INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/289

ALBANIA

September 2016

EIGHTH REVIEW UNDER THE EXTENDED ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE AND STAFF REPORT

In the context of the Eighth Review Under the Extended Arrangement and Request for Modification of Performance Criteria, 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 June 28, 2016, with the officials of Albania on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on August 17, 2016.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Albania*
Memorandum of Economic and Financial Policies by the authorities of Albania*
Technical Memorandum of Understanding*
*Also included in Staff Report

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.

Press Release No. 16/387
FOR IMMEDIATE RELEASE
August 31, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Eighth Review under Albania's Extended Fund Facility and Approves €35.9 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the eighth review of Albania's economic performance under the Extended Fund Facility (EFF). The completion of the review enables an immediate disbursement of SDR 28.65 million (about €35.9 million), bringing total disbursements under the arrangement to SDR 238.14 million (about €298.3 million). The decision[1] was taken without a formal meeting.

All end-April 2016 performance criteria were met with comfortable margins, and good progress has been made on the structural reform agenda. The economic recovery is strengthening, supported by large energy-related investments and a gradual recovery in domestic demand. The current account deficit is widening due to import-intensive foreign direct investment (FDI). Inflation is recovering from very low levels, although underlying inflationary pressures remain weak. Despite substantial monetary easing, credit growth remains sluggish, constrained by the still sizable overhang of nonperforming loans (NPLs) on bank balance sheets.

The authorities' policy mix should continue to focus on fiscal adjustment, while supporting growth through monetary easing. A strategy based on broadening the tax base, improving tax compliance and administration, and implementing structural reforms will help lower debt levels while allowing space for more productive public spending. Fiscal structural reforms to enable a valuation-based property tax and strengthen public financial management are also crucial for entrenching the consolidation gains. The central bank's monetary easing using conventional policy tools is appropriate given signs of a nascent demand recovery. Addressing the high stock of NPLs remains key for reviving credit and supporting growth.

The Executive Board approved a 36-month arrangement under the EFF for Albania on February 28, 2014 (see Press Release No. 14/81) in an amount equivalent to

[1] The Executive Board takes decisions under its lapse-of-time procedures when it is agreed by the Board that a proposal can be considered without convening formal discussions.

SDR 295.42 million (about €370.0 million, or 212.1 percent of the country’s current quota in the Fund).

INTERNATIONAL MONETARY FUND

ALBANIA

August 17, 2016

EIGHTH REVIEW UNDER THE EXTENDED ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

KEY ISSUES

Background: In February 2014, the Executive Board approved a three-year Extended Arrangement with access equivalent to SDR 295.42 million (212.1 percent of current quota). So far, six purchases totaling the equivalent of SDR 209.49 million have been made, and another one equivalent to SDR 28.65 million will be made available upon completion of the eighth review.

Recent Economic Developments: The economic recovery is strengthening, supported by large energy-related investments and a gradual recovery in domestic demand. The current account deficit is widening due to import-intensive FDI. Inflationary pressures, however, remain subdued and the exchange rate has been broadly stable vis-à-vis the euro. Despite substantial monetary easing, credit growth remains sluggish, constrained by the still sizable overhang of nonperforming loans (NPLs) on bank balance sheets.

Program Performance and Risks: The program is broadly on track. All performance criteria (PCs) were met, as were two of the four indicative targets (ITs). The lower outer band under the Inflation Consultation Clause was missed at end-April due to negative supply-side shocks. An inflation consultation was completed at the time of the Seventh Review. Six structural benchmarks (SBs) were also met, albeit three with delays, while three were missed. Program risks emanate from the challenges of sustaining revenue mobilization efforts and securing the commitment to fiscal adjustment and structural reforms against the backdrop of the mid-2017 election.

Policy Recommendations: The policy mix should continue to focus on fiscal adjustment, while supporting growth through monetary easing. Reducing public debt over the medium term will require sustained fiscal consolidation. A strategy based on broadening the tax base, improving tax compliance and administration, and implementing structural reforms will help lower debt levels while allowing space for more productive public spending. Sustaining the reform momentum in the power sector will also be critical. Fiscal structural reforms to enable a valuation-based property tax and strengthen tax administration and public financial management are also crucial for entrenching the consolidation gains. The central bank's monetary easing using conventional policy tools is appropriate given signs of a nascent demand recovery. Addressing the high stock of NPLs remains key for reviving credit and supporting growth.

Approved By
Bob Traa and James Gordon

Discussions were held in Tirana during June 15–28, 2016. Staff team: Ms. Tuladhar (head), Messrs. Cabezon and Slavov (all EUR), Mr. End (FAD), and Mr. Ismail (SPR). Mr. Reinke (Resident Representative) and Ms. Spahia (local economist) assisted the mission. Mr. Di Lorenzo (OED) joined some of the meetings. The mission met with Prime Minister Rama, Minister of Finance Ahmetaj, Minister of Energy Gjiknuri, Minister of Social Affairs Klosi, Bank of Albania Governor Sejko, other senior officials, parliamentarians, and representatives of banks and the private sector. Support was provided by Mr. Song, Ms. Mendoza (both EUR), and Ms. Kadeli (Tirana office).

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APPENDICES

CONTEXT

1. Albania has made significant strides in strengthening its economy over the past few years. Economic growth is accelerating and public debt has started to decline from its peak in 2015. Supported by a strong majority in Parliament, the government has pushed ahead with important structural reforms in areas such as the power sector, public pensions, and bankruptcy reform. More recently, the Parliament unanimously approved a judicial reform package, removing a key obstacle to opening accession negotiations with the European Union.

2. Looking ahead, the main policy priorities are to further lower fiscal vulnerabilities, reduce nonperforming loans in the banking sector, and rapidly implement structural reforms. These reforms are crucial to better withstand risks and boost confidence in order to achieve a robust, sustainable investment-led growth. The program, set to expire in February 2017, provides an important anchor for implementing these policies ahead of the elections in mid-2017.

RECENT DEVELOPMENTS

3. The economic recovery is strengthening (Figure 1 and MEFP ¶2). GDP grew by 2.6 percent in 2015 and 3 percent in 2016:Q1, broadly, in line with staff estimates. The growth momentum is driven by large energy-related FDI projects offsetting the impact of declining oil production. High-frequency indicators for 2016 also suggest continued improvement in consumption and investment demand, supported by an accommodative monetary policy stance, lower fuel prices, and job creation. The unemployment rate declined from 17.7 percent at end-2015 but still remains high at 16.9 percent in 2016:Q1, reflecting the large share of structural unemployment as well as a negative output gap and new entrants into the labor market.

4. The current account deficit is widening in 2016:Q1 mainly due to strong import-intensive FDI (Figure 3 and MEFP ¶3).[1] A one-off reduction in electricity imports (due to improved hydropower conditions) and strong tourism receipts helped narrow the trade deficit temporarily in 2015 to 11 percent of GDP, despite reduced oil exports. In 2016:Q1, the trade deficit widened relative to 2015:Q1, due to rising imports from accelerating economic activity and continued subdued oil exports. Remittances, at 5.7 percent of GDP in 2015, have remained broadly stable despite weak growth in the main source countries (Greece and Italy). Three quarters of the current account deficit in 2015 was financed by FDI inflows. Financial outflows resulting from the amortization of government debt in foreign currency and bank placements abroad have led to a marginal decline in international reserves in 2016:Q1, but they remain above six months of imports.

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[1] The recorded current account deficit overstates external imbalances because of sizable errors and omissions (around 2–3 percent of GDP). Most of these are probably unrecorded private remittances.

Figure 1. Albania: Output and Growth Developments

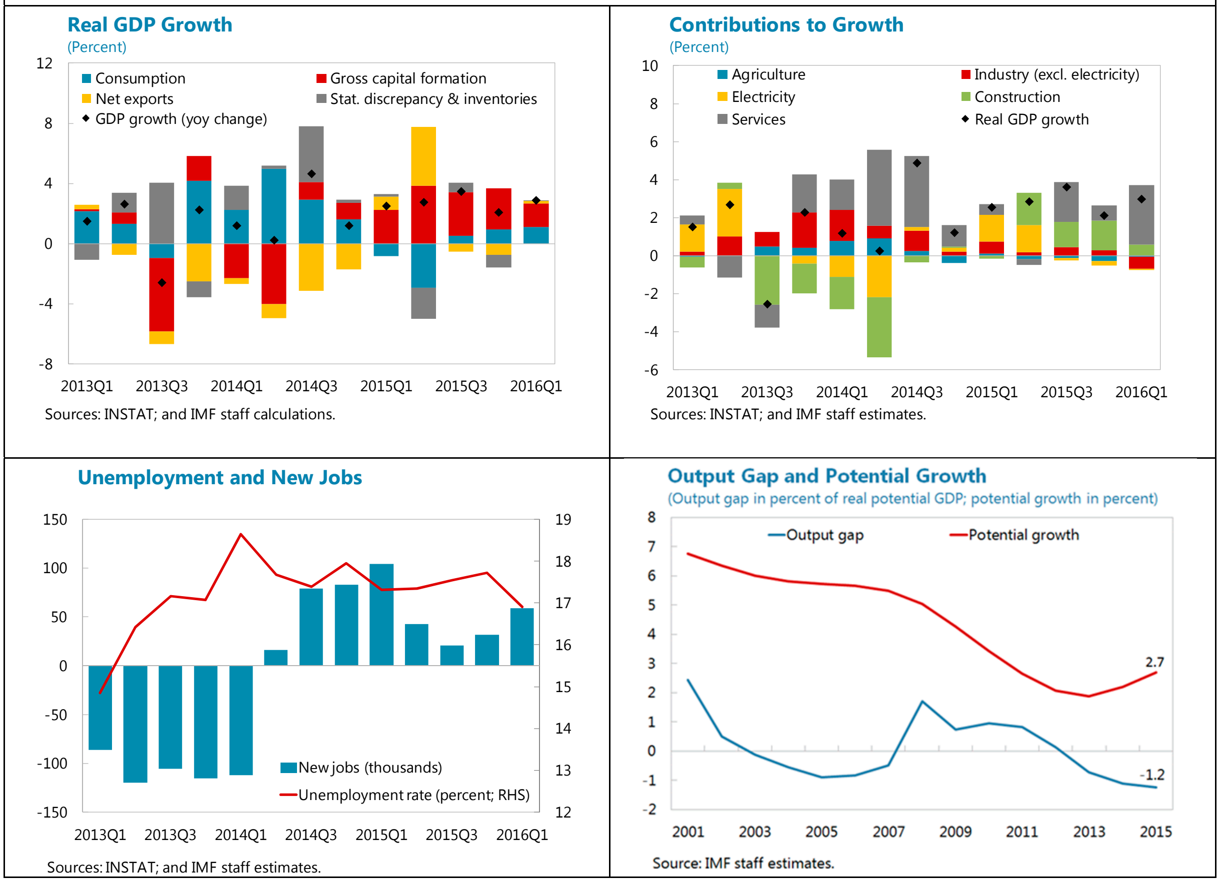
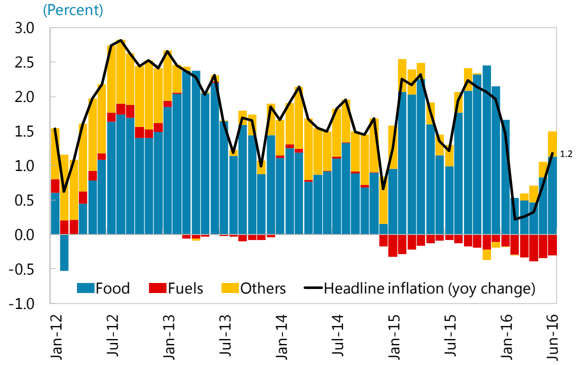


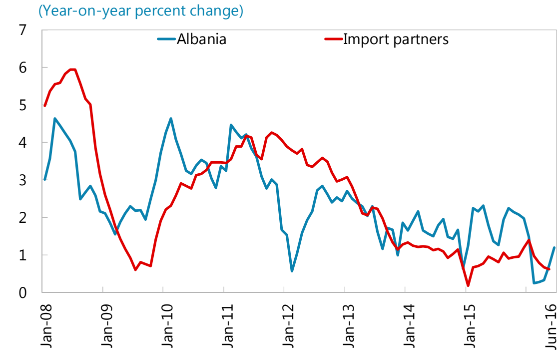
Figure 2. Albania: Price Developments

Inflation
(Percent)



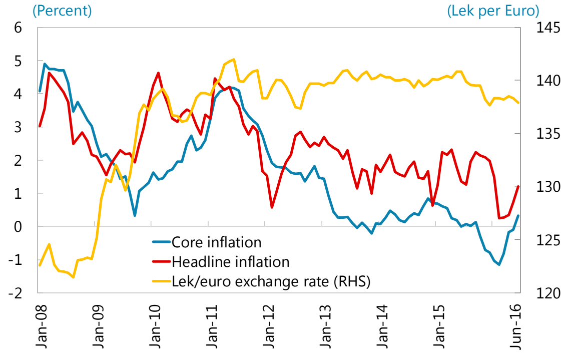
Sources: INSTAT; and IMF staff estimates.

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



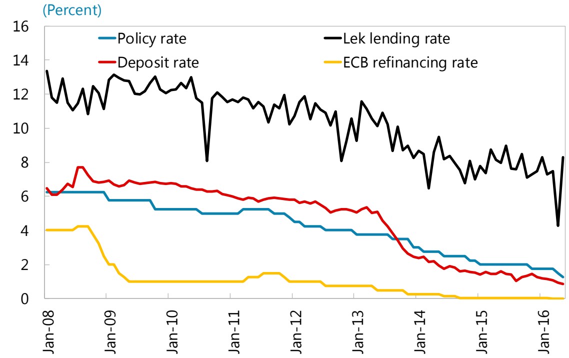
Sources: Haver Analytics; INSTAT; and IMF, Direction of Trade database.

Inflation and Exchange Rate
(Percent) (Lek per Euro)



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

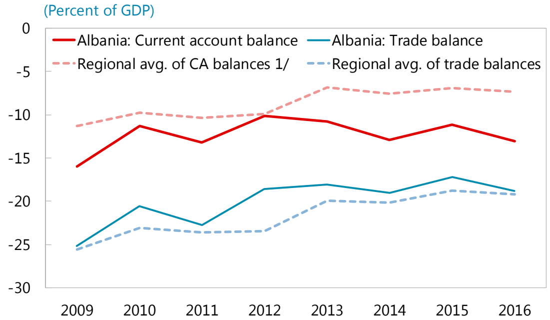
Interest Rates
(Percent)



Sources: Bank of Albania; and European Central Bank.

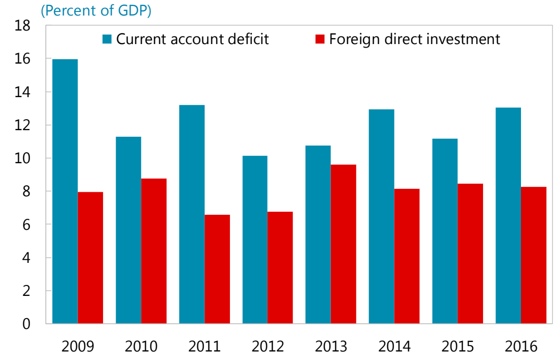
Figure 3. Albania: External Developments

External Balance
(Percent of GDP)



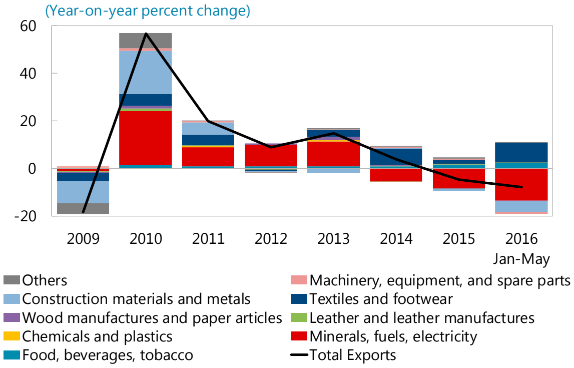
1/ The regional average covers Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, and Serbia.
Sources: Albanian authorities; WEO database; and IMF staff calculations.

Current Account and Foreign Direct Investment
(Percent of GDP)



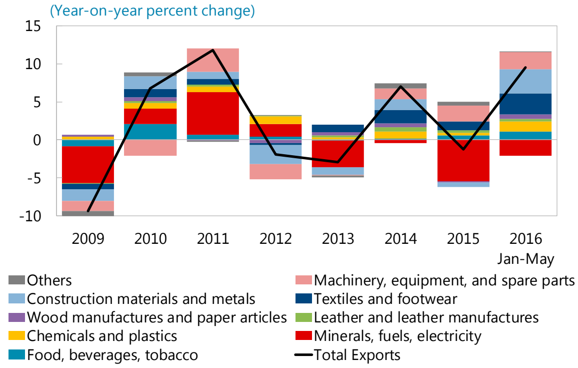
Sources: Bank of Albania; and IMF staff estimates.

Contribution to Export Growth
(Year-on-year percent change)



Sources: Bank of Albania; INSTAT; and IMF staff calculations.

Contribution to Import Growth
(Year-on-year percent change)



Sources: Bank of Albania; INSTAT; and IMF staff calculations.

5. Revenues were on track for the first four months of 2016 (text table, Figure 4, and MEFP ¶10).[2] VAT fell short of program targets, likely reflecting the impact of low inflation. Local taxes also fell short, underscoring the revenue mobilization challenges facing the newly established local government units. By contrast, income tax, excises, and social contributions performed well and provided a nearly full offset. The authorities' campaign against tax evasion, noncompliance, and informality might be paying off, as shown by the increase in the number of social security contributors and companies that were either newly registered or reclassified under VAT.

Triannual General Government Operations, 2014-16

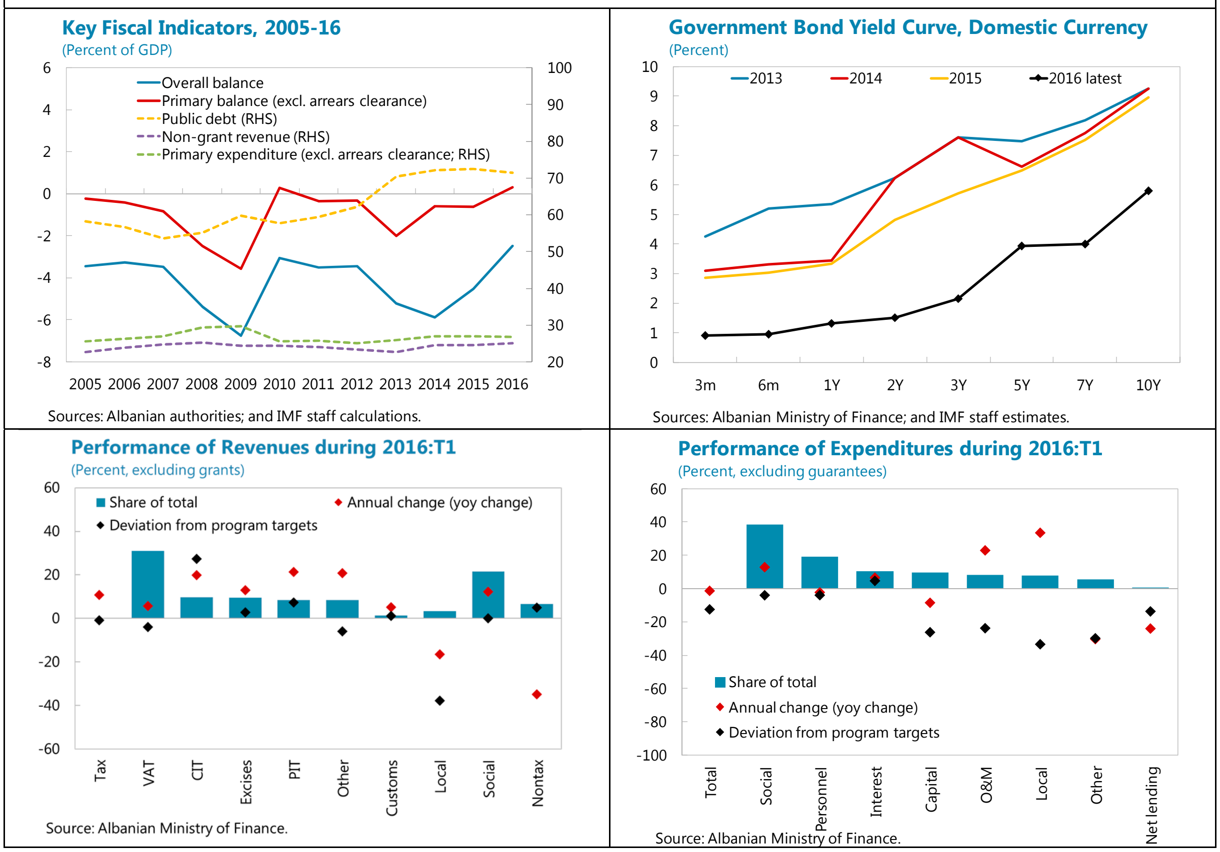
	2014			2015			2016	
							Program	
	T1 Act.	T2 Act.	T3 Act.	T1 Act.	T2 Act.	T3 Act.	T1 EBS/16/6	T1 Act.
	(Billions of leks)							
Total revenue and grants	116.1	236.4	366.6	121.7	248.5	377.5	129.8	129.4
Tax revenue	103.7	214.7	335.8	106.2	223.5	340.6	118.7	117.6
Non-tax revenue	9.0	14.8	20.7	13.0	19.4	25.7	8.0	8.4
Grants	3.5	6.9	10.1	2.6	5.5	11.2	3.1	3.3
Total expenditure	126.6	273.0	448.6	130.8	271.9	443.0	132.5	117.5
o/w Primary expenditure	118.9	247.1	414.9	123.2	257.5	425.4	120.9	105.4
Current expenditure	105.9	216.5	348.1	107.3	226.0	355.9	115.1	104.9
o/w Energy guarantees	1.8	1.8	6.7	4.6	4.6	4.6	1.6	0.0
Capital expenditure	11.5	26.9	60.5	14.2	28.6	62.6	15.3	11.4
Policy net lending	1.1	2.6	5.9	1.8	3.3	7.3	1.0	1.3
Repayment of end-2013 stock of unpaid bills and arrears	7.8	25.9	33.8	7.6	14.5	17.6	0.0	0.0
Overall balance	-10.5	-36.6	-82.1	-9.1	-23.5	-65.5	-2.7	11.8
Primary balance excl. arrears clearance	10.6	15.9	-8.2	10.3	15.9	-9.3	9.0	24.0
Financing	10.5	36.6	82.1	9.1	23.5	65.5	2.7	-11.8
Domestic	8.4	3.7	47.5	3.2	-22.6	-5.5	-4.3	-17.4
Foreign	1.7	31.8	34.3	5.9	46.1	71.0	6.9	5.6
	(Percent of GDP)							
Total revenue and grants	8.3	17.0	26.3	8.4	17.2	26.2	8.5	8.6
Tax revenue	7.4	15.4	24.1	7.4	15.5	23.6	7.8	7.8
Non-tax revenue	0.6	1.1	1.5	0.9	1.3	1.8	0.5	0.6
Grants	0.3	0.5	0.7	0.2	0.4	0.8	0.2	0.2
Total expenditure	9.1	19.6	32.2	9.1	18.8	30.7	8.7	7.8
o/w Primary expenditure	8.5	17.7	29.8	8.5	17.8	29.5	7.9	7.0
Current expenditure	7.6	15.5	25.0	7.4	15.7	24.7	7.5	6.9
o/w Energy guarantees	0.1	0.1	0.5	0.3	0.3	0.3	0.1	0.0
Capital expenditure	0.8	1.9	4.3	1.0	2.0	4.3	1.0	0.8
Policy net lending	0.1	0.2	0.4	0.1	0.2	0.5	0.1	0.1
Repayment of end-2013 stock of unpaid bills and arrears	0.6	1.9	2.4	0.5	1.0	1.2	0.0	0.0
Overall balance	-0.8	-2.6	-5.9	-0.6	-1.6	-4.5	-0.2	0.8
Primary balance excl. arrears clearance	0.8	1.1	-0.6	0.7	1.1	-0.6	0.6	1.6
Financing	0.8	2.6	5.9	0.6	1.6	4.5	0.2	-0.8
Domestic	0.6	0.3	3.4	0.2	-1.6	-0.4	-0.3	-1.2
Foreign	0.1	2.3	2.5	0.4	3.2	4.9	0.5	0.4

Sources: IMF staff estimates and projections.

[2] The revenue numbers exclude unbudgeted windfalls due to disputed tax payments from a large foreign company.

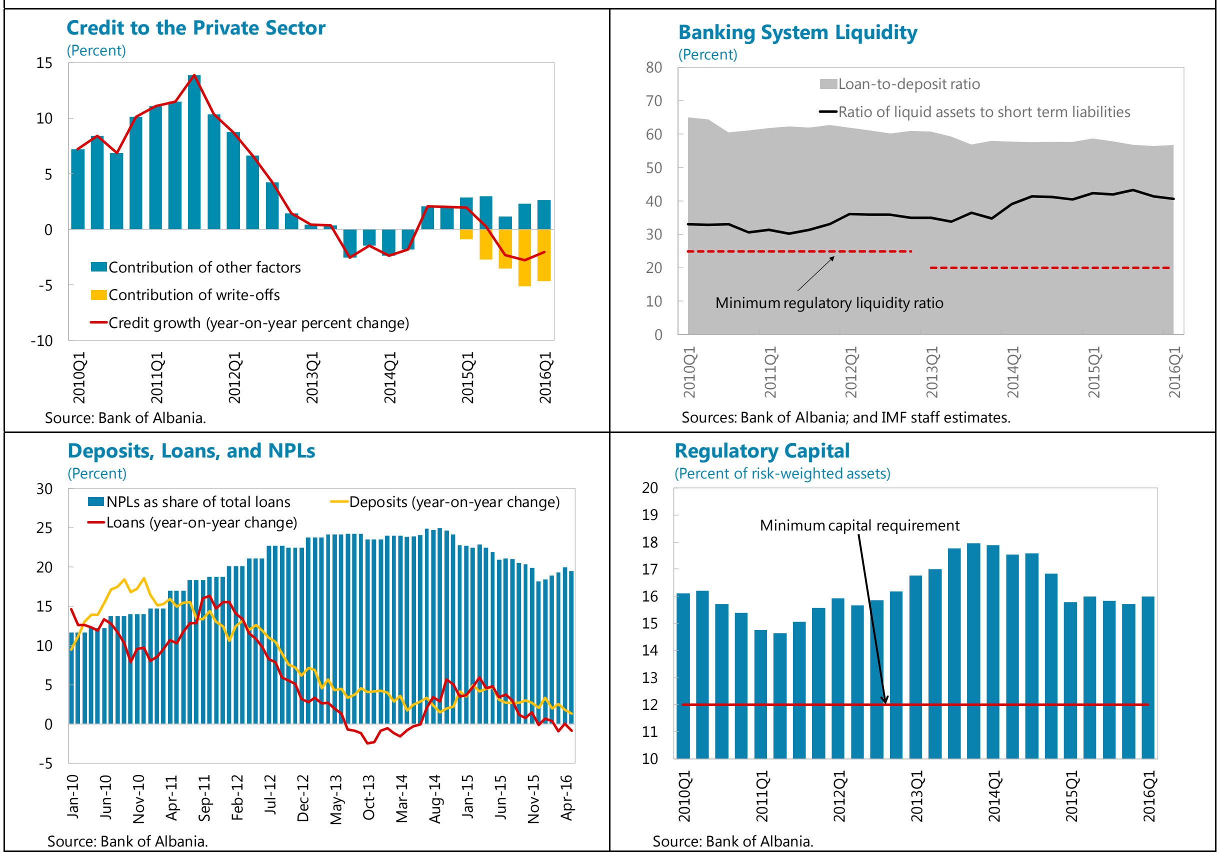
6. The end-April fiscal targets were met with comfortable margins due to a broad-based expenditure underexecution (Figure 4, text table, and MEFP ¶16). The wage bill was lower than expected owing to persistent vacancies in the civil service. Capital and local expenditures fell short of program targets by 0.3 percent of GDP respectively, reflecting weaknesses in public investment project management. Social spending was also below budget, mainly due to seasonal patterns, but also other factors such as improved targeting of beneficiaries. As a result, the primary balance and primary expenditure PCs for end-April 2016 were met with margins of around one percent of GDP.

Figure 4. Albania: Fiscal Developments



7. Credit growth to the private sector remains subdued, as banks remain risk-averse given the significant NPL overhang (Figure 5). Credit to the private sector has declined since early 2015, although the data are affected by a recent regulation mandating write-offs of loans that have spent three years in the "loss" category. Even after removing the effects of NPL write-offs, credit to the private sector grew by only 2.6 percent in March 2016, yoy, despite sustained monetary easing and ample liquidity in the system. Difficulties with contract enforcement and collateral execution in the court system deter new lending, while NPLs—although declining from the post-crisis peak of 25 percent—remain high at 19.5 percent of all loans in May 2016.

Figure 5. Albania: Financial Developments



8. The banking system remains liquid and well capitalized. While capital adequacy ratios have been falling due to the new regulations related to Basel II implementation, system-wide capitalization, at 16 percent of risk-weighted assets in 2016:Q1, exceeds regulatory minima. Liquidity buffers remain comfortable, with liquid assets at around 40 percent of short-term liabilities. However, profitability declined in 2016:Q1 due to one-off provisioning following the bankruptcy of two large borrowers. Lower returns on government T-bills also reduced profitability, as the banking system's exposure to sovereign bonds remains high at 24 percent of total assets.

PROGRAM PERFORMANCE

9. The program is on track (MEFP ¶6-7 and MEFP Tables 1 and 3a):

- **All performance criteria were met with comfortable margins while two out of four indicative targets were missed**. The indicative target on distribution losses in the electricity sector was missed due to delays in infrastructure investment needed to reduce technical losses. However, the authorities remain determined to push ahead with their reform agenda and reach the end-2016 target. The indicative target on the accumulation of central government domestic arrears was also missed by a small margin (0.15 percent of GDP), with most due to road construction projects and court decisions regarding layoffs and expropriations. As a remedial measure to address central government arrears, the authorities have repaid almost all accumulated arrears, except for those on pending court decisions, and the Ministry of Finance has issued an order which ensures that investment projects not included in the authorities' Medium Term Budgetary Framework (MTBF) can only be funded with the explicit approval of the Strategic Planning Committee and authorizes the continuation of only a specified list of projects, based on transparent criteria, that can be accommodated in the MTBF (prior action). The authorities will also implement stricter internal controls in their treasury IT system (AGFIS) at the phase of pre-commitment of public funds for the Albanian Roads Authority.

- **The lower outer band under the Inflation Consultation Clause was missed.** An inflation consultation was completed at the time of the Seventh Review under the Extended Arrangement.

- **Most structural benchmarks were implemented, albeit some with delays.** Of the nine SBs, three SBs were met on time, three were implemented with delays, and three were missed of which two are proposed to be rescheduled. Weaknesses in the reporting framework delayed the first quarterly survey of local government arrears. Problems with recruitment postponed the full staffing of the new fiscal risks unit at the Ministry of Finance (MoF) till September. The publication of the quarterly financial statements of the state-owned electricity companies was delayed by one week, while the removal of 35 kV consumers from the regulated tariff system has been postponed to September, due to implementation delays in setting up infrastructure and negotiating supply contracts. Delays in the adoption of the overall implementation plan for restructuring the tax administration's headquarters postponed the restructuring of the Large Taxpayer Office till early August. Delays in verifying the arrears of the Regional Development Fund also held up the publication of the survey of central government arrears until late July.

POLICY DISCUSSIONS

A. Outlook and Risks

10. The near-term growth outlook remains broadly unchanged from the Seventh review under the Extended Arrangement, while inflation is expected to be lower than previously projected:

- **GDP growth projections are unchanged at 3.4 percent for 2016 and 3.8 percent for 2017.** The growth momentum is expected to be sustained by large energy-related FDI projects and a gradual recovery of domestic demand.

- **Inflation will remain subdued due to a persistent negative output gap and weak imported inflation.** Inflation is expected to rise in the second half of 2016, led by the gradual recovery in oil and food prices. Nevertheless, projections for average headline inflation have been revised down to 1.0 and 2.2 percent for 2016 and 2017, respectively, from 1.9 and 2.4 percent in the Seventh Review, on account of negative supply-side shocks observed earlier in the year.

- **The current account deficit is expected to increase in 2016–17 with the ramp-up in large FDI-financed energy-related projects.** Imports are expected to pick up as investment in the Trans Adriatic Pipeline and the Statkraft/Devoll hydropower projects rises, widening the current account deficit to around 13 percent of GDP in 2016.[3] At the same time, significant amortization of foreign currency denominated debt by the government and SOEs is expected to marginally reduce gross international reserves over this period to around 5.5 months of imports.

11. The medium-term outlook remains favorable under the baseline. Growth is expected to rise to just over 4 percent over the medium term, underpinned by a flexible labor market, a pickup in investment, and a boost to investor confidence as Albania implements reforms to improve the business climate and advances through the EU accession process. Inflation is expected to pick up gradually as domestic demand recovers and the output gap narrows, reaching BoA's target of 3 percent in 2018–19. The current account deficit will narrow over the medium term, as large energy-related imports tail off, and energy and tourism exports pick up and offset gradually declining remittances. External financing will continue to be dominated by FDI and official financing. The reserve cover is expected to gradually stabilize at around 4–4½ months of imports by 2020–21.

12. The balance of risks to the outlook is on the downside. Direct spillovers from the turmoil following the UK referendum on EU membership are likely to be contained, given limited trade, remittances, FDI, and financial linkages. However, a possible weakening of growth in the EU (particularly, in Greece and Italy) could spill over to Albania and test the authorities' perseverance with fiscal adjustment and structural reforms. A renewed slide in oil prices could damage fiscal revenues and growth, by forcing a scale-back in investment and production in the domestic oil sector. Erratic rainfall could affect electricity generation as in the past, with power shortages damaging growth and expensive electricity imports posing quasi-fiscal risks. Slippages in implementing structural reforms to strengthen the business environment, including by tackling corruption and organized crime, could erode confidence and investment prospects. On the upside, improved confidence following the passage of the judicial reform package and greater spillover effects of the FDI projects could lead to higher investments financed by increased donor support and a recovery in credit flows.

[3] Imports related to large energy projects are estimated to peak at around 4 percent of GDP in 2016 and gradually taper off over the medium term.

B. Ensuring Fiscal Sustainability and Implementing Structural Fiscal Reforms

13. **The authorities remain committed to reaching their target of a small primary surplus of 0.2 percent of GDP in 2016.**[4] They are cognizant of the fiscal risks that loom for the remainder of the year. Revenues from oil-related royalties, VAT, and customs collections are vulnerable to a renewed drop in world oil prices. The electricity sector reform and the campaign against tax evasion, noncompliance, and informality both appear to be yielding results, but the approaching general election in mid-2017 might weaken policy discipline. In addition, the tax administration is challenged by limited capacity. For these reasons, the authorities' revised budget maintains sufficient buffers to contain these risks. In addition, the revised budget reallocates resources to capital expenditure, while securing savings in recurrent expenditure. To ease the 2017 program consolidation goals, the authorities also agreed to save any permanent budget overperformance this year.

Fiscal Consolidation, 2013-2019
(Percent of GDP, unless otherwise specified)

	2013	2014	2015	2016		2017		2018		2019	
	Act.	Act.	Act.	EBS/ 16/39	Proj.	EBS/ 16/39	Proj.	EBS/ 16/39	Proj.	EBS/ 16/39	Proj.
Revenues	24.0	26.3	26.2	26.8	27.2	26.4	26.6	26.2	26.5	26.1	26.3
Tax revenue	22.0	24.1	23.6	24.3	24.6	24.0	24.3	23.9	24.1	23.8	24.0
Non-tax revenue	1.6	1.5	1.8	1.6	1.7	1.5	1.5	1.5	1.5	1.5	1.5
Grants	0.4	0.7	0.8	0.8	0.9	0.8	0.9	0.8	0.9	0.8	0.9
Expenditures	29.2	32.2	30.7	29.2	29.7	29.1	29.3	29.3	29.4	29.2	29.6
Current expenditure (incl. net lending)	24.3	25.4	25.2	25.4	25.8	25.2	25.3	25.2	25.2	24.9	25.2
of which: Energy sector spending 1/		0.9	0.8	0.3	0.3	0.4	0.3	0.3	0.3	0.0	0.2
Capital expenditure	4.8	4.3	4.3	3.7	3.8	3.7	3.8	3.9	4.0	4.1	4.2
Other spending	0.0	2.4	1.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Unidentified measures (cumulative)					0.0	1.1	1.1	2.1	2.1	3.1	3.1
Overall balance	-5.2	-5.9	-4.5	-2.5	-2.5	-1.6	-1.6	-0.9	-0.8	0.0	-0.2
Overall balance excl. arrears clearance		-3.5	-3.3	-2.5	-2.5	-1.6	-1.6	-0.9	-0.8	0.0	-0.2
Primary balance	-2.0	-3.0	-1.9	0.3	0.2	0.9	0.9	1.6	1.6	2.5	2.1
Primary balance excl. arrears clearance	-2.0	-0.6	-0.6	0.3	0.2	0.9	0.9	1.6	1.6	2.5	2.1
Change in the structural primary balance	-1.4	1.6	-0.5	1.2	1.1	0.5	0.7	0.6	0.5	0.8	0.5
Public debt	70.4	72.0	73.0	70.4	71.9	67.7	68.7	64.1	65.0	59.7	60.7
Domestic debt	43.4	42.5	38.9	34.6	35.8	32.7	32.7	30.6	30.0	28.2	27.3
Foreign debt	27.0	29.6	34.0	35.8	36.1	35.0	36.1	33.5	35.0	31.5	33.4
Memo items:											
Nominal GDP (in billions of leks)	1,350	1,394	1,443	1,532	1,510	1,632	1,606	1,749	1,718	1,879	1,845
Public debt (in billions of leks)	950	1,005	1,053	1,079	1,086	1,105	1,104	1,121	1,117	1,122	1,120

Sources: Albanian authorities; IMF staff estimates and projections.
1/ Energy spending includes energy sector subsidies, compensation for the poor, and policy net lending. Prior to 2014, energy subsidies were not recorded in the fiscal accounts, but handled through extra-budgetary guarantees and debt-financed policy net lending.

14. **The authorities reaffirmed their commitment to gradually reduce the public debt ratio, in order to support sustainable growth (text table and MEFP ¶8)**. While cognizant of the risks that excessive consolidation may pose for the recovery, the authorities recognize the fiscal sustainability risks posed by the current high debt level of over 70 percent of GDP, and the still large

[4] The primary surplus target has been adjusted under the program to allow partial spending of privatization proceeds (0.1 percent of GDP) in 2016.

gross financing needs of around 23 percent of GDP in 2016. They thus remain committed to continued consolidation to achieve a public debt target of around 60 percent of GDP in 2019. Under the baseline scenario, this requires measures of around 1 percent of GDP annually. Given the relatively small size of government (25-30 percent of GDP) and the need for greater infrastructure and social spending, these measures need to be primarily revenue-based with a focus on broadening the tax base and improving tax compliance. Under this scenario, the overall general government balance is projected to decline to near zero in 2019, significantly below the targeted deficit of around 2½ percent of GDP in 2016.

15. The authorities are addressing potential risks to their fiscal baseline (MEFP ¶10–12 and MEFP Table 3b):

- **Revenue:** The authorities have been prudent in projecting the revenue gains from the campaign against tax evasion, non-compliance, and informality. Furthermore, large unbudgeted windfalls due to disputed tax payments will not be counted as revenue under the program until the tax dispute is resolved. The authorities have committed not to grant any further tax exemptions or preferential tax rates, without consulting with the IMF or without implementing compensatory measures. The new fiscal policy unit at MoF will update and improve the survey of tax expenditures annually (SB).

- **Arrears prevention:** The authorities' first survey of local government arrears revealed a stock of around 0.8 percent of GDP of mostly legacy arrears at end-December 2015. Out of these, 0.5 percent of GDP are on regular and fully documented bills and have now been included in the stock of general government debt. Going forward, the survey will be updated quarterly (SB). No central government bailout is expected for these arrears. Instead, the authorities will require local governments to prepare action plans by end-September 2016 (SB) to clear the legacy stock of arrears by restructuring the liabilities and developing own revenue sources. With help from the donor community, the authorities are preparing a new law on local finances that will strengthen public financial management and revenue sources at the local level. In addition, the authorities have issued a decision seeking to prevent recurrence of arrears in public investment projects at the central government level as a prior action (¶9). The new multiyear commitment registry will be operational by end-September, in time for the 2017–19 MTBF. The authorities will continue to publish the regular survey of new central government arrears (SB), and will continue gradually expanding its coverage.

- **Property compensation claims:** Albania's Constitutional Court is currently reviewing the law passed in December 2015 providing compensation to all property owners expropriated under the communist regime over a period of 10 years. Meanwhile, the European Court of Human Rights (ECHR) in Strasbourg is continuing to process cases against the Albanian government. To mitigate the fiscal risks from potential ECHR compensation decisions, the authorities are setting aside sufficient contingency reserves.

- **Public Private Partnerships:** The authorities are keen to pursue PPP projects, which were subject to limited MoF review in the past and remain a source of quasi-fiscal risks. To mitigate these risks, Parliament amended the Organic Budget Law in June limiting the total stock of PPPs, integrating PPPs into the budgetary process, and strengthening MoF's role in the assessment and monitoring of PPP proposals. The authorities also plan to clarify the PPP Law and align it with other related legislation. MoF will ensure that PPPs follow international best practice and that their related fiscal costs and contingent liabilities are transparently accounted for in the fiscal accounts and debt statistics. MoF's new fiscal risks unit will be fully staffed by end-September 2016 (SB).

16. Further ambitious structural fiscal reforms are planned (MEFP ¶13–18 and MEFP Table 3b):

- **Tax policy.** The authorities are committed to introducing a valuation-based property tax by end-2017. Towards this end, they will establish a working group involving all the main stakeholders, which will prepare a concept note to guide the process. They will develop a valuation formula and methodology and also draft the related legislation by end-September 2016 (SB). By end-2016, Parliament will approve the legislation enabling local governments to implement the valuation-based property tax (SB). Starting in 2017, the new methodology for a valuation-based property tax will be applied in Tirana on a pilot basis. To encourage voluntary reassessment of property valuation, the authorities announced a temporary reduction in capital gains tax on property valuation from 15 percent to 2 percent. However, they are also considering an amnesty scheme to address the large stock of old tax arrears potentially undermining tax discipline.

- **Revenue administration.** The reform plan includes phasing in a modern compliance risk management approach for a couple of major risk clusters (SB), and will also draw on the recent Tax Administration Diagnostic Assessment. As a prior action, the authorities have approved a function-based headquarters restructuring plan and have restructured GDT's Large Taxpayer Office with specialization according to business sectors. The authorities are also seeking to overhaul the tax procedures code with a focus on streamlining tax audit procedures and improving the administrative appeals process and taxpayer services.

- **Public financial management**. The authorities will take steps to improve their MTBF and public investment management. They will also strengthen further the process for evaluating, selecting, executing, and monitoring public investment projects, and reduce fragmentation of investment projects in line with recommendations from the recent Public Investment Management Assessment (PIMA).

C. Safeguarding Financial Stability and Unlocking Credit

17. With inflation significantly below the BoA's target of 3 percent, accommodative monetary policy is expected to continue in the near term (MEFP ¶19–21). The impact of monetary easing on credit has been modest thus far, reflecting high bank risk aversion, weak corporate credit demand, and extensive euroization, all of which thwart the monetary transmission mechanism. The BoA has maintained its easing bias, including through forward guidance and a negative remuneration rate on required reserves in euros, and considers that there is still space to use conventional policy tools for further easing. However, it remains concerned that lowering the lek-euro interest rate differential below a certain level could lead to heightened exchange rate volatility, thereby aggravating financial stability risks, as about half of foreign currency denominated loans are unhedged.

18. There has been substantial progress in implementing safeguards recommendations and rebuilding BoA's credibility (MEFP ¶22). The authorities are now working on amending the BoA Law, with technical assistance from the Bank of Italy and the Fund, in order to align the law with the European System of Central Banks Statute, strengthen the central bank's financial and operational independence, and improve its governance and operations.

19. The BoA is maintaining its supervisory vigilance in order to protect financial stability (MEFP ¶24–25). The BoA continues to monitor closely individual banks' resilience to risks, as well as capital and liquidity positions, with a focus on the fastest-growing and systemically important banks. In particular, NPL ratios remain very high in some banks even though their liquidity and capital positions are above regulatory thresholds. To strengthen capital positions in the banking system, the authorities are committed to repeal by end-2016 temporary changes to capital requirements designed to encourage moderate credit growth.[5] To contain euroization risks and align their framework with Basel II, they will gradually unwind the lower risks weights on Albanian government securities issued in a foreign currency. The crisis management framework is also being strengthened, by expanding deposit insurance and by aligning the bank resolution framework with the EU's Bank Recovery and Resolution Directive.

20. The authorities have made substantial progress to date in implementing their comprehensive action plan to reduce NPLs (MEFP ¶26 and text table). The new Bankruptcy Law and Private Bailiffs Law were submitted to Parliament in June. Going forward, the authorities plan to amend the Civil Procedure Code in order to increase the efficiency of the NPL resolution process (SB). With help from Fund TA, the authorities will also adopt measures to accelerate the reduction of NPLs through the use of out-of-court debt restructuring, and amend regulations to require banks to grant loans based on companies' fiscal declarations, starting in January 2018.

[5] Risk weights were reduced to zero for growth in annual credit to the domestic private sector falling within the range of 4–10 percent. Outside of this range, weights are typically 100 percent, but vary according to risk.

Implementation of NPL Strategy		
Measure	Details	Status
Amendments to BoA regulations	Revise the terminology on write-offs to reduce court's discretion. Facilitate NPL sales by creating a category of nonbank financial institutions which will specialize in administering NPLs and will be subject to lower capital requirements. Limit the holding of repossessed collateral by banks. Extend the period for holding repossessed assets on banks' balance sheet to 7 years and apply a risk weighting of 150 percent to these assets.	Approved in March 2016.
Amendments to the Law on the Registration of Immovable Properties	Enable the registration of contracts for construction financed by residents. Allow the sale of pre-financed construction contracts. Strengthen protection for financial collateral.	Approved by Parliament in March 2016.
Improvements in the Credit Register	Include ongoing court cases and restructured loans. Incorporate credit scoring.	Completed in April 2016. In progress.
Amendments to the Law on Securing Charges	Clarify terminology to reduce court's discretion and strengthen the legal certainty of security rights over real estate.	Submitted to Parliament in May 2016.
New Bankruptcy Law	Simplify the process, allow for expedited approval of reorganization plans, align tax procedures.	Submitted to Parliament in June 2016. Implementing bylaws due by end-2016.
Amendments to the Civil Code	Clarify the status of the new Bankruptcy Law vis-à-vis other laws.	Submitted to Parliament in June 2016.
Amendments to the Private Bailiffs Law	Introduce performance-based compensation for bailiffs.	Submitted to Parliament in June 2016. Implementing bylaws due by end-2016.
Action plan to deal with large borrowers	Coordinate creditors, share information, monitor progress.	In progress.
Amendments to the Civil Procedure Code	Simplify the process, improve valuation mechanisms, accelerate court execution.	In progress.
Out-of-court restructuring	Set up a framework for out-of-court debt restructuring.	In progress.

21. Given the recent growth in the nascent nonbank financial sector, nonbank supervision needs to be improved further by focusing on capacity development and risk management (MEFP ¶27). There has been some progress recently: all vacancies on AFSA's executive board have been filled; new regulations on liquidity requirements and asset valuation for investment funds are expected to be fully phased in by mid-2017; recent amendments to the Collective Investment Undertaking Law strengthened AFSA's enforcement powers. However, with the investment funds growing rapidly—from 1.2 percent of GDP in 2012 to 4.7 percent of GDP in 2015—there is an increasing urgency to strengthen AFSA's supervisory capacity. In addition, the presence of a single investment fund custodian, a small bank, is raising concerns about systemic vulnerabilities. AFSA is committed to building up its capacity, strengthening risk management and crisis preparedness, and encouraging competition among investment fund custodians.

D. Advancing Structural Reforms

22. Continued strong implementation of the electricity reform would gradually ease risks to public finances (MEFP ¶11 and ¶28–30). Fiscal support to the power sector (in the form of public guarantees and policy net lending), at 0.3 percent of GDP, continues to weigh on public finances, while weather-related risks remain high. The authorities are committed to gradually unwind public support for the sector by 2020. Persistence with reform has started to yield positive results, including sustained increases in bill collections, reductions in distribution losses, and stronger finances of the state-owned electricity companies. In advancing reforms, the focus should be on further liberalizing the electricity market, investing prudently in meters and grid infrastructure, and strengthening corporate governance in the sector. The new power sector law sets in place a schedule for moving all medium-voltage customers out of the regulated tariff structure by end-2018. Removal of 35 kV customers has been delayed but is expected to start by end-September 2016, and 20 kV customers will follow by end-2016 (SBs). The authorities will continue to prepare a quarterly survey of the arrears of the electricity sector to the private sector (SB). They will also continue to publish quarterly financial statements for the state-owned generation, transmission, and distribution companies (SB).

PROGRAM DESIGN AND RISKS

23. The authorities propose, and staff supports, the following modifications to program conditionality (MEFP Tables 1 and 3b):

- Change the test date for the structural benchmark and the indicative target on central government arrears accumulation to end-October 2016 (from end-November) to allow sufficient time for both to be assessed before the program expires.

- Modify marginally targets for November 2016 in line with the updated economic outlook. In particular, the authorities' updated monthly budget plans justify revisions to the November PCs on the primary balance and primary expenditure. Revised projections for imports justify a slight increase in the NIR PC for November.

- To allow more time to recruit qualified staff for MoF's fiscal risks unit and to complete preparatory steps for removal of 35 kV customers from the regulated market, reschedule the related structural benchmarks to September 2016.

- Modify the structural benchmark related to the valuation-based property tax to reflect the authorities' updated roadmap.

24. The program remains fully financed. In 2016, the EBRD is expected to provide a loan of €118 million to finance a restructuring of electricity sector debt held by domestic commercial banks. In addition, the EU is providing €15–20 million annually over 2016–18, in the form of a grant for balance of payments support linked to the implementation of Albania's PFM reform strategy. In 2017, the World Bank is expected to provide a development policy loan of $100 million for budget support.

25. Albania is expected to meet repayment obligations to the Fund (Table 7). By the end of the Extended Arrangement in 2017, Fund credit outstanding is projected to be 3.2 percent of GDP, or 13.5 percent of gross reserves. Debt service to the Fund is expected to peak in 2021 at around 0.4 percent of GDP and less than 3 percent of international reserves. After peaking at 42.4 percent of GDP in 2017, external debt will decline to 37.2 percent of GDP by 2021, with external public debt falling from 36.1 to 30.2 percent of GDP. Repayment risks are limited, as shown by these strong repayment capacity indicators. Furthermore, risks to repayment capacity are mitigated by Albania's strong record of repaying the Fund and by the authorities' robust performance during the first two and a half years of the program, including their willingness to move ahead with difficult reforms.

26. Risks to the program remain high. The authorities remain firmly committed to the program objectives. Nevertheless, with the next general election due by mid-2017, political tensions could test the authorities' perseverance with reforms and their commitment to fiscal consolidation. Revenue mobilization requires sustained political will and is vulnerable to constraints on administrative and technical capacity. Finally, despite impressive progress so far, electricity sector reforms are subject to implementation and weather-related risks, and will require unbending political commitment over the medium term. These risks are mitigated by the prospect for EU accession, which provides a catalyst for reform. Extensive TA by the Fund and other donors will continue to build up capacity to manage macroeconomic risks.

STAFF APPRAISAL

27. The economic recovery is strengthening but downside risks persist. Given the uncertain outlook for European recovery, Albania should seek to reduce vulnerabilities and ensure steadfast implementation of its reform agenda to boost growth. The authorities should persevere with fiscal consolidation, safeguard financial stability, and build on the substantial progress with their structural reform program to date, with a focus on reforms critical for improving the business climate, including those to strengthen the judiciary and to address corruption in line with the key priorities in

EU accession negotiations. The recent Parliamentary approval of a judicial reform package marks an important milestone in this reform process.

28. **Program implementation has been robust thus far.** Program ownership has been strong, with the authorities implementing ambitious and difficult reforms. The quantitative targets under the program were broadly met. Going forward, determined action is needed for timely implementation of the structural reform agenda for the remaining duration of the program.

29. **The commitment to achieving fiscal targets is welcome and should be supported by efficient and sustainable tax base-broadening measures**. This is critical for creating the fiscal space for productive spending. The authorities' determination to achieve their 2016 budget deficit target is an important signal of their continuing commitment to shore up debt sustainability. Steadfast fiscal consolidation in 2017 and beyond would help lower public debt to around 60 percent of GDP by end-2019.

30. **The authorities' gradual consolidation strategy based on broadening the tax base and improving tax compliance and administration is appropriate**. To this end, the authorities should refrain from granting any further tax exemptions or preferential tax rates. The proposal to forgive tax arrears should not proceed without a thorough analysis of their collectability. Steps to introduce a valuation-based property tax should be expedited. The proposed temporary reduction of the capital gains tax on property value reassessments should support the implementation of the property tax reform agenda. The refocusing of the compliance improvement campaign to target high-risk, high-value segments and harness modern compliance risk management tools is welcome.

31. **Sustained effort would be essential in tackling fiscal risks.** The authorities should strengthen the credibility of their medium-term budgetary framework, in order to reduce the risk of unfunded commitments. The capacity to execute high-quality public investment projects should be strengthened by focusing on better project planning and appraisal, in line with the recommendations of the recent Public Investment Management Assessment. The authorities' commitment to strengthen their PPP framework is welcome. To mitigate the risks from fiscal decentralization and improve reporting and monitoring, work on the draft law on local finances should be expedited. The emerging stock of arrears at the local level should be promptly resolved. Progress with arrears clearance and prevention at the central government level should be sustained by urgently implementing multi-year commitment limits and by permanently deactivating the large stock of unbudgeted investment projects, a problem that has festered for years.

32. **Continued progress on power sector reform would also mitigate fiscal risks.** To ensure that the early gains from the reforms are cemented, steadfast implementation of the reform agenda will be critical. In this regard, the focus should be on further liberalizing the electricity market, investing in meters and grid infrastructure, and strengthening corporate governance in the sector.

33. **The BoA's monetary easing stance is appropriate, while recent efforts to strengthen its supervisory capacity are welcome.** There remains space under the conventional monetary policy framework for further easing. The central bank should maintain an accommodative policy stance as

long as inflation expectations remain well-anchored and financial stability concerns are contained. Any lowering of the remuneration rate on required euro deposits into negative territory, or use of other unconventional monetary policy tools, however, should be undertaken with caution. Rebuilding BoA's credibility and safeguarding its independence are both critical for fulfilling its mandate. In this regard, work on amending the central bank law should be accelerated.

34. Tackling high NPLs is essential for easing bank risk aversion which continues to hinder a revival in the flow of credit. A speedy approval of the Bankruptcy Law will be crucial in this regard. The BoA's microprudential focus on the fastest-growing and systemically important segments of the banking system should be strengthened further. The authorities should seek to reduce euroization and the share of unhedged borrowers in foreign currency in the banking system. The supervision of nonbank financial institutions needs to be strengthened, through building up capacity, proactive risk management, and improved crisis preparedness.

35. In light of the progress so far and the authorities' policy commitments going forward, staff supports the completion of the Eighth Review under the Extended Arrangement. Staff also supports the authorities' request for modification of performance criteria.

Table 1. Albania: Basic Indicators and Macroeconomic Framework, 2013–19

	2013	2014	2015	2016		2017	2018	2019
			Prel.	Prog.	Rev. Prog.	Projections		
Real sector				(Growth rate in percent)				
Real GDP 1/	1.0	1.8	2.6	3.4	3.4	3.8	4.1	4.1
Consumer Price Index (avg.)	1.9	1.6	1.9	1.9	1.0	2.2	2.6	3.0
Consumer Price Index (eop)	1.9	0.7	2.0	2.2	1.8	2.3	3.0	3.0
GDP deflator	0.3	1.4	0.8	1.9	1.2	2.4	2.8	3.1
Saving-investment balance				(Percent of GDP)				
Foreign savings	10.8	12.9	11.2	12.5	13.0	13.4	12.6	11.4
National savings	16.4	13.0	15.5	17.5	15.6	16.3	16.8	17.1
Public	-0.8	0.6	0.7	0.6	0.6	1.3	2.1	2.8
Private	17.2	12.4	14.8	16.9	15.0	14.9	14.7	14.4
Investment	27.2	26.0	26.7	30.1	28.6	29.6	29.4	28.6
Public	5.1	4.8	4.9	4.2	4.4	4.2	4.2	4.4
Private	22.0	21.2	21.8	25.8	24.3	25.4	25.2	24.2
Fiscal sector								
Total revenue and grants	24.0	26.3	26.2	26.8	27.2	26.6	26.5	26.3
Tax revenue	22.0	24.1	23.6	24.3	24.6	24.3	24.1	24.0
Total expenditure	29.2	32.2	30.7	29.2	29.7	29.3	29.4	29.6
Of which: Repayment of end-2013 stock of unpaid bills and arrears		2.4	1.2	0.0	0.0			
Primary	26.0	29.3	28.0	26.5	26.9	26.8	27.0	27.3
Interest	3.2	2.9	2.7	2.8	2.8	2.5	2.4	2.3
Unidentified measures (cumulative)		0.0	0.0	0.0	0.0	1.1	2.1	3.1
Overall balance	-5.2	-5.9	-4.5	-2.5	-2.5	-1.6	-0.8	-0.2
Primary balance	-2.0	-3.0	-1.9	0.3	0.2	0.9	1.6	2.1
Financing	5.2	5.9	4.5	2.5	2.5	1.6	0.8	0.2
Of which: Domestic	4.4	3.4	-0.4	-1.3	0.0	-0.5	-0.5	-0.7
Of which: Foreign	0.8	2.5	4.9	3.7	2.5	2.1	1.3	0.9
General Government Debt 2/	70.4	72.0	73.0	70.4	71.9	68.7	65.0	60.7
Domestic	43.4	42.5	38.9	34.6	35.8	32.7	30.0	27.3
Of which: Unpaid bills and arrears	4.8	1.9	0.7	0.0	0.5			
External	27.0	29.6	34.0	35.8	36.1	36.1	35.0	33.4
Monetary indicators				(Growth rate in percent, unless otherwise indicated)				
Broad money growth	2.3	4.0	1.9	3.8	2.6	5.4	6.2	6.5
Private credit growth	-1.4	2.0	-2.8	4.2	2.3	7.0	8.7	11.6
Velocity (nominal GDP/broad money)	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Interest rate (3-mth T-bills, end-period)	3.4	3.1	1.5	…	…	…	…	…
BoA repo rate (in percent)	3.0	2.3	1.8	…	…	…	…	…
External sector				(Percent of GDP, unless otherwise indicated)				
Trade balance (goods and services)	-18.0	-19.0	-17.2	-18.0	-18.8	-18.8	-17.7	-16.4
Current account balance	-10.8	-12.9	-11.2	-12.5	-13.0	-13.4	-12.6	-11.4
Gross international reserves (in billions of Euros)	2.0	2.2	2.9	2.8	2.7	2.7	2.7	2.6
(In months of imports of goods and services)	4.5	5.0	6.2	5.8	5.4	5.3	5.1	4.6
(Relative to external debt service)	6.7	6.8	4.4	6.8	6.5	5.8	5.2	4.5
(In percent of broad money)	24.6	25.7	32.5	31.0	29.7	29.1	27.1	24.3
Change in REER (eop, in percent; +=appreciation)	1.0	2.3	1.5	…	…	…	…	…
Memorandum items								
Nominal GDP (in billions of lek) 1/	1350	1394	1443	1532	1510	1606	1718	1845
Output gap (percent)	-0.7	-1.1	-1.2	-1.0	-1.0	-0.7	-0.3	-0.1

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

1/ In June 2016, INSTAT revised real and nominal GDP estimates for 1996-2014.
2/ 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, 2013–19
(Percent of GDP)

	2013	2014	2015	2016		2017	2018	2019
			Prel.	Prog.	Rev. Prog.	Projections		
Total revenue and grants	24.0	26.3	26.2	26.8	27.2	26.6	26.5	26.3
Tax revenue	22.0	24.1	23.6	24.3	24.6	24.3	24.1	24.0
VAT	8.0	8.9	8.7	8.7	8.8	8.7	8.7	8.7
Profit tax	1.1	1.5	1.7	1.7	1.7	1.7	1.7	1.7
Excise tax	2.8	2.9	2.7	2.8	2.9	2.8	2.6	2.5
Personal income tax	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Customs duties	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Other taxes	2.1	2.3	2.3	2.4	2.5	2.5	2.5	2.5
Local government revenue 1/	0.8	0.9	0.8	1.0	1.0	1.0	1.0	1.0
Social insurance contributions	4.4	5.0	5.0	5.2	5.3	5.2	5.1	5.1
Non-tax revenue	1.6	1.5	1.8	1.6	1.7	1.5	1.5	1.5
Grants	0.4	0.7	0.8	0.8	0.9	0.9	0.9	0.9
Total expenditure	29.2	32.2	30.7	29.2	29.7	29.3	29.4	29.6
Current expenditure	24.3	25.0	24.7	25.3	25.7	25.1	24.9	25.0
Personnel cost 2/	5.2	5.1	5.0	4.6	4.7	4.7	4.7	4.7
Interest	3.2	2.9	2.7	2.8	2.8	2.5	2.4	2.3
Operations & maintenance	2.4	2.2	2.9	2.8	2.9	2.9	2.9	2.9
Subsidies	0.1	0.6	0.5	0.4	0.4	0.3	0.4	0.5
Energy guarantees		0.5	0.3	0.2	0.2	0.1	0.0	0.0
Nonenergy guarantees		0.0	0.0	0.1	0.1	0.1	0.2	0.4
Other		0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social insurance outlays	9.5	9.9	9.8	10.0	10.1	10.0	9.9	9.9
Local government expenditure 2/	2.2	2.4	2.4	3.3	3.3	3.2	3.2	3.2
Social protection transfers	1.7	1.8	1.4	1.4	1.5	1.5	1.5	1.5
Capital expenditure	4.8	4.3	4.3	3.7	3.8	3.8	4.0	4.2
Domestically financed	2.7	2.4	2.6	1.6	1.8	1.4	1.7	2.1
Foreign financed	2.1	1.9	1.7	2.0	2.0	2.3	2.3	2.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lending minus repayment	0.0	0.4	0.5	0.1	0.1	0.2	0.2	0.2
Reserve and contingency funds 3/	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.2
Repayment of end-2013 stock of unpaid bills and arrears		2.4	1.2	0.0	0.0	0.0	0.0	0.0
Unidentified measures (cumulative)		0.0	0.0	0.0	0.0	1.1	2.1	3.1
Overall balance	-5.2	-5.9	-4.5	-2.5	-2.5	-1.6	-0.8	-0.2
Financing	5.2	5.9	4.5	2.5	2.5	1.6	0.8	0.2
Domestic	4.4	3.4	-0.4	-1.3	0.0	-0.5	-0.5	-0.7
Privatization receipts	1.2	0.0	0.1	0.1	0.2	0.0	0.0	0.0
Net borrowing	3.4	3.2	-0.9	-1.4	-0.2	-0.5	-0.5	-0.7
Other	-0.3	0.2	0.4	0.0	0.0	0.0	0.0	0.0
Foreign	0.8	2.5	4.9	3.7	2.5	2.1	1.3	0.9
Accumulation of arrears 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:								
Primary balance	-2.0	-3.0	-1.9	0.3	0.2	0.9	1.6	2.1
Primary balance (excl. repayment of end-2013 stock of unpaid bills and arrears)	-2.0	-0.6	-0.6	0.3	0.2	0.9	1.6	2.1
Overall balance excl. repayment of end-2013 stock of unpaid bills and arrears		-3.5	-3.3	-2.5	-2.5	-1.6	-0.8	-0.2
General Government Debt 5/	70.4	72.0	73.0	70.4	71.9	68.7	65.0	60.7
Of which: Short-term general government debt	19.7	20.6	17.6	11.7	12.7	9.5	8.8	7.8
Domestic	43.4	42.5	38.9	34.6	35.8	32.7	30.0	27.3
Of which: Unpaid bills and arrears	4.8	1.9	0.7	0.0	0.5			
External	27.0	29.6	34.0	35.8	36.1	36.1	35.0	33.4
Direct general government external debt	24.6	27.5	32.2	34.1	34.3	34.4	33.3	31.3
Government guaranteed external debt	2.3	2.0	1.8	1.7	1.8	1.7	1.7	2.1
GDP (in billions of leks)	1350	1394	1443	1532	1510	1606	1718	1845

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/ Spending contingencies are reported according to their economic classification at outturn.
4/ As reflected in official data and not accounting for arrears accumulated outside of the budget prior to 2014.
5/ 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, 2013–19

(Billions of leks)

	2013	2014	2015	2016		2017	2018	2019
				Prog.	Rev. Prog.	Projections		
Total revenue and grants	323.7	366.6	377.5	410.0	410.1	427.4	454.9	485.8
Tax revenue	296.4	335.8	340.6	372.7	371.4	389.6	414.5	442.4
VAT	108.5	123.7	124.8	133.0	132.7	139.2	148.9	159.9
Profit tax	15.1	21.5	24.2	25.5	25.3	26.9	28.8	31.0
Excise tax	38.2	40.9	39.0	42.5	43.2	44.3	45.5	46.7
Personal income tax	29.6	28.9	29.7	32.1	32.1	34.1	36.5	39.2
Customs duties	5.8	5.9	5.8	6.2	6.1	6.4	6.9	7.4
Other taxes	28.5	32.6	33.7	37.4	37.9	39.9	42.7	45.9
Local government revenue 1/	10.8	12.4	11.7	15.9	14.8	15.7	16.8	18.1
Social insurance contributions	60.0	69.9	71.7	80.1	79.3	83.0	88.3	94.2
Non-tax revenue	21.6	20.7	25.7	24.5	25.7	24.0	25.7	27.6
Grants	5.7	10.1	11.2	12.8	13.0	13.8	14.8	15.9
Total expenditure	394.1	448.6	443.0	447.9	448.1	470.1	504.1	545.4
Current expenditure	328.6	348.1	355.9	387.3	388.2	402.6	428.4	460.7
Personnel cost 2/	70.7	71.4	72.5	70.4	70.2	74.7	79.9	85.8
Interest	43.3	40.1	38.6	42.3	41.8	39.6	40.5	42.6
Operations & maintenance	32.4	31.3	42.4	42.6	43.6	46.4	49.6	53.3
Subsidies	1.6	8.4	6.8	6.7	6.7	5.5	6.3	8.9
Energy guarantees		6.7	4.6	3.4	3.2	1.3	0.7	0.0
Nonenergy guarantees		0.1	0.5	1.6	1.7	2.4	3.6	6.7
Other		1.6	1.7	1.8	1.8	1.9	2.0	2.1
Social insurance outlays	127.6	138.5	141.2	152.6	152.1	160.5	170.8	183.0
Local government expenditure 2/	29.8	32.9	34.1	50.7	50.4	51.0	54.6	58.6
Social protection transfers	23.2	25.5	20.2	22.0	23.4	24.9	26.6	28.6
Capital expenditure	65.5	60.5	62.6	56.0	56.8	60.3	68.0	76.7
Domestically financed	36.7	33.8	37.7	24.7	27.0	22.8	28.5	39.4
Foreign financed	28.8	26.8	24.9	31.2	29.7	37.6	39.5	37.3
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lending minus repayment	0.0	5.9	7.3	1.6	0.8	3.2	3.8	4.0
Reserve and contingency funds 3/	0.0	0.0	0.0	3.0	2.4	4.0	4.0	4.0
Repayment of end-2013 stock of unpaid bills and arrears		33.8	17.6	0.0	0.0	0.0	0.0	0.0
Unidentified measures (cumulative)		0.0	0.0	0.0	0.0	17.7	36.1	56.7
Overall balance	-70.4	-82.1	-65.5	-37.9	-38.0	-25.0	-13.1	-2.9
Financing	70.4	82.1	65.5	37.9	38.0	25.0	13.1	2.9
Domestic	59.6	47.5	-5.5	-19.3	0.1	-8.7	-8.6	-13.2
Privatization receipts	16.7	0.0	0.9	2.2	2.6	0.0	0.0	0.0
Net borrowing	46.3	45.0	-12.6	-21.5	-2.5	-8.7	-8.6	-13.2
Other	-3.4	2.5	6.2	0.0	0.0	0.0	0.0	0.0
Foreign	10.8	34.3	71.0	57.2	38.0	33.7	21.7	16.1
Accumulation of arrears 4/	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:								
Primary balance	-27.1	-42.0	-26.9	4.3	3.7	14.5	27.4	39.6
Primary balance (excl. repayment of end-2013 stock of unpaid bills and arrears)	-27.1	-8.2	-9.3	4.3	3.7	14.5	27.4	39.6
Overall balance excl. repayment of end-2013 stock of unpaid bills and arrears		-48.3	-47.9	-37.9	-38.0	-25.0	-13.1	-2.9
Overall balance excl. repayment of end-2013 stock of unpaid bills and arrears, and new guarantees		-41.5	-42.8	-32.9	-33.1	-21.4	-8.8	3.8
General Government Debt 5/	950.3	1004.5	1052.7	1078.8	1085.8	1103.7	1116.8	1119.7
Of which: Short-term general government debt	265.7	286.6	254.3	179.3	191.8	152.3	151.7	143.9
Domestic	586.4	592.1	561.8	530.8	540.5	524.6	516.0	502.8
Of which: Unpaid bills and arrears	65.2	26.6	9.5	0.0	7.2			
External	363.9	412.4	490.9	548.0	545.4	579.1	600.8	616.9
Direct general government external debt	332.5	383.9	465.3	522.7	518.2	551.8	571.3	577.3
Government guaranteed external debt	31.4	28.5	25.6	25.3	27.2	27.3	29.5	39.6

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/ Spending contingencies are reported according to their economic classification at outturn.

4/ As reflected in official data and not accounting for arrears accumulated outside of the budget prior to 2014.

5/ 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, 2013–19[1]

	2013	2014	2015	2016	2017	2018	2019
			Prel.		Projections		
Current account	-10.8	-12.9	-11.2	-13.0	-13.4	-12.6	-11.4
Balance of goods and services	-18.0	-19.0	-17.2	-18.8	-18.8	-17.7	-16.4
Trade Balance (goods)	-17.9	-22.2	-22.3	-22.5	-22.4	-21.3	-20.1
Exports	18.3	9.4	7.5	6.3	6.1	6.2	6.1
Of which: Energy	5.7	4.6	3.1	2.2	2.1	2.1	2.1
Imports	36.1	31.6	29.7	28.8	28.4	27.5	26.2
Of which: Energy	6.6	6.1	3.9	3.9	4.7	4.7	4.7
Services (net)	-0.2	3.2	5.1	3.7	3.6	3.6	3.7
Income balance	0.2	-1.2	-1.4	-1.6	-1.6	-1.6	-1.6
Of which: Interest due	0.5	0.9	1.1	1.2	1.1	1.1	1.0
Current transfers	7.1	7.3	7.4	7.3	7.0	6.8	6.5
Capital and Financial account	8.7	9.0	6.6	6.3	9.7	8.7	7.5
Capital transfers	0.5	0.9	1.2	0.8	0.7	0.7	0.7
Direct investment, net	9.6	8.1	8.4	8.2	8.0	6.5	4.9
Government Medium- and long-term loans, net	1.1	0.5	-2.5	0.0	0.3	0.2	-0.2
Project loans	1.9	1.7	1.7	1.5	2.0	2.0	1.7
Other loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization (includes Eurobond bullet payment)	-0.8	-1.1	-4.2	-1.5	-1.7	-1.8	-1.9
Government Guaranteed Borrowing, net	-0.2	-0.2	-0.2	0.0	0.0	0.1	0.6
Disbursement	0.1	0.0	0.0	0.2	0.2	0.5	0.8
Amortization	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.2
Other flows	-2.1	-1.0	-1.0	-3.5	-0.2	0.3	0.5
Errors and omissions [2/]	3.1	2.7	2.6	2.6	2.6	2.6	2.6
Net balance	1.1	-1.2	-2.0	-4.2	-1.1	-1.3	-1.4
Available financing	-1.1	1.2	1.9	4.2	1.1	1.3	1.4
Change in net reserves (increase = -) [3/]	-1.1	-1.0	-5.8	1.8	-0.7	0.3	0.9
IMF (budget support)	…	0.5	0.9	1.3	0.6	0.0	0.0
World Bank (DPL)	…	1.7	0.0	0.0	0.8	0.5	0.5
Other budget loans	…	…	…	1.1	0.4	0.4	0.0
Commercial borrowing	0.0	0.0	6.8	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)	35.4	35.2	34.1	32.8	32.6	32.5	32.4
Imports of Goods and Services (percent of GDP)	53.5	54.2	51.3	51.6	51.4	50.2	48.8
Current Account (percent of GDP)							
excluding imports related to large energy projects	-10.8	-12.9	-9.3	-8.8	-10.8	-11.1	-11.1
Balance of goods and services							
excluding imports related to large energy projects	-18.0	-19.0	-15.3	-14.5	-16.2	-16.3	-16.1

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

1/ Historical data for 2013 reflect old BPM5 estimates which record insourcing services as goods. The data from 2014 onwards reflect BPM6 treatment of textile insourced manufacturing, which is recorded as services.

2/ 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.

3/ Net of valuation changes in 2013–14. In projections for 2015–19, valuation effects are assumed to be zero.

Table 3b. Albania: Balance of Payments, 2013–19[1]

	2013	2014	2015	2016	2017	2018	2019
			Prel.	Projections			
Current account	-1,036	-1,287	-1,154	-1,416	-1,533	-1,532	-1,494
Balance of goods and services	-1,737	-1,892	-1,774	-2,038	-2,151	-2,163	-2,143
Trade Balance (goods)	-1,719	-2,216	-2,299	-2,443	-2,561	-2,598	-2,625
Exports	1,757	932	771	680	696	751	802
Of which: Energy	545	463	323	239	235	259	274
Imports	3,476	3,147	3,070	3,123	3,257	3,349	3,428
Of which: Energy	631	611	405	428	534	574	617
Services (net)	-18	323	525	405	410	435	482
Income balance	21	-119	-149	-169	-184	-196	-204
Of which: Interest due	51	90	111	126	129	132	134
Current transfers	680	725	768	792	802	827	853
Capital and Financial account	840	899	686	681	1,111	1,062	975
Capital transfers	48	87	126	85	85	85	85
Direct investment, net	923	812	871	895	915	789	641
Government Medium- and long-term loans, net	105	51	-261	-1	31	23	-24
Project loans	180	165	171	162	231	243	223
Other loans	0	0	0	0	0	0	0
Amortization (includes Eurobond bullet payment)	-74	-114	-432	-163	-200	-220	-248
Government Guaranteed Borrowing, net	-15	-22	-19	-4	1	15	72
Disbursement	5	0	3	20	26	55	98
Amortization	-21	-22	-23	-24	-25	-40	-26
Other flows	-206	-97	-102	-382	-21	32	67
Errors and omissions 2/	301	266	264	278	293	312	334
Net balance	105	-122	-204	-457	-129	-158	-185
Available financing	-104	122	195	457	129	158	185
Change in net reserves (increase = -) 3/	-104	-97	-600	195	-80	42	119
IMF (budget support)	…	54	96	144	71	0	0
World Bank (DPL)	…	166	0	0	88	66	66
Other budget loans	…	…	…	118	50	50	0
Commercial borrowing	0	0	700	0	0	0	0
o/w WB PBG			250				
o/w Eurobond			450				
Memorandum items:							
Nominal GDP	9,625	9,962	10,325	10,862	11,457	12,199	13,060
Gross international reserves	2,015	2,192	2,880	2,652	2,730	2,685	2,560
(months of imports of goods and services)	4.5	5.0	6.2	5.4	5.3	5.1	4.6
Balance of goods and services (percent of GDP)	-18.0	-19.0	-17.2	-18.8	-18.8	-17.7	-16.4
Current account (percent of GDP)	-10.8	-12.9	-11.2	-13.0	-13.4	-12.6	-11.4
Debt service (percent of exports of goods and services) 4/	-0.1	3.0	13.1	5.4	5.5	5.8	4.9
Debt service (percent of central government revenues) 4/	-0.1	4.3	17.9	7.3	7.4	7.7	6.4
Total external debt stock (percent of GDP) 5/	34.7	37.0	41.0	42.1	42.4	41.5	40.4
Exports of Goods and Services (millions of Euros)	3,412	3,507	3,524	3,566	3,733	3,967	4,236
Imports of Goods and Services (millions of Euros)	5,149	5,400	5,298	5,604	5,885	6,130	6,379
Volume of Exports of Goods and Services (percent change)	5.6	10.1	1.8	1.1	3.1	4.3	4.3
Volume of Imports of Goods and Services (percent change)	4.2	7.6	0.6	7.1	3.8	3.0	2.7
Terms of trade (percent change)	-0.2	-2.0	-5.7	-2.7	2.1	0.3	0.0

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

1/ Historical data for 2013 reflect old BPM5 estimates which record insourcing services as goods. The data from 2014 onwards reflect BPM6 treatment of textile insourced manufacturing, which is recorded as services.

2/ 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.

3/ Net of valuation changes in 2013–14. In projections for 2015–19, valuation effects are assumed to be zero.

4/ Public and publicly guaranteed debt only.

5/ Public and private external debt, including arrears. Debt stock converted into Lek at the e-o-p exchange rate.

Table 4a. Albania: Monetary Survey, 2013–17
(Billions of leks, unless otherwise indicated; end-period)

	2013	2014	2015	2016	2017
Net foreign assets	479	525	614	659	701
Bank of Albania	274	292	363	344	341
Commercial banks	205	233	251	315	360
Net domestic assets	670	670	604	590	617
Claims on central government, net	363	378	332	331	328
Bank of Albania	43	47	27	24	27
Commercial banks	320	331	305	306	300
Claims on public enterprises	25	27	27	11	2
Claims on the private sector	513	524	509	521	557
In leks	195	207	213	217	232
In foreign currency	318	317	296	303	324
Other items, net	-231	-259	-265	-272	-270
Broad money	1,149	1,195	1,218	1,250	1,317
Currency outside banks	199	218	231	237	248
Deposits	950	977	988	1,013	1,069
Domestic currency	494	505	494	506	534
Foreign currency	456	473	494	507	535
Memorandum items:					
Broad money growth (% change)	2.3	4.0	1.9	2.6	5.4
Reserve money growth (% change)	3.5	8.1	15.3	-2.2	3.8
Private sector credit growth (% change)	-1.4	2.0	-2.8	2.3	7.0
Broad money (as percent of GDP)	85.1	85.7	84.4	82.7	82.0
Private sector credit (as percent of GDP)	38.0	37.6	35.3	34.5	34.7
Velocity (nominal GDP/broad money)	1.2	1.2	1.2	1.2	1.2
Money multiplier (absolute values)	3.7	3.6	3.2	3.3	3.4
Currency (as share of broad money)	17.3	18.2	18.9	18.9	18.8
Foreign currency deposits/total deposits	48.0	48.4	50.0	50.0	50.0
Gross reserves (millions of euros)	2,015	2,192	2,880	2,652	2,730

Sources: Bank of Albania; and IMF staff estimates.

Table 4b. Albania: Summary of Accounts of the Central Bank, 2013–17
(Billions of leks, unless otherwise indicated; end-period)

	2013	2014	2015	2016	2017
Net foreign assets	274	292	363	344	341
Assets	294	319	405	389	402
Liabilities	20	27	42	44	61
Net domestic assets	34	41	21	31	49
Domestic credit	66	75	41	53	66
Net claims on central government	43	47	27	24	27
Assets	65	64	53	51	51
Liabilities	22	17	26	27	24
Other credit	23	27	15	28	38
Private sector	2	2	2	2	2
Commercial banks	22	26	13	27	37
Other items, net (assets = +)	-32	-34	-21	-22	-17
Reserve money	308	333	384	375	390
Currency in circulation	199	218	231	237	248
Bank reserves	109	115	152	139	142
Other nonbank deposits	0	0	2	0	0

Sources: Bank of Albania; and IMF staff estimates.

Table 5. Albania: IMF Core Indicators of Financial Soundness, 2007–16

		Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
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	15.8	16.0	15.8	15.7	16.0
(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	13.1	13.6	13.2	13.5	13.8
(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	8.0	8.3	8.4	8.3	8.5
	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	9.7	9.7	9.7	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	9.0	9.1	9.2	9.5	9.4
(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	42.3	36.1	33.9	28.4	31.5
	As a percent of regulatory capital	11.2	25.7	28.2	35.9	52.0	55.6	40.2	38.3	35.2	30.8	29.2	24.3	27.1
	As a percent of shareholders' equity	9.1	21.1	27.1	34.8	52.6	56.9	44.8	40.2	37.6	32.8	30.8	24.8	28.7
(v)	Return on equity (ROE) (annual basis)	20.7	11.4	4.6	7.6	0.8	3.8	6.4	10.5	20.3	14.2	13.1	13.2	4.5
(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	5.1	8.5	9.3	9.0	7.1
	As a percent of regulatory capital	1.7	4.3	3.9	5.0	3.9	3.7	4.1	8.5	4.2	7.2	8.0	7.7	6.1
	As a percent of shareholders' equity	1.4	3.5	3.7	4.9	4.0	3.8	4.5	8.9	4.5	7.7	8.4	7.8	6.4
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	33.2	32.6	33.2	32.3	31.8
(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	42.3	42.0	43.3	41.4	40.6
(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	1.8	1.3	1.2	1.2	0.4
(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	22.8	20.9	20.6	18.2	19.3
III	Income and expense-based													
(xii)	Interest margin to gross income	92.7	106.5	119.6	118.9	147.7	130.4	112.6	113.1	127.1	108.9	109.8	109.0	101.1
(xiii)	Noninterest expenses to gross income	58.5	69.6	83.0	75.5	91.3	85.0	74.7	68.4	81.4	61.2	62.6	63.4	65.7
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	180.7	180.5	184.2	187.8	188.3
	Foreign currency-denominated loans to total loans	72.5	72.6	70.2	69.8	67.9	64.5	63.0	62.4	62.2	61.7	61.2	60.8	60.6
	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	52.5	52.8	53.0	53.5	54.5
	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	61.3	60.5	61.3	62.0	62.0
	Total loans as a percent of total assets	39.4	47.6	50.8	49.6	50.5	48.6	45.9	46.0	45.6	45.5	44.7	44.5	44.4
	Total loans as a percent of shareholders' equity	516.4	555.1	530.2	527.0	581.9	567.4	548.8	536.3	504.1	501.2	485.8	466.8	473.6

Source: Bank of Albania.

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

Table 6. Albania: Current Schedule of Reviews and Purchases[1]

Availability Date	Millions of SDR	In Percent of Quota	Conditions
February 28, 2014	23.55	16.9	Board approval of arrangement
June 28, 2014	23.55	16.9	Observance of end-March 2014 and continuous performance criteria and completion of first review
September 15, 2014	23.55	16.9	Observance of end-June 2014 and continuous performance criteria and completion of second review
December 15, 2014	23.55	16.9	Observance of end-September 2014 and continuous performance criteria and completion of third review
April 15, 2015	28.88	20.7	Observance of end-December 2014 and continuous performance criteria and completion of fourth review
July 15, 2015	28.88	20.7	Observance of end-April 2015 and continuous performance criteria and completion of fifth review
November 15, 2015	28.88	20.7	Observance of end-August 2015 and continuous performance criteria and completion of sixth review
March 15, 2016	28.65	20.6	Observance of end-December 2015 and continuous performance criteria and completion of seventh review
July 15, 2016	28.65	20.6	Observance of end-April 2016 and continuous performance criteria and completion of eighth review
November 15, 2016	28.65	20.6	Observance of end-August 2016 and continuous performance criteria and completion of ninth review
February 15, 2017	28.63	20.6	Observance of end-November 2016 and continuous performance criteria and completion of tenth review
Total	**295.42**	**212.1**	

[1] Albania's IMF quota is SDR 139.3 million.

Table 7. Albania: Indicators of Capacity to Repay the Fund, 2013–21[1,2]

(Under Obligated Repurchase Schedule; in millions of SDRs)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Fund repurchases and charges									
In millions of SDRs	6.9	6.1	5.3	5.1	5.7	8.8	18.0	30.8	46.9
In millions of euro	7.7	7.2	6.8	6.4	7.1	11.0	22.3	38.1	58.2
In percent of gross international reserves	0.4	0.3	0.2	0.2	0.3	0.4	0.9	1.5	2.4
In percent of exports of goods and services	0.2	0.2	0.2	0.2	0.2	0.3	0.5	0.8	1.2
In percent of GDP	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3	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
In percent of quota	11.5	10.1	8.9	3.7	4.1	6.3	12.9	22.1	33.7
Fund credit outstanding (end of period)									
In millions of SDRs	16.4	57.7	187.1	241.5	296.8	291.7	277.3	249.6	205.1
In millions of euro	18.4	68.1	238.3	301.3	369.6	362.7	343.6	309.0	254.2
In percent of gross international reserves	0.9	3.1	8.3	11.4	13.5	13.5	13.4	12.6	10.7
In percent of exports of goods and services	0.5	1.9	6.8	8.5	9.9	9.1	8.1	6.8	5.3
In percent of GDP	0.2	0.7	2.3	2.8	3.2	3.0	2.6	2.2	1.7
In percent of external public debt	0.7	2.4	7.0	8.5	9.9	9.4	8.6	7.7	6.2
In percent of quota	27.3	96.1	311.8	173.4	213.0	209.4	199.1	179.2	147.3
Memorandum items:									
Gross international reserves	1,795	1,855	2,261	2,125	2,192	2,160	2,066	1,987	1,922
Exports of goods and services	3,039	2,969	2,767	2,858	2,998	3,191	3,419	3,657	3,906
GDP	8,575	8,432	8,105	8,706	9,200	9,812	10,540	11,312	12,115
External public debt	2,351	2,445	2,684	2,850	3,011	3,103	3,209	3,249	3,286
Quota	60.0	60.0	60.0	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 PRGF and the EFF.
2/ End-of-year value.

Appendix I. Letter of Intent

August 15, 2016

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Lagarde:

1. The Extended Arrangement approved by the Executive Board of the International Monetary Fund (IMF) in February 2014 remains the anchor of our economic policies. The attached Memorandum of Economic and Financial policies (MEFP) reviews progress in implementing the program and outlines the policies that the government and the Bank of Albania (BoA) will pursue over the remainder of the program.

2. Performance under the program has been strong. All end-April and continuous performance criteria were met. However, the lower outer band under the Inflation Consultation Clause was missed at end-April, as were two indicative targets (ITs), namely, the indicative targets on distribution losses in the electricity sector and the accumulation of new arrears. An inflation consultation was completed at the time of the Seventh Review, and the government is implementing remedial measures for the missed ITs.

3. Six structural benchmarks were implemented, though three were implemented with a delay, and three were missed, of which two are proposed to be rescheduled. The first quarterly survey of local government arrears was delayed, due to weaknesses in the reporting framework. The full staffing of the new fiscal risks unit at the Ministry of Finance (MoF) was delayed till September, due to problems with recruitment. The publication of the quarterly financial statements of the state-owned electricity companies was delayed by one week, while the removal of 35 kV consumers from the regulated tariff system has been postponed to September, due to implementation delays in setting up infrastructure and negotiating supply contracts. The restructuring of the tax administration's Large Taxpayer Office was postponed till early August, due to delays in the adoption of the overall implementation plan for the headquarters restructuring, and delays in verifying the arrears of the Regional Development Fund led to a postponement of the publication of the central government arrears survey.

4. Our policy priorities over the next twelve months are to continue pursuing fiscal consolidation, safeguard financial sector stability, revive credit growth, and implement growth-enhancing reforms. In particular, we will persist with ambitious reforms in revenue administration, public financial management, and the electricity sector.

5. Implementation of our program will be monitored by the Fund through reviews, quantitative performance criteria, indicative targets, and structural benchmarks, as described in the attached MEFP and Technical Memorandum of Understanding (TMU). While we are confident that the policies described in the MEFP are adequate to achieve program objectives, we stand ready to take additional measures that may be required for this purpose. We will consult with the Fund on the adoption of such measures, as well as in advance of any revisions to the policies contained in this letter and the MEFP. The government of Albania will provide the IMF with such information as it may request to monitor progress in economic and financial policy implementation.

6. In view of the strong program performance to date and the strength of policy commitments for the period ahead, we request that the Executive Board of the IMF complete the eighth review under the Extended Arrangement. We further request the purchase of SDR 28.65 million. Finally, we also request the modification of performance criteria, as described in Table 1 of the MEFP and in the TMU.

7. We wish to make this letter available to the public, along with the attached MEFP and TMU, as well as the IMF staff report on the eighth review under the Extended Arrangement. We therefore authorize their publication and posting on the IMF website, subject to Executive Board approval. These documents will also be posted on the official websites of the Albanian government.

Sincerely,

/s/	/s/
Arben Ahmetaj	Gent Sejko
Minister of Finance	Governor, Bank of Albania

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

1. This Memorandum lays out the Government of Albania's policy priorities for the period ahead, supported by the IMF's Extended Fund Facility. Our policies seek to generate higher living standards and better employment opportunities for Albanians. Achieving these goals will require sustained efforts to reduce debt-related vulnerabilities, revive credit growth, and unlock structural constraints to medium-term growth.

Recent Economic Developments

2. The economic recovery is strengthening. Real GDP grew by 2.6 percent in 2015, compared with 1.8 percent in 2014. High-frequency indicators suggest a further acceleration of growth in the first half of 2016. The positive momentum reflects an increase in private investment benefiting from large energy-related FDI inflows, and a pickup in household consumption driven by an increase in employment as well as lower energy prices that have boosted real disposable incomes. Despite the pickup in domestic demand, headline inflation dropped sharply in the first quarter of 2016 reflecting supply shocks from lower food prices, delayed pass-through from lower global oil prices, and continued domestic slack. Inflation has since recovered to 1.2 percent in June reflecting the transitory impact of these shocks.

3. The current account deficit widened in 2016:Q1 (from 11.2 percent of GDP in 2015) reflecting subdued exports due to weak foreign demand and low commodity prices, as well as rising imports driven by accelerating domestic demand. Reserves declined marginally due to financial outflows resulting from government debt amortization and bank placements abroad, but remain above six months of imports.

Outlook

4. The economic recovery is expected to accelerate further in 2016, with GDP growth projected at 3.4 percent. It will be underpinned by FDI inflows and domestic demand, as the labor market improves, monetary policy remains accommodative, and credit conditions strengthen. Average headline inflation is expected to rise in the second half of 2016, led by a gradual recovery in oil and food prices. Nevertheless, the headline inflation in 2016 is projected to remain subdued at 1.0 percent, on account of low import prices observed earlier this year. Medium-term inflation expectations remain anchored by the BoA's target of 3 percent, with the output gap expected to close by 2019.

5. The current account deficit is projected to widen to around 13 percent of GDP in 2016–17, due to a spike in FDI-related imports of investment goods and strengthening domestic demand. Low commodity prices are expected to continue weighing down on exports while remittances are projected to maintain a gradual declining trend relative to GDP. The current account will continue to be financed primarily by FDI inflows. Over the medium term, the current account deficit is expected to gradually decline, due to expanded export capacity and lower import needs of the major ongoing

FDI projects. Gross official reserves in 2016–17 are expected to remain above 5 months of imports of goods and services.

Program Implementation

6. All end-April and continuous performance criteria were met (Table 1). The ceilings on the government's primary modified cash balance and primary expenditure were met with large margins, due to broad-based expenditure underexecution. However, the lower outer band under the Inflation Consultation Clause was missed, as were two indicative targets. As part of the seventh review under the Extended Arrangement, we have already shared a letter detailing the reasons behind the recent inflation performance, the corrective measures we have taken, and their expected impact over the medium term. The indicative target on distribution losses in the electricity sector was missed by 1.7 percent because of delays in infrastructure investments (such as metering and cabling) needed to reduce technical losses. The zero ceiling on the accumulation of central government domestic arrears was also not met. Results from the triannual survey show a stock of 2.3 billion lek of arrears at end-April 2016 (0.15 percent of GDP). The bulk of new arrears was due to road construction projects and court decisions. As a prior action, all accumulated arrears were repaid by August 15, 2016, except those on court decisions which will be settled in accordance with a special Council of Ministers decision, thus bringing outstanding arrears below 1 billion lek. Further remedial measures are detailed in ¶12 below.

7. Most structural benchmarks were implemented, though three were implemented with a delay, and three were missed of which two are proposed to be rescheduled (Table 3a):

- In the area of public financial management, the regular report on the accumulation of new central government arrears was extended to three additional ministries and the Regional Development Fund, and was published with a slight delay. The first quarterly survey of local government arrears was also delayed, due to weaknesses in the reporting framework. The new treasury IT system (AGFIS) was successfully rolled out to 15 budget institutions in May. The staffing of the new fiscal risks unit at MoF was delayed till September, due to problems with recruitment.

- In the area of tax administration, the Large Taxpayer Office at the General Directorate of Taxation (GDT) was restructured, with specialization according to business sectors, in early August, as a prior action.

- In the financial sector, in June we submitted a new Bankruptcy Law to Parliament, which simplifies existing procedures and incorporates best international practices.

- In the electricity sector, we prepared the regular quarterly survey of the consolidated arrears of state-owned enterprises in the electricity sector to the private sector. We also published the Q2 financial statements of KESh, OST, and OShEE, the state-owned generation, transmission, and distribution companies, with a slight delay. Finally, the removal of the 35 kV medium-voltage consumers from the regulated tariff system has been postponed to September, due to delays in setting up infrastructure and negotiating contracts.

Economic Policies for 2016 and the Medium Term

A. Fiscal Policy

8. We commit to continuing with fiscal consolidation in order to reduce debt-related vulnerabilities which hamper growth and cause macroeconomic instability. We intend to pursue a steady pace of fiscal consolidation based on a strategy of broadening the tax base and strengthening tax administration and compliance, with the goal of lowering the general government's debt-to-GDP ratio to around 60 percent by 2019, from 73 percent at end-2015. This path will be consistent with undertaking measures of at least 1 percent of GDP annually. To improve debt management, we will also increase staffing levels and strengthen capacity at MoF's debt management unit.

9. We remain determined to achieve our target of a primary surplus of 0.2 percent of GDP in 2016. To minimize risks to the target, we have committed to maintaining strict budgetary discipline, ensuring savings in current expenditure, and strengthening the tax base and compliance. We commit to taking additional measures, if needed, to meet the 2016 target. We will save any permanent budget overperformance, in order to reach our program consolidation goals.

10. After the substantial revenue underperformance in 2015, tax revenues were in line with our budget targets in the first five months of 2016, despite disinflationary pressures. Excises, social contributions, and corporate income tax performed better than expected, suggesting that our sustained reform effort against tax evasion, noncompliance, and informality has started to pay off. The main setback came from local taxes, whose underperformance underscores the revenue mobilization challenges facing the newly established local government units. We remain vigilant to ensure that we meet our revenue targets for 2016:

- Our reform effort against tax evasion, non-compliance, and informality is refocusing on high-risk, high-value segments, in line with our compliance risk management strategy. In parallel, we plan to amend our tax procedures law, in order to make it more business-friendly but also strengthen compliance incentives. We remain prudent in projecting the revenue gains from our reform efforts in 2016. We have also frozen 2.5 billion lek in capital expenditure and have made it contingent on additional revenues from our reform effort.

- The new fiscal policy unit at MoF has taken the lead on addressing weaknesses in revenue forecasting and monitoring. The unit will update our survey of tax expenditures annually. With help from Fund TA, we will expand the survey to incorporate exemptions administered by the GDT, and we will broaden the definition of tax expenditures to include preferential tax rates. The survey will also include a rationale and, eventually, an efficiency assessment for each tax expenditure.

- We commit not to grant any further tax exemptions or preferential tax rates, without consulting with the IMF. This complements our efforts aimed at broadening the tax base, simplifying tax administration, and creating a more level playing field.

- We have planned sufficient buffers in the budget to cope with the outcome of pending tax disputes, in order to protect the end-year primary balance target for 2016. In particular, large unbudgeted windfalls due to disputed tax payments will be adjusted under the program until the tax dispute is resolved.

11. We are making good progress in reducing the heavy burden the electricity sector places on public finances, while addressing the infrastructure gap. The financial gap in the sector reflects mostly low collection levels and large network losses. We have implemented an ambitious set of reforms in the sector (see ¶28-30) that have started to reduce the structural imbalances. Therefore, we aim to gradually reduce public guarantees and policy net lending to the sector to 5 billion lek in 2016 and 4.5 billion lek in 2017, with the aim of completely eliminating them by 2020. These subsidies are transparently reflected in the fiscal accounts under the program and in our budget. If government support to the electricity sector exceeds the annual programmed amount, we commit to taking offsetting fiscal measures to meet the program's fiscal targets.

12. We are addressing other emerging and potential risks to the baseline fiscal framework:

- *Local government reform***:** We are pursuing an ambitious fiscal decentralization strategy, by devolving certain functions, transferring personnel, and providing new financing sources for local governments. Our survey of local government arrears revealed a stock of around 12 billion lek of arrears at end-December 2015, mostly inherited from the old local government units prior to the 2015 territorial reform. We will require local governments to prepare action plans by end-September 2016, which will provide for the clearance of the legacy stock of arrears, out of their own resources, in a comprehensive and transparent way, with external auditors ensuring the integrity of the process. With help from USAID and the World Bank, we are preparing a new law on local finances that will improve reporting requirements, tighten monitoring, and provide mechanisms for dealing with local government that fall into financial trouble. Fund TA will continue to support our efforts to strengthen local public financial management.

- *Capital expenditure:* Outstanding unbudgeted investment projects continue to exceed the government's ability to absorb them in its Medium-Term Budget Framework (MTBF). We have made public the total cost and sunk cost of each outstanding project. The Ministry of Finance (MoF) will publish a list of all projects that the 2016 revised budget will support, consistent with the MTBF, in order to signal our intention to implement only projects included in the list. Going forward, our National Investment Committee will review all outstanding unbudgeted investment projects. As a prior action, we have issued a Ministry of Finance order (i) ensuring that projects not included in the MTBF can only be funded following an approval by the Strategic Planning Committee; and (ii) authorizing the continuation of only a specified list of projects, based on transparent criteria, that can be accommodated in the MTBF.

- *Arrears prevention:* We are reinforcing public financial management to prevent the accumulation of new arrears at all levels of government. We have now extended our new treasury IT system (AGFIS) to 15 budget institutions (accounting for 84 percent of the budget) and one local government. We will extend AGFIS further, so that it covers 50 budget institutions by 2018 and

100 by 2020. In addition, our new multi-year commitment registry will be operational by end-September. To prevent future arrears development, we will immediately implement stricter internal controls in AGFIS at the phase of pre-commitment of public funds at the Albanian Roads Authority. Finally, we are also implementing revenue administration reforms and streamlining public investment management to prevent the recurrence of new arrears (see ¶13 and ¶17).

- *Public Private Partnerships (PPPs):* We recently amended the Budget Law in order to limit the total stock of PPPs, integrate PPPs into the budgetary process, and strengthen MoF's role in the *ex ante* assessment of PPP proposals and their subsequent monitoring. We plan additional steps to strengthen our PPP framework:

  (i) By end-September 2016, we will clarify the PPP Law by adopting an official legal opinion and bylaws in order to strengthen MoF oversight, integrate PPPs into the broader public investment monitoring framework, and ensure consistency with the Procurement Law and the amendments to the Budget Law. We will also prepare a standard PPP contract which will clarify mechanisms for dispute resolution, including international arbitration.

  (ii) To limit fiscal risks from PPPs, MoF's new fiscal risks unit will be fully staffed by end-September 2016 and will ensure that they follow international best practice and that their related fiscal costs and contingent liabilities are transparently accounted for in the fiscal accounts and debt statistics. Towards this objective, we will work on improving the capacity of an autonomous public entity to record PPP contracts in accordance with ESA and eventually IPSAS.

  (iii) By end-2016, we will launch a public register of all active PPP projects and will also publish summaries of all PPP contracts as well as the contracts themselves (excluding confidential or protected information), to ensure transparency for the commitments made by the government.

  (iv) Based on the amended Organic Budget Law, all PPP proposals will be subject to a proper feasibility study and value-for-money analysis which will be prepared by a PPP committee and approved by MoF. By end-2016, the fiscal risks unit will start evaluating fiscal risks, proposing measures to mitigate them, and providing risk assessments to be included in budget documents submitted to Parliament. We will also clarify the institutional arrangements for monitoring PPPs at the Ministries of Finance and the Economy.

- *Property compensation claims:* The European Court of Human Rights (ECHR) in Strasbourg is continuing to process cases brought against the Albanian government by property owners expropriated under the communist regime. We have budgeted 3 billion lek in the 2016 budget for property compensation claims. We will ensure that sufficient contingency reserves will be set aside as a reserve against potential ECHR compensation decisions.

B. Medium-term Fiscal Structural Reforms

13. *Tax administration*. Advancing tax administration reforms is a key policy priority that underpins our fiscal consolidation strategy. We will seek to strengthen tax administration further, by addressing the findings from the recent Tax Administration Diagnostic Assessment. We remain fully committed to implementing the GDT reforms laid out in its corporate strategy. In early August, we adopted the implementation plan for a function-based headquarters structure for GDT, as a prior action. Implementation has now begun and the Large Taxpayer Office has been restructured, with specialization according to business sectors. The Risk Management Unit will be fully staffed by end-September 2016 to enable it to identify major compliance risks and develop mitigating strategies. The GDT has started phasing in a modern compliance risk management approach for one major risk cluster, and will commence another one by end-September 2016. By end-2016, the GDT will streamline its regional and local office structure, in order to match business needs. Also by end-2016, the taxpayer service function will be upgraded to deliver easy-to-understand and accessible guidance to taxpayers based on their needs and compliance risks, using a variety of communication channels. Finally, by end-2017, the GDT will conduct a comprehensive review of its audit function.

14. *Customs administration*. We are moving forward with reforms in customs administration. The General Directorate of Customs (GDC) has introduced online monitoring of customs warehouses. It is also working on a restructuring proposal, which benefited from the recommendations provided by their external consultant. The GDC will accelerate discussions with customs authorities in neighboring countries to develop real-time intelligence sharing on smuggling risks. It will upgrade the fiscal stamps system to conform to international "track and trace" standards set out in the Framework Convention for Tobacco Control. The GDC will put in place more effective measures to supervise and monitor fuel movements, including through the use of remote GPS-based surveillance in high-risk areas. To reduce subjectivity in customs assessments, GDC will start using a national customs assessment online portal by end-September 2016.

15. *Valuation-based property tax*. We commit to introducing a valuation-based property tax by end-2017. As a first step, we will establish and staff a working group between the MoF, the Immovable Property Registration Office (IPRO), and the association of local municipalities. We will prepare a concept note for the development of a national fiscal cadastre that outlines the legal framework and institutional roles, responsibilities, and processes for the design and data collection for property valuation. We will accelerate the digitalization of the registry. In parallel, with help from Fund TA, we will develop a valuation formula and methodology, and draft the related legislation by end-September 2016. By end-2016, the legislation enabling local governments to implement the valuation-based property tax will be approved by Parliament (modified structural benchmark). From 2017, the new methodology for a valuation-based property tax will be applied in Tirana on a pilot basis.

16. *Medium-Term Budget Framework*. We have taken important steps to shore up the credibility of our MTBF, including by amending the Organic Budget Law in early June. Starting with the 2016 budget, the MTBF now contains the total approved cost, the sunk cost so far, and remaining cost beyond the three-year window of the MTBF for all projects. In 2016, MoF will strengthen the costing of sectoral strategies for distinguishing core allocations from new policy initiatives in the MTBF, in order to focus attention on the costing of new policies and prevent them from squeezing existing ones for resources. Starting with the 2017 budget, the MTBF will begin to make that distinction at the sectoral and program level. We are committed to lowering public debt every year, in line with the requirements of the amended Organic Budget Law. To achieve this objective, we will ensure that multi-year quantitative fiscal targets for the duration of its mandate are specified in the program of the government.

17. *Public Investment Management*. We are seeking to improve the process for evaluating, selecting, executing, and monitoring public investment projects. Our top priority is to improve coordination among the various government bodies sharing responsibility over public investment management. In line with the recommendations from the recent Public Investment Management Assessment, by end-September 2016, we will fully staff and operationalize the public investment management unit in MoF. Starting with the 2017 budget, we will integrate the Regional Development Fund (RDF) projects into our MTBF, the budget cycle, and the public investment monitoring framework. We will impose a floor on externally funded capital spending, to minimize in-year reallocations toward domestically funded capital expenditure. In addition, we will allocate more resources towards the maintenance of existing infrastructure. In 2017, we will also strengthen the appraisal process for major projects and expand our monitoring and assessment of investment projects of SOEs that pose risks to the budget. We will review and streamline project classification to reduce fragmentation, with the objective of using the new classification system for all projects to be included in the 2018 budget.

18. *Public Procurement*. We will strengthen public procurement, including through training, stricter controls, and sanctions for non-compliance. We will also prepare legal amendments enhancing the independence of the Public Procurement Agency and the Public Procurement Commission.

C. Monetary and Exchange Rate Policy

19. The monetary policy of the BoA will continue to be anchored by an inflation-targeting framework and a fully flexible exchange rate regime. The BoA remains committed to achieve an average annual CPI inflation of 3 percent over the medium term. Monetary policy will also strive to close the output gap and avoid excessive volatility in financial markets. Inflation performance will continue to be monitored under the program through an Inflation Consultation Clause.

20. Monetary policy will remain accommodative for the foreseeable future. The current policy stance creates the necessary financial conditions to support the recovery in aggregate demand, and is appropriate for meeting our 3 percent inflation target within the medium-term horizon. However, risks to inflation remain on the downside. They relate mostly to the volatile external environment, imported disinflationary pressures, and risk aversion in the banking system. In this context, the BoA stands ready to utilize all available instruments at its disposal, if necessary, should inflation surprise on the downside. With the policy rate at 1¼ percent, following the cumulative 50 bps rate cuts in

April and May, there is still space for conventional easing and any decisions on additional measures will be taken in consultation with IMF staff.

21. Exchange rate flexibility complements our price stability objective and supports our operational framework for monetary policy. The exchange rate is determined by market forces, and the BoA undertakes only small pre-announced interventions in the foreign exchange market. The BoA will aim to maintain adequate reserve coverage over the medium term. For the duration of the program, we will not impose or intensify restrictions on the making of payments and transfers for current international transactions, nor introduce or modify any multiple currency practices, nor conclude any bilateral payments agreements that would violate our obligations under Article VIII of the IMF's Articles of Agreement. Finally, we will not impose or intensify import restrictions for balance of payments reasons.

22. The BoA is making progress on implementing the recommendations of the 2015 safeguards monitoring report. In particular, we have launched the process of amending the BoA Law, which will take into account recommendations from the Bank of Italy and Fund TA, in order to align the law with the European System of Central Banks Statute, strengthen the central bank's institutional and operational independence, and improve its governance and operations.

23. We will strengthen coordination and information sharing between the BoA and the MoF on liquidity and debt management through monthly meetings. MoF will discuss with BoA in advance any external or domestic debt operations to ensure orderly market conditions and avoid excessive financial volatility.

D. Safeguarding Financial Sector Stability

24. The BoA is maintaining its supervisory vigilance, with a focus on the fastest-growing and systemically important segments of the banking system. Amendments to the Deposit Insurance Law were approved by Parliament in March 2016, to extend deposit insurance starting in 2017. We are working on a new Bank Resolution Law aligning the legislation with the EU's Bank Recovery and Resolution Directive and clarifying supervision and resolution responsibilities. To ensure healthy capitalization in the banking system, we will reinstate full capital requirements on lending activity, while retaining measures discouraging bank outflows to non-resident entities, as appropriate. We will work with banks to ensure a smooth transition during this process. The BoA will raise prudential requirements on systemic banks that expand into nonbanking activities, as necessary. The central bank will also strengthen its monitoring of loans to unhedged borrowers, with the aim of reducing their share in total outstanding credit from its current elevated levels. If necessary, the BoA will take appropriate macroprudential actions to further constrain borrowing in foreign currency by unhedged borrowers.

25. Given delays in external debt issuance caused by financial turmoil in Greece in 2015, the BoA undertook temporary measures to avoid disruption in the government debt market. In particular, the central bank reduced the risk weights on Albanian government securities issued in foreign currency from 100 to 50 percent. The BoA will gradually roll back this measure by 2021 and ensure that any additional investments by banks in such securities, compared to the levels in December 2015, will be risk-weighted at 100 percent.

26. We are committed to implement further regulatory and legal reforms to reduce NPLs and promote sound credit growth. Following the implementation of a regulatory requirement for mandatory NPL write-offs, NPLs have declined to 20 percent at end-April 2016 from a peak of 25 percent in September 2014. Our comprehensive strategy to address the NPL issue includes the following reforms:

- In March 2016, the BoA revised the terminology on write-offs, changed the time limit for holding repossessed collateral on banks' books, and improved the regulatory framework for NPL sales.

- We have prepared an action plan for handling the 35 largest holders of NPLs, and we are currently implementing it by coordinating creditors, sharing information, and monitoring progress. In addition, Parliament approved amendments to the Law on the Registration of Immovable Properties in March 2016 and we submitted to Parliament amendments to the Law on Securing Charges in May 2016, in order to better protect financial collateral and to increase the legal certainty of security rights over real estate.

- In April 2016, the Credit Register was upgraded to incorporate ongoing legal cases and restructured loans. The BoA, with support from EBRD, is preparing the methodology to incorporate credit scoring in the register.

- With technical assistance from the World Bank and the IMF, we prepared and submitted a new Bankruptcy Law to Parliament in early June 2016. It incorporates best international practices, simplifies the existing framework, allows for expedited approval of reorganization plans, and protects the economic and governance rights of secured and unsecured creditors. Also in June 2016, we submitted to Parliament, amendments to the Private Bailiffs Law, in order to increase the efficiency of foreclosure procedures and debt collection. MoF and the Ministry of Justice will set up a working group which will draft the bylaws that implement the amendments to the Bankruptcy Law and the Private Bailiffs Law by end-2016. By end-September 2016, we will submit to Parliament amendments to the Civil Procedure Code in order to increase the efficiency of litigation and foreclosure procedures.

- In June 2016, we set up a coordination mechanism between BoA and the GDT to integrate the tax authority into the collateral execution process. To further facilitate this process, the BoA will coordinate with MoF to streamline the tax treatment of NPLs, NPL sales, and collateral recovered in judicial procedures.

- Finally, by end-December 2016, with help from Fund TA, we will adopt measures to accelerate the reduction of NPLs through the use of out-of-court debt restructuring, and will also amend regulations to require banks to grant loans based on companies' fiscal declarations, starting in January 2018.

27. AFSA is strengthening its toolbox to monitor non-bank financial institutions. In March 2016, Parliament approved amendments to the Collective Investment Undertaking Law, in order to strengthen AFSA's enforcement powers. By end-September, AFSA will prepare regulations to strengthen risk management. Building up capacity remains an important objective and AFSA will adopt policies and procedures which will allow it to attract and retain skilled staff. In addition, AFSA will encourage competition among investment fund custodians, and will conduct stress tests and a crisis preparedness exercise in this market segment. Finally, AFSA will set up a crisis management framework for investment funds which will specify coordination procedures and mechanisms among funds, custodians, AFSA, and the BoA.

E. Structural Reforms

28. We are encouraged by the early results from our efforts to reduce losses and improve collections in the electricity sector. Distribution losses—unbilled power as a share of total power entering the distribution system—fell from 45 percent in 2013 to just under 30 percent in the first five months of 2016. We are committed to reducing distribution losses to 14 percent by 2019. We are stepping up our investments in infrastructure (such as metering, cables, substations, and feeders) to achieve this goal. Further reforms will focus on improving corporate governance, which is key for the sustainability of the electricity sector. We are moving forward with contracting an operational management services consultant for the distribution company, and expect the new team to be in place by end-2016.

29. To improve transparency, we have started publishing quarterly financial statements for KESh, OST and OShEE, the generation, transmission, and distribution companies. The Ministry of Energy and Industry and MoF will strictly monitor KESh and OShEE's investment plans and economic performance on a monthly basis to ensure financial discipline and value for money. Finally, in order to reduce financial risks, we will restructure the overdraft borrowing by electricity SOEs.

30. The new power sector law approved in 2015 restructures the relationship among KESh, OST, and OShEE. It also moves toward further market liberalization, in line with the EU's 2009 Electricity Directive. The law sets in place a schedule for moving all medium-voltage customers out of the regulated tariff structure. The removal of 35 kV customers is delayed to September 2016 and 20 kV customers will follow by end-2016. On completion, the share of deregulated consumption would increase from 13 to 33 percent of the total energy consumed by end-2018. Furthermore, we plan to undertake a review of our current tariff methodology in cooperation with the World Bank, in order to make tariff adjustments more timely and automatic. We are also developing a power exchange and pursuing integration with the electricity markets of neighboring countries. A transmission line to Kosovo went live in June 2016, and another one to Macedonia is currently in the works.

F. Statistics

31. INSTAT will continue with its efforts to improve the quality of macroeconomic statistics. We will submit a revised Law on Statistics to Parliament, in order to strengthen INSTAT's institutional independence and provide adequate legal support for more effective cooperation and coordination among INSTAT, MoF, and BoA. By end-2016, the three institutions will establish a Memorandum of Understanding detailing processes and responsibilities for data sharing, source data collection, and statistical compilation.

Program Monitoring

32. We anticipate that the ninth and tenth program reviews will take place on or after November 15, 2016, and February 15, 2017, respectively. Each review will require observance of conditionality for the most recent test date.

Table 1. Albania: Quantitative Performance Criteria and Indicative Targets for 2014–16

(In billions of leks, unless otherwise indicated)

	2014				2015									2016					
	Mar	Jun	Sep	Dec	Apr			Aug			Dec			Apr			Aug	Nov	
	Act.	Act.	Act.	Act.	Prog.	Prog. Adj.	Act.	Prog.	Prog. Adj.	Act.	Prog.	Prog. Adj.	Act.	Prog.	Prog. Adj.	Est.	Prog.	Prog.	Rev. Prog.
I. Quantitative Performance Criteria																			
1. Floor on net international reserves of the BoA (EUR million)	1463	1495	1525	1539	1507	1389	1587	1509		1624	1510		1601	1535		1677	1402	1425	1441
2a. Ceiling on general government overall cash deficit (cumulative) 2/ 3/	1.2	6.0	8.0	41.5	16.9	17.2	1.5	22.2	20.4	9.0	52.1	52.5	47.9						
2b. Floor on general government primary modified cash balance (cumulative)														9.0	10.5	24.0	13.0	5.2	9.3
3a. Ceiling on general government expenditure (cumulative) 2/ 3/		181.2	274.7	408.0	141.6	144.9	123.2	280.0	281.2	257.5	457.5	462.2	425.4						
3b. Ceiling on general government primary expenditure (cumulative)														120.9	119.5	105.4	252.0	367.5	363.5
4. Ceiling on the increase of Bank of Albania credit to the general government (cumulative from December 2013) 2/ 4/	-0.1	-0.2	0.0	0.0	0.0		-0.8	0.0		-0.2	0.0		-10.7	0.0		-12.8	0.0	0.0	0.0
II. Continuous Performance Criteria																			
5. Accumulation of new external payment arrears by the general government (EUR million)	0.0	0.04	0.0	0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0	0.0	0.0
III. Inflation Consultation																			
6. 12-month percent change in consumer prices																			
Upper outer band					5.0			5.0			5.0			5.0			5.0	5.0	5.0
Upper inner band					4.0			4.0			4.0			4.0			4.0	4.0	4.0
Center point	1.9	1.6	1.7	1.3	3.0		2.0	3.0		1.6	3.0		2.1	3.0		0.6	3.0	3.0	3.0
Lower inner band					2.0			2.0			2.0			2.0			2.0	2.0	2.0
Lower outer band					1.0			1.0			1.0			1.0			1.0	1.0	1.0
IV. Indicative Targets																			
7. Ceiling on subsidies to the energy sector (cumulative)					4.4		4.6	8.7		4.6	13.1		4.6	1.7		0.0	2.4	3.2	3.2
8. Ceiling on average distribution losses by energy distribution company (OSHEE) (percent, cumulative)					37.0		33.2	34.5		31.7	34.0		31.3	28.6		30.3	25.3	25.2	25.2
9. Ceiling on contracting nonenergy guarantees (cumulative) 2/					0.0		0.0	0.0		2.8	0.0		2.8	0.6		0.0			
10. Ceiling on accumulation of central government domestic arrears (as reported by MoF's survey on arrears accumulation, cumulative from December 2013)	0.4	1.1	0.4	0.3	0.0		1.1	0.0		1.1	0.0		1.3	0.0		2.3	0.0	0.0	0.0 [5]
11. Floor on clearance of central government domestic arrears (cumulative) 6/	1.0	19.1	25.9	33.8	5.0		7.6	10.0		14.5	15.0		17.6						
Memorandum Items																			
New energy guarantees (excluding rollover, cumulative)					4.4		4.6	6.7		4.6	10.1		4.6	1.7		0.0	2.4	3.2	3.2
Privatization receipts (cumulative)	0.001	0.010	0.026	0.035	0.0		0.1	0.0		0.6	0.0		0.9	0.0		0.4	0.0	0.0	0.0
One-off revenues (cumulative)					0.0		4.3	0.0		6.1	0.0		6.1						
Total non-grant revenues (cumulative)														126.8		126.1	258.8	361.8	361.8
Project grants (cumulative)					4.7		2.6	5.9		5.5	10.0		11.2	3.2		3.3	6.2	7.8	7.8

Source: Albanian authorities; and Fund staff estimates and projections.

1/ All adjustors are described in the Technical Memorandum of Understanding (TMU).

2/ Data revisions have led to minor adjustments of the outturns for the cash deficit and government expenditure for April, August, and December 2015. The outturn for non-energy guarantees for end-August and end-December 2015 has been adjusted to reflect that the IT should have been reported on a contracting, rather than disbursement, basis.

3/ Excluding arrears payments under the APCS. The assessment of performance in 2014 also excluded new energy and nonenergy guarantees, which were not part of the original PC but are now included in the fiscal framework.

4/ Indicative target through December 2014.

5/ The test date for this indicative target is October 2016.

6/ General government for March 2014.

Table 2. Albania: Prior Actions for Completing the Eighth Review under the Extended Arrangement

Prior Actions	Status
I. Tax Administration	
1. Adopt an implementation plan for a function-based headquarters restructuring of the GDT.	Met.
2. Restructure GDT's Large Taxpayer Office, with specialization according to business sectors.	Met.
II. Public Financial Management	
3. Repay all central government arrears accumulated through end-April 2016, with the exception of those on court decisions, in order to bring the stock of outstanding arrears below 1 billion lek.	Met.
4. Issue a Ministry of Finance order (i) ensuring that projects not included in the MTBF can only be funded following an approval by the Strategic Planning Committee; and (ii) authorizing the continuation of only a specified list of projects, based on transparent criteria, that can be accommodated in the MTBF.	Met.

Table 3a. Albania: Structural Benchmarks for the Eighth Review under the Extended Arrangement

Structural Benchmarks	Test Date	Status	Remarks
I. Public Financial Management			
1. Publish a triannual report on new arrears accumulation in thirteen key ministries, the Regional Development Fund, and GDT on MoF's website.	Continuous Due on July 15.	Not met.	Implemented with a delay.
2. Publish a quarterly survey of local government arrears on MoF's website, starting with end-March 2016.	Continuous Due on June 30.	Not met.	
3. Roll out the AGFIS to 15 budget institutions.	End-May 2016	Met.	
4. Fully staff the fiscal risks unit at MoF.	End-June 2016	Not met.	Rescheduled to end-September.
II. Tax Policy and Administration			
5. Restructure GDT's Large Taxpayer Office with specialization according to business sectors.	End-June 2016	Not met.	Implemented with a delay, as a prior action.
III. Financial Sector			
6. Submit to Parliament a new Bankruptcy Law, incorporating best international practices and simplifying existing procedures.	End-June 2016	Met.	
IV. Electricity Sector			
7. Prepare a quarterly survey of the gross consolidated arrears of the electricity sector (KESh, OST, OShEE) to the private sector.	Continuous	Met.	
8. Publish quarterly financial statements for KESh, OST, and OShEE.	Continuous Due on July 30.	Not met.	Implemented with a delay.
9. Remove 35 kV medium-voltage consumers from the regulated tariff system.	End-July 2016	Not met.	Rescheduled to end-September.

Table 3b. Albania: Structural Benchmarks for the Remainder of 2016 under the Extended Arrangement

	Structural Benchmarks	Test Date	Status	Remarks
	I. Public Financial Management			
1.	Publish a report on new arrears accumulation through end-August 2016 in fourteen key ministries, the Regional Development Fund, and the GDT on MoF's website.	November 15, 2016		
2.	Publish a report on new arrears accumulation through end-October 2016 in fifteen key ministries, the Regional Development Fund, and the GDT on MoF's website.	January 15, 2017		
3.	Publish a quarterly survey of local government arrears on MoF's website.	Continuous		
4.	Formulate comprehensive action plans to deal with local government arrears.	End-Sep. 2016		
5.	Fully staff the fiscal risks unit at MoF.	End-Sep. 2016		
	II. Tax Policy and Administration			
6.	List and quantify tax expenditures in the annual budget documentation submitted to Parliament.	Continuous		
7.	Commence phasing in a modern compliance risk management approach at GDT, starting with two major risk clusters.	End-Sep. 2016		
8.	Design a valuation formula and methodology, and draft the legislation for a valuation-based property tax.	End-Sep. 2016		
9.	Approval by Parliament of the legislation for a valuation-based property tax.	End-Dec. 2016		
	III. Financial Sector			
10.	Submit to Parliament amendments to the Civil Procedure Code and Private Bailiffs Law to increase the efficiency of litigation, foreclosure procedures, and debt collection.	End-Sep. 2016		
	IV. Electricity Sector			
11.	Prepare a quarterly survey of the gross consolidated arrears of the electricity sector (KESh, OST, OShEE) to the private sector.	Continuous		
12.	Publish quarterly financial statements (balance sheet and income statement) for KESh, OST, and OShEE.	Continuous		
13.	Start the removal of 35 kV medium-voltage consumers from the regulated tariff system.	End-Sep. 2016		
14.	Start the removal of 20 kV medium-voltage consumers from the regulated tariff system.	End-Dec. 2016		

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) defines the indicators used to monitor the program, and reflects the understandings between the Albanian authorities and the IMF. The TMU also defines the associated reporting requirements.

2. The exchange rates for the purposes of the program are set at lek 140.25 = €1, lek 103.17 = $1, and lek 158.05 = SDR 1. The gold price is set at €920.18 = 1 oz. These were the rates shown on the Bank of Albania's website as of November 30, 2013.

3. For the purpose of the program, the central government includes extra-budgetary funds. The general government includes the central government, local governments, the Social Security Institute (SSI), and the Health Insurance Institute (HII).

4. The fiscal year starts on January 1 and ends on December 31.

Quantitative Performance Criteria

A. Floor on Net International Reserves of the BoA

Definition

5. **Net international reserves** (NIR) are defined as reserve assets minus reserve liabilities of the Bank of Albania (BoA). **Reserve assets** are readily available claims of the BoA on nonresidents denominated in foreign convertible currencies, and held for the purpose of meeting balance of payments financing needs, intervening in exchange markets, and other purposes. They include BoA holdings of monetary gold, SDRs, Albania's reserve position with the IMF, foreign currency cash, securities, and deposits abroad. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered; claims on residents; precious metals other than monetary gold; assets in nonconvertible currencies; illiquid assets; and claims on foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options).

6. **Reserve liabilities** are defined as foreign exchange liabilities to residents and nonresidents of the BoA, irrespective of their maturity. They include: foreign currency reserves of commercial banks held at the BoA; foreign currency deposits of the government held at the BoA; all credit outstanding from the IMF that is a liability of the BoA; commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options); and all arrears on principal or interest payments to commercial banks, suppliers, or official export credit agencies. Reserve assets and reserve liabilities will both be expressed in euros, at the program exchange rate.

Reporting

7. Data will be provided by the BoA to the Fund with a lag of no more than 45 days after the test date for December test dates. For all other test dates, data should be provided with a lag of no more than 15 days after the test date.

B. Cumulative Floor on General Government Primary Modified Cash Balance

Definition

8. The **primary modified cash balance of the general government** will be measured from the financing side (below the line) at current exchange rates, based on the template below:

PRIMARY MODIFIED CASH BALANCE = (A) + (B) + (C)
Interest payments (A)
Domestic financing (B)
Privatization receipts (gross)
Domestic net borrowing (using residency criterion)
Central government net direct debt
Central government guarantees (drawings minus repayments)
Local government net direct debt
Other
Change in the balance of government accounts at BoA
TSA bank account
SSI & HII's bank accounts
Bank accounts of Regional Development Fund and local governments
Trust accounts
On-loan principal
Change in the balance of government accounts outside BoA
Reconstruction Fund
Other government accounts outside TSA (in commercial banks)
Transitory accounts – guarantees on custom duties
Cash in transit
Accounting items
Variance accrual-cash
Float
Liability to SSI (receipts minus payments)
Others
Foreign financing (C)
Drawings
Long-term loans (all direct debt drawings included in Albania's official debt statistics, including loans for the energy sector, even if on-lent)
Budget support loans (drawings)
Guarantees (drawings)
Change of statistical account
Repayments (of direct and guaranteed debt)

9. In determining the primary modified cash balance, the following considerations will apply:[1]

- Domestic borrowing is reported on a net basis and using the residency criterion. It covers bank loans, securities issued, overdraft accounts, and other debt instruments, less government deposits.

[1] Cash balance data come from the Treasury, the Debt Office, and the BoA.

- Principal repayments include only principal paid by the government and not that by the actual borrower. In case a borrower repays the Ministry of Finance (MoF) at a later point in time, principal is recorded under "on-loan principal."

- Foreign borrowing is reported on a gross basis and using the residency criterion. It covers disbursements by international financial institutions, bank loans, securities issued, overdraft accounts, and other debt instruments.

- "Change of statistical account" covers funds disbursed but not yet withdrawn and held by nonresidents in financial institutions for project-related spending.

- "Repayments" refers to all payments to nonresidents related to disbursements or guarantees by international financial institutions, bank loans, securities, overdraft accounts, and other debt instruments.

10. The primary modified cash balance will also include all new issuances of general government guarantees (excluding rollover) for the energy and non-energy sectors, as well as net policy lending.

11. Excluded from the calculation of the primary modified cash balance of the general government are any preliminary payments made to the Albanian Government by Bankers Petroleum Ltd. in the context of the December 2015 agreement between the two sides regarding a $57 million tax dispute. These payments will only be recorded as revenue, in whole or in part, at the time of the conclusion of the dispute resolution process and the domestic legal process.

12. Included in the calculation of the primary modified cash balance of the general government are the outstanding amounts on letters of credit and local governments' savings and carryover.

Reporting

13. Data will be provided to the Fund, using current exchange rates, with a lag of no more than 60 days after the test date for December test dates. For all other test dates, data should be provided with a lag of no more than 30 days after the test date.

Adjustors

14. The **floor on the primary modified cash balance** of the general government will be adjusted upward (downward):

- the shortfall (excess) of new energy guarantees, excluding rollover, issued during the course of the year, up to a maximum of the annual budgeted allocation. The adjustor will not apply to December targets. Energy guarantees are defined as guarantees issued by the general government for the benefit of the electricity operators KESH, OST, and OSHEE.

15. The **floor on the primary modified cash balance** of the general government will be adjusted downward by:

- 50 percent of privatization receipts, up to total privatization receipts of lek 15 billion in a given year.

C. Cumulative Ceiling on General Government Primary Expenditure

Definition

16. **General government primary expenditure** covers spending on personnel, operations and maintenance, subsidies, social insurance outlays, local government expenditures, other current expenditures (social protection transfers), capital expenditure, reserve and contingency funds, and net lending, as reported in the government's monthly budget outturns. It is measured on a cash basis and excludes interest payments.

17. Included in the calculation of general government primary expenditure are the outstanding amounts on letters of credit and local governments' savings and carryover.

Reporting

18. Data will be provided to the Fund, using current exchange rates, with a lag of no more than 60 days after the test date for December test dates. For all other test dates, data should be provided with a lag of no more than 30 days after the test date.

Adjustors

19. The **ceiling on primary expenditure** of the general government will be adjusted upward (downward) by:

- the excess (shortfall) of new energy guarantees, excluding rollover, issued during the course of the year, up to a maximum of the annual budgeted allocation. The adjustor will not apply to December targets. Energy guarantees are defined as guarantees issued by the general government for the benefit of the electricity operators KESH, OST, and OSHEE.

20. The **ceiling on primary expenditure** of the general government will be adjusted upward by:

- 50 percent of privatization receipts, up to total privatization receipts of lek 15 billion in a given year.

- the excess of total non-grant revenues (both tax and non-tax) over programmed amounts, up to a maximum of lek 2.5 billion in 2016. Excluded from the calculation of total non-grant revenues are any preliminary payments made to the Albanian Government by Bankers Petroleum Ltd. in the context of the December 2015 agreement between the two sides regarding a $57 million tax dispute. These payments will only be recorded as revenue, in whole or in part, at the time of the conclusion of the dispute resolution process and the domestic legal process.

- the excess of project grants over the programmed amount.

D. Cumulative Ceiling on the Increase of Bank of Albania Credit to the General Government

Definition

21. **Credit of the central bank to the general government** is defined as outstanding claims of the BoA on the general government, including overdrafts, direct credit, and holdings of government securities (excluding repo operations), advance distribution of profits, and other technical receivables. For the purpose of this target, government securities will be valued at their original purchase price. The stock of central bank credit to the government amounted to lek 63.965 billion at the end of December 2013. The cumulative ceiling will be computed relative to that amount.

Reporting

22. Data will be provided by the BoA to the Fund on a monthly basis with a lag of no more than fifteen days.

Continuous Performance Criteria

E. Accumulation of New External Payment Arrears by the General Government

Definition

23. **External debt** is determined according to the residency criterion. The term "debt"[2] will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time. These payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being as follows:

- **loans**, defined as advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

- **suppliers' credits**, defined as contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

- **leases**, defined as arrangements under which property is provided which the lessee has the right to use for one or more specified periods of time that are usually shorter than the total expected service life of the property. For the purpose of the program, the debt is the present value (at the

[2] As defined in point 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 15688.

inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

24. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

25. Under the definition of debt set out above, external payments arrears consist of arrears of external debt obligations (principal and interest) falling due after the due date and grace period, as specified in the contract, has passed. Arrears resulting from nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is being sought are excluded from this definition.

26. The external arrears of the general government will be calculated based on the schedule of external payments obligations reported by the MoF. Data on external arrears will be reconciled with the relevant creditors, and any necessary adjustments will be incorporated in these targets as they occur.

27. This performance criterion does not cover arrears on trade credits and will apply on a continuous basis.

Reporting

28. The MoF will provide the final data on the external arrears of the general government to the Fund, with a lag of no more than two weeks after the end of each month.

Inflation Consultation

29. **The consultation bands apply to the 12-month rate of inflation** in consumer prices as measured by the headline consumer price index (CPI) published by the INSTAT. Should the observed year-on-year rate of CPI inflation (4-month average) fall outside the outer bands, the authorities will complete a consultation with the IMF on their proposed policy response before requesting further purchases under the program. In addition, the BoA will conduct discussions with IMF staff should the observed year-on-year rate of CPI inflation (4-month average) fall outside the inner bands specified for each trimester. For the November 2016 test date, the Inflation Consultation Clause will apply to the 3-month average of the observed year-on-year rate of CPI inflation for September-November 2016.

Indicative Targets

F. Ceiling on Subsidies to the Energy Sector

Definition

30. **Subsidies to the energy sector** are defined as new guarantees issued by the general government for the benefit of the electricity operators KESH, OST, and OSHEE, excluding rollover.

Reporting

31. Data will be provided to the Fund by the MoF on a monthly basis with a lag of no more than thirty days.

G. Ceiling on Average Distribution Losses by OSHEE

Definition

32. **Average distribution losses** are defined as the difference between total electricity entering the distribution system and the amount of electricity billed to consumers by OSHEE, the energy distribution company, as a share of the total amount of electricity entering the distribution system. These are measured on a cumulative basis for each calendar year.

Reporting

33. Data will be provided to the Fund by the Ministry of Energy on a monthly basis with a lag of no more than thirty days.

H. Ceiling on Accumulation of Central Government Domestic Arrears

Definition

34. **Central government domestic arrears** consist of domestic expenditure arrears of the central government and domestic tax refund arrears. **Domestic expenditure arrears** are defined as payments to residents determined by contractual agreements that remain unpaid 30 days after the due date specified by the contract, or, in the absence of a contractual definition, as determined by law.

35. **Domestic tax refund arrears** are defined as obligations on any valid tax refund claims, in accordance with tax legislation, that remain unpaid 60 days after the claim is submitted.

36. For the purpose of this target, the accumulation of domestic arrears will be monitored through MoF's triannual survey on arrears accumulation (see paragraphs 38-39 below). The recording of invoices and tax refund claims should be cumulative, that is, the recording in each trimester should include all invoices/refund claims that have not been paid from the previous trimesters, starting from the beginning of 2014. MoF should verify that the invoices/refund claims reported in the survey are not already included in the arrears clearance database under the Arrears Prevention and Clearance Strategy (APCS).

Reporting

37. MoF should send to the Fund the consolidated data from the survey with a lag of no more than 75 days after each test date.

Structural Benchmarks

38. **Publish a report on new arrears accumulation through end-August 2016 in fourteen key ministries, the Regional Development Fund, and the GDT on MoF's website.** The ministries covered are Transportation, Health, Education, Defense, Justice, Interior, Agriculture, Finance, Economy, Social Welfare, Urban Development, Culture, Environment, and European Integration. The survey should be published within 75 days after the test date.

39. Publish a report on new arrears accumulation through end-October 2016 in fifteen key ministries, the Regional Development Fund, and the GDT on MoF's website. The ministries covered are Transportation, Health, Education, Defense, Justice, Interior, Agriculture, Finance, Economy, Social Welfare, Urban Development, Culture, Environment, European Integration, and Energy. The survey should be published within 75 days after the test date.

40. Publish a quarterly survey of local government arrears on MoF's website, starting with end-March 2016. The survey should be published within 90 days from the end of each quarter.

41. Fully staff the fiscal risks unit at MoF. This benchmark is met when the unit is staffed with one director and 3 staff.

42. Formulate comprehensive action plans to deal with local government arrears. This benchmark is met when local government units submit their action plans to MoF, and MoF shares them with Fund staff. The action plans should cover at least 95 percent of the stock of arrears on regular bills at end-2015.

43. List and quantify tax expenditures in the annual budget documentation submitted to Parliament. The survey of tax expenditures should be submitted to Parliament by end-November of each year.

44. Restructure GDT's Large Taxpayer Office with specialization according to business sectors. This benchmark is met when a chart of the current organization of the LTO shows that it is organized according to business sectors.

45. Commence phasing in a modern compliance risk management approach at GDT, starting with two major risk clusters. This benchmark is met when: (1) strategies have been adopted for the mitigation of two major identified compliance risk clusters; (2) operational plans reflecting the strategies are in place; and (3) substantial operational implementation activities have commenced.

46. Design a valuation formula and methodology, and draft the legislation for a valuation-based property tax. This benchmark is met when the three documents are shared with Fund staff.

47. Prepare a quarterly survey of the gross consolidated arrears of the electricity sector to the private sector. The survey should be prepared within 15 days from the end of each quarter.

48. Publish quarterly financial statements (balance sheet and income statement) for KESh, OST, and OShEE. The statements will be published within 30 days from the end of March, June, and September, and within 120 days from the end of December.

Monitoring and Reporting Requirements

49. To facilitate the monitoring of program performance, the authorities will provide the following information on a monthly basis (except where noted).

The Bank of Albania will supply to the Fund:

i) the balance sheets of the BoA;
ii) the separate consolidated accounts of commercial banks and Savings and Loan Institutions;
(iii) the monetary survey;
(iv) banking sector prudential indicators;
(v) the net foreign assets of the BoA and their components;
(vi) comprehensive information on reserve assets that are pledged, collateralized, or otherwise encumbered;
(vii) the foreign exchange cash flow of the BoA, including the level of NIR;
(viii) daily data on average exchange rates, FX interventions, and FX swaps;
(ix) quarterly balance of payments data and updates of balance of payments estimates;
(x) quarterly inflation forecasts;
(xi) data on government deposits and net domestic financing; and
(xii) quarterly data on the stock of foreign currency credit to unhedged borrowers, by bank and economic activity.

The Ministry of Finance will supply to the Fund:

(i) the monthly fiscal tables, including the overall budget deficit, on a modified cash basis;
(ii) issuance of treasury bills and bonds by the MoF, including gross value and cash received;
(iii) privatization receipts;
(iv) information on the contracting, disbursement, and amortization of public debt;
(v) detailed information on interest expenses for domestic and external debt;
(vi) information on the stock of short-, medium-, and long-term debt;
(vii) information on official grants for projects or budget support purposes;
(viii) information on the stock of expenditure arrears identified in the APCS, and progress in arrears repayment;
(ix) information on energy and non-energy guarantees issued by the general government, including new issuance, drawings, repayments (called and non-called), interest (called and non-called), late returned principal and interest, separately for domestic versus external as well as energy versus non-energy guarantees; and
(x) data on local government spending, by type of expenditure.

The General Directorate of Customs will supply to the Fund:

(i) detailed data on customs revenues collected.

The General Directorate of Taxation will supply to the Fund:

(i) detailed data on tax revenues collected;
(ii) information on progress in implementing business restructuring and IT reforms;

(iii) data on the stock of VAT refunds claimed, refund arrears, and refunds paid out; and

(iv) quarterly performance metrics, including rate of on-time filing (per major tax type), stock of tax arrears (per major tax type), percentage of refund claims processed on time, number and total value of approved-but-not-yet-paid refund claims, number and total value of in-process-but-not-yet-approved refund claims, share of VAT refunds released without audit, additional tax assessed through audits (all types of audits), and additional tax paid that relates to audit assessments.

The Albanian Statistical Agency (INSTAT) will supply to the Fund:

(i) the consumer price index (CPI) at the aggregate level and for each individual item;

(ii) the producer price index;

(iii) the construction cost index;

(iv) all short term indicators as they become available, as defined in INSTAT's quarterly publication "Conjuncture"; and

(v) preliminary estimates for quarterly GDP and preliminary estimates for annual GDP disaggregated by 35 sectors and distinguishing between the observed and unobserved economy.