



Albania – Budget Analysis for Fiscal Year 2026

An Analysis of the Current Situation, Priorities, Trends, & Structural Risks

ALBANIAN CONSERVATIVE INSTITUTE

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Current macroeconomic situation

Albania enters the fiscal year 2026 with an economy that carries all the symptoms of a failed model:

- production has been shrinking for years,
- exports are declining,
- agriculture and industry are in continuous recession, and
- the working-age population is leaving at alarming rates. (EUROSTAT: 1.1 million Albanians departed in 10 years).

The country grows on paper, but in reality, it becomes significantly poorer by the day. Instead of growth in supply, productive capital, and value-added investments, the state continues to rely on construction (where numerous foreign and domestic sources claim immense amounts of dirty money are being channeled and laundered), tourism, and government spending. Yet even tourism this year grew at a slower pace compared to last year, while construction shows signs of slowdown, such as declining concrete production.

Independent analyses confirm this picture: government revenue growth comes mainly from consumption (VAT is the main component, rising due to higher prices rather than increased consumption volume), not from production; meanwhile, inflation in basic goods (food/energy) is swallowing the nominal gains in wages and pensions. In practice, what we have is fictitious stability on paper, not real development.

At first glance, macroeconomic metrics appear stable: overall inflation has fallen to 2.8%, the budget deficit is kept below 2.3% of GDP, and public debt stands at 53.6%.

In essence, Albania's economic growth is nominal growth, built on consumption and construction, not on production, exports, or innovation. According to INSTAT data, over 60% of GDP growth in 2025 came from household consumption (which spends mainly on food (roughly 40% of overall consumption) and basic items) and public administration, while the contribution of the productive sector was negative: agriculture -2.5% and industry -1.8% in Q2 2025 (INSTAT).

The year 2020 began with strong growth of 5.2% in Q1, followed by +3.6% in Q2, but the decline in agriculture started in the second half of 2020 and never stopped. From 2021, the crisis has deepened. The first and second quarters saw declines of -1.6% and -3.8%, continuing with -1.1%, bringing annual production down by -1.6%. The year 2022 further deepened the decline with -4.8%. The same situation of shrinking production continued in 2023 and 2024, with -1.3% and -2% respectively.

The Bank of Albania itself, which should be the institution signaling risks, has relativized the real crisis, speaking of “monetary stability” at a time when the real economy is in stagnation.

In reality, the utilization of productive capacities fell sharply during 2025, while the economic sentiment indicator dropped by 1.3 points in September, signaling weak expectations for 2026.

These data are not just numbers: they are indicators that businesses are producing less and citizens are consuming less, despite increases in the minimum wage or the average wage.

On the other hand, agricultural land in use is about 695,000 hectares, of which only 50% is fully utilized, due to lack of mechanization and irrigation. Key problems for farmers include:

- **Fragmentation of land:** most farmers have small plots, 1–1.5 acres, only 10% have more than 5 acres, making competition with the region difficult.
- **Lack of mechanization and technology:** only 30% of farmers use modern mechanization, leading to low yields; investments remain low.
- **Problems with irrigation systems:** 60% of agricultural land suffers from lack of irrigation and drainage.
- **Lack of market access and low subsidies** (only €53 million in this budget): 30–50 €/ha vs. 150–200 €/ha in the EU. Albania is last in the region for subsidies, reducing competitiveness. Cases of abuse, clientelism, and discrimination have been reported.
- **Absence of a proper fiscal scheme** to support farmers and incentivize production. The government continues to maintain the harmful VAT scheme for domestic production. Instead of abolishing it completely, it foresees that from January 2026, 10% of the value of sales invoices to VAT-liable entities will be reimbursed. Although this measure may have a partial positive effect, its practical implementation remains difficult, as past experience has shown.
- **Lack of medium- and long-term visionary policies** to move from production to processing and light industry.
- **A sovereign guarantee of 3 billion lekë** in support of agriculture, but with no data, periodic reporting, monitoring, or information on impact, beneficiaries, credited or guaranteed values to date.
- **Mass depopulation**, especially in rural areas.
- **Blocking of IPARD funds by the EU due to Albanian government misuse of funds**, which this budget does not replace.
- **Food security**, a continuous, unaddressed problem.

Foreign Investors and Their Perception of the Business Climate

According to the **FIAA 2025 Business Environment Survey**, the perception of foreign investors regarding Albania has worsened compared to 2024:

- **Assessment of the business climate:** 45/100 points in 2025, down from 49/100 in 2024 (a decline of 4 points).
- **Expectations for the business climate:** 50/100 points in 2025, down from 52/100 in 2024 (a decline of 2 points).
- **Corruption experienced by foreign businesses:** 57/100 points in 2025, +6 points compared to 2024.
- **Transparency in government procedures:** perceived as a more serious problem than in 2024.
- **Judicial system and its impact on business:** a higher problem than in 2024.

- **Implementation of laws and regulations:** a higher problem than in 2024.
- **Tax system:** increase in problems across almost all indicators.
- **Public procurement and licensing/permit procedures:** increase in problems compared to 2024.
- **Labor market:** problematic due to lack of qualified workforce and rising wages.

This perception of foreign investors shows that the business climate is not improving but deteriorating, reflecting increased corruption, lack of transparency, and weaknesses in the judicial and fiscal systems. It reinforces the picture of Albania's structural fragility and undermines international confidence.

<https://fiaalbania.al/wp-content/uploads/2025/11/2025-FIAA-Business-Environment-Survey-Findings-1.pdf>

The Illusion of Growth and the Reality of Decline

The reported growth of 3.9% in 2025, which is expected to reach 4% in 2026 according to the Ministry of Finance (a rate still insufficient for a country like Albania), is in fact growth based on public spending and construction. According to the latest IMF forecast, the projection for 2025 was reduced to 3.4%, down from 3.8% in its spring report. The World Bank forecasts growth of 3.1% for 2026, while the European Commission projects 3.5%, both far from the 4% predicted by the Government.

According to INSTAT, public administration, education, and health contributed +1.65 percentage points to GDP in Q2 2025 (with a 17% increase compared to the same period last year), while agriculture and industry contributed negatively (-0.46 and -0.18 pp). This means the economy is being sustained by the state itself, through wages, bonuses, and other government expenditures, not by private initiative or production.

If a country grows only through government spending, but not through production and exports, it is not becoming richer, it is becoming more dependent. Albania is experiencing precisely this: an economy dependent on itself, where the state borrows to pay the state, or to finance public works, while dependence on dirty money continues to grow. If the private, productive sector does not expand, any wage increase or economic growth is illusory and unsustainable in the medium term.

It must be remembered that the public sector is sustained by the taxes of individuals and enterprises, i.e., by the private sector. The more the public sector expands, the more the private sector shrinks, until the money that keeps the state afloat runs out.

Household costs

According to INSTAT data for 2025, household income levels have not yet surpassed the threshold for consumption diversification, with families spending around **39.6% of their budget on food**

(the highest in Europe). Inflation for the first nine months of 2025 was about 2.4%, while food prices rose by 1.8% annually, with the most notable fluctuations in oils, fats, milk, cheese, eggs, and meat. Energy and basic services recorded a 4.1% increase. Thus, especially in poorer regions, household economies are focused on survival rather than development or savings.

In reporting by the economic magazine *Monitor*, based on INSTAT data on household budgets, Albanian families in 2024 spent an average of **93,000 lek (960 EUR) per month on consumption**, an increase of 1.5% compared to 2023.

Labor Market and Emigration

In the first quarter of 2025, employment shrank by 0.8%, while agriculture lost 9.3% of jobs. The services sector is the only one growing, but not in stable jobs, mainly in tourism (seasonal) and public administration. At the same time, the number of pensioners who have returned to work has reached 120,000 people over the age of 65 (a 46% increase compared to 2023), a phenomenon that demonstrates both a lack of human resources and the impossibility of surviving on pensions alone.

On the other hand, emigration remains a fatal problem. In ten years, according to EUROSTAT, 1.1 million Albanians have left. This shrinking of the labor force further reduces production, weakens the pension system, and makes the economy more fragile in the face of crises. The government has indirectly admitted this by proposing the import of Asian and African workers, a temporary solution, but essentially anti-national, replacing departed Albanians without retaining those who wish to stay.

Dirty Money and the Informal Economy

The fundamental problem is not the lack of money, but its source. Dirty money, generated by trafficking and laundered through construction, has become an artificial engine of growth. The weight of construction and real estate activity in the economy has reached 15% of GDP, according to INSTAT. Economist Ola Xama, in an analysis, noted that banks finance about 22% of construction and real estate purchases. There is no explanation from responsible authorities as to where the rest of the financing comes from.

During this year, British media City AM wrote in a report that: “Of course, there are no official figures, but the country is now called the ‘Colombia of Europe.’ Estimates suggest that between one-third and one-half of Albania’s GDP comes from drug trafficking. Several billion euros are generated from drug trafficking every year.”

The U.S. State Department’s INCSR 2025 report assesses that “corruption, organized crime, gaps in the legal framework, and obstacles in inter-institutional communication make Albania vulnerable to money laundering, where criminals use real estate purchases, construction projects, virtual assets, and various businesses to launder dirty money.”

Media reports consistently highlight large quantities seized by foreign authorities, which in total amount to at least 20% of GDP. This mechanism distorts competition, shifts capital from production to concrete mixers, and artificially inflates property prices, making housing unaffordable.

Foreign Direct Investment (FDI) appears to have increased. But this nominal growth comes from reinvestment of existing profits, not from new investors or productive sectors, as well as from purchases in real estate. Thus, Albania is becoming richer on paper, but poorer in substance.

Public Debt and Social Perception

Public debt, although officially falling to **53.6% of GDP**, is perceived positively by the public only because “it is not felt.” In reality, the cost of interest has risen to **around 36 billion lek**.

In this context, the EU’s November 2025 report on Albania acknowledges “nominal fiscal stability,” but calls for “deep reforms in the tax structure and increased efficiency of public spending.”

Meanwhile, PPPs are a form of hidden debt. The U.S. State Department’s 2025 Investment Climate Report raises concerns about their transparency and impact on the economy.

From 2017 to 2024, the state budget has paid and is expected to pay over **€800 million (86 billion lek)** for 12 PPP contracts. Of these, 6 contracts worth about €400 million (40 billion lek) are under SPAK investigation. **25 billion lek** are only for healthcare concessions.

Payments for concession contracts, some debated as major corruption cases, were financed during the first nine months of 2025 with **9.61 billion lek (€100 million)**, or 69% of the annual plan.

According to the Ministry of Finance, September recorded the highest level of payments at **2.14 billion lek**, or 22.3% of the nine-month total, with the largest share going to the “Rruga e Arbrit” contract (~1 billion lek, 47.1% of that month’s payments). Compared to the same period in 2024, nine-month payments in 2025 increased by **289.5 million lek (+3.1%)**.

The 2026 budget also places major focus on continuing PPPs, with **€125 million** from public funds allocated to them.

Equally concerning is the high amount of government liabilities for arbitration losses. By September 2025, the Ministry of Finance calculated obligations of **€180 million** related to international arbitrations.

Business Climate and Structural Poverty

The OECD, in its report on the convergence of Western Balkan countries with the European Union, ranks Albania at the bottom of the region for business climate and infrastructure. In the latest U.S. State Department report for 2025, Albania is described as a country with several problems in the field of investment and rule of law, which affect the overall business climate.

The document states that the main challenges damaging the business environment include widespread corruption, a weak judicial system, lack of transparency in public procurement, and the large presence of the informal economy and money laundering, especially originating from drug trafficking, as US Department of State Investment Climate Report 2025 on Albania, international and national media have shown. Public-private partnership (PPP) contracts are mentioned as another source of concern, as they are often drafted without in-depth analysis and with a lack of professional expertise. This has limited the participation of foreign investors and created grounds for favoritism.

Regional inequalities are deepening: 58.2% of businesses are concentrated in Tirana-Durrës, while 41% of the population lives there. In other areas, logistics, secondary roads, irrigation systems, and agricultural credit are lacking.

41% of the population lives in poverty or social exclusion, while extreme poverty is at 20%, among the highest in Europe. Poverty is deeper in rural areas and in the north of the country, where public investment has been chronically absent.

Law and order in the country

In recent years, particularly during 2025, reports from international and Albanian organizations, institutions, and media have identified Albania as exposed to organized crime, especially in drug trafficking and money laundering, with impacts on the economy, media, and electoral processes. The U.S. State Department's INCSR 2025 report highlights that corruption, organized crime, gaps in the legal framework, and obstacles in inter-institutional communication make Albania vulnerable to money laundering, where criminals use real estate purchases, construction projects, virtual assets, and various businesses to launder dirty money. According to the report, Albanian criminal organizations cooperate with similar groups in Europe and South America, and drug trafficking and organized crime are a major source of laundered money flows. The report also notes that the legalization of online betting (March 2024) "raises concerns that weak oversight may allow infiltration by organized crime."

According to the same report, most money laundering in Albania is linked to drug and human trafficking, fraud with government contracts, tax evasion, and smuggling. Albania's economy, based largely on cash, with a high level of informality (estimated at 30% of GDP), weak border controls, and poor customs enforcement, facilitates the black market for smuggled goods. Remittances and foreign investments occasionally obscure the sources of funds. Criminals launder money through real estate purchases, construction projects, virtual assets, and business development.

Beyond organized crime and cartels, life in Albania is less safe, with daily reports of murders, accidents, recurring wildfires, and floods. The recently published Global Organized Crime Index 2025 shows that Albania has the highest crime rate in the region, with the mafia groups holding huge influence on the economy.

For 2026, the function “Public Order and Security,” which may be affected by ministries other than the Ministry of Interior, reaches 55.9 billion lek (2.01% of GDP), while the Ministry of Interior itself will have 35.7 billion lek (1.3% of GDP). At first glance, this appears as an increase, but the structure of expenditures shows the opposite: the bulk goes to wages and maintenance (about 60%), or ongoing projects, while investments in logistics, technology, and modern investigation remain minimal.

Meanwhile, Defense as a government function: 43.0 billion / 886.8 billion $\approx$ 4.9% of budget expenditures $\rightarrow$ about 1.55% of GDP. The Ministry of Defense as an institution: 58.9 billion / 886.8 billion $\approx$ 6.6% of budget expenditures $\rightarrow$ about 2.1% of GDP. The government plays with methodology to look good on the surface, while real combat capacities remain low. On the other hand, the company KAYO, created by the government to reform the defense industry, is nowhere to be found in the budget, while there are considerable doubts of corruption on this company.

The PPP model and scandals of the incinerators, the Port of Durrës, and Vlora Airport are being copied into defense, which is highly concerning for national security.

Food security is also collapsing, with numerous cases of fruit containing pesticides or food contaminated with salmonella, which citizens only learn about when banned by other states. Albania lacks laboratories, the capacity to detect these cases, and follow-up controls on products returned at the border. Food security in this budget is 0.1% of GDP, the lowest figure in Europe.

Healthcare

Health care spending in Albania is at scandalously low levels. With only **USD 464.7 per capita**, health expenditures in Albania are about twice as low as in Serbia and Montenegro, and seven times lower than in Italy. The difference becomes even more dramatic when compared to Germany, where per capita spending is 14 times higher than in Albania. This low level of investment has profound implications for the quality and accessibility of health care for Albanian citizens.

Even when analyzing the percentage of GDP spent on health care, Albania lags behind other countries. With only **7.3% of GDP** dedicated to health, Albania is behind Montenegro (10.6%), Serbia (10.0%), Italy (9.0%), and especially Germany (12.7%). This shows that even though Albania's economy is poorer compared to these countries, the share of resources dedicated to

health care is lower. This makes it impossible to improve health services and the necessary infrastructure for patient care.

The biggest problem for Albania is that most health care spending comes directly from citizens' pockets, with a high percentage of **59.7%**. In Germany and Italy, private spending is much lower, at 12.2% and 21.9% respectively. This reflects a strong public health system in those countries that genuinely cares for citizens' health and well-being.

Albania's reliance on private health spending brings a series of problems: the risk of catastrophic expenditures that can lead to poverty, limited access to health care for low-income groups, and deepened inequality in health. Rising private spending creates heavy pressure on families and undermines social cohesion, increasing inequality in health care.

No indicator is more telling of health than the number of infants aged 0–1 who die per 1,000 live births. Infant mortality in Albania is **8.4 per 1,000 live births**, a figure significantly higher than in other countries. For example, in Italy and Montenegro, this figure is 2.2 and 2.3 per 1,000 live births respectively. This shows that underfunding and mismanagement of the health system in Albania have direct and severe consequences, both in quantity and quality of health care, especially for infants and mothers.

The scandalous levels of infant mortality are a clear indicator of the government's total lack of attention to the health and lives of Albanian citizens. A state that does not care for the health and lives of infants cannot care for any other category of patients.

Other statistical sources and ongoing analyses with significant consequences for population health show:

- a. Albanians today live 7 years less than EU citizens.
- b. In Albania, out of 1,000 live births, infants die within the first year of life **3.4 times more** than in the EU.
- c. Albanians today have about **2.5 times fewer doctors and nurses** than EU citizens.
- d. Albanians die **1.8 times more** from cardiovascular diseases than EU citizens.
- e. Albanians today have about **2 times fewer hospitals and hospital beds**.
- f. Albanians pay **60% of health expenditures out of pocket**, compared to 25% paid by EU citizens.
- g. Although Albania spends almost as much as the regional average, the main indicators of quality and efficiency of the health system are scandalous.

Meanwhile, there are problems with medicines, often reported as expired or of poor quality, with doctors leaving in large numbers, and with concessions under investigation. The Oncology scandal remains one of the most flagrant examples of the state of health care in the country.

Education

The results of **PISA 2022** clearly showed the situation in education: the average performance of 15-year-old Albanian students fell in mathematics, reading, and science compared to 2018. This is not just a statistical deviation; it is a clear negative turning point in the previous trend.

But PISA is only the tip of the iceberg. On the ground, teacher attrition, combined classes in remote areas, and declining participation in high school due to depopulation constitute a “silent alarm”: fewer students, fewer good teachers, and a widening gap between city and countryside. Depopulation, especially in rural areas, is a wound that is not only unaddressed but not even recognized as a problem by the Government.

Scientific research: an engine switched off

At the same time, the engine that should drive the quality of universities, scientific research, operates at low levels. Spending on R&D remains at the bottom of Europe; the European Commission noted that even in 2023 Albania reached only about **0.08% of GDP**, far from the minimum target of 1% by 2030. Analyses for 2025 on the innovation ecosystem reinforce the same thesis: without funding that at least reaches 1% of GDP and without university-industry linkages, the system does not generate exportable knowledge.

Indicators of the knowledge economy in the 2024 Enlargement Package reconfirmed Albania’s structural gap in research, innovation, and technology transfer. This gap translates into weak international rankings and universities that graduate more students than they produce knowledge, a problem also evident to public opinion, which sees that global rankings rarely show Albania as a center of research excellence.

This is the reality inherited by the 2026 budget: an economy that appears stable at first glance in the figures but is collapsing in structure. A model that has replaced production with construction, progress with statistical illusions, and work with social transfers. And a social, cultural, educational, and health situation that is deeply problematic.

In this context, any budget that does not change philosophy, from consumption to production, from state to market, from short-term to strategic, is not reform, but a deepening of the crisis.

The draft budget presented by the Government

Macro-Fiscal Framework: Growth on Paper, Fragility in Substance

The 2026 budget forecasts revenues of **823 billion lek**, expenditures of **886.8 billion lek**, and a deficit of **63.7 billion lek (about 2.3% of GDP)**. Compared to 2025 (after Normative Act no.10: 770 billion revenues, 831.8 billion expenditures, 61.6 billion deficit), we have +6.9% revenues and +6.6% expenditures. In nominal terms this appears balanced; in real terms this is growth that does not translate into welfare: debt is not reduced by productivity growth, but simply absorbed by nominal GDP and the artificial strengthening of the lek.

The Government forecasts public debt at **53.6% of GDP in 2026**. But this reduction is illusory if the economy does not produce more goods and services: the debt profile is worsening due to short-term domestic borrowing and the interest bill (approaching 64 billion lek), consuming space for productive investment. Even the IMF reduced its 2025 growth projection to 3.4% (from 3.8%), so the assumption of 4% real growth for 2026 is overly optimistic: just -0.5 pp below plan would open a revenue gap from VAT and disrupt deficit equilibrium. Under these conditions, rising basic prices have made growth non-beneficial for families in need: purchasing power has fallen, while the cost of living has increased.

On the other hand, PPPs and arbitration payments are a form of debt that must be considered.

Conclusion: we have nominal stability, but real fragility. The economy is sustained by the state and dirty money, not by production and investment.

1. Structure of the Budget: A State Growing Faster than the Economy

The narrative of “the largest budget in history” is a balloon: revenues are around **27–28% of GDP**, expenditures 30–31%, thus at the same level as the past 30 years. With taxes doubled and tripled, the government collects about the same share as during the flat tax era.

The central budget accounts for the overwhelming share of growth (**581 billion lek revenues; 644.8 billion lek expenditures**). The local budget rises to **97.8 billion lek** (from 89.9 billion in 2025), with a grant from the center of **47.3 billion** (of which 4.5 billion is compensation for wage effects). Performance grants are symbolic (**200 million lek**), with usage criteria determined by the center and the Albanian Development Fund, while municipalities remain mere executors. The expenditure portfolio shows an expansion of the bureaucratic apparatus (wages/contracts).

On the revenue side, growth is based on wage increases as a result of government intervention, rising prices and, consequently, VAT collection (again due to higher prices), not from production or organic economic growth. This is the essence of the problem: when growth rests on the invoice (consumption), not on the factory (production), the model is consumption-driven, not supply-driven. VAT remains the main contributor, at **8.4% of GDP**, while PIT (personal income tax) accounts for about **3.6% of GDP**. The fiscal system continues to depend primarily on domestic consumption.

Placement of 2026 in the three-year framework: The Ministry of Finance projects average growth of ~4% per year, a deficit of 2.3% of GDP, and debt at 53.6% by the end of 2026. The objective of debt reduction in 2027–2028 relies more on exchange rate effects than on expansion of the productive base.

Pressure after 2026 (Public Investment Program): The list of public investment projects for 2026–2028 is extensive; the profiling of payments shifts capital pressure into future years, with risk of non-realization or deferred obligations.

Public expenditures rise from **28.9% of GDP in 2024** to **31.9% in 2026**, with social programs and current public investments. Capital expenditures show nominal growth but real decline due to construction inflation. Wages (public consumption) increase due to indexation and expansion of public staff. Social expenditures grow gradually. A problematic fact is that the settlement of many obligations is left to the final months of the year, leaving a primary surplus during most of the fiscal year, and deferring obligations into subsequent years. Arrears of the central government recorded a significant increase at the end of Q3 2025, despite the state budget showing a surplus due to non-realization of public investments, indicating mismanagement of public finances.

On the other hand, the number of employees in the public sector (central, local, independent institutions, public enterprises) has increased by thousands, mainly party-affiliated hires (commonly known as “patronage employees”), turning the administration into an electoral instrument.

- **Q1 2025:** public administration employment reached **185,387 persons**, an increase of +1,109 jobs in just the first three months. Compared to the same period in 2024, the administration expanded by +3,630 persons.
- **Q2 2025:** public sector employment reached **185,734–186,000 persons**, the highest level recorded in over two decades.

Compared to 2019 (**172,900 employees**), public administration has grown by +12,500 people by 2025, while the country’s population has shrunk by over 500,000 inhabitants. Employment/population ratio: in 2002 there was 1 state employee for every 16 inhabitants; today there is 1 state employee for every 12 inhabitants. The public sector wage bill increased by **20% in the first half of 2025**, while budget revenues rose only by 6.7%.

Meanwhile, debt indeed appears to be declining, but it must be noted that there has been a drastic depreciation of the euro and the dollar. If we used the 2013 exchange rate, debt would exceed **70% of GDP**. Thus, public debt has fallen only due to the reduced weight of external debt as a result of the euro/lek exchange rate. This is not the merit of fiscal policies, but an effect of the exchange rate.

Possible Scenario of Lower Growth (2026)

This is one of the most important fiscal sensitivities for the 2026 budget. If real growth falls from the planned 4% to 3.3% (i.e., -0.7 pp), at a level similar to the realization of 2025, the effect is immediate on revenues and the deficit.

1. Effect on revenues

- **VAT:** as the main tax (8.4% of GDP), it is closely linked to consumption. A slowdown in real growth reduces the taxable consumption base.
 - VAT elasticity to growth is about 1.2–1.5. Thus, -0.7 pp growth → -1.0% to -1.5% VAT revenues.
 - This translates into **-5 to -7 billion lek** less revenue.
- **Corporate income tax:** the productive sector is already negative (-2.5% agriculture, -1.8% industry in 2025). Further slowdown reduces taxable profits.
 - Possible effect: **-2 to -3 billion lek** less.
- **Excise and PIT:** smaller impact, but still **-1 to -2 billion lek**.

Total: -8 to -12 billion lek less revenue in 2026.

2. Effect on the deficit

- Planned deficit: **63.7 billion lek (2.3% of GDP)**.
- With -8 to -12 billion lek less revenue, the deficit rises to **71–75 billion lek**.
- This pushes the deficit/GDP ratio to **2.5–2.7%**, breaking the nominal stability target.

3. Effect on debt

- Planned public debt: **53.6% of GDP (1,445 billion lek)**.
- With a higher deficit, debt does not fall as planned, but remains above **54% of GDP**.
- If the EUR/LEK exchange rate normalizes (i.e., the lek weakens), external debt increases in weight and may reach **56–57% of GDP**.

4. Political and fiscal consequences

- The narrative of fiscal stability collapses: the government fails to keep the deficit below 2.3% of GDP.
- Social spending and public wages are difficult to cut, so pressure falls on public investments (**180 billion lek planned**).
- PPPs and arbitration add risk: if additional payments materialize, the deficit could exceed **2.8% of GDP**.

Current Expenditures: Public Consumption Instead of Production

In 2026, expenditures for wages and contributions reach around 140 billion lek, reflecting the effect of raising the minimum wage to 50,000 lek and indexation of 2.5%. But the minimum wage cannot be raised arbitrarily without an increase in production to justify it, because it becomes a burden on the private sector. This measure should have been accompanied by policies that encourage production, competition, and innovation.

On the social side, the bonus for pensioners reaches 10 billion lek, up from 9.7 billion the previous year, while transfers from the budget to social insurance are 28.6 billion lek, down from 35.8 billion in 2025.

The increase in contributions does not reflect real employment growth, but simply a nominal effect from the higher minimum wage. In fact, the insurance scheme remains structurally unbalanced, with a decline in the number of contributors due to emigration and population aging.

This is a budget that distributes funds to PPPs or non-productive projects, but does not produce anything substantial. A developmental fiscal policy would require reducing the tax and bureaucratic burden on labor and business, not expanding social spending without economic coverage.

Public Investments: Large Figures, Low Productivity

Public investments for 2026 are projected at **180 billion lek (6.5% of GDP)**, up from 164 billion in 2025, focused on infrastructure and urban projects, not on production. There is no major project that can be remembered from such a figure of investments over the past decade.

Most funds pass through the Albanian Development Fund (FSHZH), which not only programs but also implements projects itself, while the rules of selection and monitoring are approved by its own Governing Council. This is an institutional conflict of interest and a system without filters of value for money (VFM) or cost-benefit analysis (CBA). In practice, funds circulate within a closed circle, where politics chooses projects, bureaucracy approves them, and FSHZH implements them.

For 2026, **5 billion lek** are projected for the reconstruction process affecting thousands of damaged families. The government stated a year earlier that no financing would be needed beyond 2025. It is unclear where this additional need of 5 billion lek came from.

In the Public Investment Projects (PIP) list for 2026–2028, most funds go to roads, urban transformation, multifunctional centers, and tourism projects, while these are not the priorities or the real needs of the Albanian economy. Media have repeatedly reported on the high costs of roads and infrastructure projects—much higher than in Europe, and scandals with PPPs or public tenders, concerns also raised in the U.S. State Department’s Investment Climate Report.

Meanwhile, agriculture, energy, industry, and logistics infrastructure, the pillars of any productive economy, receive the smallest share.

PPPs and Concessions: Invisible Debt and Investments That Do Not Create Supply

In the accompanying documents of the draft budget, especially in the “List of Concessions and PPPs,” dozens of active contracts are shown in infrastructure, health, and energy, without full transparency on net costs and fiscal risk.

No table provides their impact on the overall deficit, nor analyses of value for money.

Various media and experts have emphasized that a large part of these projects “do not bring productive added value, but burden public debt in a hidden way,” creating “guaranteed private profit over public risk.”

Transparency International’s report on Albania, as well as U.S. State Department reports, have warned of the lack of real competition in PPP tenders and links to money laundering.

In an economy where organized crime has penetrated sectors such as construction and energy, the absence of independent economic analyses turns PPPs into political and financial instruments of clientelism.

From our perspective, PPPs should only exist if they create new supply and productivity, such as power plants, railways, or export ports, not for cosmetic urban projects that increase spending but not production.

Otherwise, PPPs become a modern form of invisible debt, distorting competition and eliminating public transparency.

Education and Healthcare: Decline in Investment in Human Capital

While the total budget increases, the share of education and health in overall expenditures continues to decline.

According to data and assessments from critical media, education receives less than **7.3% of the budget**, down from 8.2% the previous year, and about **2.5% of GDP**, while health remains at similar levels to last year, at **2.9% of GDP**.

In education, wage increases for teachers and infrastructure investments are not accompanied by quality reforms. There are no programs for teacher training, school digitalization, scientific research, retention of teachers especially in rural areas, or measures to curb depopulation that is leading to mass closures of schools and study programs. Classes remain double-shifted, school safety is lacking, curricula are considered inadequate by experts, and vocational education is not integrated with the labor market.

The 2026 budget brings no innovation for education. It remains oriented toward long-term obligations for concessions and high infrastructure costs, neglecting investment in knowledge, children, and youth. With only **2.53% of GDP dedicated to education and science**, Albania ranks at the level of third-world countries. Preschool and basic education receive **1.33% of GDP**, secondary education **0.61%**, higher education only **0.46%** (even lower compared to 2025), while scientific research remains at the scandalous level of **0.06% of GDP**.

Government objectives up to 2028 foresee that only **84% of students will enroll in secondary education**, leaving 16% outside the system, an unacceptable policy for a country aspiring to EU integration. Funding per pupil and student is at least **10 times lower than the EU/OECD average**, producing a weak education system without conditions, without scientific research, and without perspective. This level of investment makes it impossible to stop the mass emigration of youth and turns education into a survival sector, not a development one.

With a GDP of **€28.3 billion** and a budget of nearly **€9 billion**, the higher education budget cannot be reduced to approximately **€1,250 per student** (government provides €110 million, while the rest, about €20–25 million, comes from student fees). With this €9 billion budget, higher education should have at least **€150 million**, master's fees should be halved, teacher salaries increased by at least 15%, and university facilities completely improved.

In health care, the problem remains qualitative: shortage of doctors, staff leaving for EU countries, and declining trust in the system are not addressed. Concessions are under investigation, the oncology scandal persists, expired or missing medicines remain issues, and other problems listed earlier in this analysis are not tackled by this budget. No new measures are foreseen for real partnerships with the private sector, co-payment models, or improvement of medical logistics.

This is a clear signal: the government is abandoning investment in human capital. In a country being emptied of its youth, education and health are not expenditures, but investments for national survival.

A proper approach would invest precisely here, to stop emigration, increase productivity, and revive the middle class.

Special Funds and Budget-Dependent Schemes

The Social Insurance Fund projects revenues and expenditures of **195.3 billion lek**, with contributions of **166.7 billion** and a transfer from the budget of **28.6 billion**.

Meanwhile, the contributory base continues to shrink, while the pension branch deficit is covered by reserves. Without actuarial reform, increased formal employment, and especially reversal of depopulation, this scheme remains unsustainable in the medium term.

Contrary to what should be expected from a left-wing government, economic assistance for families in need is at the shameful level of **€14–15 per month per member**, showing a total lack of social policies.

Meanwhile, pensions increase minimally, far less than price growth. The pensioners' bonus is about **€100 million**, entirely negligible.

Health and social insurance contributions continue to rise due to the higher minimum wage, indexation of public wages, and increased formal employment—all costs for the private sector, with no relief for it. The consequence will be slower employment in low-profit sectors, services, and trade.

Red Flags: Signals of Fiscal and Structural Risk

- **Centralization:** The Albanian Development Fund (FSHZH), central government, and the Prime Minister's office control every financial instrument and administrative personnel.
- **Non-transparent PPPs:** Focus on PPPs and public investments, but without transparency, with often inflated costs in the past, and not prioritized in a crisis situation for productive sectors. They are hidden debt, half of which are under investigation, with high fiscal risk and no value for money.
- **Decline in human capital investment:** Education and health continue to receive a low share of the budget, with no structural reforms to address problems in these sectors.
- **Pro-consumption, not pro-supply structure:** Wage increases, bonuses, and social transfers without productivity effects. Wages rise sustainably only by increasing production, innovation, and competition, not by decree, as in this budget. What happens when the private sector stops financing government programs?
- **Debt reduction due to exchange rate, not structural reform.**
- **Controlled local government:** Grants increase nominally, but usage remains conditioned by central government.

Conclusion: A Missed Opportunity for Real Reform

Unfortunately, we come to the conclusion that the 2026 budget is a budget of the administration, clientelism, centralization, and non-productive programs, not of a state that incentivizes production and strengthens economic sovereignty. It maintains the routine of wages/bonuses and pushes projects with low multiplier effects in the economy, but does not create any of the pillars needed: productive supply, exports, human capital, and cold chain/logistics.

Instead of lowering taxes on labor and production, deregulating, removing state and bureaucratic pressure on individuals, families, and businesses, reviewing PPPs, cutting excessive spending, and increasing the share of education/health as investment against depopulation, we enlarge a state that awards tenders with extremely high costs, distributes today, and leaves tomorrow without oxygen. If we continue like this, 2026 will be another very difficult year for families and a flat horizon for producers, especially when, for external reasons, illegal money flows are interrupted.

This is a budget that distributes for consumption, but does not build for the future.

Our approach, as conservatives, would do the opposite:

- Reduce taxes for producers: lower the burden on labor and business (financed by cutting non-priority items and increasing formality).
- Invest in human capital (education and health).
- Support agriculture and processing industry.
- Limit PPPs that do not bring real value. Review PPPs, keeping only projects that increase supply (energy, railways, export ports, agro-logistics).
- Reallocate capital into the productive chain (agro-processing, cold chain, technology/automation).
- Increase the share of education/health as investment against depopulation.
- Debt discipline: longer maturity profile, lower interest rates through fiscal credibility.

Only in this way can Albania's economy be freed from dependence on construction, remittances, and dirty money, and be transformed into an economy that produces, exports, and creates sustainable jobs. Otherwise, 2026 will simply be another year of stagnation financed by debt and illusions.