

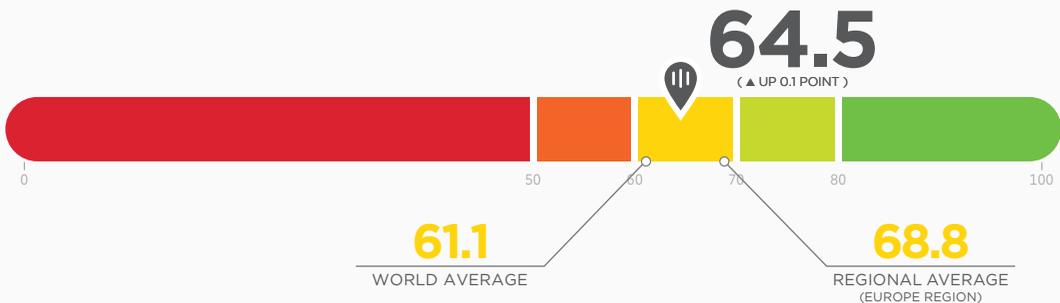
ALBANIA

Albania's economic freedom score is 64.5, making its economy the 65th freest in the 2018 *Index*. Its overall score has increased by 0.1 point, with a dramatic improvement in **fiscal health** offsetting lower scores for the **judicial effectiveness** and **tax burden** indicators and a sharp decline in **business freedom**. Albania is ranked 32nd among 44 countries in the Europe region, and its overall score is below the regional average but above the world average.

Albania's transition to a more open and flexible economic system has been facilitated by a decade of substantial restructuring. Progress in income growth and poverty reduction has been considerable. A competitive trade regime supported by a relatively efficient regulatory framework has encouraged the development of a growing entrepreneurial sector. Despite this progress, however, more reforms are needed, especially in the area of rule of law, to encourage the growth of economic freedom and ensure continued vibrant economic development.



ECONOMIC FREEDOM SCORE

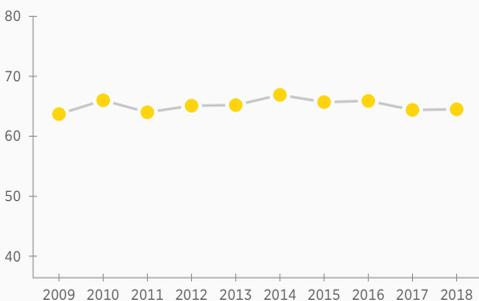


NOTABLE SUCCESSES:
Trade Freedom, Tax Policy, and Monetary Stability

CONCERNS:
Judicial Effectiveness, Government Integrity, and Labor Freedom

OVERALL SCORE CHANGE SINCE 2014
-2.4

FREEDOM TREND



QUICK FACTS

POPULATION:
2.9 million

GDP (PPP):
\$34.2 billion
3.4% growth in 2016
5-year compound annual growth 2.0%
\$11,840 per capita

UNEMPLOYMENT:
16.3%

INFLATION (CPI):
1.3%

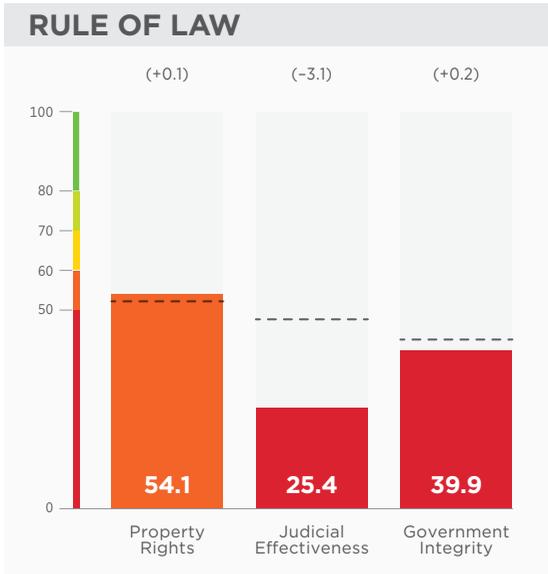
FDI INFLOW:
\$1.1 billion

PUBLIC DEBT:
71.5% of GDP

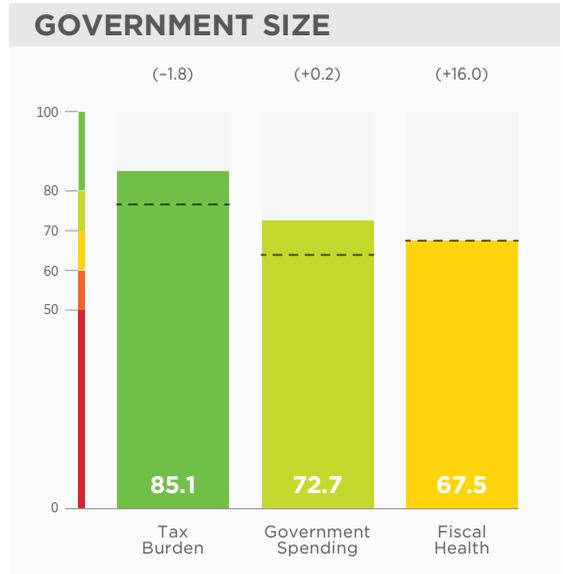
2016 data unless otherwise noted. Data compiled as of September 2017

BACKGROUND: The Balkan nation of Albania transitioned from Communist rule to Europe's newest multi-party democracy in 1991. The political situation stabilized after state-sanctioned pyramid schemes collapsed in 1997. Edi Rama became prime minister in 2013, and his Socialist Party won an outright parliamentary majority in June 2017. Albania secured European Union candidacy status in 2014, and EU accession is a major goal of the new government. The economy is dominated by agriculture, which employs about half of the workforce, but services and tourism are increasingly important. The country remains one of the poorest in Europe, with sluggish economic growth hindered by a large informal economy and weak energy and transportation infrastructure. High unemployment and a lack of opportunity spur substantial emigration.

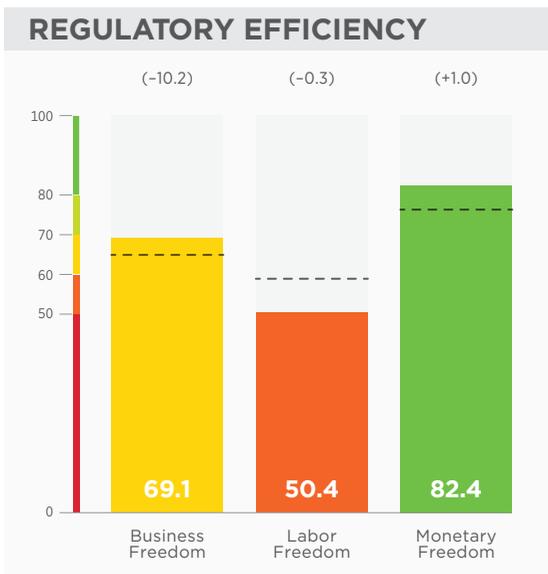
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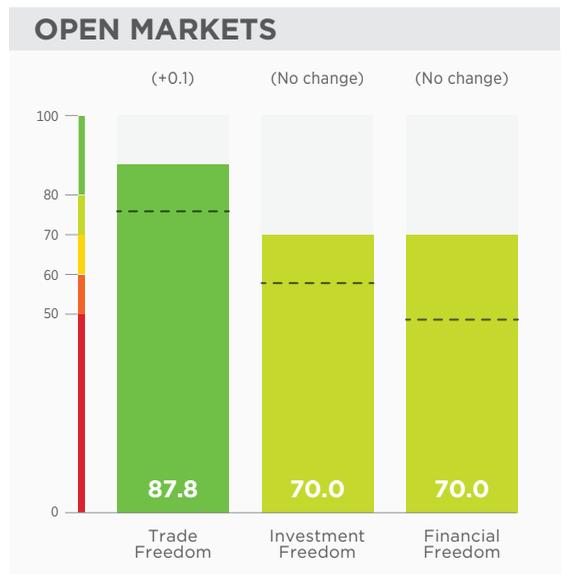
Protection of property rights is still being reestablished after the long Communist era. Clear titles to property are difficult to obtain. Endemic corruption, most apparent in the judiciary, seriously limits government accountability. The constitutionally independent judiciary is subject to political pressure, intimidation, and limited resources. Albania wants to join the European Union but cannot fully qualify without implementing judicial reforms required by the EU.



The top individual income tax rate is 23 percent, and the top corporate tax rate is 15 percent. Other taxes include value-added and inheritance taxes. The overall tax burden equals 27.2 percent of total domestic income. Over the past three years, government spending has amounted to 30.1 percent of total output (GDP), and budget deficits have averaged 3.7 percent of GDP. Public debt is equivalent to 71.5 percent of GDP.



In 2016, new construction was facilitated by the reintroduction of building permits. Regulations and laws governing business activity are changed regularly without any input from the business community. The rate of informal employment is high. The government liberalized the power sector in 2017 by permitting businesses to buy electricity at market rates instead of forcing them to buy from the state-owned distribution authority.



Trade is significant for Albania's economy; the combined value of exports and imports equals 74 percent of GDP. The average applied tariff rate is 1.1 percent. Nontariff barriers impede some trade. Government openness to foreign investment is above average. The financial system remains relatively well developed and stable. The banking sector is well provisioned, but the share of nonperforming loans has been rising.