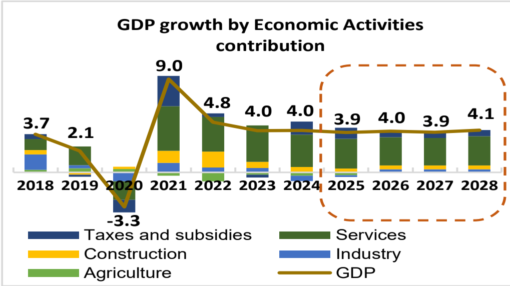
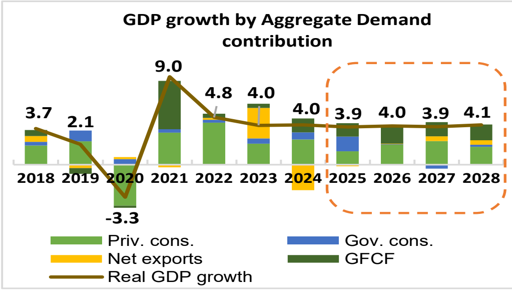
Economic developments January– December 2025

Albania - Solid Performance in a Changing Environment

REPUBLIKA E SHQIPËRISË
MINISTRIA E FINANCAVE

Real Sector





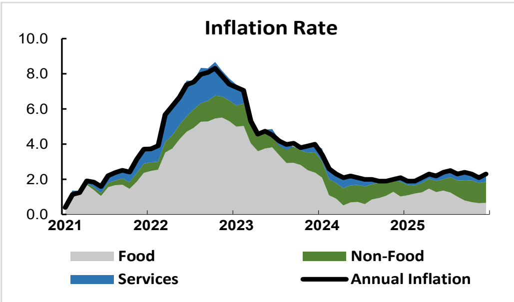
Source: INSTAT, Ministry of Finance

After two years of stable 4% GDP growth, the Albanian economy maintained solid momentum in 2025, expanding by 3.7% in the first nine months. Growth reached 3.8% in Q3, driven mainly by public administration, education, and health services, with additional support from real estate and construction. Industry and agriculture remained in contraction, although agriculture showed gradual signs of recovery.

From the demand side, growth was supported by a 2.8% increase in domestic demand, fueled by strong consumption and stable investment. GDP growth for 2025 is projected at 3.9%.

Over the medium term (2026–2028), growth is expected to average around 4%, primarily driven by household consumption and investment, supported by improved consumer confidence and a stronger labor market. Net exports are projected to make a modest positive contribution amid steady external demand.

Inflation

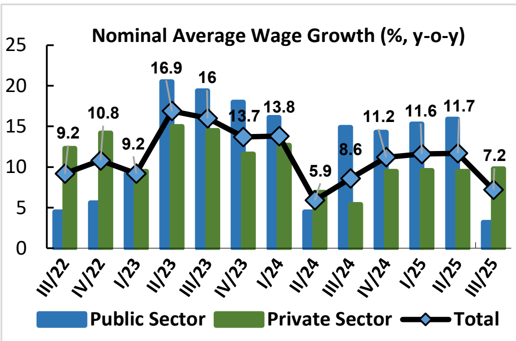


Source: INSTAT, Ministry of Finance

In 2025, inflation averaged 2.2%, rising modestly due to higher rent inflation and a smaller negative impact from oil prices. Most other categories remained stable, reflecting weak domestic demand pressures.

Inflation stayed below the 3% target, supported by low global commodity prices, currency appreciation, and the easing of earlier supply side shocks, which kept imported inflation especially in food and energy at historically low levels.

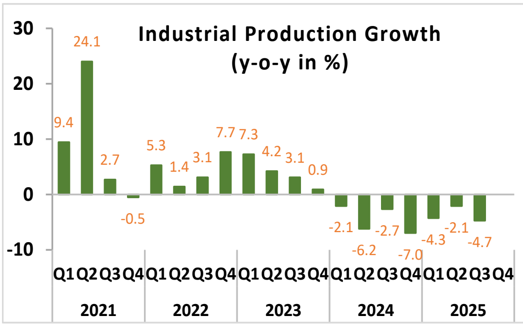
Labour market and wages



Source: INSTAT, Ministry of Finance

Labor market conditions remained favorable in 2025, with unemployment falling to 8.1% in Q3 and employment rising to 69.6%, supported by higher labor force participation (76.5%).

Wage growth highlighted the continued improvement and resilience of labor market conditions: the average nominal wage increased by 7.2% in Q3 2025, driven mainly by strong private sector growth (9.8%), compared with 3.2% in the public sector. These trends point to strong labor demand, improved private sector productivity, and expanding employment opportunities.



Source: INSTAT

Industrial production declined by an average of 3.7% in the first nine months of 2025, broadly matching the 3.6% decrease recorded a year earlier. The downward trend intensified in Q3 2025, with output contracting by 4.7% y-o-y marking a deterioration from previous quarters.

This decline was driven primarily by the extraction industry, which posted a 1% annual drop. In contrast, the manufacturing sector recorded neutral y-o -y negative growth, signalling a gradual stabilization and a recovery from earlier contractions.

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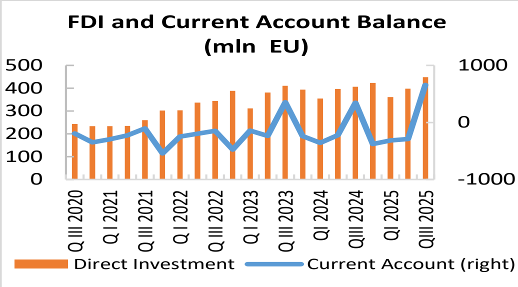
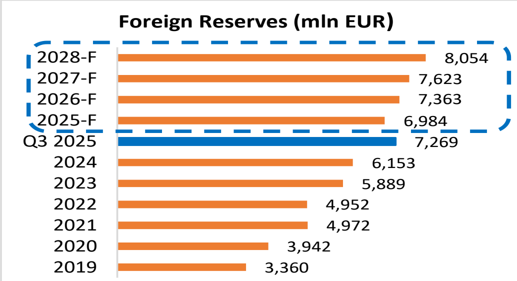
External Sector

During Q3 2025, the current account recorded a EUR 658 million surplus, up EUR 311 million y-o-y, driven by a wider services surplus on the back of strong tourism. The primary income deficit narrowed due to lower FDI income outflows, while higher secondary income inflows further strengthened the external position, offsetting the deterioration in the merchandise trade balance.

Service exports rose by 21.6% y-o-y, and FDI inflows reached EUR 449 million (+10.4%), mainly in real estate, financial intermediation, hydrocarbons, energy and communications. FX reserves stood at EUR 7.27 billion at end September, covering 11.7 months of imports and indicating robust external liquidity.



Source: Bank of Albania



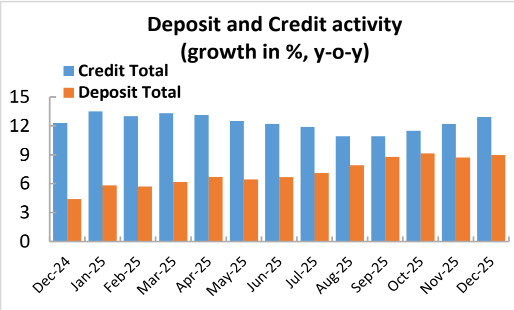
Source: Ministry of Finance, Bank of Albania

Financial Sector

Credit growth remained strong in 2025, with total lending up 12.9% y-o-y. Loans to non-financial corporations increased by 9.9%, while household lending rose sharply by 19.2%, driven by higher demand for consumer and housing credit.

Banking sector deposits grew by 9.0% annually, supported by both household and business deposits, reflecting stable liquidity and continued confidence in the system.

Portfolio quality improved further, with the NPL ratio declining to 3.8% at end-December, supported by stronger risk management and improved borrower repayment capacity.

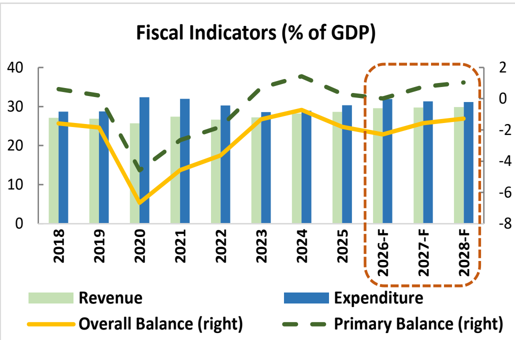


Source: Bank of Albania

Fiscal Indicators

Total budget revenues in 2025, reached ALL 755 billion (98% of plan), up 6.2% y-o-y, driven mainly by an 8.7% increase in tax revenues. Strong contributions came from personal income tax, excise duties, VAT, and special fund revenues (+10.9%), reflecting stable economic activity and improved tax administration.

Total budget expenditures amounted to ALL 802 billion (90.9% of plan), increasing by 10.0% y-o-y. Current spending reached ALL 654 billion (+7.8%), while capital expenditure rose to ALL 132 billion (+13.5%). The expenditure profile indicates continued support for public services and social programs alongside steady execution of fiscal commitments.

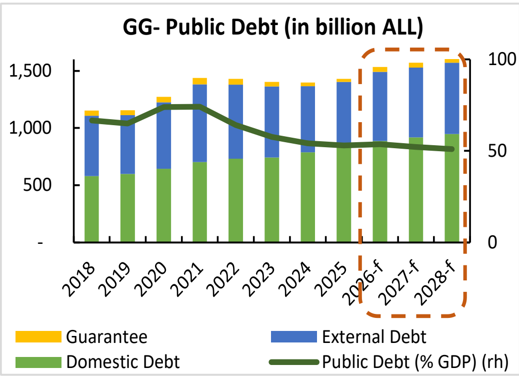


Source: Ministry of Finance

Debt Sustainability

Fiscal performance in 2025 exceeded initial projections, driven by stronger than expected revenue collection and disciplined expenditure execution. The overall fiscal balance recorded a surplus of 1.8% of estimated GDP, compared with a projected deficit of 2.3%. The primary balance also registered a surplus of around +0.3% of GDP, fully consistent with the fiscal rule framework.

Central government debt amounted to ALL 1,402 billion in 2025, or 53.0% of estimated GDP. Gross foreign borrowing reached at ALL 570 billion, mainly through project-financing and budget-support operations. Domestic borrowing reached ALL 832 billion, underscoring the increasing reliance on domestic market financing.



Source: Ministry of Finance

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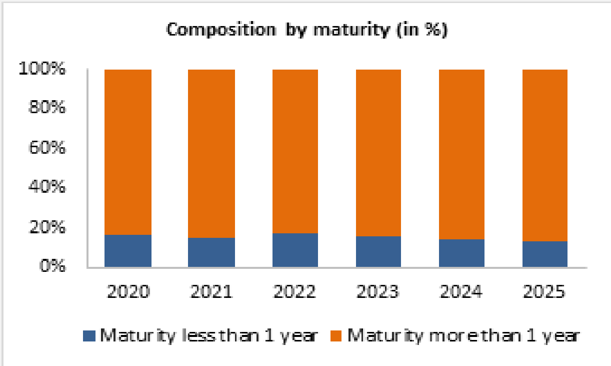
Debt Indicators

Composition of total debt by maturity

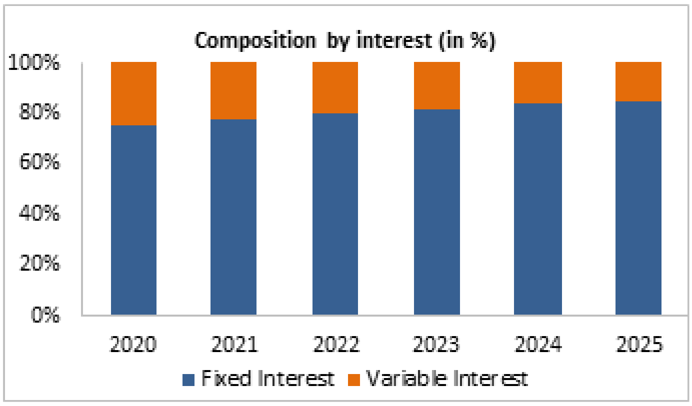
The debt portfolio primarily comprises instruments with maturities exceeding one year (more than 85% of the portfolio).

Within the domestic debt portfolio, medium-term securities (2-5 years) constitute the largest segment, about 43% of total domestic debt portfolio as of December 2025. The proportion of long-term debt has increased due to new financing being secured mostly through long-term bonds.

Whereas the external debt portfolio is totally composed of long -term instruments.



Source: Ministry of Finance



Source: Ministry of Finance

Composition of total debt by interest

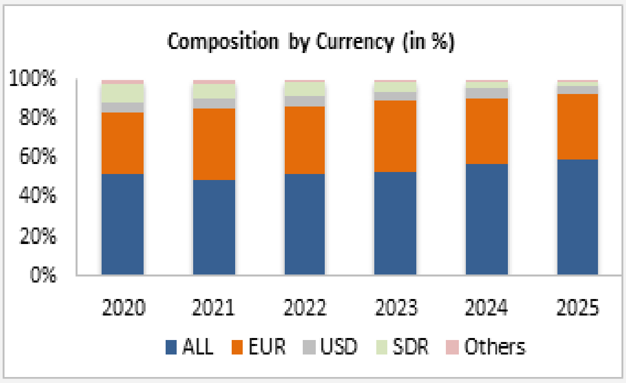
The fixed interest rate debt accounts for more than 84% of the total debt. The share of fixed interest rate debt has increased in line with the strategic objective of reducing interest rate risk.

In the domestic debt portfolio, there have been no issuances of variable rate securities since 2016. Consequently, the proportion of variable interest rate securities is less than 1% of the domestic debt portfolio.

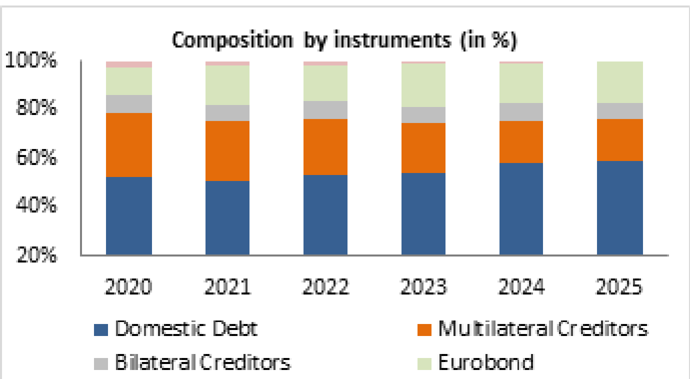
For the external debt portfolio, fixed interest rate debt represents more than 64% of the total share.

Composition of total debt by currencies

The largest portion of the total debt, exceeding 58%, is denominated in local currency, followed by the Euro and the US Dollar. Domestic debt is totally in local currency.
External debt is entirely denominated in foreign currencies, with over 82% in Euro, followed by the US Dollar and SDR. The significant share of debt in Euro aligns with the country's European Union integration policies.



Source: Ministry of Finance



Source: Ministry of Finance

Composition of total debt by Instruments

Albania benefits from a diversified funding mix, and from strong support from international finance institutions that supported the country to withstand multiple crisis situations. The largest portion of the total debt, exceeding 59%, belongs to domestic creditors. In recent years, the share of the Eurobond has been increased from year to year due to the more frequent issuances in the international markets.

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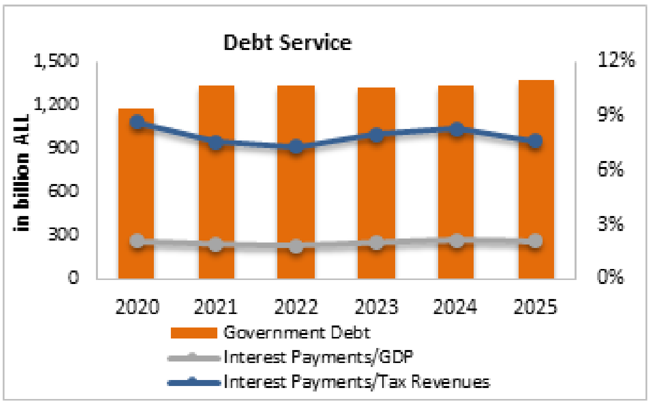
Debt Cost and Risk Indicators

Cost Indicators

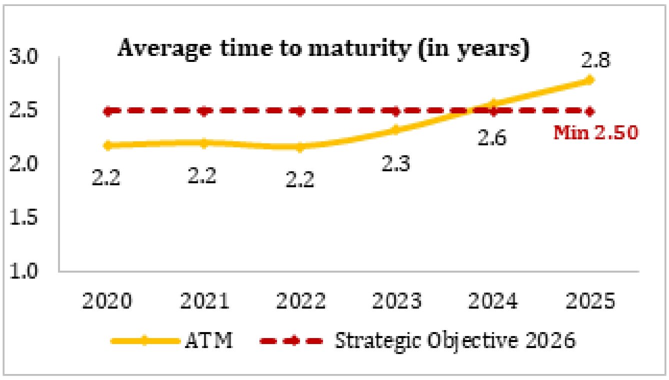
The debt portfolio has been effectively managed to maintain costs at the lowest possible level given the current market conditions. Beginning in 2022, there has been an increase in interest expenses attributed to rising interest rates in both external and domestic markets, but the increased interest rates impact has been mitigated because of the composition of the debt stock of more than 84% with fixed interest rates. In 2025, debt cost indicators declined compared to the end of 2024, returning to their downward trajectory .



Source: Ministry of Finance

Refinancing risk

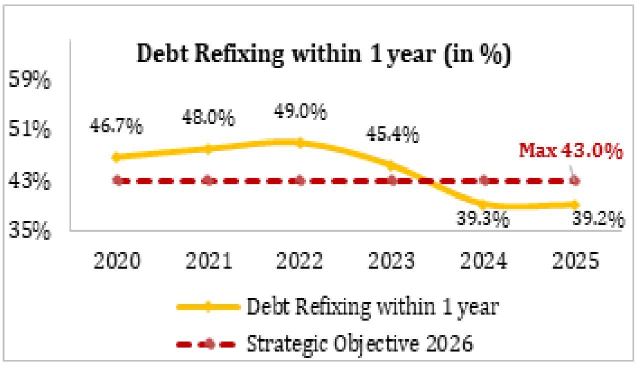
A key objective of the Debt Strategy is to mitigate refinancing risk, particularly within the domestic debt portfolio. This is because the external debt carries lower risk due to its composition of long-maturity instruments with extended amortization profiles. In recent years, indicators of refinancing risk have shown significant improvement. Notably, the average time to maturity of domestic debt has increased by over 200 days in the past five years, and more than 290 days in the last 10 years.



Source: Ministry of Finance

Interest rate risk

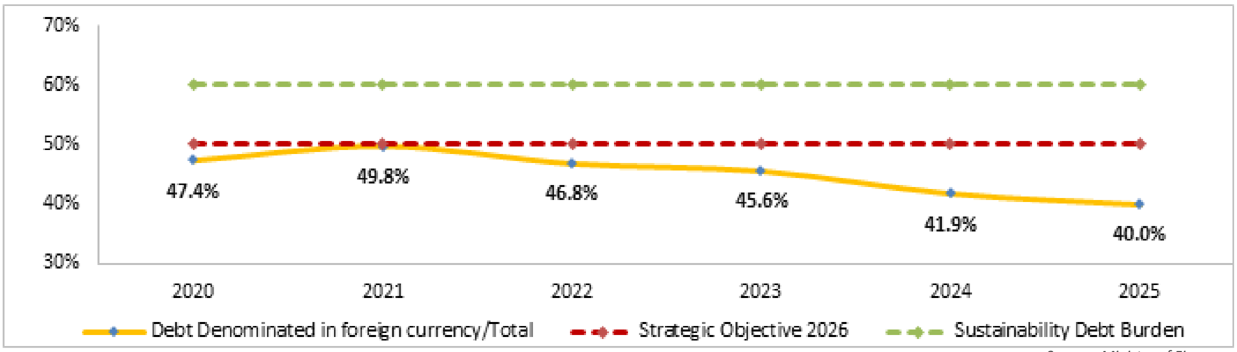
Interest rate risk has also been effectively mitigated, primarily due to the increased issuance of medium- and long-term securities and the exclusive use of fixed interest rates in the domestic market. Consequently, the proportion of total domestic debt subject to interest rate refixing within one year has decreased by over 8.8 percentage points in the last five years.



Source: Ministry of Finance

Exchange rate risk

Exchange rate risk has been effectively managed, remaining considerably below the strategic limit objective. At the end of December 2025, the proportion of total debt denominated in foreign currency was 40.0%, representing a decrease of 1.8 percentage points compared to the end of 2024 and a reduction of 5.6 percentage points compared to the end of 2023. This reflects a significant improvement in exchange rate risk management.



Source: Ministry of Finance

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Debt Indicators

Performance of yields in primary market

Instrument	3M T-Bills	6M T-Bills	12M T-Bills	2y Bonds	Ref 3y Bonds	Ref 5y Bonds	7y Bonds	10y Bonds	15y Bonds	20y Bonds*
Yield on the end of 2023	3.00%	1.50%	3.36%	4.23%	5.17%	5.65%	5.96%	6.44%	7.98%	
Yield on the end of December 2024	3.05%	3.12%	2.73%	3.38%	3.44%	3.91%	4.85%	5.93%	6.41%	
Yield on the end of December 2025	2.60%	2.47%	2.44%	2.84%	3.79%	4.26%	4.77%	5.25%	6.19%	6.88%

**20y Bonds are issued for the first time in January 2025 with a coupon 6.78%*

Sources:
Auction Results https://financa.gov.al/rezultatet-e-ankandeve-te-titujve-qeveritare/
Auction Calendar https://financa.gov.al/kalendaret-tremujore-te-emetimeve/

Republic of Albania outstanding eurobonds, latest

Eurobond Status Maturity date	Rating S&P	Moody's	Original/ Outstanding size mn	Coupon	Price	Yield	Bid Spread vs. BM	Bid z-Spread vs. MS
9-Oct-25	B+	B1	367	3.50%	99.695	3.55	290.7 bps	
16-Jun-27	B+	B1	650	3.50%	99.239	3.625	378.4 bps	
9-Jun-28	B+	B1	600	5.90%	99.055	6.125	374.6 bps	305.8 bps
23-Nov-31	B+	B1	650	3.50%	97.947	3.75	402.5 bps	357.4 bps
14-Feb-35	BB-	Ba3	650	4.75%	98.07	5		262.9 bps

Key Macroeconomic Indicators

Key macroeconomic indicators and projections

	2018	2019	2020	2021	2022	2023	2024	2025	2026*	2027*	2028*
Real GDP growth, %	3.7	2.1	(3.3)	9.0	4.8	4.0	4.0	3.9*	4.0	3.9	4.1
Nominal GDP growth,%	5.2	3.1	(3.3)	12.7	15.2	10.0	6.5	5.0*	5.3	5.2	5.4
Average annual inflation, %	2.0	1.4	1.6	2.0	6.7	4.8	2.2	2.2	3.0	3.0	3.0
Budget balance, % of GDP	(1.6)	(1.8)	(6.7)	(4.6)	(3.6)	(1.3)	(0.7)	(1.8)	(2.3)	(1.6)	(1.3)
Primary balance, % of GDP	0.6	0.2	(4.6)	(2.7)	(1.8)	0.7	1.4	0.3	0.0	0.8	1.0
Current balance, % of GDP	3.1	2.5	(0.5)	2.3	1.6	3.7	3.9	3.8*	4.2	4.8	5.0
General government debt, e.o.p, % of GDP	66.7	65.0	73.9	74.1	64.1	57.6	54.2	53.0*	53.6	52.2	51.0
Average unemployment rate (15-64)	12.8	12.0	12.2	12.0	11.3	10.1	9.4	9.2*	9.0	8.8	8.5
Average Exchange rate, ALL/EUR	127.6	123.0	123.8	122.5	119.0	108.8	100.7	97.8	98.3	98.3	98.3
Current Account Balance % of GDP	(6.7)	(7.8)	(8.6)	(7.7)	(5.9)	(1.2)	(2.4)	(2.2)	(3.5)	(3.3)	(3.2)
Monetary policy rate, %	1.00	1.00	0.50	0.50	2.75	3.25	2.75	2.5**	...	...	...
Foreing reserve, e.o.p., % of GDP	26.1	24.1	29.5	32.6	27.4	27.1	24.6	25.9*	26.0	25.6	25.7

* MoF projections, based on estimated GDP for 2025

Source: Ministry of Finance

**Based on Supervisory Council Decision of BoA, December 2025

Credit Ratings 2025

Credit rating, latest 2025

	Rating	Outlook
Moody's, 7 October 2025	Ba3	Stable
Standard & Poors, 19 September 2025	BB	Stable

These ratings reflect Albania's continued fiscal consolidation, steady economic growth, and progress on EU integration.

Key Macroeconomic Forecasts from International Organisations for year 2025

Key Macroeconomic Forecasts from International Organisations for year 2025

	Real GDP growth, %	Average inflation, %	Public Debt % of GDP	Budget Balance % of GDP
IMF, WEO (October 2025)	3.4	2.3	54.1	(1.7)
European Commission (October 2025)	3.6	2.5	53.5	(2.4)
World Bank (Fall 2025)	3.7	2.5	53.4	(1.8)
MoF, Albania (December 2025)	3.9	2.2	54.0	(1.8)

Boulevard "Dëshmorët e Kombit", No. 3, Tiranë