INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/7

ALBANIA

2023 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

January 2024

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2023 Article IV consultation with Albania, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on October 27, 2023, with the officials of Albania on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 15, 2023.
- An **Informational Annex** prepared by the IMF staff.

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

PR24/07

IMF Executive Board Concludes 2023 Article IV Consultation with Albania

FOR IMMEDIATE RELEASE

Washington, DC – **January 12, 2024:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Albania and considered and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2]

The Albanian economy has shown remarkable resilience in the face of consecutive shocks. Thanks to a strong rebound in tourism, growth in 2023 beat expectations at close to 5 percent, while the external position saw a notable improvement. A combination of fiscal consolidation, higher income, and lek appreciation brought the public debt ratio back to pre-pandemic levels. Monetary policy is rightly focused on reducing inflation, which has been gradually declining after peaking at around 8 percent, lower than in regional peers. The financial system appears broadly resilient, despite some global banking stresses and rising interest rates.

The favorable growth momentum continued this year. Real GDP grew by around 3¼ percent y/y in Q2 2023, following robust growth in the first quarter, supported by robust private consumption, services, and construction activity. Tourist arrivals and electricity production in the first ten months of 2023 are more than one-third above the levels recorded during the same period last year. 2023 fiscal revenues have already surpassed budgeted levels. Amid tight labor markets and rising domestic price pressures, the Bank of Albania recently resumed policy rate increases.

Against the backdrop of the EU accession process, the authorities are grappling with several mutually reinforcing impediments to productivity and higher living standards. These include widespread informality, weaknesses in governance and the rule of law, significant gender gaps in labor force participation, high youth inactivity, and infrastructure gaps. A high emigration rate of workers and population aging pose additional threats to growth.

Executive Board Assessment

In concluding the 2023 Article IV consultation with Albania, Executive Directors endorsed staff's appraisal, as follows:

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

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

Albania's economic prospects are expected to remain robust. Real GDP growth is projected at 3.6 percent in 2023 and 3.3 percent in 2024 led by resilient private consumption, with notable strength in tourism and construction activity. Inflation hovers around 4 percent amid tight labor markets and is expected to revert gradually to the 3 percent target by early 2025. Heightened geopolitical tensions represent a major potential headwind, even as the economy remains vulnerable to the risks of weather-related energy sector shocks, a sudden reversal of the exchange rate appreciation, and more persistent inflation.

A meaningful revenue-based fiscal consolidation starting in 2024 is critical to build fiscal space for future countercyclical policy. Additional frontloaded cumulative net fiscal measures of around 1½ percent of GDP would bring public debt on a clear downward path percent, and lower gross financing needs. Consolidation should be achieved through a sound revenue mobilization strategy, coupled with efficiency gains and reallocation of resources to infrastructure, education, and climate adaptation. The authorities should also continue to lengthen debt maturities and reduce the reliance on floating rate debt. Concrete advances on fiscal reforms that enhance governance and oversight of SOEs, including in the energy sector, and PPPs, are key to safeguarding fiscal sustainability.

Returning inflation to target will likely require some further increases in the policy rate. The BoA appropriately resumed monetary tightening in November 2023 as domestic inflationary pressures persist amid tight labor markets. A gradual increase of the policy rate to a broadly neutral stance—estimated at around 4½ percent—should help allow inflation return to target by early 2025. Uncertainty around the inflation path remains high and a flexible meeting-by-meeting approach to rate-setting is appropriate.

A flexible exchange rate should remain the first line of defense against external shocks. The external position of Albania in 2022 was moderately weaker than the level implied by fundamentals and desirable policies. A floating currency has served Albania well, but vigilance is needed given the potential of a sudden reversal, which could undermine financial stability. This calls for enhanced preemptive macroprudential policies, including differential LTV and DTI requirements for domestic and FX loans. Further de-euroization efforts, supported by government action to promote the use of local currency as the legal tender would raise the effectiveness of the inflation targeting regime.

The banking system overall appears more resilient, but some pockets of vulnerabilities exist. There is scope to strengthen the capital positions of some banks, in addition to prudent provisioning and focused asset quality reviews. Over the medium-term, a positive neutral countercyclical capital buffer rate could be considered to support financial stability. Further progress on aligning supervision and regulation with EU standards, operationalizing insolvency and resolution frameworks, strengthening governance and deepening capital markets would support durable credit growth.

Albania should seize the opportunities afforded by the growing momentum of EU enlargement to address long-standing structural challenges. Judicial reforms should be complemented by increased efficiency to address the backlog in cases. The authorities should build on their exit from FATF's list of countries under increased monitoring by ensuring sustained and robust commitment to AML/CFT reforms and best practices. Addressing gaps in youth and female labor force participation will help lift potential growth. Adequate budget resources and monitoring mechanisms are needed to ensure reform efforts translate into better outcomes.

It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

Albania: Selected Economic Indicators

Population: 2.8 million (2022)
Life expectancy (years): 76.5 (2022)
Nominal GDP ($bn): 18.9 (2022)
Quota: SDR 139.3 million (0.03 percent of total)

Per capita GDP ($): 6743 (2022)
Literacy rate: 99% (2022)
Poverty rate: 25.2% (2022)

	2020	2021	2022	2023	2024
				Proj.	
Output					
Real GDP growth (%)	-3.3	8.9	4.8	3.6	3.3
Output gap (%)	-5.8	-0.4	1.0	0.8	0.5
Employment					
Unemployment rate (%)	11.7	11.4	11.1	11.0	11.0
Prices					
Inflation (%, average)	1.6	2.0	6.7	4.8	4.0
Inflation (%, end-period)	1.1	3.7	7.4	3.8	3.6
General government finances					
Revenues (% GDP)	25.9	27.5	26.8	28.0	27.4
Expenditures (% GDP)	32.6	32.1	30.4	30.2	29.9
Fiscal balance (% GDP)	-6.7	-4.6	-3.7	-2.2	-2.5
Public debt (% GDP) 1/ 2/	75.8	75.2	65.5	61.1	60.4
Primary balance (% GDP)	-4.6	-2.7	-1.8	0.0	0.2
Money and credit					
Broad money (% change)	10.5	8.6	5.2	6.4	6.4
Credit to the private sector (% change)	8.9	8.6	7.0	4.3	3.6
Policy rate (%, end-period)	0.5	0.5	2.8	...	...
Balance of payments					
Current account (% GDP)	-8.7	-7.7	-6.0	-3.5	-4.4
FDI (% GDP)	-6.7	-6.5	-6.6	-7.1	-7.2
Reserves (months of imports)	9.6	8.8	6.9	6.5	6.1
External debt (% GDP)	64.2	64.3	54.3	51.5	48.7
Exchange rate					
REER (% change)	1.1	0.6	-0.5	...	...

Sources: Albanian authorities, World Bank, UNDP, and IMF staff estimates and projections.

1/ Public debt refers to the general government and includes all public domestic and external guarantees as well as arrears from central and local government and VAT refund arrears.

2/ The 2021 SDR allocation equivalent at present to $170 million is recorded with the Bank of Albania and is used as a credit line.

INTERNATIONAL MONETARY FUND

ALBANIA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

December 15, 2023

KEY ISSUES

Context. The Albanian economy has emerged as one of the stronger performers in the region. The rising role of tourism has boosted confidence in the country's prospects, a factor partly reflected in the steady appreciation of the lek. While growth is moderating, it is expected to remain robust at around 3½ and 3¼ percent, respectively, in 2023 and 2024. Inflation is gradually declining though it remains above the central bank's target amid tight labor markets. Medium-term prospects, however, are constrained by structural challenges, including shortfalls in the rule of law and emigration pressures.

Recommendations.

Fiscal policy. Elevated gross financing needs and a moderate debt level call for a credible consolidation starting in 2024 and anchored by a sound Medium-Term Revenue Strategy. Revenue measures should be accompanied by spending reallocation to greater outlays on climate adaptation, and education. Further progress in fiscal structural reforms will strengthen the management of public finances, investment, and fiscal risks. The authorities should continue to lengthen the maturity of public debt and reduce exposures to floating rate debt.

Monetary policy. With real rates negative and below neutral, there is scope to further increase policy rates to ensure inflation converges to target by early 2025, but high uncertainty calls for a flexible and data-driven approach to policy settings. The exchange rate should act as the main shock absorber, with intervention limited to disorderly market conditions, as there is no case for intervention under the Integrated Policy Framework (IPF) at the current juncture.

Financial sector policy. Vigilant supervision is warranted, helped by prudential tools to mitigate vulnerabilities, including related to the real estate sector and unhedged lending in foreign currency. Policies to facilitate the faster workout of non-performing loans remain a priority, as are reforms to promote corporate governance in the banking sector and deepen capital markets.

Structural policies. Supply-side policies that tackle corruption, develop and retain human capital, boost female labor force participation and close infrastructure gaps would amplify gains from sound and prudent policies and bolster long-term growth.

Approved By
Uma Ramakrishnan (EUR) and Jarkko Turunen (SPR)

Discussions took place in Tirana during October 17–27, 2023. Staff's assessment is based on information available as of December 11, 2023. The team comprised A. Weber (head), F. Jamaludin, and D. Bartolini, (all EUR), S. Sosa (Regional Resident Representative), and O. Mitre and E. Topi (both local economists), with assistance from J. Kim and Z. Zhu (both EUR). L. Cerami (OED) participated in the meetings and F. Giammusso joined the concluding meetings. Inputs to the consultation were also provided by A. Edwards (EUR), M. Markevych (LEG), and C. Thévenot (FAD). The mission held discussions with Minister of Finance and Economy Mete, Bank of Albania Governor Sejko, senior officials, parliamentarians and other representatives of political parties, development partners, and representatives of businesses and financial institutions.

CONTENTS

ANNEXES

AT A GLANCE

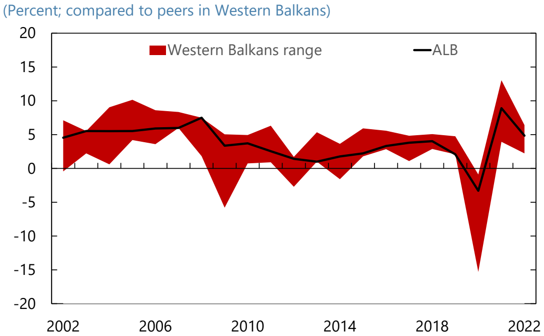
1. **The Albanian authorities have successfully steered the economy through successive shocks, thanks to broadly appropriate macroeconomic policies.** After a major earthquake in 2019, the global pandemic in 2020, and Russia's war in Ukraine in 2022, the economy has rebounded, emerging as one of the better performers in the region. Inflation peaked at lower rates than in regional peers, in part due to energy self-sufficiency, and limited direct financial and trade linkages to Russia and Ukraine. The rising role of tourism as a propeller of growth has helped increase confidence in the country's prospects, a factor partly reflected in the steady appreciation of the lek over the years.

2. **The prospect of EU accession can provide added impetus to address long-standing structural challenges.** The poverty rate is notable relative to regional peers, and credit penetration is low. Albania has also suffered large emigration flows as its labor force is lured by higher earnings in EU countries. Corruption and shortfalls in the rule of law remain long-standing structural concerns. However, history has shown that the zeal for change can wax and wane with the starts and stops of what has been a protracted accession process, and take-up of past IMF advice has been mixed (Annex I).

Albania: At A Glance

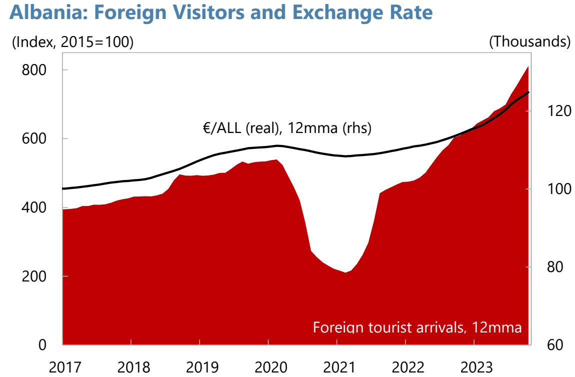
Albania: Real GDP Growth

(Percent; compared to peers in Western Balkans)



Sources: IMF WEO database and IMF staff calculations.

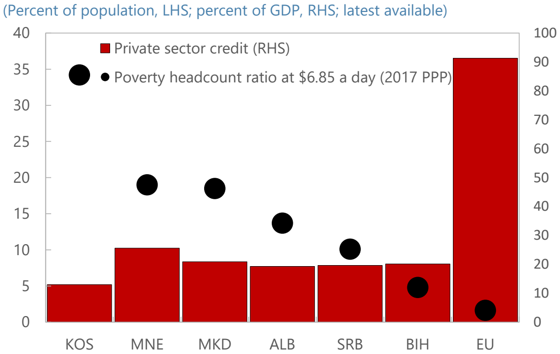
Albania: Foreign Visitors and Exchange Rate



Sources: Haver Analytics, Instat, and IMF staff calculations.
Note: Real €/ALL exchange rate=nominal €/ALL exchange rate*

Albania: Poverty and Credit Penetration

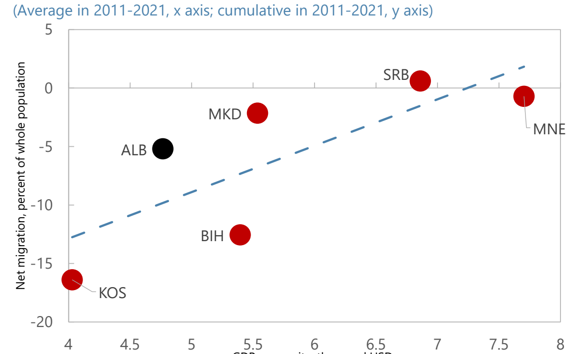
(Percent of population, LHS; percent of GDP, RHS; latest available)



Sources: World Bank World Development Indicators and Haver Analytics

Albania: Net Migration and GDP per Capita

(Average in 2011-2021, x axis; cumulative in 2011-2021, y axis)



Sources: World Bank World Development Indicators and IMF WEO database.

CONJUNCTURE

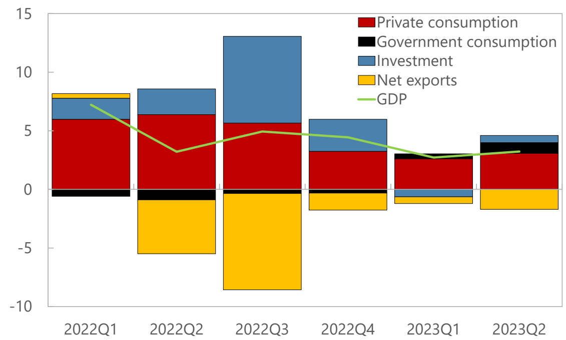
A. Recent Developments

3. The economy continues to expand at a robust pace. At 4.8 percent (2022 AIV SR: 3.7 percent), 2022 GDP growth beat expectations thanks to a strong tourism rebound and electricity production. Real GDP grew by 3.2 percent y/y in Q2 2023, supported by robust domestic consumption, services, and construction activity. Economic activity indicators suggest that growth momentum continued in the third quarter, with both tourist arrivals and electricity production more than one-third above the levels recorded during the same period last year.

Albania: Real GDP Components

Albania: Real GDP Growth Expenditure Side

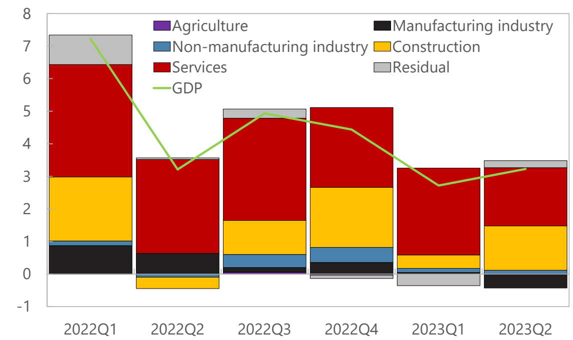
(Percent; y/y change)



Sources: Instat and IMF staff calculations.

Albania: Real GDP Growth Production Side

(Percent; y/y change)

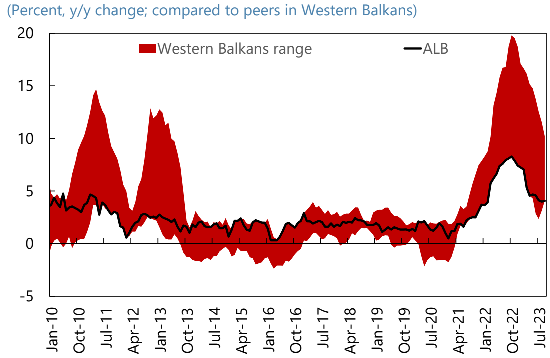


Sources: Instat and IMF staff calculations.

4. Price pressures have eased but remain elevated amid tight labor markets. Lower energy and food prices helped ease inflationary pressures, with headline inflation declining from a peak of more than 8 percent in October 2022 to 3.8 percent y/y in October 2023. However, headline and core inflation remain above the Bank of Albania's (BoA) target of 3 percent.[1] Although informality—around 30 percent of GDP[2]—limits complete visibility over employment, several indicators suggest a tight labor market: formal unemployment has been declining, public and private sector wages have risen, and employers are reporting hiring difficulties, with efforts to recruit foreign workers yielding limited relief.[3]

Albania: Headline Inflation

(Percent, y/y change; compared to peers in Western Balkans)



Sources: Haver Analytics and IMF staff calculations.

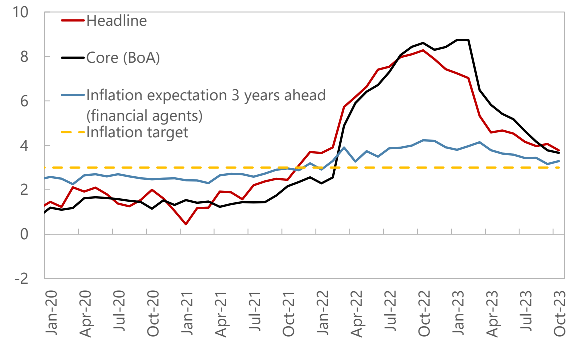
[1] IMF WP/23/49 finds that food and energy prices play a part in driving core inflation persistence.

[2] See Albania: 2022 Article IV Consultation Staff Report, Annex VII.

[3] Structural unemployment is estimated at around 12 percent (Bank of Albania Working Paper No. 38, 2018).

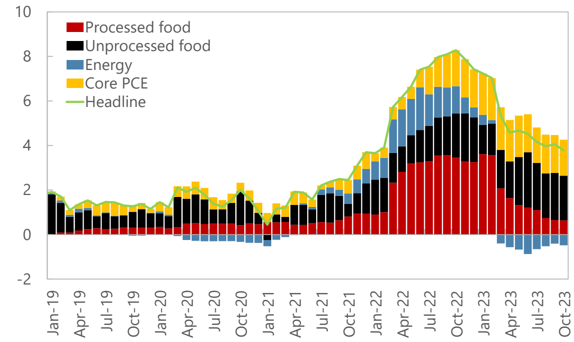
Albania: Inflation and Labor Market Developments

Albania: Headline and Core Inflation
(Percent; y/y change)



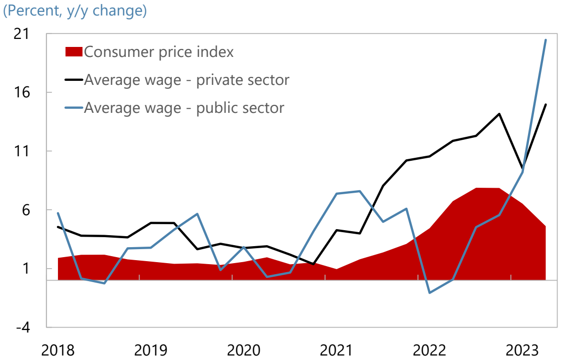
Sources: Instat, BoA, and IMF staff calculations.

Albania: Contributions to Headline Inflation
(Percent; y/y change)



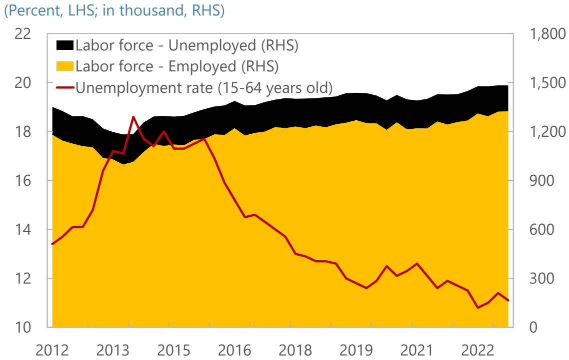
Sources: Instat and IMF staff calculations.

Albania: Inflation vs. Earnings
(Percent, y/y change)



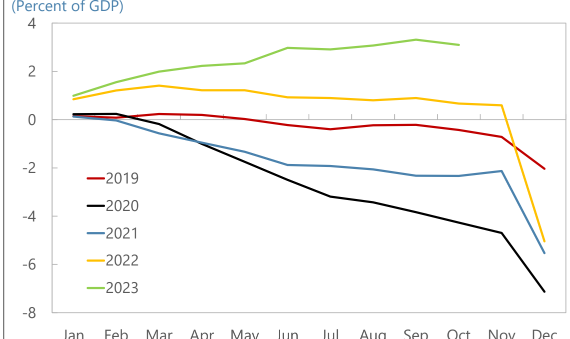
Sources: Haver Analytics and IMF staff calculations.

Albania: Unemployment and Labor Force
(Percent, LHS; in thousand, RHS)



Sources: Haver Analytics and IMF staff calculations.

Albania: General Government Fiscal Balance
(Percent of GDP)



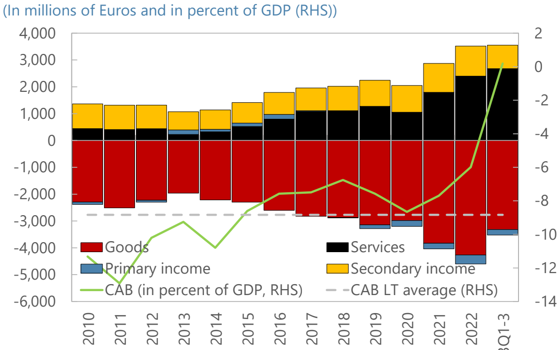
Sources: MoFE, IMF WEO, and IMF staff calculations.

5. The first ten months of 2023 have seen a much-improved fiscal position. Revenue has surpassed the budget target as VAT underperformance related to the tourism sector—mainly due to revenue administration shortfalls—is more than offset by higher revenue from profit and personal income taxes, and social security contributions. The authorities issued a five-year Eurobond of €600 million in June with the relatively favorable yield of 6.125 percent. In the same month, parliament approved a law to substantially increase public sector wages, to be implemented over 2023–25 with a net total annual cost of 26 billion lek (around 1 percent of 2023 GDP) by 2025 (Annex II).

6. Robust services exports, FDI and remittances led to an improved current account position and lek appreciation. The current account deficit narrowed to 6 percent of GDP in 2022 (2021: 7.7 percent), a step improvement from the long-term historical average. While the lek had been on a gradual appreciation trend since 2015—a reflection of broader economic fundamentals—the exchange rate appreciated steeply since the last quarter of 2022 (Annex III). The resultant loss in competitiveness has hurt the bottom line of exporters, who have made repeated appeals pressuring the BoA to intervene. The Ministry of Finance and Economy (MoFE) temporarily suspended profit tax installments for the remainder of 2023 and speeded up VAT refunds for exporters. The external position in 2022 is assessed to be moderately weaker than the level implied by fundamentals and desirable policies, with the lek assessed to be modestly overvalued (see Annex IV). The first three quarters of 2023 show a significantly improved current account balance compared to the same period last year.

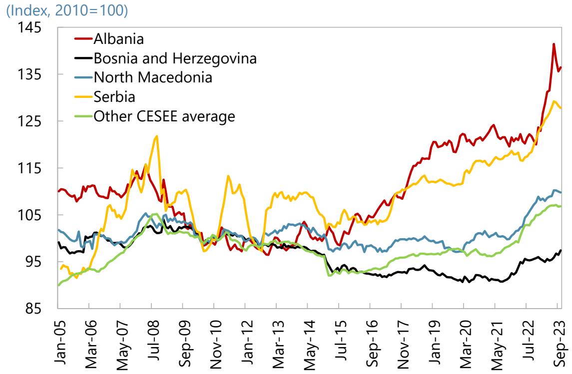
Albania: Current Account, Real Effective Exchange Rate and Tourism

Albania: Current Account Balance and Components
(In millions of Euros and in percent of GDP (RHS))



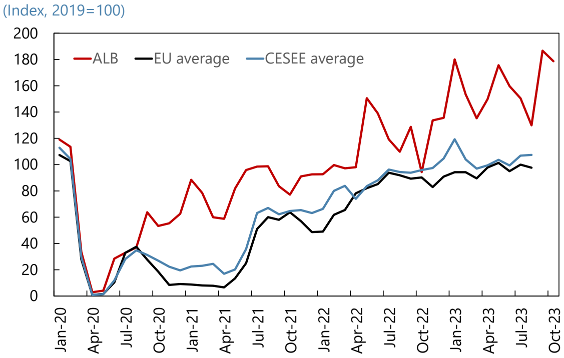
Note: 2023Q1-Q3 percentage is based on GDP estimates.
Sources: Bank of Albania and IMF Staff calculations.

CESEE: Real Effective Exchange Rate
(Index, 2010=100)



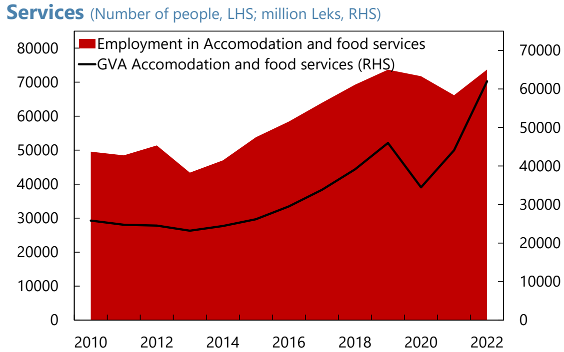
Sources: IMF INS database and IMF staff calculations.

Foreign Tourist Arrivals
(Index, 2019=100)



Sources: Haver Analytics and IMF staff calculations.

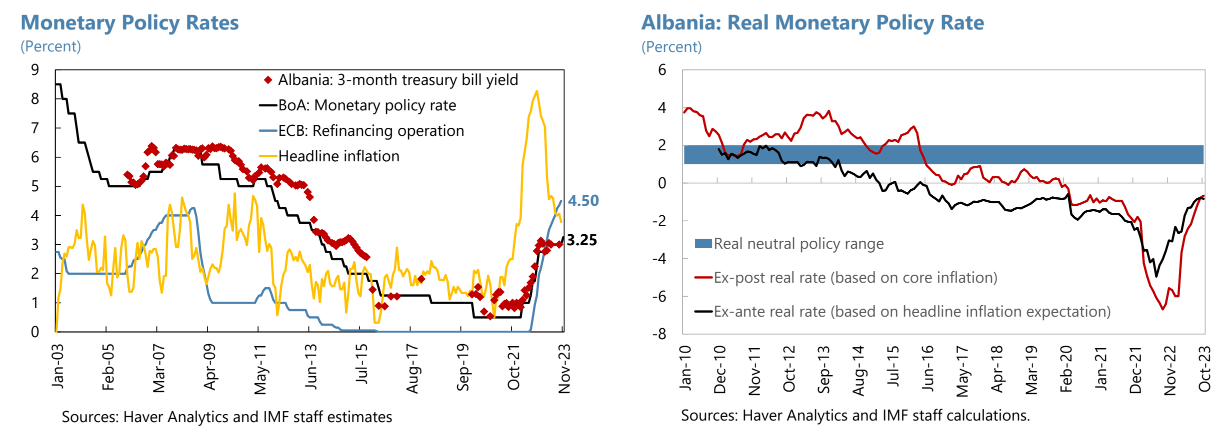
Albania: Employment and GVA of Accomodation and Food Services (Number of people, LHS; million Leks, RHS)



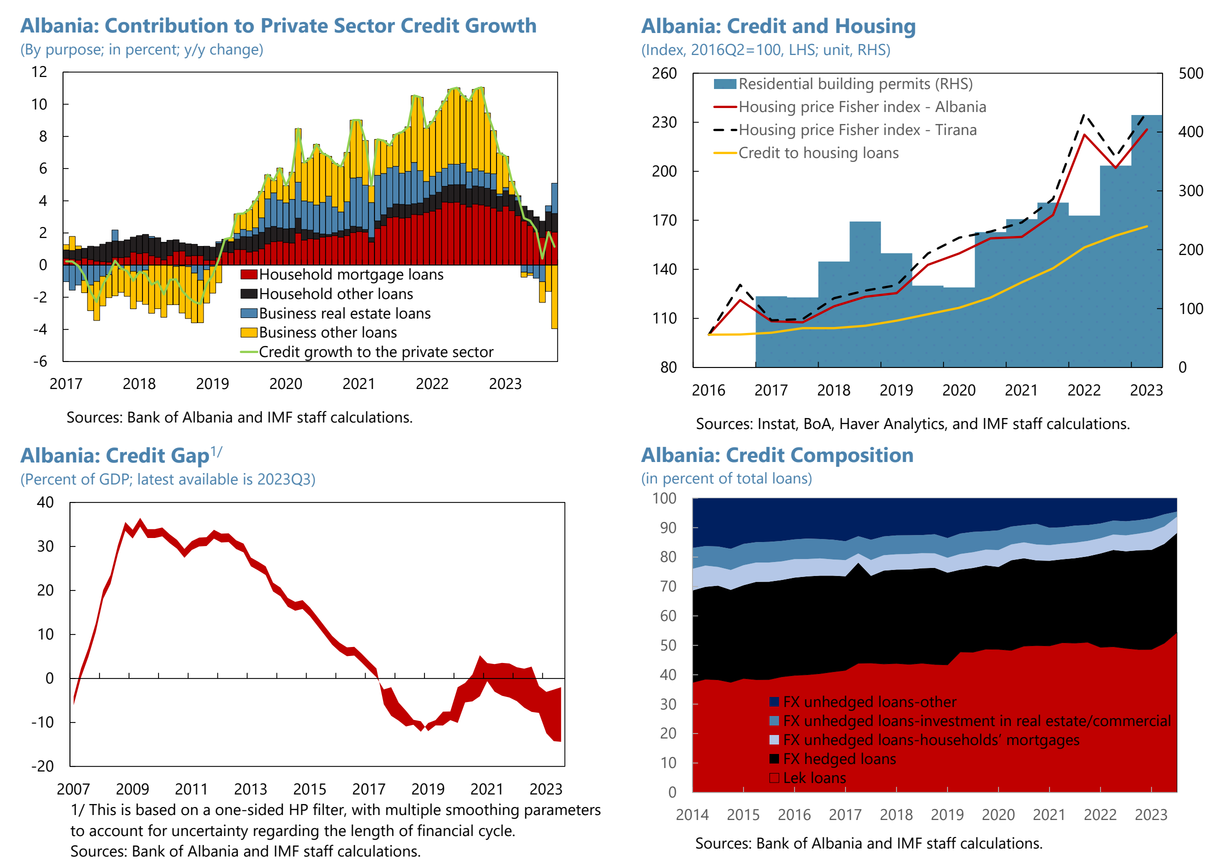
Source: Instat.

7. The Bank of Albania recently resumed rate hikes. Citing persistent domestic price pressures, the BoA raised the policy rate by 25 basis points to 3.25 percent in its November meeting. This followed cumulative rate hikes of 250 basis points since early 2022, and a period of unchanged policy rates during March–October 2023, amid declining headline inflation, strong exchange rate appreciation and fiscal consolidation. Real domestic policy rates are now approaching pre-pandemic levels but remain in negative territory and below staff's estimated range for the real neutral rate. High euroization suggests that spillovers from ECB policies have likely translated into some additional financial tightening, although there is uncertainty about their strength and timing.[4]

Albania: Monetary Policy Settings



Albania: Credit and Real Estate Developments



[4] ECB, 2021, WP 2611.

8. Tighter financial conditions have reduced credit growth to households and firms. As of 2023Q3, mortgage loans to households and real estate loans to businesses were the main driver of still positive credit growth, while other loans to businesses have declined y/y. The credit gap has recently turned negative. Nonetheless, house price indices have rapidly increased. Although unhedged FX loans as a share of total loans have been declining, most unhedged borrowing relates to households' mortgages and investment in real estate.

B. Outlook and Risks

9. Growth, while moderating, is projected to remain robust on the back of continued strength in services and FDI. As monetary policy pass-through to the real economy proceeds, consumption growth is expected to soften. Nevertheless, tourism-fueled services activity and a pipeline of private and donor-funded foreign direct investment projects will support growth. As a result, real GDP is projected to grow by 3.6 and 3.3 percent in 2023 and 2024, respectively, and then converge towards its long-term potential growth of 3½ percent. Gains from a growing tourism sector are expected to be tempered by continued emigration and an aging population.

Box 1. The Albanian Economy Under a Downside Scenario[1]

The Scenario. The recurrence of an energy crisis and supply disruptions, and sharper-than-expected monetary tightening could lead to an abrupt global slowdown. Albania would be impacted by spillovers from lower external demand: A reduction in tourism and remittances could trigger a sudden and sharp depreciation of the exchange rate, which would exacerbate inflationary pressures. Tighter global and domestic financial conditions would raise financing costs for the government. With half of private credit denominated in euro—a considerable portion of which is unhedged—a weaker lek would also exert pressure on private borrowers. Financial stability risks would be exacerbated by sharp corrections in real estate prices.

Policy Response. The authorities should provide targeted and temporary fiscal support to the most vulnerable. To this end, the pace of fiscal adjustment could be recalibrated within a credible revenue-based medium-term consolidation plan. If necessary, the authorities should seek additional official financing. The BoA would need to rein in inflation with decisive monetary tightening and clear communication to keep inflation expectations well anchored. Fiscal structural efforts to increase fiscal efficiency and transparency should continue to preserve fiscal credibility. Close monitoring of loan portfolio quality and timely identification and management of problem assets are crucial. A credible capital restoration plan should be adopted while capital could be allowed to temporarily fall below prudential limits.

[1] See also Annex V.

10. Inflation is expected to gradually decline to target by early 2025. IMF research suggests that the increase in public sector wages will have spillovers into average wages,[5] especially against the backdrop of a tight labor market and a positive output gap. While headline inflation will likely continue decelerating given base effects, it is forecast to return to the BoA's target of 3 percent only by early-2025, compared to mid-2024 as expected at the time of the Spring 2023 IMF World Economic Outlook.

[5] IMF WP/23/64. Staff has incorporated the announced public sector wage increases into its projections, using an impact coefficient at the lower end of estimates in the paper.

11. The current account balance is on track to improve in 2023, pushed by strong tourism-related inflows. International reserves are expected to remain well above adequacy levels, at close to 200 percent of the ARA metric by end-2023. After 2024, the current account deficit is projected to be on a declining trend, as services exports related to tourism are expected to increase on the back of sustained FDI into tourism-related construction.

12. Risks are predominantly negative (Annex V). An intensification of geopolitical tensions could lead to renewed supply disruptions and an abrupt economic slowdown in Europe would reduce exports and tourist arrivals, while unfavorable weather could dampen energy production. Inflation could turn out to be more persistent amid strong public and private sector wage increases. The fast appreciation of the lek since last year is not fully explained by economic fundamentals, adding to the risk of a sudden reversal. The crystallization of downside risks would require decisive policy responses (see Box 1). Tourism, construction, and energy sector overperformance represent key upside risks.

Authorities' Views

13. The authorities broadly shared staff's views on the outlook and risks. Their growth projections for 2023 are similar to staff, while the BoA expects lower growth (2.8 percent) in 2024 than the MoFE (3.7 percent), based on a stronger monetary policy pass-through. The authorities are confident that tourism will support medium-term growth, mentioning recent successes in securing new flight routes and large tourism related FDI projects. The authorities view geopolitical instability, heightened volatility in the exchange rate, and stickier inflation as the main threats to macroeconomic stability.

MACROECONOMIC POLICIES

The current growth momentum provides an opportunity to advance on a broad set of reforms to secure sustainable and inclusive growth, and bolster progress towards EU accession. An ambitious medium-term revenue-based consolidation would help rebuild space for fiscal policy maneuver and support the BoA in its endeavors to rein in inflation. Revenue reforms would also generate resources to fund long-term needs in human capital development, infrastructure, and climate adaptation. Further progress in de-euroization will strengthen the effectiveness of monetary policy and reduce financial sector vulnerability. Structural reforms in the fiscal and financial sectors, as well as in governance, the rule of law, and the labor market, will amplify the gains from prudent policies.

A. Fiscal Policy

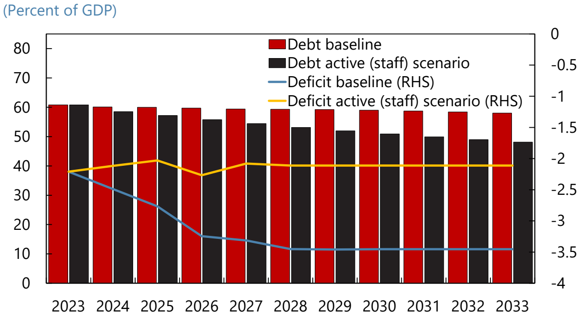
14. The authorities are expected to reach a zero primary balance in 2023. A normative act in October revised estimated revenues upwards and allocated more resources to operations and maintenance, and domestically financed capital spending. The zero primary balance is below the budgeted 0.3 percent of GDP but ensures compliance with the Organic Budget Law requirement of a nonnegative balance one year ahead of the deadline.

15. The draft 2024 budget targets a small primary surplus. The stronger fiscal position in 2024 will be achieved through higher tax revenue from the implementation of the new income tax law and by keeping expenditure stable, as lower budgeted capital spending offsets a higher wage bill. Staff expects that the 2024 budget target will be met but projects higher-than-budgeted current spending in some categories to be offset by under-execution of planned foreign-financed capital spending due to capacity limitations. Staff recommends any revenue overperformance be saved and normative acts be avoided to the extent possible to enhance budget predictability.

16. Staff's baseline assumes limited fiscal adjustment beyond 2024, in the absence of revenue reforms (see Table 2). In cyclically adjusted terms, apart from marginal tightening in 2025–26, no fiscal consolidation is expected. Public debt, which reached pre-pandemic levels in 2022, is expected to decline marginally to just under 60 percent of GDP by end-2028. Gross financing needs (GFN) remain high, averaging around 18 percent of GDP in 2023–28, and subject to risks from fiscal slippages. SR-DSF results point to moderate risk of debt distress in the medium/long term (Annex VI). The authorities' medium-term budget framework foresees a somewhat faster consolidation on the back of yet-to-be introduced revenue measures and spending efficiency gains, with the primary surplus reaching 1 percent of GDP in 2026 and public debt declining to 57 percent in 2026.

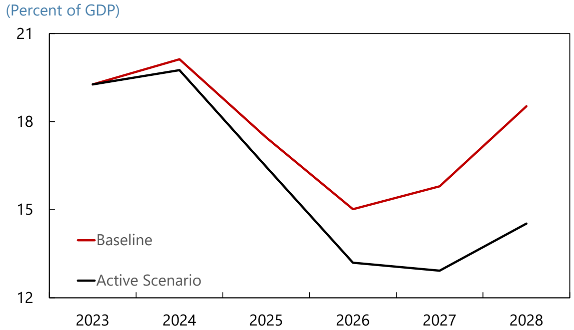
Albania: Proposed Fiscal Reform Path

Albania: Medium-Term Fiscal Adjustment and Debt Ratios
(Percent of GDP)



Sources: Ministry of Finance and IMF staff calculations.
Note: Based on a simulation which sets first year fiscal multipliers of 0.3 for revenue measures, and 0.3 for productive spending, the latter increasing to 0.5 over the medium-term.

Albania: Gross Financing Needs Under Different Scenarios
(Percent of GDP)



Source: IMF staff calculations.
Note: The active scenario assumes some progress in the implementation of the Debt Management Strategy.

17. A stronger fiscal effort than projected, starting in 2024, remains critical as Albania grapples with elevated financing needs and limited visibility on contingent liabilities (¶19). With the financing needs in 2024 already met through the 2023 Eurobond issuance and a declining debt trajectory under the baseline, there is some fiscal space in the near term. However, staff proposes additional cumulative net fiscal measures of around 1½ percent of GDP over the next five years (frontloaded to 2024 and 2025), which would reduce gross financing needs—and related rollover risks—to under 15 percent of GDP by 2028. Proposed measures consist of (i) revenue mobilization (about 2 percent of GDP, Table 1, ¶17); (ii) efficiency gains (½ percent of GDP, ¶18); and (iii) higher productive spending (1¼ percent of GDP) on public investment, education, and climate adaptation once improved public investment management frameworks are in place (¶19) and progress has been made in strengthening absorptive capacity. Implementation of the 2022–26 Debt

Management Strategy will be critical to lengthen maturities and reduce exposure to floating rate debt.

18. More can be done to speed up the attainment of revenue objectives. There is scope to rationalize and streamline VAT rates, exemptions, and thresholds. Frontloading measures slated for later introduction, such as removing the zero-income tax rate for businesses with an annual turnover of up to 14 million lek could be considered (Table 2). Work to fulfill the prerequisites for the introduction of property and gambling tax reforms should proceed, including fully operationalizing a centralized fiscal cadaster. The pace of revenue administration reforms urgently needs to be stepped up, especially regarding a strategic plan for the General Directorate of Taxation and further leveraging of data to improve compliance, particularly in the cash-intensive tourism sector and by high-net-worth individuals. Coordination among implementing agencies needs to be strengthened to ensure timely delivery and transparency of reforms.

Text Table 1. Albania: Medium-Term Revenue Strategy Measures Expected Cumulative Revenue Gains

(In percent of GDP)

MTRS MEASURES	2024	2025	2026	2027	2028
Tax Policy	**0.2**	**0.4**	**0.9**	**0.9**	**0.9**
Indirect Taxes	0.2	0.4	0.5	0.5	0.5
Direct Taxes	-	-	0.1	0.1	0.1
National and Local Taxes	-	-	0.3	0.3	0.3
Revenue Administration	0.8	1.0	1.2	1.2	1.2
Tax Administration	0.6	0.7	0.9	0.9	0.9
Customs	0.2	0.3	0.3	0.3	0.3
Additional measures	-	-	*0.1*	*0.1*	*0.1*
Total	**0.9**	**1.4**	**2.2**	**2.2**	**2.2**

Sources: IMF staff estimates based on MTRS TA reports and input from the authorities.
Note: Excludes measures already implemented and those related to the new income tax regime for self-employed professionals, which are included in the baseline.

Text Table 2. Albania: Outstanding MTRS Tax Policy Measures

MEASURE	START OF IMPLEMENTATION
Indirect taxes	
Value added tax	
Ending exemption on private health and education services	2024
Ending exemption on insurance services	2026
Revising the VAT registration threshold	2026
Excise duty	
Removal of other exemptions from excise duty	2025
Direct Taxes	
Unification of the tax rate of profit tax for all businesses at the minimum level of 15%/Abolition of zero tax rate for small businesses	2029
Abolition of exemptions, reduced rates, preferential rates of income tax for specific industries and sectors	2025
Taxation scheme for self-employed professions*	2024
Review of declaration thresholds for individual annual income tax declaration (DIVA)	2024
National and Local Taxes	
Expansion of the categories of gambling	2024
Expansion of environmental tax	2025
Review of real estate tax exemptions	2026
Incremental revision of the property tax rate	2026

Source: Ministry of Finance and Economy, IMF staff compilation
* Measure already included in the baseline

19. An updated medium-term revenue strategy (MTRS) should be the blueprint for revenue reforms. To ensure that tax policy and administration reforms are part of a cohesive, transparent, and credible strategy, an updated MTRS that better reflects current economic conditions should be formulated and adopted as soon as feasible. The MTRS would also support broader efforts to reduce informality, including by promoting fair competition through improved tax compliance, and rationalizing tax structures to better incentivize formal employment. [6]

20. Medium and long-term spending pressures underlie the criticality of improving public expenditure efficiency. The recent public sector wage increases and indexation to inflation will lead to a rising wage bill in the future. Absent further reforms, Albania's public pension system—which is already experiencing a deficit (see Annex VIII)—represents a growing burden on public resources, which will only be exacerbated if current emigration trends continue. Higher public wages should be combined with a review of public sector functions and linked to efficiency increases, including by leveraging technology and on-the-job training. Further rationalization of public spending should be considered in the context of the World Bank's forthcoming Public Expenditure Review.

21. Continued progress in fiscal structural reforms will strengthen management of finances, investment, and risk management:

- **PIM and Public Finance Management (PFM).** The comprehensive PIM guidelines, adopted in late 2022, seek to strengthen project classification, establish a prioritized project pipeline for large projects, and enhance capacity for project management and monitoring, in line with the 2016 PIMA recommendations. These guidelines should be operationalized as soon as feasible. Relatedly, making progress on the third PFM Strategy and outstanding reforms to strengthen procurement can help ensure better resource allocation efficiency.[7]

- **Public-Private Partnerships (PPPs).** With the value of PPPs amounting to around one-third of GDP, strengthening the PPP framework remains critical. The revision of the PPP law, carried out in the context of harmonization with EU requirements, should integrate PPPs into the PIM framework and the regular budgetary process. The revised law should also clarify institutional responsibilities, including the role and capacity of the MoFE as gatekeeper in the PPP process. Unsolicited proposals—accounting for four-fifths of existing PPP contracts—undermine competition and should be eliminated.

- **Fiscal risk monitoring and management.** The authorities plan to prepare a standalone, comprehensive Fiscal Risk Statement starting in 2024. The statement should be forward-looking and cover a wide range of risks, including those emanating from PPPs, contingent implicit and legal liabilities, and SOEs, especially given their potential implications for public debt. The Fiscal Risk Unit (FRU) should expand its coverage of SOEs. In this context, plans to operationalize the

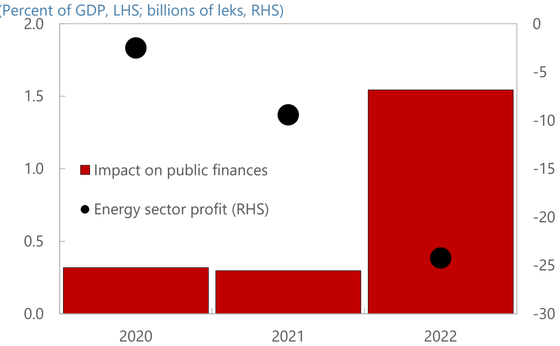
[6] See Albania: 2022 Article IV Consultation Staff Report, Annex VII and IMF Country Report No. 22/52.

[7] On procurement measures, see Albania: 2021 Article IV Staff Report and the EC's Albania 2023 Report.

SOE Health Check Tool—with Fund TA—are a step in the right direction. The fiscal risk statement should also clearly identify risk mitigation measures.

22. Albania's climate vulnerability calls for timely and concrete actions, especially given the exposure of hydropower and tourism to climate change risks:[8]

Albania's Energy Sector: Financial Performance and Public Financial Support
(Percent of GDP, LHS; billions of leks, RHS)



Sources: MoFE, OSHEE group, OST, and KESH Sh.a.

- The energy sector remains a potential source of fiscal vulnerability. Albania relies on hydropower as its main source of electricity, which is susceptible to climate change and rainfall patterns. The energy SOEs have been loss-making over many years and have relied on public support to maintain financial viability. Efforts should continue to fully operationalize the power exchange ALPEX as a platform for price discovery and to develop other sources of renewable energy. Long-standing recommendations from development partners include strengthening hydrological financial risk management, the gradual adjustment of tariffs to fully reflect costs, and improving corporate governance.

- To ensure adequate resources are channeled towards climate action, efforts should continue to integrate climate adaptation policies into national decision processes and policies. Implementation of the February 2023 National Strategy for Development and European Integration 2022–30, which envisages better incorporation of Albania's National Determined Contribution priorities into strategic planning and medium-term budgeting, is critical.

Authorities' Views

23. The authorities concurred with the need for fiscal prudence. While work on tax policy reforms—including on property and gambling tax—would continue, they emphasized the need for better revenue administration. In this context, they would like to update the MTRS, so that it better reflects the current macro-fiscal environment, including the growing role of tourism. They also stressed that tax policy measures need to comply with EU regulations. The authorities reaffirmed their commitment to fiscal structural reforms. A key priority will be to speed up execution of foreign-financed projects in the context of EU accession. Overall, they welcomed ongoing Fund TA and look forward to the Fund's continued engagement on these priority areas.

B. Monetary and Exchange Rate Policy

24. Returning inflation to target will likely require some further increases in the policy rate. The BoA appropriately resumed monetary tightening by hiking the policy rate by 25 bps to

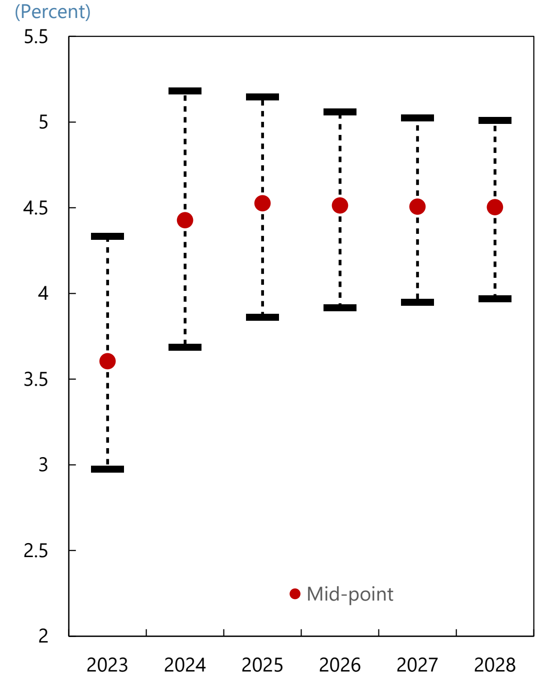
[8] See Albania 2022 Article IV Consultation Staff Report, Annex VI and Selected Issues.

3.25 percent in November 2023, as domestic inflationary pressures are rising given tight labor markets. In this context, with real rates still negative and below neutral, there is scope to go further. Staff's baseline assumes a gradual increase of the policy rate to a broadly neutral stance, in line with intentions communicated by the BoA,[9] with a terminal rate of about 4½ percent by 2025. This—together with lagged effects from ECB tightening and past exchange rate appreciation—is projected to ensure convergence to the inflation target by 2025. This path would be within the range suggested by a Taylor rule simulation.[10] Uncertainty, around the path of inflation remains high, and a flexible meeting-by-meeting approach to setting rates will allow for responding swiftly to potential changes in the inflation outlook.

25. The BoA has a strong statutory equity position, and unrealized revaluation losses on international reserves should not detract from its focus on price stability. The central bank law requires the MoFE to issue to the BoA marketable securities to cover revaluation effects and tradable securities if the value of its assets is less than the value of liabilities and capital. The BoA has a strong statutory equity position and is expected to post positive realized profits in the near to medium term. The BoA's recognition of significant, but recent, unrealized revaluation losses should thus not detract from its focus on reaching the inflation target. The BoA should work with the MoFE towards a shared interpretation of the BoA's organic law that would not require the issuance of additional securities.

Albania: Taylor Rule Policy Rate Simulation

(Percent)



Source: IMF staff calculations.

Notes: The left panel is based on a Taylor rule: $i_t = \rho i_{t-1} + (1-\rho)[r^* + \pi^* + \beta^{CPI}(\pi_t - \pi^*) + \beta^y(y_t - y^*)]$ simulated for a range of parameters $\rho \epsilon (0.4, 0.6)$; $r^* \epsilon (r^{C*} - 0.5; r^{C*} + 0.5$; $\beta^{CPI} \in (1, 2.5)$; $\beta^Y \in (0, 0.4)$; ρ∈(0.4, 0.6), β^P∈(1, 1.5), β^Y∈(0, 0.4). The real neutral interest rate r^{C*} is 1.5 percent. π_t is average inflation in t and $t+1$. The upper and lower bands represent the calculation with the upper and lower level of the parameters, respectively. The mid-point scenario (red dot) is based on strict inflation targeting ($\beta^y = 0$).

26. A flexible exchange rate should remain the first line of defense against external shocks. Movements (appreciation) starting in late 2022 were sharper than suggested by fundamentals and the BoA made two unscheduled interventions over the summer to smooth fluctuations and preclude the emergence of disorderly market conditions. For the same reason, in August, the BoA increased the frequency and magnitude of scheduled interventions.[11] A floating currency has served Albania well, but vigilance is needed given the potential of a sudden appreciation reversal, which could undermine financial stability. This calls for enhanced and preemptive macroprudential policies (see

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[9] See e.g., BoA Statement.

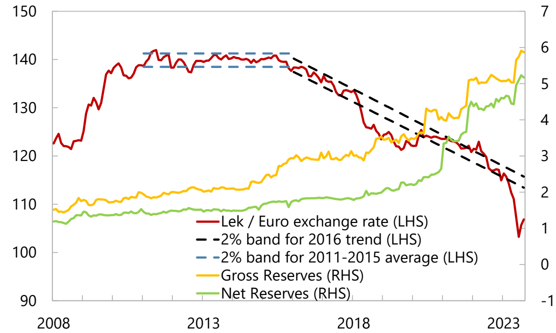
[10] See also IMF Regional Economic Outlook-Europe-April 2023, Box 5.

[11] The planned amount for annual purchases via auction increased from €160–220 million to €220–300 million, and the number of annual auctions increased from 16 to 17.

next section). Albania does not seem to meet the criteria that would call for the use of foreign exchange interventions (FXI) under the IPF at the current juncture (Annex IX).

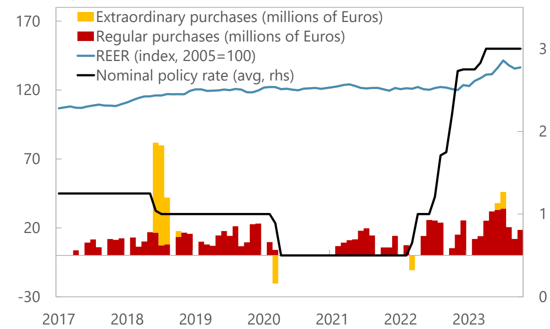
Albania: Exchange Rate Developments and FXI

Albania: Nominal Exchange Rate and Foreign Reserves
(Lek/Euro, LHS; Billion Euro, RHS)



Sources: Bank of Albania and IMF staff calculations.

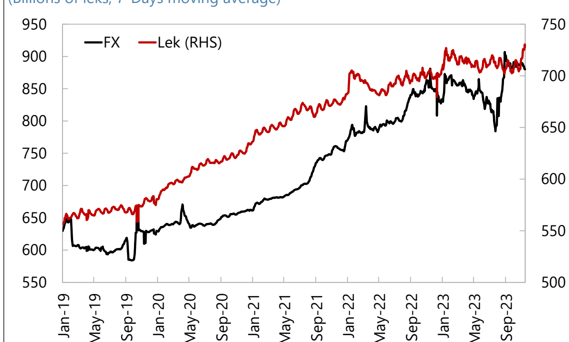
Albania: FX Intervention, Policy Rate, and Real Effective Exchange Rate



Sources: BoA, Haver Analytics, and IMF STA INS database.

27. Addressing high euroization would increase the effectiveness of the inflation targeting regime. Staff's analytical work confirms some of the challenges posed by euroization to the conduct of monetary policy (Annex X). In addition to de-euroization measures taken by the central bank (see next section), effective de-euroization could also be supported by administrative government action to promote the use of local currency for the pricing and payment of non-tradable goods. Further measures to deepen domestic FX markets, augment price discovery and derivative markets would be consistent with the de-euroization strategy.

Albania: Total Deposits, by Currency
(Billions of leks; 7-Days moving average)



Source: Bank of Albania.

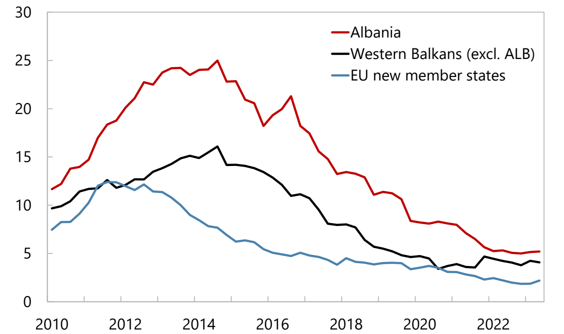
Authorities' Views

28. The BoA indicated that gradually increasing the policy rate towards its equilibrium level will ensure convergence of inflation by the second half of 2024. The BoA will continue to proceed in a data driven and cautious manner, taking into account effects from exchange rate movements and the fiscal stance, to bring inflation back to target at the lowest possible costs for the economy. The BoA agrees that the exchange rate should remain flexible and that appreciation is mainly driven by improving economic fundamentals, propelled by strong tourism prospects. The policy actions over the summer are seen as instrumental in reducing volatility and high bid-ask spreads that emerged due to speculative behavior. The authorities view the issuance of securities to cover revaluation losses as unnecessary, since these unrealized losses do not affect the BoA's operations.

C. Financial Stability

29. The banking system overall appears more resilient, bolstered by improved balance sheets, but some pockets of vulnerabilities exist. At 19 percent, the overall capital adequacy ratio (CAR) is well above the Albanian minimum requirement of 12 percent (compared to 8 percent in the EU), returns on assets exceed their long-term average, and NPLs have dipped to 10-year lows. Staff stress tests show broad resilience of the banking sector to the impact of growth, interest, and real exchange rate shocks on NPLs, although there is significant bank heterogeneity. This calls for continued prudent provisioning on a case-by-case basis and focused and timely asset quality reviews. Some banks continue to experience capital shortfalls under the macroprudential buffer requirements.[12] Staff supports the BoA's ongoing efforts to strengthen bank capital buffers, including by asking banks with shortfalls to temporarily suspend dividends. Further actions if needed could include the obligation to prepare a capital conservation plan and regulatory restrictions.

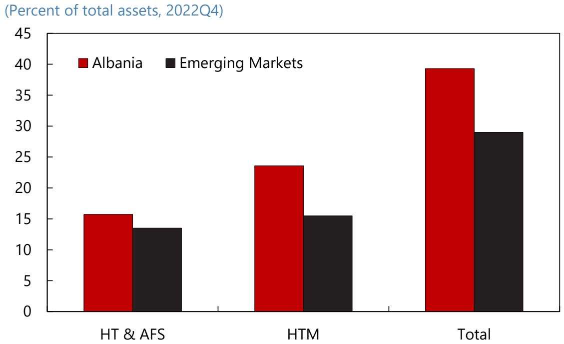
Non-Performing Loans
(Percent of total loans; medians)



Sources: National authorities, IMF FSI Database, and IMF staff calculations.

30. The high share of securities in bank portfolios could amplify macro-financial risks. Securities account for 39 percent of bank assets. More than 80 percent of securities are government securities, of which around two-thirds are domestic. About 60 percent of securities are intended to be held to maturity (HTM). BoA stress tests focusing on available for sale securities (AFS), show that a further increase in domestic and global interest rates by 3 percent would result in modest capital shortfalls for some banks. Assuming that banks would be forced to liquidate HTM portfolios under stressed conditions, a fall in the value of the nonresident portfolio by around 30 percent would result in the CAR falling under 12 percent.[13] Previous IMF work[14] indicates that a systemic risk buffer on banks with large and concentrated securities portfolios may mitigate these risks.

Securities Held by Commercial Banks
(Percent of total assets, 2022Q4)



Sources: BoA and GFSR, October 2023, Chapter 2
Note: Average of G20 emerging markets.

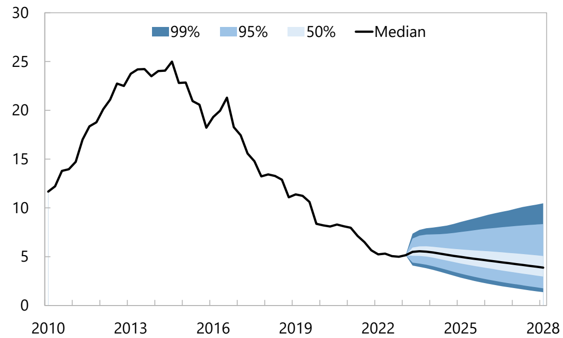
[12] Banks are subject to a capital conservation buffer (2 percent in 2023); and buffers for systemically important banks (0.5–1.5 percent). The countercyclical capital buffer (CCyB) remains at zero percent and no systemic risk buffer ratio has been introduced. MREL requirements are being phased in through 2027, and five banks are required to meet the minimum MREL requirement (1.5 percent by end-2023).

[13] See Financial Stability Report H2/2022.

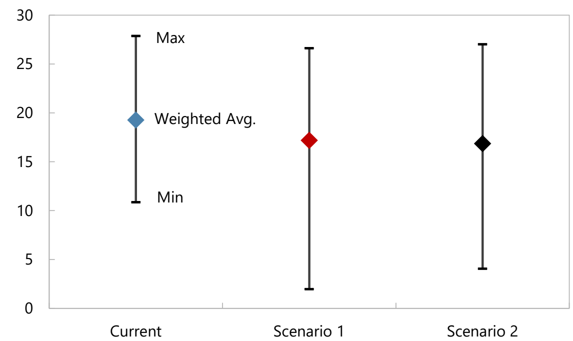
[14] April 2022 Global Financial Stability Report, Chapter 2.

Albania: The Potential Impact of Macroeconomic Shocks on NPLs and Capital

Albania: Simulated Distribution of NPLs in Response to Macroeconomic Shocks
(Percent of total loans)



Albania: Capital Adequacy Ratios
(Percent)



Sources: BoA, INSTAT, and IMF staff calculations.

Note: Based on bank-level data for 11 banks as of Q1 2023. The distribution and confidence intervals were generated using one million repetitions based on an econometric model that simulates the statistical joint distribution of possible paths for real GDP growth, real interest rates and the real effective exchange rate based on historical shocks. Scenario 1 assumes a 60 percent coverage ratio, whereas scenario 2 keeps the coverage ratio at the current levels. NPLs are assumed to double in the scenarios in line with the 99 percentiles in the left chart.

31. Emerging financial vulnerabilities warrant continued nimble and vigilant supervision and the use of prudential tools. Vulnerabilities include:

- **A rising concentration of lending linked to the real estate sector.** Data gaps prevent timely monitoring and identification of potential risks related to the real estate sector (¶18). The BoA's recent regulation on collecting data on additional indicators, including Loan-to-Value (LTV) and Debt-to-Income (DTI) ratios, is key to further enhancing the quality of bank portfolios over time by introducing borrower-based tools.

- **A significant share of unhedged FX borrowing.** Several macroprudential tools are in place to mitigate risks from FX lending and deposits (Table 3). Additional policies can complement these efforts. For instance, the authorities could consider introducing differential LTV and DTI requirements for domestic and FX loans. A positive neutral countercyclical capital buffer rate could be introduced to further support financial stability.

- **Cyber risk.** Amid increased cyber risks, the BoA should prepare and adopt a comprehensive cyber-testing strategy and clearly define and test business continuity management exercises. It should also formalize vulnerability assessments on financial market infrastructures and critical systems.

- **Climate risk**. The BoA has developed a multi-year strategy for the management and supervision of climate-related risks in the financial sector. Key steps in the climate roadmap include identifying data gaps and developing disclosure principles, scenario analyses and stress tests, and developing and implementing prudential instruments for identified gaps.

32. Continued progress with financial sector structural reforms would help solidify recent improvements. Such reforms include:

- **Aligning supervisory and regulatory frameworks with EU standards.** The BoA awaits the official start of equivalence with the European Banking Authority (EBA) preceded by an independent assessment, demonstrating high convergence with the EU regulatory and supervisory framework. The transposition of the Capital Requirements Directive (CRD IV) into a new banking law has started. The BoA expects banks to comply with IFRS9 starting in 2024. The 2022 safeguards assessment found a relatively robust safeguards framework. The recommendation to amend the BoA law is currently on hold to allow for requirements that may result from Albania's EU accession discussions.

Text Table 3. Albania: Macroprudential Tools to Mitigate Risks from Euroization

Category	Subcategory	Description of Measure
Measures Part of the De-Euroization Package Adopted by the Bank of Albania (2018)		
Liquidity Tools to the banking sector	Reserve requirements for macroprudential purposes differentiated by currency	*Domestic currency:* 7.5 percent (5 percent for liabilities with maturity 1–2 years) *Foreign currency:* 12.5 percent (when liabilities < 50 percent of total liabilities) and 20 percent (when liabilities > 50 percent of total liabilities)
Liquidity Tools to the banking sector	Liquidity buffer requirements—Liquid asset ratio differentiated by currency	*Domestic Currency:* liquid assets ratio of 15 percent Foreign Currency: liquid assets ratio of 20 percent
Household Sector Tools	Measures to mitigate systemic risks from loans to the household sector	Banks are required to propose to the borrower an alternative loan in domestic currency and to accompany the product with a concrete example on how the loan instalment changes in case of a supposed exchange rate depreciation. Banks are encouraged to address the possibility of mitigating the exchange rate risk for the foreign currency borrower if this risk is identified and is accepted in the terms of the contract between the parties.
Other Measures in Place		
Broad-Based Tools Applied to the Banking Sector	Measures to increase resilience or address risks from broad-based credit booms	Loans to unhedged borrowers should not exceed 400% of the regulatory capital of the bank, with deduction from this letter of any additional amount.
		Loans to unhedged borrowers should have a 50% higher risk weight to the loan amount, denominated, or indexed in foreign currency.
Source: IMF Macroprudential Policy Survey and Bank of Albania		

- **Implementation of insolvency and resolution frameworks.** The long-standing impasse in the bailiff reform has been resolved, facilitating the execution of collaterals. Further progress in implementing out-of-court settlements can speed up NPL resolution processes.

- **Promoting governance.** Continuing to encourage sound governance to mitigate risks of capital shortfalls, related party transactions and large exposures, including assurance of the fit and proper criteria of market players on an ongoing basis (including their significant shareholders and controllers, beneficial owners, and senior managers), enhanced risk-based on-site and off-site inspections, and effective AML/CFT oversight, remain priorities. Staff's financial flows analysis identified material outflows-outliers, highlighting the importance of strengthened monitoring of cross-border transactions.

- **Deepening capital markets.** A new policy document on capital market development has been adopted in April 2023, laying out actions to promote participation, increase the range of financial instruments, and expand and diversify the investor base. The development of domestic capital markets should give priority to attracting more non-resident investors, strengthening investing capacities of non-bank financial institutions and increasing liquidity in government securities' secondary markets.

Authorities' Views

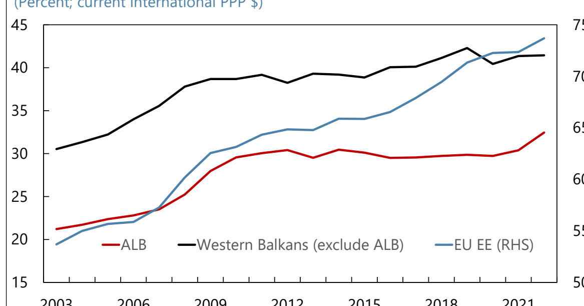
33. The BoA sees the banking sector as liquid and well-capitalized and shares staff's views on the need to sustain the reform momentum. The BoA assesses the exposure of the banking sector to risks as contained, although credit and market risks should be carefully assessed on an ongoing basis. Rising bank profitability reflects sound policies undertaken in recent years, and provides an opportunity to further increase capital buffers and comply with MREL requirements. Collecting more data on the real estate sector and climate exposures of financial institutions is seen as key to better monitor and manage risks. The BoA agreed on the need for a new Financial Sector Assessment Program with the last one dating back to 2014.

D. Structural Reforms

34. Albania has struggled with closing the income gap with EU countries. Several mutually reinforcing impediments are holding back productivity. These include widespread informality, weaknesses in governance and the rule of law, significant gender gaps in labor force participation, high youth inactivity, and infrastructure gaps. Emigration of workers and a rapidly aging population pose additional threats to growth.

Share of EU GDP per Capita

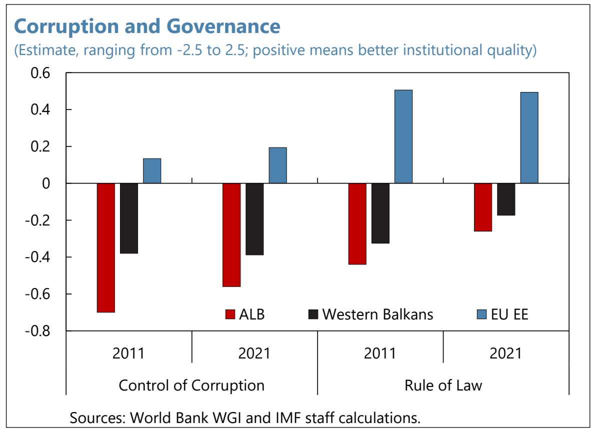
(Percent; current international PPP $)



Sources: World Bank World Development Indicators and IMF staff calculations.
Note: Western Balkans includes MNE, MKD, and SRB. EU EE includes BGR, CZE, HUN, POL, and ROU.

35. The authorities are alert to these challenges and have made important strides in key areas. A comprehensive judicial reform program has progressed steadily and Albania has fully operationalized and improved the capacity of the Special Structure Against Corruption and Organized Crimes (SPAK), which has increased enforcement, investigation, prosecution, and adjudication. In October 2023, the Financial Action Task Force (FATF) removed Albania from its list of countries under increased monitoring ("grey list"), citing major progress in addressing strategic AML/CFT deficiencies. The authorities also introduced the 2023–30 National Employment and Skills Strategy (NESS 2023–30), which seeks to strengthen labor market programs, including by enhancing vocational training and promote youth employment opportunities.

36. Despite significant progress, further efforts are needed to strengthen governance and the rule of law. The Albanian justice system is still perceived to be afflicted with corruption, structural inefficiencies, and professional shortages.



- **Judicial reforms.** The authorities appear on track to finalize the vetting of judges and other judicial officials by the constitutional deadline of December 2024. Further progress should be made to reduce case backlogs, including by setting up an integrated case management system, addressing judicial vacancies, and building on the efficiency gains from the new judicial map. The appointment of new members of the High Judicial Council and High Prosecutorial Council should be fully transparent, merit-based, and competitive.

- **Anti-corruption strategy.** SPAK should continue to have adequate resources to fulfill its mandate. SPAK's recent high-profile prosecutions involving some of the country's largest PPP projects demonstrate how corruption, coupled with a weak PIM framework, could inflate the cost of public investment. The adoption and implementation of the 2024–30 National Anticorruption Strategy, planned for early 2024, should proceed without delay, along with efforts to address recommendations by the Council of Europe's Group of States Against Corruption (GRECO), including those related to post-employment restrictions for members of the Council of Ministers and political advisors, as well as police reforms.

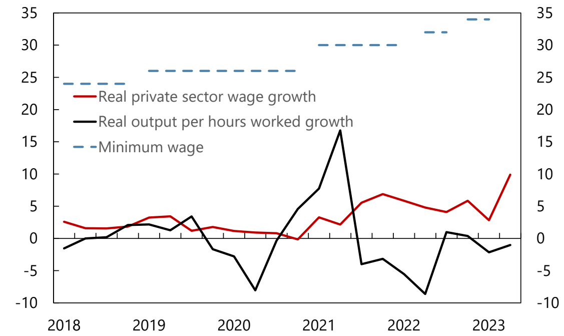
- **AML/CFT.** The exit from FATF's grey list should bolster the authorities' commitment and efforts to further strengthen Albania's AML/CFT regime should continue. Steadfast commitment to FATF principles and best practices, including in the context of strengthened monitoring of cross-border transactions and any future voluntary disclosure programs, remains crucial.

37. Accelerating emigration underscores the urgency of decisive implementation of policies to develop and retain human capital. Policies to mitigate the effects of emigration should aim at promoting economic and social conditions for return migration. [15] Key areas for reforms include modernizing the education curriculum, improving the education curriculum, improving the

[15] IMF Staff Discussion Note 16/07.

relevance and quality of vocational training, investing in digital skills, and fostering R&D to nurture innovation. Adjustments to the minimum wage and other salaries should be closely aligned with average productivity growth of workers. Adequate budget resources and monitoring mechanisms are needed to ensure reform efforts translate into better outcomes.

Albania: Wage and Productivity
(Percent, y/y change for growth rates; thousands of leks for minimum wage)

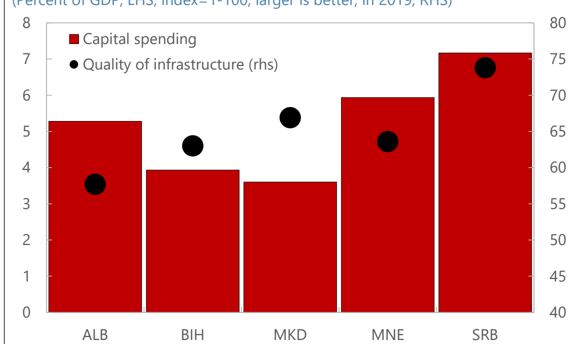


Sources: Instat, Haver Analytics, and IMF staff calculations.

38. Increasing female labor force participation can help reduce labor shortages and boost growth. The gender gap in labor force participation remains high for women with lower than tertiary educational attainment (Annex XI). Closing this gender gap could increase the level of GDP by 5 percent. Expanding access to childcare facilities could boost participation and ease labor shortages especially for women without tertiary education.

39. Progress in these areas, while closing infrastructure gaps, would help Albania become more integrated in global value chains. Albania's links with GVCs are among the weakest in the Western Balkans, primarily due to the high concentration of exports in low-value manufacturing products, unprocessed goods, and tourism. IMF analysis shows that by improving infrastructure, labor skills and adopting trade policies that ensure investor protection and harmonize regulations and legal provisions, Albania can greatly enhance its engagement with GVCs.[16]

Infrastructure and Public Investment
(Percent of GDP, LHS; index=1-100, larger is better, in 2019, RHS)



Sources: IMF WEO database and the Statista.

Authorities' Views

40. The authorities broadly concurred with staff on structural reform priorities. They saw the exit from the grey list as a testament to the robustness of Albania's AML/CFT framework. They highlighted the significant increase in anticorruption actions—including high-profile prosecutions—in recent years and expect imminent recruitments that will bring SPAK to full prosecutorial capacity. The authorities agreed on the urgency of labor market reforms, including with regards to vocational training programs and expanding access to child and elderly care. They recognized the importance of upgrading infrastructure to fully harness the potential of the tourism sector. Overall, they see the acceleration in EU accession as a boon for structural reforms.

[16] European Department Paper Series, No. 2019/017.

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41. Albania's economic prospects are expected to remain robust. Real GDP growth is projected at 3.6 percent in 2023 and 3.3 percent in 2024 led by resilient private consumption, with notable strength in tourism and construction activity. Inflation hovers around 4 percent amid tight labor markets and is expected to revert gradually to the 3 percent target by early 2025. Heightened geopolitical tensions represent a major potential headwind, even as the economy remains vulnerable to the risks of weather-related energy sector shocks, a sudden reversal of the exchange rate appreciation, and more persistent inflation.

42. A meaningful revenue-based fiscal consolidation starting in 2024 is critical to build fiscal space for future countercyclical policy. Additional frontloaded cumulative net fiscal measures of around 1½ percent of GDP would bring public debt on a clear downward path percent, and lower gross financing needs. Consolidation should be achieved through a sound revenue mobilization strategy, coupled with efficiency gains and reallocation of resources to infrastructure, education, and climate adaptation. The authorities should also continue to lengthen debt maturities and reduce the reliance on floating rate debt. Concrete advances on fiscal reforms that enhance governance and oversight of SOEs, including in the energy sector, and PPPs, are key to safeguarding fiscal sustainability.

43. Returning inflation to target will likely require some further increases in the policy rate. The BoA appropriately resumed monetary tightening in November 2023 as domestic inflationary pressures persist amid tight labor markets. A gradual increase of the policy rate to a broadly neutral stance—estimated at around 4½ percent—should help allow inflation return to target by early 2025. Uncertainty around the inflation path remains high and a flexible meeting-by-meeting approach to rate-setting is appropriate.

44. A flexible exchange rate should remain the first line of defense against external shocks. The external position of Albania in 2022 was moderately weaker than the level implied by fundamentals and desirable policies**.** A floating currency has served Albania well, but vigilance is needed given the potential of a sudden reversal, which could undermine financial stability. This calls for enhanced preemptive macroprudential policies, including differential LTV and DTI requirements for domestic and FX loans. Further de-euroization efforts, supported by government action to promote the use of local currency as the legal tender would raise the effectiveness of the inflation targeting regime.

45. The banking system overall appears more resilient, but some pockets of vulnerabilities exist. There is scope to strengthen the capital positions of some banks, in addition to prudent provisioning and focused asset quality reviews. Over the medium-term, a positive neutral countercyclical capital buffer rate could be considered to support financial stability. Further progress on aligning supervision and regulation with EU standards, operationalizing insolvency and resolution frameworks, strengthening governance and deepening capital markets would support durable credit growth.

46. Albania should seize the opportunities afforded by the growing momentum of EU enlargement to address long-standing structural challenges. Judicial reforms should be complemented by increased efficiency to address the backlog in cases. The authorities should build on their exit from FATF's list of countries under increased monitoring by ensuring sustained and robust commitment to AML/CFT reforms and best practices. Addressing gaps in youth and female labor force participation will help lift potential growth. Adequate budget resources and monitoring mechanisms are needed to ensure reform efforts translate into better outcomes.

47. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

Table 1. Albania: Basic Indicators and Macroeconomic Framework, 2019–28

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Est.			Proj.			
				(Percent change)						
Real sector										
Real GDP	2.1	-3.3	8.9	4.8	3.6	3.3	3.4	3.5	3.5	3.5
Domestic demand contribution	2.1	-3.2	8.2	8.4	4.8	3.9	3.9	3.7	3.6	3.6
Consumption	2.8	-2.3	4.4	4.8	2.9	2.4	2.4	2.2	2.2	2.2
Investment (Incl. inventories and stat. disc)	-0.6	-0.9	3.8	3.6	2.0	1.5	1.5	1.5	1.5	1.5
External demand contribution	-0.1	-0.1	0.7	-3.6	-1.2	-0.6	-0.5	-0.2	-0.2	-0.2
Consumer Price Index (eop)	1.1	1.1	3.7	7.4	3.8	3.6	3.0	3.0	3.0	3.0
Consumer Price Index (avg.)	1.4	1.6	2.0	6.7	4.8	4.0	3.2	3.0	3.0	3.0
GDP deflator	1.3	0.7	3.5	9.9	4.3	3.7	3.0	3.0	3.0	3.0
				(Percent of GDP)						
Saving-investment balance										
Foreign savings	7.6	8.7	7.7	6.0	3.5	4.4	4.4	4.3	4.1	4.0
National savings	14.7	14.0	16.7	17.9	20.4	20.2	20.4	21.1	21.5	22.0
Public	2.0	-1.0	1.8	1.7	2.4	1.6	1.3	0.9	0.8	0.6
Private	12.8	15.0	14.9	16.2	18.0	18.6	19.0	20.3	20.7	21.4
Investment (incl. Inventories and stat. disc.)	22.3	22.6	24.4	23.9	23.9	24.6	24.8	25.4	25.6	26.0
Public	5.3	6.7	7.4	5.3	5.9	4.7	4.7	4.7	4.7	4.7
Private	17.0	15.9	16.9	18.6	18.0	19.9	20.1	20.7	20.9	21.3
Fiscal sector										
Total revenue and grants	27.2	25.9	27.5	26.8	28.0	27.4	27.4	27.5	27.5	27.5
Tax revenue	25.2	24.2	25.6	25.3	25.8	25.8	25.8	25.9	25.9	25.9
Total expenditure	29.2	32.6	32.1	30.4	30.2	29.9	30.2	30.7	30.8	31.0
Primary	27.1	30.5	30.2	28.6	28.0	27.3	27.3	27.4	27.4	27.5
Interest	2.1	2.1	1.9	1.9	2.2	2.7	2.9	3.3	3.4	3.5
Overall balance 1/	-1.9	-6.7	-4.6	-3.7	-2.2	-2.5	-2.8	-3.2	-3.3	-3.5
Primary balance	0.1	-4.6	-2.7	-1.8	0.0	0.2	0.1	0.0	0.0	0.0
Financing	1.9	6.7	4.6	3.7	2.2	2.5	2.8	3.2	3.3	3.5
Of which: Domestic	3.3	3.0	-1.0	4.1	0.1	3.1	1.9	1.1	1.1	1.7
Of which: Foreign	-1.3	3.7	5.6	-0.4	2.1	-0.6	0.9	2.1	2.2	1.7
General Government Debt 2/3/	67.4	75.8	75.2	65.5	61.1	60.4	60.2	59.8	59.5	59.4
Domestic	36.9	40.6	38.6	35.3	33.0	33.2	33.3	32.9	32.7	35.4
External	30.4	35.2	36.7	30.2	28.0	27.2	27.0	26.9	26.9	24.1
				(Percent change)						
Monetary indicators										
Broad money growth	4.3	10.5	8.6	5.2	6.4	6.4	6.4	6.5	6.5	6.5
Private credit growth	6.1	8.9	8.6	7.0	4.3	3.6	5.5	6.4	6.6	6.5
				(Percent of GDP, unless indicated otherwise)						
External sector										
Trade balance (goods and services)	-13.6	-14.5	-13.4	-10.4	-10.5	-10.4	-10.5	-10.5	-10.5	-10.6
Current account balance	-7.6	-8.7	-7.7	-6.0	-3.5	-4.4	-4.4	-4.3	-4.1	-4.0
Gross international reserves (billions of Euros)	3.4	3.9	5.0	5.0	5.3	5.5	5.5	5.8	6.2	6.3
(In months of imports of goods and services)	6.5	9.6	8.8	6.9	6.5	6.1	5.9	5.9	5.9	5.6
(In percent of ARA metric)	174	188	201	187	177	175	166	164	162	154
Gross reserves excl. banks' FX reserves (billions of Euros)	2.8	3.3	4.3	4.2	4.4	4.5	4.5	4.8	5.1	5.1
Memorandum items										
Output gap	-1.1	-5.8	-0.4	1.0	0.8	0.5	0.3	0.2	0.1	0.0
Real GDP (growth per capita)	2.2	-3.2	9.1	5.1	3.9	3.6	3.8	3.8	3.8	3.9
Nominal GDP (in billions of lek)	1,692	1,647	1,856	2,138	2,310	2,475	2,636	2,810	2,996	3,192
Exchange rate Lek/Euro (avg.)	123	124	122	119	..	..	..	..	..	..
Exchange rate Lek/Euro (eop, annual growth)	-1.3	1.6	-2.4	-5.4	..	..	..	..	..	..

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

1/ The fiscal balance includes guarantees for new loans to the energy sector through 2019 and from 2021, and potential calls of COVID-19 related guarantees from 2022.
2/ Public debt refers to the general government and includes all public domestic and external guarantees for energy and non-energy sector debt as well as arrears from central and local government and VAT refund arrears.
3/ The 2021 SDR allocation equivalent at present to $170 million is recorded with the Bank of Albania and is used as a credit line until 2023 and for budget financing afterwards. Accordingly, public debt and the TSA account only include the SDR allocation starting 2024.

Table 2a. Albania: General Government Operations, 2019–28

(Percent of GDP)

	2019	2020	2021	2022	2023	2024		2025	2026	2027	2028
							Budget				
					Est.	Proj.					
Total revenue and grants	27.2	25.9	27.5	26.8	28.0	27.4	27.8	27.4	27.5	27.5	27.5
Tax revenue	25.2	24.2	25.6	25.3	25.8	25.8	26.0	25.8	25.9	25.9	25.9
VAT	7.8	7.9	8.7	9.0	8.7	8.7	8.7	8.7	8.7	8.7	8.7
Profit tax	2.2	1.7	1.9	2.2	2.6	2.2	2.2	2.2	2.2	2.2	2.2
Excise tax	2.8	2.7	2.8	2.5	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Customs duties	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Personal income tax	2.7	2.0	2.1	2.1	2.4	2.6	2.7	2.6	2.6	2.6	2.6
National taxes	2.2	2.2	2.3	2.1	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Local government revenue 1/	1.4	1.3	1.4	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Social insurance contributions	5.8	5.9	6.0	5.7	6.2	6.5	6.5	6.5	6.5	6.5	6.5
Non-tax revenue	1.5	1.2	1.2	1.0	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Grants	0.5	0.5	0.7	0.4	1.3	0.7	0.7	0.6	0.6	0.6	0.6
Total expenditure	29.2	32.6	32.1	30.4	30.2	29.9	30.3	30.2	30.7	30.8	31.0
Current expenditure	24.7	25.6	25.0	24.6	23.6	25.1	24.9	25.3	25.8	25.9	26.1
Personnel cost	4.5	4.7	4.5	3.9	4.2	4.9	4.9	4.9	5.0	4.8	4.9
Interest	2.1	2.1	1.9	1.9	2.2	2.7	2.7	2.9	3.3	3.4	3.5
Operations & maintenance	2.8	3.0	3.2	3.2	3.3	3.3	2.8	3.3	3.3	3.3	3.3
Subsidies	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social insurance outlays	10.4	10.9	10.7	10.1	9.8	10.1	10.2	10.1	10.1	10.2	10.3
Local government expenditure	3.3	3.1	2.8	2.7	2.8	2.9	2.9	2.8	2.9	2.9	2.8
Social protection transfers	1.4	1.7	1.6	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Other current transfers		0.1	0.2	1.3	0.0	0.0	0.0				
Capital expenditure	4.4	6.2	6.9	5.3	5.9	4.7	5.3	4.7	4.7	4.7	4.7
of which,											
Domestically financed	2.4	2.4	4.1	3.1	3.8	3.4	3.2	3.4	3.5	3.5	3.5
Foreign financed	1.4	1.5	1.4	0.9	1.4	1.1	1.8	1.2	1.2	1.2	1.2
Earthquake spending	0.0	1.0	1.4	1.3	0.7	0.3	0.3	0.1	0.0	0.0	0.0
Lending minus repayment	0.08	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve and contingency funds	0.0	0.7	0.0	0.0	0.7	0.1	0.1	0.2	0.1	0.1	0.1
Overall balance	-1.9	-6.7	-4.6	-3.7	-2.2	-2.5	-2.5	-2.8	-3.2	-3.3	-3.5
Financing	1.9	6.7	4.6	3.7	2.2	2.5	2.5	2.8	3.2	3.3	3.5
Domestic	3.3	3.0	-1.0	4.1	0.1	3.1	3.2	1.9	1.1	1.1	1.7
Privatization receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net borrowing	1.9	2.9	2.6	1.2	1.1	2.0	2.1	1.9	1.4	1.3	1.4
Change in general gov. deposits	1.4	0.0	-3.9	1.9	-1.2	0.7	0.7	0.0	-0.3	-0.2	0.3
Other	0.0	0.0	0.3	0.9	0.3	0.4	0.4	0.0	0.0	0.0	0.0
Foreign	-1.3	3.7	5.6	-0.4	2.1	-0.6	-0.6	0.9	2.1	2.2	1.7
Gross borrowing	0.7	7.4	7.4	1.3	4.9	1.5	1.5	5.3	3.5	5.6	4.8
Amortization	2.0	3.7	1.8	1.8	2.8	2.1	2.1	4.4	1.3	3.4	3.0
Memorandum Items:											
Primary balance	0.1	-4.6	-2.7	-1.8	0.0	0.2	0.2	0.1	0.0	0.0	0.0
Cyclically-adjusted primary balance	0.7	-1.7	-2.5	-2.3	-0.4	0.0	n.a.	-0.1	-0.1	0.0	0.0
Government TSA	1.0	0.5	3.9	0.7	1.9	1.1	1.1	1.0	1.2	1.4	1.0
General government debt 2/	67.4	75.8	75.2	65.5	61.1	60.4	58.7	60.2	59.8	59.5	59.4
Domestic	36.9	40.6	38.6	35.3	33.0	33.2	32.4	33.3	32.9	32.7	35.4
External	30.4	35.2	36.7	30.2	28.0	27.2	25.5	27.0	26.9	26.9	24.1
Direct general government external debt	28.8	33.0	35.0	28.7	26.6	25.9	n.a.	25.7	25.6	25.6	22.8
Government guaranteed external debt	1.6	2.2	1.7	1.5	1.4	1.3	n.a.	1.2	1.3	1.3	1.3
Nominal GDP (billions of leks)	1692	1647	1856	2138	2310	2475	2434	2636	2810	2996	3192

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

1/ Includes the property tax, the simplified profit tax for small businesses, and other local taxes.

2/ The stock of general government debt includes public guarantees (domestic and external) and arrears from central and local government and VAT refund arrears. The 2021 SDR allocation equivalent at present to $170 million is recorded with the Bank of Albania and is used as a credit line.

Table 2b. Albania: General Government Operations, 2019–28

(Billions of Leks)

	2019	2020	2021	2022	2023	2024		2025	2026	2027	2028
							Budget				
					Est.			Proj.			
Total revenue and grants	460.3	425.9	511.0	572.8	647.2	679.1	676.1	723.2	771.4	823.4	878.1
Tax revenue	426.3	398.7	475.6	541.3	595.8	638.6	633.7	681.2	726.5	775.6	827.1
VAT	132.4	130.4	161.5	191.4	200.0	214.5	211.2	228.5	243.8	260.3	277.7
Profit tax	36.6	28.4	35.6	47.7	59.0	54.5	53.7	58.0	61.9	66.0	70.3
Excise tax	46.7	44.5	51.6	53.5	59.0	63.3	63.6	67.5	72.0	76.7	81.5
Customs duties	6.5	6.2	7.5	8.4	8.8	9.4	9.0	10.2	10.9	11.6	12.5
Personal income tax	46.1	33.7	39.3	45.0	56.0	63.5	65.2	67.6	72.4	77.7	82.7
National taxes	36.4	35.8	42.5	44.8	41.0	43.8	44.3	46.7	49.8	52.9	56.6
Local government revenue 1/	23.1	22.0	26.7	27.6	27.7	29.7	29.1	31.7	33.7	35.9	38.2
Social insurance contributions	98.4	97.7	110.9	122.8	144.3	160.3	157.6	170.9	182.2	194.5	207.5
Non-tax revenue	25.3	19.0	22.3	21.9	20.8	24.0	25.4	25.6	27.2	29.1	31.0
Grants	8.8	8.3	13.0	9.5	30.6	16.5	17.0	16.5	17.6	18.8	20.0
Total expenditure	493.2	536.3	596.3	651.0	698.3	740.7	737.4	796.2	862.6	922.6	988.3
Current expenditure	418.2	422.4	464.8	527.1	544.4	620.8	605.5	666.3	725.5	776.8	834.1
Personnel cost	77.0	76.9	83.3	83.9	95.9	120.2	119.8	128.8	140.6	144.8	156.2
Interest	35.1	34.4	35.8	39.6	51.1	66.2	66.2	75.4	91.6	100.7	111.1
Operations & maintenance	47.2	48.9	59.4	68.5	75.9	81.4	67.1	86.7	92.4	99.7	106.2
Subsidies	2.8	1.5	1.4	1.7	1.6	1.9	1.9	1.9	1.9	2.2	2.2
Social insurance outlays	175.6	179.4	199.5	216.5	225.4	248.9	248.9	265.5	283.6	305.2	327.9
Local government expenditure	56.2	51.6	52.6	58.7	64.5	71.2	71.2	75.1	80.2	86.3	90.4
Social protection transfers	24.3	28.7	29.1	30.3	30.1	31.1	30.5	33.1	35.2	37.8	40.1
Other current transfers		1.0	3.7	27.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	75.0	101.7	128.0	112.9	136.6	117.4	129.4	125.0	133.2	142.0	150.3
of which,											
Domestically financed	51.5	60.6	75.8	65.5	87.1	83.0	77.4	90.7	98.3	105.6	111.1
Foreign financed	23.5	24.7	25.7	18.7	32.6	27.4	44.0	32.4	34.9	36.4	39.2
Earthquake spending	0.0	16.4	26.5	28.8	17.0	7.0	7.0	2.0	0.0	0.0	0.0
Lending minus repayment	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve and contingency funds	0.1	12.1	0.5	0.0	17.2	2.5	2.5	4.8	3.8	3.8	3.8
Overall balance	-32.9	-110.4	-85.3	-78.2	-51.1	-61.6	-61.3	-72.9	-91.2	-99.3	-110.2
Financing	32.9	110.4	85.3	78.2	51.1	61.6	61.3	72.9	91.2	99.3	110.2
Domestic	55.5	48.9	-18.7	87.8	2.6	76.8	76.8	50.5	31.7	32.8	55.1
Privatization receipts	0.2	0.2	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net borrowing	32.4	47.8	48.7	26.2	25.0	50.0	50.0	50.0	40.0	40.0	45.0
Change in general gov. deposits	22.8	0.8	-72.7	41.5	-28.4	16.8	16.8	0.5	-8.3	-7.2	10.1
Other	0.0	0.0	5.0	20.0	6.0	10.0	10.0	0.0	0.0	0.0	0.0
Foreign	-22.6	61.5	104.0	-9.5	48.5	-15.2	-15.5	22.4	59.5	66.5	55.1
Gross borrowing	11.3	121.4	137.2	28.3	112.4	36.9	36.6	139.0	97.0	168.6	152.3
Amortization	33.9	61.3	33.2	38.4	63.9	52.1	52.1	116.5	37.5	102.1	97.2
Memorandum Items:											
Primary balance	2.3	-76.0	-49.5	-38.6	0.1	4.6	4.9	2.4	0.4	1.5	0.9
Government TSA balance	16.2	7.8	72.6	14.5	42.9	26.1	26.1	25.6	33.9	41.2	31.0
General government debt 2/	1,140	1,248	1,396	1,402	1,411	1,495	1,428.4	1,588	1,680	1,784	1,898
Domestic	625.0	668.3	715.8	755.9	763.0	821.9	787.8	876.9	925.4	979.1	1128.7
External	514.8	580.0	680.4	645.8	647.8	673.1	620.0	710.7	755.0	804.5	768.9
Direct general government external debt	488.1	544.4	648.8	613.4	613.7	641.6	n.a.	678.0	719.4	765.6	727.2
Government guaranteed external debt	26.7	35.5	31.5	32.3	32.3	31.5	n.a.	32.6	35.6	38.9	41.7

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

1/ Includes the property tax, the simplified profit tax for small businesses, and other local taxes.

2/ The stock of general government debt includes public guarantees (domestic and external) and arrears from central and local government and VAT refund arrears. The 2021 SDR allocation equivalent at present to $170 million is recorded with the Bank of Albania and is used as a credit line.

Table 3a. Albania: Balance of Payments, 2019–28

(Percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Est.			Proj.			
Current account	-7.6	-8.7	-7.7	-6.0	-3.5	-4.4	-4.4	-4.3	-4.1	-4.0
Goods and services (fob)	-13.6	-14.5	-13.4	-10.4	-10.5	-10.4	-10.5	-10.5	-10.5	-10.6
Goods (fob)	-22.9	-22.4	-25.3	-23.7	-23.5	-23.5	-23.3	-23.3	-23.2	-23.2
Exports	6.6	6.0	8.3	10.7	8.0	8.1	8.1	8.1	8.1	8.2
Imports	29.4	28.4	33.6	34.4	31.5	31.5	31.4	31.4	31.3	31.3
Services	9.3	7.9	11.8	13.3	13.0	13.1	12.8	12.8	12.7	12.6
Exports	24.7	16.7	23.0	26.6	27.6	27.9	28.1	28.2	28.2	28.2
Imports	15.4	8.8	11.1	13.3	14.6	14.8	15.3	15.4	15.5	15.6
Primary Income	-1.0	-1.6	-1.4	-1.8	-0.6	-0.7	-0.6	-0.5	-0.3	-0.1
Compensation of employees (net)	2.2	1.7	2.0	2.4	2.2	2.3	2.4	2.6	2.9	3.0
Investment income (net)	-3.2	-3.3	-3.4	-4.2	-2.8	-3.0	-3.1	-3.1	-3.2	-3.2
Other (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Secondary Income	7.0	7.5	7.1	6.2	7.5	6.7	6.7	6.7	6.7	6.7
General Government (net)	0.5	0.4	0.3	0.2	0.8	0.1	0.0	0.0	0.0	0.0
Workers' Remittances (net)	5.1	5.1	5.0	4.6	5.0	5.0	5.0	5.0	5.0	5.0
Other private transfers (net)	1.4	2.0	1.8	1.4	1.7	1.7	1.7	1.7	1.7	1.7
Capital account	0.5	1.1	2.4	0.1	0.4	1.2	1.2	1.2	1.2	1.2
Financial account	-6.0	-11.3	-10.3	-4.6	-4.9	-3.9	-3.4	-4.3	-4.2	-3.2
Direct investment, net	-7.5	-6.7	-6.5	-6.6	-7.1	-7.2	-7.2	-7.2	-7.2	-7.2
Portfolio investment	1.0	-0.5	-0.6	3.2	0.2	1.1	0.8	-1.2	1.3	1.0
Other investment	0.5	-4.1	-3.2	-1.2	2.0	2.2	3.0	4.1	1.7	3.0
Errors and omissions	0.4	1.2	1.3	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Net balance	-1.0	3.7	4.9	-1.3	1.8	0.6	0.2	1.2	1.3	0.4
Reserve assets (reserve loss = +)	0.6	-4.9	-6.2	0.4	-1.8	-0.6	-0.2	-1.2	-1.3	-0.4
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
				(Percent change, unless otherwise noted)						
Memorandum items:										
Goods and Services										
Export value (fob)	6.1	-29.8	57.3	41.7	12.5	9.6	4.7	5.5	6.7	6.7
Import value (fob)	6.1	-19.8	37.0	26.8	13.9	9.4	4.6	5.5	6.8	6.8
Export volume	1.7	-27.4	41.4	25.2	8.2	6.5	2.7	3.5	4.8	4.8
Import volume	4.7	-19.5	23.7	11.7	7.0	6.5	2.9	3.7	4.9	5.0
Terms of trade	-1.1	-9.1	17.5	8.7	-4.3	-0.3	-0.3	0.7	-0.2	-0.2
Gross reserves (millions of euros)	3,360	3,942	4,972	4,952	5,329	5,477	5,519	5,823	6,175	6,286
(in months of imports of goods and services)	6.5	9.6	8.8	6.9	6.5	6.1	5.9	5.9	5.9	5.6
(in percent of ARA metric)	174	188	201	187	177	175	166	164	162	154
Gross reserves excl. banks' FX reserves (millions of euros)	2,817	3,350	4,267	4,156	4,412	4,493	4,505	4,763	5,052	5,099
(in months of imports of goods and services)	6.8	5.9	6.0	5.1	4.9	4.8	4.6	4.8	4.8	4.5
(in percent of ARA metric)	146	160	172	157	147	144	136	134	132	125
Gross external debt (millions of euros)	8,246	8,549	9,755	9,799	10,939	11,266	12,031	12,973	13,877	14,818
Gross external debt (percent of GDP)	60.0	64.2	64.3	54.3	51.5	48.7	50.1	51.3	51.5	51.6
Nominal GDP (millions of euros)	13,754	13,311	15,162	18,035	21,260	23,111	23,994	25,269	26,960	28,731

Sources: Albanian authorities; and IMF staff estimates.

Table 3b. Albania: Balance of Payments, 2019–28

(Millions of Euros)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Est.			Proj.			
Current account	-1,041	-1,153	-1,166	-1,080	-745	-1,018	-1,065	-1,087	-1,118	-1,160
Goods and services (fob)	-1,870	-1,931	-2,033	-1,868	-2,222	-2,409	-2,513	-2,660	-2,844	-3,046
Goods (fob)	-3,144	-2,983	-3,829	-4,269	-4,991	-5,425	-5,592	-5,892	-6,260	-6,654
Exports	907	794	1,265	1,933	1,705	1,863	1,953	2,053	2,185	2,342
Imports	4,050	3,776	5,094	6,202	6,696	7,289	7,545	7,945	8,445	8,996
Services	1,274	1,052	1,796	2,401	2,769	3,016	3,080	3,233	3,416	3,608
Exports	3,398	2,226	3,486	4,801	5,868	6,440	6,741	7,116	7,599	8,099
Imports	2,124	1,174	1,690	2,400	3,099	3,423	3,662	3,883	4,183	4,491
Primary Income	-140	-219	-211	-332	-119	-166	-155	-116	-74	-32
Compensation of employees (net)	299	221	296	428	473	525	587	669	774	872
Investment income (net)	-439	-443	-508	-762	-593	-692	-744	-786	-849	-905
Other (net)	0	2	1	2	1	1	1	1	1	1
Secondary Income	968	997	1,078	1,119	1,596	1,557	1,603	1,688	1,800	1,918
General Government (net)	67	58	49	31	171	18	5	5	5	6
Workers' Remittances (net)	702	673	761	834	1,064	1,147	1,190	1,254	1,338	1,425
Other private transfers (net)	199	266	268	254	361	393	408	430	457	487
Capital account	76	143	357	19	83	275	290	306	326	348
Financial account	-827	-1,504	-1,555	-834	-1,040	-890	-817	-1,086	-1,143	-924
Direct investment, net	-1,036	-894	-980	-1,197	-1,510	-1,654	-1,719	-1,817	-1,947	-2,074
Portfolio investment	141	-66	-96	573	49	261	186	-302	346	274
Other investment	69	-545	-478	-210	422	502	715	1,033	457	876
Errors and omissions	60	160	191	157.0	0.0	0.0	0.0	0.0	0.0	0.0
Net balance	-138	495	745	-227	377	148	42	304	351	112
Reserve assets (reserve loss = +)	78	-655	-936	70	-377	-148	-42	-304	-351	-112
Financing Gap	0	0	0	0	0	0	0	0	0	0
				(Percent change, unless otherwise noted)						
Memorandum items:										
Goods and Services										
Export value (fob)	6.1	-29.8	57.3	41.7	12.5	9.6	4.7	5.5	6.7	6.7
Import value (fob)	6.1	-19.8	37.0	26.8	13.9	9.4	4.6	5.5	6.8	6.8
Export volume	1.7	-27.4	41.4	25.2	8.2	6.5	2.7	3.5	4.8	4.8
Import volume	4.7	-19.5	23.7	11.7	7.0	6.5	2.9	3.7	4.9	5.0
Terms of trade	-1.1	-9.1	17.5	8.7	-4.3	-0.3	-0.3	0.7	-0.2	-0.2
Gross reserves (millions of euros)	3,360	3,942	4,972	4,952	5,329	5,477	5,519	5,823	6,175	6,286
(in months of imports of goods and services)	6.5	9.6	8.8	6.9	6.5	6.1	5.9	5.9	5.9	5.6
(in percent of ARA metric)	174	188	201	187	177	175	166	164	162	154
Gross reserves excl. banks' FX reserves (millions of euros)	2,817	3,350	4,267	4,156	4,412	4,493	4,505	4,763	5,052	5,099
(in months of imports of goods and services)	6.8	5.9	6.0	5.1	4.9	4.8	4.6	4.8	4.8	4.5
(in percent of ARA metric)	146	160	172	157	147	144	136	134	132	125
Gross external debt (millions of euros)	8,246	8,549	9,755	9,799	10,939	11,266	12,031	12,973	13,877	14,818
Gross external debt (percent of GDP)	60.0	64.2	64.3	54.3	51.5	48.7	50.1	51.3	51.5	51.6

Sources: Albanian authorities; and IMF staff estimates.

Table 4a. Albania: Monetary Survey, 2019–28

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

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Proj.					
Net foreign assets	729.0	808.2	854.4	846.6	828.2	878.8	913.1	975.2	1,046.8	1,098.5
Bank of Albania	402.0	480.4	556.0	523.1	512.4	541.9	560.5	593.8	632.5	644.6
Commercial banks	327.0	327.8	298.4	323.4	315.8	336.9	352.6	381.4	414.3	453.9
Net domestic assets	589.6	648.7	727.9	818.5	943.0	1,005.8	1,092.9	1,161.4	1,229.4	1,325.1
Claims on central government, net	378.5	435.4	412.2	485.7	476.0	530.3	564.8	596.5	629.3	673.1
Claims on public enterprises	24.2	15.2	22.5	23.7	23.1	23.4	23.3	23.3	23.3	23.3
Claims on the private sector	532.5	579.9	629.5	673.8	702.7	727.7	768.0	817.5	871.4	928.4
In leks	271.7	300.8	330.1	349.2	409.4	446.0	468.0	503.4	541.7	582.2
In foreign currency	260.8	279.1	299.4	324.6	293.3	281.7	300.0	314.1	329.7	346.1
Other items, net	-345.5	-381.7	-336.4	-364.6	-258.8	-275.6	-263.1	-275.9	-294.6	-299.7
Broad money	1,318.7	1,456.9	1,582.3	1,665.1	1,771.2	1,884.6	2,005.9	2,136.6	2,276.2	2,423.6
Currency outside banks	291.4	344.6	366.3	387.7	409.2	432.1	456.3	482.2	509.6	538.2
Deposits	1,027.3	1,112.3	1,216.1	1,277.4	1,361.9	1,452.6	1,549.6	1,654.4	1,766.6	1,885.4
Domestic currency	466.6	517.7	552.2	551.6	594.9	641.7	692.4	747.4	807.0	870.6
Foreign currency	560.6	594.7	663.8	725.9	767.1	810.8	857.3	906.9	959.6	1,014.7
Memorandum items:										
Broad money growth (% change)	4.3	10.5	8.6	5.2	6.4	6.4	6.4	6.5	6.5	6.5
Reserve money growth (% change)	2.5	23.1	5.8	9.6	5.6	6.1	6.1	5.2	5.3	5.4
Private sector credit growth (% change)	6.1	8.9	8.6	7.0	4.3	3.6	5.5	6.4	6.6	6.5
Broad money (as percent of GDP)	77.9	88.4	-1.2	77.9	76.7	76.1	76.1	76.0	76.0	75.9
Private sector credit (as percent of GDP)	31.5	35.2	33.9	31.5	30.4	29.4	29.1	29.1	29.1	29.1
Velocity (nominal GDP/broad money)	1.3	1.1	1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Money multiplier (absolute values)	3.0	2.7	2.8	2.7	2.7	2.7	2.7	2.8	2.8	2.8
Currency (as share of broad money)	22.1	23.6	23.1	23.3	23.1	22.9	22.7	22.6	22.4	22.2
Foreign currency deposits/total deposits	54.6	53.5	54.6	56.8	56.3	55.8	55.3	54.8	54.3	53.8
Gross reserves (millions of euros)	3,359.6	3,942.4	4,972.2	4,952.1	5,329.3	5,476.9	5,519.1	5,823.3	6,174.7	6,286.5

Sources: Bank of Albania; and IMF staff estimates.

Note: Foreign exchange denominated items are converted at exchange rates for that period.

Table 4b. Albania: Summary of Accounts of the Central Bank, 2018–28

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

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
								Proj.			
Net foreign assets	412.5	402.0	480.4	556.0	523.1	512.4	541.9	560.5	593.8	632.5	644.6
Assets	436.5	427.0	504.2	600.4	565.6	551.8	582.3	601.9	635.2	673.9	686.0
Liabilities	24.0	25.0	23.8	44.4	42.5	39.4	40.4	41.4	41.4	41.4	41.3
Net domestic assets	11.0	31.9	54.0	-8.3	79.4	141.3	151.5	175.4	180.5	183.2	215.1
Domestic credit	21.7	44.5	66.5	0.0	55.9	53.7	45.9	63.9	46.9	25.6	34.6
Net claims on central government	-12.4	8.4	31.8	-43.8	2.5	-25.9	-9.1	-8.6	-6.9	-4.1	6.0
Other credit	34.1	36.1	34.7	43.8	53.4	79.6	55.0	72.5	53.9	29.8	28.6
Private sector	1.8	2.1	2.0	2.2	2.3	2.2	2.3	2.3	2.3	2.3	2.3
Commercial banks	32.3	34.0	32.7	41.6	51.1	77.4	52.8	70.2	51.6	27.5	26.3
Other items, net (assets = +)	-10.8	-12.6	-12.5	-8.3	23.5	87.6	105.5	111.5	133.5	157.5	180.5
Reserve money	423.4	434.0	534.3	565.2	619.2	653.7	693.4	735.9	774.2	815.7	859.8
Currency in circulation	275.3	291.4	344.6	366.3	387.7	409.2	432.1	456.3	482.2	509.6	538.2
Bank reserves	148.1	142.4	189.7	198.9	231.5	244.4	261.3	279.6	292.0	306.0	321.5
Other nonbank deposits	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Bank of Albania; and IMF staff estimates.

Note: Foreign exchange denominated items are converted at exchange rates for that period.

Table 5. Albania: IMF Core Indicators of Financial Soundness, 2014–23

(Percent, unless otherwise indicated; end-period)

			Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Sep-23
I		Capital-based										
(i)		Regulatory capital as a percent of risk-weighted assets	16.8	15.8	16.0	17.0	18.7	18.7	18.7	18.5	18.1	19.6
	(ii)	Regulatory Tier 1 capital as a percent of risk-weighted assets	13.8	13.7	14.1	15.5	17.4	17.5	17.6	17.4	16.9	18.2
	(iii)	Capital as a percent of total assets										
		Regulatory Tier 1 capital as a percent of total assets	7.4	8.3	8.7	9.0	9.2	9.1	9.1	8.8	8.6	9.0
		Regulatory capital as a percent of total assets	9.0	9.7	10.0	9.9	9.8	9.7	9.6	9.4	9.2	9.7
		Shareholders' equity as a percent of total assets	8.6	9.5	9.7	10.2	10.1	10.5	10.4	9.9	9.8	10.0
	(iv)	Nonperforming loans net of provisions as a percent of capital										
		As a percent of regulatory Tier 1 capital	46.7	28.4	26.3	17.3	16.6	14.6	12.0	7.6	7.9	7.1
		As a percent of regulatory capital	38.3	24.3	23.1	15.7	15.5	13.6	11.3	7.1	7.3	6.6
		As a percent of shareholders' equity	40.2	24.8	23.6	15.3	15.0	12.7	10.5	6.8	6.9	6.4
	(v)	Return on equity (ROE) (annual basis)	14.2	13.2	7.5	15.7	13.0	13.5	10.7	12.9	12.3	16.2
	(vi)	Net open position in foreign exchange as a percent of capital										
		As a percent of regulatory Tier 1 capital	10.4	9.0	8.0	7.3	8.4	8.0	9.0	9.8	5.4	8.4
		As a percent of regulatory capital	8.5	7.7	7.0	6.7	7.8	7.4	8.4	9.2	5.0	7.8
		As a percent of shareholders' equity	8.9	7.8	7.2	6.5	7.5	6.9	7.8	8.7	4.7	7.5
II		Asset-based										
	(vii)	Liquid assets as a percent of total assets (Liquid-asset ratio)	31.9	32.3	31.3	30.2	34.2	35.7	34.8	33.3	29.6	29.9
	(viii)	Liquid assets as a percent of short-term liabilities	40.4	41.4	40.6	40.8	46.2	49.4	47.4	45.4	41.1	42.6
	(ix)	Return on assets (ROA) (net income to average total assets, annual)	0.9	1.2	0.7	1.5	1.3	1.4	1.1	1.3	1.2	1.6
	(x)	Nonperforming loans (gross) as a percent of total loans	22.8	18.2	18.2	13.2	11.1	8.4	8.1	5.6	5.0	5.2
III		Income and expense-based										
	(xii)	Interest margin to gross income	84.5	82.7	81.6	95.6	100.8	75.7	74.1	74.0	81.5	78.9
	(xiii)	Noninterest expenses to gross income	51.1	48.1	50.4	71.9	77.6	61.2	58.7	60.3	60.4	51.4
IV		Memorandum items										
		Other (noncore) indicators:	-64.8	0.0								
		Customer deposits as a percent of total (non-interbank) loans	180.2	187.8	192.8	194.0	203.2	207.2	211.3	213.6	212.4	215.7
		Foreign currency-denominated loans to total loans	62.4	60.8	58.6	56.4	56.1	51.2	50.3	51.1	51.4	47.5
		Foreign currency-denominated liabilities as a percent of total liabilities	58.7	60.7	54.6	60.4	59.1	56.8	55.7	51.0	52.4	57.3
		Other indicators:										
		Risk weighted assets as a percent of total assets	53.6	62.0	63.4	59.7	53.9	53.2	52.6	52.4	50.9	49.4
		Total loans as a percent of total assets	46.0	44.5	42.7	41.6	40.0	39.0	38.5	37.8	38.1	37.7
		Total loans as a percent of shareholders' equity	536.3	466.8	438.6	408.9	393.8	373.3	370.5	381.7	388.0	376.3

Sources: Bank of Albania; and IMF staff estimates.

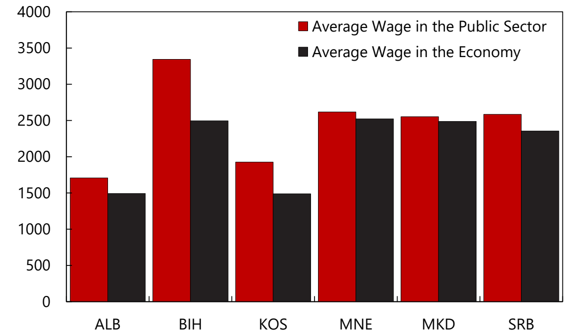
Annex I. Implementation of Article IV Recommendations

Key Recommendations (2022 Article IV)	Policy Actions
Fiscal Policy	
A more ambitious fiscal consolidation, underpinned by a sound Medium-Term Revenue Strategy, is vital for rebuilding room for policy maneuver	The outturn for 2022 and the estimated outturn for the 2023 Budget marked considerable consolidation with a reduction in the primary balance as a share of GDP of almost 3 percentage points. The primary balance in 2023 is estimated to be zero, thus complying with the fiscal rules one year ahead of time. The 2024 budget envisages a small primary surplus. MTRS-related measures that had been adopted continued to be implemented, but the MTRS is now not expected to be finalized or adopted in 2023.
Fiscal support should be temporary and targeted to the vulnerable.	The broad subsidies to the energy sector allocated under the 2022 Budget (1.3 percent of GDP) were fully disbursed. In contrast, the broad subsidies under allocated under the 2023 Budget continues to the energy sector (0.5 percent of GDP) was not used amid a more favorable performance of the energy sector. The 2024 Budget makes no allocation for broad subsidies to the SOEs.
Structural Fiscal Reforms	
The MTRS remains the cornerstone of a credible fiscal consolidation and should be finalized and implemented as a cohesive strategy without further delay.	The authorities indicated that they would continue working on key measures already identified in the draft MTRS but considered the draft in its current form needs to be updated to better reflect the current conditions of the economy compared.
Public investment management (PIM) needs strengthening.	Comprehensive PIM guidelines introduced in December 2022 seek to facilitate the review and rationalization of project classifications, establish a prioritized project pipeline for large public investment projects, and enhance capacity building for project management and monitoring. The authorities are also looking at reviewing the law on Public-Private Partnerships and have received Fund TA advice. The timeline for the completion and operationalization of these measures remains to be confirmed.
Much remains to be done to improve the coverage, quality, and capacity for monitoring, assessing, and managing fiscal risks.	MoFE issued a new Instruction No.35 in December 2022 to address these limitations to improve fiscal risk management and disclosure and has strengthened the mandate of the Fiscal Risk Unit. The authorities are on track to produce a more forward-looking and comprehensive fiscal risk assessment as a standalone document, independent of the budget document.
The use of normative acts to alter the budget should be minimized.	Normative acts were used to amend the 2022 budget on multiple occasions. A normative act was passed to amend the 2023 Budget in October 2023.
Monetary Policy and Financial Sector	
Monetary policy should continue to normalize while being nimble and data driven. Further interest rate increases are warranted in the short term to prevent a wage-price spiral and reduce the risk of inflation expectations becoming unanchored.	The BoA has raised interest rates 5 times in 2022 and 2 times in 2023, by a cumulative amount of 275 basis points. The authorities remain committed to be data-dependent in their monetary policy decisions, while assessing the strength of monetary policy transmission and anchoring of inflation expectations.
Enhanced vigilance is vital to safeguard financial stability, as monetary conditions continue to tighten, and the financial landscape has changed.	The authorities have continued on-site and off-site inspections of the banking sector, while monitoring financial soundness indicators and implementing macro-prudential policies. Authorities have engaged in increased vigilance towards cyber risk, increasing monitoring capacities within the banking system and the BoA.

Key Recommendations (2022 Article IV)	Policy Actions
Close monitoring and management of potential risks from sizable credit growth, including rising FX lending, and enhanced surveillance of the real estate and construction sector's impact on financial stability are essential.	The BoA has preserved capital buffers and foresees implementation of combined macroprudential capital buffers to be met by banks as of January 2024. The AQR of systemic banks has not identified relevant capital shortfalls. The BoA has adopted regulations to collect annual data on the real estate and construction sectors and enhance their surveillance. Finalized court procedures on the bailiff tariffs allow for a full implementation of the bailiff reform.
Improving regulatory and supervisory frameworks, aligned with EU and FATF standards, would provide the authorities with tools to better monitor and manage financial integrity and financial stability risks.	Engagement on EBA equivalence has continued at a fast-moving pace, while the BoA has carried out an independent equivalence assessment demonstrating convergence with EU standards. The BoA has further aligned regulations aiming at strengthening capitalization standards for banks, made improvements to fit and proper requirements in relation to bank ownership and in conducting risk-based supervision of banks.
The Albanian Financial Supervisory Authority (AFSA) should continue to enhance data collection, risk monitoring, and expand its liquidity management toolkit for investment funds.	AFSA has established a Technical Committee overseeing Collective Investment Undertakings, has increased monitoring of net repayments, liquidity, and stress test results, and has increased reporting frequencies.
Governance Reforms	
Ongoing efforts related to judicial reforms and combating corruption should continue.	The vetting of judges, as part of the judicial reforms has been 90 percent completed. The draft National Anticorruption Strategy is now expected by the end of 2023.
Climate adaptation policies should be integrated into national decision processes and costed properly in medium-term planning and annual budget allocation decisions	Albania is implementing the National Climate Change Strategy 2020–2030, which creates a framework for climate related policies. A Council of Ministers' decision in February 2023 has adopted a framework to integrate climate action into the decision-making and budgetary processes.
Efforts to address human development needs and reduce informality should be stepped up to help reduce emigration and maintain incentive structures in the labor market.	Albania has started implementation of the Youth Guarantee Program and national employment promotion programs, with an attempt to reduce NEET and retain young labor force in the country.
Efforts to exit FATF's grey list and continue to reaffirm the commitment to a robust AML/CFT framework should continue.	Albania has made substantial progress on AML/CFT rules and regulations, leading FATF to remove Albania from the list of country under increased monitoring, in their plenary meeting on October 2023,

Annex II. Public Wage Developments[1]

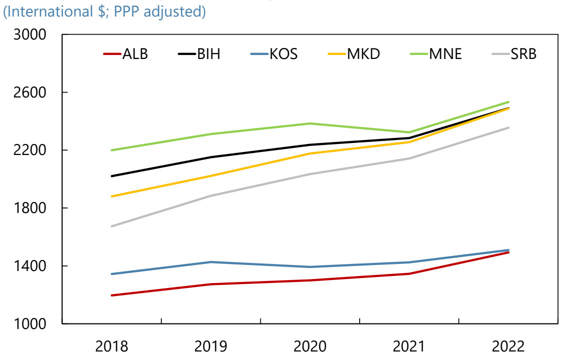
Average Wages in Western Balkan Countries
(PPP International $, 2022)



Sources: National Institute of Statistics and IMF staff calculations.

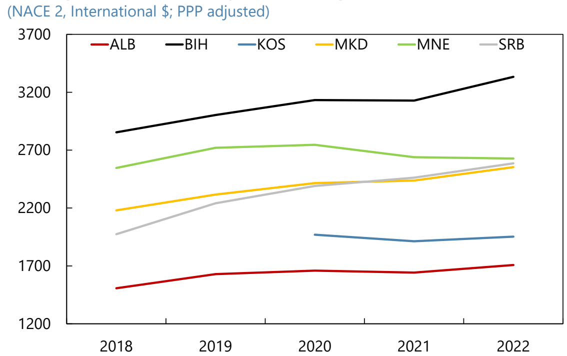
1. **Albania stands out as the Western Balkan country with the lowest private and public sector wages.** As of 2022, the average gross monthly public sector wage in Albania was approximately 30 percent lower than in other Western Balkan economies, both in nominal and purchasing power parity adjusted terms. Despite a period of high inflation, the public sector has struggled to keep up with wage growth in the private sector, which has consistently outpaced it in 2021 and 2022. In terms of real wages, the private sector experienced a significant growth rate of 10.2 percent in 2022, while the public sector saw a modest growth rate of 1.9 percent.

Average Monthly Gross Wages
(International $; PPP adjusted)



Sources: INSTAT and IMF staff calculations.

Average Public Monthly Gross Wages
(NACE 2, International $; PPP adjusted)



Sources: INSTAT and IMF staff calculations.

2. **Albania also has the lowest public sector wage bill compared to peers.** The wage bill represents 4.5 percent of GDP in Albania, less than half of the average across the other Western Balkan economies (10 percent). Albania's public sector wage bill as a percentage of government revenue is also the lowest in the region (16.7 percent, while the average for other Balkan countries is 27 percent).

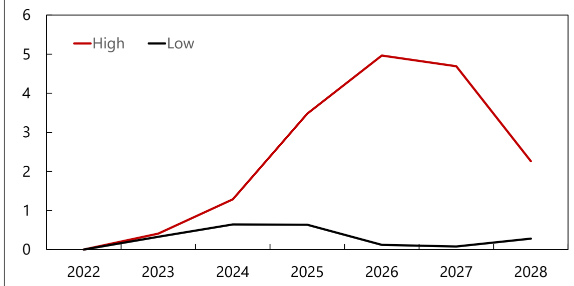
3. **In this context, the authorities have decided to raise public sector wages.** To retain the labor force within the public sector and the country, the authorities have announced their intention to raise the average salary by 40 percent to EUR 900. This increase is part of a reform that was announced and implemented in April—June 2023, specifically targeting public sector wages. The reform introduces a revised wage structure that rewards individuals with longer careers in the public administration. Additionally, it seeks to alleviate wage disparities by providing further decompression within the wage structure. Wages will be indexed to the average annual inflation rate

[1] Prepared by Amanda Edwards, Olti Mitre and Eugena Topi.

at least every two years starting in 2026, with a cap set at the inflation target established by the Bank of Albania, plus one percentage point. Implementing this policy measure is expected to result in a roughly 30 percent increase in the public sector wage bill by 2026.

4. Large public sector wage increases may spill over to further economy-wide wage increases, which in turn pose a material risk of raising underlying inflation. Recent IMF research indicates that this is especially a concern when labor markets are tight and the economy operates at or above potential.[2] There could be some factors mitigating the impact in Albania on inflation, including the relatively small size of the public sector, and Albania could be at the lower end of estimated inflationary effects. Even then, effects are persistent with the main impact on inflation expected for 2024–25, raising inflation by about half a percentage point in both years.

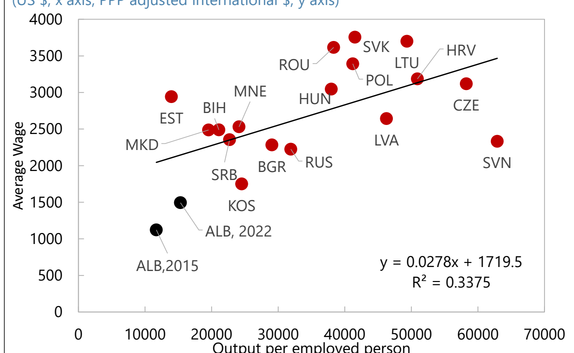
Impact of Public Sector Wage Increases on Inflation
(Percent)



Source: IMF staff calculations.
Note: "High" uses the estimated coefficients from Coady et al (2023) for the impact of a 1 percent in increase in public sector wages on inflation in a high infiaiton period. "Low" uses the estimated coefficient for a small public sector.

5. Furthermore, unless offset by productivity gains, sustained higher wage growth and inflation imply a potential loss of competitiveness. In 2022, annual wage growth outpaced the annual growth in productivity. The economy's output per worker lags levels of other countries in the region (around 37 percent below the levels of BIH, MKD, SRB, and 57 percent below the levels of MNE).

Wage and Labor Productivity, 2022
(US $, x axis; PPP adjusted international $, y axis)



Sources: Haver Analytics and IMF staff calculations.

6. It will be important to ensure that the recent public sector wage increases do not jeopardize medium-term fiscal consolidation objectives. Hence, they should be accompanied by additional revenue measures and improvements to public sector efficiency. Other considerations include PFM reforms to enhance the transparency and oversight on public wage setting by integrating it in the budgetary framework and promoting payment-related digitalization. IMF research has shown that such arrangements tend to promote the efficiency of wage formation and hiring processes.[3] Moreover, instead of increasing public wages with job tenure, the authorities could consider introducing a well-designed performance-based pay component to improve performance and service delivery.

[2] C Abdallah, D. Coady, and L. F. Jirasavetakul, "Public-Private Wage Differentials and Interactions Across Countries and Time", 2023, WP/23/64.

[3] B Clements, S. Gupta, I. Karpowicz, and S. Tareq, "Evaluating Government Employment and Compensation," IMF Fiscal Affairs Department.

Annex III. Long-Term Exchange Rate Determinants[1]

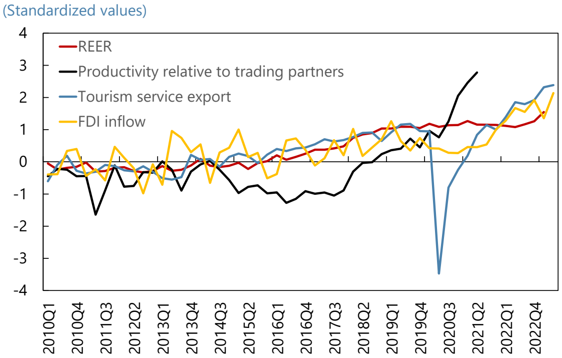
Using a panel of European and Western Balkan countries, this annex finds evidence that the appreciation of the real exchange rate over the long term is broadly driven by fundamentals, including increasing productivity relative to trading partners, the improvement in the terms of trade, and the increasing importance of service exports (i.e., tourism). These results underpin the recommendation that the exchange rate should be kept as a shock absorber, even in the face of episodic deviations from fundamentals as exemplified by the recent bout of accelerated lek appreciation.

1. The literature on the determinants of the real equilibrium exchange rate considers several factors that could explain the long-term appreciation of the Albanian lek[2]:

- **Supply side.** Productivity gains in the tradable sector would result in higher real wages in the non-tradable sectors of the economy—such as real estate, education, or health—which are not matched by higher productivity and thus increasing prices of non-tradable goods and services leading to an appreciation of the real exchange rate in the medium to long-term. Key to this analysis is the change in productivity (and in the price of non-tradables) with respect to trading partners.

- **Demand side.** Appreciation of the real exchange rate could stem from government consumption (which would mostly increase demand for non-tradables), increase in net foreign assets position (which would increase the REER in the long-run so as to generate the current account deficits necessary to rebalance the NFA position), improvements in the terms of trade (that would result in higher national income and thus higher demand for both tradable and non-tradable goods), and output per capita growth that could result in a shift of demand towards non-tradable goods and services, such as housing, health care, and leisure activities.

Albania: Correlation of REER with Some Fundamentals
(Standardized values)



Source: IMF staff calculations.

- **Albania specific structural factors.** The appreciation may reflect structural factors such as the development of the tourism sector and FDI inflows that are financing the development of the construction sector (a non-tradable sector), and an improvement of labor productivity relative to trading partners. These factors are correlated with the appreciation of the real effective exchange rate in Albania (see chart).

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[1] Prepared by David Bartolini, Eugena Topi and Zeju Zhu, based on a forthcoming IMF WP.

[2] See for instance: Ricci, Milesi-Ferretti and Lee (2013), "Real Exchange Rates and Fundamentals: A cross-country Perspective", *Journal of Money, Credit and Banking*, vol. 45, No. 5, pp. 845-865.

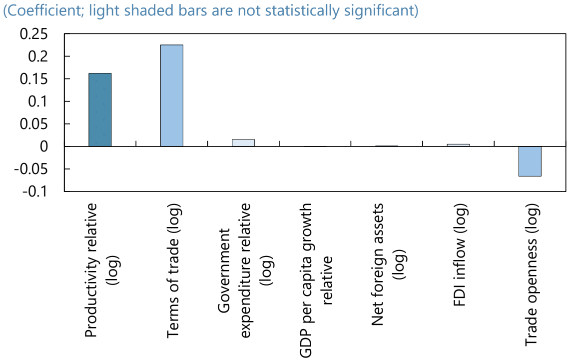
2. Panel cointegration methods are used to examine the role of long-term factors affecting the real exchange rate. A panel with quarterly data from 1997Q1 to 2023Q1, consisting of European and Western Balkans economies (including Albania) is used. First, the analysis establishes that a cointegration relation between the real effective exchange rate (REER) and the explanatory variables exists. The variables are tested for unit roots and then the econometric equation is tested for the presence of cointegration using three different panel cointegration tests: (i) Kao, (ii) Pedroni and (iii) Westerlund. The results support the presence of cointegration and thus the estimation coefficients can be treated as the long-term impact of the regressors on the REER. The cointegrated panel is estimated with a dynamic OLS technique developed by Stock and Watson[3], which has the advantage of not requiring variables to be integrated of the same order, and the presence of leads and lags of the change in the regressors deals with the simultaneous bias among regressors.

3. The empirical results suggest that the real equilibrium exchange rate is driven by fundamentals. A key determinant of the REER is labor productivity relative to trading partners—the weights to construct the variables relative to trading partners are the same as the ones used to construct the REER. Improving the terms of trade would also result in an appreciation of the real exchange. As expected, economic development measured by the growth in GDP per capita relative to trading partners contributes to the appreciation of the REER—although the coefficient is very small. Trade openness tends to depreciate the REER as it would imply less protection for domestic goods. The net foreign asset position, government expenditure relative to trading partners and FDI inflow do not significantly affect the REER.

Estimation Results: Long-Run Coefficients

Albania: Estimation Results of the Cointegrating Panel

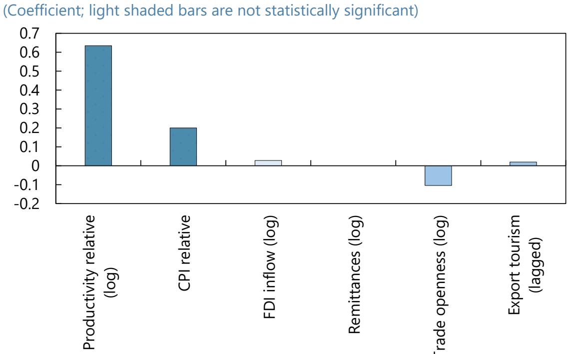
(Coefficient; light shaded bars are not statistically significant)



Source: IMF staff calculations.

Albania: ARDL Estimation Results

(Coefficient; light shaded bars are not statistically significant)



Source: IMF staff calculations.

Note: dark blue denotes significance at 5 percent level, light blue at 10 percent level, white bars are not significant at 5 or 10 percent level.

Left side based on a cointegrated panel: $\ln(REER)_{it} = \alpha_i + \boldsymbol{X_{it}\beta} + \sum_{s=-p}^{s=p} \Delta X_{it+s}\gamma_s + u_{it}$

Right side on ARDL: $\Delta\ln(\mathrm{REER})_t = c + \rho_1 \ln(REER)_{t-1} + (X\beta)_{t-1} + \sum_j \gamma_j \Delta\ln(REER)_{t-j} + \sum_k \eta_k \Delta X_{t-k} + \epsilon_t$

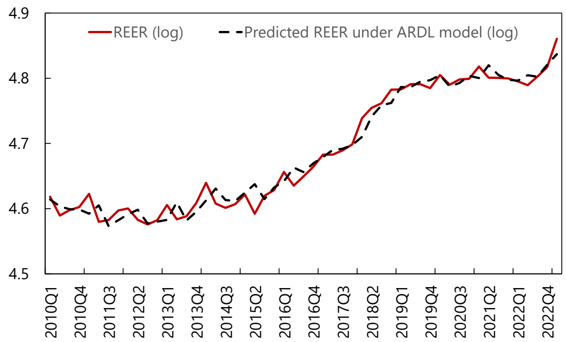
[3] Stock, J.H. and M. Watson (1993) "A simple estimator of cointegrating vectors in higher order integrated systems", *Econometrica*, 61, 783-820.

4. Focusing on Albania, we estimate an autoregressive distributed lag (ARDL) model where we explicitly consider the impact of FDI, remittances and exports related to tourism. The estimation of the ARDL equation confirms that productivity relative to trading partners is a key determinant of the Albanian REER. Tourism exports also contribute to the appreciation of the real exchange rate, although the coefficient is significant only at the 10 percent level. FDI is not significant, which could be related to the possibility that most FDIs go to the non-tradable sectors, mainly the construction sector, and thus their effects are captured by the price increase relative to other countries – the coefficient associated with FDI inflows is statistically significant when the CPI is not included Finally, as expected trade openness tends to depreciate the REER.

5. The estimated REER does fit quite well the actual movements in the REER. As regards the nominal exchange rate, it is evident that the recent fast appreciation goes beyond what would be predicted based on the regression analysis and economic fundamentals.

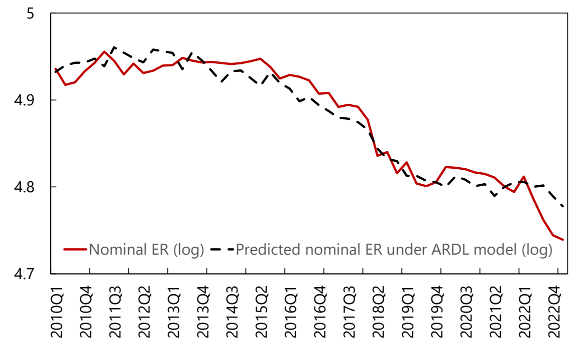
Real Effective Exchange Rate and Nominal Exchange Rate with Respect to Predicted Values

Albania: Real Effective Exchange Rate
(Logarithm of REER index)



Source: IMF staff calculations and estimates.

Albania: Nominal Exchange Rate Against Euro
(Logarithm of nominal exchange rate value)



Source: IMF staff calculations and estimates.

Annex IV. External Sector Assessment

Overall Assessment: *The external position of Albania in 2022 was moderately weaker than the level implied by fundamentals and desirable policies. The EBA-Lite CA-model results indicate a current account gap of 1.1 percent of GDP, implying a REER overvaluation of 4 percent. The current account deficit narrowed in 2022 compared to 2021, mainly due to a strong increase in the services balance. Significant external financing needs, an increasing share of commercial financing in the overall external debt, a still large negative albeit narrowing NIIP, as well as tighter global financial conditions pose risks. These risks are alleviated by foreign direct investment (FDI) flows, sufficient foreign reserve coverage, and significant official financing.*

Potential Policy Responses: *The process of reducing external imbalances will depend on actions to enhance domestic savings, with a particular emphasis on fiscal consolidation. Additionally, Albania's investment climate continues to face challenges stemming from structural weaknesses, such as concerns regarding governance, inadequate infrastructure, and shortages of skilled labor. These factors hinder the country's transition towards export-oriented growth.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The NIIP declined to -43 percent of GDP by the end of 2022, compared to -50.5 percent of GDP by the end of 2021. This improvement was primarily driven by higher nominal GDP growth and the strong appreciation of the lek. Foreign liabilities accounted for approximately 104 percent of GDP, with more than half of this comprising direct investment, while international reserves accounted for 27 percent of GDP. The NIIP at end-2022 exhibits a slight deterioration when compared with the levels observed in 2018 and 2019, while improving with respect to 2020 and 2021.

Assessment. The level and composition of the NIIP and gross external debt indicate that Albania’s external position is sustainable. However, the profile of liabilities is exposed to rollover risks associated with larger-than-expected hikes in interest rates and reversal of the appreciation of the exchange rates in the medium term, as the authorities intend to regularly access external commercial borrowings. Risks associated with external debt are partly mitigated by the relatively large share (around half) of public external debt held by multilateral institutions and bilateral development agencies.

2022 (% GDP)	NIIP: -43	Gross Assets: 57	Debt Assets: 16	Gross Liab.: 108	Debt Liab.: 43

Current Account

Background. The current account deficit decreased to 6 percent of GDP in 2022, driven by robust tourism inflows. However, this improvement was partially offset by a deterioration in the trade balance, resulting from increased imports of goods due to higher international prices and strong private demand. The current account balance in the first three quarters of 2023 already outperformed the same period in 2022, reaching a small surplus. While Q4 performance is expected to be weaker, the full-year current account balance is expected to improve further in 2023. The current account balance is expected to improve over the medium term, sustained by strong tourism inflows. However, Albania's current account remains susceptible to external shocks, including weather-related disruptions, due to its reliance on hydropower, and its dependence on tourism and remittances.

Assessment. The external position in 2022 is assessed to moderately weaker than the level implied by fundamentals and desirable policies. Under the EBA-Lite Current Account approach, the multilaterally consistent cyclically adjusted CA norm in 2022 is estimated at -4.8 percent of GDP and the cyclically adjusted CA balance is -5.9 percent. The estimated CA gap of -1.1 percent of GDP suggests that the REER is overvalued by 6.2 percent.

Albania: EBA-lite Model Results, 2022

	CA model 1/	REER model
	(in percent of GDP)	
CA-Actual	**-6.0**	
Cyclical contributions (from model) (-)	-0.1	
COVID-19 adjustors (-)	0.0	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-5.9**	
CA Norm (from model) 2/	**-4.8**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-4.8**	
CA Gap	**-1.1**	**-1.6**
o/w Relative policy gap	2.9	
Elasticity	-0.3	
REER Gap (in percent)	**4.0**	**6.2**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. Between 2017 and end-2022, the real effective exchange rate (REER) has appreciated by about 11 percent. This appreciation can be attributed to price differentials compared to trading partners and a significant strengthening of the nominal exchange rate. Long-term factors, such as robust foreign direct investment (FDI) flows and tourism, have also supported the appreciation. In the first quarter of 2022, the REER experienced a yearly depreciation due to the outbreak of the war in Ukraine, resulting in temporary downward pressure on the lek, particularly in March 2022, amid a significant increase in international commodity prices, towards the end of the year, these trends were reversed, and the REER appreciated considerably. Additionally, the nominal exchange rate appreciated by around 11 percent in the first 11 months of 2023, in tandem with robust tourism arrivals and foreign direct investment flows.

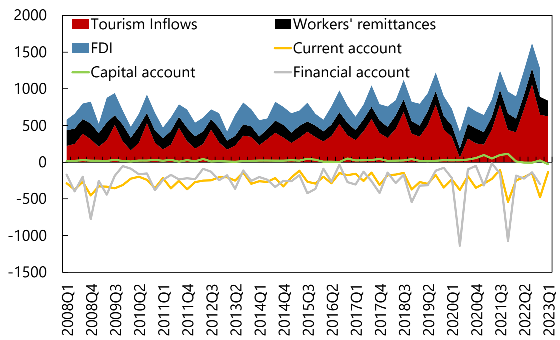
Assessment. The IMF staff CA gap estimate of -0.3 percent of GDP implies a REER gap of 1.1 percent (applying an estimated elasticity of 0.3). The REER model suggests a gap of 6.2 percent of GDP. The decrease in the estimated overvaluation of the REER compared to 2021 was driven by a steady increase in tourism inflows and FDI that underpin the appreciation of the nominal exchange rate.

Capital and Financial Accounts: Flows and Policy Measures

Background. Net financial inflows are dominated by FDIs, which represented about 7.5 percent of GDP in 2022. This inflow of capital is quite stable, while portfolio flows are more volatile offsetting the inflows from FDIs and reserve accumulation.

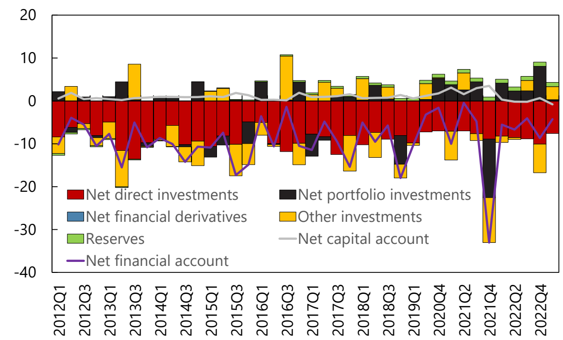
Assessment. FDI inflows are linked to the construction sector and tourism-related investment projects. These activities are expected to expand further in the near term thus supporting steady capital inflows. Risks linked to tightening global financial conditions could hinder the ability to obtain financing from nonresidents.

Selected Inflows Indicators
(Million EUR)



Sources: BoA and IMF staff calculations.

Net Capital and Financial Account
(Percent of GDP)



Sources: BoA and IMF staff calculations.

FX Intervention and Reserves Level

Background. Gross foreign exchange (FX) reserves reached about 27 percent of GDP and 187 percent of the ARA metric at end-2022. However, a considerable portion of these reserves comprises FX deposits held by commercial banks at the Bank of Albania. Excluding commercial banks' FX reserves, gross reserves were at 23 percent of GDP and 157 percent of the ARA metric as of end-2022.

Assessment. Reserves are adequate relative to various criteria, including the ARA metric. In addition, the ability of Albania to attract new foreign direct investment (FDI) flows and effectively refinance commercial external debt will increasingly play a pivotal role in ensuring external sustainability and fostering economic growth. The exchange rate should continue to act as shock absorber and FX interventions should be limited to deal with disorderly FX market conditions.

Authorities' Views

1. **The authorities generally concurred with staff's assessment of Albania's external position.** They pointed out that the developments in recent years potentially represent an important transition that will likely be reflected in further considerable strengthening in Albania's external position, in line with improved fundamentals. They agreed that continued structural reforms could help enhance Albania's competitiveness, and that continuously prudent fiscal policy could help support a stronger external position.

Annex V. Risk Assessment Matrix

Risks	Likelihood	Impact	Policy Responses
		Conjunctural risks	
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	**High**	**High.** Further increase in food and energy prices would hit the most vulnerable households and hurt economic growth, worsen the current account, de-anchor inflation expectations, and increase the budget deficit and fiscal risks from the energy sector.	• Adjust the pace of monetary policy tightening to anchor inflation expectations and clearly communicate the BoA's strategy. • Adopt additional but temporary and targeted income support to the poor and vulnerable. • Gradually adjust electricity tariffs to cost recovery levels and preserve price mechanism. • Reinvigorate energy sector reforms to restore the financial viability of energy sector SOEs. • Prepare a backup power supply plan.
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine and the intensification of the conflict in Gaza and Israel would disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows**.**	**High**	**Medium.** Sharp escalation in geopolitical tensions would affect the Albanian economy through higher commodity prices, lower trading partner growth, tighter financial conditions, and weaker confidence.	• Implement policies to cope with commodity price shocks (see above).
Abrupt global slowdown or recession in Europe. Intensifying fallout from the war in Ukraine, recurrent energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns, and housing and commercial real estate market corrections.	**Medium**	**High.** A recession in Europe might spill over to Albania through lower external demand, including for tourism, and a decline in remittances.	• Adjust the pace of fiscal consolidation within a credible revenue-based medium-term consolidation plan and seek additional official financing. Better target fiscal support. • Closely monitor and manage fiscal and financial sector risks. • Adjust the pace of monetary tightening and clearly communicate the BoA's strategy. • Improve the business environment to support growth and investment.
Monetary policy miscalibration. Amid high economic uncertainty and financial sector fragility, major central banks pause monetary policy tightening or pivot to loosen policy stance prematurely, de-anchoring inflation expectations, triggering a wage-price spiral and spillovers to financial markets.	**Medium**	**Medium.** A wage-price spiral could de-anchor inflation expectation forcing the central bank to aggressively raise interest rates which will slow growth in Albania.	• The pace of monetary normalization should be data driven and readily adjust to evolving economic conditions. • Clearly communicate the BoA's strategy

Risks	Likelihood	Impact	Policy Responses
		Structural risks	
Extreme climate events Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Medium	**High.** The intensity, frequency, and economic costs of extreme weather events and natural disasters are expected to increase. These would impact the population, raise fiscal deficits, lower growth, and reduce productivity.	• Assess vulnerability to natural disasters and adopt adaptation and mitigation measures. Consider putting in place a comprehensive disaster resilience strategy. • Gradually adjust electricity tariffs to cost-recovery levels and preserve price mechanisms. • Prepare a backup power supply plan.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets ecosystems or misuse of AI technologies) trigger financial and economic instability.	Medium	**Medium.** The Banking sector has taken measures to increase protection from cyber-attacks. Cyberthreats would slow down the digitalization of the public administration and its integration with the banking and financial system	• Continue with the implementation of measures discussed in the 2022 IMF technical assistance activity, to reduce the risk of cyber-attacks to the banking system and to government institutions. • Effective implementation of AML/CFT measures in relation to VA/VASPs can help mitigate related sectoral risks.
		Domestic risks	
Exchange rate volatility. The fast appreciation of the exchange rate in 2023 can be followed by a sudden reversal	Medium	**High.** The fast appreciation poses competitive challenges to export-oriented firms, while a sudden depreciation would negatively affect the financial sector and households given the large share of loans in FX	• Tightening macroprudential regulation to reduce the risk of a systemic shock to the financial sector. • Devise temporary measures to ease liquidity problems for exporting firms.
Rollover of public debt. The government's significant reliance on short-term debt (around one-third of domestic borrowing and almost a quarter of total borrowing) implies significant rollover risks.	High	**High.** Elevated levels of net domestic borrowing and tightening in the financial markets could lower appetite for Albanian sovereign bonds.	• Diversify the debt holder base and lengthen maturity. • Improve market communication and coordination with the central bank. • Accelerate revenue-based fiscal adjustment and debt reduction. • Seek additional official financing.

Annex VI. Sovereign Risk and Debt Sustainability Framework

Annex VI. Figure 1. Albania: Risk of Sovereign Stress

Albania: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Moderate	While there is no immediate danger of Albania falling into debt distress, the sizeable gross financing needs presents a source of risk especially in the absence of decisive fiscal consolidation in the foreseeable future. Major policy changes are also needed to ensure long-term debt sustainability.
Near term 1/			
Medium term	Moderate	Moderate	Albania has relatively large gross financing needs and this is expected to persist in the medium term, averaging around 18 percent of GDP in 2023-2028. Rollover needs are also high given the considerable share of short-term debt. As of end-2022, debt w ith remaining maturity of less than one year accounted for over a quarter of outstanding debt. Historically, one-fifth of total debt issued and one-third of domestic debt has a maturity of one year or less. With large amortizations (a large one is due in 2025) the assessment for the medium term is less favorable than the near term.
Fanchart	Moderate	…	
GFN	Moderate	…	
Stress test	...	…	
Long term	…	Moderate	Under the baseline there are limited reasons to assume that that the steady flow of emigration w ill be reversed. A combination of high emigration, a falling birth rate, and aging population w ill likely lead to declining revenue in tandem w ith rising spending pressures, including from pension obligations w ith the pension system already in deficit.
Sustainability assessment 2/		Not required for surveillance countries	
Debt stabilization in the baseline			Yes

DSA summary assessment

Albania's economic prospects in the near term are strong w ith solid grow th of the tourism sector. How ever the medium- and long-term prospects are less favorable as grow th converges tow ards potential. Any gains to potential grow th from tourism in the medium and long term w ill likely be tempered by a declining and aging population. The substantial exchange rate appreciation has been a key factor underlying the recent improvement in the public debt ratio, w hich together w ith the sizeable gross financing needs (estimated to average 18 percent in 2023-28), is susceptible to risks posed by fiscal slippages, tighter financial conditions, and drastic exchange rate depreciation. The substantial GFN is partly driven by high rollover needs due to the reliance on short-maturity financing, and the relatively low revenue ratio, underlining the importance of implementing the Medium-Term Debt Management Strategy to increase the average maturity of public debt and more ambitious medium-term fiscal consolidation. In

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress w ithout its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases w here there is a disbursing IMF arrangement. In surveillance-only cases or in cases w ith precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases w here there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases w ith IMF arrangements w ith normal access, the qualifier indicating probability of sustainable debt ("w ith high probability" or "but not w ith high probability") is deleted before publication.

Annex VI. Figure 2. Albania: Debt Coverage and Disclosure

Comments

1. Debt coverage in the DSA: 1/

CG	GG	NFPS	CPS	Other

1a. If central government, are non-central government entities insignificant? n.a.

2. Subsectors included in the chosen coverage in (1) above:

					Subsectors captured in the baseline	Inclusion
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes
				2	Extra budgetary funds (EBFs)	No
				3	Social security funds (SSFs)	No
				4	State governments	No
				5	Local governments	Yes
				6	Public nonfinancial corporations	No
				7	Central bank	No
				8	Other public financial corporations	No

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:

Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on intra-government debt holdings

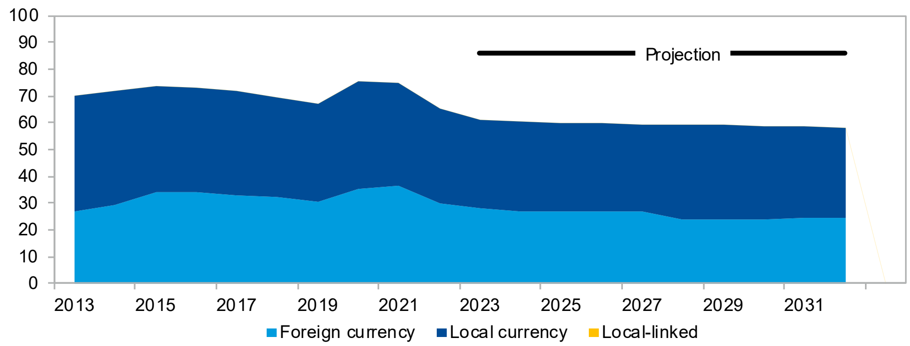
					Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State govt.									0
				5	Local govt.									0
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
					Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

The debt of state-owned enterprises (SOEs) are not included in the public debt but guarantees provided by the government to SOEs are reported. Albania has no subnational state governments.

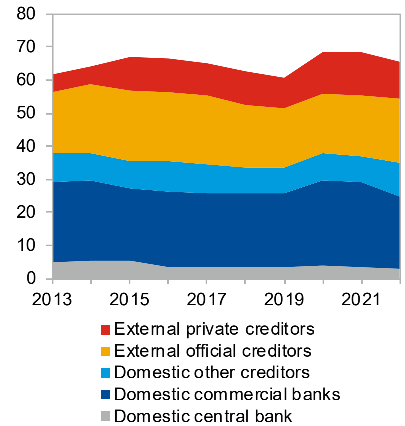
Annex VI. Figure 3. Albania: Public Debt Structure Indicators

Debt by currency (percent of GDP)



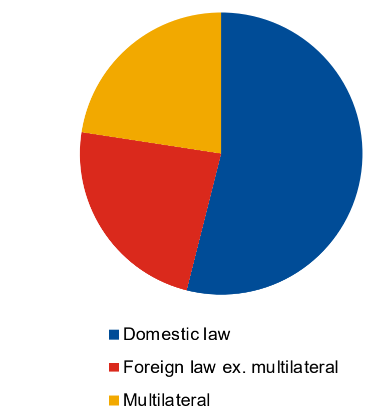
Note: The perimeter shown is general government.

Public debt by holder (percent of GDP)



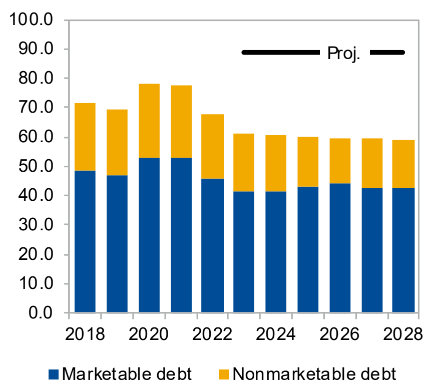
Note: The perimeter shown is general government.

Public debt by governing law, 2022 (percent)



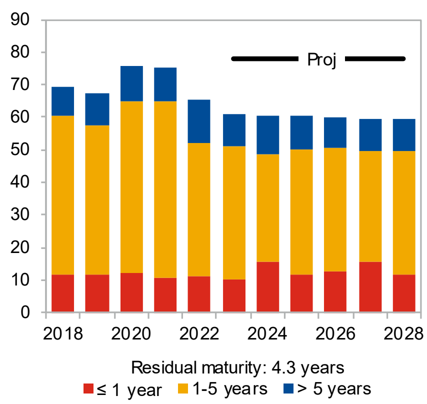
Note: The perimeter shown is general government.

Debt by instruments (percent of GDP)



Note: The perimeter shown is general government.

Public debt by maturity (percent of GDP)



Note: The perimeter shown is general government.

Nonmarketable loans mainly consist of multilateral debt, bilateral official loans, and syndicated private loans. Albania's foreign currency debt is overwhelmingly denominated in euros. The projections are based on historical averages of the public debt maturity structure and assume that all future foreign financing has a maximum maturity of 5 years. In line with the latest Medium-Term Budget Framework, the projections assume a notably greater level of domestic borrowing compared to the recent past to meet financing needs, a significant portion of which is assumed to consist of short-term debt. The implementation of the National Debt Management Strategy would increase average maturities and lead to a more favorable trajectory.

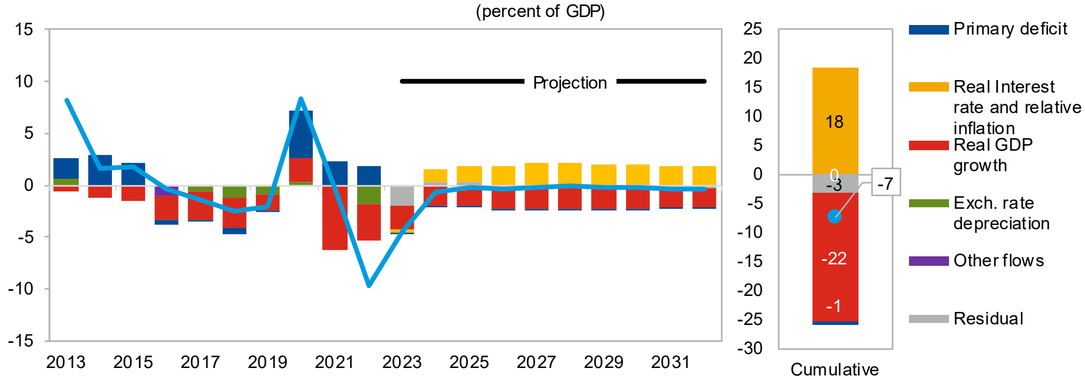
Annex VI. Table1. Albania: Baseline Scenario

(Percent of GDP, unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	65.5	61.1	60.4	60.2	59.8	59.5	59.4	59.2	59.1	58.8	58.5
Change in public debt	-9.7	-4.5	-0.7	-0.2	-0.4	-0.3	-0.1	-0.2	-0.2	-0.3	-0.3
Contribution of identified flows	n.a.	-2.5	-1.0	-0.6	-0.1	0.0	0.2	0.0	0.0	-0.1	-0.1
Primary deficit	1.8	0.0	-0.2	-0.1	0.0	0.0	0.0	-0.1	0.0	0.0	0.0
Noninterest revenues	26.8	28.0	27.4	27.4	27.5	27.5	27.5	27.5	27.5	27.5	27.5
Noninterest expenditures	28.6	28.0	27.3	27.3	27.4	27.4	27.5	27.5	27.5	27.5	27.5
Automatic debt dynamics	n.a.	-2.5	-0.8	-0.5	-0.1	0.1	0.2	0.1	0.1	-0.1	-0.1
Real interest rate and relative inflation	n.a.	-0.2	1.2	1.5	1.9	2.1	2.2	2.1	2.0	1.9	1.9
Real interest rate	n.a.	-0.4	0.8	1.2	1.6	1.8	1.9	1.8	1.8	1.7	1.6
Relative inflation	0.9	0.1	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Real growth rate	-3.5	-2.3	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Real exchange rate	-1.9	…	…	…	…	…	…	…	…	…	…
Other identified flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	n.a.	-2.0	0.3	0.4	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2
Gross financing needs	n.a.	19.3	20.1	17.5	15.0	15.8	18.5	14.7	17.9	16.2	15.8
of which: debt service	n.a.	19.3	20.3	17.6	15.0	15.8	18.6	14.7	17.9	16.3	15.8
Local currency	16.1	16.5	16.9	11.9	12.3	11.0	11.2	10.5	11.8	10.2	10.0
Foreign currency	2.5	2.7	3.4	5.7	2.7	4.8	7.4	4.2	6.1	6.1	5.8
Memo:											
Real GDP growth (percent)	4.8	3.6	3.3	3.4	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Inflation (GDP deflator; percent)	9.9	4.3	3.7	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Nominal GDP growth (percent)	15.2	8.0	7.1	6.5	6.6	6.6	6.6	6.5	6.5	6.5	6.5
Effective interest rate (percent)	2.9	3.7	5.1	5.2	5.9	6.2	6.5	6.3	6.2	6.0	6.0

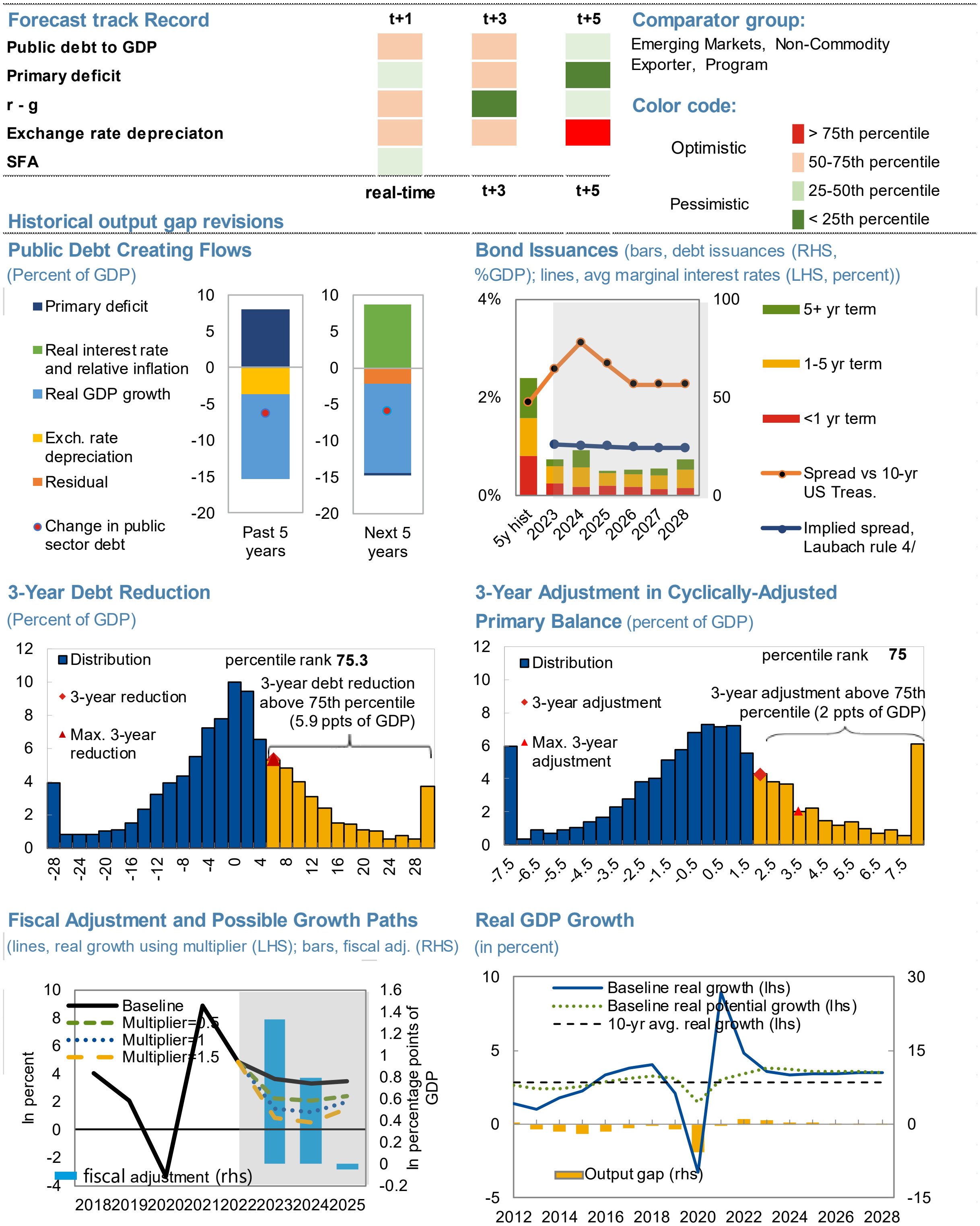
Contribution to change in public debt

(percent of GDP)



Legally binding fiscal rules requiring maintaining a minimum of a nonegative primary balance from 2024 onwards and keeping public debt as a percentage of GDP on a downward trajectory if it is above 60 percent are the key drivers behind the projection of declining debt over the medium term. Inflation differentials between Albania and trading partners result in a favorable real exchange effect, transmitted through the residuals. IMF staff calculations of public debt also take into account arrears.

Annex VI. Figure 4. Albania: Realism of Baseline Assumptions



Staff has consistently underestimated the growth in the tourism sector in the last few years, and as a result, underestimated growth. 2022 real GDP growth exceeded staff's forecast by more than 1 percentage point, and beat market expectations. Medium-term growth projections have been recalibrated to account for an increased potential in the tourism sector but are still expected to be tempered by growing emigration flows.

Annex VI. Figure 5. Albania: Medium-Term Risk Analysis

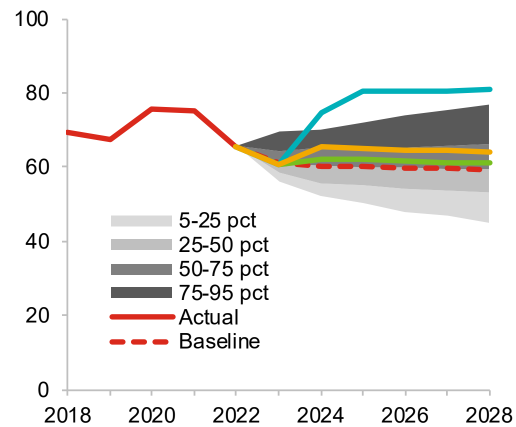
Debt Fanchart and GFN Financeability Indexes

(Percent of GDP unless otherwise indicated)

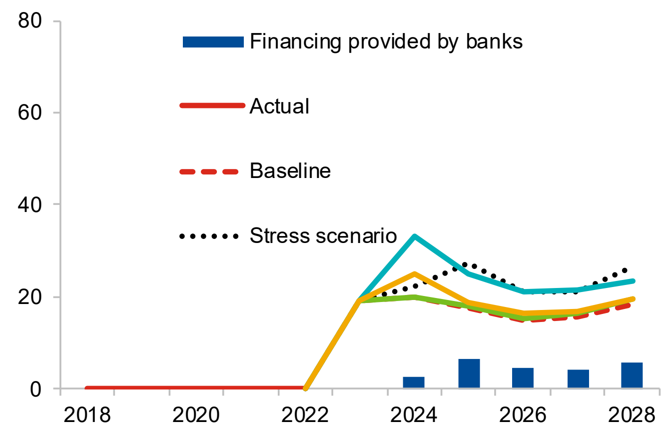
Module	Indicator	Value	Risk index	Risk signal	Adv. Econ., Non-Com. Exp, Program (0 25 50 75 100)
Debt fanchart module	Fanchart width	31.8	0.5	…	
	Probability of debt not stabilizing (pct)	72.0	0.6	…	
	Terminal debt level x institutions index	33.9	0.7	…	
	Debt fanchart index	**…**	**1.8**	**Moderate**	
GFN finance-ability module	Average GFN in baseline	17.7	6.0	…	
	Bank claims on government (pct bank assets)	26.5	8.6	…	
	Chg. in claims on govt. in stress (pct bank assets)	8.8	2.9	…	
	GFN financeability index	**…**	**17.6**	**Moderate**	

Legend: Interquartile range; Albania

Final fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

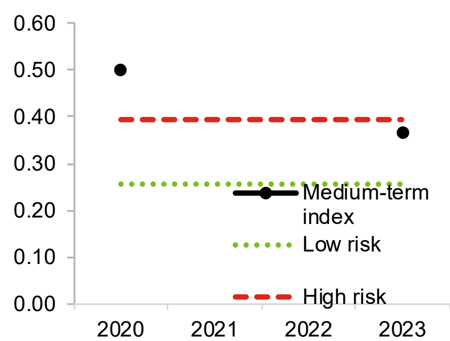


Triggered stress tests (stress tests not activated in gray)

Banking crisis; Commodity prices; Exchange rate; Contingent liab.; Natural disaster

Medium-term index

(index number)



Medium-term risk analysis

	Low risk threshold	High risk threshold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.4
GFN finaceability index	7.6	17.9	0.5	0.3
Medium-term index (MTI)	0.3	0.4	…	0.4, Moderate

Prob. of missed crisis, 2023-2028 (if stress not predicted): 27.3 pct.

Prob. of false alarm, 2023-2028 (if stress predicted): 15.9 pct.

Large gross financing needs, high rollover needs, and large amortizations are the key driver of vulnerability in the medium term. The domestic banking sector holds around 60 percent of domestic debt and one-third of total public debt. While there are pockets of vulnerability, the banking sector has remained sound and well capitalized, and has exhibited resilience through successive crises.

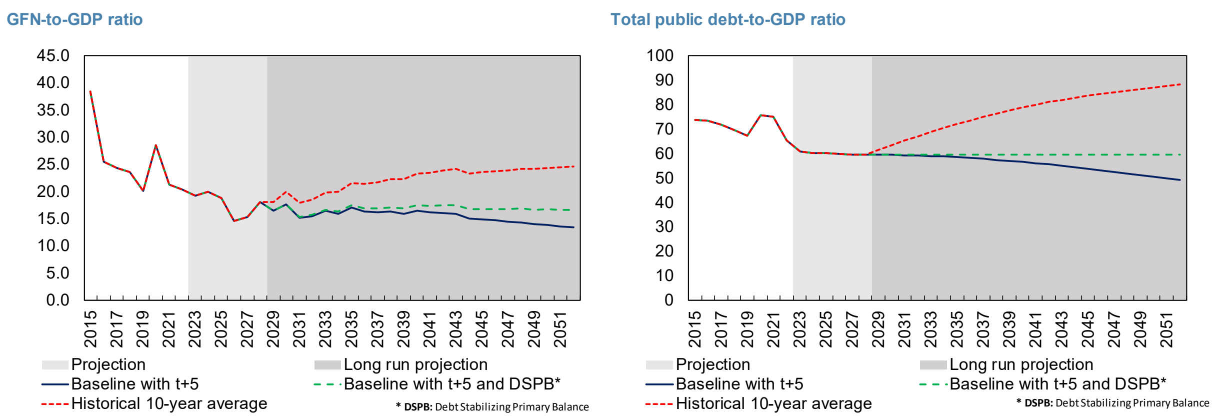
Annex VII. Sovereign Risk and Debt Sustainability Framework, Long-Term Module

Annex VII. Figure 1. Albania: Large Amortization Trigger

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	

Overall Risk Indication	

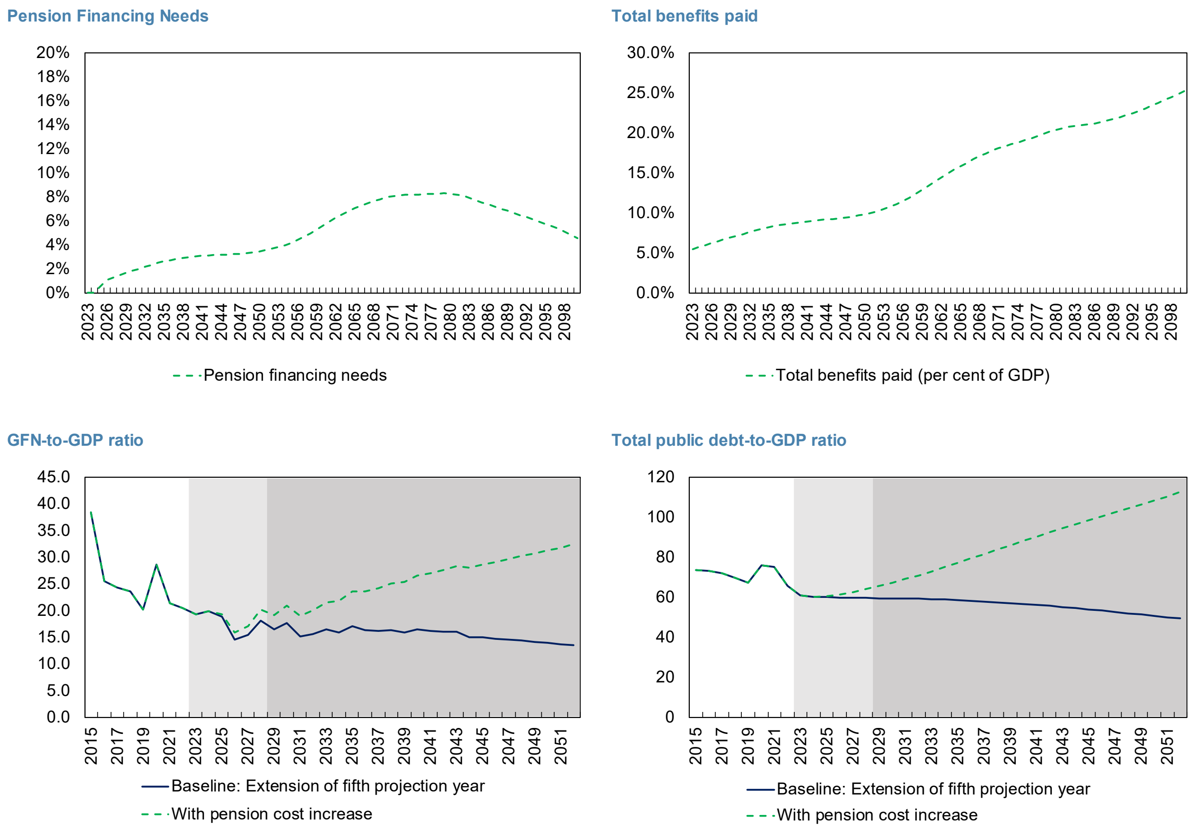
Annex VII. Figure 2. Albania: Alternative Baseline Long-Term Projections



The post-pandemic years have seen notable fiscal consolidation and a dramatic drop in the level of public debt. The fiscal rules stipulated by the Organic Budget Law, which requires a nonnegative primary balance and a consistently downward decline in the level of public debt becomes binding from 2024 onwards. While the share of short-term debt remains considerable (around one-third of domestic debt and almost one-fifth of total debt) these shares have declined compared to long-term historical averages. This step improvement in public finances relative to the past partly explains the improved projections compared to trajectories implied by historical data. The projections assume no change in the maturity structure of public debt. Implementation of the National Debt Management Strategy seeking to lengthen maturities and contain borrowing costs can help further improve expected outcomes.

Annex VII. Figure 3. Albania: Demographics, Pension

Permanent adjustment needed in the pension system (pp of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	1.54%	1.74%	1.37%



With pension obligations outpacing contributions, the pension system in Albania is already facing a deficit, and spending pressures are expected to rise in line with projected demographic trends. Albania's old age dependency ratio (26 percent) is expected to more than triple by 2070 (83 percent), a level much higher than in comparable countries (50-60 percent). The increase in the pension costs is mainly driven by the share of the elderly population, with demographics assumptions sourced from the United Nations' long-term population projections. Contributions are assumed to grow in tandem with GDP per worker. The pension financing gap is expected to increase steadily in the long term, peaking at around 7-8 percent of GDP before moderating as the elderly population peaks. Simulations are based on a parsimonious set of assumptions that abstract from any reform measures (including wage reforms) as well as the impact of emigration on the potential number of beneficiaries in the long term (e.g. the interaction between intensification of emigration and the number of long-term beneficiaries). For a more in-depth discussion of the main features of Albania's pension system, its challenges and policy considerations, see Annex VIII.

Annex VIII. The Pension System in Albania: Sustainability and Adequacy[1]

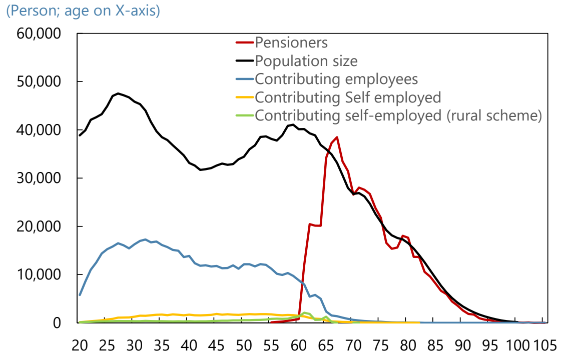
1. **Albania is heading into a demographic transition.** By 2070, the share of elderly is expected to reach 40 percent of the population compared to just 17 percent today. Over the same period, the working age share of the population (25–64) is projected to decline from 54 to 41 percent.[2] Today's old age dependency ratio of 26 percent will rise to 83 by 2070, higher than in peers (panel figure, top left). Negative net migration flows, increases in life expectancy and low fertility rates drive this long-term trend.

2. **Labor market trends add to the demographic challenges, with a higher share of self-employed than in other countries.** The 2021 employment rate of 60 percent of the population aged 15–84 is lower than in Croatia and Serbia (around 65 percent), comparable to Greece (61 percent) and higher than Montenegro and North Macedonia (50 and 55 percent). Unemployment is high, at 12 percent. Among those at work, only 18 percent are employees; 51 percent are self-employed, and 31 percent are family workers.[3] The employment rate of women is lower than the one of men (54 percent compared to 68), exacerbating the gender gap for future pensions entitlement.

3. **The coverage rate within the working age population is low in Albania, especially for the self-employed.** For instance, in June 2022, 1.7 million people were aged 15–64. Out of them, about 38 percent were contributing to the pension scheme, 60 percent were neither contributing nor pensioners and about 4 percent were pensioners. Among the self-employed, a small number is contributing to a rural scheme, while other self-employed contribute to the main scheme (about 10 percent of total pension contributors). The low coverage rate of contributors raises a risk of non-eligibility to pensions in the future and/or to more partial pensions due to incomplete careers and social pension recipients. Underreporting of wages, suggested by the gap between the average wage from social security data and from the Statistical Institute, is also a concern.

Population by Status in 2022

(Person; age on X-axis)



Source: United Nations and authorities, June 2022 data.

4. **In contrast, on the spending side, the pension system covers almost all elderly** (text figure). At 142, the ratio of pension recipients over the population aged 65+ is one of the largest in the region (see panel, 2nd figure). This high share is driven by former rules for old age pensions (lower retirement age, general and occupational early retirement and full employment under the

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[1] Prepared by Céline Thévenot.

[2] United Nations, World Population Prospects, 2022.

[3] Instat, 2022

previous system), disability pensioners and survivor pensioners. This is likely to result in spending pressures in coming decades.

5. A major reform of the pension system was implemented in 2015. The reform (i) gradually increased the duration of contribution required for a full pension up to 40 years by 2032; (ii) raised the retirement age to 67 years by 2056 for both men and women; (iii) introduced a non-contributory social pension; and (iv) linked more closely contributions to real wages by increasing the ceiling for contributions.

6. The statutory pension scheme is an earnings-related, defined benefit pay-as-you-go scheme with universal coverage and financed by contributions.

- The duration of contribution to be entitled to a full pension is currently at 37.5 years and a minimum of 15 years of contribution is required to receive a partial pension, slightly above the OECD average (34 years for a full pensions and 13 years for a partial pension)[4]. When many workers are informal, a lengthy contribution period can act as a disincentive for workers to start contributing, especially in the case of women or migrants with spells out of the (domestic) labor market. On the other hand, a short vesting period can also lead to more entitlements to low pensions, resulting in a trade-off between coverage and adequacy of the scheme.

- The pension formula is calculated as the sum of a basic pension, corresponding to the social pension weighted by the duration of contribution compared to the duration required to receive a full pension, plus an earnings-related part calculated as 1 percent of the average indexed wage over the career for every year of contribution, a standard value for the accrual rate.

- Pensions benefits are indexed to inflation, following a composite index reflecting the needs of the elderly. An 8.6 percent indexation was implemented as from October 2023, a figure above the overall consumer price inflation, which reflects the typical consumption patterns of pensioners compared to the overall population.

- The contribution rate is aligned with most peer countries. The contribution rate for employees is at 21.6 percent (27.9 when including health and short-term benefits) and at 23 percent for self-employed. Rural self-employed in the subsidized scheme face much lower implicit contribution rates, at 10 and 7.6 percent (depending on the region). While the contribution rate for rural self-employed is low, it supports the coverage for a part of the population which is limited (26,000 persons in 2022) and who would otherwise receive a social pension.

7. There are several other schemes in place:

- The *Social pension* provides a minimum income to those who are not entitled to a statutory pension scheme. To be eligible, recipients need to be aged at least 70, resident for five years in the country and meet means-testing criteria. Less than 2,000 individuals currently receive this social pension. However, as the current working age population is getting older, it is likely that

[4] OECD, 2021.

the share of the elderly receiving a pension will decrease, and that more people will need this last resort scheme. In parallel, as the retirement age is rising to 67 by 2056, the gap between social pension eligibility and retirement is narrowing, reducing incentives to contribute rather than applying to a social pension. This can create additional pressures in terms of beneficiaries and level of the social pension. The current minimum age to be eligible is high compared to the age of retirement, which could create pressures on other safety nets from those who have not yet reached the age of 70 and have no other source of income.

- A *public voluntary pension scheme* provides optional coverage for workers not covered by the statutory pension scheme (for instance unemployed or informal work). The scheme is mainly used by persons with large gaps in their contribution history, due to migration or unemployment.

- A *supplementary scheme* provides additional benefits on top of those provided by the *statutory pension scheme for certain categories*. These categories include senior officials, public servants, military and police officers, secret service officials and fire-fighters, miners and persons working in the oil and gas industry. This scheme is financed from overall contributions. In practice, this scheme is heavily tilted to higher pensions. It represents on average more than 10 percent of pensions received by pensioners in the highest decile, compared to less than 1 percent for other deciles (panel, 3rd figure).

8. The government has encouraged voluntary participation in private pensions funds, with tax exemptions and higher deductible expenses for employers enrolling their employees. Voluntary private pension schemes can raise concerns of deadweight and regressive effects when associated with tax exemptions, which should be calibrated carefully. They generally do not address the lack of contributions among lower income groups and create windfall effects. Countries with small domestic capital markets can also encounter challenges due to critical size of capital and financial markets as well as currency issues. On the other hand, well-regulated, transparent and efficient schemes can help increase future entitlements and reinforce the link between contributions and entitlements.

9. Future developments of the pension deficit are uncertain. Pension spending and revenue accounted for 6.1 percent and 5 percent of GDP, respectively, in 2022, with a deficit of around 1 percent of GDP. While the deficit could improve in 2023 to due recent minimum wage increases, there are risks that the deficit could widen in the medium-term. The revenue base is weakened by informality, unemployment and inactivity. The spending side is likely to shift towards more non-contributory benefits with current working age generations reaching the age of retirement. The latest available projections done in 2014 expected a gradual reduction of the deficit until 2042, a surplus between 2043 and 2057 a deficit after 2057 at a moderate level of 0.5 percent of GDP (Ministry of Social Welfare and Youth, 2014). A new projection exercise with World Bank support, acknowledging recent trends, should be available in 2024.

10. The replacement rate is comparable to regional peers, while poverty is lower among older age groups:

- **The aggregate replacement rate (ratio of average pension to average wage) is at 34 percent.** This is comparable to regional peers. On average, pensioners receive a pension of 19,000 ALL (about $200 dollars) per month. Those in the lowest decile receive on average 8,500 ALL per month, and those in the highest decile, ALL 38,000.
- **The social pension was at ALL 8,588 in 2022, which is approximately one fourth of the minimum wage.** It pertains to a limited part of the population currently (less than 1 percent of pensioners in 2017)[5], given strict eligibility criteria and the fact that most of the age group today had a full career.
- **The poverty rate among the 65+ population is lower than among other age groups (panel).** This is partly due to the wide eligibility of pensions among the elderly population, and to the level of the current pensions, inherited from former eligibility and benefit calculation rules. This is a feature where Albania stands out compared to most European countries, where the poverty rate among the elderly is closer, or event higher, than among the overall population.
- **It is likely that more people would be entitled to partial pensions, social pensions, or no pension, due to insufficient duration of contribution, in the future.** The aggregated replacement rate could decrease and raise concerns about to the threat of poverty among the elderly. While in 2012, people who retired had contributed for 35 years on average, those who retired in 2022 contributed for 27 on average (panel figure).

Policy Considerations

11. The priority is to address weak coverage among the working age population. Options to maintain incentives for working age adults to comply with contributions could be considered. This entails maintaining the contribution rate in a reasonable bracket, and possibly conduct studies to understand whether a shorter vesting period could incentivize more employees to contribute.

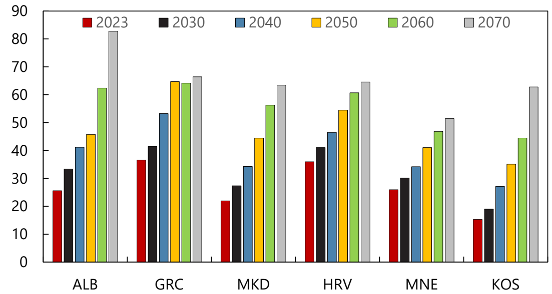
12. Ensuring that the level of future pensions is well aligned with past contributions will avoid creating disincentives to participate. Voluntary private pension plans, possibly with auto-enrollment, have proven to be a good channel in some countries to incentivize people to participate, and increased financial inclusion. However, related tax exemptions must be handled with caution, as they also limit the revenue with a questionable impact on enrollment.

[5] European Commission, 2021.

Annex VIII. Figure 1. Albania: Challenges for the Pension System

Albania is heading into a demographic transition

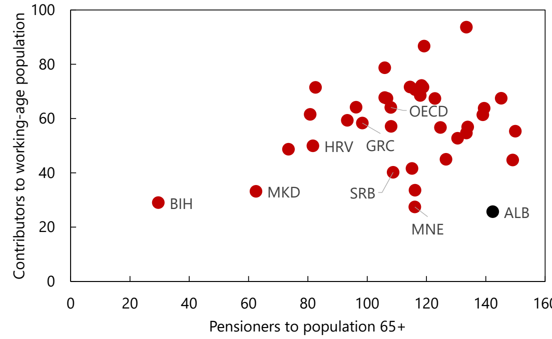
Forecasted Old Age Dependency Ratios in Albania and Peer Countries
(Ratio of 65+/15-65)



Source: United Nations.

The low coverage of contributors contrasts with high eligibility among the elderly

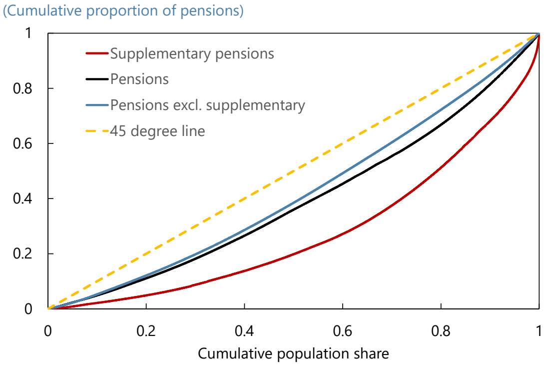
Contributor vs. Pensioner
(Percent)



Source: IMF Expenditure Assessment Tool (EAT)

The supplementary pension is heavily tilted to the higher pensions

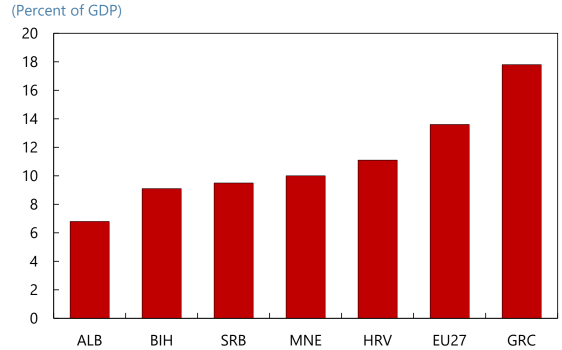
Albania: Lorenz Curve Comparison
(Cumulative proportion of pensions)



Sources: authoities and IMF staff calculations.

Pension spending is limited and tilted to the downside with more partial pensions than anticipated

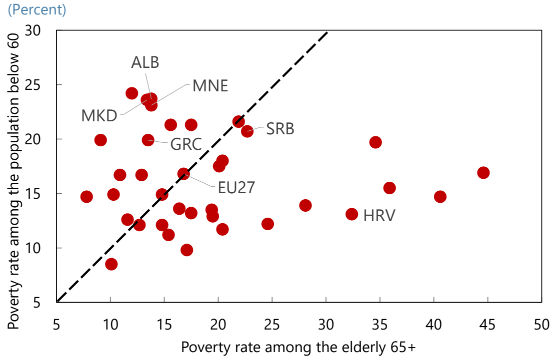
Expenditure on Pensions
(Percent of GDP)



Source: Eurostat.

Unlike most countries, the poverty rate is lower for the elderly than the rest of the population

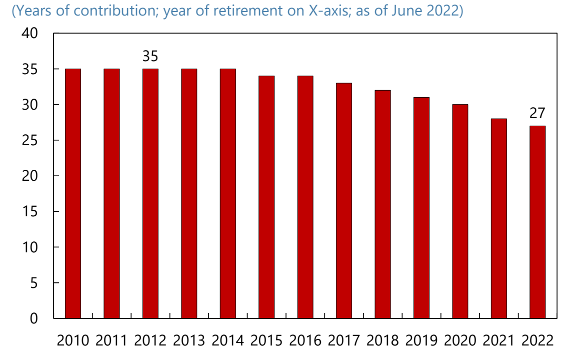
Old Age Poverty
(Percent)



Source: Eurostat.

More people are eligible to a partial pension due to less comprehensive contributions

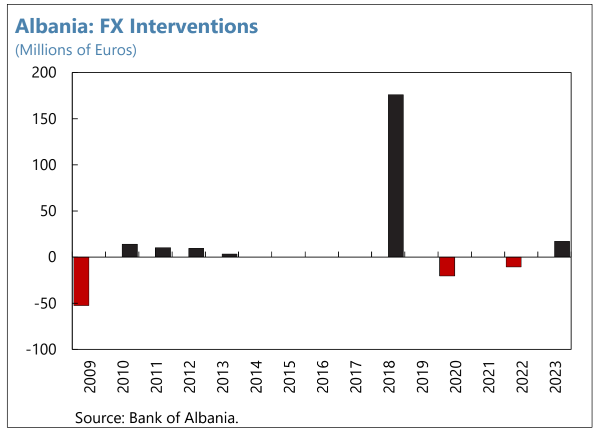
Albania: Duration of Contribution by Retirement Cohort
(Years of contribution; year of retirement on X-axis; as of June 2022)



Sources: authoities and IMF staff calculations.

Annex IX. Case for Foreign Exchange Intervention Under the Integrated Policy Framework[1]

1. **Albania is a highly euroized small open economy with low financial intermediation.** Roughly half of banking sector deposits and loans in 2022 were denominated in FX. Since 2015 Albania has experienced a steady trend of appreciation of the exchange rate with respect to the Euro and the Dollar. In addition, the trend has sharply accelerated since late 2022, driving demands for FXI intervention in the market. This note discusses the appropriateness of FXI intervention in Albania given the specific economic and institutional characteristics of the country.



2. **FXI represents one of several policy levers.** The policy mix should consider the appropriateness of monetary and fiscal policy as well as macroprudential measures and capital flow management as main policy levers to reduce risks associated with external imbalances (IMF 2023 "IPF: Principles for the use of FXI", *forthcoming*). Under the IPF, the use of FXI should be limited to cases in which frictions limit the scope and efficacy of the other measures.

3. **Reflecting past Fund advice, the BoA has largely refrained from interfering with the exchange rate movement.** The Fund advice has been to let the exchange rate act as a shock absorber and to limit FX interventions for disorderly FX market conditions. In the past, the BoA has rarely intervened in the market (see chart). However, the central bank has recently intervened in the FX market and has increased the magnitude and frequency of planned FX interventions.

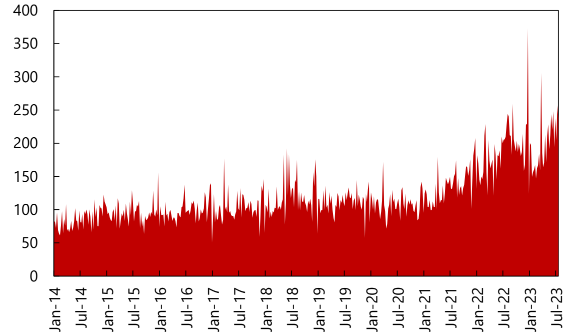
4. **FXI can be appropriate under three specific cases.** The IPF provides a methodology to evaluate the appropriateness of FX interventions, indicating three specific cases in which the intervention *could be* justified. These cases present three potential frictions to the orderly functioning of the market that could generate macroeconomic risks:

A. Shallow FX Markets

FXI may be appropriate to smooth large changes in hedging and financing premia that generate risks to macroeconomic and financial stability, and that arise even though domestic policy settings are appropriate.

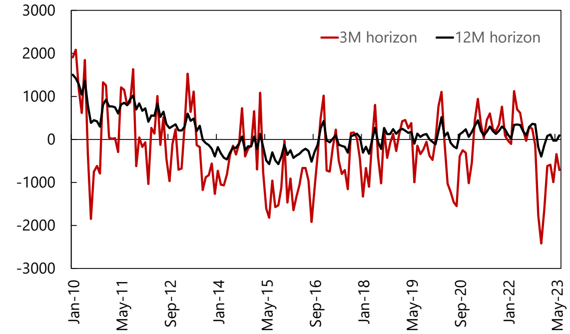
[1] Prepared by David Bartolini.

Albania: FX Volumes
(Millions of leks; weekly basis)



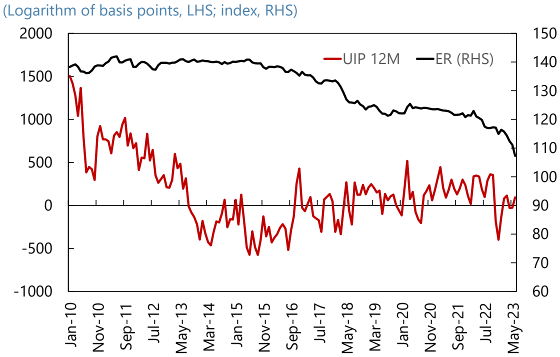
Source: Bank of Albania.

Albania: UIP Premium
(Logarithm of basis points)



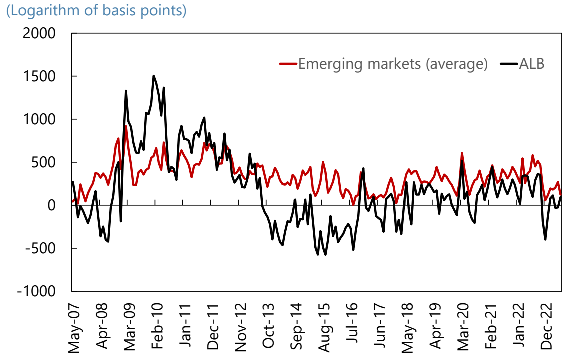
Source: IMF staff calculations.

Albania: UIP Premium and Exchange Rate
(Logarithm of basis points, LHS; index, RHS)



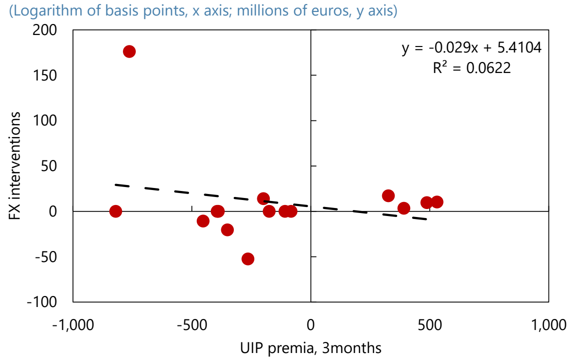
Sources: BoA and IMF staff calcualtions.

Albania: UIP Premia, 12 Months
(Logarithm of basis points)



Source: IMF staff calculations.

Albania: UIP Premia and FX Interventions
(Logarithm of basis points, x axis; millions of euros, y axis)



Source: IMF staff estimates.

Assessment

- FX markets are shallow in Albania, although the volume has been increasing in recent months, following the appreciation of the Lek.

- UIP premia are quite stable, although in the last months of 2022 there was a sharp drop in the UIP 3 months horizon premium, followed by a rebound in 2023. There is no clear correlation with the movements in the nominal exchange rate – the steady appreciation since 2015 has not created significant increases in premia. In addition, UIP premia in Albania are roughly in line with the average premia in emerging market economies.

- The appreciation of the exchange rate does not seem to be correlated to changes in UIP premia (bottom left chart).

B. FX Mismatches

If a large depreciation increases financial stability risks from FX mismatches (e.g., private sector defaults), FXI can be provided to help prevent adverse financial amplification, provided that reserves are sufficient.

Assessment

- The share of loans in FX is still large with a sizable share of FX unhedged loans, thus representing a financial risk in case of a sudden depreciation of the exchange rate. However, FXI should not be preemptive and be used only when a sudden depreciation materializes. In this context, macroprudential measures appear to be more appropriate to mitigate the risk of a potential trend reversal of the exchange rate, keeping FXI as the last resort if the risk materializes.

C. Price Stability

FXI can support monetary policy when there is a risk that a large exchange rate depreciation may de-anchor inflation expectations, provided the cost of using monetary policy alone are high, reserves are sufficient for FXI to be effective, and the cost of including FXI are low. There can be a role for FXI also to lean against sustained appreciation.

Assessment

- The econometric analysis indicates a different inflation passthrough for episodes of appreciation with respect to depreciation. In the case of Albania, the passthrough is quite low in case of appreciation, with an estimated elasticity of 0.05 (sum of the direct effect and the interaction term).

Annex IX. Box 1. Albania: Estimation of Elasticity of Inflation to the Exchange Rate

The elasticity is estimated considering the (monthly) percentage variation of the CPI as the dependent variable and the lagged (24 months) percentage change in the nominal exchange rate as independent variable. The passthrough effect is significant only when we distinguish appreciation from depreciation episodes (including a dummy variable). The results suggest that 1 percent appreciation episodes would lead to a reduction of inflation of about 0.09 percent. On the other hand, when considering inflation expectations (column 2 and 4), the passthrough is never statistically significant.

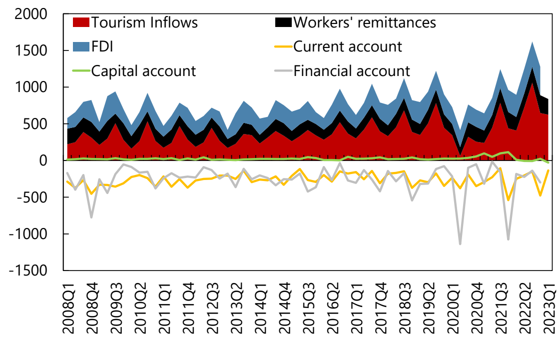
Dep Var. = CPI and 1-year inflation expectations (EXP)	(1) CPI	(2) EXP-1y	(3) CPI	(4) EXP-1y
Exchange rate (log) = L24mD,	0.145	-1.529	0.213**	-0.623
	(0.0923)	(2.417)	(0.108)	(3.983)
Dummy=1 if ER appreciates			-0.000205	-0.0283
			(0.00145)	(0.0413)
Interaction exchange rate with appreciation dummy			-0.305**	-0.776
			(0.145)	(5.066)
Policy rate spread (BoA vs. ECB) = D,	-0.00215	0.0893	-0.00445	0.152**
	(0.00395)	(0.0808)	(0.00331)	(0.0687)
Policy rate spread (BoA vs. ECB) = LD,	-0.000900	0.00999	-0.00125	-0.0618
	(0.00331)	(0.0879)	(0.00242)	(0.0945)
Policy rate spread (BoA vs. ECB) = L2mD,	-0.000179	0.0244	-0.00266	0.0877
	(0.00304)	(0.0662)	(0.00272)	(0.0695)
Policy rate spread (BoA vs. ECB) = L3mD,	0.00109	0.0172	-0.00186	0.0148
	(0.00263)	(0.0545)	(0.00257)	(0.0856)
Constant	0.00202***	0.0121	0.00171*	0.0588*
	(0.000520)	(0.0111)	(0.000933)	(0.0340)
Observations	242	65	242	65
R-squared	0.025	0.049	0.392	0.490

D=first difference; L=temporal lags.
Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

5. Albania does not seem to meet the conditions that would warrant a more active use of FXI in the current macroeconomic context. There are no large capital flow shocks that would justify FXI even in the case of shallow FX markets and the presence of unhedged FX loans. The appreciation of the exchange rate is not accompanied by jumps in UIP premia or large shocks to the capital and financial account. Historically, financial inflows are driven by a stable flow of FDIs with portfolio flow being of lower magnitude (see chart). The risk associated with these frictions could be better addressed by reducing euroization of the economy and strengthening macroprudential regulation. The deflationary risk associated with a continuous and rapid appreciation of the lek could warrant FXI intervention, in addition to monetary policy adjustments. However, in accordance with the IPF, the intervention should not be ex-ante, but only once there are signs of de-anchoring of inflation expectation due to the rapid exchange rate appreciation and the cost of responding to the shock with monetary policy alone is high while the cost of FXI is low. IMF staff's analysis, however, indicates that the passthrough from exchange rate appreciation to inflation is relatively small.

Albania: Selected Inflows Indicators

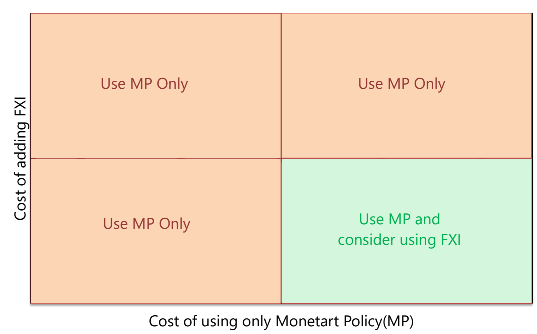
(Million EUR)



Sources: BoA and IMF staff calculations.

IPF Policies in the Face of Large Exchange Rate Shocks

(Use Case C)



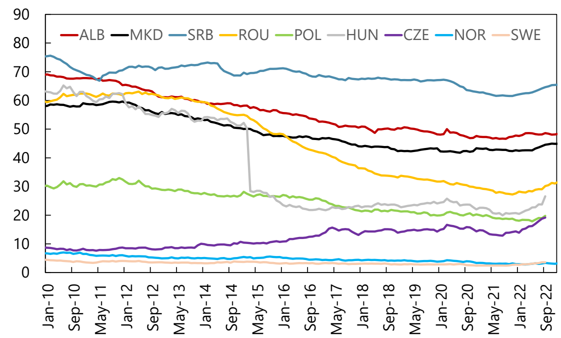
Sources: IMF(2023), IPF: Principles for the use of FXI, *forthcoming*。

Annex X. Monetary Transmission in Euroized Countries[1]

An examination of a group of euroized economies suggests that while euroization may dampen the impact of policy rate changes on macroeconomic variables, a flexible exchange rate can help improve monetary transmission. The findings confirm the important role of monetary policy in Albania and the need to continue with de-euroization efforts to improve monetary policy effectiveness.

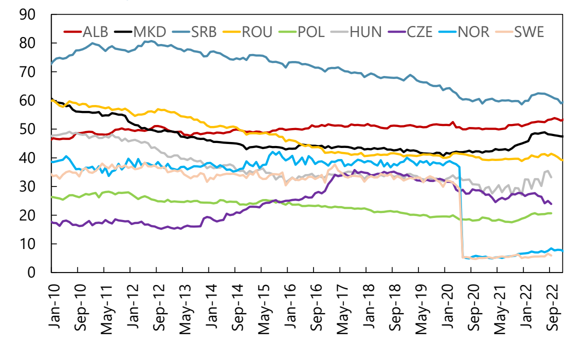
1. **The level of euroization in the Albanian economy has been historically high.** While there has been some reduction in euroization over the years, the share of the financial sector operating in euros—as measured by euro-denominated loans and deposits—has broadly remained around 50 percent. Beyond the financial sector, the euro also serves as a de facto alternative legal tender in certain spheres of economic activity, with certain goods and services—especially large ticket items—reportedly priced and transacted in euros, although this can vary by sector.

FX Loans
(Share of total loans)



Sources: IMF MFS database, national authorities, and IMF staff calculations.

FX Deposits
(Share of total deposits)



Sources: IMF MFS database, national authorities, and IMF staff calculations.

2. **To quantify the impact of euroization on monetary transmission in several euroized countries, including Albania, a Bayesian structural vector autoregressive model was used** (see Annex Box X. 1). When economic agents transact and hold assets in different currencies, the impact of policy rate changes on the exchange rate can create opposing real money balance and wealth effects, thus potentially rendering the monetary policy impact ambiguous. Past empirical analyses suggest that the level of dollarization/euroization is negatively correlated with the strength of monetary policy transmission, and can be positively correlated with inflation volatility.[2] Conversely, reduced dollarization/euroization tends to increase monetary policy effectiveness, especially if combined with an improved monetary policy framework.[3] However, the experience of emerging markets and developing economies shows that the impact of a credible monetary policy

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[1] This annex draws on the findings of a forthcoming IMF working paper by Wentong Chen, Fazurin Jamaludin, Florian Misch, Mengxue Wang, and Zeju Zhu.

[2] See for instance, Acosta-Ormaechea and Coble (2011) and Bennet et al (1999).

[3] Ize et al (2002) and Bordon and Weber (2010).

framework—featuring central bank independence and inflation targeting—can outweigh that of euroization/dollarization.[4]

Annex X. Box 1. A Bayesian Structural Vector Autoregressive Model with Sign Restrictions

The joint dynamics of the Bayesian SVAR model is described by the following system of linear equations: $\boldsymbol{A_0 Y_t} = \sum_{j=1}^{p} \boldsymbol{A_j Y_{t-j}} + \boldsymbol{\varepsilon_j}$**,** where $t = 1,2, \ldots T$**;** $\boldsymbol{\varepsilon_t}$ is a vector of exogeneous structural shocks and $\boldsymbol{\varepsilon_t} \sim i.i.d.(\boldsymbol{0}, \boldsymbol{I_n})$; $\boldsymbol{A_j}$ is the matrix of parameters with A_0 invertible; p (lag length) = 4.

Endogenous variables considered are $\boldsymbol{Y_t} = [y_t,\ p_t,\ r_t,\ e_t]$; where **GDP** ($y_t$) = Seasonally adjusted real GDP; **inflation** (p_t) = Harmonized Index of Consumer Prices; **interest rate** (r_t) = policy rate (one-week policy rate for Albania); and **exchange rate** (e_t) = nominal effective exchange rate.

Sign restrictions were imposed on monetary policy, supply, and demand shocks.[1] Exchange rate shocks were later included as a robustness check. The sample includes six euroized countries and two non-euroized countries as a control group and used quarterly data from 2010 to 2022.

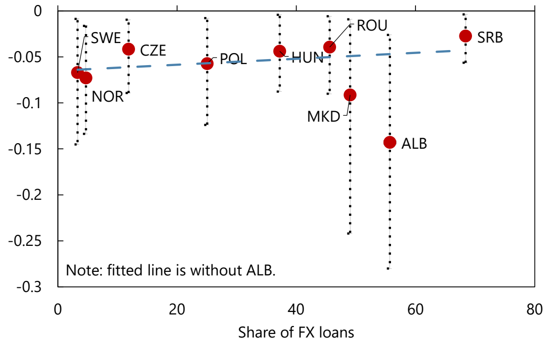
[1] See Uhlig (2005, 2017) and Bekaert et al (2022).

3. **The impact of monetary policy shocks on macroeconomic variables has been found to broadly decrease with the level of euroization.** In the case of output, the response to a 100 basis points increase in the policy rate in euroized countries can be as much as three percentage points weaker compared to the control group.[5] With regard to inflation, the gap in the response to a monetary policy shock can be as much as 1.5 percentage points. These findings remain broadly unchanged when subjected to robustness checks. In the case of Albania, a 100 basis point increase in the interest rate can be expected to bring about a 15 percent decline in output and a 1.8 percent decrease in prices. The range of the coefficients—including the outliers—are broadly in line with the results of past research. The results are statistically significant but the confidence intervals for some decrease in prices. The range of the coefficients—including the outliers—are broadly in line with the results of past research. The results are statistically significant but the confidence intervals for some countries—including Albania—are relatively large. The response to monetary policy shocks also appears to dissipate after one quarter.

[4] "Monetary Policy Transmission in Emerging Markets and Developing Economies," L. Brandao-Marques, G. Gelos, T. Harjes, R. Sahay, and Y. Xue, International Monetary Fund, WP/20/35, February 2020. Also see Kolasi et al (2010), Besimi et al (2007), and Stojanovic et al (2015).

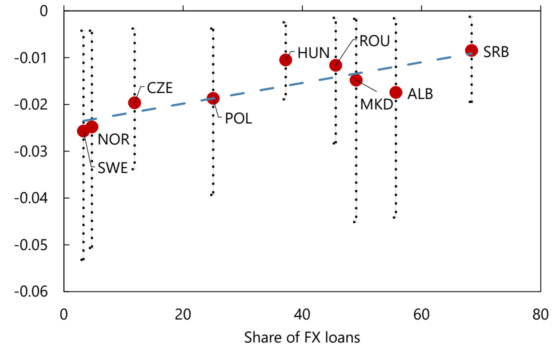
[5] Reflecting the largest difference between a euroized country and a control group country. Not including outliers.

First Quarter Response: MP Shock on GDP
(Baseline model; dotted line shows 90% confidence interval)



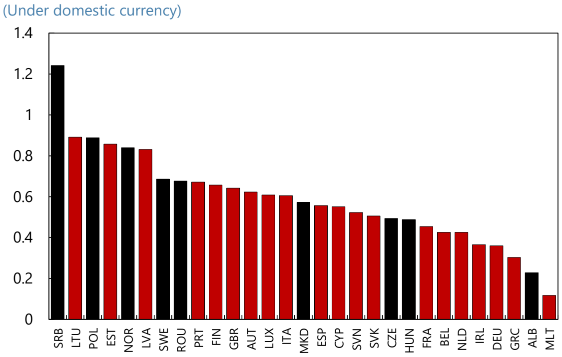
Source: IMF staff calculations.

First Quarter Response: MP Shock on HICP
(Baseline model; dotted line shows 90% confidence interval)



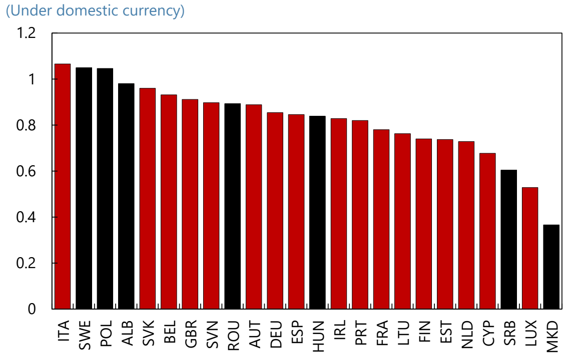
Source: IMF staff calculations.

Pass Through to New Mortgage Rates
(Under domestic currency)



Sources: Eurostat and IMF staff calculations.

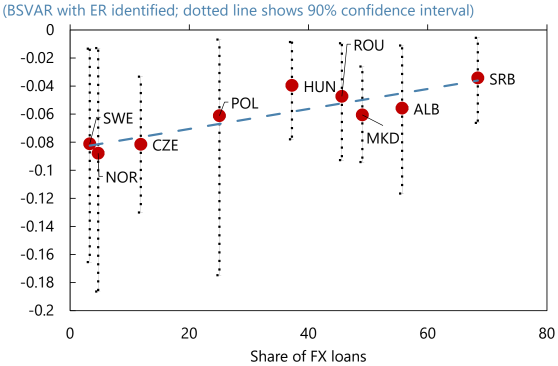
Pass Through to Non-financial Corporation Loans
(Under domestic currency)



Sources: Eurostat and IMF staff calculations.

4. The picture for transmission channels for Albania is mixed and data limitations call for some caution in interpreting some of the coefficients. The exchange rate is responsive to monetary policy shocks, but the responsiveness is partly hampered by euroization. The nonnegligible share of flexible rate mortgages (over one-third) implies a high elasticity of rates on outstanding mortgages but given the low level of credit penetration, the interest rate and credit channels are likely to be limited. Digging deeper into the different credit market segments suggests a higher pass-through of interest rate changes to non-financial corporation loans compared to mortgage loans. Overall, the lack of granular financial market data may have limited the possibility of isolating pure monetary policy shocks that had not been factored in by the markets.

First Quarter Response: MP Shock on Exchange Rate
(BSVAR with ER identified; dotted line shows 90% confidence interval)



Source: IMF staff calculations.

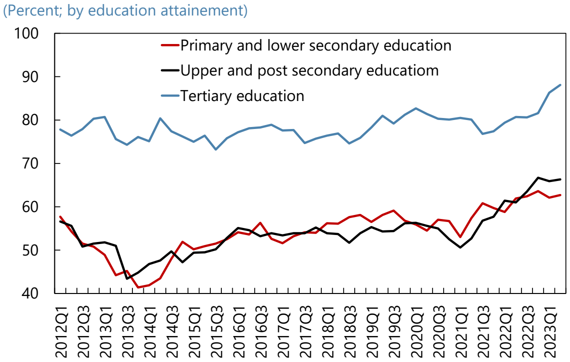
Annex XI. Easing the Tight Labor Market in Albania: Female Labor Force Participation[1]

Albania experiences a significant gender gap in labor force participation, with male participation exceeding the female rate by more than 13 percentage points. This gap is mainly related to women with primary or secondary education. There are also marked geographical differences, with a larger gap in the southern provinces. Closing the gender labor force participation gap could boost the level of GDP by about 5 percent.

1. Female labor force participation in Albania has improved, but the gender gap remains significant. In 2010, about 54 percent of women aged 15–64 participated in the labor market, while in 2022 this figure reached 66.7 percent, resulting in a narrowing gender gap. Still, in 2022, the gap in labor force participation between men and women was more than 13 percentage points. The gender gap is slightly smaller than in other Western Balkan countries (by about 2 percentage points) but about 5 percentage points larger than the EU-27 average.

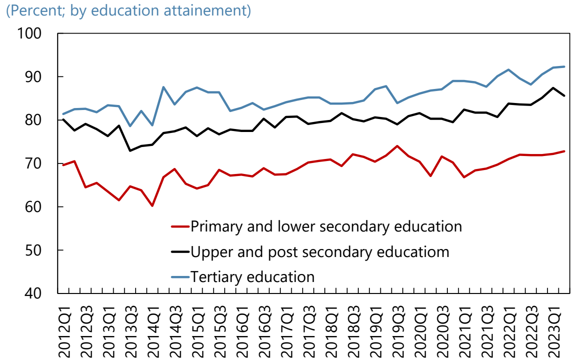
Albania: Labor Force Participation Rate and Education Attainment

Albania: Female Labor Force Participation
(Percent; by education attainement)



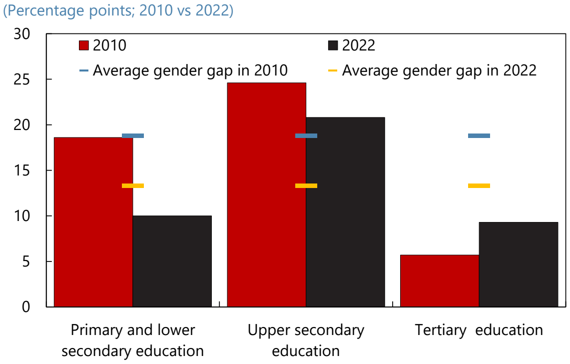
Sources: INSTAT and IMF staff calculations.

Albania: Male Labor Force Participation
(Percent; by education attainement)



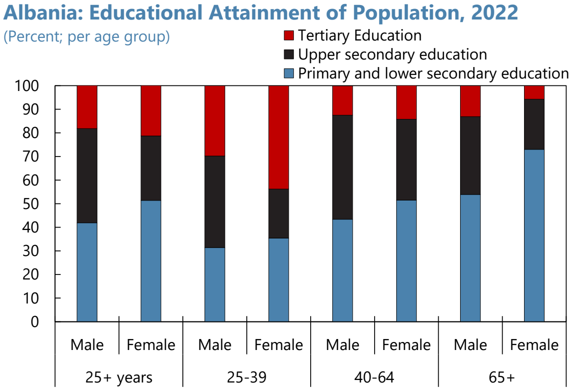
Sources: INSTAT and IMF staff calculations.

Albania: Gender Gap by Education Attainment
(Percentage points; 2010 vs 2022)



Sources: INSTAT, World Bank, and IMF staff calculations.

Albania: Educational Attainment of Population, 2022
(Percent; per age group)

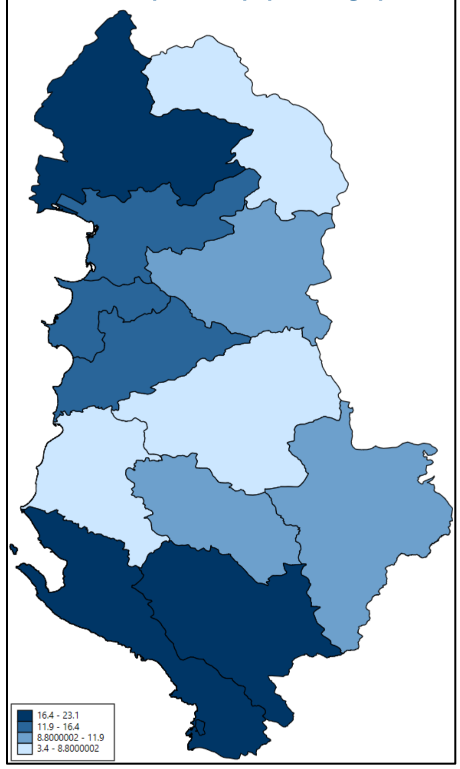


Source: INSTAT.

[1] Prepared by David Bartolini and Eugena Topi.

2. There are significant differences across levels of education. The participation rate for women with tertiary education is only marginally lower than for n with the same oodlevel of education. However, the gender labor force participation gap for women with upper secondary education is above 20 percentage points. Women with lower than upper secondary education display a gender gap of about 10 percentage points. The gender gap is quite important when considering that in 2022 women with upper secondary education or lower represented more than 80 percent of women between 40 and 64 years of age.

Gender Participation Gap (percentage points)

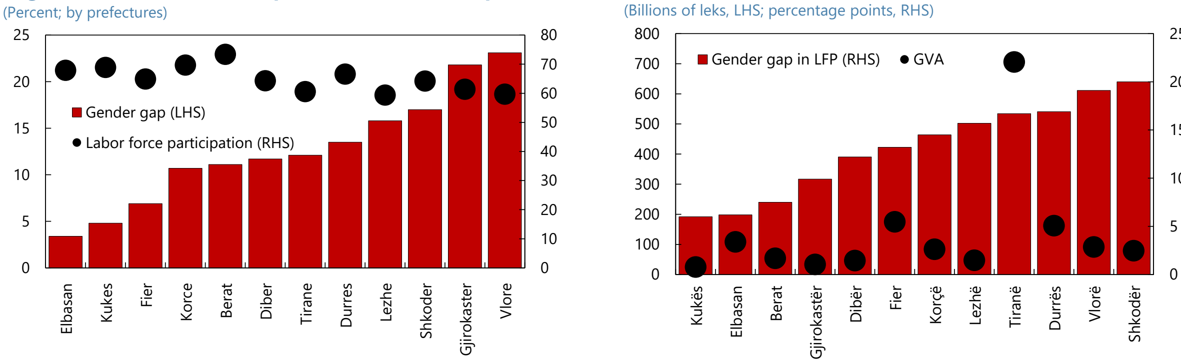


3. The labor force participation gender gap varies across regions. The gender force participation gap ranges from more than 20 percentage points in some prefectures below 5 percentage points. The gender gap is slightly correlated with total labor force participation. However, there is no clear correlation with regional value added per capita. Further research would be needed to understand the reasons underpinning these regional differences. Still, these geographical differences could help better target gender policies.

Albania: Regional Dimension of the Gender Participation Gap

Regional Labor Force Participation and Gender Gap
(Percent; by prefectures)

Regional GVA, Gender Gap, and Labor Force Participation
(Billions of leks, LHS; percentage points, RHS)



Sources: INSTAT and IMF staff calculations.

Sources: INSTAT and IMF staff calculations.

4. The difference between female and male labor force participation is just one of the dimensions of the gender gap. The gender gap can be assessed across several indicators, such as gender differences in education, health, political representation, and employment. In terms of employment, difference in earnings (7.5 percent lower hourly earnings than men, in 2018), hours employed (10 percent less hours worked in a week, in 2018), and types of occupation (male managers are double the number of female managers, in 2018) are usually considered for their implications on economic performance.[2] In this annex, we focus on labor force participation because Albania faces an increasing tight labor market and inactive women represent an important untapped resource.

5. Closing the female labor force participation gap would boost the level of GDP by 5 percent. A recently developed tool by the IMF[3] simulates the additional output that could be generated by closing the gender gap in terms of labor force participation, wage levels, hours worked, and types of occupations. The analysis considers the male and female working age population and simulates the output of an economy where female workers have the same labor market indicators as male workers, i.e., there is no gender gap. Applying this analysis to Albania, it shows that increasing female labor force participation would boost the level of GDP by 5 percent. In addition, closing the wage gap, the hours worked and the occupational difference, would results in an increase in the level of GDP by 10 percent.

6. Better targeted support and gender-aware policies could improve female labor market participation across education levels and reduce geographical differences. IMF staff calculations indicate that Albania spent just 0.7 percent of the 2022 budget on active labor market policies. Similar figures are included in the draft 2024 budget, where gross spending on labor market and VET policies stands at 0.09 percent of the 2024 budget.[4] In addition, policies addressing female labor force participation have had limited success, with only 1 percent of women participating in active labor market programs. Education attainment alone cannot provide the needed increase in female labor force participation or reduce the gender wage gap. Albania should therefore strengthen the support system for children and the elderly through the expansion of institutional services, as care needs in Albania are met mainly by women. This includes increasing access to childcare services and after school programs.[5]

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[2] IMF Gender Knowledge Hub.

[3] The tool adapts the methodology from Buckman et al (2021). "The Economic Gains from Equity," *Federal Reserve Bank of San Francisco,* Working Paper 2021-11.

[4] Calculations based on Albanian government's draft budget 2024.

[5] World Bank (2023), Western Balkans Regular Economic Report No. 24, Fall 2023: Toward Sustainable Growth. Washington, DC: World Bank Country Gender Assessment. World Bank.

INTERNATIONAL MONETARY FUND

ALBANIA

December 15, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | European Department

CONTENTS

FUND RELATIONS

(As of October 31, 2023)

Membership Status: Joined October 15, 1991; Article VIII.

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	139.30	100.00
IMF's Holdings of Currency	331.19	237.76
Reserve Tranche Position	26.00	18.67

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	179.96	100.00
Holdings	194.02	107.81

Outstanding Purchases and Loans:	**SDR Million**	**Percent Quota**
Extended Arrangement	113.42	81.42
Rapid Financing Instrument	104.42	75.00

Latest Financial Commitments:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Outright Loans				
RFI	Apr. 10, 2020	Apr. 15, 2020	139.3	139.3
Arrangements				
EFF	Feb. 28, 2014	Feb. 24, 2017	295.42	295.42
ECF[1]	Feb. 1, 2006	Jan. 31, 2009	8.52	8.52
EFF	Feb. 1, 2006	Jan. 31, 2009	8.52	8.52

Projected Payments to Fund:
(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2023	**2024**	**2025**	**2026**	**2027**
Principal	6.76	114.96	69.88	21.52	4.77
Charges/Interest	3.05	8.55	2.99	0.83	0.08
Total	9.80	123.51	72.87	22.35	4.85

[1] Formerly PRGF.

Safeguards Assessments. An updated safeguards assessment was completed in 2022 and found that the BoA had strengthened its governance and internal controls, resulting in a relatively robust safeguards framework. The recommendations on enhancing internal audit independence and risk management reporting practices have been implemented. The BoA also recently received TA from the Fund on application of IFRS to further enhance its financial reporting practices. Amendments to the BoA Law to align it with leading practices are currently on hold to allow for any requirements that may result from Albania's EU accession prospects.

Exchange Rate Arrangement: On July 1, 1992, the Albanian authorities adopted a floating exchange rate system. The *de jure* exchange rate system is classified as free floating, while the *de facto* exchange rate arrangement is floating, with the monetary authorities occasionally intervening in the foreign exchange market to accumulate reserves based on a pre-announced schedule and to avoid excessive disruptions in the functioning of the market. On February 21, 2015, Albania accepted the obligations under Article VIII, Sections 2(a), 3, and 4, but continues to maintain an exchange restriction in the form of outstanding debit balances on inoperative bilateral payment agreements with two IMF member countries. Those debit balances were in place before Albania became a Fund member in 1991 and relate to debt in nonconvertible and formerly nonconvertible currencies. Despite repeated efforts by the Albanian authorities, no agreement has been reached with the counterparties. The Albanian authorities notified the Fund of further exchange rate restrictions introduced in accordance with Decision No. 144 (52/51). The exchange rate stood at lek 98.75 per U.S. dollar on November 6. 2023.

Article IV Consultation: The 2022 Article IV consultation was concluded on December 7, 2022 (IMF Country Report No. 2022/362).

FSAP Participation, ROSCs: The most recent FSAP was carried out in November 2013 (with a Board date of February 28, 2014). A data module ROSC was published on the Fund's website in June 2000. A fiscal ROSC was completed in June 2003. Albania participates in the enhanced General Data Dissemination System (e-GDDS), and a complete set of e-GDDS data with accompanying metadata for the external, financial, fiscal, and real sectors, as well as for the socio-demographic indicators, is posted on Albania's National Summary Data Page, which can be found on the Fund's Dissemination Standards Bulletin Board (http://dsbb.imf.org). A data module ROSC reassessment using the Data Quality Assessment Framework was conducted in March 2006.

AML/CFT Assessment: In October 2023, the Financial Action Task Force (FATF) announced Albania's exit from its list of countries under increased monitoring ("grey list"), noting the significant progress in improving the AML/CFT regime, including through strengthened effectiveness in meeting the commitments in Albania's action plan regarding the strategic deficiencies identified by FATF in February 2020.

Technical Assistance: The Fund, other multilateral organizations, and donors have provided extensive technical assistance for institutional development in Albania. The Fund has sent multiple technical assistance missions to Albania every year since 1991. The extent and focus of Fund TA since FY 2016 are briefly summarized below in Table 1.

Resident Representative: Mr. Sosa from the regional office for the Western Balkans took his post on August 15, 2023 and oversees Albania's local office.

Table 1. Albania: Technical Assistance Since FY2016		
Department	**Purpose**	**Date (V=Virtual)**
FAD	Tax Administration	Multiple (nearly monthly) visits in 2018, February 2022, March 2022, June 2022 (TADAT), September 2022, November 2022, November 2023
	Revenue Administration	May 2021 (V), November 2021 (V), February 2022, March 2022, November 2022, May 2023, September 2023, November 2023
	Public Financial Management	March—April 2016, July 2016, September 2016, October 2016, March 2017, September 2017, October—November 2017 December 2018, April 2019, May 2019, June 2019, November 2019, May 2020 (V), June 2020 (V), December 2020 (V), May 2021 (V), September 2021 (V), October 2021 (V), November 2021 (V), February 2022, May 2022, October 2022, June 2023, October 2023
	Tax Policy	June 2015, September 2016, September 2017; October 2017, June 2018, September 2018, January 2021 (V), October 2021 (V), May 2022, April 2023, October 2023
	Fiscal Transparency Evaluation	June 2015
	Public Investment Management	February 2022, May 2022, June 2022
LEG	Tax Law	March 2015, May 2015, June 2018, November—December 2018
	NPL Resolution	April 2015
	AML/CFT Laws Related to VA and VASPs	March 2021 (V), June 2021 (V)
	Public Investment Management (joint with FAD)	June 2022, July 2023
	Strengthening PPP Legal Framework	July 2023

Table 1. Albania: Technical Assistance Since FY2016 (concluded)		
Department	**Purpose**	**Date (V=Virtual)**
MCM	NPL Resolution	November 2015
	Central Bank Accounting and Official Foreign Exchange Transactions	October 2018
	Banking Supervision and Regulation	July 2015, May 2018
	Long-Term Resident Advisor on Monetary Policy	September 2015-August 2018
	Financial management and accounting policy framework	September 2018
	Monetary Policy Design and Implementation	January 2016, September 2016, December 2016, February 2017, September 2017, September 2018
	Long-Term Resident Advisor on Banking Supervision and Financial Stability	September 2017-July 2020
	Foreign Exchange Market Development	December 2019
	Cash, debt and liquidity management (joint with FAD)	June 2020
	Crypto Asset Regulatory Framework	May 2021 (V)
	Risks Management Framework for Investment Funds	June 2022
	Annual Borrowing Plan	October 2022
	IFRS 9 Implementation and capital structure review	February 2017 January 2018, November 2018
	Regulatory Framework for Investment Funds	June 2022
	Application of IFRS and Revaluation of Reserves	October 2023
STA	External Sector Statistics	January 2016, April—May 2017
	Government Finance Statistics	May 2015, May—June 2016, November 2016, May 2017, June 2017, September 2017, April 2018, May 2018, November 2018, April 2019, May 2019, June 2019, July 2020 (V), June 2021 (V), Sept—Oct 2021 (V), March 2022, May 2022
	National Accounts Statistics	May 2015, April 2017, September 2017, March 2018, November 2019
	Enhanced General Data Dissemination System	April 2017
	Monetary and Financial Statistics	July 2017, April 2019

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL ORGANIZATIONS

As of October 31, 2023, Albania collaborates with the World Bank Group, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the Council of Europe Development Bank. Further information can be obtained from the following hyperlinks.

https://www.worldbank.org/en/country/albania

https://www.ebrd.com/albania.html

http://www.eib.org/en/projects/regions/enlargement/the-western-balkans/albania/index.htm

https://coebank.org/en/about/member-countries/albania/

STATISTICAL ISSUES

(As of October 31, 2023)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is broadly adequate for surveillance. The main obstacles are in real sector statistics and weak inter-institutional cooperation between government agencies. Significant data gaps on real estate and construction activities prevent a complete assessment of potential macro-financial linkages.
National accounts: National accounts compilation has been improving in the last few years and is now generally compliant with the System of National Accounts 2008 and the European System of Accounts 2010. However, there is still room for further improving methodologies and compilation techniques, especially regarding GDP estimates by the expenditure approach. Better source data would significantly enhance national accounts estimates. Although formal agreements for sharing data among government agencies have been signed, in some cases the cooperation needs to be more effective. Very ambitious objectives combined with severe resource constraints at INSTAT complicate improvements in basic indicators. Currently, quarterly GDP estimates are released with a lag of 90 days and the first annual estimates are published around 15 months after year-end. Data are subject to large revisions and there are discrepancies between the GDP compilation by the expenditure and by the production approach. This discrepancy also affects the calculation of the GDP deflator. In addition, the calculation of the deflator for imports and exports of services is complicated by the lack of data on service prices. INSTAT is working with Eurostat to overcome this problem. **Labor statistics:** The Labor Force Survey (LFS) is of insufficient quality. The treatment of agricultural employment needs to improve, as currently all individuals that own agricultural land are considered self-employed by the survey. Various shortcomings in the LFS lead to a lack of reliable income and wage indicators. Poverty data are available with a substantial lag, compared to other CESEE countries. **Price statistics:** Compilation generally follows international standards. Since December 2015, INSTAT updates annually the CPI weights using the results of a new national Household Budget Survey. The PPI, import price index, and construction cost indexes are published on a quarterly basis, due to resource constraints. The PPI includes separate indexes for production sold to the domestic market and exports. The PPI and import price index cover industrial activities only.
Government finance statistics: Fiscal source data are adequate to allow a broad presentation of the quarterly fiscal operations in line with the Government Finance Statistics Manual (GFSM2014 and cover the entire general government. Consistency across fiscal surveillance, GFS Yearbook, and other macroeconomic reporting has been improving and INSTAT has been producing reports from the same compilation system since October 2021. The last mission under the second phase of the SECO-supported GFS capacity building project helped develop and integrate procedures to estimate quarterly extrabudgetary flows from annual data into the AIGCS. Procedures and methods to estimate total accounts payable using double-accounting

methods have also been implemented, and procedures for compiling on lending data have been developed and integrated into the debt compilation file and the AIGCS.
Monetary and financial statistics: The monetary data compilation framework conforms to the methodology recommended in the *Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG)*. Data on the central bank, other depository corporations (ODCs), and other financial corporations (OFCs) are comprehensive and provided to STA on a monthly basis (quarterly for OFCs) using the standardized reporting forms. The discrepancy between ROW data and those in the ODC data remains on account of the continued inclusion of nonresident deposits with ODCs in the monetary aggregates. Progress on resolving the discrepancy is expected as definitions are clarified and data collection on residency improves as the Bank of Albania converges with European Banking Authority standards. The Bank of Albania reports data on some key series of the Financial Access Survey (FAS), including mobile and internet banking, mobile money, gender-disaggregated data, and the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
Financial sector surveillance: Albania reports thirteen core and six additional financial soundness indicators (FSIs) for deposit-takers on a monthly basis to STA for publication on the IMF's FSI website. The country also reports six additional FSIs for other financial corporations (OFCs) and two FSIs for real estate markets. The coverage of FSIs for the nonfinancial corporate sector may be improved, as reporting on some of the key indicators are affected by capacity constraints at INSTAT. At the same time, there is progress as the BoA is committed to address data gaps on real estate and construction and has adopted a new regulation that will allow data collection of data on residential and commercial real estate lending.
External sector statistics (ESS): Balance of payments and international investment position (IIP) data are compiled by the BoA with a time lag of less than 90 days and are methodologically sound. Compilation is based on the *Balance of Payments and International Investment Position Manual, sixth edition (BPM6)* and the *European System of National and Regional Accounts (ESA 2010)* methodological framework. The implementation of IMF's technical assistance recommendations on ESS have improved the measurement of compensation of employees and remittances, facilitated compilation of the quarterly IIP statistics, supplementary IIP data (currency composition of debt assets and liabilities), and the Reserves Data Template. Albania also participates in the IMF's Coordinated Portfolio Investment Survey (CPIS) and Coordinated Direct Investment Survey (CDIS).

II. Data Standards and Quality	
Albania participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page, http://instat.gov.al:8080/NSDPAlbania/, since June 2017.	Data ROSC published in October 2006: https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Albania-Report-on-the-Observance-of-Standards-and-Codes-Data-Module-Response-by-the-20059.

Table 1. Albania: Table of Common Indicators Required for Surveillance
(As of October 31, 2023)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	10/31/2023	10/31/2023	D	D	D
International Reserve Assets and Liabilities of the Monetary Authorities[1]	09/30/2023	10/31/2023	M	M	M
Reserve/Base Money	09/30/2023	10/30/2023	M	M	M
Broad Money	09/30/2023	10/30/2023	M	M	M
Central Bank Balance Sheet	09/30/2023	10/16/2023	M	M	M
Consolidated Balance Sheet of the Banking System	09/30/2023	10/30/2023	M	M	M
Interest Rates[2]	09/30/2023	10/30/2023	M	M	M
Consumer Price Index	09/2023	10/09/2023	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing[3]—General Government[4]	2022	02/01/2023	A	A	A
Revenue, Expenditure, Balance, and Composition of Financing[3]—Central Government	2022	02/01/2023	A	A	A

Table 1. Albania: Table of Common Indicators Required for Surveillance (concluded)
(As of October 31, 2023)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2022	02/01/2023	A	A	A
External Current Account Balance	2023 Q2	08/01/2023	Q	Q	Q
Exports and Imports of Goods and Services	2023 Q2	08/01/2023	Q	Q	Q
GDP/GNP	2023 Q2	09/29/2023	Q	Q	Q
Gross External Debt	2023 Q2	08/01/2023	Q	Q	Q
International Investment position[6]	2023 Q2	08/01/2023	Q	Q	Q

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should include short-term liabilities linked to a foreign currency but settled by other means, as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes, and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. It also includes the explicit guarantees granted by the central government.

[5] Includes currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annual (A), Irregular (I), Not Available (NA).