



Weekly Briefing

Albania economy briefing:
Poverty rates rising amidst deepening uncertainties
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Poverty rates rising amidst deepening uncertainties

Summary

The COVID-19 pandemic has tested the resilience of the world economy and it has placed immense social and economic strains everywhere. As professional reports are released constantly, the understanding of the economic impacts of the pandemic are becoming clearer. The ramifications of this recession hit some categories more than others, and one stands out particularly, increasing poverty rates. In Albania poverty is a multifaceted problem and the past year only added to this burden.

This briefing will analyze the latest data available on poverty rates inclination in Albania, as well as causes and consequences.

Introduction

A report released from the World Bank concluded that due to the pandemic, to the already high poverty figures in Albania, there were added 112 thousand more persons. Currently, the Albanian per capita Gross Domestic Product (GDP) is around 5,000 dollars (\$) and some very conservative estimations are that 38-45% of the population lives with less than 5.5\$ per day.

As the pandemic has hit the country's economy hard, by rising unemployment, slow consumption, less cash flow, etc. the major concerns should extend to the most vulnerable of the society. And yet, while these unfortunate group is getting larger, the incentives to reduce it are shrinking.

World Bank report and data from Albania

“*Subdued Recovery*” – this was the title of a World Bank report analyzing the economic situation of the Western Balkans in spring 2021. The estimated COVID-19 impacts on poverty differ across the Western Balkans, reflecting the significant shift in the impact of this crisis on the economy.

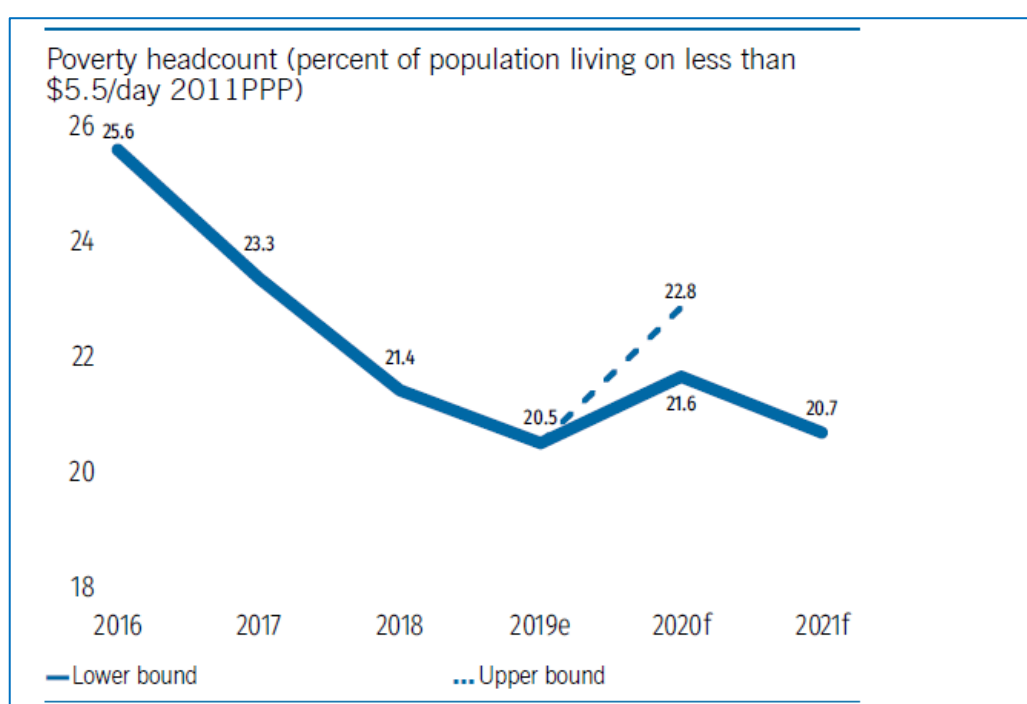
In most of these countries, poverty increased due to the sharp decline in the income of urban households close to the poverty line working, especially in construction, services and manufacturing.¹

¹ World Bank, Western Balkans Regular Economic Report: Spring 2021. Retrieved from: <https://www.worldbank.org/en/region/eca/publication/western-balkans-regular-economic-report>

In some countries by the end of last year, the labor market had recovered half of its pandemic losses. However, large numbers of people are still unemployed, and many dropped out of the labor force discouraged by the poor economic prospects.

Moreover, workers with less education, women, youth, those in contact-intensive sectors, and those informally employed, have suffered disproportionate livelihood and income losses.

In 2020, between 165,000 to 336,000 more people in the Western Balkans may have become poor



Source: World Bank (an estimation)²

The report argues that Albania was hit hard by the COVID-19 pandemic. As tourism and services contracted sharply, GDP and employment slumped. The governmental stimulus alleviated the shocks, but at the cost of fiscal space erosion in a context of high economic uncertainty for the years ahead. Reconstruction (for damages of the earthquake occurred in 2019) is likely to be the main driver of the recovery in 2021, followed by a milder growth in private demand due to ongoing travel restrictions.

The report argues also that the shock to economic fundamentals and economic growth was considerably more contained than was initially feared. Key sectors were put in lockdown in the second quarter (Q2) as the economy suffered a severe contraction of -10.6%.

² Ibid.

The pandemic hit the travel and tourism sectors first, with official restrictions and post-COVID behavior change, together affected both supply and demand. Given the structure of the economy, the loss in sales, and profits, had a disproportionate effect on small and medium enterprises. In the summer, economic activity returned as social distancing measures were lifted, and domestic tourists partly compensated for the drastic decline in foreign visitors. While in Q3 growth declined by 2.8%, post-earthquake reconstruction reduced the effects of the pandemic; in Q4 increased construction led to a growth of 3%.

Private consumption and investment decisions were delayed by uncertainty about the end of the crisis as the number of infections rose gradually during the year.

The larger fiscal deficit and the extension of post-COVID guarantees for the private sector caused public debt to soar to 77.4 % of the GDP. Because the fiscal rule mandates that the debt-to-GDP ratio decline every year until it reaches 45 % of GDP, Albania's debt ratio had been declining since 2017, but increased again in 2020 as a result of the pandemic.

What spurred poverty increase in Albania?

Albania has the largest poverty headcount in the Western Balkans, because more than 1/3 of its people live on less than US\$5.5 per day (in 2011 PPP). Unemployment is structurally high in the country, hovering around 12 % of the labor force, and it is twice as large for youth (15–24) as for adults (25–64). Between 2014 and 2019 poverty declined slowly, by about 1% a year, despite average annual GDP growth of 3%.

Unemployment: In 2020 jobs disappeared, but almost half were later recovered. Most of the losses were in tourism; Albania (and Montenegro) account for most of the losses. In the third quarter, employment rebounded in Albania, with tourism and reconstruction partly absorbing losses in manufacturing jobs. However, most new jobs could not compensate for the earlier losses.

Since the outbreak of the COVID-19 pandemic, employment in privately-owned firms has been starkly affected. On average, private sector employment levels dropped by about 6% since December 2019. The largest falls were about 9% and close to 66% of businesses have cut temporary workers, though 56% also had to lay off workers.

Formal employment had a net increase, whereas total employment fell by 1.8% in 2020, showing that the formal sector was more resilient than the informal sector. Meanwhile, labor force participation declined, especially among youth, and unemployment increased steadily since the second quarter of 2020, especially for adults 30–64 years old resulting in an estimated poverty increase of 4%, equivalent to 112,000 new poor in Albania.

Low private consumption: A drop in private consumption was a major driver of economic contraction. By purchasing less, Albanians entered into a vicious circle of less cash flow.

Social distancing: Among economic sectors, services suffered the most from social distancing restrictions, thus leaving thousands without income for months.

Drop in private investments: The uncertainty and economic disruption caused by the pandemic caused a major drop in private investment.

Disruption of travel and trade: The disruptions to travel and international trade, coupled with a drop in domestic demand, reduced both imports and exports of goods and services.

Informality: Government efforts to mitigate income losses through fiscal stimulus included a reconstruction program, higher social assistance benefits, extended unemployment insurance, and wage subsidies for the formal sector. Still, this did not shrink informality.

Decline of remittances: Albania saw the largest remittance losses given the large diaspora as percentage of the population. For many families remittances are the only source of survival.

The subsistence minimum is the monetary amount of a range of food products suitable to ensure the normal functioning of the human body and health in Albania is estimated 150\$ month.

The more conservative method of the World Bank predicts an increase in the poverty level for Albania by 4% points during 2020, reaching 44%.

Considering that this was a conservative estimation (as per their own words), it is safe to assume that more half of Albanians live on less than 150\$/month!

Shrinking government support

The year 2021 has started with a significant decrease in payment for families receiving economic assistance, of different forms. The Ministry of Finance has recently published the preliminary report on the level of expenditures and revenues for the first months of 2021. In the published data, it is immediately noticed that expenditures for families and individuals on government welfare programs have shrunk considerably.

The payment for economic assistance was reduced in January-March 2021, compared to the same period of one year prior. Specifically, in the first two months of 2020 the government paid 4.180 million Albanian Lek (ALL) for families receiving assistance, while for this beginning of the year 2021 only 3.176 million ALL were paid.

The payment for social housing was also on the decline. In the 2021 budget, the government provided ALL 300 million only for social housing and ALL 1.5 billion for rent bonuses. Although spending in this regard has been abundant, the housing issue has focused

mostly on those affected by the earthquake, leaving aside others who benefit from the social housing law.³

(Yet) Another gloomy report

A survey conducted by the Regional Cooperation Council (RCC) named the Balkan Barometer was recently released and the data were less than encouraging for Albania. It demonstrated that the number of respondents unhappy with the way things are going in their economy continues to outnumber those who describe themselves satisfied.

In this survey Albanians expressed the highest dissatisfaction with economic security compared to other countries in the region. 40% of Albanians think that the economic outlook is not good, compared to 29% who have a neutral attitude and 31% think that their economy will improve.

Furthermore, 28% of respondents in Albania were completely dissatisfied with their security for the economic situation. This was the highest percentage in the region, followed 24% of Bosnians who also expressed high insecurity.

Also, Albania has the lowest percentage of its population that is very satisfied with the economic situation. Only 2% of Albanians surveyed are very satisfied with their economic situation.⁴

Conclusion

The much needed high quality development, which is more balanced and more widespread and a stepping stone to social mobility seems absent. The social divide between rich and poor is widening, and the pandemic enhanced that divide in Albania.

To support the poorest and most exposed to these economic turndown, immediate socio-economic response are needed. The situation is calling for an extraordinary scale-up of governmental support and political commitment to ensure that Albanians have access to essential services.

In a country where half of its citizens are living in poverty, economic priorities should be set straight. And still, nothing of this kind is present in the horizon.

³ Hida, E. (2021, May 12). Ulen shpenzimet për ndihmën ekonomike. Retrieved from: <https://sot.com.al/ekonomia/ulen-shpenzimet-per-ndihmen-ekonomike-ish-te-perndjekurit-politike-dhe--i434815>

⁴ Hoxha, B. (2021, May 27). Shqipëria, me përqindjen më të lartë të popullsisë në rajon që ndihen të pasigurt ekonomikisht. Monitor. Retrieved from: <https://www.monitor.al/shqiperia-me-perqindjen-me-te-larte-te-popullise-ne-rajon-qe-ndihen-te-pasigurt-ekonomikisht/>