

POLICY BRIEF

AO-ECO-26-007 | ALTAX – Centre for Fiscal and Economic Research

Wage Restructuring and Tax Base Transformation in Albania (2021–2025)

From Fiscal Expansion to the Challenges of Sustainability and Informality

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Key Message

Albania's labour market underwent a decisive structural shift between 2021 and 2025. Wage distribution moved sharply upward, doubling personal income tax revenues and broadening the formal tax base. Yet fiscal gains rest on fragile foundations: contribution revenues lag behind, informality persists near 30% of GDP, and wage growth has outpaced productivity in key sectors. Only a coordinated reform package — reducing the labour tax wedge, indexing contribution ceilings, and investing in productivity — can convert this cyclical windfall into durable fiscal and social progress aligned with EU accession requirements.

KEY FIGURES | 2021–2025**+110%**

PIT revenues 2021–2025

12.6%Workers at minimum wage
(down from 44%)**27.6%**Workers earning above
ALL 95,000**~30%**GDP share of informal
economy**1. CONTEXT AND ANALYTICAL FRAMEWORK**

Between 2021 and 2025, Albania's labour market underwent a deep structural transformation driven by three reinforcing forces: a sharp increase in the statutory minimum wage (from ALL 26,000 in 2020 to ALL 40,000 by mid-2023, and ALL 50,000 from January 2026); chain-effect wage increases in the public sector; and the demographic pressure of sustained emigration — estimated to have reduced the active labour force by 10–15% since 2021 (World Bank 2025).

This brief synthesises the findings of ALTAX analytical report AO-ECO-26-007, examining how these forces reshaped the wage distribution, expanded the personal income tax (PIT) base, and created both opportunities and structural vulnerabilities for Albania's public finances and EU integration trajectory.

2. KEY FINDINGS**2.1 A Structural — Not Merely Cyclical — Wage Shift**

The share of workers earning at or below the minimum wage fell from 44% in 2021 to 12.6% in 2025. Simultaneously, the segment earning above ALL 95,000 per month expanded from 8% to 27.6% of the formal workforce. This restructuring reflects a genuine redistribution of labour income — not simply inflation or nominal growth.

2.2 Disproportionate Fiscal Gains from Progressivity

PIT revenues doubled from ALL 39.3 billion in 2021 to ALL 82.5 billion in 2025 (+110%). Wage tax — the dominant PIT component — rose from ALL 25.3 to ALL 49.4 billion. Growth accelerated to +24.8% in 2025

alone, far exceeding average wage growth of 11–12%. This divergence reflects the classic bracket creep effect: as workers migrate into higher progressive brackets (13% and 23%), the effective tax rate rises without any legislative change — from ~8% in 2021 to 12–13% in 2025 (DPT estimates).

2.3 The Tax–Contribution Divergence

While wage tax benefited from progressivity, social contributions (capped at ~ALL 176,000–186,000/month and set at a flat 27.9%) grew at a much slower pace — approximately 10–12% in 2025 versus 24.8% for PIT. The contribution ceiling excludes a growing share of high-income wages from the contribution base, creating a structural imbalance: the budget gains in the short run, but pension and health insurance schemes face mounting medium-term pressure in an already challenging demographic context (contributor-to-pensioner ratio of 1.09 in 2024–2025).

2.4 Informality: Displaced, Not Eliminated

Classical informality — fictitious minimum-wage declarations — has declined significantly. However, it has migrated to more sophisticated forms: partial wage under-declaration, fictitious contracts, and expansion of the "household" self-employment sector (from 11.7% to 15.1% of total employee compensation, 2021–2024). The informal economy remains at approximately 29–30% of GDP (World Economics 2025), well above the WB6 average of 27.5% and far exceeding the EU-27 average of 11.5%.

2.5 Wages Outpacing Productivity

Average gross wages reached ALL 86,984 per month in Q4 2025 (+11.7% year-on-year), but labour productivity in Albania remains at only 13–15% of the EU-15 average (World Bank 2025). In construction, tourism and light manufacturing, labour costs have risen faster than value added — a dynamic that threatens competitiveness, particularly for export-oriented sectors.

3. FISCAL SUSTAINABILITY: CURRENT POSITION AND RISKS

Key fiscal aggregates for 2025 (Ministry of Finance, IMF Article IV 2025):

Indicator	2024	2025
Tax revenues (% of GDP)	19.8%	20.3%
Total budget revenues	~27% of GDP	~28–29% of GDP
Budget deficit	~-2.1% of GDP	-1.78% of GDP
Public debt	~55% of GDP	53.04% of GDP
PIT revenues (ALL bn)	66.1	82.5
Wage tax (ALL bn)	39.6	49.4
Informality (% of GDP)	~30%	~29–30%

Structural risks persist despite positive headline numbers. The divergence between fast-growing PIT and lagging contributions will deepen the pension system deficit if left unaddressed. Partial dependence on emigration-driven labour scarcity and the tourism boom makes the tax base vulnerable to external shocks.

4. POLICY SCENARIOS: THREE TRAJECTORIES

ALTAX has modelled three trajectories for Albania's labour market and fiscal position through 2030:

Scenario	Optimistic (Formal Employment 2027)	Baseline (No structural reform)	Negative (Rising labour burden)
Contribution rate	Reduced: 27.9%→23% for wages ≤ ALL 80,000	Unchanged at 27.9%	Pressure to increase

Scenario	Optimistic (Formal Employment 2027)	Baseline (No structural reform)	Negative (Rising labour burden)
Formal employment	+4–6% in labour-intensive sectors by 2029	Moderate growth, slowing pace	Decline; informality returns above 35%
Fiscal effect (net)	+ALL 12–15 bn net by 2030	Gradual revenue growth; widening social gap	Tax base narrows; revenues at risk
Informality	Reduced to 24–26% of GDP	Stabilised ~30%	Returns to 35%+
EU Integration	"Good progress" on Chapter 19	"Limited progress" continues	Delays in accession negotiations

5. SIMULATION: CONTRIBUTION RATE CUT 27.9% → 23%

The "Formal Employment 2027" package proposes reducing the total social contribution rate from 27.9% to 23% for wages up to ALL 80,000 per month — directly targeting the ~300,000 workers in the ALL 40,000–80,000 bracket. Modelling uses a formal labour supply elasticity of 0.40 relative to the tax wedge (range 0.30–0.50; Schneider & Williams 2013; IMF WP 2023), calibrated to Albanian market conditions.

Indicator	2027	2028	2029	2030
New formal workers (cumulative)	+35,000	+55,000	+75,000	+90,000
Net fiscal effect (ALL billion)	-2.1	+0.8	+3.5	+6.2
Contribution loss from rate cut	-5.8 bn/yr	-5.8 bn/yr	-5.8 bn/yr	-5.8 bn/yr
Revenue gain from new formal workers	+4.3 bn	+6.8 bn	+9.2 bn	+11.1 bn

Fiscal neutrality is achieved between 2027 and 2028. The cumulative net fiscal gain over 2027–2030 amounts to ALL +8.4 billion under the base elasticity assumption (range: +4.2 to +12.8 billion). The fiscal offset mechanism consists of a broadened contribution base from newly formalised workers plus a progressive property tax on high-value real estate.

6. POLICY RECOMMENDATIONS

ALTAX recommends seven priority measures forming a coherent policy package, to be implemented in sequence during 2026–2028:

- Index PIT thresholds to inflation + productivity**
 Adjust the ALL 50,000 and ALL 200,000/month thresholds every two years using CPI + 50% real wage growth (INSTAT). Eliminates bracket creep; preserves purchasing power; expected +3–5% voluntary compliance gain. (MF, Q1 2027)
- Cut contributions to 23% for wages ≤ ALL 80,000**
 Reduce the employer contribution rate from 27.9% to 23% for wages up to ALL 80,000/month. Offset via property tax expansion. Expected: +35,000–90,000 formal workers by 2030; tax wedge falls 4–5 pp; fiscal neutrality by 2028. (MF + ISSH, Q1 2027)
- Launch a "Single Window" tax–insurance platform**
 Merge PIT and ISSH declaration into one digital system, integrating customs, VAT and commercial registry. Expected: informality down 3–5 pp; compliance cost reduced by 40%; +15,000 new declarants/year. (DPT + ISSH, Q3 2026)

4

Index contribution ceilings to average wage × 2

Auto-index the social contribution ceiling annually to 2× the INSTAT average wage (~ALL 174,000 in 2025). Expected: +ALL 5–8 billion in additional contributions/year by 2030; strengthens pension sustainability. (MF, Q1 2027)

5

Adopt a proactive diaspora return strategy

50% PIT relief for 3 years for returning qualified emigrants; VET programmes linked to shortage sectors (IT, construction, health); bilateral agreements with host countries. Expected: 5,000–10,000 professionals returned per year; productivity +2% by 2030. (MAEI + MPÇSSHB, 2027–2028)

6

Deploy AI-driven tax risk analysis

Integrate DPT, ISSH, customs, land registry and e-invoices into an ML-based risk scoring system targeting the 10% highest-risk cases. Expected: enforcement effectiveness 3×; sophisticated informality reduced; +ALL 10–15 billion PIT by 2028. (DPT, Q3 2026)

7

Introduce a simplified regime for micro-businesses

Presumptive tax of 3–5% of turnover plus fixed monthly ISSH contributions ≥ minimum wage for businesses under ALL 10 million/year. Expected: formalisation of 20,000–30,000 micro-businesses; +ALL 3–4 billion ISSH contributions/year. (DPT + MF, 2027–2028)

7. REGIONAL AND EU CONTEXT

Albania's tax wedge of ~39–40% for a worker earning 67% of the average wage sits above the WB6 average (36.2%) and close to the EU-27 average (41.3%), but its informality rate (29–30% of GDP) is more than twice that of Serbia (24%) and Montenegro (20.5%). Labour productivity at 13–15% of the EU-15 average is the lowest in the Western Balkans, underscoring that wage growth must be coupled with structural investment in skills and technology.

The European Commission's 2025 Progress Report assesses Albania as being at a "medium level of preparation" on Chapter 19 (Social Policy and Employment), with limited progress on harmonisation of labour legislation, inspection capacity and gender equality. Youth unemployment at 18.9% and a NEET rate of ~22% further compound the structural challenge. Consistent implementation of the seven-measure package by 2028 is projected to move Albania from "limited progress" to "good progress" under the EC methodology.

8. CALL TO ACTION

The 2021–2025 wage restructuring delivered real fiscal gains — but on a foundation that is partly cyclical and structurally fragile. A National Action Plan for Formal Employment and Fiscal Convergence 2027–2030, with annual measurable targets and independent monitoring, is the essential next step. Without it, demographic pressures, informality displacement and the tax–contribution divergence risk eroding the progress achieved — and jeopardising Albania's path to EU membership.

The Government, in partnership with social partners and international institutions, should:

- Adopt and resource the "Formal Employment 2027" reform package as a whole — not piecemeal.
- Assign clear institutional responsibility and biannual monitoring KPIs to each of the seven measures.
- Commission an independent mid-term evaluation (2028) against the regional benchmarks set out in this brief.
- Engage the IMF, World Bank and EU on technical assistance for the AI risk-analysis platform and property tax reform.

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