



## AN ECONOMIC SNAPSHOT

### Overview

Since the fall of Communism in 1990, the structure of the Albanian economy has undergone tremendous change. In 1990, agriculture accounted for 36 percent of Gross Domestic Product (GDP), manufacturing 48 percent and services 16 percent. By 2003, agriculture and manufacturing declined, falling to 25 percent and 27 percent of GDP respectively, while services rose to 56 percent.

In 1990, the country recorded a negative growth rate of 9.6; however, from 1993 to 1996 Albania experienced high GDP growth rates. By 1996, Albania achieved a positive GDP growth rate of 9 percent. The collapse of the financial sector in 1997 resulted in a sharp decline in growth rates over the next few years, plummeting to a low of negative 8.4 percent. In 2000, GDP growth rose to 7.8 percent, but stabilized at about 4.7 in 2003. Factors that have contributed to the recent decline in the GDP growth rate include the reduction in aid and grants to Albania, which peaked during the Kosovo war, as well as the ongoing energy crisis, which has stymied domestic production.

Table 1: Key Economic Indicators

	1990	2000	2003
<b>Economy</b>			
GDP per capita (US\$)	842	1116	1278
GDP growth rate (year on year)	-9.6	7.8	4.7
Value added in agriculture (% of GDP)	36	29	25
Value added in manufacturing (% of GDP)	48	19	27
Value added in services (% of GDP)	16	52	56
X/M (%)	102	47	44
Current Account Balance (millions of US\$)	-118	-156	-408
<b>People</b>			
Total fertility rate	3.6	2.1	2.2
Under 5 mortality rate	66	26	24
Male adult literacy rate	87	92	--
Female adult literacy rate	67	77	--
Poverty rate (headcount)	20		25
Population (millions)	2.7	3.1	3.2

Source: International Financial Statistics Yearbook; World Development Indicators.

### Trade Timeline

Like other transition economies in the region, Albania began pursuing economic liberalization and private-sector led growth in 1990. Albania has liberalized its trading regime by greatly reducing tariffs and eliminating some quantitative restrictions on imports (OECD 2002). Albania has a simple import tariff structure comprised of only four *ad valorem* tariff levels: 0, 2, 10, and 15 percent (WIIW 2004). Customs tariffs remain the principle source of government revenue, accounting for nearly one third of total tax revenue. In 2000, Albania joined the World Trade Organization (WTO). While trade facilitation measures afford opportunities, corruption and inefficiency in the customs administration has continuously caused

higher business operation costs in Albania. Furthermore, 70 percent of imports are cleared through an application of price reference that is in violation of General Agreement on Tariffs and Trade (GATT) Article VII (ACIT 2004). Good governance and transparency are fundamental to Albania's ability to further benefit from trade activities.

### Poverty Rates

Prior to 1991, official statistics denied the existence of poverty—largely because all households were assumed to have their basic needs met through guaranteed consumption and employment. Today, an estimated 25 percent of Albanians live below the national poverty line. Albanian poverty is characterized by regional and youth biases. The level of poverty is significantly higher in the north and northeast of Albania, due to limited employment opportunities and low income, mainly from agriculture. The youngest Albanians are also often the poorest. Albanians under 25 comprise approximately 33 percent of the overall population; yet, account for more than 55 percent of the poor. Access to migration networks is seen by many as the only viable means to escape from poverty. Between 1991 and 2002, worker remittances represented between 10 and 22 percent of GDP. Almost half of all Albanian households depend on access to employment abroad and worker remittances as a source of income. It is widely accepted that a poor family “is considered to be one that does not have a member who can emigrate abroad” (FAO 2004).

### Labor Market

Although agriculture comprises 25 percent of GDP, the sector employs approximately 50 percent of Albanians. While the agricultural labor force has decreased from 55 percent to 50 percent, the largest reduction in the active working population has occurred in the manufacturing sector, which has declined by half for men, and two thirds for women. In 1989, one fifth of the Albanian workforce was employed in manufacturing; by 2001, manufacturing only accounted for one seventh of the workforce. The only sector to show real increases in employment since 1989 is the service sector; however, the upward shift is only apparent among men, since female participation in the service sector has remained constant.

Table 2: Employed by Share of each Sector in 2001 in percentage

	Percent of Each Sector		Percent of Labor Force		Total (1000s)
	Women	Men	Women	Men	
Agriculture	40	60	54	49	527
Manufacturing	29	71	11	15	142
Services	37	63	35	36	372
Total	38	62	100	100	1,042

Notes: Persons aged 15 and older. Manufacturing includes manufacturing and industry.

Source: Population and Housing Census 2001, INSTAT

Whereas unemployment for both men and women has increased, male unemployment has largely been mitigated by migration. Male migration has not, however, led to female labor substitution; in fact, between 1989 and 2001, female unemployment increased by 110 percent. Explanations for the augmentation of female unemployment include: social sanctions that confine women to household activities, mobility restrictions which limit their access to markets, elimination of female intensive activities (state enterprises), and predominance of male intensive activities (trade and construction). The significant decline in female labor force participation (-211 thousand from 1989 to 2001) leads analysts to suspect that women are moving into the informal economy, which was not adequately measured in the 2001 Census (INSTAT 2004).

A 2002 IMF study estimates that the informal economy generates approximately 23.4 percent of Albanian GDP (OECD 2004). Other studies speculate the share to be as high as 30 to 60 percent of GDP reflected by the fact that only 31.3 percent of the labor force is employed under permanent contracts (FAO 2004). The growth of the informal sector is linked to the contraction of formal employment in manufacturing and the high volume of worker remittances. Remittances largely finance the start-up costs for new enterprises. Almost all enterprises in Albania are characterized as micro or small; 70 percent only have one employee. The primary barriers to growth and formalization of enterprises include Albania's unsuccessful

implementation of laws governing enterprises; an undeveloped capital market; poor infrastructure; and, a developing judicial system that contributes to firms, workers, and investors bearing exaggerated risks (World Bank 2004).

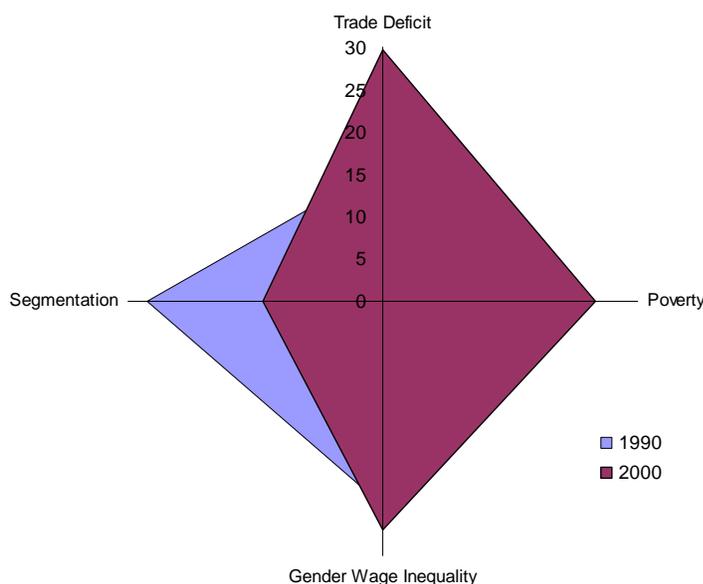
The labor market in Albania demonstrates some degree of sex segregation—men and women are not distributed evenly across all sectors and occupations in proportion to their participation in the total labor force. The Duncan Index calculated for 10 sectors<sup>1</sup>, and used to measure labor market segmentation by sex was 28 percent in 1990. In 2000, it fell to 14 percent—registering a decline of 50 percent in sex segmentation over the decade of the 1990s (See Figure 1).<sup>2</sup>

The wage gap in Albania has increased over the last decade; the ratio of women’s wages to those of men in non-agricultural sectors has declined. In 1990, women earned approximately 76 percent of male wages in non-agricultural sectors; by 2000, women’s wages declined to 73 percent of men’s wages.

### Development Diamond

The Development Diamond, Figure 1, tracks some of the economic indicators analyzed above by mapping poverty, labor market segmentation, trade, and wage rate indicators for Albania over a 10 year period.<sup>3</sup> While improvements in labor segmentation are visible, trade deficits, poverty, and gender wage inequality rates have deteriorated. This suggests that gender inequality within the labor market remains, demanding greater programmatic and policy responses to ensure that poor women also benefit from economic and trade expansion activities.

Figure 1: Development Diamond, in percent



<sup>1</sup> The Duncan Index is  $D = 100 * \frac{1}{2} \sum_{i=1}^N |f_i - m_i|$ . Where  $l = (1, 2, \dots, N)$  is the total number of sectors, industries or occupations and  $f_i$

and  $m_i$  are the sectoral employment ratios of men and women to their respective labor force. We use 10 sectors as defined by their two digit ISIC codes.

<sup>2</sup> The Duncan Index of dissimilarity, ranging from 0 to 100, can be used to measure labor market segmentation by sex. An index of 0 indicates that the sectors or occupations are not sex segregated and women and men are distributed across these sectors and occupations in proportion to their participation in the total labor force. An index of 100 indicates that men and women are in entirely different sectors and occupations.

<sup>3</sup> The trade deficit is measured as  $(M-X)/(X+M)$ , and gender wage inequality as the average gender wage gap as a percentage of male wages  $(W_m - W_f)/W_m$ .

## References

ACIT (2004) "Foreign Trade Annual Report 2004" Albanian Center for International Trade, April 2004.

FAO (2004) "Internal Mobility and International Migration in Albania" The Agricultural and Development Economics Division, The Food and Agriculture Organization of the United Nations. Working Paper No. 04-13, Italy.

HDR (2000) "Albanian Human Development Report" The United Nations Development Programme, Tirana.

INSTAT (2004) "People and Work in Albania," Institute of Statistics of Albania, Tirana.

ILO (2002) "Women and Men in the Informal Economy: A Statistical Picture," Employment Sector, International Labour Office, Geneva.

OECD (2004) "The Informal Economy in Albania: Analysis and Policy Recommendations" London.

UNDP (2004) "Human Security in Albania," United Nations Development Programme, Tirana.

UNICEF (2000) "Assessment of Social & Economic Conditions of Districts in Albania," United Nations Children's Fund, Tirana.

WIIW (2004) "Protective Structures in Albania," The Vienna Institute for International Economic Studies, Tirana.

World Bank (2004) "Small and Medium Enterprise Mapping of Albania" SME Department, World Bank Group, 22 September 2004.

### *Data Sources*

#### *National*

Institute of Statistics of Albania  
<http://www.instat.gov.al/>

#### *Bilateral*

CIA World Factbook  
<http://www.cia.gov/cia/publications/factbook/>  
International Database, US Census Bureau  
<http://www.census.gov/ipc/www/idbnew.html>

#### *Multilateral*

International Financial Statistics Yearbook, International Monetary Fund  
ILO Labor Statistics  
<http://laborsta.ilo.org/>  
UNICEF  
[http://www.unicef.org/infobycountry/albania\\_statistics.html](http://www.unicef.org/infobycountry/albania_statistics.html)  
Human Development Report  
<http://hdr.undp.org/statistics/data/indic/>

#### *Non Governmental*

Global Policy Network  
<http://www.globalpolicynetwork.org/>  
Globalis  
<http://globalis.gvu.unu.edu/>