INTERNATIONAL MONETARY FUND

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ALBANIA

April 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ALBANIA

In the context of the Request for Purchase under the Rapid Financing Instrument, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 10, 2020, following discussions that ended on March 27, 2020, with the officials of Albania on economic developments and policies underpinning the IMF arrangement under the Rapid Financing Instrument. Based on information available at the time of these discussions, the staff report was completed on April 6, 2020.
- A **Statement by the Executive Director** for Albania.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Approves US$190.5 in Emergency Support to Albania to Combat COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- *The earthquake on November 26, 2019 and the ongoing global outbreak of COVID-19 have caused significant losses and disruptions to Albania's economy.*
- *To address Albania's urgent balance of payments need, the IMF approved US$190.5 million (Euro 174 million) financial assistance under the Rapid Financing Instrument.*
- *The immediate challenge is to respond effectively to COVID-19 by strengthening health care and mitigating the effects on the sectors and households most affected by the crisis.*

WASHINGTON, DC – **April 10, 2020** The Executive Board of the International Monetary Fund (IMF) today approved SDR 139.3 million(around US$190.4 million or Euro 174 million, 100 percent of quota) emergency support for Albania under the Rapid Financing Instrument (RFI) to meet urgent balance of payment needs stemming from the outbreak of the COVID-19 pandemic, and after the strong earthquake that hit earlier.

The RFI provides rapid financial assistance to member countries facing an urgent balance of payments need, without the need for a full-fledged economic program or reviews. It can provide support to meet a broad range of urgent needs, including those arising from commodity price shocks, natural disasters, conflict and post-conflict situations. Financial assistance under the RFI is provided in the form of outright purchases.

Due to two consecutive shocks (an earthquake and COVID-19) activity in Albania may be significantly contracted in 2020, followed by a rebound in 2021. Given the rapidly evolving situation, the outlook is subject to large uncertainty and serious downside risks.

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, issued the following statement:

"The earthquake on November 26, 2019 and the ongoing global COVID-19 pandemic have caused significant hardship and disruption to economic activity in Albania. The two consecutive shocks are expected to create large fiscal pressures and an urgent balance of payments need amid a tightening of global financial conditions.

"The authorities' policy response to the shocks has been timely and targeted. In response to the COVID-19 pandemic, the authorities have put in place stringent containment and mitigation measures and have announced a fiscal package of 1.4 percent of GDP to help ensure medical care and support to affected households and businesses. The Bank of Albania's recent decision to reduce the policy rate is also welcome.

"A sizeable increase in the fiscal deficit of 2020 is necessary to limit the impact of COVID-19. It will be critical to ensure adequate spending for healthcare and support for the people and firms that are hurt by the COVID-19 pandemic. The Albanian authorities remain committed to ensuring macroeconomic stability. Once the shocks have been overcome, it will be important to keep public debt on a clear downward path.

"The Fund stands ready to support Albania to combat the pandemic and help the economy to recover."

INTERNATIONAL MONETARY FUND

ALBANIA

April 6, 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

EXECUTIVE SUMMARY

Context: Albania has been hit by two consecutive major shocks. On November 26, 2019 Albania was struck by a severe earthquake that killed 51 people and caused significant physical damage. In addition, the ongoing COVID-19 pandemic is severely disrupting economic activity, with the expectation of sharp declines in tourism, FDI, remittances, and temporarily restrained financing amid a tightening of global financial conditions. The authorities' policy response to the shocks has been timely and targeted. Nonetheless, real GDP is expected to contract severely this year. The earthquake and COVID-19 pandemic, and the planned fiscal expansion to help cushion these shocks, have created urgent fiscal and external financing needs.

Request for Fund Support: Staff supports the authorities' request for financial assistance under the Rapid Financing Instrument (RFI) to address the urgent balance of payments need due to exogenous shocks related to the 2019 earthquake and the COVID-19 pandemic. The balance of payments financing need is expected to be temporary. In the attached letter, the authorities request an outright purchase of 100 percent of quota (SDR 139.30 million). The assistance would be used for direct budget support.

Approved By
Jörg Decressin and Martin Sommer (SPR)

Discussions were held in remotely during March 26-27, 2020. The team comprised J.K. Martijn (head), Y. Sun, A. Khachatryan, M. Pinat, and A. Tudyka (all EUR). S. Eble (regional resident representative), L. Spahia (local economist) and R. Kadeli (local office manager) assisted the mission team. A. Madaraszova and P. Kopyrski (all EUR) assisted in the preparation of the report. Mr. Persico (OED) joined the meetings. The mission held discussions with Minister of Finance and Economy Denaj, Minister of Reconstruction Ahmetaj, and Bank of Albania Governor Sejko.

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IMPACT OF THE SHOCKS

1. **Albania is facing the mounting challenges of twin shocks**. The earthquake on November 26, 2019 was the strongest in Albania in four decades. 51 people were killed and 11,490 housing units were destroyed. The losses and damages amounted to 6.7 percent of GDP. While reconstruction has just commenced, the country is now being severely impacted by the global pandemic of the coronavirus disease (COVID-19).

2. **Albania's economic outlook for 2020 was cautiously positive before the country was hit by these shocks**. Real GDP growth in 2020 was expected at 3.5 percent, supported by a recovery of hydropower production after a drought in 2019. Inflation was projected to rise gradually towards its 3 percent target over the medium term. The fiscal projections envisaged a further reduction in the deficit, supporting an ongoing reduction in public debt to less than 60 percent of GDP by 2023. Albania had maintained substantial reserves, standing at $3.3 billion, or 158 percent of the ARA metric at end-2019, and these were expected to grow further. The banking system was assessed as well capitalized and liquid, with declining (but still elevated) NPLs.

3. **Given the mounting challenges of the twin shocks, activity is projected to contract sharply in 2020, by 5 percent.** Tourism, which is key for the economy, had already been heavily marked down after the earthquake. But now the economy is grinding to a halt more broadly, particularly given its close ties to Italy. The tightening of global financial conditions is expected to constrain Albania's financing from the international capital market temporarily. Growth in 2021 (and, to a smaller extent, 2022) is expected to be boosted by the recovery from the COVID-19 impact and the major reconstruction efforts. Ongoing structural reforms will be critical for growth over the medium-term. The recent decision by the EU to open membership talks with Albania, conditional on meeting preconditions focused on further improvements in governance, can support this process.

4. **The fiscal deficit is expected to rise to about 5½ percent of GDP in 2020.**[1] The economic downturn will reduce revenues (by over 2 percent of GDP). In addition, to address the shocks, the revised budget includes spending on reconstruction (about 1.4 percent of GDP), and measures to limit the impact of COVID-19 (partly offset by expected savings on capital expenditures unrelated to the reconstruction program). The tightening of financial markets will amplify the remaining fiscal financing need during 2020.[2] The total fiscal financing gap is estimated at more than 5 percent of GDP (assuming that domestic rollovers will largely continue, and the drawdown of existing liquidity buffers).

5. **The current account is expected to worsen considerably in 2020, putting pressure on international reserves**. The deficit is projected to rise to about 11 percent of GDP. This

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[1] The authorities' welcome commitment to clear all VAT refund arrears on a fixed timeline, and to avoid any new ones, increases the cash-based deficit by 0.4 percentage point in 2020.

[2] The authorities original financing plan for 2020 hinged on a Euro 600 million (4 percent of GDP) Eurobond issuance in the Spring or Summer. Large foreign-currency debt service obligations of more than Euro 250 million are due in April-May, followed by a maturing Eurobond repayment of Euro 250 million in November.

projection assumes a decrease in tourism exports by two-thirds (with a net current account effect of 5 percent of GDP), and lower remittances and other private transfers (due to the projected slowdown across the EU and travel restrictions, by 1 percent of GDP). Lower overall imports (dampened by falling oil prices and activity despite higher net imports related to reconstruction) would only partially offset these forces. In this environment, the exchange rate is expected to experience depreciation pressures, which could be accentuated by the thin exchange market. As of end-March, the exchange rate had depreciated by 7 percent compared to end last year.

6. **As a result of these forces, Albania is facing urgent and temporary balance of payments needs.** The financing requirement implied by the pressure on the current account and the short-term external fiscal financing needs are estimated to exceed one billion Euros (about a third of the total reserves), far larger than estimated "excess international reserves". A reasonable scenario, with a decline in reserves of Euro 500 million, would imply a remaining financing need of similar magnitude. It will be important to maintain strong reserves coverage, given Albania's vulnerability to external shocks (including drought, which reduces hydropower production and thus necessitates electricity imports), the sensitivity of public debt and balance sheets (with sizeable unhedged borrowing in foreign currency) to depreciations, risks of currency substitution into euros, and the structurally high fiscal financing requirements.

Albania: External Financing Requirement and Sources, 2020

(In millions of Euros)

Total financing requirement	1,245
Current account (incl. official transfers)	1,231
Amortization	514
Of which: IMF	34
Change in gross reserves (increase = +)	-500
Total financing sources	728
Foreign direct investment, net	741
Official medium- and long-term project loans	151
Official guaranteed loans	155
Official budget support loans	76
Commercial borrowing (Eurobond and PBG)	0
Other	-396
Total financing needs	517
RFI disbursement	172
Remaining financing gap	345

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

ECONOMIC POLICIES

7. **In response to the earthquake, the authorities introduced a comprehensive relief and reconstruction program.** This program has been incorporated in the 2020 budget, which foresees reconstruction spending of 1.2 percent of GDP, with emphasis on housing and education facilities. At a donor meeting in February, pledges amounted to Euro 1.15 billion. The authorities indicated that discussions with donors on the amounts, timing and terms of disbursements were still ongoing. At this stage, staff assumes that earthquake-related grant support will amount to slightly more than 1 percent of GDP in 2020.

8. **In response to the COVID-19 pandemic, the authorities have put in place stringent containment measures and have announced a fiscal package of temporary and targeted measures to help ensure medical care and support to businesses.** The fiscal package amounts

to about 1.4 percent of GDP and foresees higher spending on the health sector, additional unemployment benefits and social assistance, a guarantee scheme for companies allowing them to continue wage payments to workers forced to stay at home due to the pandemic, accelerated pension increases in April, and support for small firms including the rescheduling of profit-tax installments in 2020.

9. Staff strongly supported targeted and time-bound measures to offer adequate healthcare and assistance to people in need, and to help maintain employment. Staff also noted that to maximize the effectiveness of these efforts they should be in line with best practices for fiscal governance and transparency, and the authorities concurred. The authorities also emphasized the uncertainty of the outlook and that in case of a more prolonged crisis, additional support measures would be adopted, including in the context of the June budget revision.

10. The authorities were actively exploring options to cover the emerging financing needs. Possibilities include support from International Financial Institutions (including the Fund), exploiting the pledges made at the donor conference, tapping domestic banks (which have remained liquid in both domestic and foreign currency), direct (within legal limits)[3] or indirect financing from the BOA, loans from international banks, and--as soon as global financial conditions improve--a eurobond. In addition, they were containing non-emergency spending to contain the fiscal financing need. Staff welcomed the authorities proactive efforts, and contingency planning in case the shocks, and the associated financing needs, become larger than currently foreseen. Staff also appreciated that complex policy initiatives that would entail important pitfalls and fiscal risks (including a possible tax amnesty and making the Albania Investment Corporation operational) were being deferred given the importance of thorough prior assessment and preparation.

11. Staff's updated assessment of public debt indicates that it will remain sustainable (Annex I). However, the twin shocks are expected to raise public debt to 75.6 percent of GDP in 2020, before it is projected to return to its downward path and reach 59.1 percent by 2025—still high and subject to significant risks, including from sizeable rollover needs. The authorities underscored their determination to reduce the fiscal deficit as soon as the shocks have been overcome, in order to maintain debt sustainability. For this purpose, they noted the importance of the ongoing (although delayed) preparation of a Medium-Term Revenue Strategy, with Fund support.

12. The Bank of Albania's (BOA) has rightly relaxed its policy stance further. On March 25, the policy rate was reduced by 50 basis points to a new historic minimum of 0.5 percent. Continued flexibility in the exchange rate will help absorb shocks and restore external balance. That said, the authorities concurred that central bank interventions in the foreign exchange market and some adjustment in interest rates would offer an appropriate first line of defense

[3] The BOA is allowed to finance the government by up to 8 percent of ordinary government revenues over the last three years.

should excessive depreciation pressures emerge (which could entail balance sheet risks, given extensive unhedged borrowing in foreign currency). Staff recommended that in the face of severe external pressures the authorities should stand ready to take further measures as needed to preserve macroeconomic and financial stability. The authorities also noted their readiness to support financial sector liquidity if needed.

13. The BOA has also taken measures to help borrowers overcome the current crisis. The banking system has remained liquid and well capitalized thus far. The BOA encouraged banks to relax their lending conditions for household and businesses affected by the earthquake. Subsequently, it has allowed borrowers affected by COVID-19 to postpone their debt service payments for a three-months period by amending bank provisioning rules. Staff advised that it was important to maintain loan classification and provisioning rules, in order to appraise potential losses as accurately as possible, while bank capital (which thus far has remained well above the regulatory minima, see Table 5) could be allowed to temporarily fall below prudential limits. Staff also stressed the importance of avoiding any relaxation in AML-CFT procedures.

ACCESS AND CAPACITY TO REPAY

14. The Albanian authorities' have requested a purchase under the Rapid Financing Instrument in the amount of SDR 139.30 million (about Euro 172 million), equivalent to 100 percent of quota (Appendix I). The purchase, which amounts to 1.3 percent of GDP, will provide much needed financial support to address urgent balance of payments needs resulting from the earthquake and the COVID-19 pandemic, and will support containment, mitigation, and reconstruction efforts. The amount of the purchase is appropriate given the large size of the balance of payments need. In addition, the balance of payments financing need is expected to be resolved within one year without major policy changes. The RFI could also catalyze support by other IFIs. In particular, the European Union, the EBRD and the World Bank are actively exploring options.

15. Albania's capacity to repay the Fund is adequate (Table 6). Fund exposure to Albania is projected to peak at 279 percent of quota in 2020, and amount to about 9.3 percent of exports and 13 percent of international reserves in 2021. The authorities' policy and payment track record under past Fund-supported programs has been strong.

16. In light of the urgent fiscal financing needs, that drive part of the external financing needs, the disbursement under the RFI will be used for budget support. The authorities have prepared a Memorandum of Understanding on servicing Albania's obligations to the Fund.

17. Given the purchase under the RFI, staff proposes the resumption of post-program monitoring. At end-2019, Albania's obligations to the Fund had fallen below the PPM threshold, but this would now again be exceeded.

18. The BOA has committed to undergo a safeguards assessment. This commitment is included in the authorities' Letter of Intent.

RISKS

19. The current projections are subject to serious downside risks as they assume the downturn to be relatively short-lived. While the reconstruction program is expected to support an early recovery, this program could experience serious delays and, more importantly, the impact of the COVID-19 pandemic could well be more severe and/or more lasting than assumed in the baseline. Albania's economy is also highly vulnerable to further external spillovers, especially from Italy, Greece and Germany. In sum, there are considerable downside risks, and if these materialize a substantially larger fiscal package would be required, implying larger financing needs and further policy adjustment.

STAFF APPRAISAL

20. Given the severe shocks that have hit Albania and its urgent balance of payments need, staff supports the authorities' request for a purchase under the Rapid Financing Instrument in the amount of SDR 139.30 million (about Euro 172 million), equivalent to 100 percent of quota. Albania faces an urgent balance of payments need due to the December 2019 earthquake and the subsequent global pandemic of the COVID-19 virus. Activity is expected to contract sharply in 2020, before recovering later in the year and into 2021. The economic outlook is unusually hard to predict.

21. The authorities have rightly taken strong measures to cushion the impact of the shocks, through relaxing the monetary stance and expanding the budget deficit in 2020 to create more room for reconstruction and for supporting the economy and people in need. In case the impact of COVID-19 is more severe or prolonged than expected, further measures will be needed, which could entail even larger financing needs.

22. The Albanian authorities remain committed to ensuring fiscal and debt sustainability. Over the past years, they have demonstrated their strong commitment to macroeconomic stability as an anchor for sustainable growth. They have, in particular, managed to keep inflation and the fiscal deficit under control. In the coming years, once the shocks have been overcome, it will be crucial to ensure steadfast fiscal consolidation and efforts to contain fiscal risks in order to create a larger fiscal buffer before a possible future shock hits. Staff stands ready to assist the authorities in addressing both the immediate and the medium-term policy challenges and supporting a strong and sustainable economic recovery.

Table 1. Albania: Basic Indicators and Macroeconomic Framework, 2016–25

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
							Proj.			
Real sector										
Real GDP	3.3	3.8	4.1	2.2	-5.0	8.0	6.7	3.4	3.7	3.7
Domestic demand contribution	3.1	3.6	3.8	1.4	-0.9	5.2	7.2	3.7	4.2	4.2
Consumption	2.0	2.3	2.4	2.8	0.0	1.2	3.7	3.6	2.7	2.7
Investment (Incl. inventories and stat. disc)	1.1	1.3	1.4	-1.3	-0.9	4.0	3.5	0.2	1.6	1.4
External demand contribution	0.2	0.2	0.2	0.8	-4.1	2.8	-0.6	-0.4	-0.6	-0.5
Consumer Price Index (eop)	2.2	1.8	1.8	1.1	2.6	2.9	3.0	3.0	3.0	3.0
Consumer Price Index (avg.)	1.3	2.0	2.0	1.4	2.4	2.8	3.0	3.0	3.0	3.0
GDP deflator	-0.6	1.5	1.4	0.4	2.6	2.7	3.1	3.1	3.1	3.1
Saving-investment balance										
Foreign savings	7.6	7.5	6.8	7.6	11.2	8.1	8.0	7.8	7.7	7.5
National savings	16.8	17.1	17.1	14.7	10.6	15.4	16.3	15.5	15.7	16.0
Public	1.2	2.4	3.0	2.0	-3.1	-0.1	0.9	1.6	2.1	2.5
Private	15.6	14.7	14.2	12.7	13.8	15.5	15.4	13.8	13.6	13.5
Investment (incl. Inventories and stat. disc.)	24.4	24.6	23.9	22.3	21.9	23.5	24.3	23.3	23.4	23.5
Public	5.1	5.5	5.6	5.3	5.6	5.9	5.5	5.3	5.4	5.6
Private	19.3	19.1	18.3	17.0	16.2	17.5	18.8	18.0	18.0	18.0
Fiscal sector										
Total revenue and grants	27.4	27.8	27.5	27.4	26.3	26.9	26.8	26.9	27.2	27.5
Tax revenue	24.9	25.7	25.6	25.4	23.2	23.9	24.3	24.6	24.9	25.3
Total expenditure	29.6	29.7	28.8	29.4	31.7	29.9	29.3	28.8	28.8	28.9
Primary	27.2	27.7	26.6	27.3	29.6	28.3	27.8	27.4	27.3	27.5
Interest	2.5	2.1	2.2	2.1	2.1	1.6	1.5	1.5	1.5	1.4
Overall balance 1/	-2.3	-2.0	-1.3	-2.0	-5.4	-3.1	-2.5	-2.0	-1.6	-1.4
Primary balance	0.2	0.1	0.9	0.1	-3.3	-1.4	-1.0	-0.5	-0.1	0.0
Financing	2.3	2.0	1.3	2.0	-0.4	3.1	2.5	2.0	1.6	1.4
Of which: Domestic	0.9	-0.8	-1.5	2.5	2.1	0.4	0.4	2.8	2.3	1.7
Of which: Foreign	1.3	1.9	2.9	-0.5	-2.5	2.7	2.1	-0.8	-0.7	-0.4
General Government Debt 2/	73.3	71.9	69.5	67.8	75.6	70.7	66.5	63.5	61.2	59.1
Domestic	39.1	39.0	37.3	37.1	43.0	40.5	36.9	36.5	36.5	36.4
External	34.3	32.9	32.2	30.7	32.6	30.2	29.6	27.0	24.7	22.7
Monetary indicators										
Broad money growth	3.9	0.3	-0.2	4.3	-2.6	10.9	10.0	6.6	6.8	6.9
Private credit growth	0.4	-0.8	-0.9	6.1	-2.5	11.4	10.2	8.8	8.0	7.2
Velocity (nominal GDP/ broad money)	1.2	1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
External sector										
Trade balance (goods and services)	-16.8	-15.1	-13.7	-13.7	-17.2	-14.0	-13.0	-12.6	-12.4	-12.2
Current account balance	-7.6	-7.5	-6.8	-7.6	-11.2	-8.1	-8.0	-7.8	-7.7	-7.5
Gross international reserves (billions of Euros)	2.9	3.0	3.4	3.4	2.9	3.3	3.6	3.8	4.0	4.1
(In months of imports of goods and services)	6.6	6.2	6.6	8.3	5.3	5.5	5.7	5.6	5.5	5.3
(Relative to external debt service)	1.6	1.5	1.5	1.5	1.2	1.5	1.6	1.7	1.8	1.4
(In percent of broad money)	31.5	31.4	33.2	31.0	30.1	29.0	29.5	28.9	28.2	27.5
Memorandum items										
Real GDP per capita growth	3.5	3.9	4.3	2.1	-4.9	8.2	6.8	3.5	3.8	3.8

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

1/ The fiscal balance includes guarantees for new loans to the energy and non-energy sectors.
2/ The stock of general government debt includes arrears from central and local government.

Table 2a. Albania: General Government Operations, 2016–25

(Percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
							Proj.			
Total revenue and grants	27.4	27.8	27.5	27.4	26.3	26.9	26.8	26.9	27.2	27.5
Tax revenue	24.9	25.7	25.6	25.4	23.2	23.9	24.3	24.6	24.9	25.3
VAT	8.7	9.0	8.8	7.9	7.6	7.9	8.2	8.4	8.6	8.7
Profit tax	1.9	2.0	2.1	2.2	1.8	1.8	2.0	2.0	2.0	2.1
Excise tax	2.8	2.9	2.8	2.8	2.4	2.4	2.4	2.4	2.4	2.3
Customs duties	0.4	0.4	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.4
Personal income tax	2.1	2.1	2.2	2.7	2.5	2.5	2.5	2.5	2.5	2.5
National taxes	2.4	2.5	2.4	2.2	1.7	2.1	2.1	2.1	2.2	2.2
Local government revenue 1/	1.0	1.2	1.3	1.4	1.2	1.2	1.2	1.2	1.2	1.2
Social insurance contributions	5.4	5.6	5.7	5.9	5.7	5.6	5.5	5.5	5.7	5.8
Non-tax revenue	1.5	1.3	1.3	1.5	1.4	1.4	1.4	1.3	1.3	1.3
Grants	1.0	0.7	0.5	0.5	1.7	1.5	1.1	1.0	1.0	1.0
Total expenditure	29.6	29.7	28.8	29.4	31.7	29.9	29.3	28.8	28.8	28.9
Current expenditure	25.2	24.7	24.0	24.9	25.5	24.3	24.1	24.0	24.0	23.9
Personnel cost 2/	4.6	4.7	4.5	4.6	4.9	4.7	4.6	4.6	4.6	4.6
Interest	2.5	2.1	2.2	2.1	2.1	1.6	1.5	1.5	1.5	1.4
Operations & maintenance	3.0	2.8	2.8	2.8	2.9	2.9	2.9	2.9	2.9	2.9
Subsidies	0.3	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Social insurance outlays	10.4	10.5	10.3	10.5	10.6	10.7	10.7	10.6	10.6	10.6
Local government expenditure 2/ 3/	2.8	3.0	3.0	3.3	3.3	2.8	2.8	2.8	2.8	2.8
Social protection transfers	1.7	1.5	1.1	1.3	1.5	1.5	1.5	1.5	1.5	1.5
Capital expenditure 4/	4.0	4.4	4.8	4.5	3.9	4.4	4.5	4.6	4.7	4.9
Domestically financed	2.6	3.0	3.2	3.1	1.6	2.2	2.8	2.7	3.1	3.0
Foreign financed	1.4	1.4	1.6	1.4	2.3	2.2	1.7	1.9	1.6	1.9
Lending minus repayment	0.5	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve and contingency funds			0.0	0.0	2.3	1.2	0.6	0.2	0.1	0.1
Overall balance 4/	-2.3	-2.0	-1.3	-2.0	-5.4	-3.1	-2.5	-2.0	-1.6	-1.4
Financing Gap					5.8					
Financing	2.3	2.0	1.3	2.0	-0.4	3.1	2.5	2.0	1.6	1.4
Domestic	0.9	-0.8	-1.5	2.5	2.1	0.4	0.4	2.8	2.3	1.7
Privatization receipts	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net borrowing	0.7	0.5	0.8	1.4	0.3	2.1	0.2	1.8	2.4	2.2
Change in general gov. deposits	-0.3	-0.3	-2.1	1.1	1.8	-1.7	0.1	1.0	-0.1	-0.5
Other	0.3	-0.9	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	1.3	1.9	2.9	-0.5	-2.5	2.7	2.1	-0.8	-0.7	-0.4
Gross borrowing	2.8	3.5	6.0	1.4	1.8	5.2	4.5	1.5	1.2	5.0
Amortization	1.5	1.7	3.2	1.9	4.3	2.5	2.4	2.3	1.8	5.4
Memorandum Items:										
Primary balance	0.2	0.1	0.9	0.1	-3.3	-1.4	-1.0	-0.5	-0.1	0.0
Structural primary balance	0.4	0.3	1.1	0.3	-1.7	-1.5	-1.2	-0.4	-0.5	0.0
General government debt 5/	73.3	71.9	69.5	67.8	75.6	70.7	66.5	63.5	61.2	59.1
Direct general government external debt	32.7	31.6	30.4	29.1	30.4	28.3	27.9	25.5	23.2	21.4
Government guaranteed external debt	1.6	1.3	1.8	1.6	2.2	1.9	1.7	1.6	1.4	1.3
Nominal GDP (billions of leks)	1472	1551	1636	1678	1635	1814	1995	2125	2270	2426

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

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/ There is a structural break in 2017, reflecting the transfer of the Regional Development Fund to the Ministry of Urban Development.
4/ The fiscal balance includes guarantees for new loans to the energy sector through 2019.
5/ The stock of general government debt includes arrears from central and local government.

Table 2b. Albania: General Government Operations, 2016–25

(Billions of Leks)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
							Proj.			
Total revenue and grants	403.1	430.4	449.4	460.3	430.4	487.1	534.9	570.7	617.3	667.6
Tax revenue	366.0	398.6	419.3	426.3	379.9	434.1	485.5	522.0	566.3	613.1
VAT	128.1	139.5	143.5	132.4	125.0	144.2	164.5	178.3	194.5	210.9
Profit tax	28.5	31.6	34.5	36.6	29.7	32.4	39.1	43.1	46.4	50.0
Excise tax	41.9	45.1	45.0	46.7	39.1	43.7	47.5	50.4	53.5	56.5
Customs duties	6.1	6.5	6.2	6.5	4.7	7.2	8.9	9.5	10.1	10.8
Personal income tax	31.4	32.1	36.5	46.1	40.8	45.2	49.7	52.9	56.5	60.3
National taxes	35.8	38.5	38.6	36.4	28.4	38.5	41.4	45.0	49.6	54.5
Local government revenue 1/	15.0	18.4	21.9	23.1	19.5	21.7	23.9	25.4	27.2	30.1
Social insurance contributions	79.2	86.8	93.2	98.4	92.7	101.3	110.6	117.5	128.4	139.9
Non-tax revenue	22.5	20.7	22.0	25.3	23.3	25.9	27.0	27.4	29.3	31.3
Grants	14.6	11.1	8.1	8.8	27.2	27.1	22.3	21.3	21.7	23.2
Total expenditure	436.5	461.2	471.4	493.3	518.6	542.7	584.7	613.0	653.5	700.5
Current expenditure	370.6	382.6	392.6	418.2	417.0	440.3	481.2	511.1	544.9	580.6
Personnel cost 2/	67.5	72.6	73.6	77.0	79.8	84.4	91.5	97.7	104.1	110.7
Interest	36.3	31.9	36.5	35.1	34.0	29.5	29.4	31.4	33.3	33.5
Operations & maintenance	44.3	43.4	45.3	47.2	47.1	51.9	57.0	60.8	65.0	69.4
Subsidies	3.8	2.6	1.9	2.8	1.3	1.4	1.6	1.7	1.8	1.9
Social insurance outlays	152.6	162.1	168.3	175.6	173.2	194.1	213.3	225.2	240.6	257.1
Local government expenditure 2/ 3/	41.7	46.5	49.6	56.2	54.7	50.0	55.0	58.7	62.7	68.0
Social protection transfers	24.5	23.4	17.5	21.9	24.6	26.4	30.6	32.6	34.3	36.6
Capital expenditure 4/	58.2	68.8	78.8	75.0	63.8	80.6	90.7	98.1	106.8	118.1
Domestically financed	37.9	46.6	52.2	51.5	26.1	40.2	55.9	56.8	69.3	73.0
Foreign financed	20.4	22.3	26.2	23.5	37.7	40.4	34.8	41.3	37.5	45.2
Lending minus repayment	7.4	9.2	0.0	0.2	0.0	0.0	0.0	0.0	-1.0	-1.0
Reserve and contingency funds			0.0	0.0	37.7	21.8	12.8	3.8	2.8	2.8
Overall balance 4/	-33.3	-30.8	-22.0	-33.0	-88.2	-55.6	-49.8	-42.3	-36.1	-32.9
Financing gap					95.0					
Financing	33.3	30.9	22.0	33.0	-6.8	55.6	49.8	42.3	36.1	32.9
Domestic	13.9	-12.1	-25.0	41.7	34.7	7.4	7.4	58.8	51.4	42.4
Privatization receipts	2.8	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net borrowing	10.6	7.3	13.5	22.8	4.7	37.4	4.6	38.3	53.4	54.4
Change in general gov. deposits	-4.3	-5.2	-33.6	18.9	30.0	-30.0	2.8	20.5	-2.0	-12.0
Other	4.8	-14.6	-5.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	19.5	29.4	47.0	-8.7	-41.5	48.3	42.4	-16.5	-15.2	-9.5
Gross borrowing	41.9	55.0	98.8	22.7	29.3	93.5	90.1	32.3	26.4	121.8
Amortization	22.0	25.8	51.7	31.4	70.8	45.2	47.7	48.8	41.7	131.2
Memorandum Items:										
Primary balance	2.9	1.1	14.5	2.1	-54.1	-26.1	-20.3	-10.9	-2.9	0.5
Structural primary balance	6.4	4.5	17.7	5.6	-27.4	-27.0	-23.9	-9.1	-11.1	0.0
General government debt 5/	1079.7	1114.8	1137.0	1137.1	1235.5	1282.8	1327.0	1349.7	1389.0	1433.9
Direct general government external debt	481.4	490.5	496.8	488.1	496.3	512.7	556.6	541.6	527.8	518.5
Government guaranteed external debt	23.2	19.8	29.5	26.7	36.6	34.7	33.6	33.0	32.6	32.4

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

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/ There is a structural break in 2017, reflecting the transfer of the Regional Development Fund to the Ministry of Urban Development.

4/ The fiscal balance includes guarantees for new loans to the energy sector through 2019.

5/ The stock of general government debt includes arrears from central and local government.

Table 3a. Albania: Balance of Payments, 2016–25

(Percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
							Proj.			
Current account	-7.6	-7.5	-6.8	-7.6	-11.2	-8.1	-8.0	-7.8	-7.7	-7.5
Goods and services (fob)	-16.8	-15.1	-13.7	-13.7	-17.2	-14.0	-13.0	-12.6	-12.4	-12.2
Goods (fob)	-24.3	-24.4	-22.4	-23.0	-17.5	-23.5	-22.9	-22.8	-22.5	-22.3
Exports	6.7	6.9	7.7	6.6	6.0	6.5	6.6	6.6	6.8	6.9
Imports	30.9	31.3	30.1	29.6	23.4	29.9	29.5	29.4	29.2	29.2
Services	7.4	9.4	8.7	9.3	0.3	9.4	9.8	10.1	10.0	10.1
Exports	22.3	24.7	24.0	24.9	15.0	26.3	25.9	26.4	26.3	26.5
Imports	14.9	15.4	15.3	15.5	14.7	16.9	16.1	16.2	16.3	16.4
Primary Income	1.6	0.2	-0.1	-1.0	-0.7	-0.9	-1.2	-1.2	-1.3	-1.3
Compensation of employees (net)	2.4	2.3	2.2	2.2	2.4	2.2	2.0	1.9	1.8	1.7
Investment income (net)	-0.8	-2.0	-2.3	-3.2	-3.1	-3.1	-3.1	-3.1	-3.1	-3.0
Other (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Secondary Income	7.7	7.3	7.1	7.1	6.7	6.8	6.2	6.1	6.0	6.0
General Government (net)	0.4	0.6	0.5	0.5	0.5	0.4	0.4	0.3	0.3	0.3
Workers' Remittances (net)	5.7	5.5	5.2	5.1	5.0	5.1	4.5	4.5	4.5	4.5
Other private transfers (net)	1.5	1.2	1.3	1.5	1.2	1.3	1.3	1.3	1.3	1.3
Capital account	0.6	1.1	0.8	0.6	1.5	1.5	1.1	1.1	1.1	1.1
Financial account	-6.2	-9.6	-8.9	-6.0	-1.7	-9.5	-9.3	-7.7	-7.5	-7.3
Direct investment, net	-8.7	-8.6	-8.0	-7.5	-5.8	-7.4	-7.4	-7.5	-7.4	-7.4
Portfolio investment	2.1	-0.9	-0.6	1.0	3.2	-2.6	-2.1	1.0	0.9	0.9
Other investment	0.4	-0.2	-0.3	0.5	0.9	0.5	0.2	-1.2	-1.0	-0.7
Errors and omissions	1.2	-1.6	-0.1	0.5	6.8	0.0	0.0	0.0	0.0	0.0
Net balance	-0.8	3.2	3.0	-1.1	-8.0	2.9	2.4	1.0	0.9	0.9
Reserve assets (reserve loss = +)	-0.4	-1.6	-2.9	0.6	3.9	-2.9	-2.4	-1.0	-0.9	-0.9
RFI disbursement					1.4					
Financing Gap					2.7	0.0	0.0	0.0	0.0	0.0
					(Percent change, unless otherwise noted)					
Memorandum items:										
Goods and Services										
Export value (fob)	11.1	17.5	11.1	6.1	-38.0	70.2	12.8	8.0	7.1	8.0
Import value (fob)	7.5	9.8	7.8	6.1	-21.4	33.5	10.7	6.7	6.5	7.3
Export volume	10.4	10.1	3.5	1.6	-33.7	65.6	7.0	4.9	4.3	5.3
Import volume	8.3	6.0	5.8	4.7	-19.6	32.4	9.0	5.0	4.8	5.6
Terms of trade	-6.0	8.5	6.1	-1.0	-9.5	-0.1	1.6	0.9	0.4	0.0
Gross reserves (millions of euros)	2,945	2,996	3,399	3,360	2,860	3,262	3,641	3,806	3,971	4,136
(in months of imports of goods and services)	6.5	6.2	6.6	8.3	5.3	5.5	5.7	5.6	5.5	5.4
Gross reserves excl. banks' FX reserves (millions of euro	2,247	2,275	2,596	2,636	2,213	2,557	2,905	3,061	3,199	3,333
(in months of imports of goods and services)	5.0	4.7	5.0	6.5	4.1	4.3	4.6	4.5	4.4	4.3
Gross external debt (millions of euros)	7,882	7,949	8,353	8,258	7,890	8,580	9,185	9,135	9,104	9,108
Gross external debt (percent of GDP)	73.5	68.8	65.2	60.4	62.0	62.0	58.4	54.5	50.8	47.6
Nominal GDP (millions of euros)	10,720	11,559	12,820	13,663	12,717	13,835	15,723	16,753	17,907	19,148

Sources: Albanian authorities; and IMF staff estimates.

Table 3b. Albania: Balance of Payments, 2016–25

(Millions of Euros)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
							Proj.			
Current account	-812	-866	-866	-1,041	-1,428	-1,122	-1,258	-1,307	-1,382	-1,443
Goods and services (fob)	-1,806	-1,742	-1,760	-1,870	-2,186	-1,940	-2,048	-2,119	-2,225	-2,343
Goods (fob)	-2,603	-2,824	-2,871	-3,144	-2,219	-3,245	-3,595	-3,818	-4,021	-4,268
Exports	714	797	986	907	761	895	1,042	1,109	1,210	1,323
Imports	3,317	3,621	3,857	4,050	2,980	4,140	4,638	4,927	5,231	5,591
Services	797	1,082	1,111	1,274	34	1,305	1,547	1,699	1,796	1,925
Exports	2,396	2,856	3,073	3,398	1,907	3,645	4,079	4,421	4,711	5,071
Imports	1,599	1,774	1,962	2,124	1,874	2,340	2,533	2,722	2,915	3,146
Primary Income	174	29	-14	-140	-90	-123	-184	-207	-238	-256
Compensation of employees (net)	260	263	285	299	303	305	308	311	314	317
Investment income (net)	-86	-234	-300	-439	-393	-428	-492	-518	-553	-573
Other (net)	0	0	1	0	0	0	0	0	0	0
Secondary Income	821	848	908	968	848	941	974	1,018	1,081	1,156
General Government (net)	48	70	67	67	69	60	68	53	49	52
Workers' Remittances (net)	615	636	670	702	632	707	708	755	807	863
Other private transfers (net)	158	142	171	199	147	174	198	211	225	241
Capital account	66	122	104	76	197	206	175	187	200	214
Financial account	-664	-1,115	-1,143	-820	-214	-1,317	-1,462	-1,285	-1,348	-1,394
Direct investment, net	-936	-994	-1,022	-1,031	-741	-1,028	-1,165	-1,250	-1,331	-1,423
Portfolio investment	225	-100	-76	141	407	-362	-329	172	163	169
Other investment	47	-22	-44	71	120	72	32	-208	-180	-139
Errors and omissions	129	186	9	-68	0	0	0	0	0	0
Net balance	-81	372	380	-145	-1,017	402	379	165	165	165
Reserve assets (reserve loss = +)	-48	-185	-371	78	500	-402	-379	-165	-165	-165
RFI disbursement					172					
Financing Gap					345	0	0	0	0	0
				(Percent change, unless otherwise noted)						
Memorandum items:										
Goods and Services										
Export value (fob)	11.1	17.5	11.1	6.1	-38.0	70.2	12.8	8.0	7.1	8.0
Import value (fob)	7.5	9.8	7.8	6.1	-21.4	33.5	10.7	6.7	6.5	7.3
Export volume	10.4	10.1	3.5	1.6	-33.7	65.6	7.0	4.9	4.3	5.3
Import volume	8.3	6.0	5.8	4.7	-19.6	32.4	9.0	5.0	4.8	5.6
Terms of trade	-6.0	8.5	6.1	-1.0	-9.5	-0.1	1.6	0.9	0.4	0.0
Gross reserves (millions of euros)	2,945	2,996	3,399	3,360	2,860	3,262	3,641	3,806	3,971	4,136
(in months of imports of goods and services)	6.5	6.2	6.6	8.3	5.3	5.5	5.7	5.6	5.5	5.4
Gross reserves excl. banks' FX reserves (millions of e	2,247	2,275	2,596	2,636	2,213	2,557	2,905	3,061	3,199	3,333
(in months of imports of goods and services)	5.0	4.7	5.0	6.5	4.1	4.3	4.6	4.5	4.4	4.3
Gross external debt (millions of euros)	7,882	7,949	8,353	8,258	7,890	8,580	9,185	9,135	9,104	9,108
Gross external debt (percent of GDP)	73.5	68.8	65.2	60.4	62.0	62.0	58.4	54.5	50.8	47.6
Nominal GDP (millions of euros)	10,720	11,559	12,820	13,663	12,717	13,835	15,723	16,753	17,907	19,148

Sources: Albanian authorities; and IMF staff estimates.

Table 4a. Albania: Monetary Survey, 2016–25

(Millions of Leks, unless otherwise indicated; end-period)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
							Proj.			
Net foreign assets	697	700	724	729	771	792	864	906	949	991
Bank of Albania	390	391	412	402	379	406	455	475	496	517
Commercial banks	307	310	312	327	391	386	409	431	453	474
Net domestic assets	567	567	540	590	514	633	703	764	835	916
Claims on central government, net	357	351	341	378	413	421	428	487	538	581
Claims on public enterprises	27	35	20	24	22	23	23	23	23	23
Claims on the private sector	511	507	502	533	519	579	638	693	749	803
In leks	231	239	247	272	236	283	312	339	367	393
In foreign currency	280	268	255	261	283	295	326	354	382	410
Other items, net	-328	-326	-323	-346	-441	-390	-385	-439	-475	-491
Broad money	1,263	1,267	1,264	1,319	1,285	1,425	1,567	1,670	1,784	1,906
Currency outside banks	249	265	275	291	292	324	346	369	394	421
Deposits	1,014	1,002	989	1,027	993	1,102	1,221	1,301	1,390	1,485
Domestic currency	488	474	456	467	431	492	563	618	665	713
Foreign currency	527	528	533	561	562	610	658	683	725	772
Memorandum items:										
Broad money growth (% change)	3.9	0.3	-0.2	4.3	-2.6	10.9	10.0	6.6	6.8	6.9
Reserve money growth (% change)	7.9	2.6	-0.4	2.5	-5.7	9.0	7.9	5.9	6.6	6.5
Private sector credit growth (% change	0.4	-0.8	-0.9	6.1	-2.5	11.4	10.2	8.8	8.0	7.2
Broad money (as percent of GDP)	85.8	81.7	77.3	78.6	78.6	78.6	78.6	78.6	78.6	78.6
Private sector credit (as percent of GDI	34.7	32.7	30.7	31.7	31.8	31.9	32.0	32.6	33.0	33.1
Velocity (nominal GDP/broad money)	1.17	1.22	1.29	1.27	1.27	1.27	1.27	1.27	1.27	1.27
Money multiplier (absolute values)	3.05	2.98	2.99	3.04	3.14	3.19	3.26	3.28	3.28	3.30
Currency (as share of broad money)	19.7	20.9	21.8	22.1	22.7	22.7	22.1	22.1	22.1	22.1
Foreign currency deposits/total deposi	51.9	52.7	53.9	54.6	56.6	55.4	53.9	52.5	52.2	52.0
Gross reserves (millions of euros)	2,945	2,996	3,399	3,360	2,860	3,262	3,641	3,806	3,971	4,136

Sources: Bank of Albania; and IMF staff estimates.

Table 4b. Albania: Summary of Accounts of the Central Bank, 2016–25

(Billions of Leks, unless otherwise indicated; end-period)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					Proj.					
Net foreign assets	390	391	412	402	379	406	455	475	496	517
Assets	419	418	436	427	407	432	481	501	522	542
Liabilities	29	27	24	25	28	26	26	26	26	26
Net domestic assets	25	35	11	32	30	40	27	35	47	62
Domestic credit	66	60	22	45	42	52	39	47	59	74
Net claims on central government	34	18	-12	8	38	8	11	32	30	18
Other credit	32	42	34	36	3	44	27	15	30	56
Private sector	2	2	2	2	2	2	2	2	2	2
Commercial banks	30	40	32	34	1	42	25	13	27	54
Other items, net (assets = +)	-41	-25	-11	-13	-12	-12	-12	-12	-12	-12
Reserve money	414	425	423	434	409	446	481	510	543	578
Currency in circulation	249	265	275	291	292	324	346	369	394	421
Bank reserves	162	156	148	142	118	123	135	141	149	157
Other nonbank deposits	3	4	0	0	0	0	0	0	0	0

Sources: Bank of Albania; and IMF staff estimates.

Table 5. Albania: IMF Core Indicators of Financial Soundness, 2012-2019

		Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
I	Capital-based								
(i)	Regulatory capital as a percent of risk-weighted assets	16.2	18.0	16.8	15.7	15.7	16.6	18.3	18.3
(ii)	Regulatory Tier 1 capital as a percent of risk-weighted assets	14.6	14.9	13.8	13.5	13.8	15.1	17.0	17.1
(iii)	Capital as a percent of total assets								
	Regulatory Tier 1 capital as a percent of total assets	7.9	7.7	7.4	8.3	8.7	9.0	9.2	9.1
	Regulatory capital as a percent of total assets	8.8	9.3	9.0	9.7	10.0	9.9	9.8	9.7
	Shareholders' equity as a percent of total assets	8.6	8.4	8.6	9.5	9.7	10.2	10.1	10.5
(iv)	Nonperforming loans net of provisions as a percent of capital								
	As a percent of regulatory Tier 1 capital	61.8	48.5	46.7	28.4	26.3	17.3	16.6	14.6
	As a percent of regulatory capital	55.6	40.2	38.3	24.3	23.1	15.7	15.5	13.6
	As a percent of shareholders' equity	56.9	44.8	40.2	24.8	23.6	15.3	15.0	12.7
(v)	Return on equity (ROE) (annual basis)	3.8	6.4	10.5	13.2	7.2	15.7	13.0	13.5
(vi)	Net open position in foreign exchange as a percent of capital								
	As a percent of regulatory Tier 1 capital	4.1	4.9	10.4	9.0	8.0	7.3	8.4	8.0
	As a percent of regulatory capital	3.7	4.1	8.5	7.7	7.0	6.7	7.8	7.4
	As a percent of shareholders' equity	3.8	4.5	8.9	7.8	7.2	6.5	7.5	6.9
II	Asset-based								
(vii)	Liquid assets as a percent of total assets (Liquid-asset ratio)	29.4	27.6	31.9	32.3	31.3	30.2	34.2	35.7
(viii)	Liquid assets as a percent of short-term liabilities	34.9	34.7	40.4	41.4	40.6	40.8	46.2	49.4
(ix)	Return on assets (ROA) (net income to average total assets, annual)	0.3	0.5	0.9	1.2	0.7	1.5	1.3	1.4
(x)	Nonperforming loans (gross) as a percent of total loans	22.5	23.5	22.8	18.2	18.3	13.2	11.1	8.4
III	Income and expense-based								
(xii)	Interest margin to gross income	101.1	87.9	102.2	98.0	81.6	95.6	100.8	75.7
(xiii)	Noninterest expenses to gross income	65.9	58.3	61.8	57.0	50.4	71.9	77.6	61.2
IV	Memorandum items								
	Other (noncore) indicators:								
	Customer deposits as a percent of total (non-interbank) loans	171.6	180.8	180.2	187.8	192.8	194.0	203.2	207.2
	Foreign currency-denominated loans to total loans	64.5	63.0	62.4	60.8	58.6	56.4	56.1	51.2
	Foreign currency-denominated liabilities as a percent of total liabilities	52.6	52.8	52.4	53.5	54.6	60.4	59.1	56.8
	Other indicators:								
	Risk weighted assets as a percent of total assets	54.2	52.1	53.6	62.0	63.4	59.7	53.9	53.2
	Total loans as a percent of total assets	48.6	45.9	46.0	44.5	42.7	41.6	40.0	39.0
	Total loans as a percent of shareholders' equity	567.4	548.8	536.3	466.8	438.6	408.9	393.8	373.3

Sources: Bank of Albania; and IMF staff estimates.

Table 6. Albania: Indicators of Capacity to Repay the Fund, 2017-25
(Under Obligated Repurchase Schedule)

(Millions of SDRs)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
Fund repurchases and charges based on the existing and prospective drawings									
In millions of SDRs	6.8	5.7	17.8	29.5	51.4	54.6	87.4	116.7	70.5
In millions of euro	8.1	7.0	22.1	36.5	63.2	67.2	107.6	143.8	87.0
In percent of gross international reserves	0.3	0.2	0.7	1.3	1.9	1.8	2.8	3.6	2.1
In percent of exports of goods and services	0.2	0.2	0.5	1.4	1.4	1.3	1.9	2.4	1.4
In percent of GDP	0.1	0.1	0.2	0.3	0.5	0.4	0.6	0.8	0.5
In percent of external public debt	0.2	0.2	0.5	0.9	1.4	1.4	2.3	3.1	1.9
In percent of quota	4.9	4.1	12.8	21.2	36.9	39.2	62.7	83.8	50.6
Fund credit outstanding (end of period)									
In millions of SDRs	296.8	291.7	277.3	388.9	344.4	295.2	211.1	96.2	26.3
In millions of euro	354.8	355.0	344.1	480.2	424.0	363.3	259.9	118.5	32.5
In percent of gross international reserves	11.8	10.4	10.2	16.8	13.0	10.0	6.8	3.0	0.8
In percent of exports of goods and services	9.7	8.7	8.0	18.0	9.3	7.1	4.7	2.0	0.5
In percent of GDP	3.1	2.8	2.5	3.8	3.1	2.3	1.6	0.7	0.2
In percent of external public debt	9.2	8.3	8.1	11.8	9.5	7.5	5.5	2.5	0.7
In percent of quota	213.0	209.4	199.1	279.2	247.3	211.9	151.6	69.0	18.9
Memorandum items:									
Gross international reserves	2506	2793	2707	2316	2649	2958	3092	3222	3350
Exports of goods and services	3056	3336	3469	2161	3688	4162	4493	4804	5180
GDP	9668	10537	11010	10299	11238	12775	13611	14529	15512
External public debt	3230	3517	3415	3296	3629	3931	3856	3787	3757
Quota	139.3	139.3	139.3	139.3	139.3	139.3	139.3	139.3	139.3

Source: IMF staff estimates.

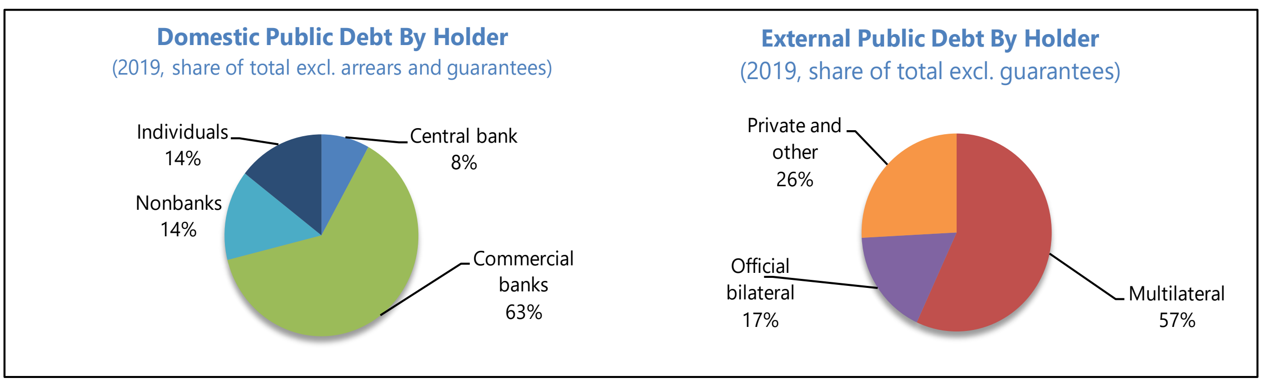
Annex I. Debt Sustainability Analysis

Public Debt Sustainability

The COVID-19 pandemic combined with the strong earthquake that struck Albania in November 2019 has resulted in additional expenditure pressures which, together with an economic contraction, elevate Albania's public debt to above 75 percent of GDP in 2020. As the pandemic is expected to subside after 2020 and growth is boosted by reconstruction, Albania's public debt is projected to return to its downward path and decline over the medium-term to about 59.1 percent by 2025--remaining high, and subject to significant risks. In all, the shocks are projected to result in a setback for the ongoing debt reduction process by about 2 years. Gross financing requirements also remain high, reflecting sizable rollover needs, including maturing Eurobonds in 2020, and ongoing efforts will be important to alleviate these risks.

A. Background

1. Debt Profile[1]. Albania's debt profile has gone through several changes. Over a decade, the share of external debt in total public debt went up from about 30 percent in 2008 to about 47 percent at end 2019. Domestic debt represents 53 percent of total public debt. The maturity profile of domestic debt has gone through a transformation: the share of long-term paper went up from about the half of the total domestic debt in 2011 to more than 67 percent in 2019. The average weighted maturity of domestic public debt increased from less than one year in 2011 to more than two years as of December 2019. The lengthening of maturity has reduced rollover risks and improved cost efficiency. Rollover risks are also lessened by the ample liquidity of the banking system. Nonetheless, further lengthening of maturities is needed to help reduce the still very high annual financing requirements, combined with the preparation of mitigation strategies to address possible tightening of domestic financing conditions. In this context, the ongoing development of the market maker program for longer-term benchmark bond issuances and seeking of foreign official financing should be helpful. At the same time, the MOFE is encouraged



[1] Public debt refers to the general government and includes all public guarantees for energy and non-energy sector debt and stock of central and local government arrears. It does not include PPPs.

to resume the issuance of short-term debt (specifically for 3-6 months maturity), to support treasury liquidity management and market development. 99.5 percent of domestic debt was denominated in domestic currency, whereas 60 percent of external debt was denominated in Euro.

B. Public DSA Results

Baseline Scenario

2. Macroeconomic assumptions. GDP growth in 2020 has been revised down by about 8.5 percentage points relative to the pre-earthquake baseline scenario to -5 percent. Given the tightening of global financial conditions, the baseline assumes that international financial markets will be temporarily difficult to access in 2020.

3. Debt level under the baseline and alternative scenarios. Under **the baseline scenario**, gross debt is projected to decline gradually from peak of about 75.6 percent in 2020 to about 59.1 percent of GDP in 2025. Gross financing needs over the same period are projected to remain elevated, averaging around 18.9 percent from estimated 23.7 percent in 2020. Under the **constant-primary-balance scenario** (assuming the primary deficit remains at the level of 2020 at 3.3 percent of GDP), the debt ratio would remain high, at about 73.6 percent of GDP over the projection horizon. The **historical scenario** (assuming real GDP growth, the primary balance and real interest rates at the historical average of the past ten years) projects debt at about 71.5 percent of GDP by 2025.

4. Heat map and debt profile vulnerabilities. Risks related to the level of debt remain elevated. Gross financing needs breach the 15 percent threshold over the projection period. The debt profile shows moderate risks related to the declining share of short-term debt (green in the heatmap), however the debt profile remains vulnerable to high external financing needs, the sizeable share of foreign currency debt, and debt held by non-residents. ***Exchange rate risks*** will remain important given the projected increase in foreign currency debt (as a share of total debt).

Stress Test and Stochastic Simulations

5. The debt ratio remains above 60 percent of GDP under all stress scenarios, and it is most sensitive to the fiscal stance, interest rate and real GDP growth shocks. Under those stress scenarios, debt reaches between 59 to 72 percent of GDP in 2025. Sensitivity to exchange rate shocks is also notable, as under this scenario public debt reaches 62 percent of GDP. A combined shock incorporates the largest effect of individual shocks on all relevant variables (real GDP growth, inflation, primary balance, exchange rate and interest rate). Under this scenario the debt-to-GDP ratio will increase to 72.1 percent of GDP. The fan charts illustrate the possible evolution of public debt over the medium term and are based on both symmetric and asymmetric distributions of risks. Under an asymmetric distribution of risks, there is a high level of certainty that the debt stock will be in the range of 60 to 75 percent of GDP.

External Debt Sustainability

6. The external debt-to-GDP ratio remains elevated. Most external debt continues to be held by multilateral creditors and bilateral development agencies, though the share of commercial debt is expected to increase over the medium-term. Most foreign public debt is denominated in euros (inter-government loans and Eurobonds), followed by SDRs (IMF loans).

7. The external debt ratio is expected to decline gradually over the medium-term supported by continued GDP growth and declining multilateral borrowing. External debt is projected to decline to below 50 percent by 2025. Over the same period, the external private debt stock is expected to fall from about 32 to 24 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. Regarding public external debt, the remaining maturity of €250 million of a €450 million Eurobond issued in 2015 (after having retired €200 in October 2018) will come due in 2020. In line with this, total public and private external debt service is expected to increase to 19 percent of GDP in 2020 but to fall to 12 percent by 2024 before increasing again to 15 percent with large amortization payments in 2025. In line with the expected succession of new Eurobond issuances, commercial debt as a percentage of total public sector debt is expected to increase from 13 percent at end-2019 to 25 percent in 2025.

8. Stress test results. Under a 30 percent exchange rate depreciation shock, external debt would peak at 91 percent of GDP in 2021 before declining to 70 percent by 2025. Depreciation shocks are likely to have added significance for debt dynamics in view of increased external commercial borrowing. Following a shock to the current account of half a standard deviation (around 1 percent of GDP), external debt would peak at 63 percent of GDP in 2021 and gradually decline to 52 percent by 2025.

Figure 1. Albania: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

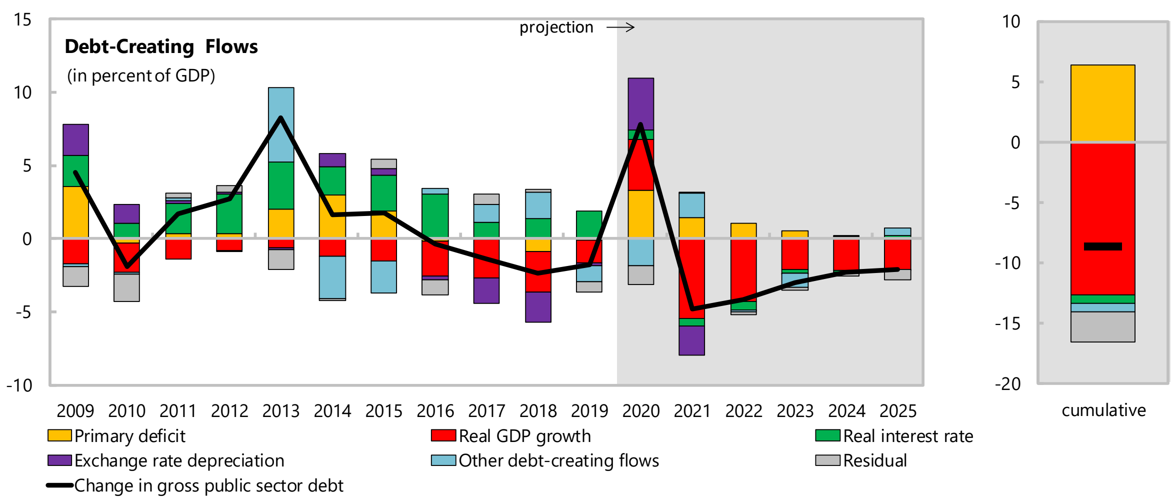
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2009-2017 [2]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	66.7	69.5	67.8	75.6	70.7	66.5	63.5	61.2	59.1
Of which: guarantees	3.8	2.7	2.5	2.4	2.1	2.0	1.8	1.7	1.6
Public gross financing needs	34.8	21.6	20.7	23.7	18.4	19.8	18.2	18.1	19.9
Real GDP growth (in percent)	2.6	4.1	2.2	-5.0	8.0	6.7	3.4	3.7	3.7
Inflation (GDP deflator, in percent)	1.5	1.4	0.4	2.6	2.7	3.1	3.1	3.1	3.1
Nominal GDP growth (in percent)	4.1	5.5	2.6	-2.6	10.9	10.0	6.6	6.8	6.9
Effective interest rate (in percent) [4]	5.1	3.4	3.2	3.3	2.1	2.4	2.8	2.9	2.9

As of Apr 01, 2019		
Sovereign Spreads		
Spread (bp) 3/	299	
5Y CDS (bp)	n.a.	
Ratings	Foreign	Local
Moody's	B1	B1
S&Ps	B+	B+
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [10]
Change in gross public sector debt	1.9	-2.4	-1.8	7.8	-4.8	-4.2	-3.0	-2.3	-2.1	-8.7	
Identified debt-creating flows	2.3	-2.5	-1.0	9.1	-4.9	-4.0	-2.8	-2.1	-1.4	-6.1	
Primary deficit [5]	1.2	-0.9	-0.1	3.3	1.4	1.0	0.5	0.1	0.0	6.4	-1.4
Primary revenue and grants [5]	26.0	27.5	27.4	26.3	26.9	26.8	26.9	27.2	27.5	161.5	
Primary expenditure [5]	27.2	26.6	27.3	29.6	28.3	27.8	27.4	27.3	27.5	167.9	
Automatic debt dynamics [6]	0.9	-3.5	0.2	7.6	-8.0	-4.9	-2.4	-2.3	-1.9	-11.8	
Interest rate/growth differential [7]	0.6	-1.4	0.4	4.1	-6.0	-4.9	-2.3	-2.3	-1.9	-13.3	
Of which: real interest rate	2.2	1.4	1.9	0.6	-0.5	-0.6	-0.2	-0.1	0.2	-0.7	
Of which: real GDP growth	-1.6	-2.8	-1.5	3.5	-5.4	-4.3	-2.1	-2.2	-2.1	-12.7	
Exchange rate depreciation [8]	0.3	-2.1	-0.2	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.2	1.8	-1.1	-1.8	1.7	-0.1	-1.0	0.1	0.5	-0.7	
Accumulation of general govt. deposits	0.0	2.1	-1.1	-1.8	1.7	-0.1	-1.0	0.1	0.5	-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	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual [9]	-0.4	0.2	-0.7	-1.3	0.0	-0.2	-0.2	-0.2	-0.6	-2.5	



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 7-year eurobond issued in October 2018.

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 $ae(1+r)$.

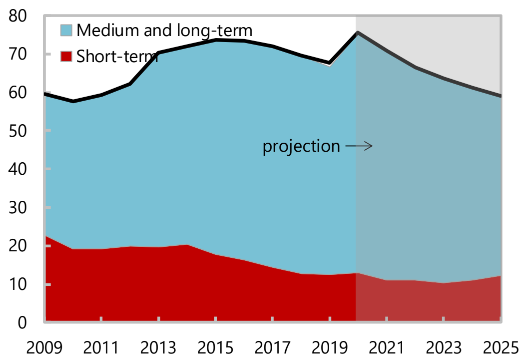
9/ Includes guarantees, asset changes, net privatization proceeds, and interest revenues (if any). It includes also exchange rate changes during the projection period. The large residual in 2019 is due to a combination of a large accumulation of deposits in BoA and large repayment of arrears

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.

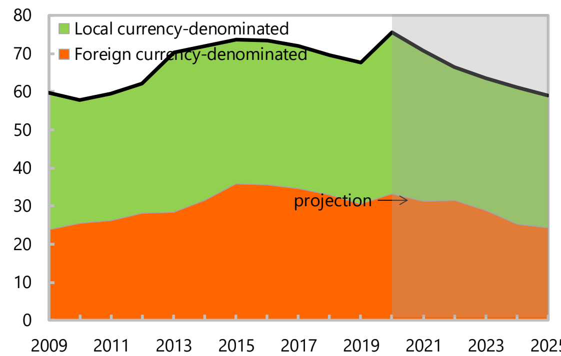
Figure 2. Albania: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



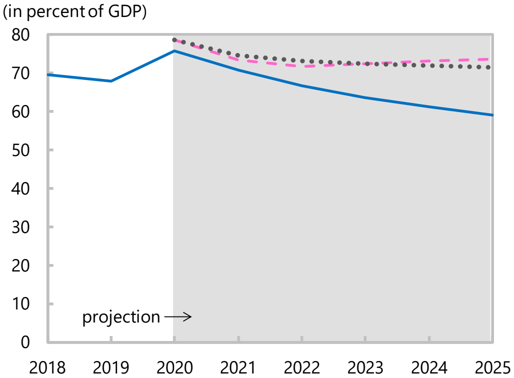
By Currency
(in percent of GDP)



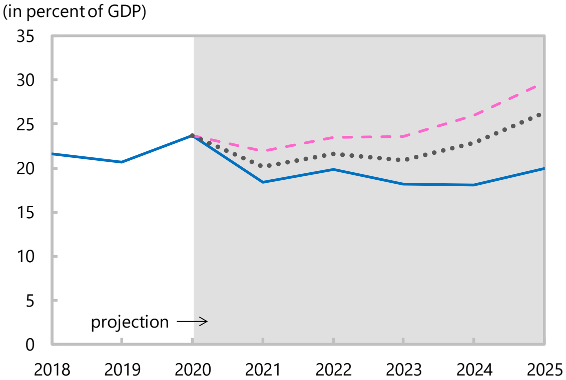
Alternative Scenarios

Baseline
Historical
Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



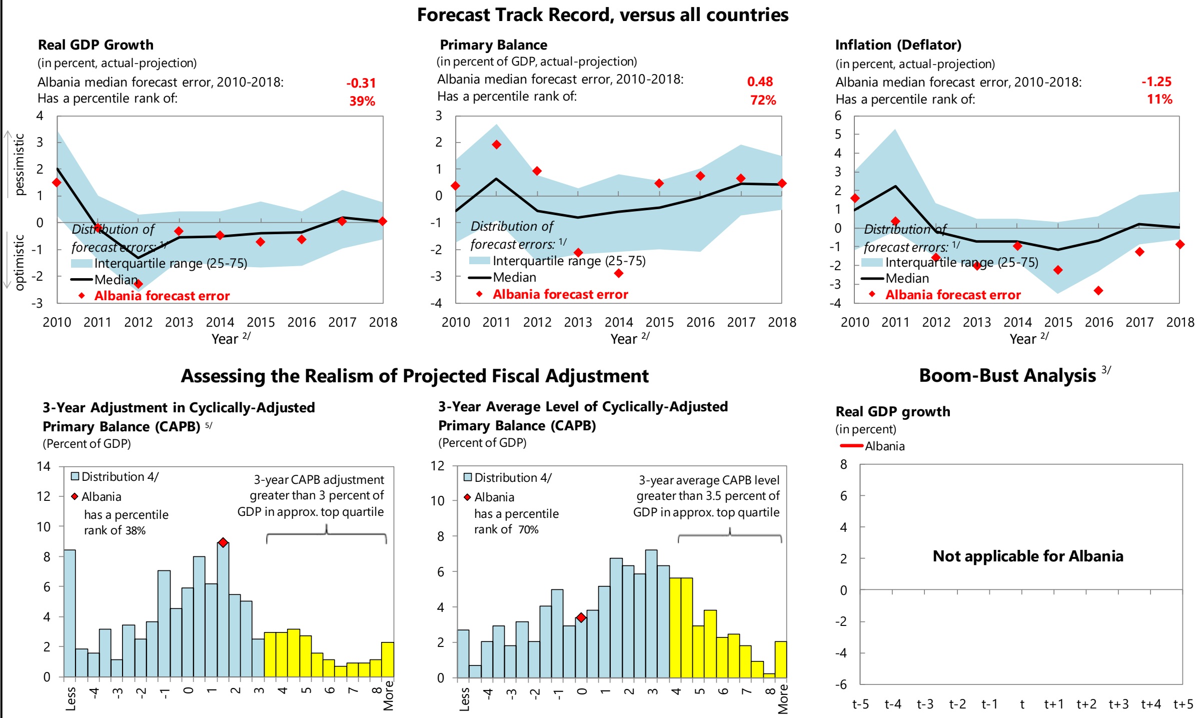
Underlying Assumptions
(in percent)

Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-5.0	8.0	6.7	3.4	3.7	3.7
Inflation	2.6	2.7	3.1	3.1	3.1	3.1
Primary Balance	-3.3	-1.4	-1.0	-0.5	-0.1	0.0
Effective interest rate	3.3	2.1	2.4	2.8	2.9	2.9
Constant Primary Balance Scenario						
Real GDP growth	-5.0	8.0	6.7	3.4	3.7	3.7
Inflation	2.6	2.7	3.1	3.1	3.1	3.1
Primary Balance	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3
Effective interest rate	3.3	2.1	2.4	2.8	3.0	3.0

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-5.0	2.6	2.6	2.6	2.6	2.6
Inflation	2.6	2.7	3.1	3.1	3.1	3.1
Primary Balance	-3.3	-0.6	-0.6	-0.6	-0.6	-0.6
Effective interest rate	3.3	2.1	3.2	4.0	4.3	4.5

Source: IMF staff.

Figure 3. 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.

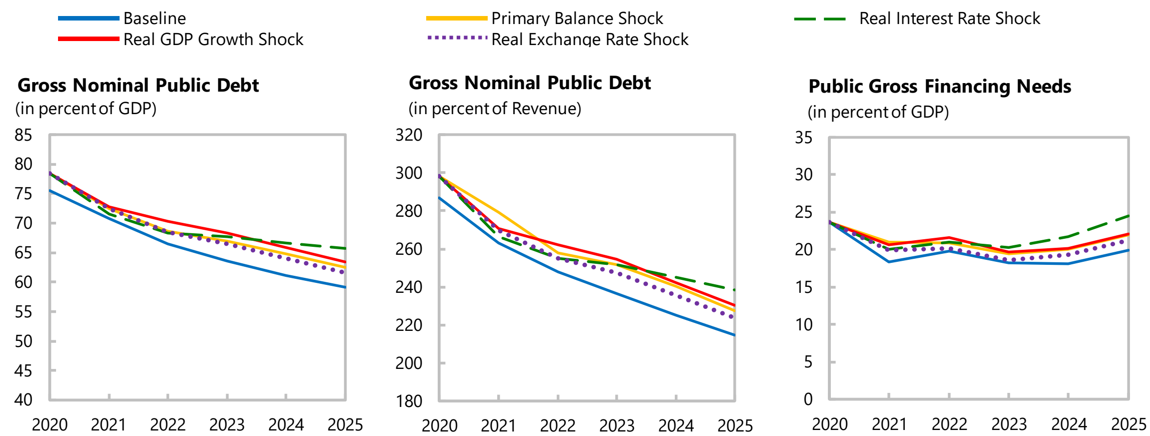
3/ Not applicable for Albania, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

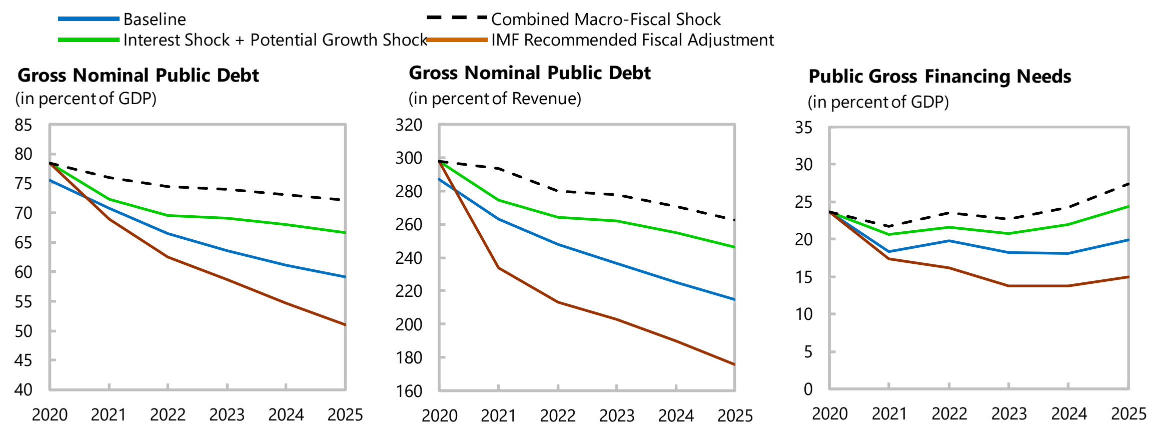
5/ The large 3-year improvement in Albania's CAPB is due to substantial arrear clearance in 2015-2017.

Figure 4. Albania: Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-5.0	8.0	6.7	3.4	3.7	3.7
Inflation	2.6	2.7	3.1	3.1	3.1	3.1
Primary balance	-3.3	-2.4	-1.2	-0.8	-0.3	-0.1
Effective interest rate	3.3	2.1	2.5	2.9	3.0	2.9
Real Interest Rate Shock						
Real GDP growth	-5.0	8.0	6.7	3.4	3.7	3.7
Inflation	2.6	2.7	3.1	3.1	3.1	3.1
Primary balance	-3.3	-1.4	-1.0	-0.5	-0.1	0.0
Effective interest rate	3.3	2.1	3.7	4.8	5.2	5.5
Combined Shock						
Real GDP growth	-5.0	6.9	5.6	3.4	3.7	3.7
Inflation	2.6	2.4	2.8	3.1	3.1	3.1
Primary balance	-3.3	-2.7	-1.9	-0.8	-0.3	-0.1
Effective interest rate	3.3	2.2	3.7	4.8	5.2	5.6

Real GDP Growth Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-5.0	6.9	5.6	3.4	3.7	3.7
Inflation	2.6	2.4	2.8	3.1	3.1	3.1
Primary balance	-3.3	-1.8	-1.7	-0.5	-0.1	0.0
Effective interest rate	3.3	2.1	2.4	2.9	3.0	2.9
Real Exchange Rate Shock						
Real GDP growth	-5.0	8.0	6.7	3.4	3.7	3.7
Inflation	2.6	4.7	3.1	3.1	3.1	3.1
Primary balance	-3.3	-1.4	-1.0	-0.5	-0.1	0.0
Effective interest rate	3.3	2.2	2.4	2.8	2.9	2.9
IMF Recommended Fiscal Adjustment						
Real GDP growth	-5.0	8.0	6.7	3.4	3.7	3.7
Inflation	2.6	2.7	3.1	3.1	3.1	3.1
Primary balance	0.7	1.2	1.5	1.5	1.5	1.5
Effective interest rate	3.3	2.1	2.2	2.5	2.7	2.6

Source: IMF staff.

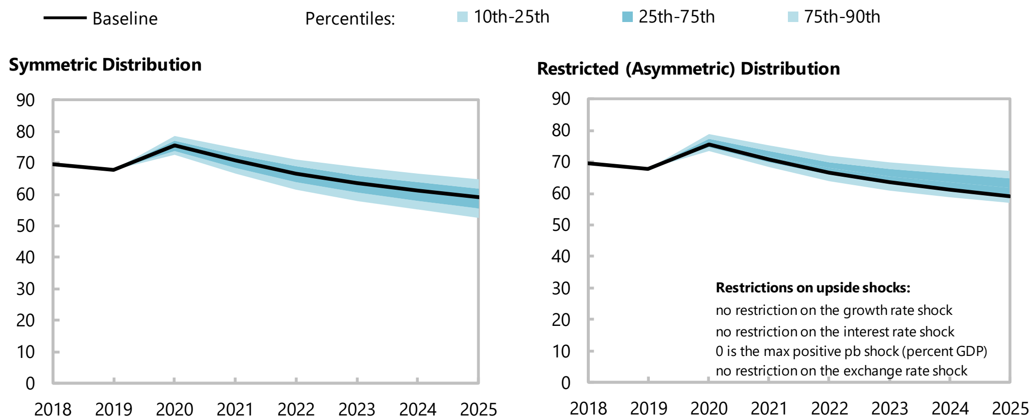
Figure 5. Albania: Public DSA Risk Assessment

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

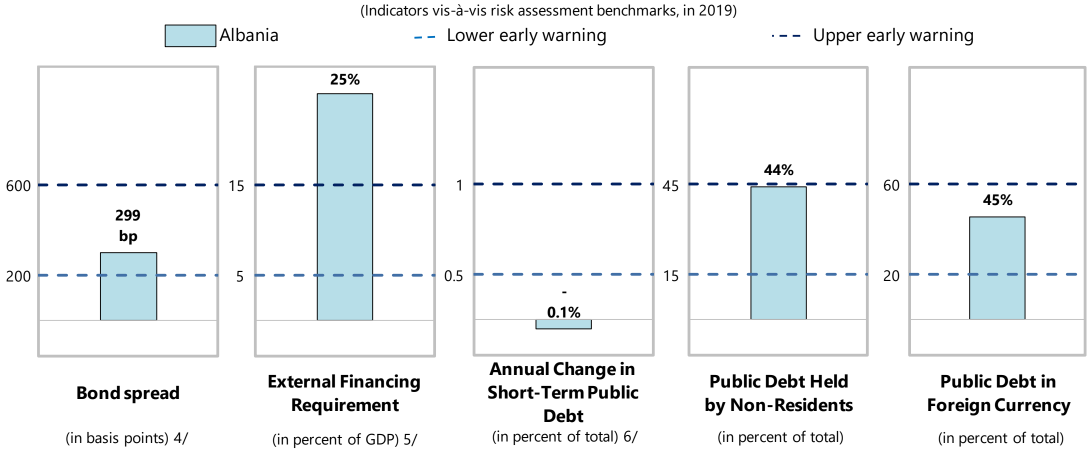
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)



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, last available observation as of April 2, 2020.

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.

Table 1. Albania: External Debt Sustainability Framework, 2015-2025
(In percent of GDP, unless otherwise indicated)

	Actual							Projections					
	2015	2016	2017	2018	2019			2020	2021	2022	2023	2024	2025
Baseline: External debt	72.9	70.0	72.1	62.8	60.0			**62.4**	**62.2**	**58.5**	**54.7**	**51.1**	**47.9**
Change in external debt	8.4	-2.9	2.0	-9.3	-2.8			2.4	-0.2	-3.7	-3.8	-3.6	-3.2
Identified external debt-creating flows (4+8+9)	8.9	-2.0	-8.4	-11.8	0.5			11.9	-6.5	-5.1	-0.5	-0.7	-0.8
Current account deficit, excluding interest payments	7.7	6.8	6.7	5.9	6.8			10.3	7.4	7.4	7.3	7.4	7.2
Deficit in balance of goods and services	17.3	16.8	15.1	13.7	13.7			17.2	14.0	13.0	12.7	12.5	12.3
Exports	27.3	29.0	31.6	31.7	31.5			21.0	32.8	32.6	33.1	33.2	33.6
Imports	44.6	45.9	46.7	45.4	45.2			38.2	46.9	45.6	45.8	45.7	45.9
Net non-debt creating capital inflows (negative)	-10.2	-6.6	-9.5	-8.6	-6.5			-2.6	-10.1	-9.6	-6.5	-6.6	-6.7
Automatic debt dynamics 1/	11.4	-2.1	-5.6	-9.1	0.2			4.2	-3.8	-3.0	-1.3	-1.4	-1.3
Contribution from nominal interest rate	0.9	0.8	0.7	0.9	0.8			0.9	0.7	0.6	0.6	0.5	0.4
Contribution from real GDP growth	-1.7	-2.3	-2.4	-2.5	-1.4			3.2	-4.5	-3.6	-1.9	-1.9	-1.8
Contribution from price and exchange rate changes 2/	12.2	-0.6	-4.0	-7.4	0.8			...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 3/	-0.5	-0.9	10.4	2.5	-3.3			-9.5	6.3	1.5	-3.3	-2.9	-2.4
External debt-to-exports ratio (in percent)	267.4	241.5	228.1	198.3	190.4			297.5	189.5	179.6	165.3	153.9	142.6
Gross external financing need (in billions of US dollars) 4/	3.4	2.8	3.0	3.6	3.5			4.2	3.7	3.9	4.0	4.0	4.9
in percent of GDP	30.2	23.8	23.0	23.8	23.2	10-Year	10-Year	29.7	23.5	21.8	20.9	19.7	22.5
Scenario with key variables at their historical averages 5/								**62.4**	**69.8**	**75.9**	**73.5**	**71.3**	**69.6**
						Historical	Standard						
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation						
Real GDP growth (in percent)	2.2	3.3	3.8	4.1	2.2	2.6	1.1	-5.0	8.0	6.7	3.4	3.7	3.7
GDP deflator in US dollars (change in percent)	-15.9	0.8	6.0	11.5	-1.2	0.1	7.6	-2.5	1.7	7.1	3.1	3.1	3.1
Nominal external interest rate (in percent)	1.2	1.1	1.2	1.4	1.3	2.0	1.1	1.4	1.3	1.1	1.0	0.9	0.9
Growth of exports (US dollar terms, in percent)	-16.9	10.8	19.9	16.2	0.5	5.2	11.0	-38.3	71.9	13.4	8.3	7.3	8.2
Growth of imports (US dollar terms, in percent)	-18.8	7.2	12.0	12.8	0.5	2.0	11.1	-21.7	34.9	11.2	7.0	6.7	7.5
Current account balance, excluding interest payments	-7.7	-6.8	-6.7	-5.9	-6.8	-8.2	1.8	-10.3	-7.4	-7.4	-7.3	-7.4	-7.2
Net non-debt creating capital inflows	10.2	6.6	9.5	8.6	6.5	8.2	1.7	2.6	10.1	9.6	6.5	6.6	6.7

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).

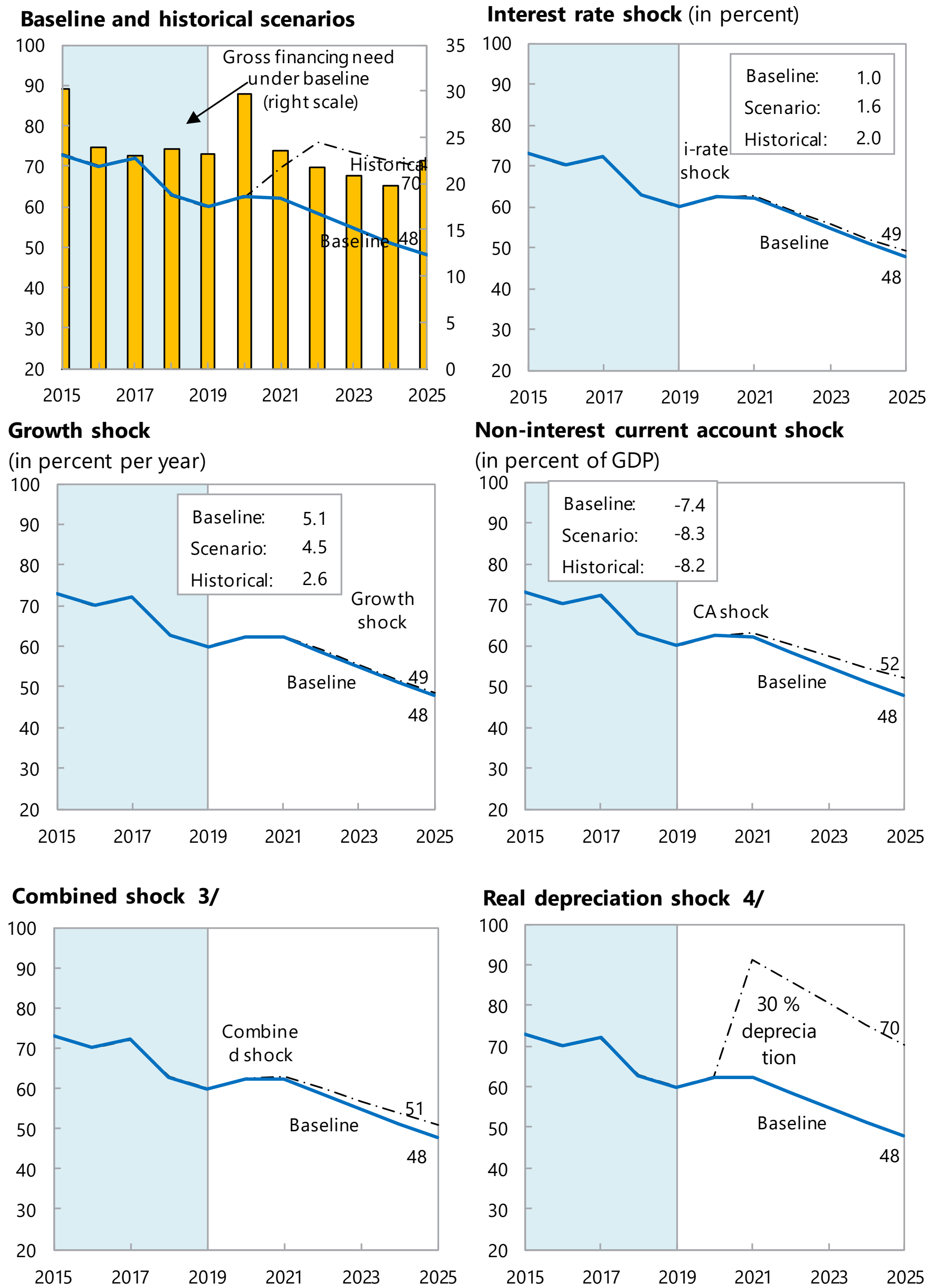
3/ For projection, line includes the impact of price and exchange rate changes.

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.

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 2020.

Appendix I. Letter of Intent

Ms. Kristalina Georgieva Tirana, April 6, 2020
Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A.

Dear Ms. Georgieva:

1. Albania is facing the mounting challenges of two consecutive shocks. The earthquake on November 26, 2019 was the strongest in Albania in four decades, with damages and losses totaling about euro 1 billion, or more than 7 percent of GDP. While we are still in recovery and reconstruction mode after the earthquake, Albania is now being severely impacted by the global pandemic of the coronavirus disease (COVID-19). While the human loss and economic damage are still unfolding, the economy is grinding to a halt.

2. Our government has announced a package of temporary measures in response to the shocks. Following the earthquake, we decided to prioritize budget spending on relief and reconstruction efforts. With the situation evolving rapidly, we are taking additional measures to contain the spread of COVID-19 and mitigate its impact. We have announced a fiscal package amounting to 1.4 percent of GDP. The Bank of Albania (BoA) has also allowed borrowers affected by COVID-19 to postpone their debt service payments for three-months. Furthermore, global financial conditions have tightened, at a time when we urgently need financing to cushion the impact of shocks on our people and economy.

3. Against this background, the government of Albania requests emergency financing from the IMF in the amount equivalent of SDR 139.30 million (about euro 172 million), corresponding to a purchase of 100 percent of Albania's quota under the Rapid Financing Instrument (RFI). This IMF assistance will help meet the urgent and present balance of payments needs arising from the twin shocks, particularly the COVID-19 pandemic. It is our expectation that the support will have a catalytic effect in helping secure additional financial resources to close the fiscal gap and ease the pressure on our balance of payments in 2020.

4. The government of Albania remains firmly committed to maintaining macroeconomic stability and fostering growth. Albania's near-term macroeconomic outlook is challenging and subject to unusually large uncertainties and key downside risks. Notwithstanding the urgent need to increase public spending to contain the pandemic and support the economy, we are keenly aware of the need to contain fiscal imbalances. Once the current shocks have been overcome, we will continue our standing policy of limiting the fiscal deficit to ensure sustainability over the medium term. In addition, we have eased our monetary policy stance further and will continue to allow flexibility in the exchange rate to help absorb the impact of the shocks. We will also continue to take the necessary measures to preserve financial stability while sustaining economic activity.

5. In line with the IMF's safeguards policy, we commit to undertake a safeguards assessment, in collaboration with IMF staff, providing IMF staff with BoA's most recently completed external audit reports and coordinating meetings of IMF staff with the staff in charge of these issues in the central bank and external auditors.

6. Given the independence of the central bank and budget financing constraints, we intend to use the domestic currency equivalent of Fund resources for budgetary financing. We will prepare a government-BoA MoU establishing a framework on the modalities for repayment to the Fund.

7. We will continue to maintain the dialogue with the IMF to explore solutions to Albania's balance of payments difficulties and will avoid measures or policies that would compound these difficulties. The country will comply with the provisions of the IMF's Articles of Agreement, including those related to the imposing new or intensifying existing restrictions on the making of payments and transfers for current international transactions and also bilateral payments under Article VIII, and will implement public policies under that framework and avoid additional trade restrictions for balance of payment purposes.

8. We look forward to an early approval of emergency financial assistance by the IMF. We authorize the IMF to publish this letter and the request for a purchase under the RFI.

Sincerely yours,

/s/	/s/
Anila Denaj	Gent Sejko
Minister of Finance and Economy	Governor of Bank of Albania

Statement by Mr. Domenico Fanizza, Executive Director for Albania and Mr. Tony Persico, Advisor to the Executive Director April 10, 2020

On behalf of our Albanian authorities, we would like to thank very much both staff and management for their prompt response to the request for a purchase under the RFI to support their response to the recent earthquake and the ongoing COVID 19 pandemic.

Recent Developments and Outlook

The devastating earthquake in late 2019 and the ongoing COVID-19 pandemic have had an unprecedented impact on Albania and radically changed the country's economic outlook that was favorable until recently. At the end of 2019, my Albanian authorities were projecting growth at 3.5 percent in 2020.

The strongest earthquake in the last 40 years claimed 51 lives in November 2019 and caused damage for an amount that we estimate close to 7 percentage points of GDP. Twelve thousand families were left without a house, while many services were disrupted in large part of the country. The COVID-19 first contagion was recorded in early March. Cases have now risen to 380 (as of April 7). The authorities had prepared for the contagion. Early measures were soon escalated to limit the spread of the virus. Albania has also joined the international efforts to support Italy, its main commercial partner. It is too early to fully assess the impact of the pandemic on the economy, but it will significantly weigh on both demand and supply. Moreover, the pandemic is likely to place on hold the potential stimulus effect coming from reconstruction efforts. No doubt, GDP will contract in 2020.

The authorities agree with staff that growth could promptly recover in 2021, as the pandemic fades away and the reconstruction efforts fuel economic activity. Ongoing structural reforms will play a key role in supporting the recovery. Moreover, the just-started EU accession process may benefit the prospects for economic reforms and performance.

Both the fiscal and the external positions will deteriorate in 2020. We are confident that this deterioration is only temporary. Once the COVID-19 crisis is over, the authorities intend to resume their fiscal consolidation efforts to bring the public debt-to-GDP ratio to 60 percent by 2025. At the same time, improved economic conditions in Italy and in the other regional partners should help improve the external current account, attract capital inflows, and rebuild the external reserves.

The RFI disbursement will be key to finance the needed measures to fight the virus and limit its economic and social costs. Moreover, the authorities believe the RFI can play a catalytical role to secure additional financial resources to close a fiscal financing gap that could materialize in the event the planned Eurobond emission has to be delayed because of the ongoing turmoil in financial markets.

The fiscal and external positions remain fully sustainable, as shown by the staff DSA. It is worth noting that staff achieve this conclusion even when they implausibly assume that the primary balance would remain unchanged over the years at the 2020 level that reflect large exceptional outlays (as in the constant scenario).

Policy Response to the two Shocks

The authorities responded to the two shocks quickly:

- After the earthquake the government estimated the cost of the reconstruction at 1.2 percent of GDP and established a new Reconstruction Ministry to manage it. The authorities also called a donors' conference collecting pledges for Euro 1.15 billion. Preliminary estimates suggest that grants for about 1 percentage point of GDP could be received in 2020.

- Prior to recording the first Covid-19 contagion, the government approved higher spending in the health sector, increasing hospitals' budget and adopted WHO-recommended protocols in late February. Since recording the first contagion, a series of mitigation measures have been adopted. These include: (a) closing schools, universities, and restaurants; (b) banning all large events; (c) halting public transport; (d) imposing curfew; and (e) closing its borders. The government has urged everyone to work from home. Furthermore, SMEs and individuals affected by these measures will be able to hold off on rent payments.

- A far-reaching and ambitious package of fiscal measures has been proposed and largely implemented amounting to 1.4 percent of GDP. The package entails higher spending on the health sector and exceptional financial support. The package includes: (a) a basic minimum income scheme to outbreak-related unemployed workers of small business; (b) increased social assistance and pension increases; (c) rescheduling of SMEs profit-tax in 2020; (d) a temporary credit sovereign guarantee to allow companies to pay wages to impacted workers.

- On the monetary side, the Bank of Albania (BoA) has lowered by 0.5 percentage points its policy rate, to an all-time low of 0.5 percent. It has also, adopted a fixed-price full-allotment approach to liquidity injection operations, without relaxing for the moment its collateral rules. In addition, the authorities intend to continue to use the exchange rate to absorb shocks. However, the BoA intends to use limited exchange rate intervention to contrast possible disorderly domestic FX market conditions.

- The banking system has remained liquid and well capitalized. Nevertheless, the BoA has amended the current regulations that govern the credit risk management of financial institutions to support the supply of credit. Moreover, the Government and the BoA allowed the postponement of payment of loan installments for entities and individuals facing difficulties during the outbreak,

Fund Support

Albania's near-term macroeconomic outlook has become challenging, with heightened uncertainty and substantial downside risks. The need to increase public spending to contain the outbreak and support the economy is urgent. Nevertheless, my authorities are keenly aware of the need to contain fiscal imbalances. Once the current shocks have been overcome, the authorities will continue their standing policy of containing fiscal deficits to ensure sustainability over the medium term. The Albanian authorities' primary objective is to safeguard macroeconomic and financial stability and mitigate the impact on Albanian businesses and households, to allow for a swift recovery.

The government faces large financial needs in 2020. While they are considering issuing Eurobond (amounting to Euro 500 million), the timing of the issue will depend on the market evolution. Finally, support from the Fund will be key to catalyze further funding by European Union, EBRD, and World Bank. The authorities welcome the proposed post-program monitoring as a useful opportunity for continued engagement with the Fund.