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ALBANIA

May 2018

2018 FIRST POST-PROGRAM MONITORING DISCUSSIONS—PRESS RELEASE AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2018 first Post-Program Monitoring discussions with Albania, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on March 20, 2018, with the officials of Albania on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 3, 2018.

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May 22, 2018

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IMF Executive Board Concludes First Post-Program Monitoring for Albania

On May 18, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the First Post-Program Monitoring[1] review for Albania and considered and endorsed the Staff Appraisal on a lapse-of-time basis.[2]

Albania's capacity to repay the Fund is adequate reflecting a strong record of repaying the Fund, relative macroeconomic stability, and progress in reforms.

The Albanian economy has continued to strengthen, with real GDP growth at 3.8 percent (yoy) during 2017, reflecting strong domestic demand driven by a revival in construction, recovery in the labor market and household credit, and large energy-related FDI projects. While the public debt to GDP ratio declined, the pace of fiscal consolidation has slowed post-program, with arrears accumulating. The current account deficit narrowed to 6.9 percent of GDP, supported by tourism and other services exports, and the level of FX reserves remains comfortable. Inflation is low and although credit growth is weak, banks are liquid and stable.

Despite the favorable environment and positive short-term outlook, risks and vulnerabilities remain, emanating from high public debt, non-performing loans in the financial sector, and weaknesses in public institutions and the judicial system. A slowdown in reforms or spillovers from external shocks could undermine growth prospects and confidence, adversely affecting debt dynamics and creating financing pressures on the government. On the upside, the opening of EU accession negotiations can provide a window of opportunity to lift implementation of the reform agenda, leading to higher investment and GDP growth.

Executive Board Assessment

Albania is enjoying strong economic growth, but it may not last without a significant push for structural reforms. The country is yet to take full advantage of its low labor costs and proximity with the EU due to a difficult business environment that deters investment. It is therefore critical that the government uses the good times to push the reform agenda to lift potential growth and position the country to benefit from potential EU accession.

[1] The central objective of PPM is to provide for closer monitoring of the policies of members that have substantial Fund credit outstanding following the expiration of their arrangements. Under PPM, members undertake more frequent formal consultation with the Fund than is the case under surveillance, with a particular focus on macroeconomic and structural policies that have a bearing on external viability.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Key policy and implementation challenges remain. Public debt remains high. NPLs, while declining, continue to affect the overall credit growth, particularly in the corporate sector. The state-owned electricity sector needs to be put on a sustainable financial footing and growth-enhancing structural measures need to continue with more vigor. Efforts to address these challenges should be redoubled to enhance the country's resilience to shocks and mitigate vulnerabilities.

Addressing fiscal risks posed by the high level of public debt and the related financing needs remains a high priority. This requires more fiscal adjustment, preferably in the near term. Public debt management should focus on lengthening the maturity of public debt and diversifying the investor base, while avoiding risks posed by excessive non-concessional FX borrowing. Debt management capacity needs to be strengthened.

Improving tax compliance and administration is crucial. The progress towards value-based property taxation is welcome, but its implementation needs careful preparation. The authorities should consider additional revenue measures, including broadening the tax base. They should refrain from lowering tax rates or granting any new tax exemptions or preferential tax treatments that could complicate the tax system and distort the resource allocation in the economy.

Strengthening fiscal institutions and assessment of fiscal risks is another priority. Stronger efforts are needed to enhance the credibility of the medium-term budgetary framework. Public investment prioritization, project appraisal and monitoring are key. The MoF should enhance the fiscal recording, and legal, financial and economic analysis of PPP projects and ensure proper implementation of the PPP framework. The impact of PPPs on the fiscal medium-term budget framework and debt sustainability should be carefully assessed.

Institutional improvements are needed to tackle arrears, including in VAT refunds and unbudgeted investment projects. The authorities should improve the VAT refund process and strengthen commitment controls, expand the Treasury's IT system to local governments and register all unbudgeted commitments and record unpaid bills. Measures such as reverse VAT to limit refunds should be exercised with caution.

Reforms in governance and financial restructuring of the state-owned electricity sector need to continue. The endemic issues of arrears accumulation and intracompany debt should be addressed. These measures should be backed by acceleration of institutional and market design reforms.

The current monetary policy stance is appropriate. The policy rate is currently at historical low rate, consistent with low inflation and external conditions. Measures to reduce euroization and deepen domestic financial markets are welcome. The flexible exchange rate has been an important stabilizer for the economy and the Bank of Albania has been building a comfortable buffer of foreign reserves to address external shocks.

The push for legislative and institutional measures to resolve high NPL ratios needs to continue. While NPL ratios have declined, the authorities need to accelerate measures to deal with cumbersome and inefficient collateral execution and out-of-court restructuring frameworks, which continue to impede credit growth.

Further alignment of financial sector regulation with EU standards is needed. Gradual convergence with the Basel III framework is warranted, including by imposing capital requirements on a risk-based, bank-specific approach to tackle risks within certain banks. The recent efforts of the authorities to implement targeted regulations to address risks from related party transactions and cross-border flows are welcome. The crisis management framework for non-bank financial institutions needs to be finalized to enhance system's resilience to shocks and mitigate financial stability risk.

Albania: Selected Economic Indicators, 2013-2019

	2013	2014	2015	2016	2017	2018	2019
					est.	Projections	
Real sector							
Real GDP	1.0	1.8	2.2	3.4	3.8	3.6	3.7
Consumer Price Index (avg.)	1.9	1.6	1.9	1.3	2.0	2.1	2.6
Consumer Price Index (eop)	1.8	0.7	1.9	2.2	1.8	2.4	2.9
GDP deflator	0.3	1.5	0.6	-0.5	1.4	1.7	2.3
Saving-investment balance							
Foreign savings	9.3	10.8	8.6	7.6	6.9	6.8	6.6
National savings	17.7	15.9	16.9	16.7	15.9	15.6	15.7
Public	-0.8	0.6	0.7	1.2	1.7	1.5	1.5
Private	18.5	15.4	16.1	15.5	14.2	14.1	14.2
Investment (Incl. inventories + stat. disc.)	27.9	26.7	25.5	24.3	22.8	22.4	22.3
Investment: Gross fixed capital formation	27.0	24.2	24.4	24.5	25.2	24.9	24.6
Public	5.1	5.0	4.7	4.6	5.1	5.2	5.2
Private	21.9	19.1	19.7	20.0	20.2	19.7	19.4
Fiscal sector			(Percent of GDP)				
Revenues and grants	24.0	26.3	26.3	27.3	27.7	27.7	27.6
Tax revenue	22.0	24.1	23.7	24.8	25.7	25.5	25.4
Expenditures	29.2	32.2	30.9	29.6	29.7	29.9	29.6
Primary	26.0	29.3	28.2	27.1	27.6	27.7	27.4
Interest	3.2	2.9	2.7	2.5	2.1	2.2	2.2
Overall balance (excluding arrears payment)	-5.2	-5.9	-4.6	-2.3	-2.0	-2.2	-2.0
Primary balance (excluding arrears payment)	-2.0	-3.0	-1.9	0.2	0.1	0.0	0.2
Net domestic financing	4.4	3.4	-1.3	0.9	-0.8	-3.4	0.8
of which: Privatization receipts	1.2	0.0	0.1	0.2	0.0	0.0	0.0
Foreign financing	0.8	2.5	5.0	1.3	1.9	5.6	1.2
Public Debt	70.4	72.0	73.7	73.2	71.8	72.4	69.8
Domestic	43.4	42.4	39.5	39.0	38.9	35.2	33.2
of which: Unpaid bills and arrears	4.8	1.9	1.0	0.9	...	...	...
External (including publicly guaranteed)	27.0	29.6	34.2	34.2	32.9	37.2	36.6
Monetary indicators			(Growth rate in percent)				
Broad money growth	2.3	4.0	1.8	3.9	0.2	4.5	5.8
Private credit growth	-1.4	2.0	-2.8	0.4	0.2	1.7	4.2
Velocity	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Interest rate (3-mth T-bills, end-period)	3.4	3.1	1.5	1.2	...	...	...
BoA repo rate (in percent)	3.0	2.3	1.8	1.3	...	...	...
External sector							
Trade balance (goods and services)	-18.0	-19.0	-17.3	-16.8	-15.1	-14.4	-13.9
Current account balance	-9.3	-10.8	-8.6	-7.6	-6.9	-6.8	-6.6
Gross international reserves (in billions of Euros)	2.0	2.2	2.9	2.9	3.0	3.3	3.2
(In months of imports of goods and services)	5.4	5.6	7.6	7.2	6.7	6.9	6.3
(Relative to external debt service)	4.9	2.9	2.6	3.6	3.5	3.5	3.1
(In percent of broad money)	24.6	25.7	32.5	31.5	31.5	34.1	31.3
Change in real exchange rate (eop, in percent)	1.0	2.4	1.5	3.9	...	...	...
Memorandum items							
Nominal GDP (in billions of lek)	1350	1395	1434	1475	1553	1637	1737
Output gap (percent, - = gap)	-0.9	-1.5	-1.8	-1.4	-0.7	-0.5	-0.3

Sources: Albanian authorities; and IMF staff estimates and projections.

ALBANIA

FIRST POST-PROGRAM MONITORING DISCUSSIONS

May 3, 2018

EXECUTIVE SUMMARY

Albania's economic recovery remains strong, benefiting from a favorable domestic and external environment. Economic growth is picking up backed by strong domestic demand, energy-related foreign direct investment, and exports of services. The current account deficit is narrowing and the level of foreign exchange reserves remains comfortable. Inflation is low and public debt is declining. While credit growth is weak, banks are liquid and stable.

Despite the favorable environment, risks remain. The main vulnerabilities arise from high public debt, non-performing loans in the financial sector, and weaknesses in institutions, notably public financial management, and the rule of law. A slowdown in reforms or spillovers from negative external shocks could undermine confidence, investment and growth prospects, adversely affecting debt dynamics and financing pressures on government.

The mitigation of these risks requires a multifaceted and well-coordinated reform agenda in several key areas of economic and structural policies, specifically:

- larger up-front fiscal consolidation via stronger revenues, and further reduction of debt vulnerabilities backed by sound fiscal institutions, including in public finance management and state-owned enterprise (SOE) governance.
- a stronger institutional framework for resolving Non-Performing Loans (NPLs); and enhanced bank supervision and regulation aligned with EU standards to manage risks of systemic banks and related-party transactions.
- further structural reforms for raising the economy's competitiveness and growth potential.

Albania's capacity to repay the Fund is adequate. Fund credit outstanding stood at 3.1 percent of GDP or 12 percent of gross international reserves in 2017 and debt service to the Fund is expected to peak in 2022 at 1.8 percent of reserves. Albania's strong record of repaying the Fund, good progress in reforms, and relative macroeconomic stability also suggest that risks to repayment capacity are limited.

Approved By
Jörg Decressin (EUR) and Zeine Zeidane (SPR)

Discussions took place in Tirana during March 7–March 20, 2018. The staff team comprised Ms. Tuladhar (head), Mr. Cabezon and Ms. Khachatryan (EUR), Mr. Lafarguette (MCM), Ms. Cerovic (FAD), and Mr. Weller (SPR). Mr. Reinke (Resident Representative) and Ms. Spahia (local economist) assisted the missions. Messrs. Leipold and Di Lorenzo (OED) attended some meetings. Mr. Song and Mr. Stewart (all EUR) assisted in the preparation of the staff report. The staff team met with Minister of Finance and Economy Ahmetaj, Minister of Energy and Infrastructure Gjiknuri, Minister of Justice Gjoni, Bank of Albania Governor Sejko, Parliamentarians, other senior officials, donors and representatives from banks and the private sector.

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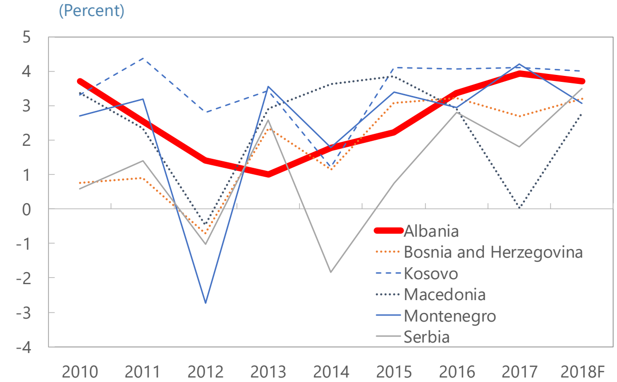
CONTEXT

1. **Albania's economic recovery remains strong amid supportive macroeconomic policies, a stable political environment, and favorable external conditions, but challenges remain.** Economic growth is picking up backed by strong domestic demand, large energy related FDI, and a surge in exports. The new Socialist-Party led government is pursuing a reform agenda focused on advancing judicial reform—a key precondition for opening EU accession negotiations, on which Albania received a positive recommendation from the European Commission in April— increasing investments, and improving public administration efficiency. Nevertheless, the medium-term outlook continues to remain challenging due to weaknesses in the rule of law and vulnerabilities in the fiscal and financial sectors.

RECENT ECONOMIC DEVELOPMENTS

2. **Albania's growth momentum remained strong. *Real GDP*** grew 3.8 percent (yoy) during 2017, one of the highest growth rates in the region. Domestic demand strengthened, reflecting a revival in construction, a recovery in the labor market and household credit, and large energy-related FDI projects. Despite the surge of drought-induced electricity imports, the ***current account deficit*** narrowed to 6.9 percent of GDP, supported by tourism and other services exports. The deficit is predominantly funded by concessional borrowing and large FDI inflows. Gross international reserves are comfortable, covering more than 6 months of imports. ***Inflation*** remained below target at 1.8 percent and core inflation is still weak at 1 percent, reflecting limited wage pressures with rising labor participation, nominal LEK/EUR appreciation (4 percent, yoy), and sluggish nonfuel international commodity prices.

Real GDP Growth
(Percent)



Source: IMF, WEO database; and IMF staff estimates.

3. **Despite the favorable economic conditions, the pace of fiscal consolidation has slowed.** The general government primary surplus slightly deteriorated to 0.1 percent of GDP in 2017, compared to 0.2 percent in 2016 and 0.4 percent in the revised budget. Revenue underperformed due to lower personal income tax collection, non-tax revenues and grants, which was offset by underspending in both current and capital expenditures. The general government deficit fell to 2 percent of GDP, and general government debt declined to 71.8 percent of GDP. However, new arrears of around 0.9 percent of GDP accumulated in 2017, primarily from VAT refunds and investments at the central government level. Under the 2018 budget, the fiscal stance is expected to remain broadly neutral with an overall deficit target of 2 percent of GDP.

4. The Albanian banking system is liquid and profitable, but private credit recovery remains weak despite historically low interest rates. At end-2017, private credit grew in nominal terms by 0.2 percent (3.4 percent, after adjusting for write-offs). Lending to households and SMEs is expanding, while loans to large corporates are declining as banks are diversifying their portfolios and reducing their exposures to large borrowers. At the same time, domestic banks are expanding as EU-owned banks are deleveraging. The average capital adequacy ratio, at 16.6 percent at end-2017, is above the regulatory requirements; the NPL ratio, at 13.2 percent of total loan portfolio, is declining mainly due to write-offs of corporate NPLs and restructured loans.[1]

OUTLOOK AND RISKS

5. The short- to medium-term outlook is favorable. GDP growth is expected to ease slightly in 2018, as the large energy projects start to wind down. In the medium-term, growth is projected to increase to 4 percent, driven by strong domestic demand, reforms towards EU accession that improve the business climate, and recovery in trading partners. Inflation is expected to edge up gradually as the output gap closes, stabilizing around the 3 percent target by late 2019. The current account deficit is expected to narrow further, declining to around 6½ percent of GDP underpinned by strong external demand, the continued growth of services exports, the completion of import-intensive energy projects, and improving terms of trade.

Selected Indicators: Baseline Scenario

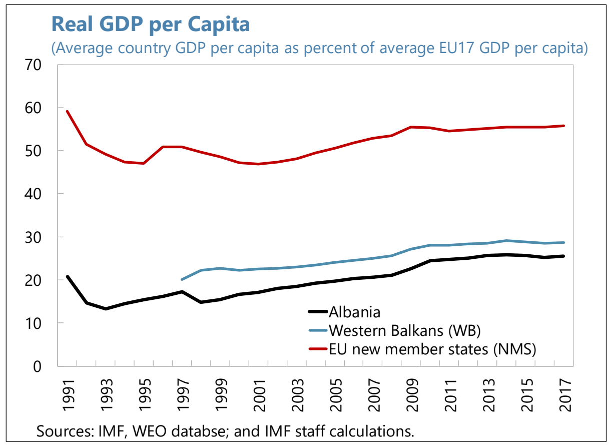
	2016	2017	2018	2019	2020	2021	2022	2023
Real GDP Growth (percent)	3.4	3.8	3.6	3.7	3.9	3.9	4.0	4.0
Inflation (avg., percent)	1.3	2.0	2.5	2.8	3.0	3.0	3.0	3.0
Current account (percent of GDP)	-7.6	-6.9	-6.8	-6.6	-6.1	-5.9	-5.8	-5.9
Reserves (months of Imports)	6.5	6.3	6.6	6.0	5.9	5.6	5.3	5.0
Fiscal overall balance(percent of GDP)	-2.3	-2.0	-2.1	-2.0	-1.9	-1.8	-2.1	-1.9
Primary balance(percent of GDP)	0.2	0.1	0.1	0.3	0.4	0.3	0.2	0.4
Government debt (percent of GDP)	73.2	71.8	72.2	69.5	66.6	63.9	62.1	60.4

Source: IMF staff estimates.

6. Risks to the outlook are tilted to the downside (RAM, Annex I). Delays in implementing fiscal consolidation and the reform agenda can undermine investor confidence and significantly reduce donor and capital inflows. Adverse weather conditions could affect electricity generation, creating quasi-fiscal risks. Externally, rapid tightening of financial conditions, spillovers from stress in the banking system and weaker-than expected growth in the Euro area could impact Albania by dragging down exports, remittances, and FDI. On the upside, however, progress in the EU accession process could lead to higher investment and stronger GDP growth.

[1] As of 2017 Q2, the corporate NPL ratio was more than twice the household ratio (19.5 percent vs 9 percent), and NPLs in FX denominated loans are higher than in Lek denominated loans (17.6 percent vs 11-12 percent).

7. Over the longer run, achieving higher growth for more rapid convergence requires sustained structural reforms. As discussed in the Article IV consultation, migration and aging population will be a drag on growth. Furthermore, low national savings threaten investment sustainability as it has been largely financed with FDI. Addressing these issues requires institutional reforms to improve the business climate, secure energy supplies, reduce informality, increase human capital, and deepen financial markets.



Authorities' Views

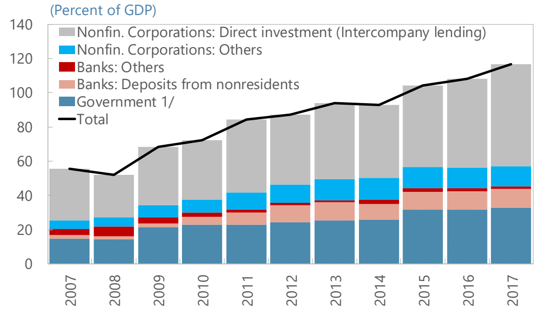
8. The authorities broadly agreed with the staff assessment, but the Ministry of Finance perceived more upside risks than staff. Strong domestic demand, a positive external context and progress with reforms would help to enhance growth. However, the BOA recognized risks to medium-term growth should reform momentum start to slow. While the authorities acknowledged vulnerabilities to weather-related shocks and the potential for delays in judiciary reform, they assessed the impact of external risks as minor, as Albania's main Euro Area trading partners are recovering.

CAPACITY TO REPAY THE FUND

9. Albania's capacity to repay is adequate. Fund credit outstanding stood at 3 percent of GDP or 12 percent of gross international reserves in 2017. By contrast, FX reserves are 26 percent of GDP or almost 6⅓ months of imports. Fund credit outstanding was 213 percent of quota at end-2017 and is expected to remain above 200 percent of quota, the threshold for the Fund's post-program monitoring, until November 2019. Debt service to the Fund is expected to peak in 2022 at around 0.4 percent of GDP and 1.8 percent of reserves. Albania's strong record of repaying the Fund, progress in reform implementation, and relative macroeconomic stability also suggest that risks to repayment capacity are limited. Staff simulated an adverse scenario (Annex II), to illustrate the downside risks, which shows that Albania's capacity to repay continues to remain adequate. Even under this adverse scenario, debt service to the Fund is expected to peak at around 0.5 percent of GDP or 2.2 percent of reserves.

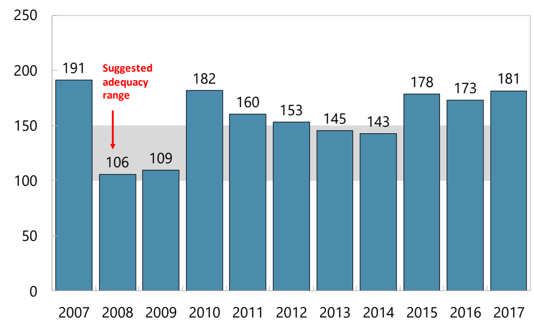
10. An external sustainability analysis indicates that while net external liabilities are high, near-term vulnerabilities are limited. The net international investment position (NIIP) has been increasingly negative with external liabilities reaching 110 percent of GDP in 2017. Half of external liabilities comprise less volatile FDI while a third comprise sovereign external debt, a large share of which were held by donors, mitigating balance of payments risks. External debt to GDP stood at 63 percent in 2017. Stress test results show that while exchange rate risk is high, Albania's comfortable level of international reserves, at 181 percent of ARA metric at end-2017, should limit the risk of a disorderly depreciation and help to cover external debt service. Over the medium-term, however, as the large energy-related FDI projects are completed, Albania's ability to attract new FDI flows will be increasingly important for external sustainability and growth.

External Liabilities
(Percent of GDP)



1/ Includes central bank which represent minimal amounts.
Source: Bank of Albania; and IMF staff calculations.

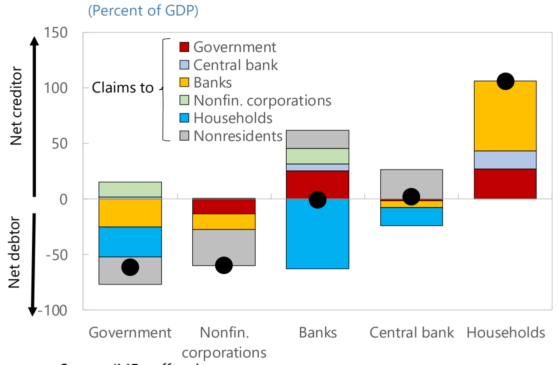
Reserves - Floating Regime
(Percent of metric)



Sources: IMF staff calculations.

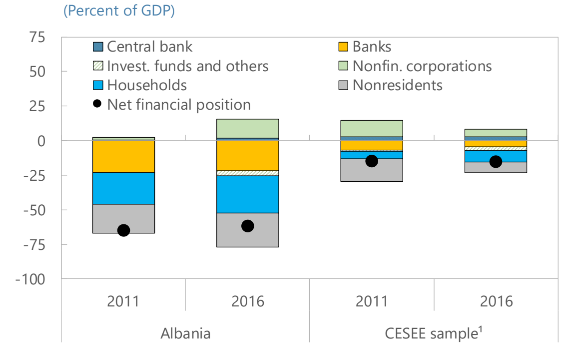
11. The main source of debt vulnerabilities arises in the public sector (DSA, Annex III)**.** Albania's public debt, while declining, remains elevated at 71.8 percent of GDP in 2017. Stress test scenarios in the DSA suggest that the largest risk arises from a combined macro-fiscal shock, pushing up public debt to 80 percent of GDP by 2020.[2] Key vulnerabilities reflect (i) *high rollover needs* (20 percent of GDP in 2018) as about two-fifths of central government domestic debt was short-term at the end of 2017; (ii) rising *net FX exposure*, as efforts to replace the short-term domestic debt with longer-term external borrowing raises exposure to exchange rate risks; and (iii) an important *sovereign-banking nexus*, given lack of non-bank institutional investors, concentration of debt holdings in a few large domestic banks, and high exposure of banks to government bonds (25 percent of total assets) due to weak credit opportunities.

Albania: Net Financial Positions
(Percent of GDP)



Source: IMF staff estimates.

General Government: Net Financial Position
(Percent of GDP)



1/ Includes Bosnia and Herzegovina, Hungary, Moldova, Romania, Slovenia and Turkey.
Source: IMF staff estimates.

[2] Please see Annex II for a detailed discussion of the impact of a slowdown in growth on public debt under an adverse scenario.

12. However, mitigating factors exist. The authorities have been successful in lengthening domestic debt maturity from 1.7 to 2.2 years between 2014 and 2017, bringing down the gross financing needs from a peak of 37 percent of GDP in 2014. Going forward, they are considering issuance of a Eurobond in the last quarter of 2018, aiming to benefit from favorable market conditions. Issuance would help build buffers, partially pre-finance external debt payments including the €450 million 2020 Eurobond, and mitigate domestic financing pressures.

POLICY DISCUSSIONS

13. Policy discussions focused on mitigating risks in the fiscal and financial sectors and on measures to improve Albania's resilience to shocks and growth prospects. Specifically, the discussions focused on (i) ensuring fiscal sustainability, reducing debt vulnerabilities and fiscal risks; (ii) strengthening financial stability and the inflation targeting framework; and (iii) implementing structural reforms to improve the investment climate,

A. Mitigating Risks to Public Balance Sheets

14. Albania will need a faster fiscal consolidation to minimize risks to debt sustainability. Despite fiscal consolidation of over 2 percent of GDP in 2014-17, public debt stood at 71.8 percent of GDP at end-2017. Under the baseline scenario, debt is projected to continue declining but remain high at around 64 percent of GDP by 2021. While the authorities' Medium-term Budget Framework (MTBF) aims to lower debt to 60 percent of GDP by 2021, the fiscal path is heavily backloaded, raising implementation risks. Staff recommended a more ambitious fiscal adjustment in the near term—around 1.2 percent of GDP over 2018-19—to reduce public debt more rapidly. This effort would create additional room for maneuver in case

Medium-term fiscal paths
(in percent of GDP)

	2016	2017	2018	2019	2020	2021
Overall balance						
IMF baseline	-2.3	-2.0	-2.1	-2.0	-1.9	-1.8
IMF recommended path	-2.3	-2.0	-1.8	-0.8	-0.7	-0.6
Authorities MTBF*		-2.0	-2.0	-1.7	-1.2	-0.5
Primary balance						
IMF baseline	0.2	0.1	0.1	0.3	0.4	0.3
IMF recommended path	0.2	0.1	0.4	1.5	1.5	1.5
Authorities MTBF*		0.4	0.6	1.0	1.5	2.2
Structural primary balance						
IMF baseline	0.4	0.2	0.2	0.4	0.5	0.3
IMF recommended path	0.4	0.2	0.5	1.6	1.6	1.5
Authorities MTBF*		0.2	0.7	1.1	1.5	2.2
Public debt						
IMF baseline	73.2	71.8	72.2	69.5	66.6	63.9
IMF recommended path	73.2	71.8	71.9	68.0	64.0	60.3
Authorities MTBF*		71.5	68.7	66.4	63.5	59.9

* MTBF as of December 2017. Based on the authorities' own definitions of debt and deficit (i.e., excluding some energy sector support from the deficit, and omitting PPPs and arrears in the debt statistics).

of adverse shocks and if any of the fiscal risks materialize (including from contingent liabilities from SOEs and PPPs, court disputes on tax and other obligations, and local governments).[3]

15. Staff also called for a more operational fiscal rule to pin down the fiscal path and enhance accountability and transparency of public finances. Given the difficulties in operationalizing the debt target and the lack of a quantitative target under the existing fiscal rule, staff recommended adopting a primary balance (excluding one-offs) of 1.5 percent of GDP as an operational target from 2019, while closely monitoring debt indicators and continuing further consolidation should debt deviate significantly from its medium-term target.

16. Fiscal consolidation should be underpinned by additional tax revenue measures. With limited room for expenditure savings, staff recommended continued efforts in improving tax policy and administration, specifically through indexation of excise rates to inflation, environmental taxes, broadening the tax base and reducing informality. The mission welcomed progress on the creation of a fiscal cadaster and steps towards value-based property taxation, but stressed the need for further preparatory efforts to ensure proper implementation. Moreover, these reforms should not be undermined by new measures that erode the tax base. The authorities' proposal for reverse VAT schemes to address the stock of VAT refund arrears should be implemented cautiously to minimize fraud and prevent undermining of tax administration efforts.

Tax Policy Measures (percent of GDP)

	2018	2019	2020	2021
Measures already/being taken by the government	**0.20**	**0.06**	**0.05**	**0.05**
Harmonize cigarette excise towards EU standards	0.12	0.06	0.05	0.05
Increase the base for social security contributions	0.09	-	-	-
Lower VAT rate for tourism-related activities	0.00	-	-	-
Other exemptions (IT, high-tech)	-0.01	-	-	-
Permanent tax measures assumed in the baseline	**0.12**	**0.10**	**0.18**	**0.01**
Ad valorem transfer duty and pilot property tax	0.12	0.10	-0.10	-
Value-based property tax	-	-	0.28	0.01
Recommended permanent tax measures	**0.32**	**0.78**	**0.14**	**0.13**
Index specific excises/national taxes on observed inflation (e.g., fuel excise, carbon tax, circulation tax, car registration, etc.)	0.05	0.11	0.11	0.10
Broaden the VAT base (drugs, machineries, new residential property sales, education, advertisement, tourism)	0.03	0.16	0.03	0.03
Reintroduce small business income tax		0.15	-	-
Reduce the zero-tax threshold to the minimum wage level	0.19	-	-	-
Environment and health-related excises	0.06	0.36	-	-

[3] The baseline scenario does not incorporate potential costs from the dispute between the Government and Bankers Petroleum. The Government has recently lost the case at the Arbitration Court over a USD 57 million tax bill to the Bankers Petroleum, but the payment mechanism is still to be agreed between two parties. See box for additional details on risks related to PPPs.

17. Strong fiscal institutions are needed to sustain fiscal consolidation, mitigate fiscal risks, and reduce waste of scarce resources.

- **Public investment management and Public Private Partnerships (PPPs):** Albania faces significant infrastructure gaps compared to its regional peers. However, before scaling up public investment, shortcomings in project management, including in local governments and SOEs, need to be addressed. All projects, including PPPs, should require prioritization with adequate funding available within the medium-term budgetary framework. Fragmented decision making in PPPs and public investment spending remains a key shortcoming. While MOF has tightened its oversight of PPPs, a further strengthening of budgeting, accounting, and risk assessment is needed, given the large contingent liabilities frequently embedded in PPP contracts. The current practice of unsolicited proposals should be eliminated.

- **Budgetary controls and arrears:** Addressing weaknesses in budgetary and commitment controls, Treasury IT system and cash management are crucial to prevent the buildup of new arrears and expedite the clearance of the current stock. As arrears represent unrecorded fiscal deficits, it is important to strengthen the registration of budget commitments and record unpaid bills. At the end of 2017, the total stock of arrears stood at 1.7 percent of GDP, of which VAT refund arrears amounted 0.7 percent of GDP. Around 80 percent of total VAT arrears are related to three large taxpayers.

Albania: Government Arrears

	Stock				Flow	
	2016		2017		2017	
	Lek million	% of GDP	Lek million	% of GDP	Lek million	% of GDP
Total	**13,121**	0.89	**26,662**	1.7	**13,541**	**0.9**
Central Government	3,680	0.25	17,405	1.1	13,725	0.9
VAT refund arrears	1,908	0.13	11,705	0.7	9,797	0.6
Other	1,772	0.12	5,700	0.4	3,928	0.25
Local Government	**9,441**	**0.6**	**9,257**	**0.6**	**(184)**	-0.01

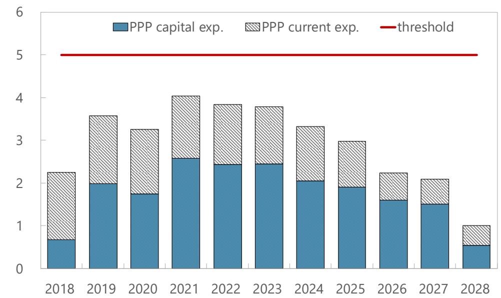
Source: IMF staff estimates.

- **Debt management.** The domestic debt market remains underdeveloped, with a lack of long-term institutional investors. As a result, sovereign yields' volatility can be high and therefore increase the government's borrowing cost if cash management is inadequate and communication with the market is poor. The debt management capacity at the MoF requires further strengthening. Close coordination between the MoF and BOA and the markets is needed, given the high bank exposure to the public sector. The authorities embarked on developing a primary dealers' system which should help deepen secondary market liquidity. In addition, staff also recommended diversifying the sources of financing with a combination of long-term-issuance, debt buyback, and foreign concessional financing.

Box 1. Public-Private Partnerships in Albania

Over the last decade, Albania has been actively using PPPs to facilitate public investment. By mid-2017, more than 200 PPP contracts had been signed, with estimated total investment equivalent to 36 percent of GDP. A new program (the €1 Billion Program) was launched in January 2017 comprising nine new PPP projects with an estimated investment cost of about 7 percent of GDP (likely procured as government-funded projects by 2021).

PPP Related Expenditures
(Percent of tax revenue)



Sources: Ministry of finances; and IMF staff estimates.

The current PPP framework is poorly designed and lacks proper recording and risk analysis of investment projects. While several measures have been taken to enhance the legal and regulatory framework of PPPs, they are not fully integrated into the public investment process. Proper analysis for identification and allocation of explicit and implicit liabilities and risks is lacking.[1] Furthermore, the fragmented decision-making and lack of full control over PPP contracts negatively affects the quality of risk analysis.

The MOF is currently guided by the legislative threshold of annual payments not exceeding 5 percent of the previous year fiscal revenues. However, these estimates are not reliable—reflecting a mix of mandatory payments, expected payments and worst-case estimates if guarantees are triggered. To properly reflect the fiscal payments, the MOF would also need to add the quantified amount of potential risks over the lifetime of the projects. This requires identification of the risk triggers that could cause a breach in threshold to properly estimate the long-term costs associated with PPPs and design mitigation measures to minimize these risks. (See text table for an illustrative scenario of contingent liabilities in a road infrastructure project).

Liabilities		Maximum liability
Direct fiscal costs	Annual pre-determined payment to the concessionaire	Annual subsidy of euro 5 million form year three to fifteen.
Contingent liabilities		
Minimum revenue guarantee	Pre-determined minimum revenue guarantee (MRG), increasing at the rate around 2 percent per year for the whole term of the contract.	Annual cost of MRG expected to be significantly below a maximum of 8 million euro in 2018 and 2019; impact can be assessed after completion of the first full year on tolling.
Latent defects	Fiscal risk may result from construction defect, impact depends on the insurance requirements.	Unknown, not forecastable.
Force majeure	Fiscal risk resulting from earthquakes, impact depends on insurance requirements.	Unknown.
Political risk	Toll implementation, and its annual adjustment in euros create a political risk and have an implicit fiscal risk.	Unknown. To be carefully managed.

To effectively manage fiscal costs and risks arising from PPPs, the MOF should undertake a full-scale assessment of PPP-associated risks, their impact on the medium-term budget framework and debt sustainability. In addition, introduction of accrual accounting, preferably based on IPSAS, will allow more coherent accounting of PPPs, which is also in line with GFSM and ESA. MoF should further develop the disclosure and analysis of fiscal risks related to PPPs in the Fiscal Risk Statement, providing a comprehensive overview of contracts, and outlining the government's policy for mitigating the related risks.

____

[1] PPPs entail several risks, including but not limited to: (i) construction risk (design problems, and cost and schedule overruns), (ii) financial risk (cash flow falling short of level needed to repay project loans and capital invested), (iii) demand risk (demand for the services provided declines), (iv) availability risk (lack of continuity and quality of service), (v) political risk (government actions could impair private sector's earnings potential, (vi) Force majeure, (vii) renegotiation risks.

- **State-Owned Enterprises**: Following last year's drought, the energy distribution company recorded losses and accumulated suppliers' arrears. The MOF is determined to avoid provision of direct subsidies and support from scarce budget resources. While some progress has been made in preparing for financial restructuring and improving corporate governance, these reforms need to be accelerated. Diversifying the sources of energy may also enhance Albania's energy security and minimize shocks to economy.

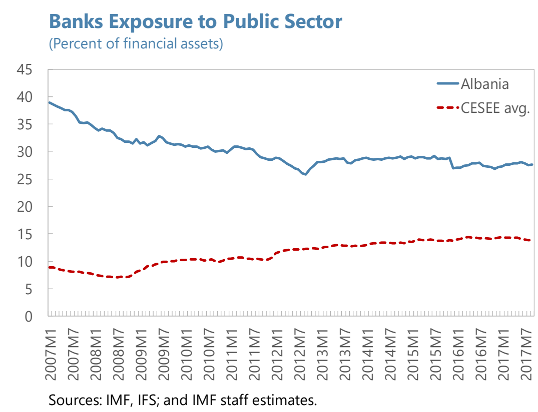
Authorities' Views

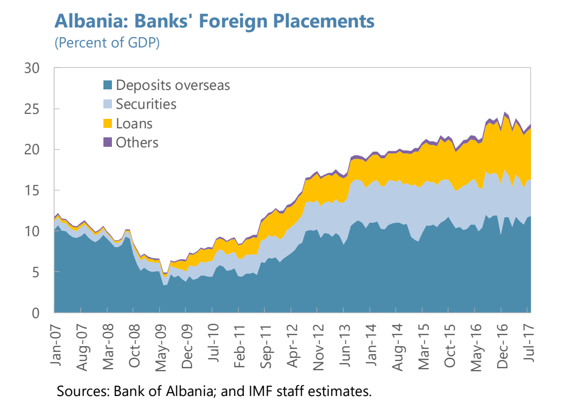
18. The authorities emphasized their commitment to continue with fiscal consolidation, but at a slower pace than recommended by staff. They highlighted their plans to closely monitor budget execution and revenue collection, and to undertake compensatory measures as needed to achieve the overall deficit target of 2 percent of GDP in 2018. However, they believe that further tax policy changes beyond what is already in 2018 budget would be difficult to implement, and further undermine compliance. They recognized that the 60 percent of GDP medium term debt target is ambitious and considered that a slightly higher debt level should be acceptable given high public investment needs.

19. They remain committed to advancing fiscal structural reforms. They are in the process of restructuring a state-owned oil and petroleum company, which is expected to increase royalty revenues generated from direct payment streams applied to the oil and gas sector. The authorities are committed to clearing the outstanding stock of arrears. They are currently developing a payment schedule for the large taxpayers with an aim to repay all outstanding arrears by September 2019. In the energy sector, the authorities noted that efforts towards implementation of the Third Energy Package are advancing, which should facilitate improved tariff setting, governance reform, and loss reduction. Options for private investment in these companies are also under consideration, while reforms in the water supply have already started. On PPPs, the authorities noted that the projects are high priority and risks are contained within the MTBF. Furthermore, the practice of unsolicited projects will be discontinued from 2021.

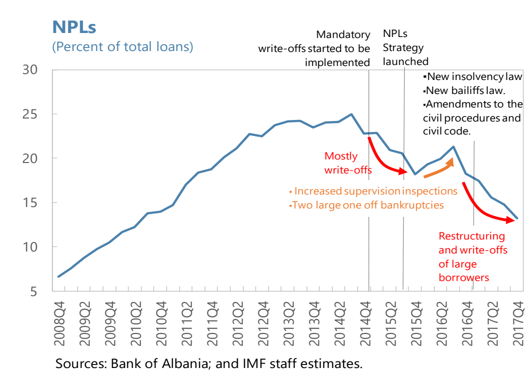
B. Strengthening Bank Balance Sheets

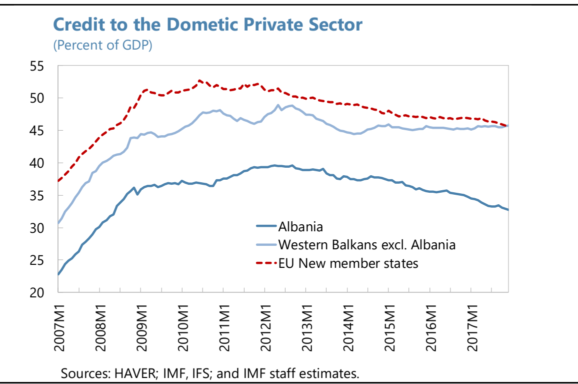
20. The banking system is stable, although structural challenges and crisis legacy issues continue to weigh on bank balance sheets. Banks' funding base remains very stable with a loan to deposit ratio of around 52 percent. Deposits continued to grow moderately, particularly in foreign currency. Credit to the private sector, however, remains weak given an overhang of NPLs, lack of creditworthy borrowers, and deleveraging by EU-owned banks. Banks thus continue to invest heavily in Albanian sovereign bonds as well as foreign placements, including through non-resident lending. The authorities have taken several steps to mitigate cross-border lending risks, including through exchange of information and joint inspections with host regulators.





21. Addressing the NPL resolution framework is crucial for revitalizing bank lending. As noted in the Article IV report, staff emphasized the need to accelerate reforms, including pending measures related to collateral execution, such as success fees for bailiffs, and the regulation of out-of-court restructuring agreements. Despite declining lending rates, these bottlenecks represent a key impediment for credit growth. While private credit is expected to recover in 2018, the authorities should remain attentive and closely monitor potential risks related to large corporate exposures and growth in the construction sector.





22. The ongoing EU bank deleveraging and bank consolidation require strong regulatory vigilance. Several EU banks have announced their intention to sell their Albanian subsidiaries,. The market share of EU-owned banks has declined from 67 percent in 2013 to 52 percent in end-2017. Interest from investors with banking experience, however, remains limited. Ensuring that new market entrants have solid banking experience and meet fit and proper criteria to operate in the Albanian banking market will be critical. An abrupt exit or a portfolio shift by a large bank could pose risks for FX and T-bill markets. Staff underscored the need for close communication with EU-owned banks, parent banks, and peer supervisors to ensure a smooth bank consolidation.

23. Enhanced bank supervision and regulation, aligned with EU standards, would provide the BOA with tools to better manage risks of systemic banks and build up capital buffers strengthening banks' balance sheets. Domestic banks are expected to be aligned with the IFRS9 framework by the end of 2018. Monitoring of systemic banks should be further strengthened to contain the risk of large borrowers and mitigate the risk of related-party lending. Staff also suggested to consider a special external diagnostic, possibly with a peer supervision authority, to assess high risk portfolios and identify potential gaps in risk management practices, focusing on large exposures. More generally, staff recommended that the BOA should progressively converge towards the implementation of Basel III—the BOA should implement the new D-SIB capital surcharges to properly address systemic risks on a risk-based, bank by bank approach, to preserve the right balance between containing risks and encouraging lending.

24. **Additional risks stem from the non-banking sector, including from investments funds.** The AFSA (Albanian Financial Supervisory Authority) has made vital progress with (i) the adoption of a new liquidity management framework for funds, (ii) regulations on the transactions with related parties and (iii) central securities depository regulation. It is critical that the AFSA completes the crisis management framework for investment funds, in coordination with the BOA and MOF. Finally, introduction of new instruments on the newly licensed stock exchange should be strictly regulated, as both governance and market standards are currently not met to expand the range of trading activities (currently limited to trading of sovereign securities).

Authorities' Views

25. **The authorities agreed with staff concerning major risks in the banking sector,** while remaining confident that the regulatory and supervisory frameworks currently in place can mitigate those risks. The authorities are planning to progressively align with EU regulatory standards. The alignment shouldn't have material impact on the banking sector, however, since the BOA's current regulations are already cautious.

C. Strengthening the Inflation Targeting Framework

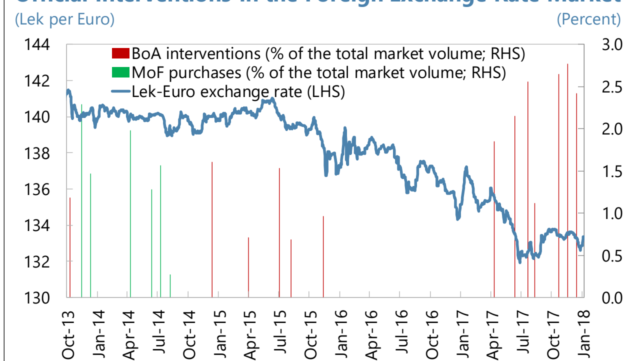
26. **The Bank of Albania's current accommodative monetary policy stance is appropriate.** The policy rate remains at a historical minimum of 1.25 percent. Staff supported the BOA's forward guidance that monetary tightening will not take place until early 2019 given subdued core inflation, limited wage pressures, a stable exchange rate, and low inflation in the euro area. These factors have contributed to undershooting of inflation and lowered inflations expectations below the BOA inflation target of 3 percent. However, inflation should rebound in 2018 along with the progressive reduction of the output gap, estimated at 0.5 percent for 2018. Any change in the policy rate should be data dependent, pending evidence of sustained rise in underlying inflationary pressures.

27. **Implementation of the de-euroization strategy should strengthen monetary policy implementation and also help limit risks from FX lending**. Currently, the shares of total deposits and loans denominated in foreign currency represent 52.7 and 56.4 percent, respectively, dampening the effectiveness of monetary policy. At the same time, de-euroization

would also reduce financial stability risks. Although banks' direct net FX exposure is limited, 26 percent of credit to the private sector represent unhedged FX-borrowers, making banks vulnerable to indirect credit risks from FX depreciations. However, the de-euroization strategy should be implemented gradually to mitigate risks of financial disintermediation, in an economy where informality remains a major issue.

28. The flexible exchange rate regime serves as an efficient shock absorber. In accordance with the pre-announced calendar at the beginning of the year, the BOA has been intervening in the market to build up FX reserve buffers. In line with Albania's flexible exchange rate regime, central bank interventions to build up FX reserve buffers should remain fully transparent, consistent with achieving the inflation target, and any unscheduled FX interventions should be limited to preventing disorderly market conditions.

Official Interventions in the Foreign Exchange Rate Market



Note: BoA auctions for foreign exchange are based on a pre-announced schedule.
Sources: Bank of Albania; and Haver Analytics.

29. Safeguards assessment. The BoA has implemented all safeguards recommendations except for legal amendments of the central bank law to enhance central bank governance and autonomy in line with international practices.

Authorities' Views

30. The authorities agreed with the staff assessment of the monetary policy stance as well as risks stemming from excessive FX lending. The BOA agrees that current conditions call for a supportive monetary policy, and do not expect the normalization to begin before the second quarter of 2019, depending on outcomes in the data. The BOA and MoF are committed to adhere to de-euroization strategy, and concur that it should help limit risks from FX lending.

STAFF APPRAISAL

31. Albania is enjoying strong economic growth, but it may not last without a significant push for structural reforms. The country is yet to take full advantage of its low labor costs and proximity with the EU due to a difficult business environment that deters investment. It is therefore critical that the government uses the good times to push the reform agenda to lift potential growth and position the country to benefit from potential EU accession.

32. Key policy and implementation challenges remain. Public debt remains high. NPLs, while declining, continue to affect the overall credit growth, particularly in the corporate sector. The state-owned electricity sector needs to be put on a sustainable financial footing and growth-enhancing structural measures need to continue with more vigor. Efforts to address these challenges should be redoubled to enhance the country's resilience to shocks and mitigate vulnerabilities.

33. Addressing fiscal risks posed by the high level of public debt and the related financing needs remains a high priority. This requires more fiscal adjustment, preferably in the near term. Public debt management should focus on lengthening the maturity of public debt and diversifying the investor base, while avoiding risks posed by excessive non-concessional FX borrowing. Debt management capacity needs to be strengthened.

34. Improving tax compliance and administration is crucial. The progress towards value-based property taxation is welcome, but its implementation needs careful preparation. The authorities should consider additional revenue measures, including broadening the tax base. They should refrain from lowering tax rates or granting any new tax exemptions or preferential tax treatments that could complicate the tax system and distort the resource allocation in the economy.

35. Strengthening fiscal institutions and assessment of fiscal risks is another priority. Stronger efforts are needed to enhance the credibility of the medium-term budgetary framework. Public investment prioritization, project appraisal and monitoring are key. The MoF should enhance the fiscal recording, and legal, financial and economic analysis of PPP projects and ensure proper implementation of the PPP framework. The impact of PPPs on the fiscal medium-term budget framework and debt sustainability should be carefully assessed.

36. Institutional improvements are needed to tackle arrears, including in VAT refunds and unbudgeted investment projects. The authorities should improve the VAT refund process and strengthen commitment controls, expand the Treasury's IT system to local governments and register all unbudgeted commitments and record unpaid bills. Measures such as reverse VAT to limit refunds should be exercised with caution.

37. Reforms in governance and financial restructuring of the state-owned electricity sector need to continue. The endemic issues of arrears accumulation and intracompany debt should be addressed. These measures should be backed by acceleration of institutional and market design reforms.

38. The current monetary policy stance is appropriate. The policy rate is currently at a historical low rate, consistent with low inflation and external conditions. Measures to reduce euroization and deepen domestic financial markets are welcome. The flexible exchange rate has been an important stabilizer for the economy and the Bank of Albania has been building a comfortable buffer of foreign reserves to address external shocks.

39. The push for legislative and institutional measures to resolve high NPL ratios needs to continue. While NPL ratios have declined, the authorities need to accelerate measures to deal with cumbersome and inefficient collateral execution and out-of-court restructuring frameworks, which continue to impede credit growth.

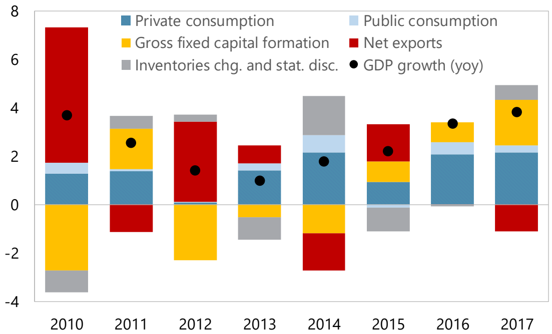
40. Further alignment of financial sector regulation with EU standards is needed. Gradual convergence with the Basel III framework is warranted, including by imposing capital requirements on a risk-based, bank-specific approach to tackle risks within certain banks. The recent efforts of the authorities to implement targeted regulations to address risks from related party transactions and cross-border flows are welcome. The crisis management framework for non-bank financial institutions needs to be finalized to enhance system's resilience to shocks and mitigate financial stability risk.

Figure 1. Albania: Real GDP Growth and Inflation

Economic recovery continues, driven by rising domestic demand…

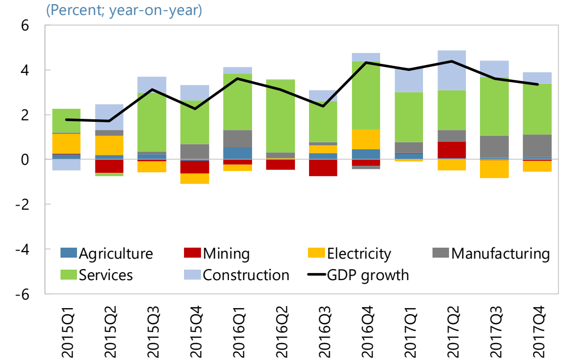
…which reflected higher services and construction.

Real GDP Expenditure Constributions to Growth
(Percent)



Sources: INSTAT; and IMF staff estimates.

Real GDP Contributions
(Percent; year-on-year)

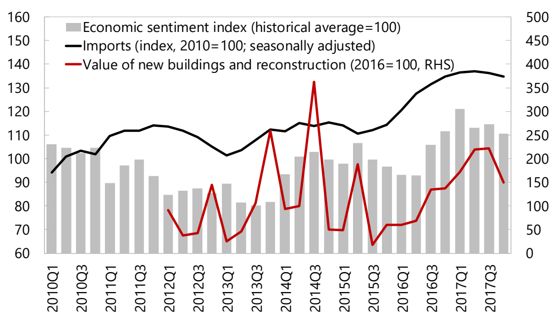


Sources: INSTAT; and IMF staff calculations.

High frequency indicators suggest continued growth momentum…

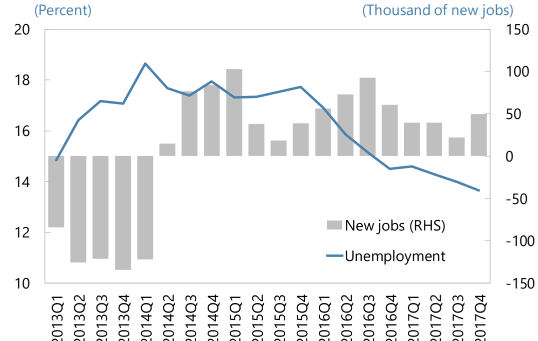
…while job creation remains robust.

Real GDP, Economic Sentiment, and Imports



Sources: INSTAT; Haver Analytics; and IMF staff calculations.

Unemployment and New Jobs
(Percent) (Thousand of new jobs)

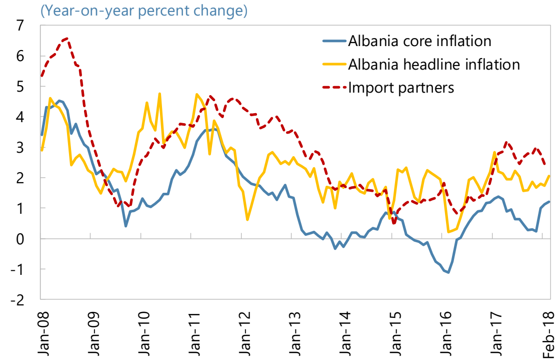


Sources: INSTAT, and IMF staff estimates.

Inflation is picking up in line with trading partners, although core inflation remains low…

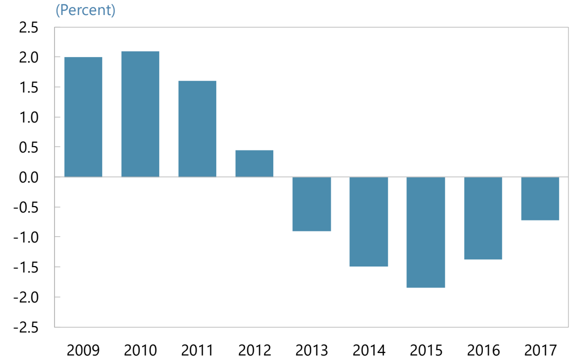
…reflecting continued, albeit narrowing, domestic slack.

Consumer Price Index
(Year-on-year percent change)



Sources: Haver Analytics; IMF, Direction of Trade database; and INSTAT.

Output Gap
(Percent)

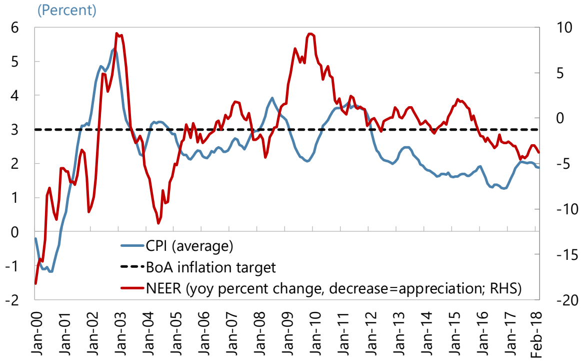


Sources: INSTAT; and IMF staff estimates.

Figure 2. Albania: Monetary Sector Developments

With headline inflation below target of 3 percent…

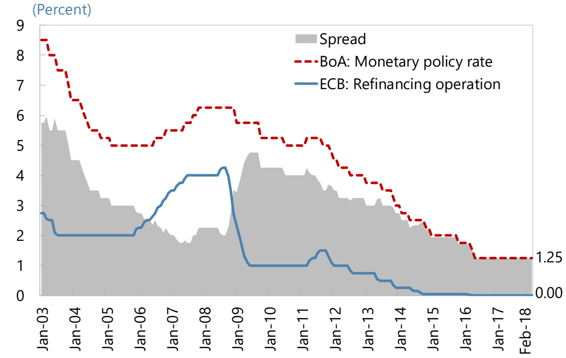
Average Inflation and Exchange Rate
(Percent)



Sources: INSTAT; IMF, INS database; and IMF staff calculations.

…monetary policy remains accommodative…

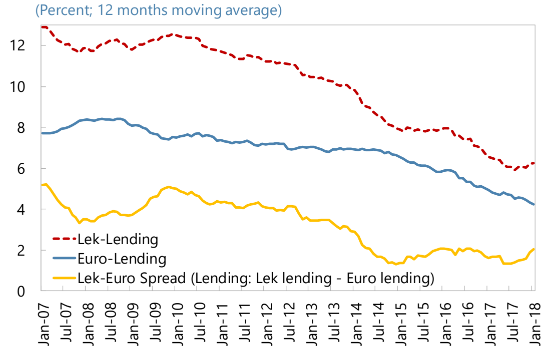
Monetary Policy Rates
(Percent)



Sources: Bank of Albania; and IMF staff estimates.

Bank lending rates continue to decline…

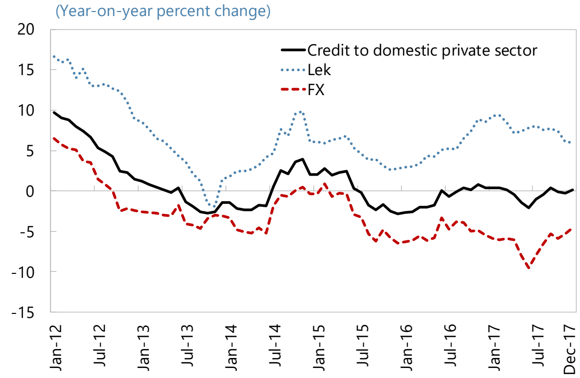
Lending Interest Rates 1 Year
(Percent; 12 months moving average)



Sources: Haver Analytics; and IMF staff calculations.

….supporting an increase in lek-denominated lending. Euro-denominated lending remains weak, however …

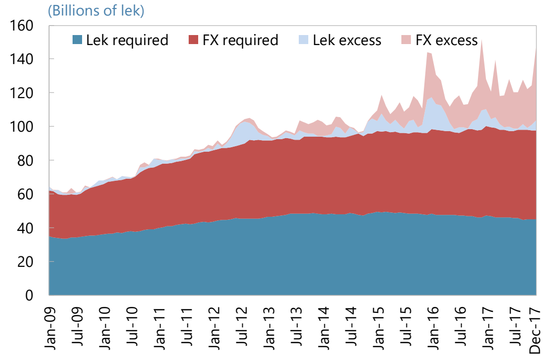
Credit to Domestic Private Sector
(Year-on-year percent change)



Source: Bank of Albania.

…despite excess euro liquidity in the banking system.

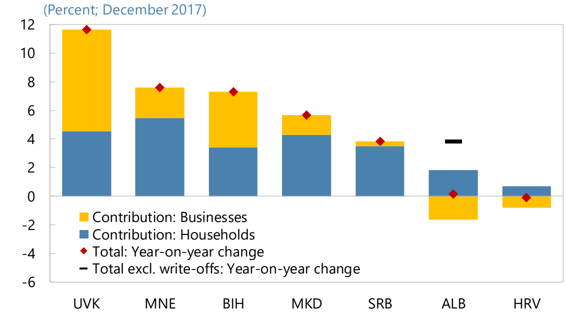
Commercial Banks: Reserves at the Central Bank
(Billions of lek)



Source: Bank of Albania.

Overall credit remains weak, partly reflecting write offs of corporate credit and lack of creditworthy borrowers.

Western Balkans: Credit to Domestic Private Sector
(Percent; December 2017)



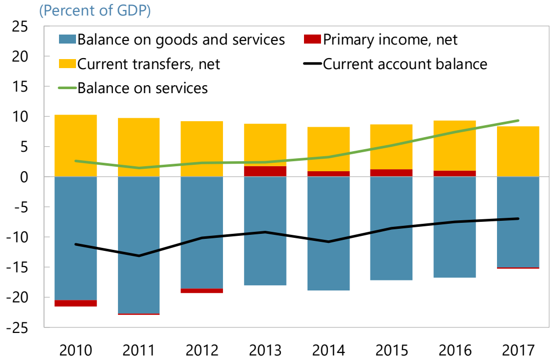
Sources: Haver Analytics; IMF, International Financial Statistics; and IMF staff estimates.

Figure 3. Albania: External Sector Developments

The current account deficit has declined owing to rising remittances and lower trade deficits …

Current Account Balance

(Percent of GDP)



Sources: Bank of Albania; Haver Analytics; and IMF staff calculations.

…following a surge in exports of services.

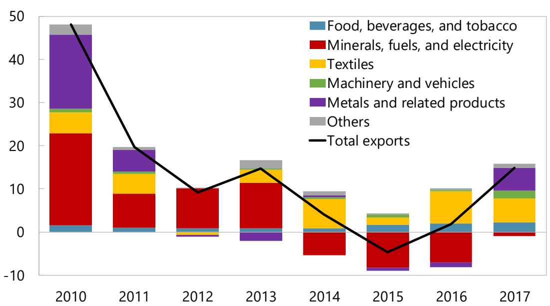
Exports Growth

(Percent)

Sources: Haver Analytics; and IMF staff calculations.

Exports of goods have started to pick up due to favorable terms of trade.

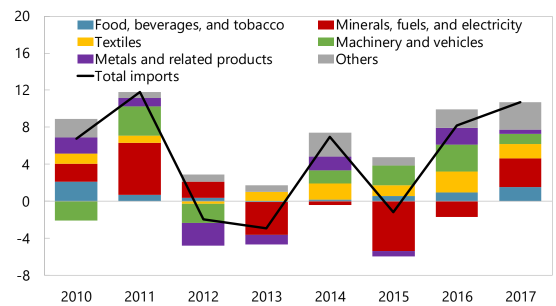
Contribution to Export of Goods Growth



Sources: Haver Analytics; and IMF staff calculations.

FDI in large energy projects have helped sustain high imports.

Contribution to Import of Goods Growth

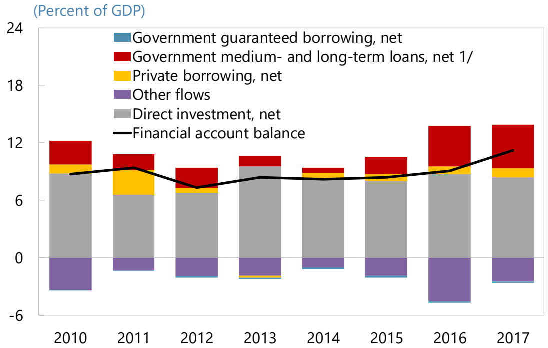


Sources: Haver Analytics; and IMF staff calculations.

Commercial bank outflows drove other flows while FDI and donor flows comprise most inflows…

Financial Account Balance

(Percent of GDP)

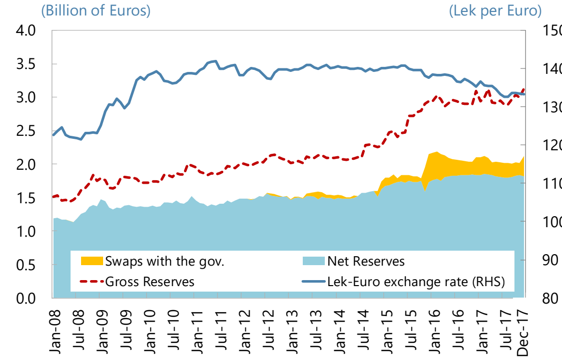


1/ Includes 2015 eurobond.
Source: IMF staff estimates.

…which have helped increase FX reserves.

Nominal Exchange Rate and Foreign Reserves

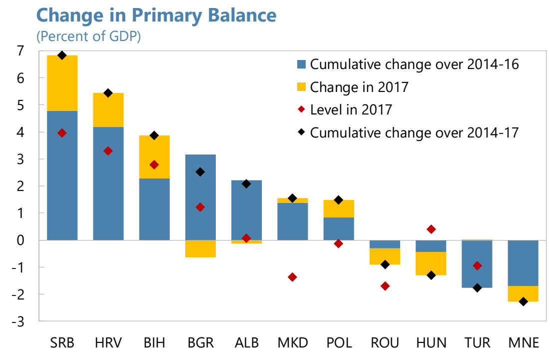
(Billion of Euros) (Lek per Euro)



Sources: Bank of Albania; Haver Analytics; and IMF staff calculations.

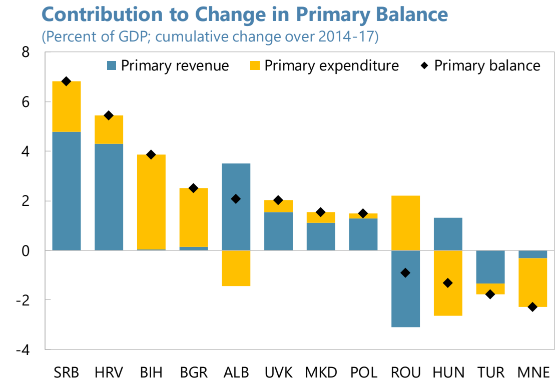
Figure 4. Albania: Fiscal Sector Developments

Albania has undertaken a large fiscal adjustment since 2014.



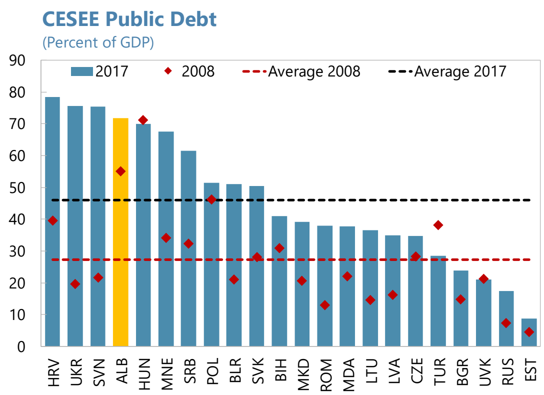
Sources: IMF, WEO database; and IMF staff estimates.

The adjustment has been mainly driven by revenues.



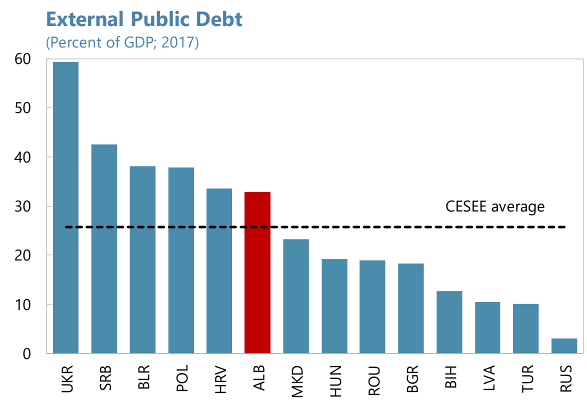
Sources: IMF, WEO database; and IMF staff estimates.

Public debt has declined from its peak but remains sizable.



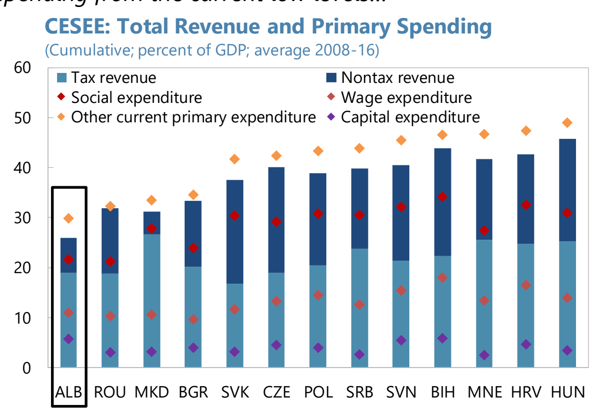
Source: IMF, WEO database.

External public debt is also high compared to the regional average, but comprises mostly of IFI and bilateral debt.



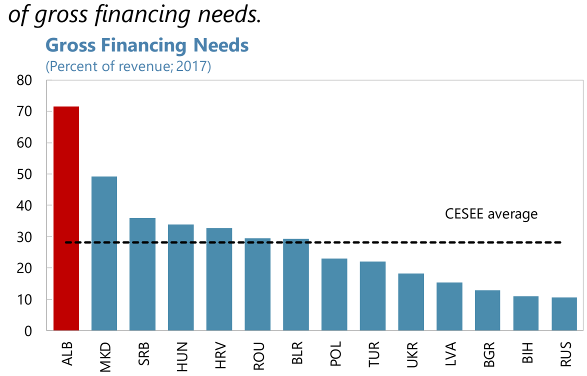
Source: IMF, Vulnerability Exercise database.

Higher revenues are needed to increase growth-friendly spending from the current low levels…



Note: MKD and NME: average 2009-16; ROU: 2012-16.
Sources: Haver Analytics; IMF, WEO database; and IMF staff calculations.

…and to improve debt affordability given the high level of gross financing needs.



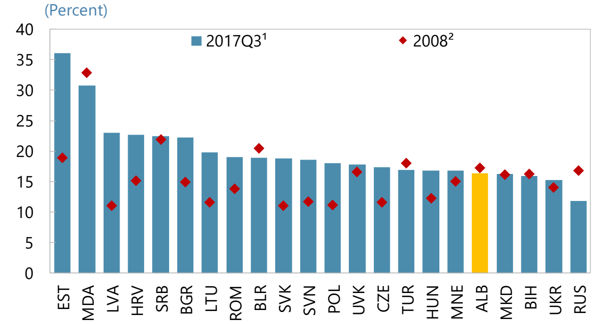
Sources: IMF; Vulnerability Exercise database; IMF, WEO databse; and IMF staff calculations..

Figure 5. Albania: Banking Sector Indicators

Bank capitalization is adequate and above regulatory thresholds.

CESEE: Regulatory Capital to Risk Weighted Assets

(Percent)

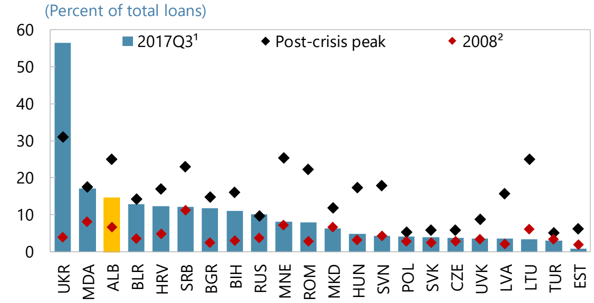


1/ Except for Bosnia and Herzegovina, Lithuania, and Turkey (2017Q2).
2/ Except for Belarus (2010Q4) and Moldova (2009Q1).
Sources: National authorities; IMF Financial Soundness Indicators; and IMF staff estimates.

NPLs remain high but are adequately provisioned.

CESEE: Non-Performing Loans

(Percent of total loans)

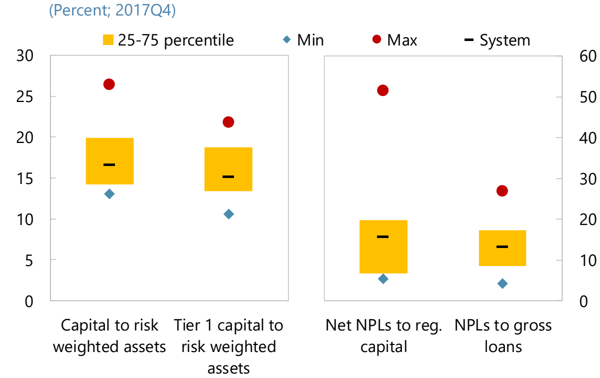


1/ Except for Bosnia and Herzegovina, Lithuania, and Turkey (2017Q2).
2/ Except for Belarus (2010Q4) and Moldova (2009Q1).
Sources: National authorities; IMF Financial Soundness Indicators; and IMF staff estimates.

However, NPLs are still high in a few banks.

Capital and NPLs

(Percent; 2017Q4)

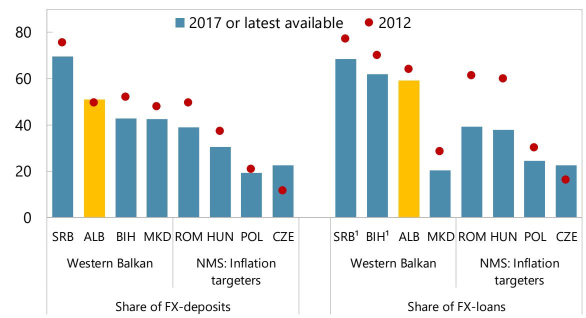


Source: IMF staff calculations.

High euroization creates risks from significant unhedged exposures.

Euroization

(Percent)

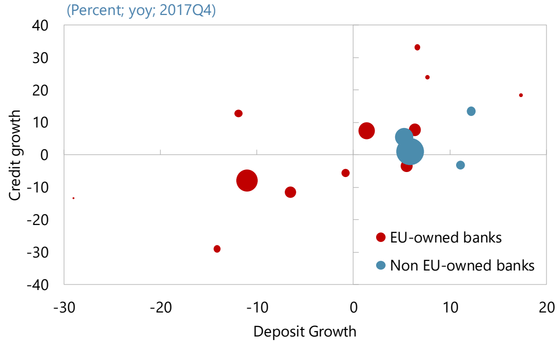


1/ SRB and BIH includes FX-indexed loans.
Source: IMF, IFS database; IMF staff reports; and IMF staff calculations.

EU-owned banks continue deleveraging.

Credit and Deposit Growth at Each Bank

(Percent; yoy; 2017Q4)

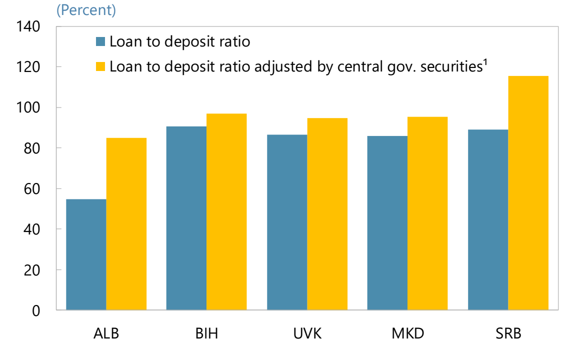


Note: Bubble size indicates market share based on total assets.
Sources: Bank of Albania; and IMF staff estimates.

Funding risks are low, while high exposure to sovereign bonds increase systemic risk.

Loan to Deposits Ratio, 2017

(Percent)



1/ Adds government securities to loans to consider limited liquidity of the system.
Source: IMF staff estimates.

Table 1. Albania: Basic Indicators and Macroeconomic Framework, 2014-23

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
				Prel.	Proj.			Proj.		
Real sector	(Growth rate in percent)									
Real GDP	1.8	2.2	3.4	3.8	3.6	3.7	3.9	3.9	4.0	4.0
Domestic demand contribution	3.4	0.6	3.4	5.0	3.4	3.6	4.1	4.4	4.4	4.6
Consumption	3.0	0.8	2.7	2.6	2.8	2.7	2.3	2.7	2.4	2.7
Investment (Incl. inventories + stat. disc.)	0.5	-0.2	0.7	2.5	0.6	1.0	1.7	1.7	2.1	1.9
External demand contribution	-1.7	1.6	0.0	-1.2	0.3	0.1	-0.2	-0.5	-0.5	-0.7
Consumer Price Index (avg.)	1.6	1.9	1.3	2.0	2.1	2.6	2.9	3.0	3.0	3.0
Consumer Price Index (eop)	0.7	1.9	2.2	1.8	2.4	2.9	3.0	3.0	3.0	3.0
GDP deflator	1.5	0.6	-0.5	1.4	2.0	2.4	2.7	2.8	2.7	2.7
Saving-investment balance	(Percent of GDP)									
Foreign savings	10.8	8.6	7.6	6.9	6.8	6.6	6.1	5.9	5.8	5.9
National savings	15.9	16.9	16.7	15.9	15.5	15.7	16.5	17.1	17.9	18.4
Public	0.6	0.7	1.2	1.7	1.5	1.6	1.7	1.8	1.6	1.7
Private	15.4	16.1	15.5	14.2	14.0	14.1	14.9	15.3	16.4	16.6
Investment (Incl. inventories + stat. disc.)	26.7	25.5	24.3	22.8	22.4	22.3	22.7	23.0	23.8	24.3
Investment: Gross fixed capital formation	24.2	24.4	24.5	25.2	24.9	24.6	24.8	25.0	25.6	26.0
Public	5.0	4.7	4.6	5.1	5.2	5.2	5.2	5.0	5.0	5.0
Private	19.1	19.7	20.0	20.2	19.7	19.4	19.6	20.0	20.5	20.9
Fiscal sector										
Total revenue and grants	26.3	26.3	27.3	27.7	27.6	27.5	27.4	27.1	26.8	26.6
Tax revenue	24.1	23.7	24.8	25.7	25.5	25.3	25.2	25.0	24.7	24.5
Total expenditure	32.2	30.9	29.6	29.7	29.8	29.5	29.3	29.0	28.9	28.5
Of which: Repayment of end-2013 stock of unpaid bills and arrears	2.4	1.2	0.0							
Primary	29.3	28.2	27.1	27.6	27.6	27.3	27.0	26.8	26.6	26.2
Interest	2.9	2.7	2.5	2.1	2.2	2.2	2.3	2.2	2.3	2.3
Overall balance	-5.9	-4.6	-2.3	-2.0	-2.2	-2.0	-1.9	-1.9	-2.1	-1.9
Primary balance	-3.0	-1.9	0.2	0.1	0.0	0.2	0.4	0.3	0.2	0.4
Financing	5.9	4.6	2.3	2.0	2.2	2.0	1.9	1.9	2.1	1.9
Of which: Domestic	3.4	-1.3	0.9	-0.8	-3.4	0.8	0.6	1.7	2.1	1.9
Of which: Foreign	2.5	5.0	1.3	1.9	5.6	1.2	1.3	0.1	0.0	0.0
General Government Debt 1/	72.0	73.7	73.2	71.8	72.2	69.5	66.6	64.0	62.2	60.6
Domestic	42.4	39.5	39.0	38.9	35.1	33.1	31.0	30.3	30.6	30.8
Of which: Unpaid bills and arrears	1.9	1.0	0.9	1.7	1.5	1.3	1.1	0.9	0.8	0.8
External	29.6	34.2	34.2	32.9	37.1	36.5	35.6	33.6	31.6	29.8
Monetary indicators	(Growth rate in percent, unless otherwise indicated)									
Broad money growth	4.0	1.8	3.9	0.2	4.5	5.8	6.4	6.7	6.7	6.8
Private credit growth	2.0	-2.8	0.4	0.2	1.7	4.2	4.9	6.0	5.9	6.0
Velocity (nominal GDP/broad money)	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Interest rate (3-mth T-bills, end-period)	3.1	1.5	1.2	1.2	…	…	…	…	…	…
External sector	(Percent of GDP, unless otherwise indicated)									
Trade balance (goods and services)	-19.0	-17.3	-16.8	-15.1	-14.4	-13.9	-13.3	-12.9	-12.7	-12.6
Current account balance	-10.8	-8.6	-7.6	-6.9	-6.8	-6.6	-6.1	-5.9	-5.8	-5.9
Gross international reserves (in billions of Euros)	2.2	2.9	2.9	3.0	3.3	3.2	3.3	3.3	3.3	3.4
(In months of imports of goods and services)	5.8	7.0	6.5	6.3	6.6	6.0	5.9	5.6	5.3	5.1
(Relative to external debt service)	2.9	2.6	3.6	3.5	3.5	3.1	2.2	3.0	2.9	2.1
(In percent of broad money)	25.7	32.5	31.5	31.5	34.1	31.3	30.3	28.7	27.4	26.1
Change in REER (eop, in percent; +=appreciation)	2.4	1.5	3.9	3.8	…	…	…	…	…	…
Memorandum items										
Nominal GDP (in billions of lek)	1395	1434	1475	1553	1642	1743	1860	1986	2121	2265
Output gap (percent)	-1.5	-1.8	-1.4	-0.7	-0.5	-0.3	-0.2	0.0	0.1	0.1

Sources: Albanian authorities; and IMF staff estimates and projections.

1/ Starting with 2015, the stock of general government debt includes fully documented unpaid bills owed by local governments, most of which were inherited by the new municipalities after the June 2015 territorial reform.

Table 2a. Albania: General Government Operations, 2014-23
(Percent of GDP)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
				Prel.	Proj.			Proj.		
Total revenue and grants	26.3	26.3	27.3	27.7	27.7	27.6	27.5	27.2	26.9	26.6
Tax revenue	24.1	23.7	24.8	25.7	25.5	25.4	25.3	25.1	24.8	24.5
VAT	8.9	8.7	8.7	9.0	8.8	8.7	8.7	8.6	8.6	8.5
Profit tax	1.5	1.7	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1
Excise tax	2.9	2.7	2.8	2.9	2.9	2.9	2.8	2.7	2.6	2.5
Personal income tax	2.1	2.1	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Customs duties	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Other taxes	2.3	2.3	2.4	2.5	2.4	2.4	2.3	2.2	2.1	2.1
Local government revenue 1/	0.9	0.8	1.0	1.2	1.3	1.4	1.6	1.6	1.6	1.6
Social insurance contributions	5.0	5.0	5.4	5.6	5.7	5.6	5.5	5.5	5.4	5.3
Non-tax revenue	1.5	1.8	1.5	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Grants	0.7	0.8	1.0	0.7	0.9	0.9	0.9	0.8	0.8	0.8
Total expenditure	32.2	30.9	29.6	29.7	29.8	29.5	29.4	29.0	29.0	28.5
Current expenditure	25.0	24.8	25.1	24.6	24.5	24.4	24.3	24.1	24.1	23.6
Personnel cost 2/	5.1	5.1	4.6	4.7	4.7	4.6	4.5	4.5	4.3	4.2
Interest	2.9	2.7	2.5	2.1	2.2	2.2	2.3	2.2	2.3	2.3
Operations & maintenance	2.2	3.0	3.0	2.8	2.8	2.7	2.6	2.6	2.6	2.6
Subsidies	0.6	0.5	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Energy guarantees 3/	0.5	0.3	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0
Nonenergy guarantees	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social insurance outlays	9.9	9.8	10.3	10.4	10.3	10.3	10.3	10.3	10.3	10.0
Local government expenditure 2/ 4/	2.4	2.4	2.8	3.0	2.9	2.9	3.1	3.1	3.1	3.1
Social protection transfers	1.8	1.4	1.7	1.5	1.4	1.4	1.4	1.3	1.3	1.3
Capital expenditure 4/	4.3	4.4	3.9	4.4	5.2	5.0	5.0	4.8	4.8	4.8
Domestically financed	2.4	2.6	2.6	3.0	2.2	2.2	2.4	2.1	2.2	2.4
Foreign financed	1.9	1.7	1.4	1.4	3.0	2.8	2.5	2.7	2.6	2.4
Lending minus repayment	0.4	0.5	0.5	0.6	-0.1	-0.1	-0.1	-0.1	0.0	0.0
Reserve and contingency funds 5/				0.0	0.2	0.2	0.2	0.2	0.2	0.1
Repayment of end-2013 stock of unpaid bills and arrears	2.4	1.2	0.0							
Overall balance	-5.9	-4.6	-2.3	-2.0	-2.1	-2.0	-1.9	-1.8	-2.1	-1.9
Financing	5.9	4.6	2.3	2.0	2.1	2.0	1.9	1.8	2.1	1.9
Domestic	3.4	-1.3	0.9	-0.8	-3.5	0.7	0.6	1.7	2.1	1.9
Privatization receipts	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net borrowing	3.2	-0.9	0.7	1.0	-0.7	0.8	0.1	1.4	2.2	2.0
Gross borrowing	33.2	31.1	25.2	22.4	16.4	17.0	14.6	14.9	15.9	15.9
Amortization	29.9	31.9	24.5	21.3	17.1	16.2	14.6	13.5	13.6	13.8
Change in general gov. deposits	0.1	0.5	-0.3	-0.9	-1.9	0.7	0.5	0.3	-0.2	-0.2
Other	0.1	-0.9	0.3	-0.9	-1.0	-0.8	0.0	0.0	0.0	0.0
Foreign	2.5	5.0	1.3	1.9	5.6	1.2	1.3	0.1	0.0	0.0
Gross borrowing	3.9	9.5	2.8	3.5	7.6	3.3	6.7	2.3	2.2	5.2
Amortization	1.3	4.3	1.5	1.7	2.0	2.1	5.4	2.2	2.2	5.2
Accumulation of arrears 6/	0.0	0.9	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:										
Primary balance	-3.0	-1.9	0.2	0.1	0.1	0.3	0.4	0.3	0.2	0.4
Structural primary balance	-0.2	-0.6	0.4	0.2	0.2	0.4	0.5	0.3	0.2	0.4
General government debt 7/	72.0	73.7	73.2	71.8	72.2	69.5	66.6	63.9	62.1	60.4
Of which: Short-term general government debt	20.5	17.7	16.2	15.7	11.5	11.4	9.4	9.1	9.2	9.2
Domestic	42.4	39.5	39.0	38.9	35.1	33.0	30.9	30.2	30.4	30.5
Of which: Unpaid bills and arrears	1.9	1.0	0.9	1.7	1.5	1.3	1.1	0.9	0.8	0.8
External	29.6	34.2	34.2	32.9	37.2	36.5	35.7	33.7	31.7	29.9
Direct general government external debt	27.5	32.4	32.6	31.6	35.3	34.3	33.8	32.1	30.4	28.8
Government guaranteed external debt	2.0	1.8	1.6	1.3	1.8	2.2	1.9	1.6	1.3	1.1
GDP (in billions of leks)	1395	1434	1475	1553	1642	1743	1860	1986	2121	2265

Sources: Albanian authorities; and IMF staff estimates and projections.

1/ Includes the property tax, the simplified profit tax for small businesses, and other local taxes.
2/ There is a structural break in 2016, reflecting the transfer of central government employees to local governments, as part of fiscal decentralization.
3/ Starting in 2017, guarantees are recorded on a net basis, including amortization.
4/ There is a structural break in 2017, reflecting the transfer of the Regional Development Fund to the Ministry of Urban Development.
5/ Spending contingencies are reported according to their economic classification at outturn.
6/ As reflected in official data and not accounting for arrears accumulated outside of the budget prior to 2014.
7/ Starting with 2015, the stock of general government debt includes fully documented unpaid bills owed by local governments, most of which were inherited by the new municipalities after the June 2015 territorial reform.

Table 2b. Albania: General Government Operations, 2014-23
(Billions of leks)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
				Prel.	Proj.			Proj.		
Total revenue and grants	366.6	377.5	403.1	430.4	454.7	480.9	511.7	540.3	570.5	603.2
Tax revenue	335.8	340.6	366.0	398.6	419.1	442.7	470.9	498.7	526.1	555.8
VAT	123.7	124.8	128.1	139.5	143.8	152.1	161.5	171.6	182.2	193.4
Profit tax	21.5	24.2	28.5	31.6	33.6	35.9	38.7	41.7	44.9	48.4
Excise tax	40.9	39.0	41.9	45.1	47.8	49.8	51.8	53.9	55.3	56.4
Personal income tax	28.9	29.7	31.4	32.1	32.4	34.4	36.6	39.1	41.7	44.5
Customs duties	5.9	5.8	6.1	6.5	6.8	7.2	7.7	8.2	8.8	9.4
Other taxes	32.6	33.7	35.8	38.5	39.9	41.0	42.3	43.6	45.1	46.6
Local government revenue 1/	12.4	11.7	15.0	18.4	22.0	25.1	30.1	32.2	34.4	36.8
Social insurance contributions	69.9	71.7	79.2	86.8	92.8	97.3	102.3	108.4	113.8	120.3
Non-tax revenue	20.7	25.7	22.5	20.7	21.4	22.7	24.2	25.9	27.6	29.5
Grants	10.1	11.2	14.6	11.1	14.2	15.5	16.6	15.7	16.8	17.9
Total expenditure	448.6	443.0	436.5	461.2	490.0	515.0	546.4	576.6	614.7	645.6
Current expenditure	348.1	355.9	370.6	382.6	402.2	424.8	451.8	479.0	510.7	534.6
Personnel cost 2/	71.4	72.5	67.5	72.6	77.8	80.5	83.3	89.1	91.7	94.5
Interest	40.1	38.6	36.3	31.9	36.3	38.7	42.9	43.1	49.4	51.5
Operations & maintenance	31.3	42.4	44.3	43.4	45.2	47.2	47.5	51.6	55.1	58.9
Subsidies	8.4	6.8	3.8	2.6	3.1	3.3	3.3	4.1	4.2	3.7
Energy guarantees 3/	6.7	4.6	0.0	0.1	0.3	0.7	0.7	1.5	1.5	0.8
Nonenergy guarantees	0.1	0.5	2.0	0.2	0.7	0.5	0.6	0.6	0.6	0.6
Other	1.6	1.7	1.7	2.3	2.1	2.0	2.0	2.0	2.2	2.3
Social insurance outlays	138.5	141.2	152.6	162.1	169.3	180.0	192.0	204.4	217.8	227.6
Local government expenditure 2/ 4/	32.9	34.1	41.7	46.5	47.3	51.3	57.6	61.0	65.2	69.6
Social protection transfers	25.5	20.2	24.5	23.4	23.3	23.8	25.2	25.7	27.2	28.8
Capital expenditure 4/	60.5	62.6	58.2	68.8	86.1	87.8	92.2	95.3	101.8	108.7
Domestically financed	33.8	37.7	37.9	46.6	36.8	38.7	44.9	41.3	47.5	54.0
Foreign financed	26.8	24.9	20.4	22.3	49.3	49.1	47.3	54.0	54.3	54.7
Lending minus repayment	5.9	7.3	7.4	9.2	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Reserve and contingency funds 5/			0.0	0.0	2.7	3.3	3.3	3.3	3.3	3.3
Repayment of end-2013 stock of unpaid bills and arrears	33.8	17.6	0.0							
Overall balance	-82.1	-65.5	-33.3	-30.8	-35.3	-34.1	-34.7	-36.3	-44.2	-42.4
Financing	82.1	65.5	33.3	30.8	35.3	34.1	34.7	36.3	44.2	42.4
Domestic	47.5	-18.0	13.9	-12.1	-57.1	12.6	10.9	33.3	43.7	42.4
Privatization receipts	0.0	0.9	2.8	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Net borrowing	45.0	-12.6	10.6	16.3	-10.7	14.7	1.7	27.2	47.1	46.1
Gross borrowing	462.6	445.5	372.1	347.4	269.4	296.8	272.4	296.1	336.3	359.2
Amortization	417.7	458.2	361.5	331.1	280.1	282.1	270.7	268.9	289.3	313.1
Change in general gov. deposits	1.5	6.9	-4.3	-14.2	-30.5	11.6	9.2	6.2	-3.4	-3.6
Other	1.0	-13.1	4.8	-14.6	-15.9	-13.7	0.0	0.0	0.0	0.0
Foreign	34.3	71.0	19.5	29.4	92.4	21.5	23.8	2.9	0.6	-0.1
Gross borrowing	53.9	135.7	41.9	55.0	124.5	57.5	124.4	46.4	47.3	116.9
Amortization	17.8	61.7	22.0	25.8	32.1	36.0	100.6	43.4	46.8	116.9
Accumulation of arrears 6/	0.3	12.5	-0.1	13.5	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:										
Primary balance	-42.0	-26.9	2.9	1.1	1.0	4.6	8.2	6.8	5.1	9.1
Structural primary balance	-2.6	-8.3	6.4	2.3	3.2	6.2	9.0	6.9	4.7	8.3
General government debt 7/	1004.5	1057.3	1079.7	1114.8	1185.8	1212.0	1238.4	1269.0	1317.4	1368.3
Of which: Short-term general government debt	286.6	254.3	239.7	243.2	188.6	198.8	174.3	180.6	195.1	208.3
Domestic	592.1	566.4	575.1	604.5	575.9	574.9	574.6	599.8	645.6	691.7
Of which: Unpaid bills and arrears	26.6	14.1	13.1	26.7	24.7	22.7	20.7	18.7	17.4	17.4
External	412.4	490.9	504.6	510.3	609.9	637.1	663.8	669.2	671.8	676.6
Direct general government external debt	383.9	465.3	481.4	490.5	579.6	598.0	629.1	638.1	643.9	651.5
Government guaranteed external debt	28.5	25.6	23.2	19.8	30.3	39.1	34.7	31.1	28.0	25.1

Sources: Albanian authorities; and IMF staff estimates and projections.

1/ Includes the property tax, the simplified profit tax for small businesses, and other local taxes.
2/ There is a structural break in 2016, reflecting the transfer of central government employees to local governments, as part of fiscal decentralization.
3/ Starting in 2017, guarantees are recorded on a net basis, including amortization.
4/ There is a structural break in 2017, reflecting the transfer of the Regional Development Fund to the Ministry of Urban Development.
5/ Spending contingencies are reported according to their economic classification at outturn.
6/ As reflected in official data and not accounting for arrears accumulated outside of the budget prior to 2014.
7/ Starting with 2015, the stock of general government debt includes fully documented unpaid bills owed by local governments, most of which were inherited by the new municipalities after the June 2015 territorial reform.

Table 3a. Albania: Balance of Payments, 2014-23
(Percent of GDP)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
				Prel.	Proj.			Proj.		
Current account	-10.8	-8.6	-7.6	-6.9	-6.8	-6.6	-6.1	-5.9	-5.8	-5.9
Balance of goods and services	-19.0	-17.3	-16.8	-15.1	-14.4	-13.9	-13.2	-12.9	-12.7	-12.6
Trade Balance (goods)	-22.2	-22.4	-24.2	-24.4	-23.5	-23.5	-23.0	-22.8	-22.8	-22.9
Exports	9.3	7.5	6.6	6.9	7.4	7.6	7.5	7.4	7.3	7.3
Of which: Energy	4.6	3.1	1.8	1.5	1.6	1.5	1.4	1.3	1.2	1.1
Imports	31.6	29.9	30.9	31.3	30.9	31.1	30.5	30.3	30.2	30.2
Of which: Energy	5.8	3.7	3.0	3.7	3.4	3.0	2.9	2.7	2.7	2.6
Services (net)	3.2	5.1	7.4	9.3	9.1	9.7	9.8	9.9	10.1	10.3
Income balance	0.9	1.2	1.6	0.8	0.4	0.2	0.2	0.3	0.4	0.4
Of which: Interest due	1.8	1.8	1.8	1.3	1.4	1.7	1.8	1.8	1.7	1.7
Current transfers	7.3	7.5	7.6	7.3	7.2	7.1	6.9	6.7	6.5	6.3
Capital and Financial account	9.0	5.3	5.4	7.9	11.6	7.3	8.4	8.0	7.9	8.1
Capital transfers	0.9	1.2	0.6	1.1	1.0	1.0	0.9	0.9	0.8	0.8
Direct investment, net	8.1	8.0	8.7	8.4	7.3	6.5	6.1	6.6	7.1	7.5
Government Medium- and long-term loans, net	0.6	-2.5	-0.1	0.3	4.9	0.4	1.2	0.2	0.0	0.0
Project loans	1.7	1.7	1.3	1.8	2.3	2.1	1.8	2.1	2.0	1.8
Other loans	0.0	0.0	0.0	0.0	4.1	0.0	4.5	0.0	0.0	3.1
Amortization (includes Eurobond bullet payment)	-1.1	-4.2	-1.3	-1.5	-1.6	-1.7	-5.1	-1.9	-2.0	-4.9
Government Guaranteed Borrowing, net	-0.2	-0.2	-0.2	-0.2	0.6	0.5	-0.2	-0.2	-0.1	-0.1
Disbursement	0.0	0.0	0.1	0.0	1.0	0.8	0.1	0.1	0.1	0.1
Amortization	-0.2	-0.2	-0.3	-0.2	-0.4	-0.4	0.3	0.3	0.2	0.2
Other flows	-1.0	-1.9	-4.6	-2.5	-3.1	-2.1	-0.7	-0.7	-1.1	-1.4
Errors and omissions [1/]	0.6	1.4	1.2	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9
Net balance	-1.2	-1.9	-1.0	-1.0	2.9	-1.2	0.4	0.1	0.1	0.2
Available financing	1.2	1.8	1.0	1.0	-2.9	1.2	-0.4	-0.1	-0.1	-0.2
Change in net reserves (increase = -) [2/]	-1.0	-5.9	-0.4	-1.3	-3.0	0.9	-0.7	-0.2	-0.3	-0.4
IMF (budget support)	0.5	0.9	1.3	0.6	0.0	0.0	0.0	0.0	0.0	0.0
World Bank (DPL)	1.7	0.0	0.1	1.4	0.1	0.3	0.3	0.1	0.2	0.2
Other budget loans	…	…	0.0	0.2	0.0	0.0				
Commercial borrowing	0.0	6.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w WB PBG		2.4								
o/w Eurobond		4.4								
Memorandum items:										
Exports of Goods and Services (percent of GDP)	28.2	27.3	28.9	31.5	32.8	33.7	33.8	33.8	33.9	34.0
Imports of Goods and Services (percent of GDP)	47.2	44.5	45.8	46.6	47.1	47.6	47.1	46.7	46.6	46.7
Current Account (percent of GDP)										
excluding imports related to large energy projects	-10.8	-6.3	-4.8	-4.6	-5.2	-5.8	-6.1	-5.9	-5.8	-5.9
Balance of goods and services										
excluding imports related to large energy projects	-19.0	-15.0	-14.1	-12.7	-12.7	-13.0	-13.2	-12.9	-12.7	-12.6

Sources: Ministry of Finance; Bank of Albania; donors; and IMF staff estimates and projections.

1/ Includes unidentified flows of private transfers, which are projected to decline gradually over the medium term with the decline in remittances as a share of GDP.

2/ Net of valuation changes in 2013–17. In projections for 2018–22, valuation effects are assumed to be zero.

Table 3b. Albania: Balance of Payments, 2014-23
(Millions of Euros, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
				Prel.	Proj.			Proj.		
Current account	-1,076	-882	-812	-804	-830	-838	-827	-848	-888	-964
Balance of goods and services	-1,892	-1,772	-1,807	-1,744	-1,750	-1,758	-1,781	-1,849	-1,930	-2,044
Trade Balance (goods)	-2,215	-2,297	-2,603	-2,825	-2,863	-2,989	-3,097	-3,267	-3,474	-3,708
Exports	932	771	712	796	903	960	1,012	1,064	1,118	1,185
Of which: Energy	461	321	197	174	193	189	182	183	177	177
Imports	3,147	3,068	3,315	3,621	3,766	3,950	4,108	4,331	4,592	4,894
Of which: Energy	576	380	318	428	416	382	384	393	408	427
Services (net)	323	525	797	1,082	1,112	1,231	1,315	1,419	1,544	1,665
Income balance	91	122	174	92	48	21	28	45	56	63
Of which: Interest due	176	182	191	148	168	211	238	253	264	276
Current transfers	725	768	821	848	873	900	927	956	985	1,016
Capital and Financial account	899	545	578	920	1,416	927	1,136	1,144	1,208	1,317
Capital transfers	87	126	66	122	122	122	122	122	122	122
Direct investment, net	812	818	936	970	883	829	820	937	1,077	1,223
Government Medium- and long-term loans, net	56	-256	-6	31	591	52	162	32	2	-1
Project loans	165	171	138	203	282	269	249	304	300	296
Amortization (includes Eurobond bullet payment)	-108	-426	-144	-172	-191	-217	-687	-272	-298	-797
Government Guaranteed Borrowing, net	-22	-19	-17	-21	76	62	-29	-22	-20	-17
Disbursement	0	3	16	2	123	107	12	18	18	18
Amortization	-22	-23	-32	-23	-47	-45	41	40	38	35
Other flows	-103	-197	-489	-287	-375	-272	-90	-95	-165	-222
Errors and omissions 1/	55	142	129	-226	-237	-247	-262	-279	-297	-316
Net balance	-122	-195	-106	-110	349	-158	48	17	23	37
Available financing	122	186	106	110	-349	158	-48	-17	-23	-37
Change in net reserves (increase = -) 2/	-97	-610	-48	-147	-365	117	-89	-32	-48	-62
IMF (budget support)	54	96	145	70	0	0	0	0	0	0
World Bank (DPL)	166	0	9	161	17	41	42	15	25	25
Other budget loans	…	…	0	26	0	0	0	0	0	0
Commercial borrowing	0	700	0	0	0	0	0	0	0	0
o/w WB PBG		250								
o/w Eurobond		450								
Memorandum items:										
Nominal GDP	9,968	10,264	10,740	11,576	12,176	12,694	13,450	14,304	15,224	16,208
Gross international reserves	2,192	2,880	2,945	2,996	3,316	3,187	3,268	3,293	3,343	3,393
(months of imports of goods and services)	5.8	7.0	6.5	6.3	6.6	6.0	5.9	5.6	5.3	5.2
Net international reserves (IMF-Program defintion)	1,623	1,728	1,837	1,908	1,983	2,063	2,143	2,223	2,303	2,383
(months of imports of goods and services)	4.3	4.2	4.1	4.0	3.9	3.9	3.8	3.8	3.7	3.6
Balance of goods and services (percent of GDP)	-19.0	-17.3	-16.8	-15.1	-14.4	-13.9	-13.2	-12.9	-12.7	-12.6
Current account (percent of GDP)	-10.8	-8.6	-7.6	-6.9	-6.8	-6.6	-6.1	-5.9	-5.8	-5.9
Debt service (percent of exports of goods and services) 3/	2.3	14.3	4.1	3.8	4.7	5.7	15.8	6.3	6.3	14.8
Debt service (percent of central government revenues) 3/	2.7	15.6	4.7	4.9	6.4	7.8	21.9	8.7	8.7	20.6
Total external debt stock (percent of GDP) 4/	60.5	63.2	64.0	59.7	63.6	61.4	59.1	55.6	52.3	49.2
Exports of Goods and Services (millions of Euros)	2,813	2,799	3,107	3,652	3,988	4,279	4,550	4,837	5,158	5,517
Imports of Goods and Services (millions of Euros)	4,705	4,571	4,914	5,396	5,739	6,038	6,331	6,686	7,088	7,561
Volume of Exports of Goods and Services (percent change)	3.2	5.0	10.3	10.2	7.0	7.2	5.1	4.5	4.6	4.7
Volume of Imports of Goods and Services (percent change)	5.6	-0.1	8.2	6.1	5.3	4.3	4.1	4.4	4.5	5.0
Terms of trade (percent change)	-4.6	-16.5	-6.0	8.3	1.9	-3.0	-2.5	-1.7	-1.3	-0.9

Sources: Ministry of Finance; Bank of Albania; donors; and IMF staff estimates and projections.

1/ Includes unidentified flows of private transfers, which are projected to decline gradually over the medium term with the decline in remittances as a share of GDP.
2/ Net of valuation changes in 2013–17. In projections for 2018–22, valuation effects are assumed to be zero.
3/ Public and publicly guaranteed debt only.
4/ Public and private external debt, including arrears. Debt stock converted into Lek at the e-o-p exchange rate. Data revised to reflect the stock of intercompany liabilities and higher private external debt as captured under BPM6.

Table 4. Albania: External Financing Requirement and Sources, 2014-2023
(Millions of Euros)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
		Act.					Proj.			
Total financing requirement	1,218	1,815	970	1,025	1,311	860	1,521	1,071	1,149	1,736
Current account (incl. official transfers)	989	756	746	682	707	715	704	726	766	842
Amortization	131	450	176	195	238	262	727	313	335	833
Of which: IMF	0	0	0	0	5	17	32	51	57	57
Change in gross reserves (increase = +) 1/	97	610	48	147	365	-117	89	32	48	62
Total financing sources	1,218	1,815	970	1,025	1,311	860	1,521	1,071	1,149	1,736
Foreign direct investment, net	812	818	936	970	883	829	820	937	1,077	1,223
Official medium- and long-term project loans	165	171	138	203	282	269	249	304	300	296
Multilateral	95	68	57	151	148	128	106	133	135	134
Bilateral	70	103	81	53	134	141	142	170	164	162
Official guaranteed loans	0	3	16	2	123	107	12	18	18	18
Official budget support loans	220	105	153	258	17	41	42	15	25	25
Of which: IMF	54	96	145	70	0	0	0	0	0	0
Commercial borrowing (Eurobond and PBG)	0	700	0	0	500	0	600	0	0	500
Other	21	18	-273	-408	-493	-386	-202	-204	-271	-325
Portfolio investment, net	28	8	-17	-16	-16	-16	-16	-16	-16	-16
Commercial bank flows, net	-202	-77	-330	-24	50	-520	-335	-310	-217	-228
Errors and omissions	55	142	129	-226	-237	-247	-262	-279	-297	-316
Other	140	-56	-56	-142	-290	398	412	401	259	235
Total financing needs	0	0	0	0	0	0	0	0	0	0

Sources: Ministry of Finance; Bank of Albania; donors; and Fund staff estimates.

1/ The change in gross reserves is net of valuation changes for 2014-17. In projections for 2018-22, valuation effects are assumed to be zero.

Table 5. Albania: Indicators of Capacity to Repay to the Fund, 2013-23 1/ 2/
(Under Obligated Repurchase Schedule)
(Millions of SDRs)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fund repurchases and charges											
In millions of SDRs	6.9	6.1	5.3	5.4	6.8	9.5	20.9	33.2	48.9	52.7	51.8
In millions of euro	7.7	7.2	6.8	6.9	8.1	11.1	24.3	38.4	56.4	60.8	59.6
In percent of gross international reserves	0.4	0.3	0.2	0.2	0.3	0.3	0.8	1.2	1.7	1.8	1.8
In percent of exports of goods and services	0.3	0.3	0.2	0.2	0.2	0.3	0.6	0.8	1.2	1.2	1.1
In percent of GDP	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.4	0.4	0.4
In percent of external public debt	0.3	0.2	0.2	0.2	0.2	0.2	0.5	0.8	1.2	1.2	1.2
In percent of quota	11.5	10.1	8.9	3.9	4.9	6.8	15.0	23.8	35.1	37.9	37.2
Fund credit outstanding (end of period)											
In millions of SDRs	16.4	57.7	129.3	241.5	296.8	291.7	277.3	249.6	205.1	155.9	106.7
In millions of euro	18.4	68.1	164.8	308.6	354.8	341.5	322.5	289.0	236.7	179.6	122.7
In percent of gross international reserves	0.9	3.1	5.7	10.5	11.8	10.3	10.1	8.8	7.2	5.4	3.6
In percent of exports of goods and services	0.7	2.4	5.9	9.9	9.7	8.6	7.5	6.4	4.9	3.5	2.2
In percent of GDP	0.2	0.7	1.6	2.9	3.1	2.8	2.5	2.1	1.7	1.2	0.8
In percent of external public debt	0.7	2.3	4.8	8.3	9.2	7.6	6.9	6.0	4.9	3.7	2.5
In percent of quota	27.3	96.1	215.6	173.4	213.0	209.4	199.1	179.2	147.3	111.9	76.6
Memorandum items:											
Gross international reserves	1795	1855	2261	2305	2506	2832	2740	2823	2853	2892	2936
Exports of goods and services	2479	2381	2197	2432	3054	3407	3679	3930	4192	4478	4795
GDP	8575	8437	8057	8405	9683	10401	10914	11618	12395	13216	14084
External public debt	2351	2458	2692	2925	3215	3860	4016	4184	4217	4229	4237
Quota	60.0	60.0	60.0	139.3	139.3	139.3	139.3	139.3	139.3	139.3	139.3

Source: Fund staff estimates.

1/ Projections are based on current interest rates for the PRGF and the EFF.
2/ End-year value.

Table 6. Albania: Monetary Survey, 2014-23 1/ 2/
(Billions of leks, unless otherwise indicated, end-period)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Proj.			Proj.		
Net foreign assets	525	615	697	700	757	818	880	929	968	1,011
Bank of Albania	292	363	390	391	445	432	445	450	457	467
Commercial banks	233	251	307	310	312	386	435	479	511	545
Net domestic assets	670	602	567	566	570	587	616	666	734	807
Claims on central government, net	378	332	357	351	362	374	375	391	423	457
Bank of Albania	47	27	34	18	-32	-21	-11	-5	-9	-12
Commercial banks	331	305	322	333	395	395	387	397	432	469
Claims on public enterprises	27	28	27	30	13	2	2	2	2	2
Claims on the private sector	524	509	511	512	523	546	574	608	645	683
In leks	207	212	231	244	249	260	274	290	307	326
In foreign currency	317	296	280	268	273	285	300	318	337	357
Other items, net	-259	-267	-328	-327	-328	-334	-334	-336	-336	-336
Broad money	1,195	1,216	1,263	1,266	1,328	1,405	1,496	1,595	1,702	1,818
Currency outside banks	218	231	249	265	282	292	308	326	345	365
Deposits	977	986	1,014	1,001	1,045	1,114	1,188	1,270	1,358	1,453
Domestic currency	505	493	488	473	497	532	570	613	659	709
Foreign currency	473	493	527	528	549	582	617	657	699	744
Memorandum items:										
Broad money growth (% change)	4.0	1.8	3.9	0.2	4.9	5.9	6.4	6.7	6.7	6.8
Reserve money growth (% change)	8.1	15.3	7.9	2.6	-0.2	2.0	4.2	4.1	4.9	6.1
Private sector credit growth (% change)	2.0	-2.8	0.4	0.2	2.1	4.4	5.1	6.1	6.0	6.0
Broad money (as percent of GDP)	85.7	84.8	85.6	81.5	80.9	80.6	80.4	80.3	80.3	80.3
Private sector credit (as percent of GDP)	37.5	35.5	34.6	32.9	31.8	31.3	30.8	30.6	30.4	30.2
Velocity (nominal GDP/broad money)	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Money multiplier (absolute values)	3.6	3.2	3.0	3.0	3.1	3.2	3.3	3.4	3.5	3.5
Currency (as share of broad money)	18.2	19.0	19.7	20.9	21.3	20.8	20.6	20.4	20.3	20.1
Foreign currency deposits/total deposits	48.4	50.0	51.9	52.7	52.5	52.2	52.0	51.7	51.5	51.2
Gross reserves (millions of euros)	2,192	2,880	2,945	2,996	3,316	3,187	3,268	3,293	3,343	3,393

Sources: Bank of Albania; and IMF staff estimates.

Table 7. Albania: Summary of Accounts of the Central Bank, 2014-23
(Billions of leks, unless otherwise indicated, end-period)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Proj.			Proj.		
Net foreign assets	292	363	390	391	445	432	445	450	457	467
Assets	319	405	419	418	473	460	473	478	486	495
Liabilities	27	42	29	27	28	28	28	28	28	28
Net domestic assets	41	21	25	35	-21	1	6	20	35	56
Domestic credit	75	41	66	60	3	33	38	51	67	87
Net claims on central government	47	27	34	18	-32	-21	-11	-5	-9	-12
Assets	64	53	53	53	33	33	33	33	33	33
Liabilities	17	26	19	34	65	53	44	38	41	45
Other credit	27	15	32	42	35	54	49	56	75	100
Private sector	2	2	2	2	2	2	2	2	2	2
Commercial banks	26	13	30	40	34	52	47	55	74	98
Other items, net (assets = +)	-34	-21	-41	-25	-24	-32	-31	-31	-31	-31
Reserve money	333	384	414	425	424	433	451	470	493	523
Currency in circulation	218	231	249	265	282	292	308	326	345	365
Bank reserves	115	152	162	156	142	141	143	144	148	157
Other nonbank deposits	0	2	3	4	0	0	0	0	0	0

Sources: Bank of Albania; and IMF staff estimates.

Table 8. Albania: IMF Core Indicators of Financial Soundness, 2007-17

		Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
I	Capital-based																	
(i)	Regulatory capital as a percent of risk-weighted assets	17.1	17.2	16.2	15.4	15.6	16.2	18.0	16.8	15.7	16.0	16.1	15.6	15.7	15.8	16.3	16.4	16.6
(ii)	Regulatory Tier 1 capital as a percent of risk-weighted assets	16.0	16.3	15.3	14.5	14.3	14.6	14.9	13.8	13.5	13.8	14.0	13.6	13.8	14.1	14.6	14.8	15.1
(iii)	Capital as a percent of total assets																	
	Regulatory Tier 1 capital as a percent of total assets	5.8	6.7	8.7	8.6	8.1	7.9	7.7	7.4	8.3	8.5	8.8	8.9	8.7	8.7	8.8	9.0	9.0
	Regulatory capital as a percent of total assets	6.2	7.0	9.2	9.1	8.8	8.8	9.3	9.0	9.7	9.9	10.1	10.2	10.0	9.7	9.9	10.0	9.9
	Shareholders' equity as a percent of total assets	7.6	8.6	9.6	9.4	8.7	8.6	8.4	8.6	9.5	9.4	9.6	9.7	9.7	10.0	9.9	10.0	10.2
(iv)	Nonperforming loans net of provisions as a percent of capital																	
	As a percent of regulatory Tier 1 capital	12.0	27.2	29.9	38.1	56.6	61.8	48.5	46.7	28.4	31.5	35.0	36.6	26.3	24.1	20.8	18.7	17.3
	As a percent of regulatory capital	11.2	25.7	28.2	35.9	52.0	55.6	40.2	38.3	24.3	27.1	30.4	32.0	23.1	21.6	18.6	16.9	15.7
	As a percent of shareholders' equity	9.1	21.1	27.1	34.8	52.6	56.9	44.8	40.2	24.8	28.7	32.0	33.6	23.6	21.1	18.6	16.8	15.3
(v)	Return on equity (ROE) (annual basis)	20.7	11.4	4.6	7.6	0.8	3.8	6.4	10.5	13.2	4.5	8.0	6.8	7.2	16.6	16.7	16.3	
(vi)	Net open position in foreign exchange as a percent of capital																	
	As a percent of regulatory Tier 1 capital	1.8	4.5	4.1	5.3	4.3	4.1	4.9	10.4	9.0	7.1	9.7	9.4	8.0	5.7	6.2	5.4	7.3
	As a percent of regulatory capital	1.7	4.3	3.9	5.0	3.9	3.7	4.1	8.5	7.7	6.1	8.4	8.2	7.0	5.1	5.6	4.9	6.7
	As a percent of shareholders' equity	1.4	3.5	3.7	4.9	4.0	3.8	4.5	8.9	7.8	6.4	8.9	8.6	7.2	5.0	5.5	4.9	6.5
II	Asset-based																	
(vii)	Liquid assets as a percent of total assets (Liquid-asset ratio) 1/	49.8	42.8	27.6	25.9	26.5	29.4	27.6	31.9	32.3	31.8	31.0	29.9	31.3	31.1	31.1	29.1	30.2
(viii)	Liquid assets as a percent of short-term liabilities 1/	55.6	104.7	32.6	30.6	33.1	34.9	34.7	40.4	41.4	40.6	40.0	38.6	40.6	40.5	41.1	38.9	40.2
(ix)	Return on assets (ROA) (net income to average total assets, annual)	1.6	0.9	0.4	0.7	0.1	0.3	0.5	0.9	1.2	0.4	0.8	0.7	0.7	1.6	1.6	1.6	1.5
(x)	Nonperforming loans (gross) as a percent of total loans	3.4	6.6	10.5	14.0	18.8	22.5	23.5	22.8	18.2	19.3	20.0	21.3	18.3	17.4	15.6	14.8	13.2
III	Income and expense-based																	
(xii)	Interest margin to gross income	92.7	106.5	119.6	118.9	147.7	101.1	87.9	102.2	98.0	100.5	95.0	82.7	81.6	82.7	84.8	83.9	…
(xiii)	Noninterest expenses to gross income	58.5	69.6	83.0	75.5	91.3	65.9	58.3	61.8	57.0	58.7	56.3	50.2	50.4	50.3	52.9	53.7	…
IV	Memorandum items																	
	Other (noncore) indicators:																	
	Customer deposits as a percent of total (non-interbank) loans	215.5	162.6	154.3	166.4	163.2	171.6	180.8	180.2	187.8	188.3	184.1	187.7	192.8	191.0	190.6	191.0	194.0
	Foreign currency-denominated loans to total loans	72.5	72.6	70.2	69.8	67.9	64.5	63.0	62.4	60.8	60.6	60.1	59.5	58.6	58.5	57.1	57.1	56.4
	Foreign currency-denominated liabilities as a percent of total liabilities	46.9	48.5	48.9	51.0	51.9	52.6	52.8	52.4	53.5	54.5	54.1	54.8	54.6	55.1	54.5	54.7	60.4
	Other indicators:																	
	Risk weighted assets as a percent of total assets	36.4	40.8	56.7	59.2	56.5	54.2	52.1	53.6	62.0	62.0	62.6	65.2	63.4	61.7	60.4	61.0	59.7
	Total loans as a percent of total assets	39.4	47.6	50.8	49.6	50.5	48.6	45.9	46.0	44.5	44.4	44.9	43.9	42.7	42.8	42.9	42.7	41.6
	Total loans as a percent of shareholders' equity	516.4	555.1	530.2	527.0	581.9	567.4	548.8	536.3	466.8	473.6	469.2	453.1	438.6	429.8	433.3	424.8	408.9

Source: Bank of Albania.

1/ Definitions of liquid assets and short term liabilities were changed in October 2009.

Annex I. Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Impact if Realized	Policy Advice
Weaker-than-expected global growth:			
Structurally weak growth in key advanced economies	High	High Weaker than anticipated growth (particularly in Greece and Italy, the main export destinations and sources of remittances) might spill over to Albania and test the authorities' perseverance with reforms.	Continue to diversify export markets. Improve the domestic policy environment to support growth in domestic consumption and investment.
Financial conditions:			
Tighter global financial conditions	High	Medium Tapering by the ECB could raise interest rates in Albania and stress-test public debt service. Faster-than-expected Fed normalization could lead to dollar appreciation against the euro, pushing up Albania's public-debt-to-GDP ratio.	Persist with fiscal consolidation and further lengthen the maturity of public debt. Target improvements in public debt management which would make the debt stock less sensitive to fluctuations in the euro-dollar exchange rate.
Disruption of credit intermediation	Medium	Low Financial turmoil in Greece or Western Europe could weigh on investor confidence. A potential abrupt and disorderly exit of a large foreign bank could stress the domestic banking system and create pressures on the market for domestic public debt.	Continue sharing information with parent banks and their regulators, strengthen contingency plans, and closely monitor capital and liquidity positions. In the event of a change of ownership, ensure that fit-and-proper rules are enforced. Fully align Albanian bank regulation with EBA.
Adverse weather conditions	Medium	Medium Continued drought conditions could affect electricity generation in 2018. Power shortages could damage growth. Electricity imports could pose quasi-fiscal risks for the budget.	Reinvigorate the implementation of the electricity sector reform. Diversify domestic sources of electricity.
Poorly designed PPPs	Medium	Medium A rush to sign poorly designed PPP contracts for infrastructure investment could create large contingent liabilities, the realization of which could undermine fiscal and debt sustainability and impede efficiency of public investment	Fully implement the PPP law to ensure PPP contracts are well-designed and will not create significant contingent liabilities on the public balance sheet. Upgrade the capacity of Fiscal Risk Unit to undertake financial analysis of new PPP contracts.
Rollover of public debt	Low	High Concerns about debt sustainability may make banks reluctant to roll over government debt, a significant part of which is short-term.	Further lengthen the maturity of public debt and diversify the holder base. Improve market communication. Continue fiscal adjustment and debt reduction.
Domestic political instability	Low	High Volatile domestic politics could hinder the implementation of the authorities' structural reform and fiscal consolidation agenda.	Reforms improving the business environment are key for medium-term growth prospects. Failure to advance in these areas would undermine medium-term debt sustainability.
Lower energy prices	Low	Medium A decline in oil prices could hurt fiscal revenues and growth, by forcing a scale-back in investment and domestic production. On the upside, since Albania is a net oil importer, low prices could boost domestic demand.	Implement additional fiscal measures, as needed, to meet fiscal targets.

[1] The RAM shows events that could materially alter the baseline scenario (the scenario most likely to materialize in staff's view). The relative likelihood of risks listed is staff's subjective assessment of the risks surrounding the baseline.

Annex II. Adverse Scenario

1. **Delays in reforms can adversely affect Albania, but the capacity to repay the Fund will remain adequate.** To illustrate the downside risks, staff simulated a scenario where lack of structural reforms result in: 1) a decline of real GDP growth to 3 percent over the medium-term (compared to 4 percent in the baseline), 2) the government being unable to issue new Eurobonds and thereby increasing domestic issuances, resulting in an increase in domestic borrowing costs by 200 basis points compared to the baseline. Reduced access to foreign financing also triggers a depreciation that is 3 percent more than that in the baseline during 2018-19. Despite the adverse scenario, the government debt stabilizes at about 74 percent of GDP and reserves decline to a still adequate level of 4.5 month of imports by 2023 indicating that Albania will still have enough capacity to repay the Fund. Even under this adverse scenario, debt service to the Fund is expected to peak at around 0.5 percent of GDP or 2.2 percent of reserves.

Selected Indicators: Adverse Scenario

	2016	2017	2018	2019	2020	2021	2022	2023
Real GDP Growth (percent)	3.4	3.8	3.6	3.0	3.0	3.0	3.1	3.1
Inflation (avg., percent)	1.3	2.0	2.5	2.8	3.2	3.1	2.9	2.9
Current account (percent of GDP)	-7.6	-6.9	-6.9	-5.9	-4.7	-3.8	-3.4	-3.3
Reserves (months of Imports)	6.5	6.3	5.7	5.6	5.0	4.9	4.7	4.5
Fiscal overall balance(percent of GDP)	-2.3	-2.0	-2.2	-3.1	-3.4	-3.7	-4.1	-3.5
Primary balance(percent of GDP)	0.2	0.1	0.0	0.0	0.0	-0.3	-0.4	-0.2
Government debt (percent of GDP)	73.2	71.8	72.3	72.8	73.7	73.7	74.2	74.3

Source: IMF staff estimates.

Indicators of Capacity to Repay to the Fund, 2013-23: Adverse Scenario 1/ 2/
(Under Obligated Repurchase Schedule)
(Millions of SDRs)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fund repurchases and charges											
In millions of SDRs	6.9	6.1	5.3	5.4	6.8	9.5	20.9	33.2	48.9	52.7	51.8
In millions of euro	7.7	7.2	6.8	6.9	8.1	11.1	24.3	38.4	56.4	60.8	59.6
In percent of gross international reserves	0.4	0.3	0.2	0.2	0.3	0.4	0.9	1.5	2.1	2.2	2.2
In percent of exports of goods and services	0.3	0.3	0.2	0.2	0.2	0.3	0.6	0.8	1.2	1.2	1.1
In percent of GDP	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.4	0.5	0.4
In percent of external public debt	0.3	0.2	0.2	0.2	0.2	0.3	0.6	0.9	1.4	1.5	1.5
In percent of quota	11.5	10.1	8.9	3.9	4.9	6.8	15.0	23.8	35.1	37.9	37.2
Fund credit outstanding (end of period)											
In millions of SDRs	16.4	57.7	129.3	241.5	296.8	291.7	277.3	249.6	205.1	155.9	106.7
In millions of euro	18.4	68.1	164.8	308.6	354.8	341.5	322.5	289.0	236.7	179.6	122.7
In percent of gross international reserves	0.9	3.1	5.7	10.5	11.8	12.1	11.3	11.0	8.9	6.6	4.5
In percent of exports of goods and services	0.7	2.4	5.9	9.9	9.7	8.6	7.6	6.4	4.9	3.5	2.3
In percent of GDP	0.2	0.7	1.6	2.9	3.1	2.8	2.6	2.3	1.9	1.4	0.9
In percent of external public debt	0.7	2.3	4.8	8.3	9.2	8.5	7.7	7.1	5.8	4.4	3.0
In percent of quota	27.3	96.1	215.6	173.4	213.0	209.4	199.1	179.2	147.3	111.9	76.6
Memorandum items:											
Gross international reserves	1795	1855	2261	2305	2506	2405	2447	2262	2309	2345	2389
Exports of goods and services	2479	2381	2197	2432	3054	3407	3669	3903	4148	4420	4721
GDP	8575	8437	8057	8405	9683	10401	10568	10641	10951	11492	12055
External public debt	2351	2458	2692	2925	3215	3433	3586	3493	3524	3535	3542
Quota	60.0	60.0	60.0	139.3	139.3	139.3	139.3	139.3	139.3	139.3	139.3

Source: Fund staff estimates.

1/ Projections are based on current interest rates for the PRGF and the EFF.
2/ End-year value.

Annex III. Debt Sustainability Analysis (DSA)

After the substantial fiscal adjustment during 2014-16, fiscal consolidation has continued at a slower pace. However, Albania's debt remains high and poses significant risks. Rollover needs are gradually declining but remain sizable. Over the medium term, continued fiscal consolidation and steadfast implementation of structural reforms will be crucial for reducing the risks to debt sustainability. The authorities broadly agreed with this assessment.

A. Background

1. Following a period of rapid growth, public debt declined in 2017 for a second consecutive year. High primary deficits and slowing macroeconomic growth led to a rapid increase in public debt by around 13 percentage points of GDP between 2010 and 2013. In 2014, a new government embarked on a fiscal adjustment strategy. As a result, the pace of debt accumulation slowed down in 2014–15 and was reversed in 2016. However, at nearly 72 percent of GDP at end-2017, public debt remains high.

2. The macroeconomic assumptions underpinning the DSA are broadly in line with the authorities' macroeconomic plans and the Staff Report. The medium term will see a gradual recovery of real growth to around 4 percent, supported by a rebound in confidence and solid implementation of structural reforms following the expected launch of EU accession negotiations. Inflation expectations will remain anchored by the central bank's 3 percent target. After a consolidation of over 2 percent of GDP in 2014–16,[1] fiscal adjustment is expected to continue at a slower rate. The primary balance will gradually increase from 0.1 percent of GDP to 0.4 percent in the medium term. The authorities are also targeting a gradual improvement of the primary balance in 2018 and beyond.

3. The average maturity of the debt stock has been steadily increasing. This reflects efforts to shift from short-term domestic to long-term external financing, including from donors. In addition, the average weighted maturity of domestic public debt has more than doubled since 2011 and now exceeds two years.

B. Public DSA Results

Baseline

4. Under the baseline scenario, Albania's public debt will decline gradually over the medium term, albeit remaining at elevated levels of above 60 percent of GDP until 2023. At this level, debt would continue to pose significant risks because of high rollover needs and a vulnerability to macroeconomic shocks arising from slow growth, low inflation, and volatility in

[1] As measured by the structural primary balance.

interest rates and the terms of trade. In addition, the heavy reliance on the banking sector (which held 60 percent of domestic public debt at end-2017) poses risks given the systemic link between commercial banks and the sovereign. Rollover risk is exacerbated by the high concentration of domestic debt holding in a few local domestic banks.

5. Public debt under the baseline scenario is susceptible to a range of risks arising from the composition of the financing profile. Although the authorities have started lengthening the maturity profile, ***rollover risks*** remain high as about two-fifths of central government domestic direct debt was short-term at the end of 2017, and this ratio is expected to decline in the coming years as international issuances take place. Despite the projected substantial decline, public gross financing needs are expected to remain well above the 15 percent of GDP early warning threshold associated with past debt crises. ***Interest rate risk*** is expected to increase with the lengthening of maturities. However, the current lack of a liquid secondary market and commercial banks' preference to hold government securities till maturity both limit somewhat the impact on valuations. Another mitigating factor is the increasing share of external donor financing. Finally, ***exchange rate risk*** will rise with the expansion of foreign currency debt, but Albania's comfortable level of international reserves should limit the risk of a disorderly depreciation and help to cover external debt service.

6. Alternative scenarios underscore the risks to the baseline if interest rates increase sharply and growth weakens. Key risks arise from slower growth combined with a sharp increase in interest rates. Indeed, by 2023, public debt would be around 73 percent of GDP under the scenario based on historical performance.[2] Under the same scenario, gross financing needs stabilize at about 20 percent of GDP in 2023.

7. The baseline scenario nevertheless remains realistic. It represents a central forecast reflecting recent policy performance, the government's policy commitments, and realistic assumptions about the medium-term. In particular, the following needs to be considered:

- *Limited validity of the historical scenario.* The historical performance of the past 10 years is not representative of the current policy environment. The current government, which took office in 2013 and was re-elected in 2017, has engineered a clear break with past policies. Since 2014, the government has successfully embarked on fiscal consolidation and accompanying reforms, including of fiscal institutions. Given significant risks for macroeconomic stability and uncertain market access, the authorities remain committed to gradually reducing the public debt (by improving the primary balance over the medium term) and accelerating growth (by implementing further structural reforms).

[2] Under the historical scenario, real GDP growth, the primary balance, and real interest rates are set at their historical average of the past 10 years, while other variables are the same as in the baseline. Under the constant primary balance scenario, the primary balance remains at the 2018 projected level (in percent of GDP), while all other variables are the same as in the baseline.

- *Reasonably good forecast record.* Forecasts for growth do not suffer from a large systematic bias, with forecast errors close to the panel average. However, forecasts for the primary balance have been too pessimistic, with a percentile rank of 89 percent, while inflation forecasts have been too optimistic, with a percentile rank of 15 percent. The planned fiscal effort is expected to continue and is within what is typical of other countries' adjustment experiences.

- *GDP forecasts in line with fundamentals.* Medium-term growth projections seem realistic, given (i) Albania's relatively low per capita income by regional standards and its potential for convergence; (ii) high inflows of FDI throughout the period; (iii) the potential launch of EU accession negotiations, which should foster further growth-friendly structural reforms; and (iv) the authorities' strong record of implementing difficult reforms.

Stress tests

8. Macroeconomic and fiscal shocks can significantly increase public debt and gross financing needs relative to the baseline throughout the projection period. Among all stress test scenarios, Albania shows the highest vulnerability to a combined macro-fiscal shock.[3] Under this scenario, the debt-to-GDP ratio increases to around 80 percent in 2019-20, before gradually declining to around 76 percent by 2023. Gross financing needs would increase to 29 percent of GDP by the end of the forecast horizon. The second worst-case scenario would be a growth shock. Following a negative shock in real GDP growth by one standard deviation in 2018–19, public debt would still be just under 65 percent of GDP in 2023.

9. Fan charts further illustrate the possible evolution of debt over the medium term, through simulating a large number of shocks to macroeconomic variables.[4] These simulations suggest that under a symmetric distribution, an 80 percent confidence interval for the debt stock in 2023 ranges between 51 and 68 percent of GDP. However, under a restricted distribution (which precludes positive shocks to the primary balance), debt could be above 66 percent of GDP by 2023 with a probability of almost 25 percent, relative to the baseline scenario of 59 percent of GDP.

C. External Debt Sustainability

10. The external debt-to-GDP ratio remained at similar levels relative to the last DSA in the 2017 Article IV (December 2017). Most external debt continues to be held by multilateral creditors and bilateral development agencies. Most foreign public debt is denominated in euros (inter-government loans and the Eurobond), followed by SDRs (IMF loans).

[3] Stress tests include shocks to macro variables (real interest rate, real GDP growth, real exchange rate), fiscal variables (primary balance), and a combination of macro and fiscal variables which incorporates the largest effect of individual shocks on all variables.

[4] Fan charts show a spectrum of possible outcomes for the level of debt based on a probabilistic view of uncertainty around the baseline.

11. The external debt ratio is expected to peak this year and then decline gradually over the medium-term, as growth increases and multilateral borrowing declines. External debt is estimated to have peaked at around 63 percent of GDP in 2017, driven by high external public borrowing, and is expected to decline to 49 percent by 2023. Over the same period, external private borrowing is expected to fall from about 27 to 19 percent of GDP. Although the accumulation of FDI-related debt liabilities will slow as investment in large energy projects (such as the Trans Adriatic Pipeline) tapers off, such liabilities will likely remain the largest component of the private external debt stock. Public and private external debt service is expected to rise gradually through the medium-term, increasing to 11 percent of GDP in 2020 as the €450 million 2015 Eurobond issuance is amortized. The authorities expect to roll over this debt and are considering options to mitigate rollover and interest rate risk by pre-financing debt repayments through a new Eurobond issuance this year.

12. Stress test results. Under a 30 percent exchange rate depreciation shock, external debt would peak at 90 percent of GDP in 2018 before declining to 72 percent by 2023, when commercial debt issued in 2018 is expected to amortize. Depreciation shocks are likely to have added significance for debt dynamics in view of increased commercial borrowing, although Albania's ample reserve buffers should help mitigate disorderly foreign exchange market conditions. Following a shock to the current account of half a standard deviation (around 2½ percent of GDP), external debt would peak at 63 percent of GDP in 2019 and gradually decline to 57 percent by 2023.

D. Conclusion

13. Despite the significant fiscal adjustment since 2014, Albania's debt remains high and poses significant risks. As highlighted in red in the standardized heat map, Albania's debt and gross financing needs are above relevant thresholds under the baseline. While the share of short-term debt has been declining (green in the heat map), the debt profile shows moderate risks with key indicators above the lower risk-assessment benchmark (yellow in the heat map). The risks are mitigated somewhat by the fact that external donors hold a significant share of the public debt portfolio.

14. Addressing the risks associated with high debt remains critical for Albania's macroeconomic stability. High debt may thwart the economic recovery. High debt also means elevated vulnerability to shocks, increased rollover requirements, and thus higher vulnerability to sudden shifts in market perception. To address these risks, the authorities should continue to strengthen debt management capacity and lengthen debt maturity. Furthermore, continued fiscal consolidation and steadfast implementation of structural reforms will be crucial to ensure debt sustainability.

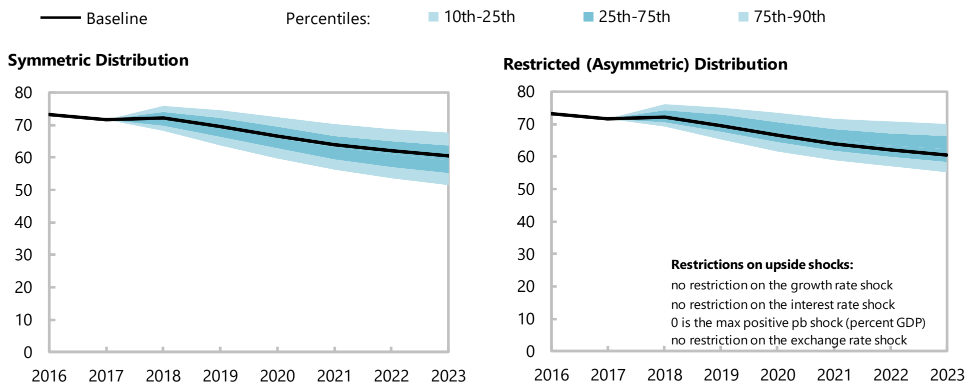
Figure 1. Albania: Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

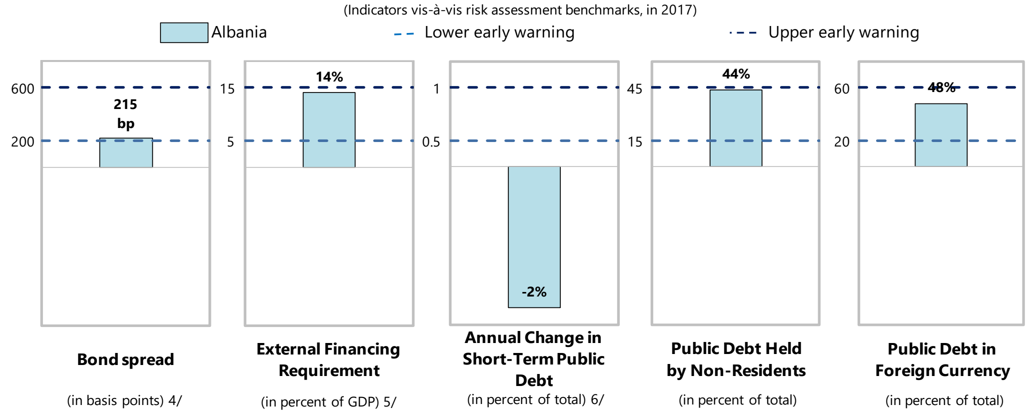
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2017)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

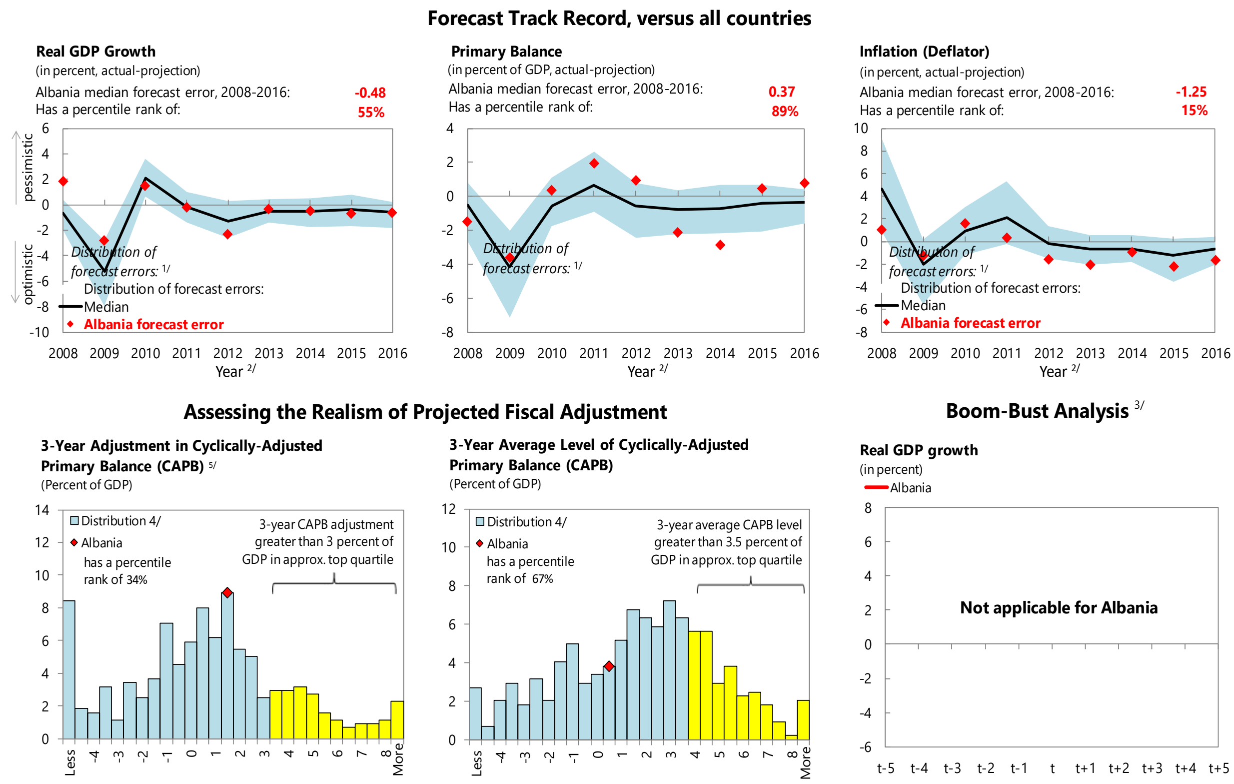
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Bond Spread over German Bonds, an average over the last 3 months, 05-Dec-17 through 05-Mar-18.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

6/ Following the Eurobond issuance in November, 2015, the government reduced issuance of short-term debt by both reducing rollovers and buying back bonds maturing in early 2016.

Figure 2. Albania: Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Albania, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.
5/ The large 3-year improvement in Albania's CAPB is due to substantial arrear clearance in 2015-2017.

Figure 3. Albania: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(In percent of GDP unless otherwise indicated)

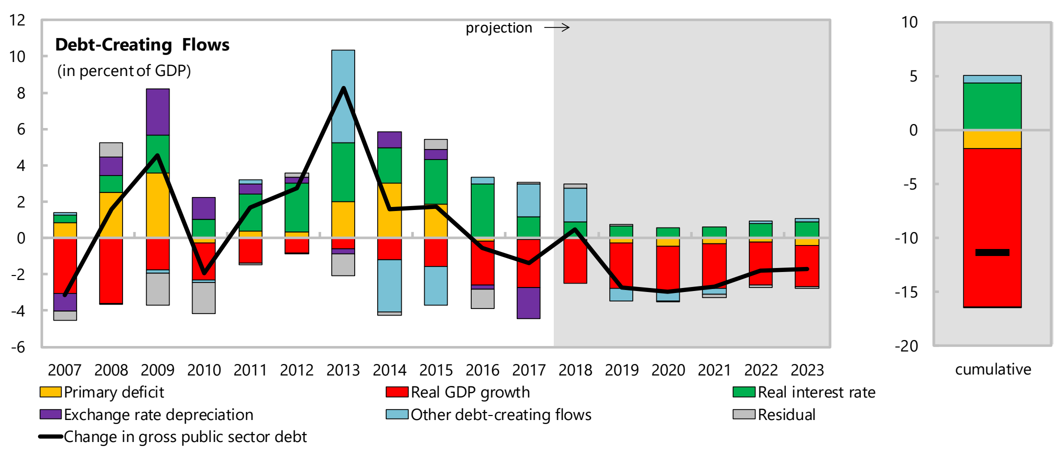
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2007-2015 [2]	2016	2017	2018	2019	2020	2021	2022	2023
Nominal gross public debt	62.6	73.2	71.8	72.2	69.5	66.6	63.9	62.1	60.4
Of which: guarantees	3.7	3.6	3.2	2.7	2.6	2.4	2.2	2.1	2.0
Public gross financing needs	39.1	28.3	25.0	21.2	19.1	22.7	19.1	21.1	21.6
Real GDP growth (in percent)	3.3	3.4	3.8	3.6	3.7	3.9	3.9	4.0	4.0
Inflation (GDP deflator, in percent)	2.4	-0.5	1.4	2.0	2.4	2.7	2.8	2.7	2.7
Nominal GDP growth (in percent)	5.7	2.9	5.3	5.7	6.2	6.7	6.8	6.8	6.8
Effective interest rate (in percent) [4]	5.6	3.6	3.1	3.4	3.4	3.7	3.8	4.1	4.4

As of Mar 05, 2018		
Sovereign Spreads		
Spread (bp) 3/		203
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	B1	B1
S&Ps [11]	B+	B+
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing primary balance [10]
Change in gross public sector debt	1.9	-0.5	-1.4	0.4	-2.7	-2.9	-2.7	-1.8	-1.7	-11.4	
Identified debt-creating flows	2.3	0.5	-1.5	0.2	-2.8	-2.9	-2.5	-1.7	-1.6	-11.3	
Primary deficit [5]	1.6	-0.2	-0.1	-0.1	-0.3	-0.4	-0.3	-0.2	-0.4	-1.8	-1.2
Primary revenue and grants [5]	25.7	27.3	27.7	27.7	27.6	27.5	27.2	26.9	26.6	163.5	
Primary expenditure [5]	27.3	27.1	27.6	27.6	27.3	27.1	26.9	26.7	26.2	161.8	
Automatic debt dynamics [6]	0.7	0.3	-3.2	-1.6	-1.9	-2.0	-1.8	-1.6	-1.4	-10.3	
Interest rate/growth differential [7]	0.1	0.5	-1.5	-1.6	-1.9	-2.0	-1.8	-1.6	-1.4	-10.3	
Of which: real interest rate	1.9	3.0	1.2	0.9	0.6	0.6	0.6	0.8	0.9	4.4	
Of which: real GDP growth	-1.8	-2.4	-2.7	-2.5	-2.5	-2.5	-2.5	-2.4	-2.3	-14.6	
Exchange rate depreciation [8]	0.6	-0.2	-1.7	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.4	1.8	1.9	-0.7	-0.5	-0.3	0.2	0.2	0.7	
Accumulation of general govt. deposits	0.0	0.3	0.9	1.9	-0.7	-0.5	-0.3	0.2	0.2	0.7	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Creation/clearance of end-2013 stock of arrears	0.0	0.1	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual [9]	-0.4	-1.1	0.1	0.2	0.1	0.0	-0.2	-0.1	-0.1	-0.1	



Source: IMF staff.

1/ Public sector is defined as general government and includes public guarantees, defined as domestic and external guarantees for the energy and nonenergy sector.

2/ Based on available data.

3/ Bond Spread over German Bonds, based on the 5-year eurobond issued in November 2015.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ The DSA includes unallocated measures in revenues and expenditures.

6/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by NEER).

7/ The real interest rate contribution is derived from the numerator in footnote 6 as $r - \pi(1+g)$ and the real growth contribution as -g.

8/ The exchange rate contribution is derived from the numerator in footnote 6 as ae(1+r).

9/ Includes guarantees, asset changes, net privatization proceeds, and interest revenues (if any). It includes also exchange rate changes during the projection period.

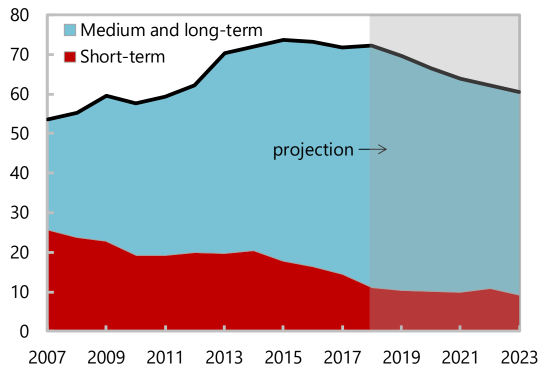
10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

11/ Credit rating for short-term foreign and local currency sovereign debt is maintained at "B."

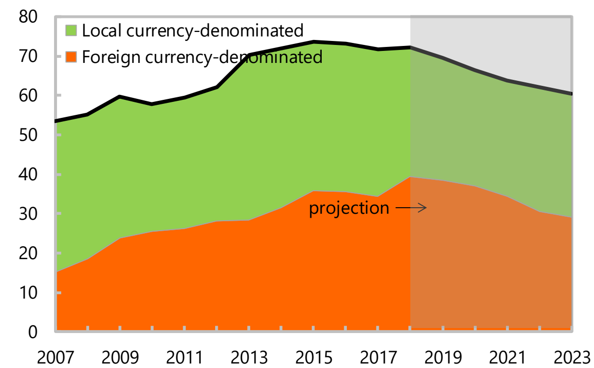
Figure 4. Albania: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



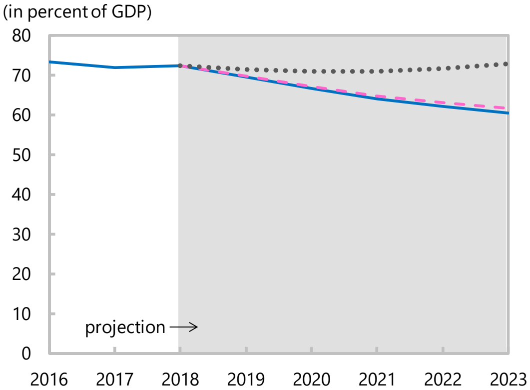
By Currency
(in percent of GDP)



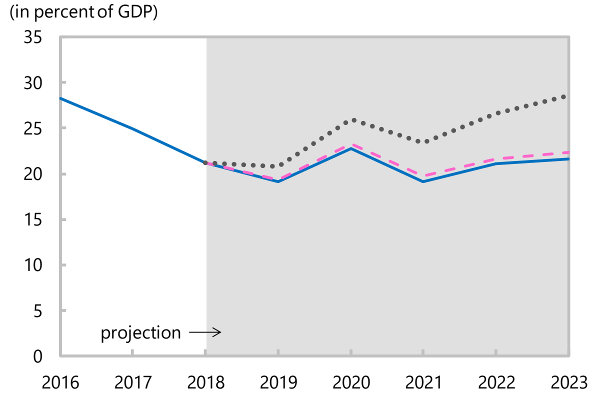
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

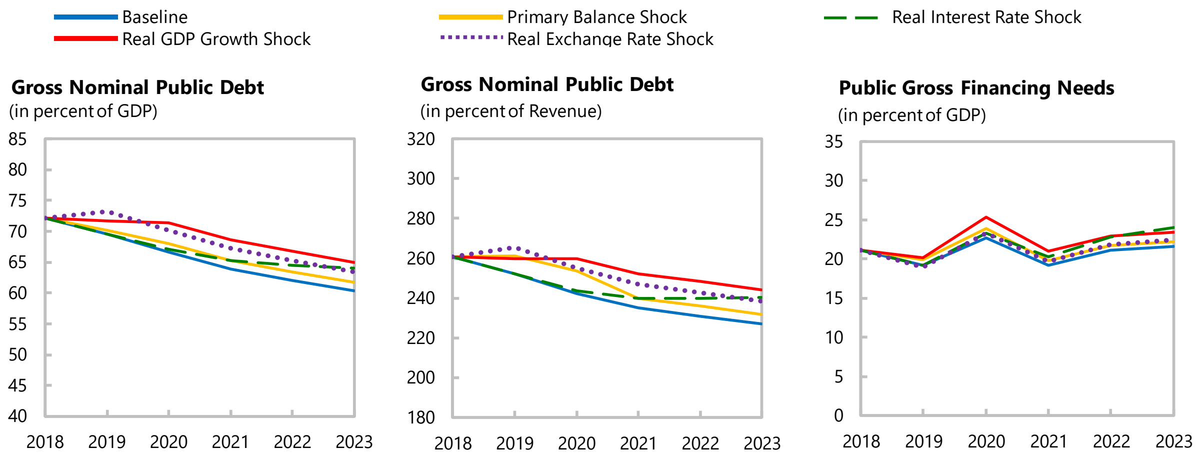
Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	3.6	3.7	3.9	3.9	4.0	4.0
Inflation	2.0	2.4	2.7	2.8	2.7	2.7
Primary Balance	0.1	0.3	0.4	0.3	0.2	0.4
Effective interest rate	3.4	3.4	3.7	3.8	4.1	4.4
Constant Primary Balance Scenario						
Real GDP growth	3.6	3.7	3.9	3.9	4.0	4.0
Inflation	2.0	2.4	2.7	2.8	2.7	2.7
Primary Balance	0.1	0.1	0.1	0.1	0.1	0.1
Effective interest rate	3.4	3.4	3.7	3.8	4.1	4.4

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	3.6	3.1	3.1	3.1	3.1	3.1
Inflation	2.0	2.4	2.7	2.8	2.7	2.7
Primary Balance	0.1	-1.3	-1.3	-1.3	-1.3	-1.3
Effective interest rate	3.4	3.4	4.1	4.6	5.1	5.5

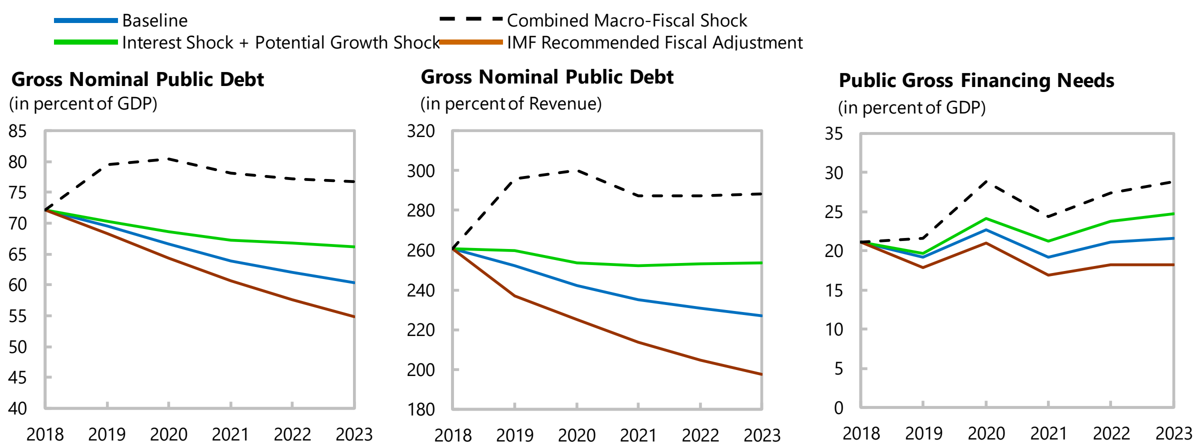
Source: IMF staff.

Figure 5. Albania: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	3.6	3.7	3.9	3.9	4.0	4.0
Inflation	2.0	2.4	2.7	2.8	2.7	2.7
Primary balance	0.1	-0.5	-0.3	0.3	0.2	0.4
Effective interest rate	3.4	3.4	3.7	3.9	4.2	4.4
Real Interest Rate Shock						
Real GDP growth	3.6	3.7	3.9	3.9	4.0	4.0
Inflation	2.0	2.4	2.7	2.8	2.7	2.7
Primary balance	0.1	0.3	0.4	0.3	0.2	0.4
Effective interest rate	3.4	3.4	4.5	5.3	5.9	6.5
Combined Shock						
Real GDP growth	3.6	1.9	2.0	3.9	4.0	4.0
Inflation	2.0	1.9	2.3	2.8	2.7	2.7
Primary balance	0.1	-1.1	-1.5	0.3	0.2	0.4
Effective interest rate	3.4	3.7	4.4	5.2	5.8	6.4

Real GDP Growth Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	3.6	1.9	2.0	3.9	4.0	4.0
Inflation	2.0	1.9	2.3	2.8	2.7	2.7
Primary balance	0.1	-0.4	-0.8	0.3	0.2	0.4
Effective interest rate	3.4	3.4	3.7	3.9	4.2	4.4
Real Exchange Rate Shock						
Real GDP growth	3.6	3.7	3.9	3.9	4.0	4.0
Inflation	2.0	7.0	2.7	2.8	2.7	2.7
Primary balance	0.1	0.3	0.4	0.3	0.2	0.4
Effective interest rate	3.4	3.7	3.6	3.7	4.0	4.3
IMF Recommended Fiscal Adjustment						
Real GDP growth	3.6	3.7	3.9	3.9	4.0	4.0
Inflation	2.0	2.4	2.7	2.8	2.7	2.7
Primary balance	0.7	1.5	1.5	1.5	1.5	1.5
Effective interest rate	3.4	3.4	3.6	3.8	4.1	4.3

Source: IMF staff.

Table 1. Albania: External Debt Sustainability Framework, 2013-2023

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2013	2014	2015	2016	2017			2018	2019	2020	2021	2022	2023	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	60.5	56.1	63.0	61.9	63.2			**63.1**	**61.5**	**59.1**	**55.7**	**52.4**	**49.5**	**-8.0**
2 Change in external debt	8.8	-4.4	7.0	-1.2	1.3			-0.1	-1.5	-2.4	-3.4	-3.4	-2.9	
3 Identified external debt-creating flows (4+8+9)	-2.1	0.5	9.9	-3.8	-7.0			-2.4	-2.2	-2.2	-2.7	-3.1	-3.3	
4 Current account deficit, excluding interest payments	8.6	9.5	8.7	6.0	5.7			4.7	4.2	3.7	3.5	3.4	3.6	
5 Deficit in balance of goods and services	18.0	19.0	17.3	16.8	15.1			14.4	13.9	13.2	12.9	12.7	12.7	
6 Exports	28.9	28.2	27.3	28.9	31.5			32.8	33.7	33.8	33.8	33.9	34.2	
7 Imports	47.0	47.2	44.5	45.8	46.6			47.1	47.6	47.1	46.8	46.6	46.9	
8 Net non-debt creating capital inflows (negative)	-9.2	-8.1	-9.5	-8.7	-8.2			-6.2	-5.5	-5.1	-5.4	-5.8	-6.2	
9 Automatic debt dynamics 1/	-1.5	-0.8	10.7	-1.0	-4.5			-0.9	-0.9	-0.8	-0.8	-0.7	-0.6	
10 Contribution from nominal interest rate	0.4	1.3	1.6	1.6	1.1			1.1	1.3	1.4	1.4	1.4	1.3	
11 Contribution from real GDP growth	-0.5	-1.0	-1.4	-2.0	-2.2			-2.0	-2.2	-2.2	-2.2	-2.1	-1.9	
12 Contribution from price and exchange rate changes 2/	-1.4	-1.1	10.6	-0.6	-3.5			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	10.9	-4.9	-2.9	2.6	8.3			2.2	0.6	-0.2	-0.7	-0.3	0.4	
External debt-to-exports ratio (in percent)	209.1	198.7	231.2	213.9	200.3			192.5	182.5	174.8	164.8	154.5	144.7	
Gross external financing need (in billions of US dollars) 4/	1.6	2.2	2.2	1.6	1.7			1.8	1.9	2.5	2.0	2.1	2.8	
in percent of GDP	12.7	16.7	19.6	13.4	12.7	10-Year	10-Year	12.1	11.9	14.6	10.9	10.6	13.4	
Scenario with key variables at their historical averages 5/								**63.1**	**66.6**	**70.3**	**73.3**	**76.8**	**80.6**	**-8.4**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	1.0	1.8	2.2	3.4	3.8	3.1	1.8	3.6	3.7	3.9	3.9	4.0	4.0	
GDP deflator in US dollars (change in percent)	2.7	1.8	-15.9	1.0	5.9	-0.7	8.3	11.4	1.7	3.2	3.0	3.1	2.4	
Nominal external interest rate (in percent)	0.8	2.3	2.5	2.7	2.0	2.1	0.7	2.0	2.2	2.4	2.5	2.6	2.7	
Growth of exports (US dollar terms, in percent)	-10.3	1.1	-16.9	10.7	19.9	4.1	14.7	19.9	8.5	7.5	7.1	7.4	7.4	
Growth of imports (US dollar terms, in percent)	-6.3	4.2	-18.9	7.2	12.0	1.2	13.8	16.8	6.4	6.1	6.3	6.8	7.1	
Current account balance, excluding interest payments	-8.6	-9.5	-8.7	-6.0	-5.7	-10.2	3.4	-4.7	-4.2	-3.7	-3.5	-3.4	-3.6	
Net non-debt creating capital inflows	9.2	8.1	9.5	8.7	8.2	8.1	1.1	6.2	5.5	5.1	5.4	5.8	6.2	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

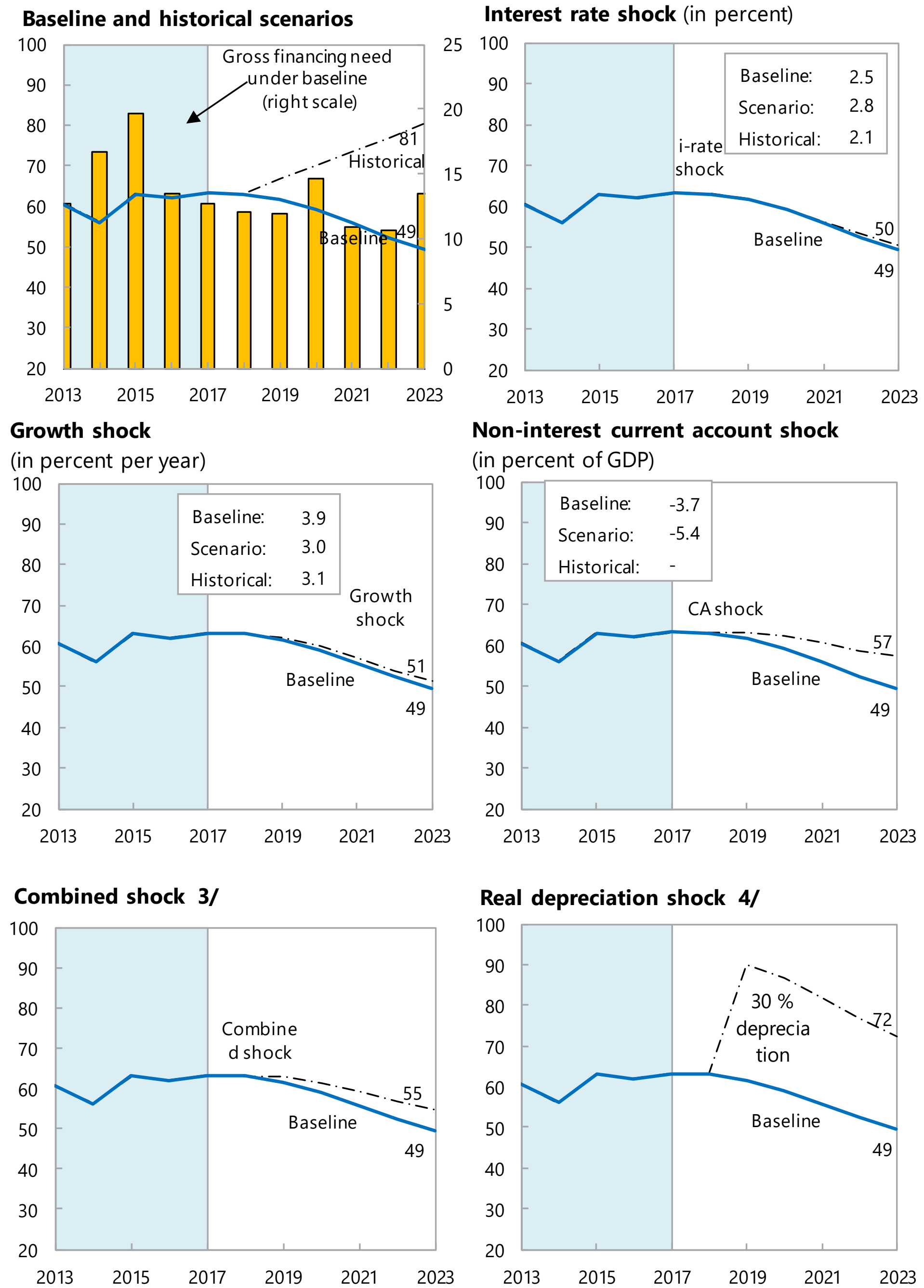
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 6. Albania: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2010.