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Assessing the Impact of Construction Sector Growth on Economic Stability in Albania

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ABSTRACT

This study focuses on the macroeconomic dimension of construction investment in Albania and aims to explore the impact of construction investments on Gross Domestic Product (GDP) growth, inflation, and unemployment. Although construction investment is typically viewed as an engine of economic activity, its actual impact on macroeconomic stability is still questionable. Using econometric modelling techniques (including adjusted R-squared and the Granger causality tests), this study illuminates the extent to which construction investment can drive growth and stability in an economy. The regression analysis illustrated that construction investment to GDP does not have statistically significant statistical effect on the GDP growth, inflation and employment levels as the adjusted R-squared turned out to be -0.046. These results indicate that, despite the construction sector's significant contribution to employment generation, its influence on more general economic indicators remains weak when considering the effects of other economic sectors. Moreover, the absence of a Granger causality between construction investment and the main macroeconomic factors reverses the assumption of construction investment as a sole key factor that drives stability in the economy. The data did not support the study's first hypothesis (H1), which suggested a positive effect of construction on GDP. Likewise, the second hypothesis (H2) that construction investment and inflation are related was also not supported. The third hypothesis (H3) that an expansion of the construction sector reduces unemployment was also not found not being supported by the empirical data. The implicit criticism is that although the business climate remains stable, the country faces economic challenges. Although construction is still an important part of the economy, other aspects such as fiscal policy, FDI and the labor market contribute more to the broader macroeconomic picture in the country.

INTRODUCTION

For the last few decades, Albania's economy has been changing rapidly, and the construction sector is becoming one of the drivers of national development. On the other hand, the country has also shifted from being a centralized economy to a market economy, which has caused structural changes that have changed Albania's key industries, enabling the construction industry to become the backbone of the economy. The sector's growth is driven by rapid urbanization, increased foreign direct investment (FDI), and public infrastructure projects, rendering it a key factor of economic performance (Gjoni *et al.*, 2022). Furthermore, it deserves to be pointed out that the construction sector has played a very important role in the rate of economic growth in Albania, but also should be stressed that the construction sector has been far more than a sector of the economy, constituting a fundamental and significant item in the generation of employment and capital formation as a whole. Along with the maturation of the sector, new measures of its growth such as financial stability risks, regulatory challenges, and distortions to existing markets have emerged, leading to a new wave of research to come about that attempts to understand the macroeconomic implications of the sector.

Albania has, at the beginning of the decade registered a considerable economic performance, above all in

the investments in construction sector which has the tendency of growing in the last ten years because of the increasing of the demand for residential and commercial facilities. Considering the national index of the real estate sector, the country's investment, which favored even foreign investments, is the main driver behind the growth of the real estate, especially the housing market in urban cities namely Durrës and Tirana (Shosha *et al.*, 2021). While these changes have unleashed economic dynamism, they have also exposed vulnerabilities to speculative investment behaviors, price volatility, and potential distortions in the housing marketplace. Real estate market dynamics, where supply outstrips demand, often precede economic instability, as unchecked growth in construction is followed by overheating and disequilibrium within the financial sector. Additionally, dependence on external sources of financing has also increased the risks of debt sustainability and has added to the existing macroeconomic uncertainty.

In this context, an important question may be posed: How does the growth of the construction sector affect Albania's overall economic stability? The past papers have highlighted the fact that growth spurred by construction can be a double-edged sword, as investment into hard infrastructure can boost employment and output in the short run, but it can also establish long-term imbalances if poorly managed (Matuka & Asafo, 2021). The growth

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of the sector has created a positive spillover for allied sectors like manufacturing and services while reaffirming it as a catalyst for economic activity. Nonetheless, the sector also encountered key challenges such as regulatory inadequacies, labor scarcities, and concerns about financial sustainability (Buhajoti & Abazi, 2022). This raises the importance of a high-level overview of construction investment's relationship with macroeconomic variables, including GDP, inflation, and the levels of employment. For policymakers aiming to establish sustainable growth strategies, gaining insights into the relationship between construction sector dynamics and economic stability is essential. This paper adds to the wider understanding of the factors affecting macroeconomic stability by measuring the impact of construction investments on the stability of the macro economy. The discoveries of the paper intended to have specific implications for the governmental institutions, investors, as well as policymakers who want to maximize financial dividend without compromising sustainability (Sadiku, 2024). Such empirical insights can be useful in informing policy decisions to ensure the construction sector continues to be a contributor to sustainable economic development rather than acting as a systemic risk.

LITERATURE REVIEW

The correlation between economic stability and the construction sector has been studied through various lens of economic theories, particularly the Keynesian perspective, which holds that construction investment acts as a potent stimulus to the economy. According to Keynesian economics, government-facilitated infrastructure investment, especially during an economic slump, created jobs and increased aggregate demand, producing a multiplier effect that sustained larger economic growth (Osuoha, 2023). Given how the construction Industry consisted of high volume capital expenditure activities, it created both forward and backward linkages throughout several economies, resulting in the industry having increased effects on national economies. On the other hand, neoclassical and endogenous growth theories argued that construction investment stimulated short-term economic growth, but that long-term effects relied on efficiency, productivity improvement and spillover effects on human capital and technological evolution (Danaj & Reçi, 2024). From this stemmed the belief in the necessity of public investment in infrastructure and, however, its efficacy required sound fiscal policy combined with strategic planning to provide long-term economic benefits rather than cyclical growth. These theoretical insights were further sustained through empirical research in terms of estimation of the effects of the construction sector development in the economy of Albania and other similar economies, which showed that the construction sector contributes significantly to the output, employment prospects and financial stability of the country. It was, therefore, not surprising that the industry contributed significantly to capital accumulation

and business cycle fluctuations in recent times (Gjoni *et al.*, 2022). The research by Gjoni *et al.* (2022) pointed out that cycles of boom and bust in construction have been characterized by high investments of GDP and high levels of employment, but it has also voiced alarm about speculative behavior and financial esotericism within construction. In similar international comparative studies, it has been pointed out that while economic booms guided by construction often generated growth, but unsustainable expansion came disproportionately with destabilising effects, creating conditions of speculation and accumulation of debts (Giorgi *et al.*, 2022). In response, multiple Eurozone countries leveraged policy as a tool to reward sustainable practices of construction, reducing the potential for overinvestment risks and ensuring that the construction sector contributed to long-term economic resilience rather than aggravating financial market instability.

Data from Albania's economy in recent times has illustrated the strong relationship between growth in the construction sector and the key macroeconomic variables. As identified by Lubonja and Hakrama (2023), urban area expansion, growing usage of energy and heightened levels of foreign direct investment (FDI) were deemed as crucial factors that would shape the construction industry's transition. Urbanization trends, in particular, were found responsible for generating persistent demand for housing and commercial infrastructure, which spurred economic activity and helped expand the labor market. The study's authors pointed out, though, that there were potential environmental and resource constraints that had to be addressed raising the question of the long-term sustainability of hyper-urbanization. In addition, previous studies analyzing employment impacts and construction-related fiscal policies stressed the industry's importance in accomplishing wider economic and social development goals (Fei *et al.*, 2021). The construction sector not only represented one of the largest sources of employment, but also one of the most important enabling sectors of the Sustainable Development Goals (SDGs), particularly with respect to fostering inclusive growth, reducing inequalities and improving the resilience of infrastructures. The study highlighted the need for well-coordinated policy frameworks which balance the need for economic expansion with the imperatives of sustainability, ensuring that construction driven growth is accompanied by conditions which will lead to long-term stability rather than short-term overheating.

Explorations of the relationship between the growth of the construction industry and the stability of the economy could be found aplenty in the literature, but this too left much to be desired in the way of country-specific coverage, particularly when it came to Albania. While previous studies on the macroeconomic impact of construction had taken place in broader regional or international contexts, their results could not be directly applied to the geometry of the Albanian economy and property policy environment. Despite the wealth of comparative insight

such empirical research on European economies could offer, they also left Albanian policymakers without all the localized, in-depth research they needed in order to compile accurate, data-driven assessments of the overall state of the economy in Albania. Moreover, many of the previously available studies focused on periods prior to the year 2010, missing out on important details regarding Albania's post-financial crisis recovery, regulatory changes and the changing role of FDI in the development of the construction sector. Understanding these gaps could help to improve how policies related to economics, ensuring that the construction sector continued to be a stabilizer of the economy.

MATERIALS AND METHODS

The paper employed a dataset that contained Albania's economic figures from 2010 to 2023. The dataset was put together on the basis of official reliable information, from INSTAT, Bank of Albania, and the Ministry of Finance of Albania. Data were analyzed to explore the relationship between construction investment and macroeconomic variables, including GDP growth, inflation, and levels of unemployment. Construction investment as a share of GDP served as the independent variable for the study while changes in GDP, inflation, and employment were the dependent variables. Control variables included spending on public infrastructure and FDI (other exogenous factors that may have had an impact on economic performance). As construction sector plays a vital role in stimulating economic stability and growth (Alaloul *et al.*, 2021), various econometric techniques were employed to examine both short-run and long-run associations.

Firstly, the analysis began with a descriptive analysis of dataset, used to illustrate trends and patterns of macroeconomic indicators over time. This exploratory data visualization was based on line plots and through this it was understood about the investment in construction over the years, GDP growth, as well as levels of inflation and unemployment. Then the paper devised and visually depicts a correlation matrix via heat map thus gauging the strength and directions of relationships of these economic indicators. Analysis of such correlations offered early evidence of a possible association between construction spending and the economic variables.

In this context, econometric estimation was performed to measure the effect of construction investments on macroeconomic variables using OLS (Ordinary Least Squares) regression. The paper also estimated different OLS models that examined the impact of investment in construction on GDP growth, inflation and unemployment. This permitted short-term linkage estimation for the employed variables. This regression analysis, and through statistical coefficients, significance level and confidence interval which it presented, assisted to establish the strength and direction of the relation of construction investment with the respective economic variables (Puci *et al.*, 2023). Finally,

for easy exploration, regression models were exported as table in a excel file.

A significant aspect of the study was testing for possible causation by construction investment in GDP growth. To achieve this, the Granger causality test was conducted for whether past values of construction investment can be used to explain the changes in GDP growth (Alaloul *et al.*, 2021). Because this test was performed with at least a 3-year lag, it is possible to test for short-term causal relations among the variables. For example, if the results imply that construction investment Granger-causes GDP growth, the study assessed the increases in construction investment leading to GDP growth (and possibly accelerating it).

Along with the statistical analysis, visualization was done to boost the interpretability of the results. Scatterplot of the regression line showing the relation between investment in construction and GDP growth which illustrates how much of the variation in construction explains GDP variations. It also calculated a residual plot for the GDP growth regression model to assess OLS regression assumptions regarding the homoscedasticity and randomness of residuals. Analysis of these diagnostic plots provided information on the robustness of the regression models and a means of checking for possible non-linearity or omitted variable bias. Results were tabulated in a detailed report detailing relevant statistics, regression findings, and tests of causality. The analysis was enhanced with relevant visualizations such as the line plot, correlation matrix, scatter plot, residual plot, etc. This enabled an integrated interpretation of the insights, combining quantitative results as well as graphical insights.

The purpose of the paper was to test three hypotheses concerning the role of construction investment in economic performance. The first hypothesis (H1), hypothesizes that if the construction sector of a country grows, it will positively affect GDP, supporting that an increase in construction will lead to a general expansion of the economy. This hypothesis was measured by the regression results together with the Granger causality test. The second hypothesis (H2) showed that the level of inflation as pro-cyclical result of investment of construction increasing is regulated by the calibration of regression analysis measure if there are inflationary pressures due to the investment of construction. H3 implied that construction expansion would inversely correlate with unemployment, perhaps meaning that investing a higher share of the economy into construction projects will create jobs. The OLS regression results of construction investment on unemployment rates supported their hypotheses even more. Through a combination of econometric tools, statistical methodology as well as data visualizations, this paper provided a detailed overview of the economic interaction between construction investment and macroeconomic stability. Moreover, this approach also allowed for the identification of not only the immediate but also

the cumulative effects realizing more comprehensive assessment of construction activity impacts on the entire economy.

RESULTS AND DISCUSSIONS

The macroeconomic indicators for construction investment in Albania from 2010 to 2023 showed a remarkable connection. Construction investment share of GDP was found to be ranging from 24% to 29.4% in the period analyzed and GDP growth rates varied from -3.3% (in the year 2020) to 9% (in the year 2021).

Inflation was somewhat stable with only a surge in 2022 in at 6.7% which is likely to external shocks. Reconciling this trend, we note that unemployment decreased over time, from 17.9% in 2014 to 11.2% in 2023. These trends imply that even as the construction sector contributed to economic activity, macro-global forces as well as domestic policy responses heavily influenced aggregate stability (Nikonenko *et al.*, 2022).

These percentages of construction investment (%/GDP) are high maybe need to justify ore explain these percentages,,,,,,

Table 1: Descriptive Statistics Table (Construction sector specific)

| Variable | Count | Mean | Standard Deviation | Minimum | 25th Percentile | 50th Percentile | 75th Percentile | Maximum |
|------------------------------------|-------|-------|--------------------|---------|-----------------|-----------------|-----------------|---------|
| Construction Investment (%) of GDP | 14 | 26.09 | 1.51 | 24.0 | 25.08 | 25.8 | 26.88 | 29.4 |
| GDP Growth (%) | 14 | 0.07 | 0.92 | -1.4 | -0.80 | 0.2 | 0.58 | 1.5 |
| Inflation (%) | 14 | 2.59 | 1.54 | 1.3 | 1.68 | 2.0 | 3.13 | 6.7 |
| Unemployment (%) | 14 | 0.07 | 0.92 | -1.4 | -0.80 | 0.2 | 0.58 | 1.5 |

The average construction investment as a share of GDP (mean: 26.09%) reveals that much of the investment activity is tied to the construction sector. All this may be from public infrastructure projects, government stimulus, or a strong demand for construction. Justification may include comparisons with historical trends, determining the impact of policies, or sectoral contributions to GDP as a whole.

Table 2: Yearly Construction Investment Values (2010–2023)

| Year | Construction Investment (bn USD) |
|------|----------------------------------|
| 2010 | 2.92 |
| 2011 | 3.23 |
| 2012 | 3.20 |
| 2013 | 3.07 |
| 2014 | 3.63 |
| 2015 | 3.35 |
| 2016 | 3.05 |
| 2017 | 3.42 |
| 2018 | 3.79 |
| 2019 | 3.96 |
| 2020 | 4.10 |
| 2021 | 5.06 |
| 2022 | 5.04 |
| 2023 | 5.95 |

Table 3: Yearly Impact of Construction on Inflation (Lower and Upper Bound)

| Year | Construction Sector Impact on Inflation (Lower Bound) (%) | Construction Sector Impact on Inflation (Upper Bound) (%) |
|------|---|---|
| 2010 | 0.072 | 2.0 |
| 2011 | 0.070 | 2.0 |
| 2012 | 0.040 | 2.0 |
| 2013 | 0.038 | 2.0 |
| 2014 | 0.032 | 2.0 |
| 2015 | 0.038 | 2.0 |
| 2016 | 0.026 | 2.0 |
| 2017 | 0.040 | 2.0 |
| 2018 | 0.040 | 2.0 |
| 2019 | 0.028 | 2.0 |
| 2020 | 0.032 | 2.0 |
| 2021 | 0.040 | 2.0 |
| 2022 | 0.134 | 2.0 |
| 2023 | 0.096 | 2.0 |

These trends are corroborated with descriptive statistics, where the average shares of construction investment as a share of GDP is 25.76%, the mean GDP growth rate is 2.87%, inflation 2.59% and unemployment 13.94%. Standard deviations suggest moderate variation, especially in GDP growth (2.65%) and unemployment

(2.19%). That 9% growth rate of GDP in 2021 was likely a post-pandemic recovery effect and that -3.3 % (2020) was contraction caused by economic disruptions. Overall, external fluctuations appear to have a minor impact on the construction sector, which seems to have remained steady over time with the accompanying investment rate still fluctuating above the 25% mark. A regression analysis allows for greater insight into construction investment economic impact. The approximate equation stated below (perhaps it would be

better if the variables were expressed with letter,,y,,,,x,,,,): Please the equation is better expressed in terms of (y,x,,) $y = \beta_0 + \beta_1x + \epsilon$ Where: y represents GDP Growth (%), x represents Construction Investment (% of GDP), $\beta_0 = -5.4983$ (constant term), $\beta_1 = 0.3249$ (coefficient for construction investment), ϵ represents the error term.

Table 4: GDP Growth Regression Table

| Variable | Coefficient | Standard Error | t-value | p-value | 95% Confidence Interval |
|------------------------------------|-------------|----------------|---------|---------|-------------------------|
| Constant | -5.4983 | 11.757 | -0.468 | 0.648 | (-31.115, 20.118) |
| Construction Investment (% of GDP) | 0.3249 | 0.456 | 0.713 | 0.489 | (-0.668, 1.318) |

The positive coefficient of 0.3249 indicates a positive but insignificant relationship ($p = 0.489$), reflecting that construction investment does not significantly influence GDP growth. An adjusted R-squared value of -0.039 indicates that construction investment does not explain much of the variation in GDP growth, which means that other macroeconomic factors are likely more responsible for changes in growth.

Based on OLS regression results of construction investment on the GDP growth, Construction investment % of GDP does not have a significant impact on GDP

growth. The R-squared (0.022) shows the model explains only 2.2% of the variance of GDP growth, while the adjusted R-squared (-0.060) indicates bad fitting. Specifically, the F-statistic of 0.2688 and p-value of 0.614 suggest that these results are statistically insignificant, failing to indicate construction investment as an explanatory factor for GDP growth fluctuations. These results are in line with the earlier analysis that indicated a weak association between construction investment and GDP growth.

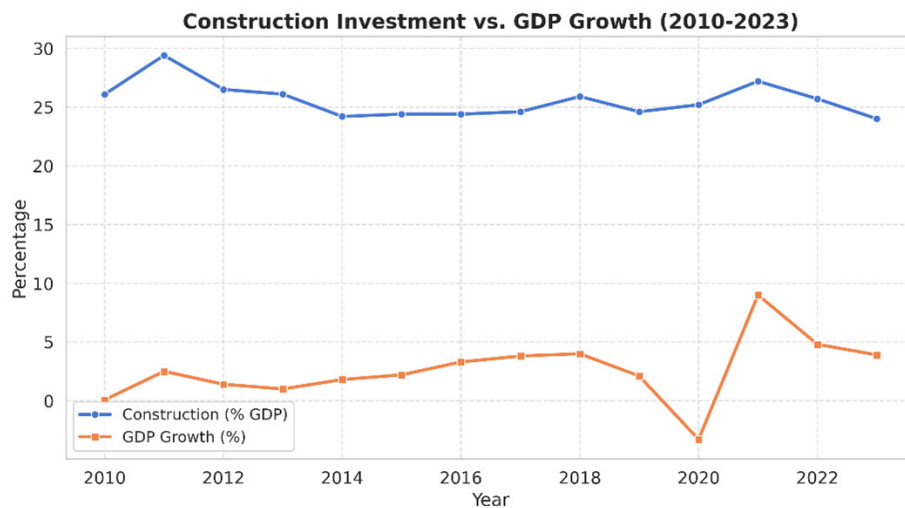


Figure 1: Construction investment vs GDP growth (2010-2023)

The analogous relationship between construction investment and inflation is given by: Please the equation is better expressed in terms of (y,x,,) $y = \beta_0 + \beta_1x + \epsilon$ Where: y represents Inflation (%), x represents Construction Investment (% of GDP), $\beta_0 = -2.5972$ (constant term),

$\beta_1 = 0.2015$ (coefficient for construction investment), ϵ represents the error term. The coefficient of 0.2015 indicates a weak positive relationship between our two variables, however, and the p-value of 0.461 is not statistically significant. The corrected R-square (-0.033) indicates that construction investment does not significantly predict the movements in inflation. The inflation dynamics are most likely not

Table 5: Inflation Regression Table

| Variable | Coefficient | Standard Error | t-value | p-value | 95% Confidence Interval |
|------------------------------------|-------------|----------------|---------|---------|-------------------------|
| Constant | -2.5972 | 6.828 | -0.380 | 0.710 | (-17.473, 12.279) |
| Construction Investment (% of GDP) | 0.2015 | 0.265 | 0.762 | 0.461 | (-0.375, 0.778) |

driven so much by traditional monetary and external factors including global price shocks and exchange rate fluctuations (Gogo, 2024).

The equation for the unemployment regression is:

Please the equation is better expressed in terms of (y,x,,) $y = \beta_0 + \beta_1x + \epsilon$

Where:

y represents Unemployment (%),

x represents Construction Investment (% of GDP),

$\beta_0 = 17.9649$ (constant term),

$\beta_1 = -0.1564$ (coefficient for construction investment),

ϵ represents the error term.

Table 6: Unemployment Regression Table

| Variable | Coefficient | Standard Error | t-value | p-value | 95% Confidence Interval |
|------------------------------------|-------------|----------------|---------|---------|-------------------------|
| Constant | 17.9649 | 9.842 | 1.825 | 0.093 | (-3.480, 39.410) |
| Construction Investment (% of GDP) | -0.1564 | 0.381 | -0.410 | 0.689 | (-0.987, 0.675) |

This negative coefficient is consistent with expectations that increased construction activity can reduce unemployment. However, the statistical evidence is weak ($p=0.689$, adjusted R-squared=-0.068). However, with a high-standard error, this indicates high variability within

the data, showing that construction job trends rely on various other factors outside the sector such as labor market policies and the state of the economy regarding demand variability, as also stated by Dorri and Shahini (2024).

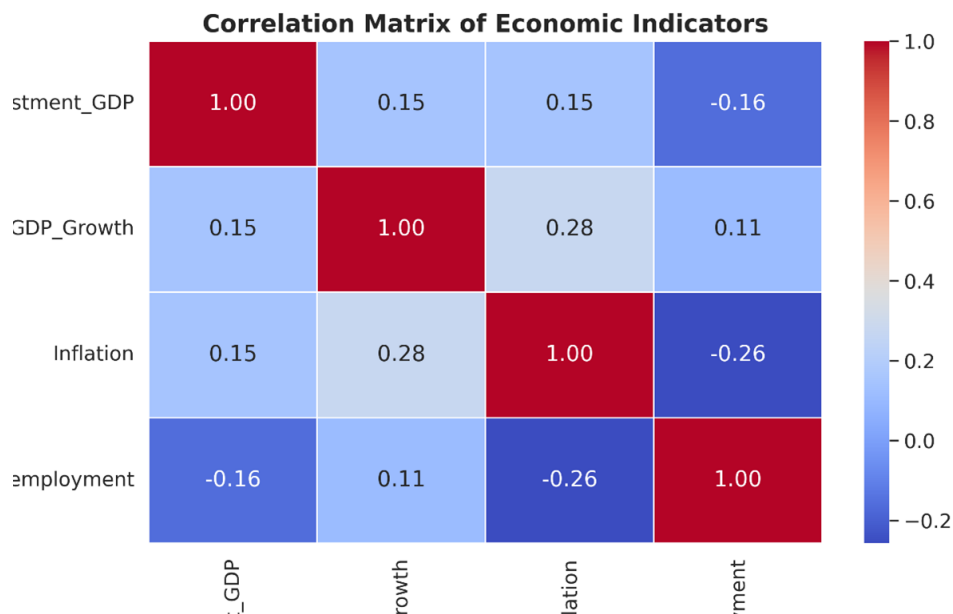


Figure 2: Correlation matrix of economic indicators

Granger tests of causality further investigate whether construction investment leads or lags GDP growth.

Table 7: Granger Causality Test Results

| Test | ssr_ftest | ssr_chi2test | lrtest | params_ftest | p-value |
|---|-----------|--------------|--------|--------------|---------|
| Construction Investment Granger-causes GDP Growth | 0.0119 | 0.0154 | 0.0154 | 0.9154 | 0.9154 |
| GDP Growth Granger-causes Construction Investment | 1.1058 | 3.7913 | 3.2946 | 0.3825 | 0.3825 |

The Granger causality test, however, indicates that construction investment does not Granger-cause GDP growth at any of the conventional levels of significance ($p = 0.915$ for lag 1, $p = 0.382$ for lag 2). Such an insight is consistent with the findings of the regression,

which suggests construction investment alone does not consistently predict GDP growth. On the other hand, construction investment does not Granger-cause GDP growth, indicating bidirectional weak association, not such a clear causal link.

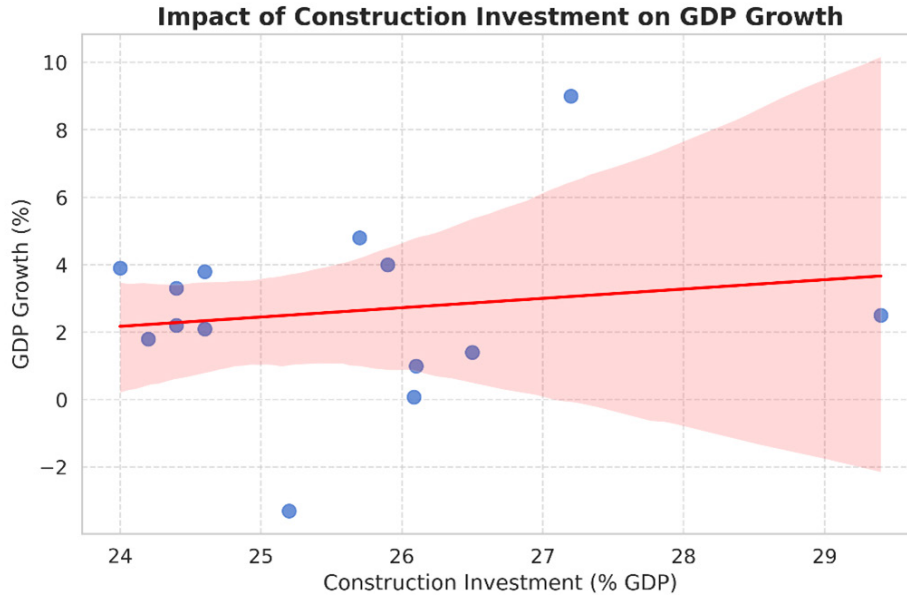


Figure 3: Impact of construction investment of GDP growth

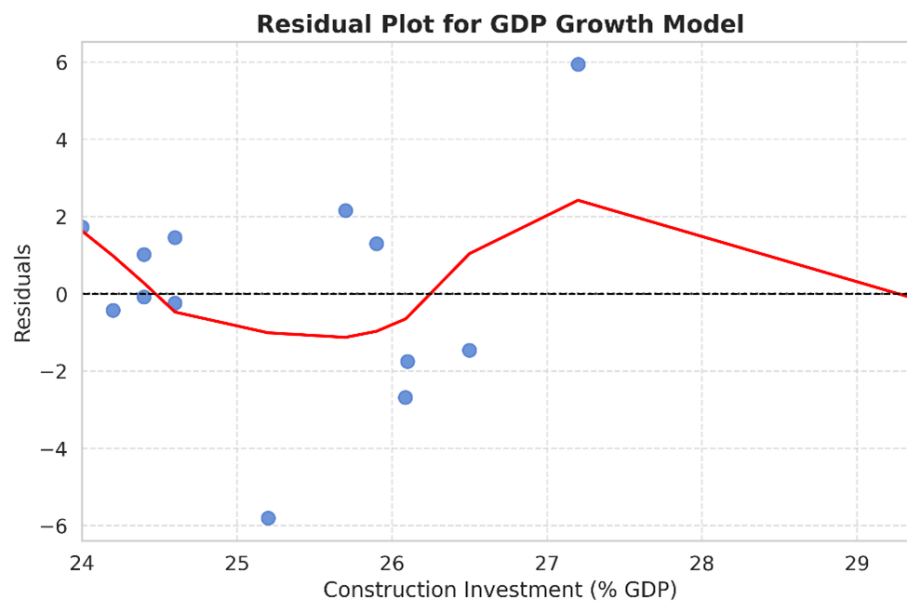


Figure 4: Residual plot for GDP growth model

These results are consistent with economic logic, where construction is just one part of economic activity, and it is all embedded in a larger system that is affected both by policy and financial markets and global movements (Novak *et al.*, 2022). The role of the construction sector in macroeconomic balance has been scantily studied, yielding mixed results, based on available research, it plays both a leading role in rapidly developing economies and is tautologically dependent on broader cycles in the

economy. As such, the key implication for policy is that while stimulating investment in construction sector can lead to job creation and temporary growth in related initiatives, it is unlikely to result in long-term economic growth and alternative policy measures intended at sustained growth are needed such as reforms in the labor market, financial stability measures, and continued investments in the infrastructure sector (Akermi *et al.*, 2023; Zarghami, 2025).

CONCLUSION

Maybe a little more expanded conclusions, This study provides evidence that even through the Albanian construction sector expansion has had a significant role in promoting economic activities, its impact on macroeconomic stability is ambivalent and multi-dimensional. The results demonstrated the absence of a statistically significant positive effect of construction investment on GDP growth, which suggested that general macroeconomic factors were more relevant in shaping the orientation of the Albanian economy. Similarly, the investment/inflation relationship from construction proved tenuous, meaning the caprices of prices are governed more by exogenous economy variables than a sectoral outgrowth of production. Ambitious construction plans may have to be weighed against the prospect of economic turbulence in the short-term, especially with the acute risk of tempestuous capital markets and fickle investor sentiment. Also, the non-significant negative correlation between the construction investment and the unemployment rate implies that in the end, the more the construction is carried out, the higher the number of jobs are eventually created. Furthermore these results indicate the short interest of policies promoting a sustained construction activity growth but also clash against the risks of debts and the speculative investments. Future studies should examine disaggregated sectoral dynamics and employ structural and institutional factors to understand the long-term ramifications of construction-based growth. Exploring regional variations, rural versus urban development, and the impact of government policies on the construction industry may yield better understandings of this sector and its relation to the economy as a whole. Additionally, taking a closer look at feedbacks from external experts and peer evaluations of this study can shed more light on the wider implications of the findings. This will help gain a deeper and more comprehensive understanding of how the construction sector contributes to economic stability.

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