

Urbanization and Economic Growth in Albania: An Empirical Study.

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Abstract: - The article aims to investigate the relationship between urbanization and economic growth in Albania, with a special focus on the elements of the labor market. The hypothesis is examined through the data panel from 2012 to 2022 acquired by the official institutions, such as Instat and Statista. The results of the regression model do not reveal any impact of urbanization on the economic growth of the country. The employment of the agricultural sector is an important factor. Pearson correlation between urbanization and economic growth estimated at 0.342 indicates a weak to moderate positive relationship. According to the results of the model and the problems that the active labor force in the country faces, the potential to be developed rapidly seems not yet present. In the future, the mutual influence of the two variables is poised between the Tirana and Durrës regions, leveraging the potential through investments in infrastructure.

Key-words: - Economic Growth, Urbanization, Regional Development, Urban Population, Sectoral Employment, Rate of Employment, Age Employment.

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1 Introduction

The growth of the urbanization phenomenon has become crucial nowadays because of multiple effects on various aspects of life. According to the World Bank, approximately 180.000 persons per day move towards urban areas, or 2.3 % of the world's population lives outside of their country of nationality, as a consequence, configuring many socio-economic dimensions in both countries. Therefore, the issue seems to be accelerated in time and other dimensions. During the last three decades, after the fall of communism in Albania, due to the limited levels of education and poverty, many people moved towards neighboring countries.

The main reason for moving from their settlements was the quality of life. The tendency is still present, however, apart from the above objective, the desire to get a better education is predominant, [1]. Brain drain in recent years has resulted as a negative consequence of the migratory movement. According to the Institute of Statistics of Albania, [2], a huge immigration level resulted in 2012 due to the well-educated students in medical fields, especially towards Germany. In

general agreement, the mobility of people is a factor that affects the level of urbanization. Actually, Instat has calculated the rate of urbanization in the country, which results in 60%, stressing that the ratio of green space/gray space has changed rapidly during this decade. In the regions where the population density is relatively high, like Tirana, Durrës, and Vlora, the above ratio has been changed in favor of gray space.

Urbanization is a crucial issue that tends not to be overlooked,- therefore, the paper aims to see its impact on the economic growth of the country and other aspects generated by it. At a glance, Table 1 (Appendix) gives the categorization of the Albanian regions, rural or urban, according to the concentration of the population in the regions.

As Table 1 (Appendix) reveals, the country has 12 regions in total, where the capital Tirana is categorized as an urban area, followed by Vlora and Durrës as intermediate areas. The other regions (9) are predominantly rural; therefore, the predominance of the rural dimension creates a clear view of the urban level phenomenon. Figure 1 (Appendix) gives the profile of the population for a specific region, focusing

on the rural population. As we can see, the Vlorë region (which is one of the most developed regions in the country) has a rural population relatively high by 43.9%. In addition to this evidence, Shkodër, Korçë, Elbasan, Fier, and Gjirokastra have relatively the same trend. It is the Fier region that reveals the huge gap between the urban and the rural population by 58.4%. One of the main problems that the country's population faces is the land problem, which does not belong to the owner in many cases, reflecting the standard of living and the impact on the level of urbanization. The process is dual, making it complicated over time and associated with many problems, especially in the labor market, informal economy, and social problems etc. As some researchers reveal, [3], the uncontrolled urbanization tends to increase the informal economy, reflecting a U-shaped form between the two variables, re-dimensioning the labor market and stressing the necessary intervention by governmental institutions. Land problems, perhaps, have raised the informality in the country, but the paper attempts to specify the relationship between urbanization and economic growth, concentrating on the active labor force. The selected variables are not random, as the active force reflects the level of education, migration, and other variables; therefore, describing the problem, we can see it in different aspects.

2 Literature Review

Urbanization is defined by, [4], as “A *progressive concentration of population in the urban unit*. It is a multidimensional phenomenon where the consequences are different depending on the characteristics of the countries and vary among them, and how people treat the problems of urban areas, their point of view, defines urbanization, and vice versa, [5]. As a spiral phenomenon, often with mutual intersection actions, it will always be in the focus of the researchers. Negative effects of it, especially on the environment, have increased the interest in urbanization. As urbanization increases, the negative effects on the environment also increase. The phenomenon significantly exacerbates emissions, underscoring the environmental costs of rapid economic development, [6].

The economic development of the country is one of the factors taken into consideration, especially in the long-term relationship between urbanization and economic growth. A database of 28 countries from 1950 to 2000 was used by, [7], running the vector of co-integration model and concluding in a stable correlation in the long run. The database has aggregated the data from countries, taking into account their economic categorization. An interesting finding was that urbanization in developing countries has positively impacted economic growth, whilst for the developed countries, it was the opposite. Therefore, many scenarios reflect the issue, and the consequences vary from one country to another. In a summarized way, based on the Literature Review, Table 2 reflects some of the main pillars that urbanization affects and their possible effects.

Table 2: Urbanization and the possible effects of it on different pillars of human daily activities.

<i>The affected pillars</i>	<i>Forms of impact</i>	<i>Sign of impact</i>
<i>Economic, Social</i>	Increase trade, labor force	+
<i>Infrastructure (roads, technology)</i>	Improve infrastructure	+
<i>Service</i>	Improve services	+
<i>Social</i>	Cultural exchange	+ and -
<i>Environmental</i>	Degradation of the environment	-
<i>Health change</i>	Different disease	-
<i>Traffic congestion</i>	Air pollution	-

Source: Author's illustration, 2025

The spillover effect of urbanization implies that social and economic problems in society will always influence the development of the country, and as a consequence, urbanization itself [8]. Although the positive impact of urbanization on economic growth is widely admitted by the researchers, it also has negative externalities like informality [9], [10], or social negative effects, etc. Geographic dimensions of

the cities resulting from urbanization emphasize the economic agglomeration as an important factor. According to [11], urbanization and economic agglomeration have a positive effect on economic growth, and there is a spatial spillover effect; the advancement of urbanization is closely associated with economic growth concerning the development of economic agglomeration. How the development agglomeration occurs influences urbanization. Multiple center of development creates more opportunities for urbanization, while a single center model tends to impede urbanization. The model of gravity form seems to work well, but the specific weight of cities/countries included in the models highly impacts the conclusions. In addition, some other factors seem important. According to, [12], there exists a positive relationship between productivity and the agglomeration of economic activities in cities. The above conclusion was also revealed by [13], emphasizing that it is not only the inner connections of the scale economy that produce urbanization, but also the external factors, like the different spillovers that tend to be more evident as urbanization grows. The division of labor force and cooperation between large cities, small and medium cities promote industrial agglomeration that positively impacts economic growth, [14]. The conclusion was clear, as more jobs can be created in the economy as a result of urbanization in developing countries; therefore, the gross domestic product will increase. Regarding Albania, 1% increase in urbanization causes an increase of 7.94% in Albania's gross domestic product. Tirana city is growing faster than the others, while the rural areas are not growing. The population of Albanian villages will decline, and the size of the cities will increase in direct proportion to GDP growth, [15]. What is not taken into account in the study is the composition of the population according to age and education, which seems to influence the urbanization and economic growth. It is highly acknowledged that big countries faced new challenges due to urbanization, and according to [16], there exists a unidirectional causality between resident population urbanization and China's economic growth, the former promoting the long-term growth of the latter; unidirectional causality exists between land urbanization rate and economic growth of the country,

and the increase of urbanization rate cannot promote China's economic growth. The quality of urbanization and economic growth is a two-way causality. The quality has a cumulative positive effect on economic growth, while economic growth harms the improvement of the quality of urbanization.

Therefore, the quality of urbanization seems to be a relevant factor in the impact of economic growth, while on the other hand, it influences employment. Some other evidence does not support the relationship. The Granger causality test established by, [17], reveals that there is a unidirectional causality running from economic growth to employment. Also, no causal relationship exists between population and economic growth, meaning that the population increase does not have any effect on economic growth.

As the literature suggests, many factors influence urbanization and economic growth. There is a general agreement that some factors, despite the chosen country, have the same effects on it, like negative externalities on the environment, social negative effects, or technological and human productivity. Some other factors have an ambiguous impact depending on the actual position of a country's development and *how* urbanization occurs. Therefore, the urban problems face both positive and negative impacts on economic development, [18], depending especially on the variable that influences the most. Albania faces a challenge regarding this issue, and the value added of this study is that it investigates the impact of the active labor force and urbanization on the economic growth of the country. The relationship between urbanization and the labor force consists of an increasing intention because of the impact that urbanization has on the production of the labor force in the country, [19]. It is highly accepted that the variables that influence the urbanization phenomenon have a mutual relationship with it, especially the factors of the labor market, [20], [21]. As the economic development varies among the countries, it is interesting to focus on the Albanian environment due to the challenges that country faced over three decades.

Firstly, in this context, it is interesting to explore the change of the labor force due to urbanization among the regions of Albania, focusing on the main pillars, such as the economy.

Secondly, an empirical analysis of the variables included in the model will provide the acceptance or rejection of the hypothesis that urbanization affects the economic growth of Albania. How the country has developed over the last three decades offers a potential study to be analyzed from this point of view.

3 Empirical Findings

Among the 12 regions of Albania, Tirana is classified as an NUTS 2¹ urban area, while Vlora and Durrës are classified as NUTS3, intermediate urban areas, indicating a non-stable urbanization level in the country. The country's agricultural trend in the economy, although it was highly evident three decades ago, is still present. During this time, due to the market-free economy, the fragmentation of economic sectors reveals the dominant influence of the service sector on the economy. Figure 2 (Appendix) gives the sectorial fragmentation for 2012-2022, indicating that the service sector achieved the highest value in 2019 with 48.41% compared to the industrial and agricultural sectors. According to Instat, an increase rate by 1.36% from 2018 was a result of the COVID-19 effect, where, especially, the pharmaceutical sector underwent a drastic increase. The consequent steady-state sustainability of the economy in the following years refers to the impact of tourism. It is generally accepted that the sector that has the highest value on the economy contributes more than others to the active employment force. The evidences suggest that the concentration of all activities in one NUTS increases the rate of employment. Therefore, a positive connection may exist between urbanization and employment. It is an interesting issue to examine the influence of those variables on the economic growth of the country, more specifically, on the employment variable. The fragmentation of the economy during 2012-2022 presents the new challenges of the active force (16-64 years) in the market economy. As Figure 2 (Appendix) reveals, the Services sector remains dominant over time with a pre-emptive almost 54% compared to other sectors of the economy. The active labor force needs to get a good education in

accordance with the market requests and the development of technology, improving their skills for the necessary performance. The urban development included in the governmental program, with a prime focus on some specific areas like Durrësi and Vlora regions, which leads to the development of tourism sectors and others, has to be integrated with the local plans and labor market requests to be effective. Therefore, Tirana and Durrësi regions seem to be more promising from this point of view, contributing to increasing the rate of employment, moreover. According to the above literature, the education that impacts how those new abilities are obtained, together with the mobility of the labor force, are the key factors that determine urbanization. Concerning the group age 16-46 years, the rate of active force is being reduced over time due to emigration and low birth rate, causing a setback for the overall economy. Actually, as Figure 3 (Appendix) reveals, in 2022 the rate takes the value 67.2% (as a share of population), which is the lowest value for the period 2012-2022. The highest value of the active labor force in Albania was achieved in 2015, at 68.3%.

Labor force absorption, mostly educated in medical sciences and computer sciences, is notably directed towards Germany and is still high in recent years, contributing to the reduction of the labor rate. The family planning concept, in conjunction with the tendency for a better standard of living, has contributed more to the reduction of labor activity, [22]. The above situation suggests that it is necessary to undertake concrete action plans with a focus on the quality of education of young people to face the new challenges that the labor market offers easily. Those action plans must be undertaken in many aspects of life, without skipping the social dimension. Security and education objectives must be integrated at the same time to create a safe environment that contributes to the economic development of the country. By decomposing the data of the 16-64 years active labor force according to the gender and regional criteria, a slight deviation takes place, which is meaningful for the trend of urbanization. Table 3 (Appendix) gives the decomposition of values,

¹ According to Regulation No. 1059 on establishing a common classification of territorial-statistical units, EU.

NUTS 2 has minimum population number 800.000 up to 3 million.

highlighting Tirana as the region with the largest number of males and females compared to others. The Durrës region, as the second intermediate urban region with the largest labor force after Tirana, shows a disadvantage of 205.9%, which is a considerable value. Therefore, the predominance of the Tirana region is also revealed in gender criteria, with males by 194.8% and females by 217.6%. The gender gap for the Tirana region is 11.7%, resulting in the lowest gap in all regions, and with an optimistic scenario for female employment. The results show that the urbanization phenomenon contributes positively to the Tirana region in terms of the gender criteria for employment. The same analysis is made for the Vlora region as the second intermediate urban area, compared to the Tirana region (Table 3, Appendix), and the conclusion reinforces the gap in urbanization between Tirana and the respective region. The micro-data file of Table 3 (Appendix) reveals an interesting fact that regions like Fieri, Elbasani, Korçë, and Shkodër, although classified as rural predominance, have an active force approximately as in urban areas (Tirana, Durrës, and Vlora). The Fier region is more interesting from this point of view, illustrating the importance of adequate fiscal policies to support the agricultural sector. Reducing the tax rate for farmers and creating an effective way to allocate funds correctly will contribute positively to the economic growth of those areas.

4 Data and Methodology

4.1 Methodology

The relationship between urbanization and economic growth is relevant from an economic aspect, but the data imply estimations that, depending on specific features of the country or the period of time when the study is conducted, the results will vary. Studies suggest three scenarios: the positive relationship, the negative relationship, and no relationship between them. Sensitivity analysis is generally performed to test the robustness of the two variables in the Albanian environment. Within this context, the influence of the employment variable will be necessary. That is because the variable sheds light on the most prioritized sectors of the economy, and is also positively related to the productivity of the labor force, which will give

some evidence. Generally, the literature has observed the impact of urbanization on employment, and in the paper, as the literature suggests, the chosen variables tend to discuss the following issues:

1. Is there a strong relationship between economic growth and urbanization in Albanian reality?
2. Although it is not possible to take causality in a strict sense, does any evidence exist that the diversity of employment has an impact on economic growth? - highlighting the sectors with positive potential to grow.

The dispersion of the data implies the usage of multiple linear regression, where the rate of GDP growth is a *function* of Urban Population (UP), Employment in Agriculture (EMP Agric), Employment in Industry (EMP Indus), and Employment in Services (EMP Serv). The variables included in the model are calculated in percentage values reflecting a normal distribution, which allows the reflection of the above model. The independent variable, employment, is specified according to the economic sector, calculated as a share of total employment, reflecting the influence of each of them. The econometric form of the long-run ADRL model is as follows:

$$\text{Rate of GDP Growth} = B_0 + B_1 (UP) + B_2 (EMP \text{ Agric}) + B_3 (EMP \text{ Indus}) + B_4 (EMP \text{ Serv}) + \epsilon_i$$

4.1.2 Data

The data provided by Statista, [23], for the period 2012-2022 is used to create the database needed for the model. The economic growth is estimated by the real rate of GDP, and for some data, their log numbers are calculated with the aim of running the sensitivity analysis. The econometric model is created taking into consideration the real GDP rate as the dependent variable, and the Urban Population rate as an independent variable, which is estimated as a share of the total population in the country. The labor force, according to the economic sector, is also included in the model. Making the distribution of the data approximately normal using the log value of the above variables contributes to eliminating the heteroscedasticity problem and helps to estimate the marginal sensitivity. Figure 4 illustrates the result between variables, showing the scatterplot and the level of histogram for each variable. Marginal

distribution reveals that, despite some sporadic values, the relationship between the two variables is positive and has a slight linear upward trend. The average value of log (UP) is 1.78, and log (GDP r) has a value of 0.5.

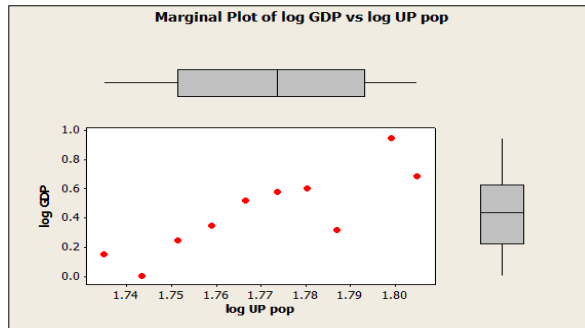


Fig. 4: Marginal relationship between GDP and UP variables.

Source: Author's calculation, 2025.

Fluctuations of some values from the trend of the values imply the influence of other factors outside this relationship. The forecast model of the two variables indicates a constant, sustainable behavior over time.

The values for each variable remain inside its closed interval, even though there is a big gap between the values of the two variables. Figure 5 reinforces the conclusion.

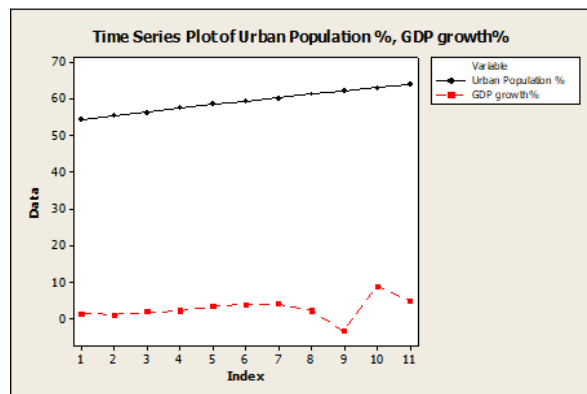


Fig. 5: Time trend of variables over time.

Source: Author's calculation, 2025.

As we can see, the values of the Urban Population variable vary among the values of the segment [55%-65%], while the values of Growth GDP are ranked in the segment [-3.3%-4.8%]. The gap in values of the estimated variables is evident, but their increasing trend rate is constant over time.

5 Results

Table 4 (Appendix) displays the descriptive statistics of the variables. It is found that the mean value of the Urban Population is 59.255, while the maximum value is 63.800, and the minimum value is 54.330. The Skewness value is -0.1, meaning that the distribution is negatively skewed, and that the values of the variable are larger, reflecting the gap between the Urban Population and the GDP growth. The Kurtosis value -1.19 indicates a too flat distribution. The values for each variable are shown in Table 4 (Appendix). According to the results, the values of Skewness and Kurtosis for the model variables are close to zero, meaning that they have a normal distribution [24], implying the creation of the regression model.

Therefore, the model has the following form:

$$GDP\ growth\% = -$$

$$870.229 + 0.589663UP\% + 7.88132EMP$$

$$Serv\% + 8.47764EMP\ Agri\% + 9.29041EMP\ Ind\% + \varepsilon_i$$

The parameters of the model explain the problem, according to the value R-Sq (adj) = 69.65%, and the Durbin-Watson statistic 2.4. Table 5 gives the estimated parameters of the model with a p-value of 5%.

By examining the t-statistic and the importance of each variable in the model, it is clear that employment in each sector of the economy is very important in economic growth, while the urban population has no impact.

Table 5: The coefficients of the regression model.

Term	Coef.	SE Coef.	T	P
Constant	-870.229	187.366	-4.64453	0.004
Urban Population (%)	0.590	1.297	0.45452	0.665
EMP Services (%)	7.881	1.892	4.16454	0.006
EMP Agriculture (%)	8.478	1.815	4.67098	0.003
EMP Industry (%)	9.290	2.582	3.59802	0.011

Source: Author's calculations, 2025

Regarding the Pearson correlation of the model's variables, as expected, the employment of each sector has a strong value in the economic growth of the country, while the Urban Population has a value of 0.342 ($p=0.304$). The parameter shows a weak positive relationship between the two variables, UP and GDP growth. It is important to underline that Pearson correlation does not describe a direct influence or a cause-and-effect relationship. The two variables, according to the result, move positively together but weakly; one does not necessarily cause the other. Table 6 (Appendix) indicates the estimation parameters of the ANOVA. It reinforces that the most significant factor is the employment of the agriculture sector that influences the economic growth of the country ($p\text{-value} = 0.003$). The Urban Population does not seem to affect Economic Growth. Therefore, this leads to thinking that external factors related to the concentration of population in Tirana should be taken into consideration. An increased level of urbanization in Tirana could come from the increased supply of real estate by Albanian non-residents and foreigners. The model shows that the employment of the active labor force in agriculture has the most important impact on the economic growth of the country; therefore, the predominance of the country as a rural area is understandable. This leads to effective fiscal policies to promote the impact.

6 Conclusions and Discussions

The continuous movement of people from one country to another, or even inside the country, despite the geographical dimension, will always be accompanied by both negative and positive effects on the overall economy. Due to the visible urban challenges and their impacts on economic development, the problem of urbanization remains one of the most crucial in recent years. General agreement of the urbanization's impact on labor productivity as a result of skills improvement encourages attention to addressing the problem in this direction. Moreover, different countries have different levels of education, reflecting therefore the labor force's skills. The labor market emphasizes the absorption of knowledge that is most required for the time, influencing urbanization and economic development, but on the other hand, a mutual relationship takes place. In the Albanian case, an increased rate of urbanization in recent years has

concentrated the population in Tirana, Durrës, and Vlora regions. Those are classified with a high potential for development, even though the last two regions are classified as intermediate urban areas. With a primary focus on the employment rate of Albania, several problems are noticed. A decreased rate of this variable is present, especially for the age group 15-64 years. That impacts the productivity and reduces the development. Brain drain as an aspect of urbanization in Albania seems to negatively impact the labor market. According to the regression model, the Urban Population in Albania has no impact on the development of the country. Pearson correlation (0.342) reveals a weak to moderate relationship between the two variables. Pearson correlation reflects a positive influence of agricultural employment on the Urban Population and Economic Growth of the country. The estimated parameters imply that urbanization in the country is driven by the influence of factors outside the country, as we are still classified as rural. The conclusions reinforce the application of fiscal policies with the focus on agricultural sectors to achieve a positive scenario regarding urbanization and economic growth of the country.

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APPENDIX

Table 1: The distribution of prefectures in Albania according to the urbanization factor.

<i>Prefecture</i>	<i>Category</i>
<i>Berat</i>	Predominantly rural
<i>Dibër</i>	Predominantly rural
<i>Durrës</i>	Intermediate
<i>Elbasan</i>	Predominantly rural
<i>Fier</i>	Predominantly rural
<i>Gjirokaštër</i>	Predominantly rural
<i>Korçë</i>	Predominantly rural
<i>Kukës</i>	Predominantly rural
<i>Lezhë</i>	Predominantly rural
<i>Shkodër</i>	Predominantly rural
<i>Tiranë</i>	Predominantly urban
<i>Vlorë</i>	Intermediate

Source: Institute of Statistics of Albania, 2025

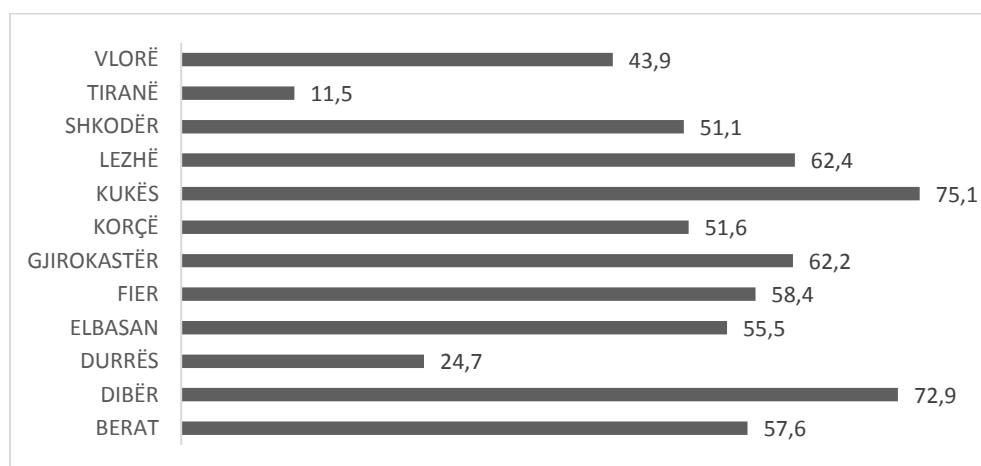


Fig. 1: The distribution of the rural population among the regions in Albania.

Source: Institute of Statistics of Albania, 2025

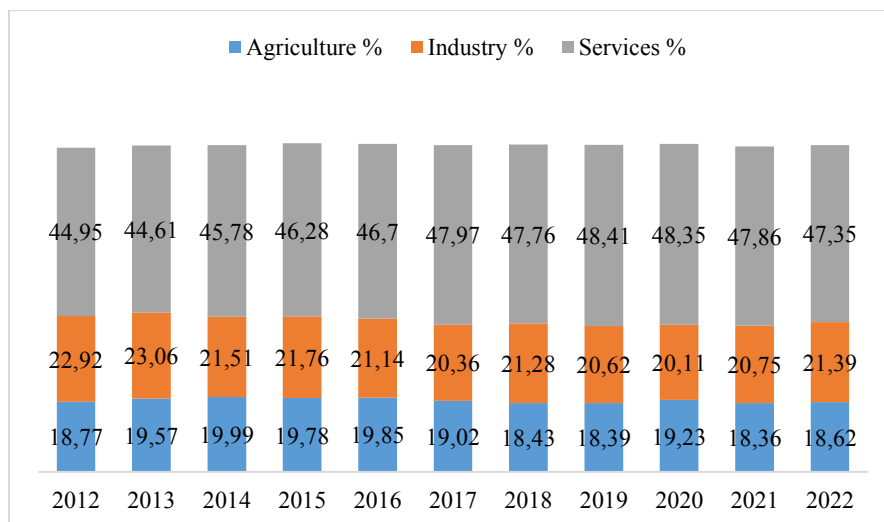


Fig. 2: The fragmentation of the Albanian economy during 2012-2022.
Source: Statista, 2025

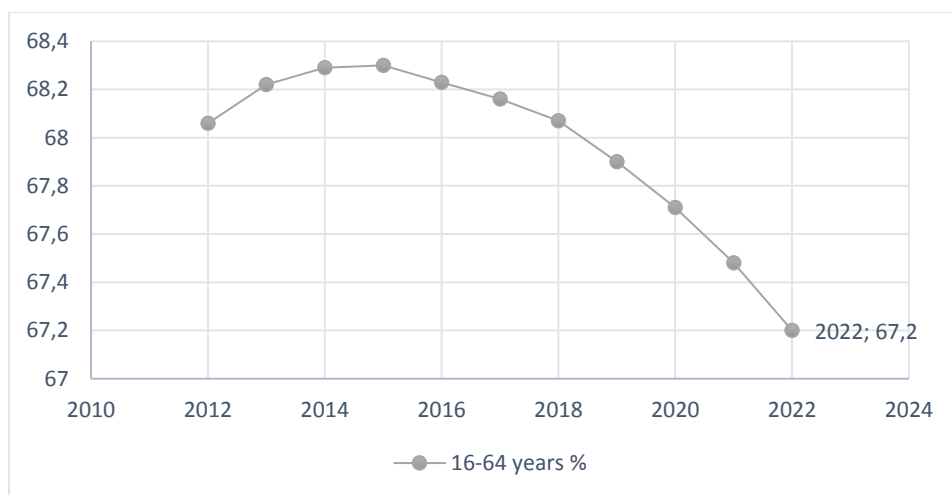


Fig. 3: The rate of the active labor force in Albania during the years.
Source: Statista, 2025

Table 3: The dispersion of the active labor force according to gender criteria in each region.

	Total (Female + Male)	Male	Female
	<u>15-64</u>	<u>15-64</u>	<u>15-64</u>
Shqipëria	<u>1,976,308</u>	<u>1,001,215</u>	<u>975,094</u>
Berat	91,534	47,008	44,526
Dibër	85,340	44,847	40,493
Durrës	193,551	99,442	94,109
Elbasan	193,689	98,984	94,705
Fier	208,286	107,859	100,427
Gjirokastër	46,407	23,488	22,919
Korçë	149,018	75,422	73,596
Kukës	53,040	27,279	25,761
Lezhë	87,773	45,063	42,710
Shkodër	144,081	71,708	72,373
Tiranë	592,091	293,181	298,910
Vlorë	131,501	66,936	64,565

Source: Institute of Statistics of Albania, 2025

Table 4: Descriptive Statistics of Variables.

Variables	Mean	SE Mean	StDev	Var.	Coef Var	Min.	Max.	Skewness	Kurtosis
GDP growth%	2.737	0.897	2.976	8.855	108.71	-3.300	8.910	0.09	2.42
Urban Population %	59.255	0.948	3.145	9.892	5.31	54.330	63.800	-0.11	-1.19
EMP Agriculture %	39.21	1.15	3.81	14.53	9.72	34.93	46.00	0.56	-0.97
EMP Industry %	19.313	0.461	1.530	2.342	7.92	16.880	21.400	-0.29	-1.06
EMP Services %	41.386	0.686	2.276	5.179	5.50	36.730	43.670	-0.87	-0.15

Source: Author's calculations, 2025

Table 6: Analysis of Variance of the model (ANOVA).

Source	DF	Seq SS	Adj SS	Adj MS	F	P
Regression	4	72.4232	72.4232	18.1058	6.7375	0.020853
Urban Population (%)	1	10.3296	0.5552	0.5552	0.2066	0.665433
EMP Services (%)	1	1.4002	46.6070	46.60.70	17.3434	0.005914
EMP Agriculture (%)	1	25.9042	58.6318	58.6318	21.8181	0.003428
EMP Industry (%)	1	34.7892	34.7892	34.7892	12.9457	0.011394
Error	6	16.1238	16.1238	2.6873		
Total	10	88.5470				

Source: Author's calculations, 2025