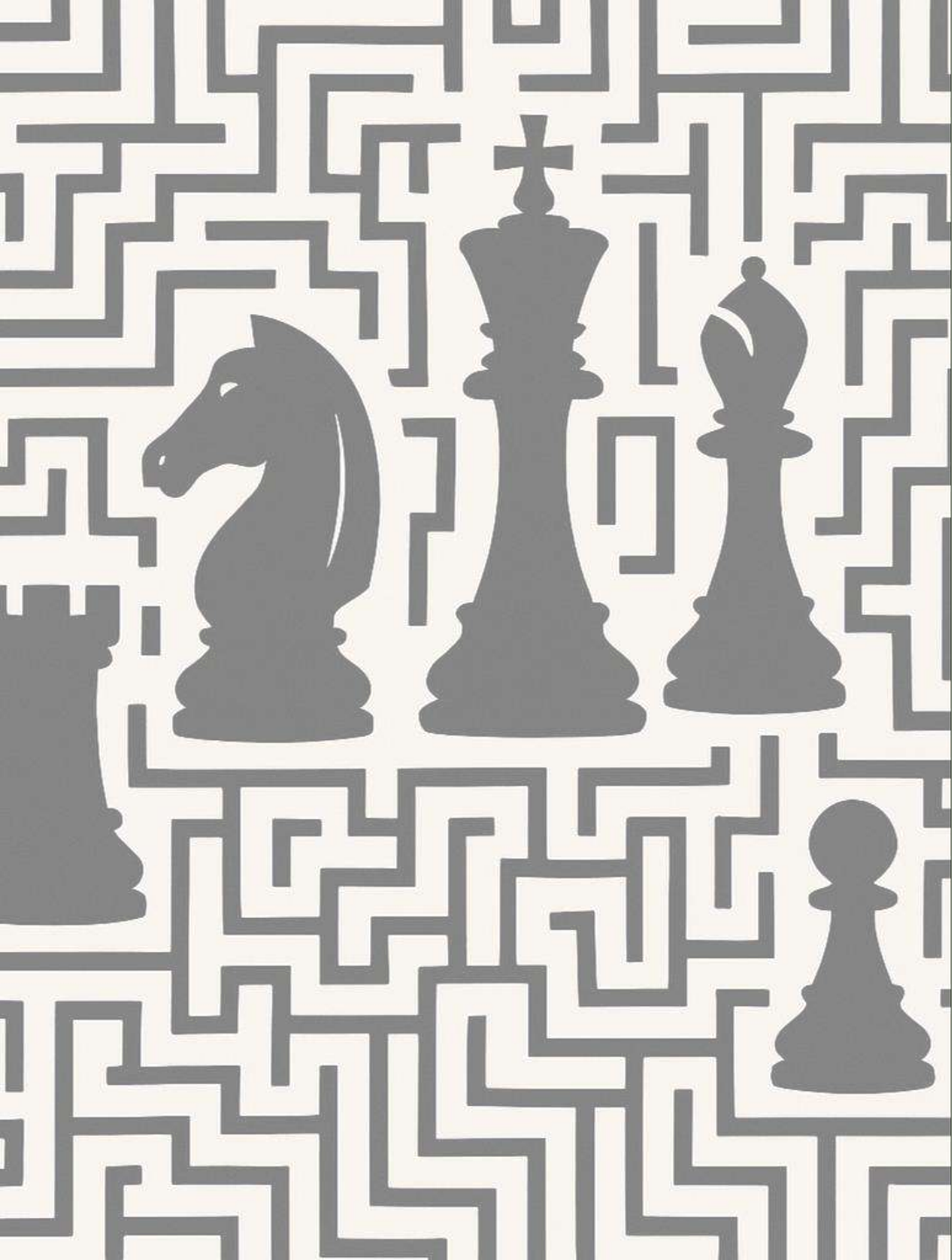




Middle Income Trap?

Policy Pillars for a smooth, effective, sustainable
transition to High-Income status

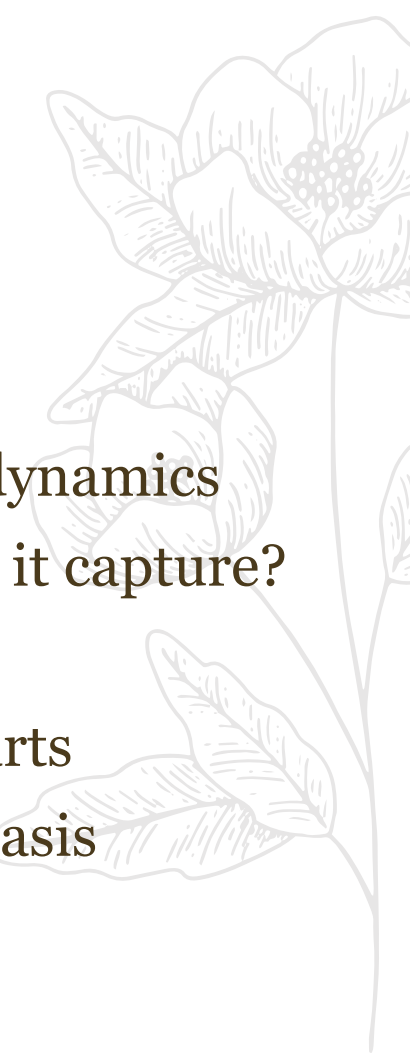
Speaker: Egis ZAIMAJ (PhD Cand.)
Prime Minister's Cabinet



Agenda



- Introduction to recent country dynamics
 - Middle income trap? What does it capture?
 - Easier now or before?
 - Lessons learned from counterparts
 - Fundamentals and Policy Emphasis
-
- ***Disclaimer:*** The information and data presented in this document are based on publicly available sources including the World Bank, IMF, EBRD, INSTAT and national/international reports.



Introduction to recent country dynamics



- ✓ One of the *most resilient* economies in WB6.
- ✓ Albania successfully completed *the screening process* by the end of 2023.
- ✓ The *first cluster* on 'Fundamentals' opened by the end of 2024.
- ✓ Albania was included in *SEPA* in November 2024.
- ✓ Albania attains *upper-middle income status* in 2024.
- ✓ Albania recorded 11.7 million *foreign visitors* during 2024, marking an increase of 15.2% compared to 2023. In January 2025 alone, the number of arrivals saw an increase of 12.4 % (vs Jan 2024).

- ✗ There are however certain areas that must be kept on focus:
 - ✗ Youth unemployment
 - ✗ Low labor productivity
 - ✗ Heavy reliance on imports
 - ✗ Low lending rates to the private sector
 - ✗ Outmigration & Ageing
 - ✗ Limited educational & social mobility
 - ✗ Limited business dynamism



Middle Income Trap?

What does it capture?



Overcoming Middle Income Trap

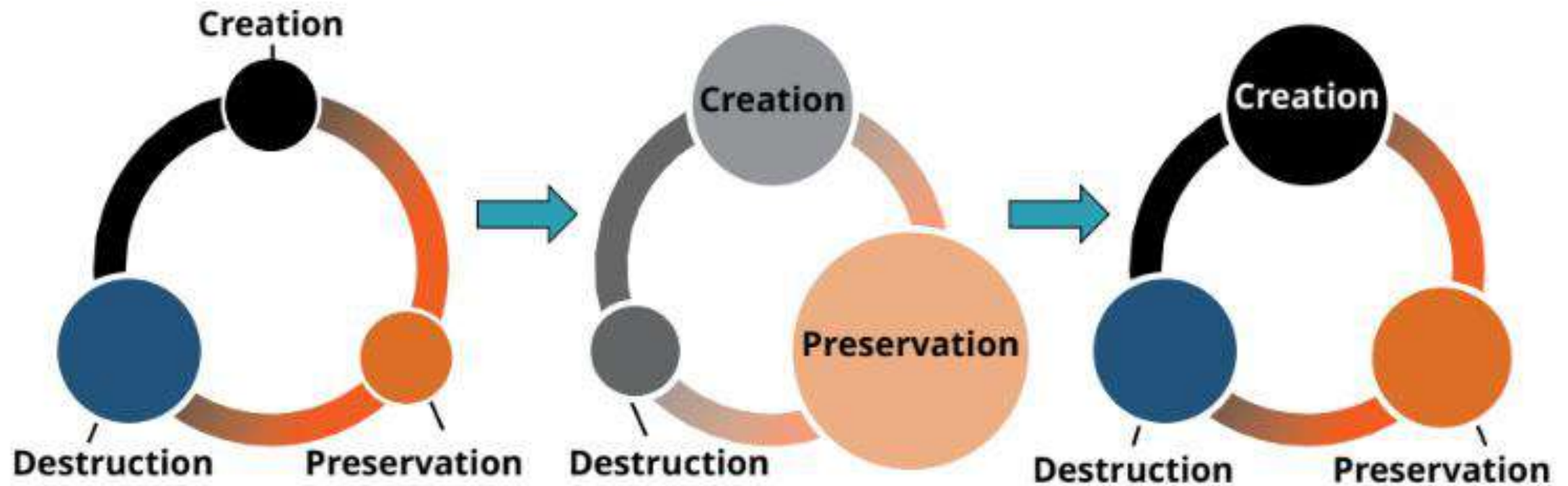
Easier now or before?

Overcoming Middle Income Trap

Easier now or before?



Creative – Destruction & “3I” Strategy



Source: World Bank Publications



Lessons Learned

Case of Poland, Estonia, Finland, UK and more



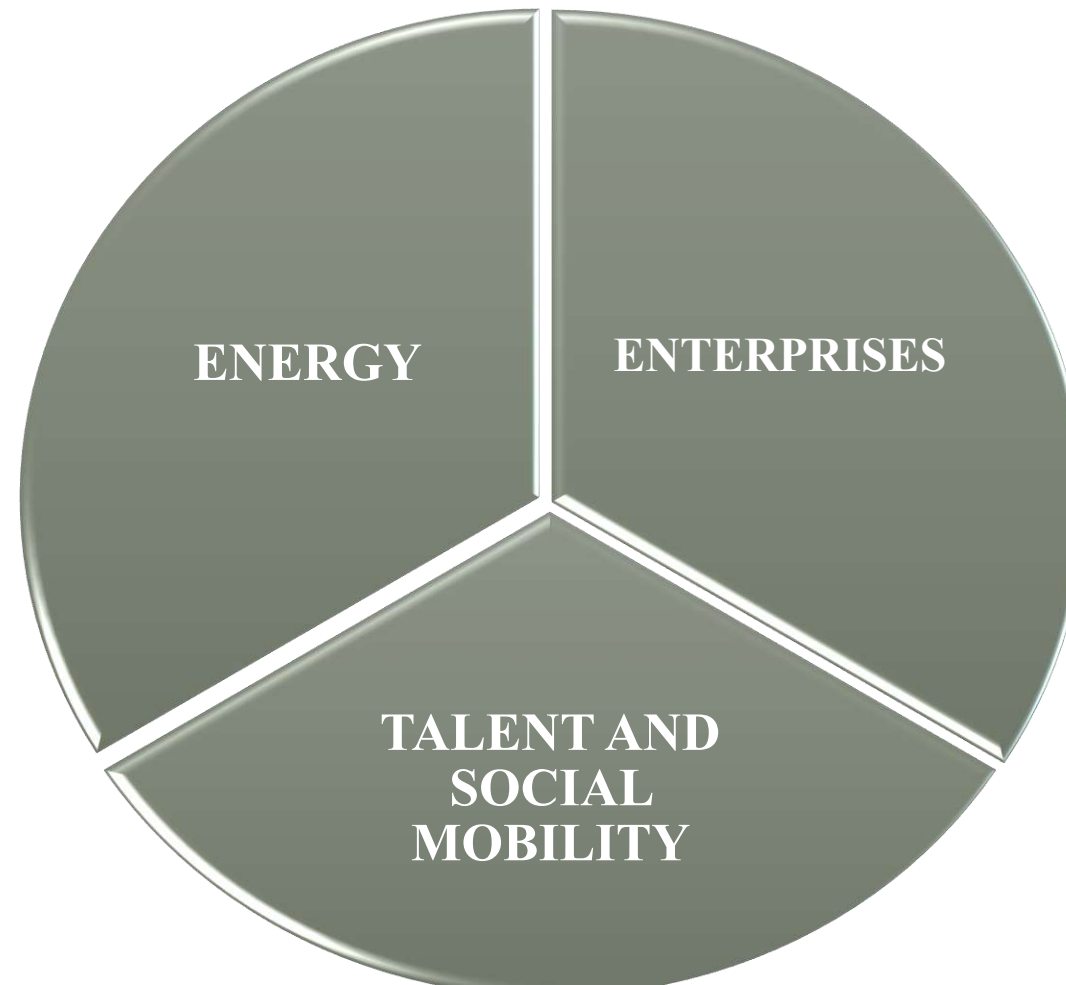
Policy Consistency & Shared vision





Fundamentals & Policy Emphasis

3 Fundamentals of Transitioning



Energy

(2020-2024)
(2025-onwards)



- Continue diversifying the energy portfolio (across wind, solar, and hydro) to reduce also the impact of drought due to climate change.
 - *In the period 2020-2024 with the help of EBRD, there were run 3 solar auctions and 1 onshore wind auction resulting in over 750 MW of RE capacity awarded.*
- Promoting energy saving investments and reduction of CO₂ emissions.
 - *Albania has made quite a progress with energy - GDP decoupling.*
 - *Still energy intensity is high.*
 - *Policy support (tax incentives for R&D, tax credits, grants, loans, and subsidies) for early implementers of energy-efficient, low-emission solutions/ technologies.*
 - *Enhanced governance of SOEs in energy sector.*
- The **EU Carbon Border Adjustment Mechanism** will be introduced and implemented starting in 2026.

Talent & Social Mobility



- Implementation of nation-wide training programs for teachers (across all education levels).
- Establishment of national inspectorates.
- Merit-based policies for highly-skilled individuals coming from marginalized groups.
- Focus on skill formation, innovation, productivity, R&D, and digital literacy.
- Postponement of VET tracking. Increasing the inclusion of private sector in providing apprenticeships for VET students & work-based learning.
- Promotion of higher inclusivity. Childcare is the answer.
- Increasing educational quality (from the early stages) through structural reforms.
- Increasing accountability of HEIs.
- **Empirical literature at a global level shows that education attainment and economic growth are strongly, positively correlated.**

Enterprises



- Focus on business and market sophistication. They present the basis for business dynamism (Education is key!).
- Shift from a target on SMEs → Young, innovative firms.
- Competition framework → Market contestability.
- Financial markets deepening is necessary.
- Change banks' perspective (too prudent). Fail to realize and support promising business ventures.
- Reduce barriers on new foreign tech or workforce (infusion opens the path for growth and innovation).
- Financial literacy programs. A culture of proper savings and investments must be in place.
- High-quality education = Highly skilled workforce.
- Focus on venture capital funding and angel investors for tech-oriented start-ups.
- Offer technical and financial support for innovative firms → higher productivity benefits.

Final Remarks

- ✓ Albania has come a long-way, transitioning from a low-income country to an upper-middle income country.
- ✓ EU screening processes was finalized. Results were very satisfactory. High alignment.
- ✓ First cluster was opened.
- ✓ Currently the focus is to not only keep up with the growing rhythms, but to integrate into the regional, and global value chains. Hence, it becomes important to focus on financial markets growth, educational quality, infusion of FDI, R&D expenditure, business environment, skill formation, competitiveness, productivity and renewable energy sources.
- ✓ Focusing on sectors of great, current strategic importance such as tourism (high-end tourism in particular) & construction can lead the country to even more positive growth rates.

Thank you

Questions?



Key References:

- World Bank
- EBRD
- IMF
- INSTAT
- Ministerial Reports & Event notes