiosyncratic shocks.

of 2025, slightly below the 40.7% level recorded at the end of 2024, before continuing to decrease over the medium term.

The banking sector remains sound, supported by favourable financing conditions, strong capital buffers, ample liquidity and a lower ratio of non-performing loans. As of September 2025, the capital adequacy ratio stood at 20.3%, significantly above the 12% Albanian regulatory minimum. Liquidity conditions strengthened further, with ratios comfortably exceeding regulatory thresholds. Despite a decline from the previous year, banks' profitability remained positive, supported by higher non-interest income from fee-based revenues and profits from investments in financial instruments, which offset the decline in net interest income. The return on assets fell to 1.9% from 2.2% in September 2024, whereas the return on equity declined to 15.8%, compared to 18.3% a year earlier. The non-performing loans (NPL) ratio fell to 3.8% in December 2025. The Bank of Albania's eased monetary policy stance was transmitted swiftly to the money market and is gradually feeding through to other market segments. Consequently, credit to the private sector continued to expand at a robust pace, recording an average annual growth rate of 13.9% in the third quarter of 2025, reflecting stronger demand from both households and enterprises¹¹. Credit growth accelerated in the household segment and in lek-denominated loans¹², while it moderated for enterprises and foreign-currency loans. Household credit growth was supported by sustained growth in both consumption and housing loans, whereas lending to enterprises remained oriented towards strategic sectors^{13,14}, such as tourism and energy. Given the rapid growth in mortgage loans and the acceleration of residential real estate prices, the Bank of Albania adopted borrower-based measures (loan-to-value and debt service-to-income limits) in May 2025, which entered into force in July. In December 2025, the level of the countercyclical capital buffer was doubled to 0.5%.

Ensuring strict governance standards and oversight of the development bank remains essential. The establishment of the National Development Bank (NDB) remains subject to concerns over its rationale, design and regulatory treatment., following the final approval of the Law on the NDB by the Albanian parliament on 17 March 2025. The authorities explained that the NDB is intended to support households, firms and sectors that either lack access to the formal banking system or face extraordinarily high borrowing costs. However, the envisaged design of the NDB as a retail deposit-taking institution¹⁵ has raised concerns, especially regarding its supervision, its impact on the level playing field in the banking sector, and fiscal risks stemming from publicly guaranteed deposits. Therefore, putting in place appropriate governance and

¹¹ According to the OECD SME Policy Index 2026, the absence of a legal framework for a private credit bureau limits the completeness of credit information, contributing to more cautious lending behaviour by banks.

¹² Lek-denominated loans recorded one of the strongest annual growth rates in 2025, raising their share of total credit to 58.4%.

¹³ The [EIB CESEE Bank Lending Survey](#) points to a continued increase in credit demand alongside a tightening of supply conditions over the next six months, suggesting a persistent demand–supply gap. Access to finance remains particularly constrained for SMEs, especially for equity financing, highlighting the need for enhanced liquidity and risk-sharing instruments to support innovative and high-growth firms.

¹⁴ The Bank of Albania extended its SME support programme into 2026, aimed at facilitating access to finance for small and medium-sized enterprises through measures supporting bank lending to this segment. While such initiatives are welcome in principle, their design warrants careful consideration with regard to governance, supervision and alignment with regulatory best practices, in line with broader discussions on public interventions in financial intermediation.

¹⁵ Capping such deposits at 2% of GDP provides some safeguards.

oversight frameworks is essential to ensure the NDB's credibility, legitimacy and effectiveness, and to contain fiscal and financial-sector risks.

Table 2:

Albania - financial sector indicators

	2021	2022	2023	2024	2025
Total assets of the banking system (EURmillion)	14 980	16 426	18 900	21 286	24 104
Foreign ownership of banking system (%) *	68.8	66.2	64.4	62.9	62.4**
Credit growth (% , average)	6.9	11.2	2.2	9.9	13**
Deposit growth (% , average)	8.5	9.6	4.4	6.0	7.6**
Loan-to-deposit ratio (end of period)	54.8	47.1	46.1	49.5	50.2**
Financial soundness indicators (% , end of period)					
- non-performing loans to total loans	5.7	5.0	4.7	4.2	3.8
- regulatory capital to risk-weighted assets	18.5	18.8	19.9	20.2	20.4
- liquid assets to total assets	33.3	29.6	30.8	28.6	29.6
- return on equity	12.9	12.3	17.3	18.2	15.9
- foreign exchange loans to total loans	51.1	51.4	46.3	45.3	44.0**

* foreign equity ownership of total banks' equity.

** September 2025, from ERP, latest month reporting data.

Sources: *Economic Reform Programme (ERP) 2026*, IMF, Bank of Albania.

3. PUBLIC FINANCE

The fiscal outcome for 2025 was better than planned mainly due to the under-execution of capital spending. The budget deficit increased from 0.7% of GDP in 2024 to 1.8% of GDP in 2025, below the budget target of 2.4%¹⁶ and the ERP projection of 2.3% of GDP. The deficit would have been even lower without a 0.6% of GDP transfer to a special pension fund at the Bank of Albania, mandated by an end-2025 Normative Act and recorded as expenditure in 2025 but to be used later. The primary balance recorded a small surplus of 0.3% of GDP in 2025. General government revenues increased by 6.2% in 2025 and were slightly (2%) lower than expected as grants fell short of plans while tax revenue growth was robust. Personal income tax revenues were the best performing item, with an increase of 24.8%, reflecting increases in public and private sector wages and initiatives to curb informality, such as promoting the formal declaration of salaries in the private sector and targeting undeclared work¹⁷. Social contribution revenues also rose strongly (10.9%), influenced by higher public administration wages and growth in the private sector wage bill. Both revenue streams were bolstered by the implementation of the medium-term revenue strategy and the action plan for 2025. Other key tax categories registered increases, with excise revenues up by 9.7% and VAT revenues by 6.2% compared to 2024. Revenues from profit tax and excise duties slightly underperformed the plan (by 3% and 2%, respectively). Customs duties recorded a more pronounced shortfall (-8%), mainly reflecting exchange rate

¹⁶ The Albanian government amended the 2025 budget four times via normative acts (in April, June, and October 2025, and in January 2026). The first and second revisions both raised revenues and expenditures by 1 million leks, leaving the deficit target unchanged. The third revision reduced the budget deficit target from 2.6% to 2.4% of GDP. The final reallocated unused funds while keeping overall revenues and the budget deficit unchanged.

¹⁷ Informal employment remains high in Albania, accounting for 29.4% of total employment, the second-highest rate among Western Balkan economies and well above the regional average of around 20%. Tackling informality is therefore a key challenge and a central objective of the medium-term revenue strategy 2024-2027. Further data are available in the [Economic Convergence Scoreboard for the Western Balkans 2025](#) and in the *OECD SME Policy Index 2026 for the Western Balkans and Türkiye*.

appreciation. Overall, revenue performance was underpinned by economic growth and strong domestic consumption. Spending rose by 10% year-on-year but was 4% lower than budgeted, mainly due to the capital spending under-execution. Spending on wages increased by 11.6%, reflecting the continued implementation of public wage reform, while social insurance expenditure rose by 12.1%. Growth in interest expenditure moderated to 0.4%, down from 14.4% the previous year. Capital spending grew by 14% year-on-year, although execution lagged behind the annual plan (84% overall, with stronger performance of domestically financed projects). Overall, total revenue as a share of GDP increased from 28.2% in 2024 to 28.6% in 2025, but slightly below the ERP projection (29.1% of GDP). Total expenditure as a share of GDP was also lower than expected in the ERP (31.4%), standing at 30.3% in 2025 (up from 28.9% in 2024).

The ERP expects the budget balance to remain unchanged in 2026 compared to the 2025 plan, before improving gradually over the subsequent two years. The improvement is driven by a projected increase in the revenue ratio and, to a smaller extent, a fall in spending as a share of GDP. Public revenue as a share of GDP is expected to rise from 29.1% in 2025 (realised: 28.6%) to 29.6% in 2026 and 29.9% in 2028, reflecting a 0.8 pps increase in the tax-to-GDP ratio during 2026-2028. Tax revenue gains are expected from the continued implementation of the medium-term revenue strategy over 2026-2027. The largest increase, as a share of GDP, is expected in social insurance contributions (from 6.7% in 2025 to 7.1% in 2028). Taxes on production and import are likewise projected to increase, from 11.7% of GDP in 2025 to 11.9% of GDP in 2026. The ERP projects total expenditure as a share of GDP to decline from 31.9% in 2026 to 31.1% in 2028, facilitating the improvement in the budget balance. Investment spending is expected to peak in 2026 at 7.6% of GDP and then decline marginally. Interest expenditure, which peaked in 2025 (2.3% of GDP planned, 2.1% realised), is projected to remain largely stable. The budget deficit is expected to widen to 2.3% of GDP in 2026, before narrowing to 1.6% in 2027 and 1.3% in 2028. The primary balance is projected to return to balance in 2026, and record a surplus of 0.8-1.9% of GDP in 2027-2028, supporting a reduction in the public debt ratio. Overall, the revenue targets of the fiscal strategy 2026-2028 appear credible, supported by robust economic expansion. However, certain anticipated revenue gains may seem optimistic. On the expenditure side, capital spending may be overestimated considering historical challenges with the execution of public investments.

Table 3:

Albania - composition of the budgetary adjustment (% of GDP)

	2024	2025	2026	2027	2028	Change: 2025-28
Revenues	28.2	29.1	29.6	29.8	29.9	0.8
- Taxes and social security contributions	23.0	24.1	24.8	24.8	24.9	0.8
- Other (residual)	5.3	5.0	4.8	4.9	5.0	0.0
Expenditure	28.9	31.4	31.9	31.3	31.1	-0.3
- Primary expenditure*	26.8	29.2	29.6	29.0	28.8	-0.4
<i>of which:</i>						
Gross fixed capital formation	5.6	7.3	7.6	7.5	7.4	0.2
Consumption	9.6	10.5	10.4	9.8	9.8	-0.8
Transfers & subsidies	11.3	11.4	11.4	11.4	11.4	0.0
Other (residual)	0.3	0.0	0.2	0.3	0.2	0.2
- Interest payments	2.2	2.3	2.3	2.3	2.3	0.0
Budget balance	-0.7	-2.3	-2.3	-1.6	-1.3	1.0
- Cyclically adjusted	1.0	-2.6	-2.5	-1.0	-2.5	0.1
Primary balance	1.4	0.0	0.0	0.8	1.0	1.0
- Cyclically adjusted	3.1	-0.3	-0.1	1.4	-0.2	0.1
Gross debt level	54.2	54.1	53.6	52.2	51.0	-3.1

* Excluding arrears clearance.

Sources: *Economic Reform Programme (ERP) 2026, Commission calculations.*

The 2026 budget targets a deficit of 2.3% of GDP, but focuses on maintaining fiscal consolidation while prioritising social protection, general public services, and defence.

Compared to the 2025 budget out-turn, the fiscal stance is set to be expansionary in 2026 as the budget deficit widens, while the primary balance is expected to return to balance. Total government revenue for 2026 is projected to reach 29.6% of GDP, which reflects an increase of 1 pp. compared to the 2025 outcome. Revenue is set to be bolstered by increased economic activity, rising wages, and by new fiscal and administrative measures, which include the continued implementation of the medium-term revenue strategy (MTRS) and the 2026 Fiscal Package¹⁸. The main component of the Fiscal Package is the 'fiscal peace' initiative, which among others allows businesses to settle old tax debts partially, with the possibility of not being subject to further tax assessment¹⁹. Expenditures are also set to increase by 1.6 pps, from 30.3% of GDP realised in 2025 to 31.9% of GDP in 2026. This is partly driven by salary indexation, the minimum wage implementation, pension indexation and bonuses²⁰, and capital spending, which is expected to

¹⁸ The 2026 Fiscal Package includes: (i) Fiscal Peace, whose main component is the tax amnesty; (ii) revaluation of immovable property at market prices; (iii) VAT amendments to support agricultural producers; (iv) a minimum wage increase; (v) tax exemptions for investments in health, education and social protection. Other tax measures (not part of the Fiscal Package) include an increase in the carbon tax on coal and the expected adoption of gambling legislation.

¹⁹ Fiscal Peace has three components: 1) Agreed profit tax: enterprises can enter into voluntary agreements with the tax administration where they agree to increase taxable profit by 18% compared to the previous year, while for any addition to this profit the tax will be only 5%. Audits are suspended during the agreement term. 2) Voluntary correction mechanism: it allows businesses to disclose past underreporting at a reduced cost (5% profit tax will be applied instead of 15%, no penalties or interest). It aims to enhance the accuracy of tax records and foster future compliance. 3) Tax debt amnesty: it eliminates old, uncollectible debts and offers partial forgiveness for more recent debts to encourage repayment and clean up the tax ledger.

²⁰ The 2026 Fiscal Package introduces pension increases in the form of bonuses starting in 2026, with further gradual adjustments planned to reach targeted benefit levels by 2029. Indexation will continue to protect purchasing power but will be applied only to the base pension.

grow to 7.6% of GDP compared to 7.3% in 2025. These investments are directed towards significant projects in infrastructure, defence, health, and education. Separate funds amounting to 0.2% of GDP are budgeted under capital expenditures with foreign financing, to finance projects related to the EU Growth Plan²¹.

BOX 1: THE BUDGET FOR 2026

The Albanian parliament adopted on 12 December 2025 the 2026 budget, targeting a fiscal deficit of 2.3% of GDP. The authorities expect real GDP growth of 4.0%, while inflation is projected to be 3.0%. Revenues and expenditures are projected to increase to 29.6% and 31.9% of GDP respectively. The expected revenues take into account the gains from the implementation of the fiscal amnesty.

Table: Main measures in the budget for 2026

Temporary/permanent measures*	Revenue	Temporary/permanent Expenditure measures**
<ul style="list-style-type: none"> MTRS implementation gains (ALL 15.96 billion or 0.6% of GDP) Tax amnesty revenues (one-off ALL 3.8 billion or 0.14% of GDP) Increase in carbon tariffs in July 2026 (ALL 70 million or 0.003% of GDP) 		<ul style="list-style-type: none"> Pension bonuses (ALL 10 billion or 0.4% of GDP) Minimum wage increase and indexation of public sector wages (ALL 10 billion or 0.4% of GDP) Farmers' schemes²² (ALL 1.5 billion or 0.05% of GDP)

* Estimated impact on general government revenues.

** Estimated impact on general government expenditure.

Source: ERP

The public debt ratio saw a slight decline in 2025 and is projected to continue on a downward trajectory, supporting debt sustainability. The public debt ratio decreased from 54.2% of GDP in 2024 to 53.0% of GDP in 2025, 1.8 pps lower than projected by the 2025 ERP and significantly below the pre-pandemic level of approximately 65% of GDP. This reduction mainly reflected strong nominal GDP growth and the appreciation of the lek. Strong economic growth and improved fiscal performance led to Albania's sovereign debt credit rating being upgraded again in March 2025 (following an upgrade one year earlier) by S&P²³, although it remains below investment-grade. For 2026-2028, the ERP projects an accelerated pace of debt reduction, with

²¹ Albania is projecting an increase in budget expenditures financed under the EU Reform and Growth Facility in the next two years, in the amounts of ALL 16.2 billion (c.a. EUR 165 million) in 2027 and ALL 21 billion (c.a. EUR 214 million) in 2028. This represents a significant share in the capital expenditures with foreign financing, ranging from 14% of the total in 2026 to 29% in 2028.

²² VAT amendments to support agricultural producers through a revised scheme granting a 10% refund on production inputs.

²³ In March 2025 S&P upgraded Albania's long-term sovereign credit rating by one notch, from BB- to BB. In April, Moody affirmed Albania's Ba3 rating with stable outlook.

the debt-to-GDP ratio projected to decline from 53.6%²⁴ in 2026, to 52.2% in 2027 and to 51.0% in 2028. Overall, the projected decline in the debt ratio appears plausible and would support debt sustainability, contingent on achieving projected primary balances and maintaining favourable nominal GDP growth relative to interest rates. Thereafter, the government's macro-fiscal framework (spanning until 2035) projects a continuous reduction in the debt ratio - in line with the national fiscal rule requiring that the public debt ratio must be lower than the prior year, until it reaches and remains below 45% of GDP.

While improvements in the public debt structure are notable, further efforts are required to extend maturities and minimise vulnerabilities. The share of foreign currency debt in total debt has been gradually decreasing to 41.6% in 2025, supported by the lek's appreciation. This trend aligns with the medium-term debt management strategy (MTDMS) for 2026-2030, which limits foreign currency-denominated public debt to 45% to contain exchange rate risks. The maturity profile remains short, although the average time to maturity of domestic debt has increased from 2.56 years in 2024 to 2.85 years in 2025²⁵. This modest increase is in line with the MTDMS, which aims to increase the value and frequency of long-term instrument issuances²⁶, targeting an increase in the average maturity of public debt to around 3.5 years by 2030. Meanwhile, external debt consists mainly of long-term loans as well as long-term instruments such as Eurobonds²⁷. Gross financing needs remained elevated at 17.5% of GDP in 2025 and are projected to average about 13% of GDP over the medium term. Although sizeable, this appears manageable in view of Albania's track record of accessing domestic and international financing, which should be further enhanced by the recent rating upgrades. Domestic financing will continue to rely mostly on the banking sector, which has a large exposure to sovereign debt (around 28% of their total assets), while the activity of the non-banking sector is expected to increase gradually.

²⁴ The reduction in the debt-to-GDP ratio in 2025 was larger than planned; therefore, the estimate prepared during the drafting of the ERP projects the ratio for 2026 at above 53%.

²⁵ In the domestic government debt portfolio, the weight of debt maturing within one year declined from 24.9% in 2024 to 23.0% in 2025. Overall, debt maturing within one year decreased from 14.5% in 2024 to 13.4% in 2025.

²⁶ For example, a 20-year domestic bond was first issued in June 2025, followed by another issuance in January 2026, attracting investors' interest.

²⁷ In February 2025, the Albanian government issued a EUR 650 million Eurobond. The bond has a 10-year maturity with a coupon of 4.75%, a 5.0% yield and a final order book of over EUR 2.5 billion. The issuance generated strong investor demand, as reflected in a bid-to-cover ratio of 4.3, while the investor base was well diversified.

BOX 2: DEBT DYNAMICS

The debt ratio slightly declined in 2025, supported by a slightly positive primary balance and a favourable snowball effect, although the latter was significantly weaker than in 2024 due to lower inflation and rising interest costs. In 2027-2028, the snowball effect is expected to contribute only marginally to debt reduction, as interest costs will remain stable while inflation remains low.

A positive primary balance is therefore projected to remain the main debt-reducing factor over the period. Overall, the projected decline in the debt ratio appears plausible and consistent with debt sustainability, provided that projected primary surpluses materialise and that the interest-growth differential remains favourable. The debt path could also be slightly more favourable than currently projected, given that the end-2025 debt ratio was below the ERP projection.

Albania					
Composition of changes in the debt ratio (% of GDP)					
	2024	2025	2026	2027	2028
Gross debt ratio [1]	54.2	54.1	53.6	52.2	51.0
Change in the ratio	-3.4	-0.1	-0.5	-1.4	-1.2
Contributions [2]:					
1. Primary balance	-1.4	0.0	0.0	-0.8	-1.0
2. 'Snowball effect'	-1.3	-0.2	-0.4	-0.3	-0.3
Of which:					
Interest expenditure	2.2	2.3	2.3	2.3	2.3
Growth effect	-2.2	-2.0	-2.1	-2.0	-2.0
Inflation effect	-1.3	-0.5	-0.6	-0.6	-0.6
3. Stock-flow adjustment	-0.7	0.1	-0.1	-0.4	0.1

[1] End of period.

[2] The 'snowball effect' captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator).

The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets, and valuation and other effects.

Source: Economic Reform Programme (ERP) 2026, Commission calculations.

Albania's fiscal outlook remains challenged by contingent liability risks and structural spending pressures. Fiscal vulnerabilities continue to arise from loans and guarantees to SOEs, PPP obligations and the accumulation of arrears, potentially complicating the achievement of the ERP's fiscal targets if fiscal buffers remain limited. SOEs continue to receive loans from the central government, but their repayment capacity remains uncertain given the weak financial viability of some companies²⁸. The stock of guaranteed debt (fully accounted for in public debt figures) amounted to 1.1% of GDP at end-September 2025 (down 0.4 pps compared to 2024), with more than 80% of guarantees concentrated in the energy sector and 9.4% in water utilities, pointing to significant sectoral concentration risks. While the ERP acknowledges contingent liability risks, it provides limited analysis of fiscal risks stemming from demographic developments and climate-related natural hazards, which could affect expenditure dynamics and fiscal buffers over the medium term. Population ageing is expected to increase pension and healthcare spending while weighing on labour supply and revenue growth. Exposure to natural hazards, including floods and droughts, may generate additional budgetary costs through reconstruction spending, electricity import costs, agricultural support and infrastructure rehabilitation, increasing fiscal volatility. Further spending pressures might emerge in education, where current low allocations would need to be increased to support productivity gains, and in defence, given Albania's NATO obligations. Revenue projections could also face downside risks if improvements in tax compliance and collection do not materialise as expected. At the same time, the budget assumes high implementation rates for externally financed projects, including through the Western Balkans Investment Framework (WBIF), while past execution rates, particularly for foreign-financed projects, have been significantly lower, suggesting that realised investment spending may fall short of planned levels.

²⁸ Furthermore, many SOEs also benefit from direct subsidies from their line ministries, with limited transparency regarding the activities these subsidies are expected to finance.

Fiscal risk monitoring has improved, but further enhancements are necessary. The Fiscal Risk Unit of the Ministry of Finance expanded the number of monitored SOEs to 12²⁹. Technical assistance is ongoing to improve SOEs' financial reporting³⁰, and a Fiscal Risk Directorate was set up in 2024, although staffing remains incomplete³¹. The finalisation in May 2025 of the 2024 Fiscal Risk Statement³² represents a positive step, but regular publication and broader coverage, particularly regarding long-term ageing and climate-related costs, would strengthen fiscal risk management. Furthermore, since capacities for assessing the long-term costs of ageing and the sustainability of the pension system were limited, the government engaged with the World Bank in 2025 for technical assistance on pension modelling, including baseline projections and the establishment of a Pension Reform Working Group. Further strengthening of institutional capacity and risk coverage would enhance the credibility of the ERP's fiscal risk analysis, particularly in light of rising demographic, climate-related and contingent liability risks.

BOX 3: SENSITIVITY ANALYSIS

The ERP presents the dynamics of fiscal key indicators over 2026-2028 under three different scenarios: baseline, optimistic and pessimistic. The alternative scenarios are constructed with varied economic growth assumptions for each year. In particular, the real GDP growth rates that underpin the optimistic and pessimistic scenarios deviate by +0.5 pps and -2.5 pps respectively from the baseline growth scenario of 4.0% in 2026, while in 2027-28 they deviate by +0.5 pps and -1.5 pps respectively from the baseline growth scenarios of 3.9% in 2027 and 4.1% in 2028.

In the optimistic scenario, total revenues as a share of GDP are identical to the baseline scenario. Capital spending as a share of GDP is expected to be slightly higher than the baseline in 2026-2028 by 0.1-0.3 pps, while current spending as a share of GDP is gradually being reduced (ultimately 0.3 pps lower than in the baseline in 2028). The fiscal deficit is smaller in the optimistic scenario only in 2028, while in 2026-2027 it is equal to the baseline scenario. The ERP explains that generally there is an expectation of a more robust fiscal consolidation in the optimistic scenario and a fiscal deficit relaxation in the pessimistic scenario, reflecting a countercyclical response to different shocks.

In the pessimistic scenario, fiscal policy easing, compared to the baseline, would be

²⁹ Current monitoring and reporting include detailed discussion of the three major energy sector SOEs' quarterly profit/loss positions, their receipt of government financial support, and the stock of outstanding guarantees, alongside a short summary description of the financial position of the other SOEs.

³⁰ At the same time, not all SOEs are publishing their financial performance reports online. More details on key SOE issues and developments can be found in *Western Balkans Competitiveness Outlook 2024: Albania*, by the OECD.

³¹ As of November 2025, the Fiscal Risk Directorate is staffed with a director and two specialists, but the two specialist positions are yet to be filled.

³² The 2024 Fiscal Risk Statement captures a wide range of fiscal risks, including those related to concessions, PPPs, SOEs, arrears and other unforeseen events, such as natural disasters. The Fiscal Risk Statement goes beyond listing risks by linking them to macro-fiscal projections and mitigation frameworks, but it still relies largely on qualitative assessment and scenario analysis rather than full quantitative fiscal stress testing. However, both the 2023 and the 2024 Statements were published with delays. Timely publication should therefore be established as a standard for future reports.

implemented to the extent that key public finance parameters (such as the debt-to-GDP ratio and primary balance) stay within the fiscal rules set out in the Organic Budget Law. In the pessimistic scenario, the revenue ratio is assumed to be 0.5-0.6 pps below the baseline. Capital spending in 2026-2028 is reduced compared to the baseline by 0.9% of GDP on average each year, while current expenditure is on average 0.5 pps above the baseline. The fiscal deficit is set to be higher than in the baseline scenario (by 0.3 pps in 2027 and 0.4 pps in 2028), except in 2026 when it is projected to be the same in all scenarios.

The public debt ratio is set to decrease in all three scenarios, including in the pessimistic one (although the reduction is marginal), while the primary balance is non-negative in all scenarios, in line with the fiscal rules.

Reducing tax expenditures could further bolster revenue mobilisation. The implementation of the MTRS, which focuses on tax administration improvements, appears broadly on track and has already generated additional revenues above initial targets, according to the 2024 Monitoring Report³³. For the year 2025, tax revenue gains related to the MTRS are projected at ALL 15.96 billion (0.6% of GDP)³⁴. Planned tax policy measures include a gradual increase in coal taxation starting in July 2026 and the introduction of a market value-based property tax from 2028, following the completion of the fiscal cadastre and secondary legislation. While Albania finalised a comprehensive Tax Exemptions Report in 2025³⁵, there are currently no concrete plans to reduce tax expenditures, as policy efforts are primarily directed at aligning VAT and excise rates with EU requirements. The abolition of the zero-tax rate for small businesses remains planned for 2029 (estimated cost of ALL 70 billion).

The introduction of a Fiscal Peace Agreement, featuring a temporary fiscal amnesty, raises concerns. While this measure is aimed at giving businesses a 'last chance' to settle tax issues before Albania's EU accession and is expected to generate short-term revenue gains, the ERP does not sufficiently acknowledge its temporary nature or associated risks, including eroding trust in the fairness and consistency of the overall tax system and the creation of expectations regarding future amnesties, potentially weakening long-term compliance. To mitigate these risks, the authorities should prioritise strengthening enforcement, risk monitoring, and audit capacity, while accelerating reforms such as the property tax reform and the removal of unjustified tax exemptions.

Despite recent advancements, challenges persist in the regulatory framework for public investment management (PIM). Amendments adopted in 2025³⁶ updated PIM procedures, including the National Single Project Pipeline (NSPP) and feasibility study requirements. In addition, a new PPP law has been adopted, requiring PPP projects to be channelled through the

³³ Revenue generated from the implementation of the MTRS in 2024 amounted to ALL 19.4 billion (or 0.02% of GDP), around ALL 600 million more than the MTRS target for the year.

³⁴ The semi-annual MTRS report for January-June 2025 showed that Albania was on track for the rest of 2025 to reach the indicators and revenue targets. The authorities estimate that revenue in 2025 was ALL 39.2 billion higher than MTRS targets. Of this, ALL 17.2 billion was linked to improved income declaration measures.

³⁵ The report carried out a review of tax exemptions related to value added tax (VAT), corporate income tax (CIT), excise duties, and personal income tax (PIT). It identifies a total of 74 tax expenditures in Albania, out of which: 47 related to VAT; 4 to excise duties, 12 to personal income tax and 11 to corporate income tax. Albanian authorities reported that their priority is to align VAT rates with EU requirements by the accession date and prepare a calendar on excise rate increases for 2027-2030, so that EU minimum rates (such as on gas and electricity) are gradually met.

³⁶ Decision of the Council of Ministers (DCM) No 887/2022.

NSPP and standard PIM procedures from September 2026. While this reform could strengthen project appraisal and fiscal oversight, implementing guidelines and by-laws still need to be aligned with the new legislation. However, public investment planning and execution continue to face capacity constraints, incomplete project preparation, delays and cost overruns, and occasional non-compliance with procedures. Recurrent under-execution of capital spending suggests that weaknesses persist in the operationalisation of the public investment framework and the NSPP, ultimately limiting the growth impact of public finances. While defence (1.5% of GDP per year throughout 2026-2028) and social protection (from 9.2% of GDP in 2026 to 9.7% in 2028) spending are projected to increase over 2026-2028, education (3.2% of GDP) and health (2.9% of GDP) spending remain stable, and housing expenditure is set to decline. Preserving efficient investment in infrastructure and human capital will be key for long-term growth and social inclusion.

Albania's fiscal planning complies with fiscal rules, but there is scope for improving fiscal oversight and data quality. Albania does not have a fiscal council yet, but legal work is ongoing to set up a stand-alone independent fiscal institution, with the adoption of the respective law planned for Q3-2026, and further implementing legislation expected by end-2026, in line with the public finance management strategy adopted in June 2024. Medium-term fiscal planning is anchored in compliance with the national fiscal rules. This commitment is strongly reflected in the ERP with the planned fiscal path expected to ensure a non-negative primary balance and a declining debt-to-GDP ratio, in line with legal requirements. The medium-term budgetary framework provides a basis for multiannual fiscal planning, although further strengthening of institutional capacity would support its effective implementation. Government finance statistics still require further improvements to ensure full alignment with European System of Accounts (ESA 2010) standards.

4. ADDRESSING STRUCTURAL CHALLENGES - THE REFORM AGENDA AND ITS IMPACT ON THE MACRO-FISCAL FRAMEWORK

In its Reform Agenda 2024-2027, Albania commits to socio-economic and fundamental reforms to accelerate growth and convergence with the EU. The agenda, approved in October 2024³⁷, combines structural reforms and investment measures across five main policy pillars, which reflect long-standing constraints on Albania's convergence process: business climate, human capital development, digital transformation, energy transition, and rule of law. Subject to the implementation of reforms, under the Reform and Growth Facility (RGF)³⁸, the allocation for Albania amounts to EUR 922 million with EUR 265 million planned in grants and EUR 657 million in loans. Of the total amount of support, EUR 429 million is to be allocated in the form of budget support, with the remaining EUR 493 million to be allocated for the financing of infrastructure projects and implemented through the Western Balkans Investment Framework (WBIF). As of March 2026, the European Commission has released EUR 163.9 million in favour of Albania, of which EUR 64.5 million was provided in pre-financing. In July 2025, Albania submitted its first formal payment request, reporting on steps due in December 2024 and June 2025, and anticipatively on some due in December 2025. In October 2025, the European Commission adopted a Decision on the second release of RGF funds approving the first tranche of financing in favour of Albania, having assessed 21 out of 41 steps as having been achieved; these include reforms on effective judicial follow-up on vetting cases, transparent and merit-based

³⁷ Reform Agendas of the Western Balkans were adopted by the Commission Implementing Decision on 23 October 2024. https://enlargement.ec.europa.eu/commission-implementing-decision-approving-reform-agendas-and-multiannual-work-programme-under_en

³⁸ <https://eur-lex.europa.eu/eli/reg/2024/1449/oj/eng>

appointment of SOEs board members, implementation of regulatory and institutional capacity measures to secure 5G infrastructures roll-out, and strengthening the efficiency of the unemployment policy scheme. In January 2026, Albania submitted its second payment request, which, as of March 2026, is still undergoing the Commission's assessment.

A key structural constraint addressed by the Reform Agenda is the overall business environment, including a large informal economy, governance gaps and market distortions. Informality weakens tax collection, narrows the tax base and reduces social security contributions, thereby limiting fiscal space and distorting competition. Weak governance and fiscal risk management of SOEs, as well as deficiencies in property registration and cadastral systems, contribute to investment uncertainty and inefficient resource allocation. Measures under the Reform Agenda, including the implementation of the medium-term revenue strategy, cadastral digitalisation, and improvements in investment legislation and governance frameworks, aim to enhance transparency, improve revenue mobilisation and create a more competitive and predictable business climate.

Structural challenges remain in the labour market and human capital development, despite recent improvements in labour market performance. Labour force participation has increased in recent years³⁹, helping to offset the decline in the working-age population and supporting a broadly stable labour force, although this partly reflects a shrinking labour supply due to demographic trends and emigration⁴⁰. Significant gaps persist, particularly in female participation, while skills mismatches, low participation in adult learning, emigration of skilled labour, and weaknesses in vocational education and training (VET) reduce labour productivity and constrain economic diversification⁴¹. The Reform Agenda addresses these constraints through reforms to VET education, digital skills, employment services and research and innovation systems, aimed at strengthening employability, improving job matching and supporting higher value-added growth.

Energy reforms and digital transformation are also relevant structural areas for Albania's growth potential, competitiveness and economic resilience. In the energy sector, Albania's high dependence on hydropower exposes electricity supply to climate variability and creates reliance on imports during dry years. Further issues relate to alignment with the EU energy *acquis*, electricity market integration, and tariff reform while protecting vulnerable consumers. The Reform Agenda addresses these constraints through renewable energy deployment, market integration measures, and energy efficiency investments. In the digital area, gaps persist in broadband coverage, cybersecurity preparedness and regulatory alignment with EU standards, within a broader context of weak infrastructure and connectivity performance and rising exposure to cyber and AI-related risks^{42,43}. Planned reforms include deployment of digital identity systems

³⁹ According to INSTAT's Labour Force Surveys, the labour force participation rate for the population aged 15-64 increased from 69.3% in 2021 to 76.5% in 2025 (data until Q3-2025).

⁴⁰ INSTAT data show that the working-age population (15-64) declined by nearly 38 000 between 2024 and 2025, from 1.54 million to 1.50 million, indicating that rising participation rates partly reflect a shrinking labour force (OECD *SME Policy Index 2026*).

⁴¹ Adult participation in education and training remains very low, at 1.6% of the population aged 25-64 in 2024, around 12% of the EU average (13.3%), and has shown little progress over the past decade (OECD *SME Policy Index 2026*).

⁴² Albania ranks lowest in the Infrastructure and Connectivity cluster in the [OECD Economic Convergence Scoreboard for the Western Balkans 2025](#), reflecting underdeveloped transport networks and weak digital infrastructure, including low broadband speeds.

⁴³ The 2022 cyberattack on the e-Albania platform exposed weaknesses in cybersecurity governance. Increasing use of AI tools is also raising cyber risk exposure, while institutional and regulatory capacities remain underdeveloped.

aligned with EU frameworks, improved broadband infrastructure, and strengthening cybersecurity frameworks in line with EU directives.

The ERP presents quantitative estimates of the expected macroeconomic impact of several key reforms under the Reform Agenda, indicating a potentially positive effect on medium-term growth. Compared to last year's ERP, which mainly provided qualitative descriptions of growth impacts and did not quantify macroeconomic effects, the current ERP includes more detailed quantification of reform impacts. The authorities estimate that the combined reform package could increase the level of potential GDP by around 1.65% and raise annual GDP growth by around 0.8-1.0 pps over 2026-2028 under a full implementation scenario. The main drivers of these estimated gains include: (i) employment reforms increasing total employment by around 1.3% (contributing about 0.28 pps to annual growth); (ii) judicial efficiency reforms increasing total factor productivity by around 0.9%; (iii) energy investments supporting capital accumulation; and (iv) productivity improvements, and improvements in export performance and targeted increases in FDI inflows. The reform effects are not incorporated into the baseline macroeconomic scenario but are presented as an upside scenario, reflecting uncertainty related to implementation timelines and transmission channels. This approach appears consistent with a prudent macroeconomic framework, and the magnitude of estimated growth effects seem plausible, although outcomes depend on implementation effectiveness, institutional capacity and external conditions.

The Reform Agenda is expected to affect public finances through both direct and indirect revenue and expenditure channels. On the revenue side, direct fiscal support is expected from the Reform and Growth Facility through grants while concessional loans will help contain interest costs. Indirectly, improvements in tax administration, formalisation of economic activity and higher growth are expected to increase revenues from income taxes, VAT and customs duties. Revenue gains are expected to arise from enhanced tax compliance through digitalisation of tax administration, expansion of the tax base through formalisation and growth-driven increases in consumption and employment. On the expenditure side, reform implementation entails additional spending needs, especially for digital infrastructure and public administration modernisation, education and training investments, and energy transition measures, including public building renovation and support schemes for vulnerable households. At the same time, some reforms are expected to generate efficiency savings over time, particularly through digitalisation and energy efficiency improvements in public infrastructure. As in last year's ERP, the indirect fiscal effects of the Reform Agenda are not incorporated into baseline projections but are treated as an upside risk to fiscal performance, reflecting uncertainty regarding the timing and transmission of reform effects.

While recognising efforts made towards providing more detailed information on the budgetary impact of Reform Agenda implementation, the ERP would benefit from including a clearer distinction of the share of capital and current expenditure linked to reform measures. Additional clarification on how Reform Agenda financing, including grants and concessional loans, is reflected in fiscal projections could also support the assessment of the medium-term fiscal framework. Where feasible, further gradual quantification of revenue and expenditure impacts could strengthen the overall analysis.

Strengthening alignment with the EU *acquis*, including the EU AI Act, and reinforcing institutional capacities (e.g. AKSHI, AKSK) remain key priorities (OECD (2024), *Western Balkans Competitiveness Outlook*).

ANNEX: OVERVIEW OF THE IMPLEMENTATION OF THE POLICY GUIDANCE ADOPTED AT THE ECONOMIC AND FINANCIAL DIALOGUE IN 2025

Every year since 2015, the Economic and Financial Dialogue between the EU and regional partners has adopted targeted policy guidance (PG) for all partners. The guidance represents the participants' shared view on the policy measures that should be implemented to address macro-fiscal vulnerabilities and structural obstacles to growth. The underlying rationale of the guidance is similar to that of the country-specific recommendations usually adopted under the European Semester for EU Member States. Implementation of the guidance is evaluated by the Commission in the following year's ERP assessments.

The following table presents the Commission's assessment of the implementation of the 2025 policy guidance jointly adopted at the Economic and Financial Dialogue between the EU and the Regional Partners at ministerial level on 13 May 2025.

Overall: Partial implementation (61.1%)⁴⁴	
2025 Policy guidance	Summary assessment
<p>PG 1:</p> <p>Implement the medium-term budget plan and use any savings from capital expenditure under-execution to reduce the budget deficit.</p>	<p>There was partial implementation of PG 1:</p> <p>1) Substantial implementation: The medium-term budget plan (MTBP) has been implemented in line with the fiscal rules set out in the Organic Budget Law. The 'debt-brake' rule is respected, with public debt projected to decline gradually from 54.1% of GDP in 2025 and 53.6% in 2026 to 51% by 2028. The primary balance rule is also complied with, as the primary balance was 0.3% of GDP in 2025, is projected to return to balance in 2026, and to turn positive from 2027 onwards. In line with the golden rule, projected budget deficits remain below capital expenditure levels, ensuring positive current fiscal balances throughout 2025-2028. The macroeconomic framework is based on prudent nominal GDP projections, as they don't exceed the IMF's forecast presented in the October 2025 World Economic Outlook report. The fiscal framework for 2026-2028 incorporates annual contingency buffers of around 0.3% of GDP to cover potential interest rate and exchange rate risks, in line with the requirement that contingencies amount to at least 0.7% of total expenditures. The 2025 budget</p>

⁴⁴ For a detailed description of the methodology used to assess policy guidance implementation, see Section 1.3 of the Commission's Overview and Country Assessments of the 2017 Economic Reform Programmes. This is available at https://ec.europa.eu/info/publications/economy-finance/2017-economic-reform-programmes-commissions-overview-and-country-assessments_en.

<p>Implement the medium-term revenue strategy, adopt the property tax law, and based on the tax expenditure review prepare proposals to reduce tax expenditure, prioritising the elimination of exemptions lacking sound policy justification.</p> <p>Prepare the draft legislation for establishing a fiscal council, incorporating the European</p>	<p>was amended four times through normative acts, resulting in a reduction of the legal deficit ceiling from the level initially approved in the annual budget law (from 2.6% to 2.4% of GDP). This revision reflected both a commitment to fiscal discipline and the reallocation of resources, including savings generated from capital expenditure under-execution. However, part of the savings (ALL 16.6 billion; 0.6% of GDP) was not used to reduce the deficit but was instead transferred to a special pension fund at the Bank of Albania, recorded as expenditure in 2025, to be used later after the authorisation of the Council of Ministers.</p> <p>2) Limited implementation: Implementation of the medium-term revenue strategy (MTRS) is progressing broadly as planned, focusing primarily on tax administration measures. Albania set up a MTRS Steering Committee and a technical Monitoring Secretariat responsible for the annual and semi-annual monitoring reports. According to the 2024 MTRS Monitoring Report, measures implemented under the strategy generated ALL 19.4 billion in 2024 (0.02% of GDP), exceeding the annual target by approximately ALL 600 million. For 2025, revenue projections incorporate ALL 15.96 billion from MTRS-related measures, and the semi-annual MTRS report for January-June 2025 indicates that implementation remains broadly aligned with the planned revenue targets.</p> <p>As regards property taxation, the authorities drafted a law 'On the Real Estate Tax' introducing a market value-based property tax, and revised the building reference values nationwide for the purposes of implementation of the current property tax. The draft law is currently undergoing interinstitutional consultation and is expected to be approved by the Council of Ministers in June 2026. The reform provides for a phased implementation, with market value-based taxation applying to buildings from 2028 and to land from 2030.</p> <p>A comprehensive tax exemptions report was finalised in 2025, reviewing 74 tax expenditures across VAT (47), personal income tax (12), corporate income tax (11) and excise duties (4). The report also provides detailed cost estimates</p>
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<p>Commission's comments.</p>	<p>for each exemption, particularly for VAT. However, no concrete proposals have yet been planned to reduce tax expenditures, as current policy efforts focus mainly on aligning VAT and excise rates with EU requirements.</p> <p>3) Partial implementation: Albania has not yet set up a fiscal council. Preparatory work has advanced, including the establishment of a dedicated technical working group within the Ministry of Finance and the preparation of an options paper. Albania has also benefited from technical assistance from the World Bank, financed by the European Commission, to support the drafting of legislation for the creation and regulation of a stand-alone independent fiscal institution. A first draft law has been completed and agreed at technical level, with further consultations planned. The adoption of the law is scheduled for Q3-2026, with implementing legislation expected by end-2026, in line with the public finance management strategy adopted in June 2024.</p>
<p>PG 2:</p> <p>Strengthen capacity in the Fiscal Risk Directorate in the Ministry of Finance to enhance fiscal risk assessment, including monitoring of SOEs, and publish the annual Fiscal Risk Statement based on 2024 data, covering a wide range of risks as well as mitigation measures.</p>	<p>There was substantial implementation of PG 2:</p> <p>1) Substantial implementation: The Fiscal Risk Directorate was set up in 2024 and was fully operational by the end of 2025, with the director and four technical experts. It continues to work in close coordination with the Budget Risk Unit under the Budget Management Directorate. Capacity building has been supported through ongoing technical assistance from international partners, notably the IMF and the World Bank, focusing on the preparation of the Fiscal Risk Statement and the strengthening of monitoring and analysis of fiscal risks, including those related to SOEs and natural disasters. The number of monitored SOEs has increased to 12, and technical assistance is ongoing to further improve SOEs' financial reporting. The finalisation of the 2024 Fiscal Risk Statement in May 2025 and its submission to the Council of Ministers represent a positive step, even though its publication was delayed. The statement covers a broad range of fiscal risks and mitigation measures in line with national reporting guidelines. However, regular publication and broader coverage, in particular regarding PPP-related commitments and long-term ageing-related costs, would further</p>

<p>To strengthen long-term sustainability of public finances and underpin any pension reform, enhance evidence-based analysis and long-term projections using a pension modelling framework.</p> <p>Enhance the operationalisation of the public investment management framework, including the National Single Project Pipeline, and ensure that the projects entering the MTBP are mature and of good quality, in order to avoid under-execution of public investments.</p>	<p>strengthen fiscal risk management. Overall, while fiscal risk monitoring has progressed, further strengthening of institutional capacity and risk coverage would enhance the credibility of the fiscal risk analysis, particularly in the context of increasing demographic, climate-related and contingent liability risks.</p> <p>2) Substantial implementation: In 2025, Albania strengthened its evidence-based analysis of pension sustainability through World Bank technical assistance, using the PROST (Pension Reform Options Simulation Toolkit) pension modelling tool to produce long-term projections. The analysis draws on the latest macroeconomic and fiscal framework for 2026-2028 and recent demographic and financial data and is supported by structural measures under the National Reform Agenda 2024-2027 aimed at increasing labour force participation, improving human capital and strengthening contribution collection. The ERP also features for the first time a table on the long-term sustainability of public finances (No 7), containing some estimates of age-related expenditures. As of January 2026, Albania introduced monthly pension bonuses to address pension inadequacy, however without using the modelling tool to underpin the sustainability assessment, while working on possibilities for pension reform.</p> <p>3) Partial implementation: Albania has taken steps to strengthen the public investment management (PIM) framework, including through updates to the regulatory and procedural framework, further operationalisation of the National Single Project Pipeline (NSPP), and reinforced requirements on project maturity and feasibility studies. The NSPP is being updated regularly and aligned more closely with strategic planning documents and the MTBP. Procedures on public investment management were further streamlined through the adoption of the March Council of Ministers Decision and the May Minister of Finance Order, which include instructions on full and light project feasibility assessment and revised thresholds for project inclusion in the NSPP. The recently adopted Law on public-private partnerships (PPPs) of</p>
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	<p>December 2025 provides for additional provisions on incorporating PPPs into the NSPP, although its implementation remains to be seen in practice. Capacity-building efforts across line ministries and budget institutions have been expanded, supported by training programmes and technical assistance, contributing to improved preparation and screening of investment projects. At the same time, challenges remain in the effective implementation of the PIM framework. Public investment planning and execution continue to face capacity constraints, incomplete project preparation, delays, cost overruns and occasional non-compliance with procedures. Recurrent under-execution of capital spending suggests that weaknesses persist in the operationalisation of the NSPP, limiting the potential growth impact of public expenditure. In particular, despite the strengthening and regular updating of the project pipeline, persistent implementation gaps point to remaining shortcomings in project readiness and appraisal at the time of inclusion, as well as to a lack of fully coherent project cycle and clear multiannual commitment controls. In this context, further strengthening of project appraisal and prioritisation practices, including maintaining robust feasibility requirements and clarifying multiannual commitment controls, would help improve project selection and execution.</p>
<p>PG 3:</p> <p>Continue to calibrate monetary policy appropriately to sustainably anchor inflation expectations at levels consistent with the target and ensure price stability.</p> <p>Strengthen further the reporting across the banking system, inter alia by consistently applying IFRS9 standards, and enhance risk-based supervision in line with best international and European practices, including by assessing and addressing eventual risks arising from exposures in the real estate sector.</p>	<p>There was substantial implementation of PG 3:</p> <p>1) Full implementation: In July 2025, amid stronger-than-expected exchange rate appreciation and recurrent supply-side shocks to prices, particularly food prices, the Bank of Albania reduced its key policy rate by 25 bps to 2.5%. The adopted monetary policy stance contributed to bringing inflation towards the 3% target and to anchoring inflation expectations at rates consistent with the target, thereby limiting the risks of second-round effects.</p> <p>2) Substantial implementation: According to current legislation, all banks in Albania are required to apply international reporting standards, including IFRS 9, for preparation, audit and publication of their financial statements. The Bank of Albania is further advancing the harmonisation of prudential reporting with EU and IFRS standards, including preparations for</p>

<p>Ensure that the National Development Bank has an operational framework that mitigates moral hazard and fiscal risks and complies with best practices in terms of governance as well as appropriate supervision and regulation applicable to other deposit-taking institutions to ensure transparency, sound lending practices, adequate deposit protection and a level playing field in the banking sector.</p>	<p>the adoption of the new FINREP framework in line with European Banking Authority's requirements. In May 2025, the Bank of Albania Supervisory Board adopted a decision on setting upper limits for the lending standards of new loans for residential real estate ('borrower-based measures'). The aim was to preserve financial stability in the face of rapidly rising housing prices by safeguarding borrowers' repayment capacity and the quality of the banking sector's exposures to the real estate market. The Bank of Albania also conducted a semi-annual analysis in 2025 to assess the level of banks' exposure to the real estate market, and continues to monitor it regularly.</p> <p>3) Limited implementation: The establishment of the National Development Bank (NDB) remains subject to concerns regarding its rationale, institutional design and regulatory framework. During the reporting period, the Albanian government adopted a regulation which defines the Ministry of Finance as the main shareholder of the NDB and appointed its administration. A limit to deposits was introduced (2% of GDP). While the authorities state that the NDB is intended to improve access to finance for underserved households and firms, the envisaged model as a retail deposit-taking institution raises questions related to prudential oversight and the preservation of a level playing field in the banking sector. Under the law adopted in March 2025, the NDB is not subject to prudential supervision by the Bank of Albania. The state guarantee on deposits, in the absence of deposit insurance premiums payments by the NDB, and the NDB's capacity to lend directly to SMEs and exporting companies, may generate competitive distortions. Overall, further clarification and strengthening of governance, supervision and risk-management frameworks would be necessary to align the NDB with best practices and mitigate potential financial stability risks.</p>
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