August 2005
IMF Country Report No. 05/267

Albania: Sixth Review Under the Extended Arrangement Under the Poverty Reduction and Growth Facility, Request for a Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review—Staff Report; Supplementary Information; and Press Release on the Executive Board Consideration

In the context of the sixth review under the extended arrangement under the Poverty Reduction and Growth Facility, request for a waiver of nonobservance of a performance criterion, and financing assurances review with Albania, the following documents have been released and are included in this package:

- the staff report for the sixth review under the extended arrangement under the Poverty Reduction and Growth Facility, request for a waiver of nonobservance of performance criterion, and financing assurances review, prepared by a staff team of the IMF, following discussions that ended on May 17, 2005, 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 July 22, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff supplement of July 28, 2005 updating information on recent developments.

- a Press Release summarizing the views of the Executive Directors as epxressed during its consideration of the staff report that completed the review and request.

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

Financial System Stability Assessment
Letter of Intent sent to the IMF by the authorities of Albania*
Supplementary Memorandum on Economic and Financial Policies by the authorities of Albania*
Technical Memorandum of Understanding*

*May also be included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

ALBANIA

Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for a Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review

Prepared by the European Department
(In consultation with other departments)

Approved by Ajai Chopra and G. Russell Kincaid

July 22, 2005

- Discussions for the sixth review under the PRGF arrangement and financing assurances review were held in Tirana during May 4–17, 2005. The mission met with Prime Minister Nano; Ministers Malaj (Finance), Angjeli (Economy), Doda (Industry and Energy), and Poçi (Transport and Communications); Bank of Albania (BoA) Governor Fullani; parliamentarians and opposition leaders; senior officials; and representatives from civil society and the international donor community. The staff team comprised Messrs. Escolano (head), Lazar, Oestreicher (EUR), Dalgic (FAD), Mansilla (PDR), Olters (Resident Representative), and Ms. Spahia (Resident Representative's Office). The mission was joined by Mr. Raina (FSAP head, World Bank) and Ms. Kodres (RES) to discuss the preliminary conclusions of the FSAP with the authorities. An FSSA is being circulated accompanying this staff report.

- In the attached Letter of Intent and Supplementary Memorandum of Economic and Financial Policies (MEFP), the authorities request a waiver for the nonobservance of an end-March structural performance criterion—the thrust of which was subsequently carried out as a prior action—and completion of the sixth and last program review and financing assurances review (Appendix IV).

- The current arrangement, in an amount equivalent to SDR 28 million (57 percent of quota), was approved on June 21, 2002 (IMF Country Report No. 02/135). On February 28, 2005, the Board concluded the fifth review and 2004 Article IV consultation (IMF Country Report No. 05/89), approved an extension of the program to November 2005, and discussed the Ex Post Assessment of Longer-Term Program Engagement (IMF Country Report No. 05/88). In view of the EPA conclusions and the authorities' interest in continued Fund involvement with Albania at the expiration of the current program, the Board considered appropriate the initiation of discussions in due course on a medium-term successor arrangement. A Joint Staff Assessment of the 2003 PRSP progress report was considered by the Board on July 14, 2004 (IMF Country Report No. 04/205); and a new progress report was adopted by the authorities on July 8, 2005, but might be revised by the incoming government.

- Albania participates in the GDDS, and a ROSC on data dissemination was published in June 2000. A safeguards assessment of the BoA was finalized in June 2002, and a fiscal ROSC in June 2003. Albania's economic program is supported by the World Bank through several sectoral lending programs and a third Poverty Reduction Support Credit (PRSC) approved in December 2004.

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EXECUTIVE SUMMARY

During recent years, macroeconomic performance of the Albanian economy has been good overall, with sustained growth and low inflation. Weak infrastructure and institutions, however, hold back export performance and the economy remains dependent on migrant remittances to finance a large trade deficit. The 2005 macroeconomic outlook remains for 6 percent growth and about 3 percent inflation. Weak partner country growth and high commodity prices point to a slight deterioration of the current account to 7 percent of GDP. But rising incomes, remittances, and deepening financial intermediation should sustain domestic demand, while the ongoing supply expansion will aid price stability. Total and external public debt have been reduced to 55½ and 18 percent of GDP respectively—but failure to boost competitiveness could substantially worsen sustainability prospects. Slow political reform and weak rule of law have delayed a Stabilization and Association Agreement with the EU. Preliminary results of the July 3 elections indicate an opposition victory, but inauguration of the new parliament and government is being delayed by a protracted vote verification and appeal resolution process.

Policy discussions focused on measures to maintain macroeconomic stability and the pace of structural reforms after the expiration of formal program conditionality and until the new government adopts a fully articulated strategy. Both the government and opposition have expressed interest in discussing a successor arrangement with the Fund. Preliminary FSAP conclusions were also discussed.

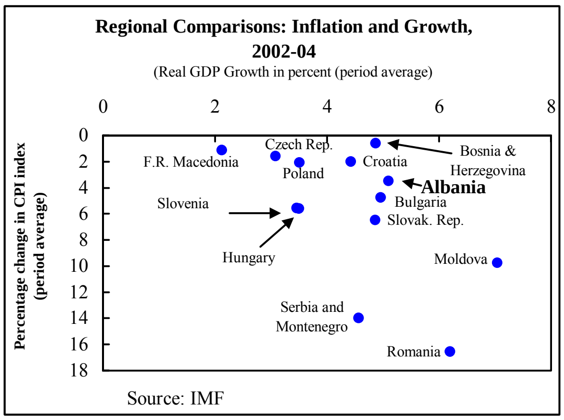
- Following a gradual **monetary** easing, the BoA's adoption of a neutral bias stance is appropriate, given electoral and seasonal uncertainties. Strong bank credit growth warrants close monitoring, but greater **financial intermediation**—from a low base—is welcome, and has not eroded macroeconomic or financial stability. The **2005 budget** is on track to deliver Albania's first surplus in current operations and budget implementation has improved. The government approved the **Tirana-Durrës-Rinas railway project**, which awaits parliamentary ratification. The authorities agreed to contain the project within the envisaged medium-term expenditure and declining debt-to-GDP profiles, commensurately curbing domestic borrowing when loan disbursements take place—possibly over 2006–07.

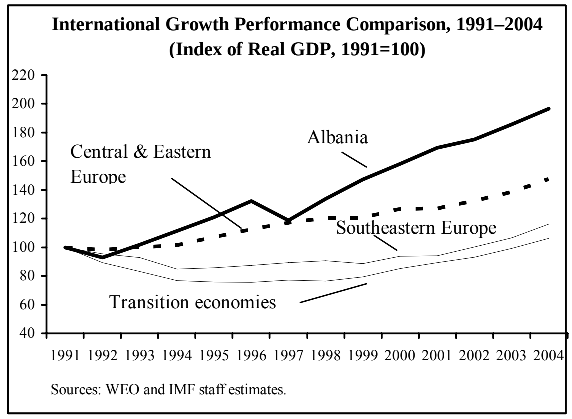
- **Despite some progress, revenue and expenditure administration reforms and financial sector development remain key priorities**—with the latter based on the FSAP conclusions, with which the authorities were in broad agreement. Privatization efforts have had mixed success. The sale of Albtelecom is well advanced—although parliamentary approval is still required—but ARMO's tender was unsuccessful. Other public assets are slanted for immediate privatization.

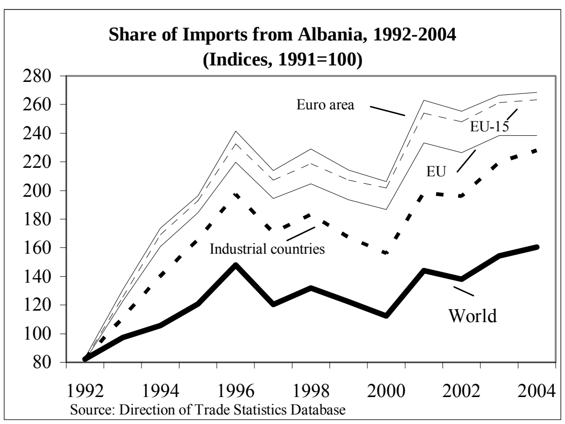
The accompanying supplementary Memorandum of Economic and Financial Policies contains policy commitments appropriate to maintain macroeconomic stability and reform momentum even after the formal end of the PRGF arrangement in November. Staff supports the authorities' request for a waiver of a structural performance criterion, and for completion of the sixth review of the program, and the financing assurances review.

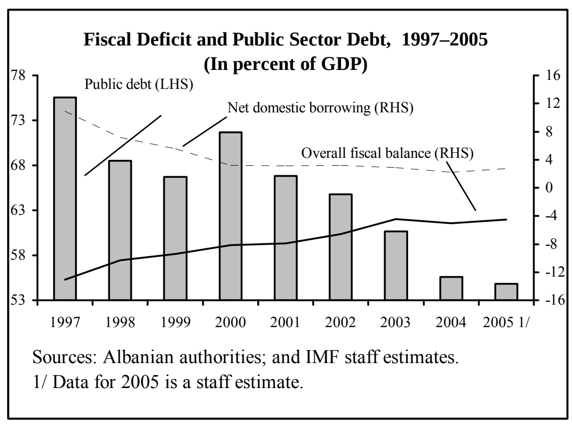
I. INTRODUCTION

1. **During recent years, the macroeconomic performance of the Albanian economy has been good overall (Table 1, Figure 1).** Since 2003, growth has been sustained at about 6 percent and inflation has generally been within the BoA's 2–4 percent target. Public debt has declined since end-2001 by about 11 percentage points of GDP, to 55½ percent of GDP at end-2004. Reflecting increased confidence, the lek has experienced a trend appreciation, and financial intermediation has deepened. The current account deficit has narrowed reflecting net export gains, although, at about 6 percent of GDP in 2004, it remains wide.







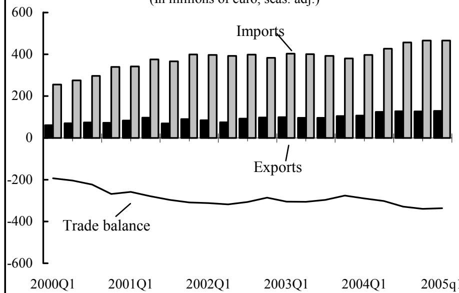


2. **Nevertheless, a broad-based, export-driven expansion has not yet taken root.** Throughout the transition, private sector development, economic liberalization, and an open trade regime have generated large total factor productivity gains. But, as this growth source wanes, sustaining the expansion hinges increasingly on eliciting productivity-enhancing, export-oriented investment.[1] In contrast, growth has been driven largely in recent times by buoyant domestic demand and the expansion of nontradable sectors. As a consequence, the

[1] See IMF Country Report No. 05/88 and "Albania: Sustaining Growth Beyond the Transition," WB Country Economic Memorandum, December 2004.

economy remains dependent on migrant remittances and other transfers to finance a trade deficit in goods and services representing over 20 percent of GDP. Improving competitiveness has proved difficult, as the investment environment remains relatively uninviting, owing to severe infrastructure deficiencies, weak governance and institutions, and a large informal economy.

Exports, Imports, and Trade Balance
(In millions of euro, seas. adj.)



Sources: Bank of Albania and IMF estimates.

Business Climate Indicators (2004)

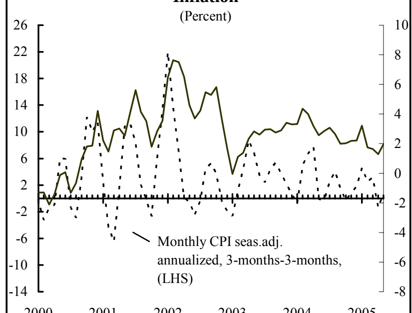
	Albania	Regional Average	OECD Average
Starting a Business			
Number of procedures	11	10	7
Duration (days)	47	48	30
Cost (% GNI per capita)	32	15	8
Hiring and Firing Costs			
Difficulty of hiring 1/	11	31	26
Difficulty of firing 1/	20	42	27
Rigidity of employment index	30	42	27
Enforcing Contracts			
Number of procedures	39	29	19
Duration (days)	390	412	229
Cost (% debt)	29	18	11
Getting Credit			
Public credit registry coverage 2/	0	6	76
Private bureau coverage 2/	0	47	577
Closing a Business			
Time (years)	4	3.3	1.7
Cost (% of estate)	38	13	7
Recovery rate (cents per $)	25	30	72

Source: World Bank, Doing Business, July 2005.
1/ Each index takes values between 0 and 100, with higher values representing more rigid regulations.
2/ Borrowers per 1000 adults.

3. **As the current program draws to an end, most of its objectives have been successfully achieved—notably regarding macroeconomic stabilization (Figure 2), financial development, privatization, and key sectoral restructuring (IMF Country Report No. 05/88).**

- The BoA has adeptly managed monetary and financial policies—anchoring inflation expectations, reinforcing confidence in the monetary policy framework, and underpinning the ongoing financial sector expansion (Figure 3).

Inflation
(Percent)



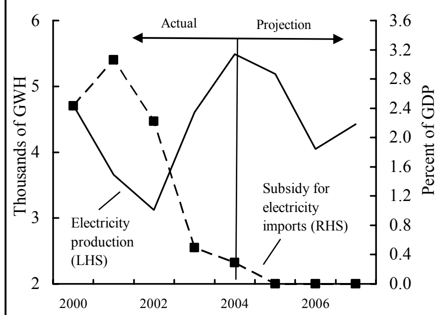
Sources: Bank of Albania, Ministry of Finance, INSTAT, and Fund staff estimates.

- On the fiscal front, expenditures, the deficit, and domestic borrowing have been curtailed. The public debt-to-GDP ratio and related vulnerabilities have been substantially reduced.

- Privatization of the large Savings Bank in 2004 placed the banking system fully under private management, divestment of Albtelecom is close to completion, and most other public entities have either been privatized, granted under long-term management concessions, or are being offered for sale. Ongoing reforms in the crucial electricity sector have significantly improved sectoral performance and allowed the elimination of electricity import subsidies in the 2005 budget.

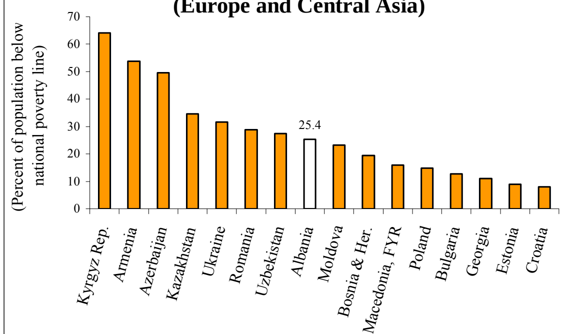
- Rising incomes have underpinned progress in some aspects of poverty, such as absolute poverty and child and maternal mortality, although some indicators (e.g., educational enrollment) have deteriorated (Table 2). Analyses point to the key role played by sustained high growth,

Electricity Production and Import Subsidy 2000-2007 1/



Source: KESH.
1/ Actuals up to 2004. Targets thereafter.

Poverty Rates of Transition Economies (Europe and Central Asia)



Source: World Development Indicators database and Country Poverty Assessment Reports, World Bank.

Albania: Poverty Indicators 1/

	1998	2002	2003
Percentage of population with consumption below basic requirements 2/	...	25.4	...
Percentage of population with consumption below minimum calorie requirements	...	4.7	...
Percentage of population with consumption below 60 percent of median 2/	29.6	13.5	...
Percentage of population with per capita income below US$2 a day 2/	46.6	10.8	...
Gini coefficient 3/	0.43	0.28	...
Headcount Poverty Level (in percent) 4/	...	20	17
Estimated per capita consumption (in leks) 4/'	...	7679	8116
Percentage of population without running water inside their dwellings 4/	...	50	40
Mean number of hours per day without electricity 4/	...	8.6	4.8
Infant mortality rate (per 1,000 live births) 5/	27.6	22	18

1/ Data for 1998 are from the Living Condition Survey (LCS) carried out by INSTAT. The 2002 Living Standards Measurement Survey (LSMS) was carried out by the World Bank. Data for 2003 and 2004 are from the draft 2005 NSSED. Due to different methodologies, data are not necessarily comparable A full LSMS is being implemented in 2005.

2/ For 2002, the source is the 2002 LSMS.
3/ Higher value indicates more inequality.
4/ Source: draft 2005 NSSED.
5/ Source: World Development Indicators database.

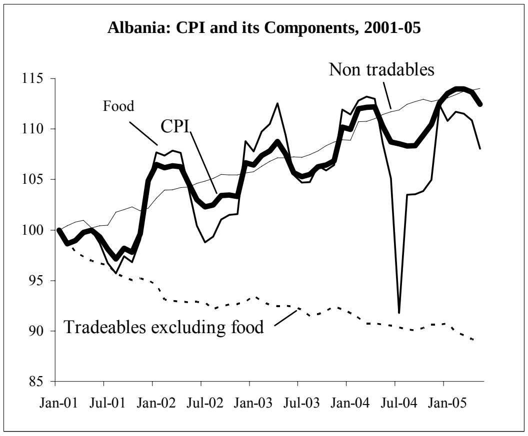
selected social assistance programs, and non-official safety net arrangements—including migrant remittances and micro-credit networks. However, spending cuts may have slowed progress in poverty reduction.

4. **Structural improvements in fiscal institutions have, however, lagged behind.** There has been progress in modernizing the customs and tax administrations—with key actions covered by program conditionality. Nevertheless, as confirmed by a recent FAD TA mission, there continue to be major impediments to the efficiency of the tax administration—rooted in outmoded practices and limited implementation capacity—and revenue mobilization remains below regional standards. Weak institutional capacity also hinders the expenditure management side of the budget. Lack of professionalism among public officials, governance weakness, and taxpayer harassment are repeatedly singled out by private sector representatives as major obstacles to investment.

5. **Broader institutional and political reforms, generally beyond the scope of the program, are supported by multilateral and bilateral donors, but progress has been slow.** Partly as a result, ongoing negotiations on a Stabilization and Association agreement with the EU have not yet been concluded. In its early-2004 Stabilization and Association Process report, the European Commission called for greater authorities' commitment in fighting organized crime, human trafficking, money laundering and corruption. While there has been some progress in 2004 (e.g., enactment of asset declaration requirements for public officials, passage of the Property Restitution Act), deep-seated problems persist in these areas.

II. Recent Developments

6. **Growth in 2004 is provisionally estimated at about 6 percent, and developments so far this year point to a similar outcome in 2005 with subdued inflation (Figure 4).** Investments in agricultural technology and electricity sector reforms, aided by a second year of favorable weather, are boosting output. Domestic demand continues to be buoyed by migrant remittances and other external current transfers, as well as, increasingly, by rapidly expanding financial intermediation and credit. Net external demand exerted less of a drag on growth in 2004 than in the recent past, as key imports (food, electricity) were replaced by the expanded domestic supply and export volumes continued strong growth (although from a low base). In 2005, as in 2004, increased domestic supply of foodstuffs is exerting downward pressure on prices (food accounts for about 70 percent of the CPI basket)—aided by the lagged effects of the 2004 lek appreciation and increased regional trade. The 12-month inflation rate was 2 percent in May 2005.

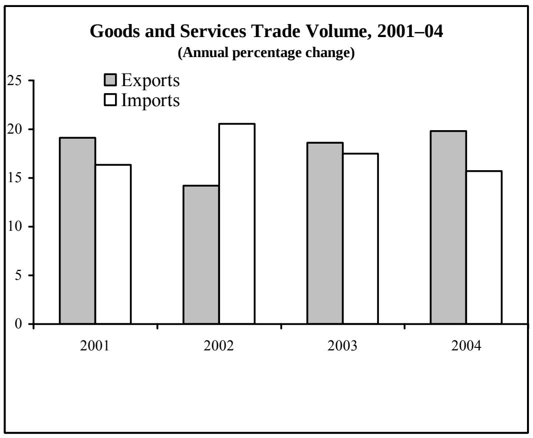


Albania: CPI and its Components, 2001-05

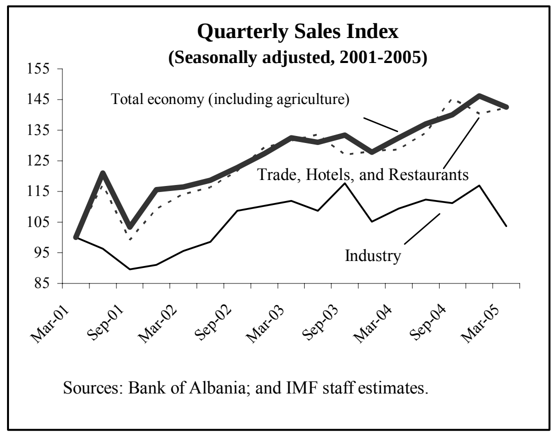
Contributions to economic growth 2003-04 (in percent)

	2003	2004
Agriculture, Hunting and Forestry	0.8	1.0
Industry	0.3	0.3
Construction	0.9	0.5
Trade and services	3.2	3.2
Transport	0.9	0.9
GDP at factor cost	6.0	5.9

Sources: Albanian authorities and IMF staff estimates.



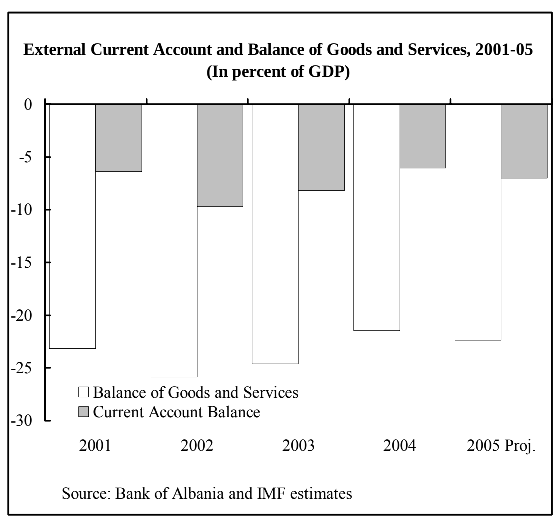
Goods and Services Trade Volume, 2001–04
(Annual percentage change)



Quarterly Sales Index
(Seasonally adjusted, 2001-2005)

Sources: Bank of Albania; and IMF staff estimates.

7. **In 2004, the current account deficit narrowed to 6 percent of GDP (from 8 percent in 2003), reflecting trade gains (Table 3).** Despite a marked lek appreciation through mid-2004, export growth was maintained in textiles and footwear, underpinned by geographical proximity to destination markets and still significant cost differentials. Base metals, vegetables, and tourism services exports also increased; and domestic output replaced imports of electricity, agriculture, and agro-industry. The lek has remained broadly stable, posting a 2 percent real effective appreciation in the 12 months to March 2005. Against increasing lek demand, reserves reached 16.3 percent of GDP at end-May 2005, covering four months of imports.



External Current Account and Balance of Goods and Services, 2001-05
(In percent of GDP)

Source: Bank of Albania and IMF estimates

8. **Preliminary results of the July 3 elections indicate that the opposition Democratic Party would have a parliamentary majority, but**

protracted resolution of appeals is delaying the formation of the new parliament and government. Most observers believe that a new government is unlikely to be inaugurated before September. The current government and the opposition have both expressed their commitment to the policies contained in the MEFP and expressed interest in discussing a new program that could be supported by a successor arrangement with the Fund (MEFP ¶5).

III. Report on the Discussions

9. **Program performance has been satisfactory, and policy implementation remained on course around the time of the elections.** All quantitative performance criteria (PC) were met (MEFP, Table 3). Structural PCs were also observed with the exception of one March 2005 PC aimed at strengthening custom inspections procedures through the implementation of a risk assessment module in the ASYCUDA computer system (MEFP, Table 4). This PC was not observed mainly due to delays in the provision of the necessary external assistance, and the authorities are requesting a waiver. External assistance has now been obtained and the authorities have implemented the risk assessment module in the two main custom houses (Tirana and Durrës, representing 60 percent of all imports) with a view to extend it, by end-2005, beyond the originally intended five customs houses (MEFP ¶4, ¶7). Based on this corrective action taken by the authorities, staff supports the requested waiver. More generally, monetary and budget policies remain sound: budget implementation has improved following passage of a strong 2005 budget; and structural reforms of fiscal institutions, financial development and prudential supervision, privatization, and key sectoral reforms have maintained momentum throughout the difficult electoral period.

10. **Looking forward beyond the current Fund arrangement, discussions focused on measures to ensure that macroeconomic policies are not relaxed and ongoing structural reforms are continued until a new, fully fledged, medium-term economic program is adopted by the new government (Box 1).** The accompanying MEFP spells out policy commitments and targets through the end of 2005—bridging the period between the completion of this program review and the full articulation of a new medium-term economic policy strategy that could be supported by a Fund arrangement. The authorities seek in this way to dispel uncertainties vis-à-vis investors and the international and donor communities regarding their stability of purpose in continuing the transition to a rules-based market economy.

Box 1. Structural Measures

Structural performance criteria under the program cover the period up to June 2005, but the authorities have indicated their intention to implement the following structural measures through end-2005:

Ongoing reforms in revenue administration(MEFP ¶7)**:** (i) further extend the ASYCUDA and the related risk assessment module to ten and six customs houses, respectively; (ii) support the newly introduced quick VAT refund system for exporters; (iii) strengthen the effectiveness of the large taxpayer unit by establishing clear and objective criteria for including taxpayers and concentrating control in Tirana; and (iv) select taxpayers for fiscal visits on the basis of objective, computer-based risk assessment systems.

Ongoing measures to ensure the efficiency and transparency of expenditure: (i) carry out feasibility studies for large projects funded by nonconcessional borrowing and subject them to tender(MEFP ¶10); (ii) make good faith efforts to conclude the rescheduling of arrears on inoperative payments agreements with official and private creditors (MEFP ¶11).

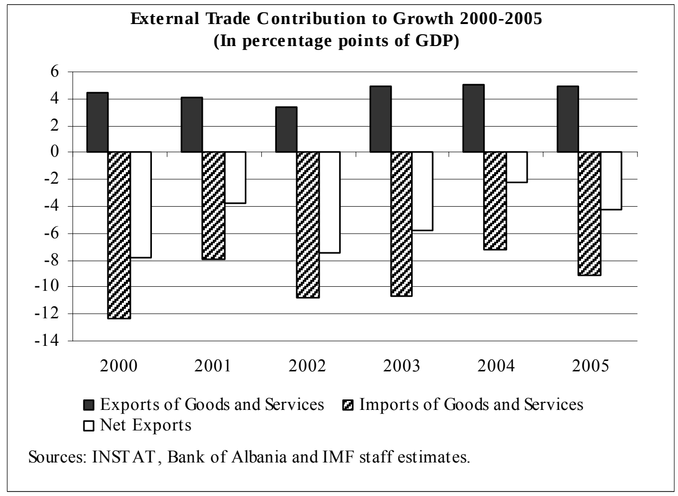
Ongoing reforms in the financial sector(MEFP ¶9)**:** (i) retain the treasury bill window at the BoA; (ii) further increase the number of public employees paid through the banking system; (iii) complete the interbank clearing house; prepare the introduction of a credit report bureau within the BoA; and take steps to extend deposit insurance to credit unions; and (iv) refrain from creating any public financial institution.

Other ongoing structural reforms (MEFP ¶10): (i) finalize the sale of Abtelekom and allocate its proceeds to priority investment and domestic debt redemption in equal parts; (ii) divest the government's stake in AMC, prepare the privatization law for Albpetrol, and re-initiate the privatization of ARMO; and (iii) prepare the advance GDP estimates for 2005Q1 and the preliminary 2004 GDP estimates.

World Bank's structural conditionality focuses on implementing the action plan to restructure the electricity sector and other key sectors, governance and institution building, sustainable private sector development, and human development (Appendix II).

A. Macroeconomic Framework

11. **The macroeconomic outlook remains essentially unchanged from the 2004 Article IV consultation (IMF Country Report No. 05/89), including trend growth of about 6 percent.** On the external side, the balance of risks has shifted downwards, owing to weaker EU growth. In 2005, net external demand is envisaged to increase its negative contribution to growth, reflecting international competition in textiles (after the elimination of textile quotas) and a relatively strong lek. This, coupled with higher commodity prices point to a slight deterioration of the current account deficit to 7 percent of GDP. However,

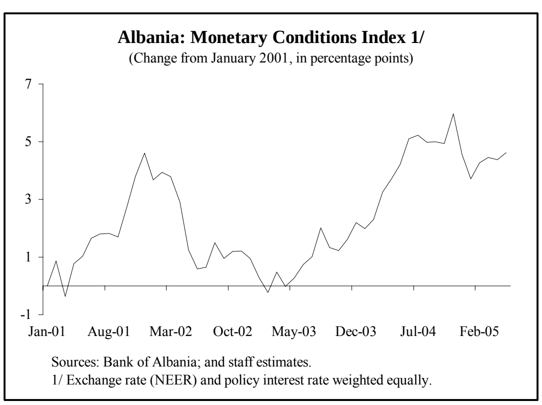


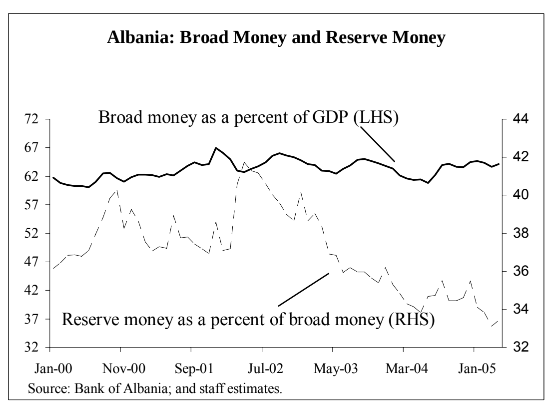
remittances and tourism earnings, and the ongoing credit expansion are expected to sustain domestic demand. On the supply side, output will be supported by the key agriculture and agro-industry sectors, electricity, and services.

12. **While vulnerabilities are low, sustained medium-term growth will hinge on structural and institutional reforms to improve the investment climate.** Over the medium term, trend growth of 6 percent (the average of the past five years) remains the central projection—predicated on improvements in infrastructure and the business environment, and sustained investment inflows. Substantial total factor productivity growth has been generated throughout Albania's transition by the reallocation of resources prompted by economic liberalization and by external trade and financial opening. But this engine of growth appears to be waning and increasingly needs to be complemented by stronger investment. External liabilities, at below 20 percent of GDP, are modest and correspond mainly to development assistance. Thus, debt sustainability analyses (DSA, IMF Country Report No. 05/89) reveal limited vulnerability and point to a steady improvement in the external and public finance positions—a robust outcome under most stress tests. Nevertheless, the DSA also indicates that a decline in trend growth or failure to improve the trade balance would substantially worsen debt sustainability prospects.

B. Monetary and Financial Sector Policies

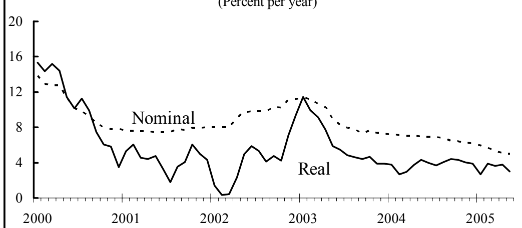
13. **With inflationary pressures muted, the BoA was able to continue a gradual easing through March 2005, but there was agreement that a pause was now appropriate**





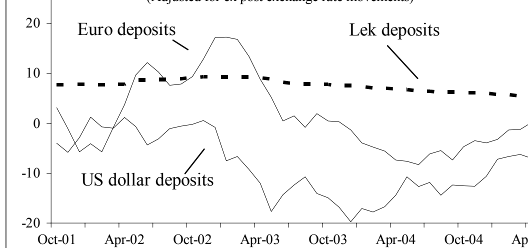
(Table 4). With the policy rate at 5 percent, the BoA adopted a neutral bias until electoral uncertainties and summer seasonal effects dissipate. Monetary conditions remain tight, and there could be room for further easing if supply and price developments remain favorable, particularly given the weaker external environment. But interest rates are at record lows, credit growth is strong, and the private sector shift toward the lek has lessened—raising the possibility of a decline in lek demand growth and attendant inflationary risks. Thus, with evenly balanced risks, staff agreed that the BoA should stand ready to move in either direction.

Three-month Treasury Bill Rate 2/
(Percent per year)



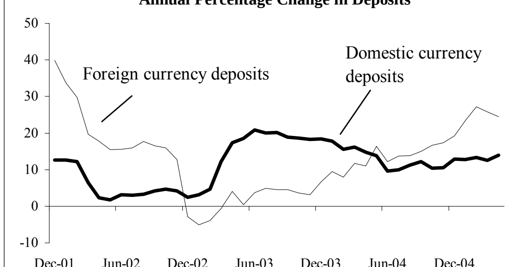
Sources: Bank of Albania, Ministry of Finance, INSTAT, and Fund staff estimates.
2/ The real rate is derived using annualized seasonally adjusted CPI inflation.

Nominal Deposit Rates
(Adjusted for ex post exchange rate movements)



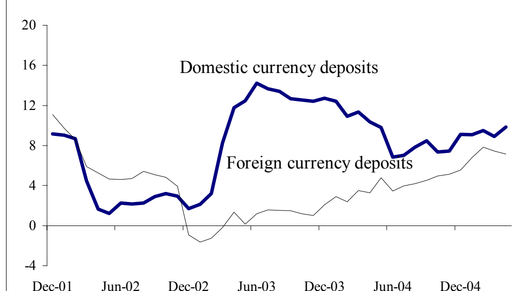
Source: Bank of Albania; and staff estimates.

Annual Percentage Change in Deposits



Sources: Bank of Albania and IMF estimates.

Annual Percent Contribution to Deposit Growth



Sources: Bank of Albania and IMF estimates.

14. **Sound financial sector policies are succeeding in expanding banking intermediation and reducing the use of cash.** The banking system is showing an increasingly dynamic and competitive behavior, reinforced by the sale of the Savings Bank to the Raiffeisen group in 2004. Broad money has continued expanding roughly in line with nominal GDP, with strong deposit growth matched by a reduced share of cash in circulation. As indicated by the FSAP, these tendencies have been adequately supported by the authorities' financial development policies—including the provision of an interbank real-time gross settlement system and other market infrastructure, improvements in the regulatory framework, and payment of government salaries through the banking system (exceeding program conditionality in this area). Preparations are proceeding on schedule for the introduction this year of an interbank clearing house (MEFP ¶9).

15. **Against this background, the mission discussed the nature and appropriate response to the growth of private sector credit (Box 2).** The authorities and staff fully agreed that the credit expansion reflects the growth-enhancing transition toward a more efficient intermediation of savings and financial flows through the banking system—to the detriment of the informal sector. Credit growth has been funded by a broader deposit base rather than by BoA lek liquidity or external indebtedness. However, in light of banks' balance sheet expansion, the authorities are intensifying prudential surveillance of the banking system, including banks' internal risk management capabilities. Staff agreed that, without precluding further action at a later time, neither additional monetary policy nor regulatory responses were warranted at this point for the following reasons:

- *Subdued inflationary pressures, buoyant domestic supply, and trade gains make a credit-driven overheating unlikely for the time being.* While the 12-month growth of credit to the private sector was 50 percent in April 2005, its level was still very low (10½ percent of GDP) by regional and international standards. Moreover, consumer credit is still a small part of total credit, with the bulk of loans backing investment, which will, in turn, stimulate a supply-side response.

International Comparison of Private Sector Credit Levels 1/
(Percent of GDP at end-year)

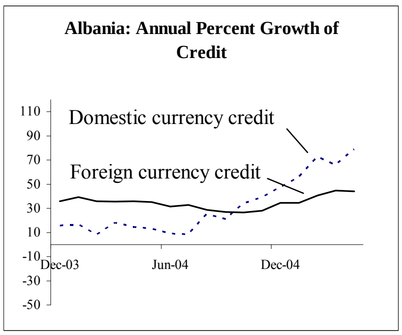
	2002	2003	2004
Albania 2/	7.3	8.4	9.9
Kosovo	...	9.6	14.9
Romania	8.3	9.5	10.0
FYR of Macedonia	17.7	19.6	23.6
Slovak Republic	39.6	31.6	30.6
Bulgaria	19.6	27.4	36.7
Estonia	26.9	33.1	43.3
Czech Republic	29.8	30.7	32.2
Hungary	35.8	43.0	45.9
Croatia	50.7	54.2	57.5
Euro Area	108.8	112.0	114.8

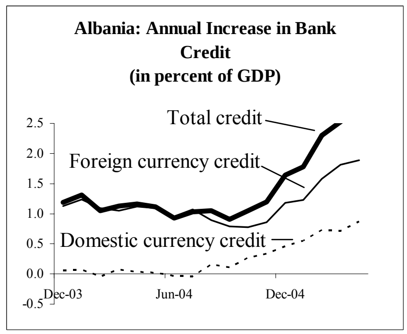
Source: IFS database; Kosovo data from Kosovo authorities.
1/ Excludes credit to nonfinancial public enterprises and nonbank financial institutions.
2/ Includes credit held by Bank Assets Resolution Trust.

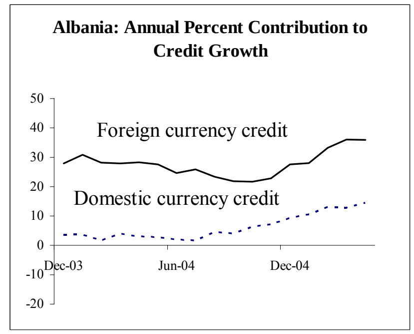
- *While bearing close attention, the credit expansion has not led so far to a deterioration of indicators, suggesting that financial stability or the external financial position are not being compromised.* Despite robust credit growth averaging 40 percent annually since 2002, neither banks' loan portfolios nor financial performance has deteriorated. Rather, it appears that the recent acceleration is, at least partly, the result of improvements in banks' loan appraisal capabilities. While capital-asset ratios have declined, reflecting larger loan portfolios, they remain well above regulatory minima (Table 5). Also, the credit expansion has not been funded by external indebtedness. On the contrary, banks—facing lending capacity constraints and strict prudential requirements—have so far allocated part of the deposit increase to build up external net foreign assets.

Box 2. Bank Credit Developments

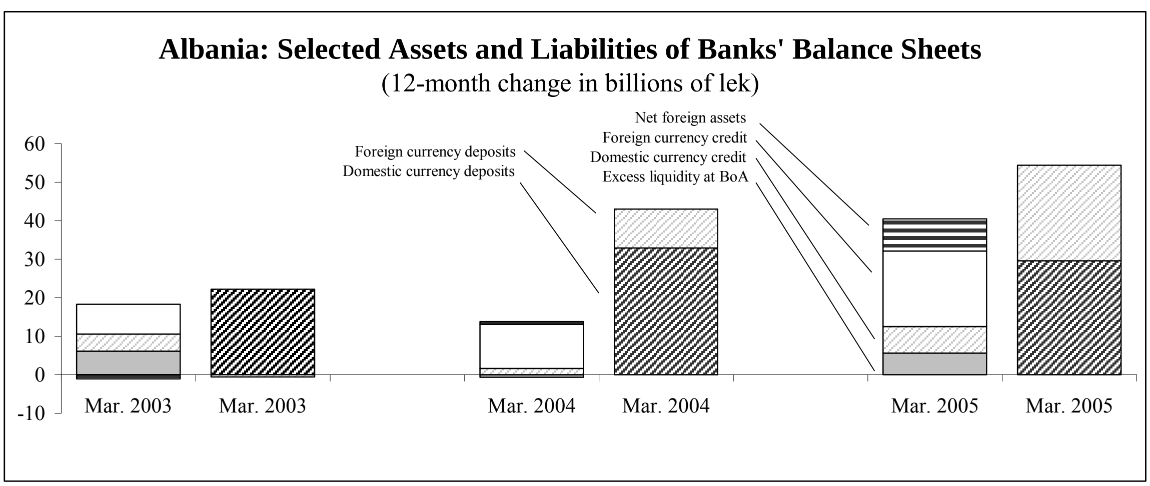
Bank credit to the private sector has grown briskly in past years and accelerated in the last quarter of 2004—a trend that, based on regional experiences, may continue over the medium term. Annualized growth reached 50 percent in April 2005 (almost 3 percentage points of GDP)—up from 31 percent (1¼ percentage points) a year earlier. The total level of credit is still very low at 10 ½ percent of GDP—the lowest in the region. Although domestic currency-denominated credit accounts only for 2⅓ percent of GDP, its 12-month growth was 80 percent by April 2005. Foreign currency-denominated credit accounts for about 80 percent of the stock of total lending.







The acceleration of lending has been fully funded by deposit growth rather than by foreign borrowing or through credit facilities from the BoA. Foreign currency deposit growth accelerated in the first part of 2005 as a result of large remittance inflows. Banks used part of this inflow to fund credit and the remainder to increase net foreign asset holdings. Given their large foreign asset position, banks as a whole are not liquidity constrained, and external borrowing remains rare. Domestic currency lending is also funded through deposit growth—arising from the trend migration of currency in circulation to the banking system. The BoA has attempted to absorb this liquidity and, by end-March 2005, had sterilized almost lek 11 billion of excess liquidity through its reverse repurchase facility.



16. **The authorities expressed appreciation for the FSAP analyses and agreed with the thrust of its findings and recommendations (MEFP ¶9).** The FSAP finds that the monetary policy framework is effective and increasingly transparent and that the Albanian banking system as a whole is financially sound, although risks will necessarily rise with increased competition (bolstered by the savings bank privatization) and higher levels of credit. While the BoA's prudential supervisory capacity and statutory framework have been significantly strengthened in recent times, the authorities agreed with the FSAP team on further improvements, including expanded data collection, sustained supervisory resources, stress testing, and preparedness for financial emergency scenarios. The authorities were also receptive to a broad set of financial development recommendations including, inter alia, creating a BoA-based credit bureau; following a bottom-up strategy for credit union growth (discarding proposals of a public, rural-based bank); deepening the treasury bill market and maintaining the public treasury bill retail window at the BoA; expanding debt-management capabilities at the Ministry of Finance; bolstering enforcement mechanisms for AML/CFT; and focusing efforts on developing effective regulation and supervision of the nascent insurance sector.

C. Fiscal Framework

17. **Against the background of a strong 2005 budget premised on realistic revenue projections, implementation has improved from previous years (Tables 6a–6b).** Data through June 2005 indicate that budget execution is on track to deliver the first current budget surplus since the transition started. Public debt is envisaged to decline to 54¾ percent of GDP at end-2005, and the authorities reiterated their commitment to devote, in addition, half of the proceeds from the sale of Albtelecom and other large privatizations to domestic debt reduction (MEFP ¶10). Given low interest rates and increased confidence, the Treasury is lengthening maturities of its domestic securities, including through the successful issuance of three-year bonds. Tax revenue in 2004 broadly met its indicative program target, and the outturn so far this year is consistent with the 2005 budget forecast. However, the tender of ARMO (refinery) elicited no bids, and EU budget assistance is now unlikely to be disbursed fully in 2005. These shortfalls (½ percentage point of GDP) will be offset by budget reserves

Albania: Budget Performance
(In percent of GDP)

	2002		2003		2004		2005	
	Budget	Actual	Budget	Actual	Budget 1/	Prel.	Budget	Proj.
Total Revenue and Grants	25.7	24.5	26.0	24.0	25.4	23.7	24.1	23.9
of which: Tax Revenue	22.0	20.5	22.1	20.9	21.9	21.3	21.3	21.3
Total Expenditure	34.6	31.1	32.1	28.5	31.7	28.7	29.0	28.4
of which: Current Expenditure	26.3	24.5	24.2	24.1	24.0	23.6	22.7	22.5
Overall Balance	-8.8	-6.6	-6.1	-4.4	-6.3	-5.0	-4.9	-4.5
Domestic Financing	4.3	3.3	3.0	3.0	4.5	4.1	3.3	2.9
of which: Domestic Borrowing	2.5	3.2	2.9	2.9	2.0	2.3	2.7	2.7
Foreign Financing	4.5	3.3	3.1	1.4	1.8	0.9	1.6	1.6
Current Balance	-1.2	-0.7	1.1	-0.5	0.5	-0.2	0.5	0.7
Public debt	69.5	64.8	64.7	60.7	61.5	55.6	54.5	54.8

Sources: Ministry of Finance; and staff estimates.
1/ Incorporates the Supplementary Budget.

and spending cuts. As agreed in the fifth review, the government has not granted across-the-board wage increases, reserving the budgeted wage bill increase for targeted incentives and civil service reforms.

18. **The government approved in June 2005 the Tirana-Durrës-Rinas railway project and the associated commercial foreign financing—representing over 1 percent of GDP—which awaits parliamentary ratification.** The authorities consider that this project is necessary to upgrade Albania's transportation infrastructure and that it will have significant growth spillovers. The WB, however, has expressed concerns regarding the project, echoed by staff. These concerns refer to insufficient analysis of the economic and social benefits that might stem from the project; likely large negative financial returns; and low value for money. In addition, the project originated through an uninvited offer and had not been contemplated in the PRSP. The authorities agreed that the project would have to be

Albania: Medium-Term Fiscal Path 1/

(In percent of GDP)

	2004	2005	2006	2007	2008	2009
Overall balance	-5.0	-4.5	-4.2	-3.7	-3.4	-3.3
Domestic financing	4.1	2.9	3.1	2.7	2.7	2.7
Privatization receipts	1.8	0.2	0.4	0.2	0.2	0.2
Domestic net borrowing	2.3	2.7	2.6	2.5	2.5	2.5
Foreign financing	0.9	1.6	1.1	0.9	0.6	0.6
Public debt	55.6	54.8	54.4	54.0	53.2	52.4
Domestic	37.8	37.2	36.6	36.2	35.6	35.2
External	17.8	17.7	17.7	17.8	17.6	17.3
Debt service to revenue 2/	17.3	16.7	16.5	15.9	16.3	16.2

1/ Owing to remaining uncertainties, the projections in this table do not include the privatization of Albelecom and the Tirana-Durres railway project.

2/ Revenue excluding grants. Almost none of the domestic debt has a maturity of more than one year.

contained within the envisaged medium-term expenditure and declining debt-to-GDP profiles, without jeopardizing priority social spending. Thus, it will require commensurate reductions in domestic borrowing when loan disbursements occur—possibly during 2006–07 (MEFP ¶6).

19. **Some improvements in fiscal institutions are starting to bear fruit, but much remains to be done.** With the 2005 budget, the budget process has become more transparent and efficient. In this vein, staff supported plans to cast the 2006 budget in an explicit three-year rolling framework, integrated with the medium-term expenditure framework. Customs-clearing time has been reduced drastically (from five to below two days), seizures and submissions for prosecution have risen, and collections have increased. This has been partly due to the introduction of the ASYCUDA system, stricter procedures, and management

reforms. The recent introduction of computerized risk-assessment methods for inspections aim at further reducing custom agents' room for discretion and facilitating trade. A quick VAT refund mechanism for exporters has been implemented, and clearance of VAT refund arrears has started (outstanding arrears to exporters had been reduced by 40 percent by June 2005). Consistent with FAD and bilateral TA recommendations, the authorities are reinforcing the large taxpayers unit; improving management and monitoring of objective performance indicators; stepping up training and personnel selection; and introducing consistent and rules-based auditing procedures (MEFP ¶7). However, an across-the-board and tangible improvement of tax administration outcomes—regarding both taxpayer perceptions and revenue mobilization—has proved elusive, and noncompliance remains pervasive. Thus, further and substantial tax administration reform should be a key priority of the new government.

20. **Some electoral candidates from the main parties had floated proposals to introduce a second VAT rate.** Staff argued (including publicly) against this idea, as it would hinder VAT administration while failing to achieve the avowed redistributive objectives—because the main benefits would accrue to high-income households. The authorities acknowledged these reasons and indicated that, while the incoming parliament might consider a dual-rate VAT, it was not a policy adopted by the government. Also, staff cautioned against granting foreign investors contractual tax holidays.

Albania: Redistributive Effect of a Reduction of the VAT Rate on Food

	Household Income Deciles (from low to high income)									
	I	II	III	IV	V	VI	VII	VIII	IX	X
Estimated monthly expenditure on food per household (leks) 1/	10,435	11,218	12,327	13,281	14,787	15,814	17,630	18,976	21,778	34,731
VAT revenue loss for each percentage point reduction of the VAT rate on foodstuffs (leks)	104.3	112.2	123.3	132.8	147.9	158.1	176.3	189.8	217.8	347.3
Percent of total VAT revenue loss accruing to households in each decile	6.1	6.6	7.2	7.8	8.6	9.2	10.3	11.1	12.7	20.3
Redistributive effect 2/										
Percent of VAT revenue loss benefiting the 30% poorest households	**19.9**									
Percent of VAT revenue loss benefiting the 30% richest households	**44.1**									

Sources: Living Standards Measurement Survey (INSTAT, 2002); and Fund staff calculations

1/ Cash expenditure on food excluding restaurants.
2/ Assuming that all foodstuffs are effectively subject to VAT. In practice, owing to exemptions for small businesses and agriculture, and noncompliance, the redistributive effects stemming from a reduction in the VAT rate are likely to be even more biased in favor of richer households.

D. Other Structural Policies

21. **The authorities' determined privatization efforts have recently been met by a mixed market response.** The privatization of Albtelecom to a strategic investor has been completed and is pending parliamentary approval. The tender of ARMO, however, did not generate market interest, and the authorities are considering ways to relaunch its privatization. The authorities indicated that preparations for selling Albpetrol, the government minority stakes in banks, and other public assets are on course. Adoption of the land restitution law should help establish land property rights and develop a land market—but its successful implementation will require capping the budgetary contingent liabilities and progress in property registration (Box 3).

Box 3. Land Restitution

In 2004, parliament passed a law seeking to redress real estate expropriations by the previous regime. The law provides for compensation with the same property, if possible, or with other land or cash otherwise—*based on the current market value* of the expropriated property. Implementation of the law has not started, pending subsidiary regulations, establishment of claim verification commissions, and a land inventory. Claims may be submitted until end-2007.

The law was passed despite considerable uncertainty over the ultimate size of restitution claims, current land ownership (including by the state), and attendant budgetary impact. Land registration is incomplete, especially in urban and southern seaside areas, making it difficult to estimate the amount of land that can be used for compensation and, thus, the residual fiscal implications. Both registry deficiencies and potential outstanding claims impede the development of an efficient land market and access to credit.

Hence, there is a need for accelerating registration efforts and quantifying (and possibly limiting) the fiscal cost of restitution. As it stands, the budget cost could far exceed available resources. Faced with similar challenges, many Eastern-European countries have found a compromise between fair compensation to former owners and the public interest by capping compensation payments.

E. Program Issues

22. **The program for 2005 is fully financed**. The financing gap estimated for 2005 (US$43 million) is expected to be covered with donors' assistance and rescheduling of bilateral arrears (Tables 7–12).

23. **Albania has made significant progress since the beginning of the program in clearing external arrears, but still maintains outstanding debit balances from inoperative bilateral payments agreements that were in place before Albania joined the Fund.** As of June 2005, outstanding debit balances (estimated at US$102 million, including accrued interest) were maintained with Algeria, Cuba, the Czech Republic, Greece, Poland, the Slovak Republic, Vietnam, and the former Yugoslavia. Arrears with Romania (US$5.4 million) were recently cleared, and agreements with the Czech and Slovak Republics, and Poland are expected to be concluded before expiration of the current Fund arrangement. However, in other cases, protracted negotiations, lack of responsiveness, or incomplete documentation, have prevented further progress. Staff urged the authorities to continue best efforts in negotiating the rescheduling of remaining outstanding arrears before the current arrangement expires; however, it is possible that a longer time frame will be needed to finish the process (MEFP ¶11).

24. **Regarding private creditors, Albanian authorities have proceeded in accordance with Fund policies on lending into arrears.** Authorities have engaged private creditors collectively in each country and reported some progress in reconciling outstanding balances with German, Swiss, and Greek creditors. All other current external debt obligations were repaid on time during the period and the existence of these unsettled amounts does not put the recovery of the Fund's credits at risk.

IV. Staff Appraisal

25. **Good macroeconomic performance has been maintained.** Sustained non-inflationary growth has been supported by adroit monetary and financial sector policies, fiscal consolidation (including around the electoral period), privatization, and sectoral reforms. However, despite recent external gains, a broad-based, export-driven expansion has not yet taken root, and the economy remains dependent on migrant remittances and other transfers to finance a large trade deficit. Substantial improvements in infrastructure, governance and institutions, and the business climate are required to attract competitiveness-enhancing investment and sustain growth and external viability over the medium term.

26. **Trend growth of about 6 percent in 2005 and over the medium term remains the central projection.** In 2005, domestic supply expansion and buoyant demand are envisaged to offset a weaker external environment. However, while external vulnerabilities are low at present, failure to reduce the trade deficit and improve the investment climate would substantially compromise debt and external sustainability.

27. **Following a period of gradual monetary easing, the BoA's adoption of a neutral bias in its policy direction has been appropriate, given electoral uncertainties and seasonal volatility of prices and foreign exchange inflows.** The deepening of financial intermediation and reduced use of cash are welcome developments from the standpoint of efficiency and governance. But, given regional patterns, the attendant credit expansion warrants the authorities' close monitoring.

28. **The FSAP found that the Albanian monetary and financial policy frameworks are effective and increasingly transparent, and that the banking sector as a whole is sound.** Consistent with the authorities' financial development policy, the FSAP findings provide a blueprint for further cementing the financial framework. In the short term, efforts should focus, inter alia, on addressing risks arising from unhedged foreign-currency lending, upgrading supervisory capacity (including on insurance), completing the channeling of public wage payments through the banking system, introducing an interbank clearing house, preparing a credit bureau within the BoA, and improving the BoA's retail treasury bill window.

29. **Since mid-2004, and particularly following adoption of a strong 2005 budget, budget implementation has improved markedly.** The envisaged surplus in current operations implies that Albania will borrow only to invest. Better revenue forecasting has reduced haphazard spending cuts; and current spending restraint is freeing resources for capital spending. While public finance consolidation has been significant, further debt and domestic borrowing reductions will be needed to counteract the likely decline in concessional assistance and access international capital markets. In this regard, staff welcomes the authorities' commitment to devote half of the proceeds of the Albtelecom sale and other future large privatizations to retire domestic debt, and to offset external disbursements for the Tirana-Durrës-Rinas railway project through commensurate adjustments in domestic borrowing.

30. **Placing the public finances on solid footing, however, requires substantial acceleration of fiscal administration reforms to broaden the tax net, generate budget resources, and increase spending effectiveness.** The tangible progress made in customs administration over the past year should be continued, and tax administration reforms should be scaled up. Efforts should concentrate on strengthening the large taxpayer unit and compliance controls for social security and personal income taxes; rules-based procedures for audit and inspection; training and selection of officials; and consistent, sustained, and fair enforcement actions. In other areas, expenditure planning and control, tendering procedures, and treasury and debt management also need reinforcing.

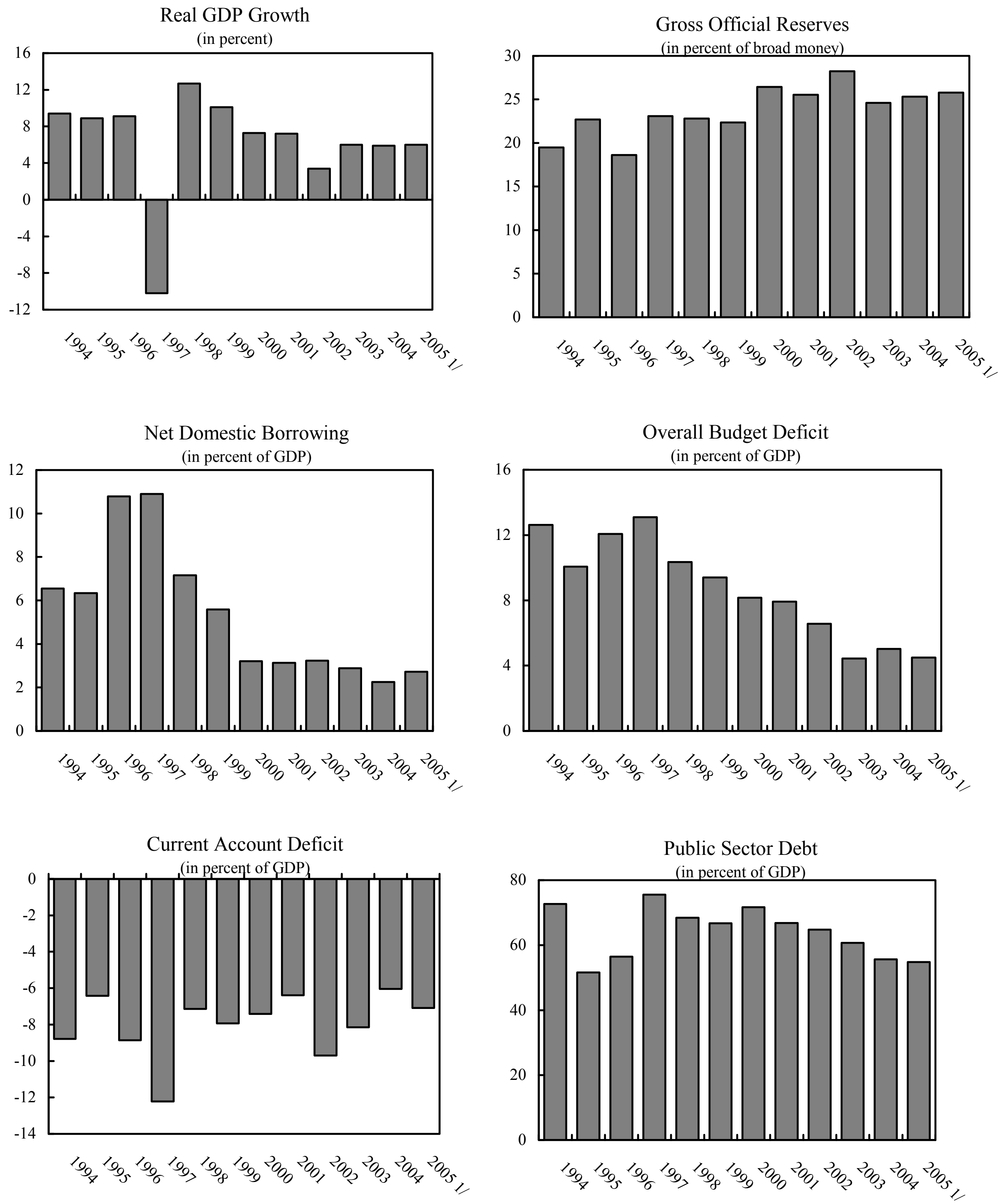
31. **The authorities have made good progress in privatization and other sectoral reforms.** Prompt finalization of the sale of Albtelecom, which awaits parliamentary ratification, will be instrumental in improving service provision and governance of the key telecommunications sector. Minority public stakes in banks and other public concerns should also be privatized, as envisaged, without delay. Settlement and protection of property rights will require a financially feasible resolution of land restitution issues and determined progress in land registration. The authorities are encouraged to continue sectoral reforms in electricity, water supply, and other basic services with World Bank and other donors' assistance.

32. **While recent social indicators appear encouraging, poverty alleviation remains a key challenge.** Against the background of sustained growth, fiscal reforms should protect

and, indeed, expand, poverty reduction efforts through revenue mobilization and more effective targeting.

33. **The supplementary MEFP describes policy intentions through end-2005 appropriate to maintain macroeconomic stability and continue the pace of structural reforms.** Program implementation has been generally good, despite delays in implementing structural conditionality on introduction of the risk assessment module of the ASYCUDA system. Staff considers that this delay did not compromise program objectives, and the authorities have implemented the system in two major customs houses, providing sufficient basis to grant a waiver for nonobservance of the relevant performance criterion. The authorities are also making good faith efforts to reach agreement with official and private creditors on the clearance of external arrears. Staff, therefore, supports the authorities' request for completion of the sixth review and financing assurances review, as well as for a waiver for nonobservance of a structural performance criterion.

Figure 1. Albania: Economic Developments and Prospects, 1994–2005 1/



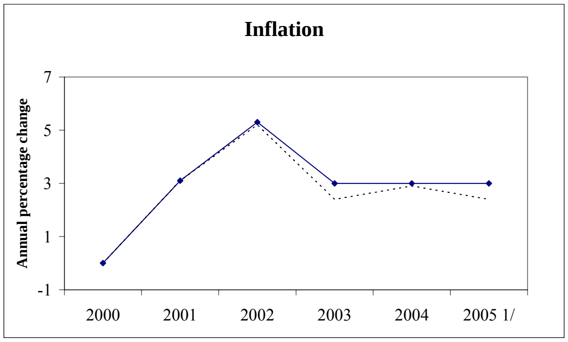
Sources: Albanian authorities; and Fund staff estimates.

1/ Data for 2005 are staff estimates.

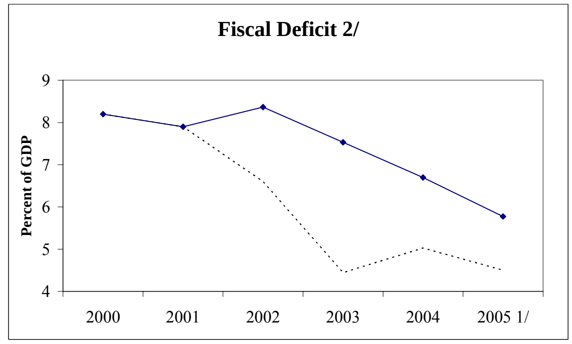
Figure 2. Albania: Macroeconomic Performance Versus the Original 2002 Program

(Annual percentage change for inflation and growth, in percent of GDP for others)

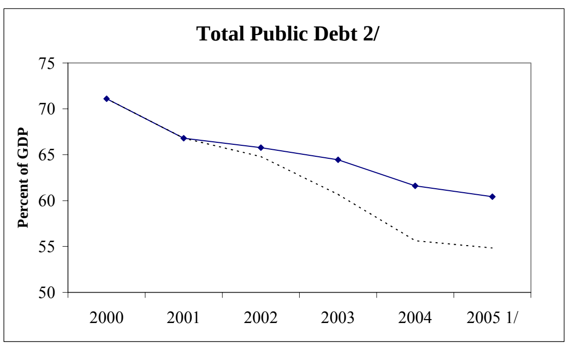
Sound monetary policy and favorable supply developments allowed a convergence of inflation to European norms...



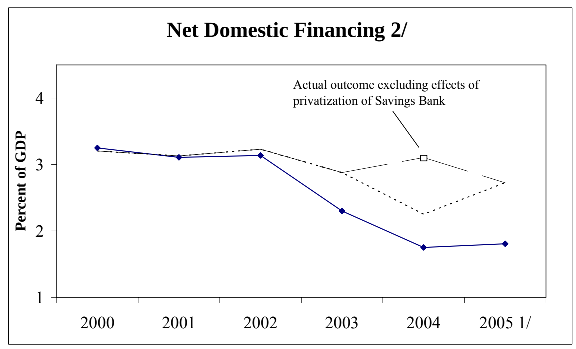
...while fiscal consolidation in excess of original program projections...



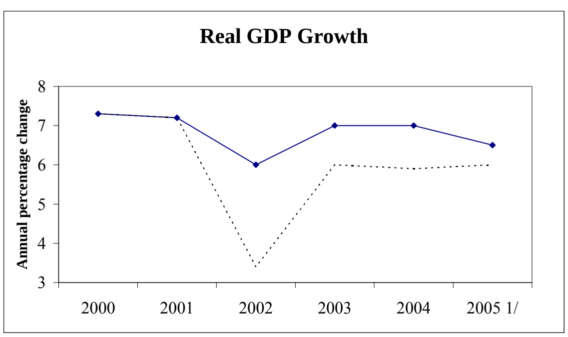
...permitted a faster public debt convergence to sustainable levels...

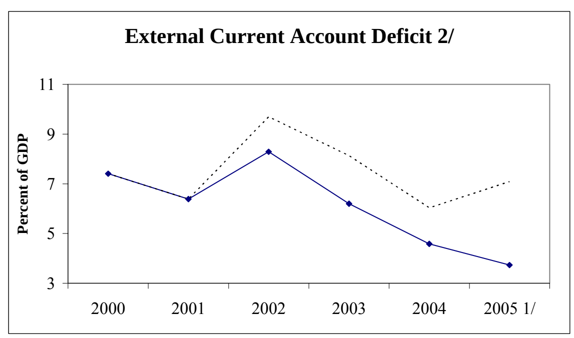


...despite higher than programmed domestic borrowing.



However, growth and the external current account underperformed the original program targets, in part owing to the weather related shock of 2002-03.





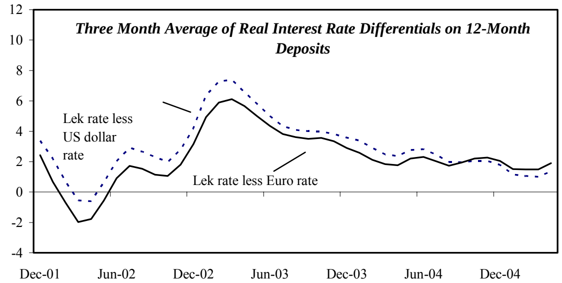
Original Program projections   Actual outcome

Sources: Albanian authorities; and IMF staff estimates.

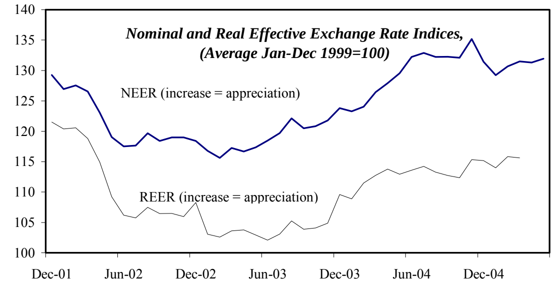
1/ Staff projection.
2/ Both original program projections and actual outcomes expressed as a percent of actual GDP.

Figure 3. Albania: Monetary Developments, Dec. 2001-April 2005

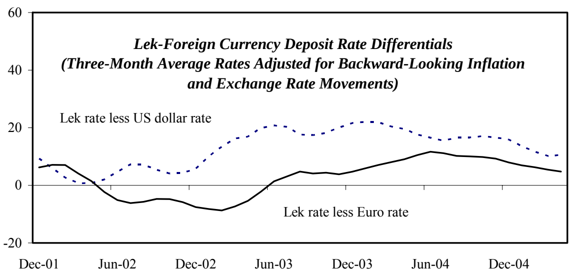
A tight monetary policy raised real yield differentials strongly in favor of domestic assets...



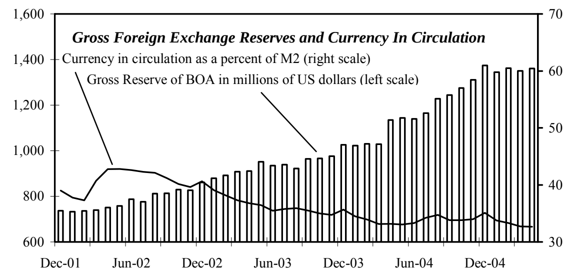
...appreciating the lek in nominal and real terms...



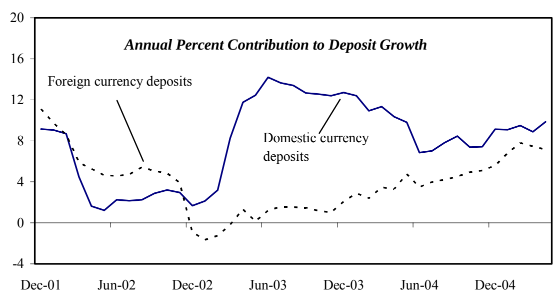
...creating additional incentives to hold domestic rather than foreign assets...



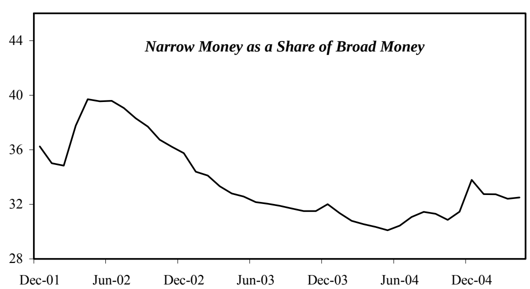
...to which agents responded by reducing cash holdings and selling foreign currency to the central bank...



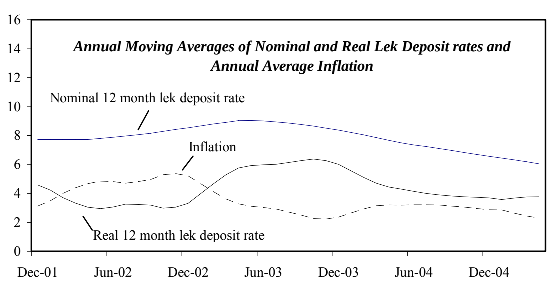
...moving into high-earning lek deposits...



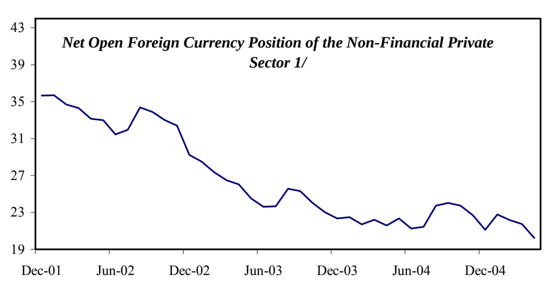
...reducing the share of narrow money in broad money...



...effectively containing inflation...

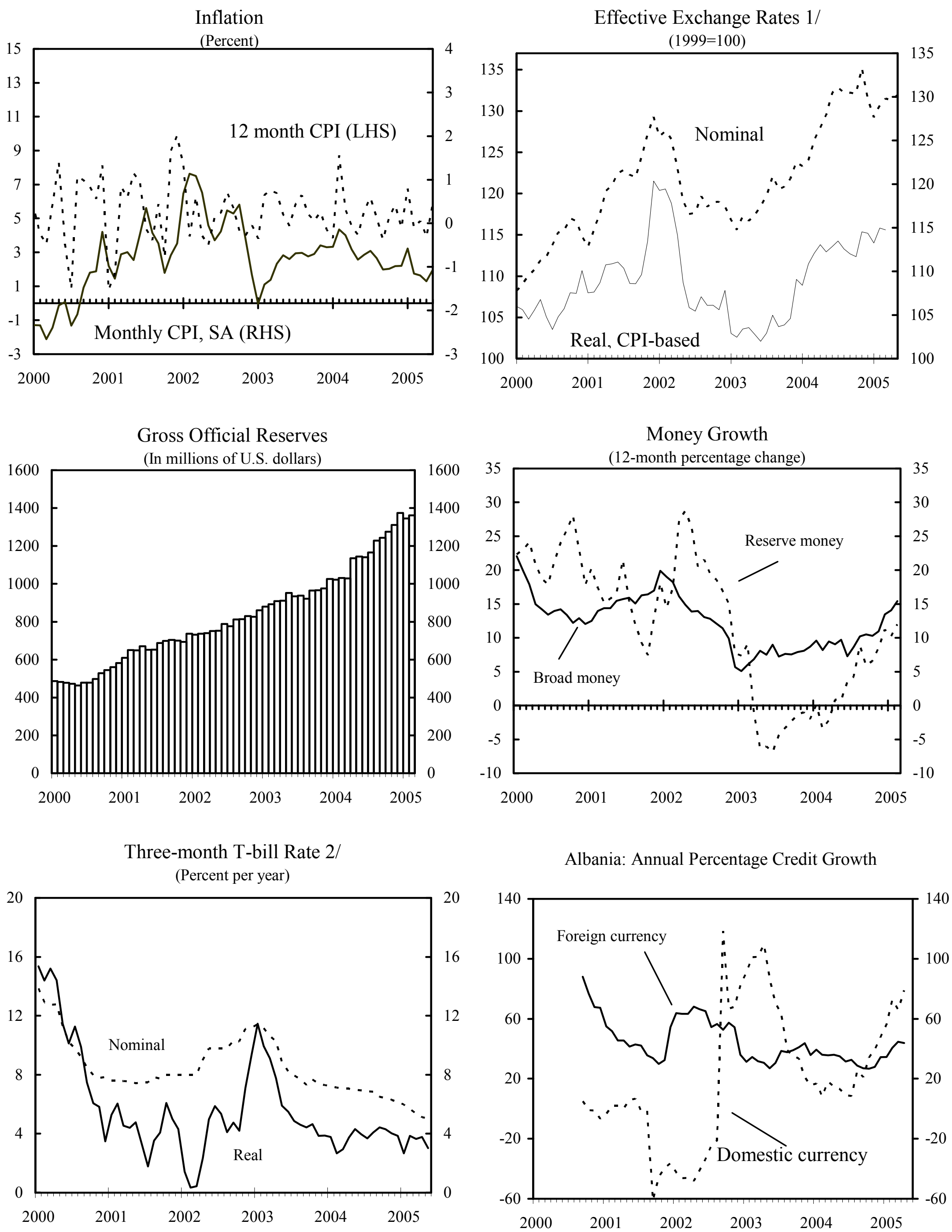


...and reducing the net open foreign currency position of the non-financial private sector.



Sources: Data provided by Bank of Albania and Fund estimates.
1/ Estimated as foreign currency deposits less foreign currency loans as a percent of domestic deposits.

Figure 4. Albania: Monthly Economic Indicators, 2000-05



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

1/ Against the currencies of Albania's major trading partners. A rise in the graph indicates appreciation.

2/ The real rate is derived using annualized seasonally adjusted CPI inflation.

Table 1. Albania: Basic Indicators and Macroeconomic Framework, 2001–09

	2001	2002	2003	2004		2005		2006	2007	2008	2009
				5th Review `	Est.	5th Review	Proj.	Proj.	Proj.	Proj.	Proj.
					(Growth rate in percent)						
Real GDP 1/	7.2	3.4	6.0	5.9	5.9	6.0	6.0	6.0	6.0	6.0	6.0
Retail prices (avg.)	3.1	5.2	2.4	2.9	2.9	2.4	2.1	3.0	3.0	3.0	3.0
Retail prices (end-period)	3.5	1.7	3.3	2.2	2.2	2.7	2.5	3.0	3.0	3.0	3.0
					(In percent of GDP)						
Saving-investment balance 2/											
Foreign savings 3/	3.4	6.9	5.6	5.0	4.4	5.3	5.6	5.6	5.1	4.6	4.3
Domestic savings	25.8	19.2	19.4	20.4	19.3	21.3	18.9	19.2	20.3	21.5	22.8
Public 4/	-0.6	0.0	-0.1	0.3	0.1	1.3	1.4	1.6	2.0	2.5	2.0
Private	26.4	19.2	19.5	20.1	19.2	20.1	17.5	17.6	18.3	18.9	20.8
Investment	29.2	26.2	25.0	25.4	23.7	26.6	24.5	24.8	25.4	26.1	27.1
Public	7.3	6.7	4.5	5.2	4.9	5.9	5.7	5.5	5.4	5.7	6.1
Private	21.9	19.5	20.5	20.2	18.7	20.7	18.8	19.3	20.0	20.4	21.0
Fiscal sector											
Revenues and grants	23.6	24.5	24.0	23.7	23.7	24.1	23.9	24.0	24.2	24.6	25.0
Tax revenue	19.7	20.5	20.9	21.3	21.3	21.3	21.3	21.3	21.7	22.1	22.5
Of which: social security contributions	3.8	4.1	4.1	4.2	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Expenditures	31.6	31.1	28.4	28.5	28.7	29.0	28.4	28.2	27.8	28.0	28.3
Primary	27.2	27.2	24.2	24.8	25.0	25.5	25.1	24.8	24.5	24.6	24.9
Interest	4.3	3.9	4.3	3.7	3.6	3.5	3.3	3.3	3.3	3.3	3.3
Overall balance (including grants)	-7.9	-6.6	-4.4	-4.9	-5.0	-4.9	-4.5	-4.2	-3.7	-3.4	-3.3
Primary balance (excluding grants)	-4.2	-3.3	-0.5	-1.5	-1.7	-2.2	-1.8	-1.5	-0.8	-0.5	-0.4
Net domestic borrowing	3.1	3.2	2.9	2.0	2.3	2.7	2.7	2.6	2.5	2.5	2.5
Privatization receipts	2.2	0.1	0.1	2.0	1.8	0.6	0.2	0.4	0.2	0.2	0.2
Foreign financing	2.6	3.3	1.4	0.8	0.9	1.6	1.6	1.1	0.9	0.6	0.6
Public Debt	66.8	64.8	60.5	55.3	55.6	54.5	54.8	54.4	54.0	53.2	52.4
Domestic	41.0	41.4	40.3	38.0	37.8	37.3	37.2	36.6	36.2	35.6	35.2
External (including publicly guaranteed) 5/6/	25.8	23.4	20.2	17.3	17.8	17.1	17.7	17.7	17.8	17.6	17.3
					(Growth rate in percent unless otherwise indicated)						
Monetary indicators											
Broad money growth	20.2	5.7	8.7	12.6	13.5	9.3	11.0	11.9	12.2	13.2	13.2
Private credit growth	23.4	41.0	31.1	32.9	36.9	40.1	49.3	40.5	30.9	29.0	27.0
Velocity	1.5	1.5	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.4	1.4
Interest rate (3-mth T-bills, end-period)	8.0	11.1	7.3	6.1	6.2	…	…	…	…	…	…
					(In percent of GDP unless otherwise indicated)						
External sector											
Trade balance (goods and services)	-23.2	-25.8	-24.6	-22.9	-21.5	-22.2	-22.4	-21.5	-20.6	-20.1	-19.7
Current account balance (excluding official transfers)	-6.4	-9.7	-8.1	-7.0	-6.0	-7.0	-7.1	-7.0	-6.4	-5.9	-5.6
Current account balance (including official transfers)	-3.4	-6.9	-5.6	-5.0	-4.4	-5.3	-5.6	-5.6	-5.1	-4.6	-4.3
Official transfers	3.0	2.8	2.5	2.0	1.6	1.8	1.5	1.4	1.3	1.3	1.3
Gross international reserves (in millions of U.S. dollars)	737	860	1026	1374	1374	1459	1459	1624	1830	2049	2306
(in months of imports of goods and services)	4.3	4.0	3.8	4.1	4.1	4.0	4.0	4.0	4.0	4.0	4.0
(relative to external debt service)	21.2	13.8	17.5	18.2	18.8	10.9	13.2	10.5	9.8	8.8	8.7
(in percent of broad money)	25.5	28.2	24.6	25.5	25.3	25.8	25.8	25.8	26.1	28.3	29.4
Change in real effective exchange rate (e.o.p., in percent) 7/	9.8	-10.9	4.0	2.7	5.1	…	…	…	…	…	…
Memorandum items											
Nominal GDP (in billions of lek) 1/	588.7	630.0	696.4	780.1	780.1	857.3	857.3	937.4	1021.9	1117.6	1220.5

Social Indicators: GNI per capita, World Bank Atlas Method, US$ (2003, est.): $1,740; **population** 3.1 million (2002); **life expectancy at birth** (2000): 74 years; **population living below the poverty line** (2002): 25.4 percent; rural households with access to running water inside dwellings (2002): 25 percent; **urban households (excluding Tirana) with water for less than 6 hrs/day (2002): 33 percent; households receiving continuous supply of electricity** (2002): 14.3 percent.

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

1/ GDP data through 2002 are from the official national accounts. Real GDP growth is based on the observed economy only.

2/ The statistical discrepancy contained in the national accounts (31 percent of GDP in 2001),was allocated to private consumption and investment according to the ratio observed in the national accounts excluding the discrepancy. Unexplained oscillations in this discrepancy introduced additional statistical uncertainty into the historical data.

3/ Negative of current account including official transfers.

4/ Revenue including grants less current expenditure and net lending.

5/ Includes arrears, with the exception of pre-1978 arrears to China .

6/ Excludes IMF repurchase obligations.

7/ IMF Country Report No. 05/89 estimate for 2004 was based on data through October only.

Table 2: Albania: Millennium Development Goals

	1990	1995	2001	2002	2003	2015 Target
General Indicators						
Population (million)	3.3	3.2	3.1	3.1	3.2	
GNI per capita ($)	680	650	1400	1450	1740	
Adult literacy rate (% people ages 15 and over)	77	81.2	98.7	...	...	
Total fertility rate (births per woman)	3	2.6	2.1	2.2	...	
Life expectancy at birth (years)	72.3	71.3	74	74	74	
Aid (% of GNI)	0.5	7.3	6.1	6.4	...	
Goal 1. Eradicate extreme poverty and hunger						
Target 1. Halve, between 1990 and 2015, the proportion of people whose income is less that one dollar a day						
1. Population below 1 US$ a day (percent)	...	...	...	2.0	...	1.4
2. Poverty gap ratio at US$ 1 a day (percent)	...	...	...	0.5	...	...
3. Share of income consumption held by poorest 20 percent (percent)	...	...	...	9.1	...	...
Target 2: Halve, between 1990 and 2015, the proportion of people suffering from hunger						
4. Prevalence of child malnutrition (percent of children under 5)	...	...	14	...	...	5.4
5. Population below minimum level of dietary energy consumption (percent)	...	...	...	...	...	...
Goal 2. Achieve universal primary education						
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling						
6. Net primary enrollment ratio (percent of relevant age group)	...	98.7	97.2	...	...	100
7. Percentage of cohort reaching grade 5	...	...	82	...	...	100
8. Youth literacy rate (percent ages 15-24)	94.8	96.6	98	98.2	...	100
Goal 3. Promote gender equality and empower women						
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education in 2015						
9. Ratio of girls to boys in primary and secondary education (percent)	96.1	101.3	102	...	...	100
10. Ratio of young literate females to males (percent ages 15-24)	94.4	96.2	100.1	...	...	100
11. Share of women employed in the nonagricultural sector (percent)	39.6	...	41.1	...	40.2	...
12. Proportion of seats held by women in the national parliament (percent)	...	6.0	...	...	6.0	30
Goal 4. Reduce child mortality						
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate						
13. Under-five mortality rate (per 1,000)	45	33	26	24	21	13.7
14. Infant mortality rate (per 1,000 live births)	36	29	24	22	18.0	...
15. Immunization against measles (percent of children under 12-months)	88	91	95	96	93	97.3
Goal 5. Improve maternal health						
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio						
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	31	55	...	...	9.5
17. Proportion of births attended by skilled health personnel	...	...	99.1	...	...	...
Goal 6. Combat HIV/AIDS, malaria and other diseases						
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS						
18. HIV prevalence among females (percent ages 15-24)	...	...	...	...	...	0
19. Contraceptive prevalence rate (percent of women ages 15-49)	...	...	...	...	...	...
20. Number of children orphaned by HIV/AIDS	...	...	...	...	...	0

Table 2: Albania: Millennium Development Goals (continued)

	1990	1995	2001	2002	2003	2015 Target
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases						
21. Prevalence of death associated with malaria	...	...	...	...	...	0
22. Share of population in malaria risk areas using effective prevention treatment	...	...	...	...	...	
23. Incidence of tuberculosis (per 100,000 people)	26.7	28	29	27.5	22.9	<20
24. Tuberculosis cases detected under DOTS (percent)	...	...	20	24	29.5	...
Goal 7. Ensure environmental sustainability						
Target 9: Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources.						
25. Forest area (percent of total land area)	39	...	36.2	...	...	...
26. Nationally protected areas (percent of total land area)	...	2.9	3.1	3.8	...	...
27. GDP per unit of energy use (PPP $ per kg oil equivalent)	3.1	7.6	8.3	...	...	...
28. CO2 emissions (metric tons per capita)	2.2	0.6	0.9	...	...	...
29. Proportion of population using solid fuels	...	...	...	...	...	...
Target 10: Halve by 2015 the proportion of people without access to safe drinking water						
30. Access to improved water source (percent of population)	...	...	97	...		86.1
Target 11: Achieve by 2020 a significant improvement for at least 100 million slum dwellers						
31. Access to improved sanitation (percent of population)	...	...	91	...	...	94.7
32. Access to secure tenure (percent of population)	...	...	...	...	...	...
Goal 8. Develop a Global Partnership for Development 1/						
Target 16. Develop and implement strategies for productive work for youth						
45. Unemployment rate	9	13	16.8	...	...	...
Female	8	12	14.8	...	...	...
Male	11	15	19.3	...	...	...
Target 17: Provide access to affordable essential drugs						
46. Proportion of population with access to affordable drugs	...	...	...	...	...	...
Target 18: Make available new technologies especially information and communications						
47. Fixed line and mobile telephones (per 1,000 people)	12.6	13.4	191.2	347.7	...	...
48. Personal computers (per 1,000 people)	...	1.6	9.7	11.7	...	...

Sources: World Bank and Fund staff estimates

1/ Targets 12-15 and indicators 33-44 are excluded because they cannot be measured on a country-specific basis. These are related to official development assistance, market access, and the HIPC initiative.

Table 3. Albania: Balance of Payments, 2001–09

(In millions of US dollars)

	2001	2002	2003	2004		2005						2006	2007	2008	2009
				2004 Prog.1/	2004 Est.	Q1 Est.	Q2 Proj.	Q3 Proj.	Q4 Proj.	2005 Prog.1/	2005 Proj.	Projections			
Current account	-262	-435	-469	-528	-458	-41	-156	-159	-265	-625	-620	-662	-657	-657	-671
Balance of goods and services	-950	-1,160	-1,419	-1,723	-1,630	-392	-457	-482	-629	-1,974	-1,960	-2,036	-2,107	-2,235	-2,368
Exports	839	915	1,167	1,629	1,607	476	502	512	525	2,040	2,015	2,378	2,811	3,286	3,839
Goods	305	330	447	608	603	173	199	189	205	761	766	932	1,126	1,328	1,549
Services	535	585	720	1,021	1,003	303	303	323	320	1,280	1,248	1,446	1,685	1,958	2,290
Imports	1,790	2,075	2,586	3,352	3,237	868	959	994	1,154	4,014	3,975	4,414	4,918	5,521	6,207
Goods	1,332	1,485	1,783	2,283	2,182	561	632	682	825	2,700	2,699	2,987	3,318	3,721	4,182
Services	458	590	802	1,069	1,055	307	327	312	329	1,314	1,276	1,427	1,600	1,801	2,025
Income balance	146	128	167	147	143	58	37	42	31	154	168	172	189	228	252
of which : Interest due	14	21	19	27	22	6	12	7	13	44	38	55	68	81	90
Private transfers	543	597	782	1,048	1,028	293	264	281	334	1,195	1,172	1,202	1,262	1,350	1,444
Capital account	284	406	451	404	543	74	134	178	219	778	605	750	793	830	917
Official transfers	123	125	146	149	125	31	35	34	31	157	131	132	136	146	155
Direct investment	204	135	178	326	343	55	67	70	97	308	288	339	407	487	565
Other capital	-126	53	43	-134	-10	-33	24	50	69	216	110	173	157	137	148
Private loans (incl.net trade credits, net)	-1	11	24	108	102	13	22	16	20	72	72	74	77	82	89
Other financial flows	-124	42	18	-242	-112	-46	1	35	48	144	38	99	81	55	59
of which: Change in NFA of commercial banks (incr = -) 2/	-124	42	28	-242	-112	-46	1	35	48	144	38	149	131	105	159
Official medium- and long-term loans (net)	83	93	85	63	86	21	8	24	23	96	77	106	93	60	50
New borrowing	90	121	114	102	127	32	26	35	46	177	140	195	199	198	211
Multilateral loans	56	84	85	76	91	17	22	30	39	139	108	156	153	129	131
World Bank	34	50	42	33	47	8	11	17	21	65	57	52	47	36	37
EBRD	4	11	15	15	16	4	4	5	7	27	19	44	44	32	28
Other	18	22	27	28	28	6	6	8	12	47	32	60	62	62	66
Bilateral loans	34	37	30	26	36	15	5	6	6	38	32	39	46	69	80
Amortization (official and private loans)	-7	-28	-30	-40	-41	-11	-18	-11	-23	-81	-63	-89	-106	-138	-161
Errors and omissions	104	47	116	390	180	18	18	21	25	-101	82	72	69	40	4
Net balance	127	18	98	266	265	51	-4	39	-20	52	67	160	205	213	250
Financing requirement	-127	-18	-98	-266	-265	-51	4	-39	20	-52	-67	-160	-205	-213	-250
Available financing	-127	-18	-98	-266	-265	28	7	-75	-28	-52	-67	-160	-205	-213	-250
Change in net reserves (increase = -) 2/	-135	-50	-118	-285	-284	28	7	-81	-43	-94	-88	-176	-220	-233	-270
Of which: Change in gross reserves, (increase = -) 2/	-146	-58	-78	-288	-288	23	11	-79	-40	-85	-85	-165	-206	-219	-257
Use of Fund Resources (net)	-1	-9	2	2	2	5	-3	-2	-3	-10	-3	-11	-14	-14	-14
Budget support	4	29	19	0	20	0	0	0	0	0	0	0	0	0	0
Changes in arrears (increase = +) 3/	-29	-280	1	-17	-15	0	-5	-18	-4	-62	-28	-70	-9	0	0
Overdue debt forgiveness	10	207	0	0	0	0	0	0	0	0	0	0	0	0	0
Rescheduling 3/	23	76	0	17	15	0	0	0	0	0	0	0	0	0	0
Identified Financing	0	0	0	18	0	0	0	6	0	22	6	0	15	10	5
Of which: IMF	0	0	0	0	0	0	0	6	0	12	6	0	0	0	0
WB FSAC/PRSC	0	0	0	18	0	0	0	0	0	10	0	0	15	10	5
Financing gap	0	0	0	0	0	0	5	18	20	82	43	86	9	10	15
Expected EU Macro-Financial Assistance	...	...	...	...	...	0	0	0	15	20	15	16	0	0	0
Arrears Rescheduling	...	...	...	...	...	0	5	18	4	62	28	70	9	0	0
Other	...	...	...	...	...	0	0	0	0	0	0	0	0	10	15
Memorandum items:															
Gross usable reserves	737	860	1,026	1,374	1,374	1,351	1,340	1,419	1,459	1,459	1,459	1,624	1,830	2,049	2,306
(months of imports of goods and services)	4.3	4.0	3.8	4.1	4.1	...	...	...	...	4.0	4.0	4.0	4.0	4.0	4.0
Balance of goods and services (percent of GDP)	-23.2	-25.8	-24.6	-22.9	-21.5	...	...	...	...	-22.2	-22.4	-21.5	-20.6	-20.1	-19.7
Current account (percent of GDP)	-6.4	-9.7	-8.1	-7.0	-6.0	...	...	...	...	-7.0	-7.1	-7.0	-6.4	-5.9	-5.6
Debt service (percent of exports of goods and services) 4/	4.2	6.4	4.7	4.1	4.1	...	...	...	...	4.6	4.3	5.0	5.0	5.4	5.2
Debt service (percent of central government revenues) 4/	3.8	5.6	4.2	4.0	3.9	...	...	...	...	4.8	4.4	5.7	6.1	7.0	7.2
Total external debt stock (percent of GDP) 5/	27.8	25.1	21.7	19.5	19.9	...	...	...	...	19.5	20.1	20.1	20.0	19.5	18.9
Export volumes (percent change)	23.4	6.4	19.9	25.3	23.3	...	...	...	...	24.5	16.5	22.2	21.9	18.5	17.1
Import volumes (percent change)	25.9	8.1	7.5	13.9	8.4	...	...	...	...	17.7	11.6	10.2	11.7	12.4	12.0

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

1/ Consistent with IMF Country Report No. 05/89.
2/ Net of valuation changes.
3/ In 2005-2007 assumes rescheduling of stock of outstanding arrears, both with official and private creditors.
4/ Public and publicly guaranteed debt only.
5/ Public and private external debt, including arrears. Debt stock converted into Lek at the e-o-p exchange rate.

Table 4. Albania: Monetary Aggregates, 2002–09

(In billions of leks unless otherwise indicated; end-period)

	Actuals									IMF projections							
	2002	2003	2004				2005							2006	2007	2008	2009
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar. 5th Review	Mar.	Apr.	Jun.	Sep.	Dec. 5th Review	Dec.	Dec.	Dec.	Dec.	Dec.
Monetary survey																	
Broad money	408.1	443.5	450.2	452.6	483.1	503.2	504.5	516.9	521.1	526.6	546.6	546.0	558.8	625.3	701.8	794.5	899.6
Currency outside banks	130.8	125.2	117.2	118.2	126.2	138.1	132.7	129.4	130.6	133.2	138.6	144.9	146.3	160.1	169.1	179.5	184.4
Deposits	277.4	318.3	333.0	334.4	356.8	365.1	371.8	387.5	390.5	393.4	408.0	401.0	412.5	465.2	532.6	614.9	715.2
Domestic currency deposits	190.8	226.1	236.6	237.0	247.0	255.2	260.0	266.2	269.3	271.4	280.7	280.1	287.5	325.6	374.4	436.6	519.5
Demand deposits	15.1	16.8	20.4	19.5	25.0	32.0	22.6	38.1	38.8	39.6	41.2	24.7	43.5	47.6	50.3	53.4	54.8
Time deposits	175.7	209.3	216.3	217.5	222.0	223.2	237.4	228.1	230.5	231.8	239.5	255.5	243.9	278.0	324.1	383.2	464.6
Foreign currency deposits	86.5	92.2	96.4	97.4	109.8	110.0	111.8	121.3	121.2	122.0	127.3	120.9	125.0	139.6	158.3	178.3	195.7
Demand deposits	22.7	21.2	23.6	25.1	27.2	25.0	...	27.9	26.9	...	...	...	...	...	...	...	...
Time deposits	63.8	71.0	72.8	72.3	82.6	85.0	...	93.3	94.3	...	...	...	...	...	...	...	...
Net foreign assets	164.4	161.8	165.8	170.2	193.7	188.8	190.4	197.3	194.9	194.8	199.9	196.3	199.4	204.3	215.5	230.5	244.2
Bank of Albania	96.9	99.8	99.1	107.1	116.5	118.6	117.7	122.2	122.0	121.5	129.8	130.7	133.7	152.3	175.6	200.5	229.5
Commercial Banks	67.5	62.0	66.7	63.1	77.3	70.2	72.7	75.1	73.0	73.2	70.1	65.6	65.7	52.0	39.9	30.0	14.7
Net domestic assets	243.8	281.7	284.4	282.4	289.3	314.4	314.1	319.6	326.1	331.8	346.7	349.7	359.3	420.9	486.3	564.0	655.4
Claims on government (net of deposits)	245.3	260.1	264.4	253.1	258.0	271.0	273.9	269.9	271.6	278.2	282.1	286.6	286.6	306.3	326.8	349.3	374.2
BOA financing	71.0	64.6	60.5	51.9	51.2	57.2	61.0	56.7	55.8	53.7	55.0	63.2	55.8	55.0	46.2	38.6	19.6
Other (including T-bills)	174.3	195.5	203.9	201.2	206.8	213.7	213.0	213.2	215.7	224.5	227.0	223.5	230.8	251.3	280.5	310.7	354.6
Claims on state enterprises and farms	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on the private sector 1/	39.9	52.3	54.9	58.2	62.4	71.6	75.3	81.5	86.0	87.0	98.3	97.4	106.9	150.2	196.7	253.6	322.2
In Leks	9.2	10.6	11.1	11.2	11.9	15.6	13.6	18.1	19.3	19.6	23.1	20.4	29.4	45.8	63.4	92.5	130.2
In foreign currency	30.7	41.7	43.8	47.0	50.5	56.0	61.7	63.4	66.7	67.4	75.2	77.0	77.6	104.4	133.3	161.2	192.0
Other items, net	-41.5	-30.8	-34.9	-28.9	-31.1	-28.3	-35.2	-32.0	-31.5	-33.4	-33.8	-34.3	-34.2	-35.6	-37.2	-39.0	-41.1
Memorandum items:																	
Reserve money (billions of Lek)	163.9	160.6	154.4	157.0	166.5	178.6	173.3	171.2	174.1	176.3	186.5	189.4	191.5	211.0	227.5	246.9	258.8
M1 (billions of Lek)	145.9	142.0	137.5	137.7	151.2	170.1	155.3	167.5	169.4	172.9	179.8	169.6	189.8	207.7	219.4	232.9	239.3
M2 (Billions of Lek)	321.6	351.3	353.8	355.2	373.2	393.3	392.7	395.6	399.9	404.6	419.2	425.1	433.8	485.7	543.5	616.2	703.9
Annual broad money growth	5.7	8.7	9.5	7.3	10.5	13.5	12.1	14.8	15.5	16.4	13.1	9.3	11.0	11.9	12.2	13.2	13.2
Annual reserve money growth	7.7	-2.0	-2.2	3.5	5.9	11.2	12.2	10.8	13.1	12.3	12.0	7.5	7.2	10.2	7.8	8.5	4.8
Annual growth in private sector credit	41.0	31.1	31.6	26.5	25.7	36.9	37.3	48.5	50.0	49.4	57.6	40.1	49.3	40.5	30.9	29.0	27.0
Annual M1 growth	6.9	-2.7	0.3	1.5	9.2	19.8	12.9	21.8	23.8	14.6	16.6	6.7	19.4	9.4	5.7	6.2	2.7
Annual M2 growth	6.4	9.2	8.9	6.0	9.3	11.9	11.0	11.8	13.0	9.0	9.5	9.2	11.4	12.0	11.9	13.4	14.2
Velocity (annual GDP/BM)	1.5	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.5	1.5	1.6	1.5	1.5	1.5	1.4	1.4
Money multiplier (absolute values)	2.5	2.8	2.9	2.9	2.9	2.8	2.9	3.0	3.0	3.0	2.9	2.9	2.9	3.0	3.1	3.2	3.5
Currency/Broad Money ratio	32.0	28.2	26.0	26.1	26.1	27.4	26.3	25.0	25.1	25.3	25.4	26.5	26.2	25.6	24.1	22.6	20.5
Foreign currency deposits/total deposits	31.2	29.0	28.9	29.1	30.8	30.1	30.1	31.3	31.0	31.0	31.2	30.1	30.3	30.0	29.7	29.0	27.4
Gross reserves (millions of U.S. dollars)	860	1,026	1,028	1,140	1,244	1,374	1,331	1,351	1,361	1,340	1,419	1,459	1,459	1,624	1,830	2,049	2,306
In percent of broad money	28.2	24.6	24.3	25.6	26.1	25.3	25.4	25.4	25.2	25.0	25.6	25.8	25.8	25.8	26.1	26.0	26.1
US Dollar Exchange Rate (end of period)	133.9	106.4	106.4	101.5	101.2	92.7	...	97.2	96.4	...	...	...	...	...	...	...	...
Euro Exchange Rate (end of period)	138.3	133.8	130.1	122.8	124.6	125.9	...	125.9	124.9	...	...	...	...	...	...	...	...
3-month T-bill rate (in percent)	11.08	7.32	7.07	6.94	6.51	6.15	...	5.35	5.11	...	...	...	...	...	...	...	...
BoA repo rate (in percent)	8.50	6.50	6.50	5.75	5.50	5.25	...	5.00	5.00	...	...	...	...	...	...	...	...

Sources: Bank of Albania; and staff estimates.

1/ Excluding credit transferred to the Bank Asset Resolution Trust (BART).

Table 5. Albania: IMF Core Indicators of Financial Soundness, December 2003-March 2005

		Dec-03	Dec-04	Mar-05
I	**Capital-based**			
(i)	Regulatory capital as a percent of risk-weighted assets	28.5	21.6	21.0
(ii)	Regulatory Tier 1 capital as a percent of risk-weighted assets 1/	29.0	21.5	20.4
(iii)	Capital as a percent of total assets			
	Regulatory Tier 1 capital as a percent of total assets	4.8	4.8	5.0
	Regulatory capital as a percent of total assets	4.7	4.8	5.1
	Shareholders' equity as a percent of total assets	5.9	6.1	5.8
(iv)	Nonperforming loans net of provisions as a percent of capital			
	Nonperforming loans net of provisions as a percent of regulatory Tier 1 capital	4.8	4.8	4.5
	Nonperforming loans net of provisions as a percent of regulatory capital	4.9	4.8	4.4
	Nonperforming loans net of provisions as a percent of shareholders' equity	3.9	3.8	3.9
(v)	Return on equity (ROE) (annual basis)	19.5	21.1	22.1
(vi)	Net open position in foreign exchange as a percent of capital			
	Net open position in foreign exchange as a percent of regulatory Tier 1 capital	7.2	7.5	3.6
	Net open position in foreign exchange as a percent of regulatory capital	7.3	7.4	3.5
	Net open position in foreign exchange as a percent of shareholders' equity	5.9	5.9	3.1
II	**Asset-based**			
(vii)	Liquid assets as a percent of total assets (Liquid-asset ratio)	73.6	71.1	70.3
(viii)	Liquid assets as a percent of short-term liabilities	na	na	83.2
(ix)	Return on assets (ROA) (net income to average total assets) (annual basis)	1.2	1.3	1.3
(x)	Sectoral distribution of loans to total loans	na	na	na
III	**Income and expense-based**			
(xi)	Interest margin to gross income	89.6	80.3	83.2
(xii)	Noninterest expenses to gross income	57.4	66.2	81.5
IV	**Memorandum items**			
	Other (noncore) Basel indicators:			
	Customer deposits as a percent of total (non-interbank) loans	652.1	535.8	498.3
	Foreign currency-denominated loans to total loans	82.1	80.5	79.9
	Foreign currency-denominated liabilities as a percent of total liabilities	35.9	37.0	38.2
	Other indicators:			
	Risk weighted assets as a percent of total assets	16.7	22.2	24.4
	Total loans as a percent of total assets	13.6	16.4	17.6
	Total loans as a percent of shareholders' equity	231.2	270.3	302.6

Source: Data provided by Bank of Albania.

Table 6a. Albania: General Government Operations
(In billions of leks)

	2003	2004		2005				2006	2007	2008	2009
						First Half					
		Prog. 5th Review	Actual	Prog. (Budget) 5th Review	Proj. 1/	Proj.	Prelim.	Staff Projections 1/			
Total Revenue and Grants	167.2	184.5	184.6	206.5	205.0	96.0	93.4	225.1	247.0	275.0	305.1
Tax Revenue	145.3	165.8	166.0	182.2	182.2	86.2	84.8	199.9	221.5	246.9	274.4
Tax revenues from Tax and Customs Director	111.7	126.9	127.1	139.1	139.1	65.4	63.8	152.4	169.4	189.5	211.3
VAT	50.6	58.1	58.2	63.3	63.3	29.4	28.5	70.3	77.5	86.6	96.5
Profit tax	13.1	16.0	16.3	16.0	16.0	8.1	9.1	15.7	17.6	19.8	22.3
Excise tax	12.3	16.2	15.8	18.3	18.3	8.3	7.9	20.4	22.7	25.3	28.3
Small business tax	2.9	4.2	4.1	3.9	3.9	1.8	2.0	4.3	4.8	5.4	6.0
Personal income tax	6.4	6.8	6.9	7.6	7.6	3.4	3.3	8.5	9.7	11.0	12.3
Customs duties	13.9	13.6	13.9	15.6	15.6	6.1	5.9	17.5	19.4	21.8	23.9
Other taxes	12.5	12.0	12.1	14.4	14.4	8.3	7.0	15.8	17.6	19.7	22.0
Property and local taxes	4.5	5.4	5.0	5.8	5.8	3.2	3.5	6.4	7.1	7.9	8.8
Social insurance contributions	28.6	32.9	33.3	36.7	36.7	17.1	17.0	40.3	44.1	48.5	53.1
Non-tax revenue	19.2	15.8	16.0	17.4	17.4	8.0	7.3	19.0	20.7	22.6	24.7
Grants	2.6	3.0	2.6	6.9	5.4	1.9	1.3	6.2	4.9	5.5	6.0
of which Budget support	0.2	0.2	0.2	1.9	0.4	0.0	0.0	1.6	0.0	0.0	0.0
Total Expenditure	198.1	222.4	223.8	248.7	243.6	113.6	104.0	264.0	284.5	312.7	345.1
Current Expenditure	167.7	182.3	183.8	194.6	193.2	87.2	89.7	208.5	225.4	245.5	266.8
Personnel cost	44.7	50.8	49.0	55.2	55.2	24.6	24.6	58.0	62.1	67.0	72.4
Interest	29.8	28.9	28.4	29.9	28.5	14.2	13.2	31.0	33.6	37.1	40.5
of which Domestic	28.2	26.8	26.7	27.3	25.9	12.9	12.3	27.6	29.1	31.3	33.8
Operations & maintenance	22.2	21.6	24.0	22.0	22.0	9.5	11.0	25.8	27.8	30.0	32.3
Subsidies	5.1	3.7	5.1	2.7	2.7	1.2	1.7	2.7	2.5	2.5	2.5
Social insurance outlays	44.8	49.5	50.2	55.2	55.2	26.5	26.2	60.3	65.8	71.9	78.5
Local government expenditure	14.2	16.2	15.9	17.7	17.7	6.5	8.0	19.3	21.2	23.4	25.7
Social protection transfers	8.8	9.9	11.5	10.5	10.5	4.8	5.0	11.4	12.5	13.6	14.9
Other 2/	-2.0	0.0	-0.3	...	...	0.0	0.0	...	...	...	...
Capital Expenditure	31.5	40.8	38.6	50.5	48.8	24.7	13.2	51.9	55.4	63.6	74.7
Domestically financed	18.3	30.6	27.6	28.0	26.2	16.6	8.2	32.3	37.7	45.2	54.4
Foreign financed projects	13.2	10.2	11.0	22.6	22.6	8.1	4.9	19.6	17.7	18.4	20.3
Lending minus repayment	-1.1	-0.8	1.4	0.0	0.0	0.0	1.1	0.0	0.0	0.0	0.0
Reserve and contingency funds 3/	...	...	...	3.6	1.6	1.6	...	3.6	3.6	3.6	3.6
Cash Balance	-30.9	-37.9	-39.2	-42.2	-38.6	-17.6	-10.6	-39.0	-37.5	-37.7	-40.0
Current Balance 4/	-3.2	-0.7	-1.9	4.0	6.4	6.9	2.4	9.3	15.7	23.0	31.3
Cash Balance--below-the-line	-30.9	-37.9	-39.2	-42.2	-38.6	-17.6	...	-39.0	-37.5	-37.7	-40.0
Financing	30.9	37.9	39.2	42.2	38.6	17.6	...	39.0	37.5	37.7	40.0
Domestic	20.9	31.6	31.9	28.3	24.7	12.6	...	29.0	28.1	30.5	33.1
Privatization receipts	0.9	15.7	14.4	5.0	1.4	0.9	...	4.2	2.0	2.0	2.0
Net borrowing 5/	20.0	15.9	17.6	23.4	23.4	11.7	...	24.8	26.1	28.5	31.1
Foreign	10.0	6.2	7.3	13.8	13.9	5.0	...	9.9	9.4	7.2	6.9
of which Budget support	2.1	1.8	1.8	1.1	1.1	1.1	...	0.0	1.5	1.0	0.5
Memorandum Items:											
Indicative revenue target (GDT+GDC+SSI)	...	161.0	160.4	336.2	336.2	243.5	241.2	...	...	...	...
Primary balance	-1.1	-8.9	-10.8	-12.3	-10.1	-3.4	2.5	-8.0	-3.8	-0.6	0.5
Public Debt (including guarantees)	421.7	431.6	434.0	466.9	470.2	...	...	509.6	551.7	594.5	639.8
Domestic general government	280.8	296.7	295.2	320.1	318.6	...	...	343.4	369.5	398.0	429.1
External	140.9	134.9	138.8	146.8	151.6	...	...	166.2	182.3	196.6	210.7

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

1/ Owing to remaining uncertainties, the projections in this table do not include the privatization of Albelecom and the Tirana-Durres railway project. See text for a discussion of the policy intentions in case these projects materialize (¶ 17-18).

2/ Includes statistical discrepancy

3/ Spending out of reserve and contingency funds are reported according to their economic classification at outturn.

5/ Net borrowing in 2004 takes into account 0.9 percent of GDP Savings Bank privatization recipts used to redeem domestic debt.

Table 6b. Albania: General Government Operations

(In percent of GDP)

	2003	2004		2005				2006	2007	2008	2009
						First Half					
		Prog. 5th Review	Actual	Prog. (Budget) 5th Review	Proj. 1/	Proj.	Prelim.	Staff Projections 1/			
Total Revenue and Grants	24.0	23.7	23.7	24.1	23.9	22.4	21.8	24.0	24.2	24.6	25.0
Tax Revenue	20.9	21.3	21.3	21.3	21.3	20.1	19.8	21.3	21.7	22.1	22.5
Tax revenues from Tax and Customs Directorates	16.1	16.3	16.3	16.2	16.2	15.2	14.9	16.3	16.6	17.0	17.3
VAT	7.3	7.5	7.5	7.4	7.4	6.9	6.7	7.5	7.6	7.7	7.9
Profit tax	1.9	2.0	2.1	1.9	1.9	1.9	2.1	1.7	1.7	1.8	1.8
Excise tax	1.8	2.1	2.0	2.1	2.1	1.9	1.8	2.2	2.2	2.3	2.3
Small business tax	0.4	0.5	0.5	0.5	0.5	0.4	0.5	0.5	0.5	0.5	0.5
Personal income tax	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.9	1.0	1.0	1.0
Customs duties	2.0	1.7	1.8	1.8	1.8	1.4	1.4	1.9	1.9	1.9	2.0
Other taxes	1.8	1.5	1.5	1.7	1.7	1.9	1.6	1.7	1.7	1.8	1.8
Property and local taxes	0.6	0.7	0.6	0.7	0.7	0.8	0.8	0.7	0.7	0.7	0.7
Social insurance contributions	4.1	4.2	4.3	4.3	4.3	4.0	4.0	4.3	4.3	4.3	4.3
Non-tax revenue	2.8	2.0	2.1	2.0	2.0	1.9	1.7	2.0	2.0	2.0	2.0
Grants	0.4	0.4	0.3	0.8	0.6	0.4	0.3	0.7	0.5	0.5	0.5
of which Budget support	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.2	0.0	0.0	0.0
Total Expenditure	28.5	28.5	28.7	29.0	28.4	26.5	24.3	28.2	27.8	28.0	28.3
Current Expenditure	24.1	23.4	23.6	22.7	22.5	20.3	20.9	22.2	22.1	22.0	21.9
Personnel cost	6.4	6.5	6.3	6.4	6.4	5.7	5.7	6.2	6.1	6.0	5.9
Wages and other personnel expenditures	5.1	5.2	5.0	5.1	5.1	4.5	4.5	4.9	4.8	4.7	4.7
Social insurance contributions	1.3	1.4	1.3	1.4	1.4	1.2	1.2	1.3	1.3	1.3	1.3
Interest	4.3	3.7	3.6	3.5	3.3	3.3	3.1	3.3	3.3	3.3	3.3
of which Domestic	4.1	3.4	3.4	3.2	3.0	3.0	2.9	2.9	2.8	2.8	2.8
Operations & maintenance	3.2	2.8	3.1	2.6	2.6	2.2	2.6	2.8	2.7	2.7	2.6
Subsidies	0.7	0.5	0.7	0.3	0.3	0.3	0.4	0.3	0.2	0.2	0.2
Social insurance outlays	6.4	6.3	6.4	6.4	6.4	6.2	6.1	6.4	6.4	6.4	6.4
Local government expenditure	2.0	2.1	2.0	2.1	2.1	1.5	1.9	2.1	2.1	2.1	2.1
Social protection transfers	1.3	1.3	1.5	1.2	1.2	1.1	1.2	1.2	1.2	1.2	1.2
Other 2/	-0.3	...	0.0	...	...	...	0.0	...	...	...	...
Capital Expenditure	4.5	5.2	4.9	5.9	5.7	5.8	3.1	5.5	5.4	5.7	6.1
Domestically financed	2.6	3.9	3.5	3.3	3.1	3.9	1.9	3.5	3.7	4.0	4.5
Foreign financed projects	1.9	1.3	1.4	2.6	2.6	1.9	1.1	2.1	1.7	1.6	1.7
Lending minus repayment	-0.2	-0.1	0.2	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Reserve and contingency funds 3/	...	...	...	0.4	0.2	0.4	...	0.4	0.4	0.3	0.3
Cash Balance	-4.4	-4.9	-5.0	-4.9	-4.5	-4.1	-2.5	-4.2	-3.7	-3.4	-3.3
Current Balance 4/	-0.5	-0.1	-0.2	0.5	0.7	1.6	0.6	1.0	1.5	2.1	2.6
Cash Balance--below-the-line	-30.9	-4.9	-5.0	-4.9	-4.5	-4.1	...	-4.2	-3.7	-3.4	-3.3
Financing	4.4	4.9	5.0	4.9	4.5	4.1	...	4.2	3.7	3.4	3.3
Domestic	3.0	4.1	4.1	3.3	2.9	2.9	...	3.1	2.7	2.7	2.7
Privatization receipts	0.1	2.0	1.8	0.6	0.2	0.2	...	0.4	0.2	0.2	0.2
Net borrowing 5/	2.9	2.0	2.3	2.7	2.7	2.7	...	2.6	2.5	2.5	2.5
Foreign	1.4	0.8	0.9	1.6	1.6	1.2	...	1.1	0.9	0.6	0.6
of which Budget support	0.3	0.2	0.2	0.1	0.1	0.3	...	0.0	0.1	0.1	0.0
Memorandum Items:											
Primary balance	-0.2	-1.1	-1.4	-1.4	-1.2	-0.8	0.6	-0.9	-0.4	-0.1	0.0
Public Debt (including guarantees)	60.7	55.3	55.6	54.5	54.8	...	...	54.4	54.0	53.2	52.4
Domestic general government	40.4	38.0	37.8	37.3	37.2	...	...	36.6	36.2	35.6	35.2
External	20.3	17.3	17.8	17.1	17.7	...	...	17.7	17.8	17.6	17.3
GDP (in billions of leks)	695	780	780	857	857	429	429	937	1022	1117	1220

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

1/ Owing to remaining uncertainties, the projections in this table do not include the privatization of Albelecom and the Tirana-Durres railway project. See text for a discussion of the policy intentions in case these projects materialize (¶ 17-18).
2/ Includes statistical discrepancy
3/ Spending out of reserve and contingency funds are reported according to their economic classification at outturn.
4/ Revenue excluding grants minus current expenditure.
5/ Net borrowing in 2004 takes into account 0.9 percent of GDP Savings Bank privatization recipts used to redeem domestic debt.

Table 7. Albania: External Financing Requirement and Sources, 2001–07
(In millions of U.S. dollars)

	2001	2002	2003	2004	2005	2006	2007
					Projections		
Current account	262	435	469	458	620	662	657
Amortization	21	42	39	51	72	100	120
o/w: IMF	14	14	10	9	9	11	14
Change in gross reserves (increase = +)	146	58	78	288	85	165	206
Reduction in arrears	29	280	-1	15	28	70	9
Total financing requirement	457	814	585	813	805	997	992
Available financing	457	814	585	813	762	911	983
Official grants	123	125	146	125	131	132	136
Foreign direct investment	204	135	178	343	288	339	407
Private financing flows	-126	53	43	-10	110	173	157
Official medium- and long-term loans	90	121	114	127	140	195	199
Multilateral (excluding IMF)	56	84	85	91	108	156	153
Bilateral	34	37	30	36	32	39	46
IMF disbursements	12	5	11	12	6	0	0
Other 1/	116	64	75	182	82	72	70
Debt rescheduling	33	283	0	15	0	0	0
Budget support	4	29	19	20	0	0	0
Identified financing	0	0	0	0	6	0	15
o/w: IMF	0	0	0	0	6	0	0
o/w: WB FSAC/PRSC	0	0	0	0	0	0	15
Financing gap	0	0	0	0	43	86	9
Expected EU macro-financial assistance	...	...	...	...	15	16	0
Debt rescheduling (mostly clearance of bilateral arrear:	...	...	...	...	28	70	9
Other	...	...	...	...	0	0	0

Sources: Ministry of Finance, Bank of Albania, donors, and Fund staff estimates.
1/ Includes errors and omissions

Table 8. Albania: External Public and Publicly Guaranteed Debt Stock by Creditors, 1998–2005 1/
(In millions of U.S. dollars)

	1998	1999	2000	2001	2002	2003	2004	2005 1/
Total public and publicly guaranteed debt	1007	1109	1173	1198	1190	1409	1589	1531
Public and publicly guaranteed debt (excluding arrears)	523	630	706	782	1057	1285	1482	1424
Multilateral	304	419	492	523	659	825	970	949
CEB	0	0	0	0	0	1	4	4
EBRD	9	8	8	9	14	28	42	37
EIB	1	15	27	35	50	72	87	79
IDA	220	296	345	366	476	583	678	664
IDB	1	1	2	5	10	14	18	18
IFAD	8	12	13	15	21	29	33	33
IMF	62	80	89	84	77	85	92	98
OPEC	4	6	7	8	12	14	17	16
Bilateral	218	211	214	259	398	461	512	475
Rescheduled debt	27	20	18	40	117	115	120	120
Paris club members	27	20	18	17	55	52	48	48
Austria	4	3	2	1	1	1	1	1
France	10	8	5	4	3	2	1	1
Germany	10	8	5	7	6	6	5	4
Italy	1	1	6	5	5	5	5	5
Japan	0	0	0	0	0	0	0	0
Netherlands	1	0	0	0	0	0	0	0
Russia	0	0	0	0	39	38	37	37
Non Paris Club Members	0	0	0	23	62	62	72	72
China	0	0	0	0	40	40	36	36
FYR Macedonia	0	0	0	0	0	0	1	0
Hungary	0	0	0	0	0	0	13	13
Turkey	0	0	0	23	23	23	23	23
Post cut-off debt	192	191	196	218	281	346	392	355
Paris Club members	164	163	168	188	241	297	334	301
Austria	5	5	4	4	2	2	2	2
Germany	58	50	50	53	72	96	111	97
Italy	74	71	69	76	110	134	149	131
Japan	21	31	29	25	28	37	48	47
Norway	3	3	11	26	26	23	21	21
Sweden	4	4	4	4	4	4	4	4
Non-Paris Club	27	29	28	30	39	49	57	54
China	2	2	2	2	2	2	2	2
Greece	11	11	11	12	14	17	18	15
Korea	0	0	0	0	0	0	7	7
Kuwait	15	16	15	16	23	30	30	30
Arrears	484	478	467	416	133	124	106	107
Convertible currency	134	134	131	91	68	68	60	60
Non-convertible currency 2/	172	172	161	162	13	13	9	9
Commercial	52	39	37	34	33	21	20	20
Cumulative Overdue Interest 3/	126	133	137	129	19	22	18	18
Memorandum items:								
Total PPG debt (percent of GDP, incl. IMF)	34.4	31.6	31.5	27.8	25.3	21.5	18.9	...
Total arrears (percent of GDP)	16.5	13.6	12.5	9.7	2.8	1.9	1.3	...

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

1/ As of March 30, 2005.
2/ Consists of bilateral clearing accounts in rubles converted to U.S. dollars using the parameters agreed under the Paris Club rescheduling.
3/ Reflects overdue interests arising from outstanding arrears.

Table 9. Albania: Indicators of External and Financial Vulnerability, 1997–2005
(In percent of GDP, unless otherwise indicated)

	1997	1998	1999	2000	2001	2002	2003	2004	2005 Proj.
Public and publicly guaranteed debt 1/	75.6	68.5	66.7	71.7	66.8	64.8	60.5	55.6	54.8
Broad money (percent change, end of period)	28.5	20.6	22.3	12.0	20.2	5.7	8.7	13.5	11.0
Private Sector credit (percent change, end of period)	19.0	14.7	13.3	31.8	23.4	41.0	31.1	36.9	49.3
Interest rate (3-mth T-bills, end period)	35.9	20.4	15.0	7.8	8.0	11.1	7.3	6.1	6.0
Foreign currency deposits (share of total deposits)	28.9	23.5	25.2	27.8	32.3	31.2	29.0	30.1	30.3
Exports (annual percent change, in US dollars)	-27.1	22.9	34.2	-7.1	19.3	8.4	35.5	34.9	27.0
Imports (annual percent change, in US dollars)	-25.6	20.6	35.7	-4.0	23.7	11.5	20.1	22.3	23.7
Current account balance									
(excluding official transfers)	-12.2	-7.1	-7.9	-7.4	-6.4	-9.7	-8.1	-6.0	-7.1
(including official transfers)	-8.7	-3.9	-3.9	-4.4	-3.4	-6.9	-5.6	-4.4	-5.6
Capital and financial account balance	3.8	3.6	6.4	8.5	6.9	9.0	7.8	7.1	6.9
o/w: Foreign direct investment	1.9	1.6	1.5	3.9	5.0	3.0	3.1	4.5	3.3
Gross official reserves (in US dollars, millions)	306	388	485	608	737	860	1026	1374	1459
Official reserves in months of imports (goods and services)	3.8	3.7	3.8	4.1	4.3	4.0	3.8	4.1	4.0
Official reserves to broad money (ratio)	0.2	0.2	0.2	0.3	0.3	0.3	0.2	0.3	0.3
Official reserves to reserve money (ratio)	0.5	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.8
Central bank foreign liabilities (in US dollars, millions)	359.5	391.4	178.6	143.7	138.1	207.1	181.3	188.8	182.8
Foreign assets of the banking sector (in US dollars, millions)	261.2	355.5	429.0	456.1	610.5	608.1	728.1	911.4	827.4
Foreign liabilities of the banking sector (in US dollars, millions)	13.5	20.4	35.8	47.9	88.2	115.8	161.5	153.8	162.0
Total external debt (in US dollars, millions) 2/	877	1007	1108	1173	1200	1180	1420	1673	1747
Total external debt 2/	40.8	34.4	31.6	31.5	27.8	25.1	21.7	19.9	20.1
o/w: Public or publicly guaranteed 1/	38.1	32.3	29.3	29.1	25.8	23.4	20.2	17.8	17.7
Total external debt to exports (percent)	360.8	357.5	186.7	166.2	142.9	128.9	121.6	104.1	86.7
Total short term external debt to reserves (percent) 3/	6.6	6.3	4.4	3.4	2.9	5.6	4.8	4.6	6.9
External amortization payments to exports (in percent)	3.1	3.4	1.3	1.2	0.9	3.0	2.5	2.6	3.1
External interest payments to exports (in percent)	5.3	5.4	2.3	1.7	1.7	2.3	1.7	1.4	1.9
External debt service to exports (excluding IMF, in percent)	8.3	8.7	3.6	2.9	2.5	5.3	4.2	4.0	5.0
External debt service to exports (including IMF, in percent)	11.6	9.1	4.1	4.0	4.2	6.8	5.0	4.6	5.5
External debt service (excluding IMF)	0.9	0.9	0.6	0.6	0.5	1.1	0.8	0.8	1.2
External debt service (including IMF)	1.3	0.9	0.7	0.8	0.8	1.4	1.0	1.0	1.3
Change in REER (+ appreciation)	3.3	11.2	14.7	3.9	9.8	-10.9	4.0	5.1	...
Exchange rate (period average)									
(lek per US dollar)	146.7	151.1	138.1	142.6	143.5	140.4	120.8	102.7	...
(lek per euro)	168.6	168.4	147.4	132.8	128.9	132.2	138.4	127.5	...

Sources: Ministry of Finance; Bank of Albania; donors; and Fund staff estimates and projections.
1/ Excludes the IMF.
2/ Includes IMF and external arrears.
3/ Residual maturity basis; Albania has no short-term original maturity public external debt.

Table 10. Albania: Schedule of Disbursements Under PRGF Arrangement

Date	Amounts in millions of SDRs	In percent of quota 1/	Conditions
June 2002	4.0	8.21	Board approval of PRGF arrangement
January 2003	4.0	8.21	Observance of end-September 2002 performance criteria and completion of first review.
July 2003	4.0	8.21	Observance of end-March 2003 performance criteria and completion of second review.
January 2004	4.0	8.21	Observance of end-September 2003 performance criteria and completion of third review.
July 2004	4.0	8.21	Observance of end-March 2004 performance criteria and completion of fourth review.
March 2005	4.0	8.21	Observance of end-September 2004 performance criteria and completion of fifth review.
August 2005 2/	4.0	8.21	Observance of end-March 2005 quantitative performance criteria and end-March and end-June structural performance criteria, and completion of the sixth review.
Total	28.0	57.49	

1/ Albania's quota is SDR 48.7 million.

2/ Incorporates an extension of the program until November 2005.

Table 11. Albania: Projected Payments to the Fund as of May 31, 2005
(in millions of SDRs)

	2002	2003	2004	2005	2006	2007	2008	2009
				Projections				
Obligations from existing drawings								
1. Principal								
PRGF Repayments	6.2	6.8	6.4	6.2	7.6	9.4	9.6	9.1
GRA repurchases	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Charges and Interest 1/								
PRGF Interest	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.1
SDR Net Charges	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Obligations	11.0	7.1	6.7	6.5	7.9	9.6	9.8	9.2
(percent of quota)	23	15	14	13	16	20	20	19
Obligations from prospective drawings								
1. Principal								
PRGF Repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Charges and Interest 1/								
PRGF Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Obligations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(percent of quota)	0	0	0	0	0	0	0	0
Cumulative obligations (existing and prospective)								
1. Principal								
PRGF Repayments	10.6	6.8	6.4	6.2	7.6	9.4	9.6	9.1
2. Charges and Interest 1/								
PRGF Interest	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2
SDR Net Charges	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Obligations	11.0	7.1	6.7	6.5	7.9	9.7	9.9	9.3
(percent of quota)	23	15	14	13	16	20	20	19
Outstanding Fund credit 2/	59.6	60.8	62.4	64.3	56.7	47.3	37.6	28.5

1/ Projections are based on current interest rates for PRGF. The current SDR interest rate is assumed for net use of SDRs.
2/ End of year value.

Table 12. Albania: Indicators of Fund Credit, 1998-2005
(SDR Million unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004	2005 Proj.
Outstanding credit								
Stand-By Arrangement	8.8	8.8	8.8	4.4	0.0	0.0	0.0	0.0
ESAF/PRGF	36.9	49.9	58.6	61.8	59.6	60.8	62.4	64.3
Total	45.8	58.7	67.5	66.3	59.6	60.8	62.4	64.3
In percent of quota	129.7	120.5	138.5	136.0	122.4	124.9	128.2	132.0
In percent of exports (GNFS)	22.0	13.5	12.6	10.0	8.4	7.3	5.8	4.8
In percent of total public external debt	6.2	7.2	7.6	7.0	6.5	6.0	5.8	5.9
Purchases and Disbursements								
Stand-By Arrangement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ESAF/PRGF	5.9	15.5	14.3	9.4	4.0	8.0	8.0	8.0
Total	5.9	15.5	14.3	9.4	4.0	8.0	8.0	8.0
In percent of quota	16.7	31.8	29.3	19.3	8.2	16.4	16.4	16.4
In percent of exports (GNFS)	2.8	3.6	2.7	1.4	0.6	1.0	0.7	0.6
Debt Service								
Principal	0.9	2.5	5.5	10.6	10.6	6.8	6.4	6.2
Interest and charges	0.6	0.6	0.7	0.7	0.4	0.3	0.3	0.3
Total	1.4	3.1	6.2	11.3	11.0	7.1	6.7	6.5
In percent of exports (GNFS)	0.7	0.7	1.2	1.7	1.6	0.9	0.6	0.5
In percent of total external debt service	7.6	17.3	29.4	41.8	24.5	18.2	15.0	11.4
Net Fund Financing	4.4	12.3	8.0	-1.9	-7.0	0.9	1.3	1.5
Memorandum items:								
Exchange Rate (US dollars per SDR)	1.36	1.37	1.32	1.27	1.30	1.40	1.48	1.50
Quota (in millions of SDRs)	35.3	48.7	48.7	48.7	48.7	48.7	48.7	48.7
Exports of GNFS (in millions of US dollars)	282	594	705	839	915	1167	1607	2015
Public external debt (millions of US dollars) 1/	1007	1109	1173	1198	1190	1409	1589	1632
External debt service (millions of US dollars)	26	25	28	34	58	55	66	86

Sources: Albanian authorities, Fund staff estimates
1/ Includes IMF and arrears.

ALBANIA: FUND RELATIONS

As of June 30, 2005

I. **Membership Status**: Joined: 10/15/1991; Article XIV

	SDR Million	Percent Quota
II. **General Resources Account**:		
Quota	48.70	100.00
Fund Holdings of Currency	45.35	93.12
Reserve position in Fund	3.35	6.89

	SDR Million	Percent Allocation
III. **SDR Department**:		
Holdings	66.68	N/A

	SDR Million	Percent Quota
IV. **Outstanding Purchases and Loans**:		
PRGF arrangements	63.59	130.58

V. **Financial Arrangements**:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	06/21/2002	11/20/2005	28.00	24.00
PRGF	05/13/1998	07/31/2001	45.04	45.04
PRGF	07/14/1993	07/13/1996	42.36	31.06

VI. **Projected Obligations to Fund**: (SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2005	2006	2007	2008	2009
Principal	3.33	7.60	9.41	9.62	9.08
Charges/Interest	0.16	0.28	0.24	0.19	0.14
Total	3.48	7.88	9.65	9.81	9.23

VII. **Safeguards Assessments**:

Under the Fund's safeguards assessment policy, the Bank of Albania (BoA) is subject to a full safeguards assessment with respect to the PRGF arrangement, which was finalized in June 2002, and has taken into account prior safeguards work, including an assessment report issued in May 2001, and a monitoring mission conducted in March 2002. The assessment noted that the bank has made significant progress in implementing the recommendations of the first safeguards assessment, and that, in general, the bank has adequate safeguards in place to reduce the risk of misuse and misreporting of Fund resources. Nevertheless, the assessment noted minor weaknesses in the bank's internal auditing, financial reporting, and internal control systems, all of which BoA management agreed to address.

VIII. **Exchange Rate Arrangement**:

On July 1, 1992 the Albanian authorities adopted a floating exchange rate system (an independent float). Under the Fund's de facto exchange rate regime classification, Albania follows an independently floating exchange rate regime—although the monetary authorities occasionally intervene in the foreign exchange market with the objective of smoothing temporary fluctuations. Albania's exchange rate arrangement is free from exchange restrictions and multiple currency practices subject to Fund jurisdiction under Article VIII. However, the country still avails itself of the transitional arrangements under Article XIV and maintains exchange restrictions in the form of outstanding debit balances on inoperative bilateral payment agreements, which were in place before Albania became a Fund member. These relate primarily to debt in nonconvertible and formerly nonconvertible currencies, which the authorities are working to resolve within 2005 for official creditors, and in 2006 for private sector creditors. Albania has not imposed new restrictions under Article VIII. The exchange rate stood at 92.7 lek per U.S. dollar on December 31, 2004.

IX. **Article IV Consultation**:

The conclusion of the 2004 Article IV consultation and the fifth review under the three-year PRGF arrangement took place in February 2005 (IMF Country Report No. 05/89). Albania moved from a 12-month cycle to a 24-month cycle, in line with the decision on consultation cycles approved on July 15, 2002.

X. **FSAP Participation and ROSCs**:

An FSAP has been carried out in early 2005. The Financial System Stability Assessment was circulated to the Executive Board concurrently with this staff report for the sixth review of the PRGF-supported program and financing assurances review. A ROSC on data dissemination was published on the Fund's website in June 2000. A fiscal ROSC was completed in June 2003. Albania participates in the General Data Dissemination System (GDDS), and a complete set of GDDS metadata for the external, financial, fiscal, and real sectors, as well as for the socio-demographic indicators is posted on the Fund's Dissemination Standards Bulletin Board (http://dsbb.imf.org).

XI. **Technical Assistance**:

The Fund, other multilateral organizations and donors have provided extensive assistance for institutional development in Albania. The Fund alone has sent several technical assistance missions to Albania every year since 1991. However, further institutional development is required in virtually every sector.

IX. **Resident Representative**:

A Fund resident representative has been posted in Tirana since April 1993. Mr. Jan-Peter Olters held this position from March 2002 to July 2005; and is being succeeded by Ms. Ann-Margret Westin who is scheduled to arrive in Albania August 15, 2005.

ALBANIA: WORLD BANK RELATIONS

Partnership in Albania's Development Strategy

The National Strategy for Socio-Economic Development (NSSED), presented to the Boards of the IMF and the Bank in June 2002 and subsequently updated in May 2003 and June 2004 is a comprehensive development strategy that emphasizes poverty reduction. The NSSED has two pillars—strengthening governance and achieving high economic growth—and gives priority to improving education, healthcare, and infrastructure.

The IMF has taken the lead in assisting Albania to maintain macroeconomic stability and financial sustainability through setting quantitative targets within the framework of its Poverty Reduction and Growth Facility (PRGF)–supported program in 2002 and in the subsequent reviews of the program. In addition, the IMF's structural conditionality focuses on three main categories: fiscal management and control; payments discipline; governance, and privatization.

The Bank leads the policy dialogue in financial sector reforms, power sector reforms, social sector and pension reforms, as well as public expenditure management and public administration reform, and collaborates closely with the IMF on implementation.

Bank Group Strategy

The Bank's operations have been designed to support Albania's implementation of its NSSED. Therefore, in line with the objectives of the NSSED, the Bank has been focusing over the past 4 years on three priorities:

- *Improve governance and strengthen institutions*, by strengthening transparency and accountability at all levels, increasing the contestability of the policy formulation process, and improving policy monitoring and evaluation.

- *Promote sustainable private sector growth*, through improving the environment for private sector development, continuing financial sector reforms, sustaining agricultural growth, improving infrastructure and promoting environmentally sustainable use of natural resources.

- *Foster human development*, by improving access to and quality of education and healthcare, strengthening the sustainability and equity of the social insurance system, and improving targeting and efficacy of social assistance and community social services.

Overall, the Bank's lending operations reflect a cross-sectoral emphasis on reducing poverty, strengthening institutions, and increasing transparency and accountability. To date, the Bank has approved a total of **56 operations amounting to US$819.4 million, of which US$614.4**

millions have been disbursed. In line with its Country Assistance Strategy, which covers FY03–05, the Bank has completed its Poverty Reduction Support Credit (PRSC) program, **and delivered the whole CAS program including Natural Resource Development Project, Coastal Zone Management and ECSEE APL#2 (energy).**

The new Country Assistance strategy for the period 2006–09 is under finalization and is expected to be presented to the Board in September 2005.

The PRSC-1 was presented to the Board in June 2002, the PRSC-2 in July 2003 and the PRSC-3 in early December 2004. The PRSCs provided a strong core for the Bank's lending program and focus on multi-sectoral and thematic policy reforms that are best addressed through a single adjustment operation. The four key areas supported under the PRSCs are: promoting sustainable growth and private sector development; strengthening capacity to monitor and evaluate the policy agenda; improving service delivery and social safety net effectiveness; and improving core public functions and institutional arrangements. The PRSCs and the investment operations are complementary and mutually reinforcing: the PRSCs support reforms crucial for investment projects, while investment projects help build the capacity needed to implement reforms. Beyond the PRSC program, the Government confirmed its commitment to continue with the necessary actions to enhance performance in priority areas, improve governance and give a new impetus to private sector development as outlined in their Letter of Development Policy.

The Bank will continue work to strengthen external partnerships, particularly with the EU, which began negotiations towards a Stabilization and Association Agreement with Albania in early 2003. The Bank will continue to ensure a close collaboration with the IMF in major areas of reforms.

Bank-Fund Collaboration in Specific Areas

As part of its overall assistance to Albania—through the PRSC, investment lending, and country analytic work—the Bank supports policy reforms in the following main areas, in close collaboration with the IMF:

- *Financial sector reforms*

Following the civil crisis in 1997, triggered by the collapse of the pyramid schemes, Albania began implementing a broad-based program of reforms in the public administration and financial sectors. The Government's reform program has been formulated as part of its NSSED and aims at divesting the State from the banking and insurance sector and at the establishment of sound governance structures in the financial institutions. Its priority has been the revival of banking sector reforms, which are now well underway.

The Financial Sector Adjustment Credit (FSAC), approved by the Board in June 2002, has helped to advance reforms in the banking sector. Measures supported by the Bank include the privatization of the Savings Bank, the development of a deposit insurance system, improvement of the bankruptcy framework and collateral enforcement, and strengthening of bank regulation and supervision, which will also assist the Government's anti-money laundering efforts. The IMF has provided technical assistance to the Bank of Albania. The IMF is also funding a resident adviser to support the implementation of the institutional development program for banking supervision developed by the Bank of Albania.

The Government's program of reforms in the sector has been agreed in consultation with the Bank and the IMF, and the two institutions support the Government's strategy. The restructuring of the financial sector is progressing well, and the successful privatization of the Savings Bank in January 2004 represented a major achievement towards reform of the system. Progress gained further momentum during 2004, on other elements of the program as well, such as, insurance sector legal and regulatory framework and bankruptcy framework, resulting in completion of all the Government's obligations under the FSAC. The second and final tranche of the FSAC was disbursed on December 24, 2004. The Government has reconfirmed its commitment and has indicated its intention to continue with the overall reforms beyond the FSAC Closing Date of December 31, 2004. The 2005 FSAP report lays down a structured program of reform that the Bank would support in close collaboration with the IMF.

- *Power sector*

Since mid-2000, Albania has experienced a severe electricity shortage, necessitating extensive power outages despite large Government subsidies for imports of electricity. The crisis resulted from several factors: excessive demand caused by a chronic failure to curb illegal use and nonpayment; impact of a dry hydrological cycle on the largely hydropower-based system; and transmission capacity constraints limiting electricity imports. Recognizing the magnitude of the crisis and its wide-ranging macroeconomic and social implications, at the end of 2000 the Government began to develop, in consultation with the World Bank, the multi-year power sector action plan. The main objectives of this action plan are: to curtail illegal use of electricity; to improve the financial situation of KESH; to reduce excessive demand and budgetary subsidies; and to increase domestic generating capacity. Implementation of this plan has been largely successful and there have been significant improvements in power sector performance, aided by favorable hydrological conditions since 2003. Improvement in KESH's financial performance attributable to the actions taken since the beginning of 2001 has resulted in the company being able to pay for the imports from the beginning of 2005 without any subsidy from the Government. An Equalization Fund is being established, with profits from favorable hydrology being set aside to cover additional costs for imports necessary during periods of adverse hydrology. However, much still remains to be done and significant investments are required to increase domestic generation capacity and to upgrade the existing transmission and distribution network. The power sector action plan for the period 2005-is under implementation. It takes into account the progress achieved so far in improving the electricity situation within Albania, as well as additional proposals and requirements to further improve performance and secure funding for additional investments.

The Bank has played the lead role in coordinating a unified stance among power sector donors on major sector issues, and has assisted the Government in shaping sector policy. Conditionality related to improving sector performance, sector restructuring, and strengthening the regulatory and legislative framework is included in the Power Sector Rehabilitation and Restructuring Project, which was approved by the Board in June 2002. A new thermal generation investment is also being supported through a project approved by the Bank's Board in March of 2004, with cofinancing from EBRD and EIB. In order to facilitate Albania's participation in the Energy Community of South East Europe (ECSEE), the Bank approved in June 2005 a project to upgrade the high-voltage transmission substations and to provide relevant technical assistance. This project is part of a regional ECSEE APL and will be co-financed by EBRD. The Bank and the Fund support the Government's strategy for overcoming the crisis in the electricity sector and agree with the authorities that sustained implementation of the agreed measures to improve the performance in the power sector will be indispensable for growth and macroeconomic stability.

- *Social sectors and pension reform*

The Government's pension reform aims to reduce the reliance of the pension system on budgetary transfers, while addressing the overall, longer-term problems of coverage, affordability, equity, and adequacy. The Social Insurance Institute (SII) reports that the deficit of the social insurance system, had fallen to 0.25 percent of GDP in 2003, compared with 3.3 percent of GDP in 1993. This needs to be considered, however, in conjunction with arrangements whereby the state budget now finances unemployment and maternity benefits, for which the Social Insurance Institute continues to collect social insurance contributions. Projections made in 2002 showed that the deficit would have increased significantly in the medium to longer term in the absence of the reforms that the Government has adopted.

The Bank has focused intensively on pension reform under the framework of the PRSC program, and has agreed with the Government on a comprehensive program of related parametric reforms. Reforms implemented under the PRSC framework included, *inter alia*: (i) increasing the retirement age for men and women; (ii) reducing the contribution rates for employees' pensions and other social insurance benefits; (iii) changing the base for assessing contributions designed to increase collections for employees' pensions; (iv) improving performance in collecting pension contributions; (v) narrowing the gap in pension levels for self-employed rural and urban workers, as well as increasing their levels in real terms; and (vi) raising contribution rates for self-employed rural workers, which are currently extremely low.

Albania's ability to ensure the health and welfare of its population has been compromised by a weak physical infrastructure, major shifts in demography including significant population movements, internal and regional instability, limited governance capacity, poor resource management and weak technical capabilities. Restructuring and reform of basic social services is therefore a priority element of poverty reduction. The Government's program aims to address under-funding in health and education by increasing budgetary allocations to these sectors under the Medium-Term Budget Program (MTBP), while also outlining reforms to improve the access and quality of education and health, as well as the targeting of social protection. The Fund has addressed a number of related measures during its regular review of the budget and the MTBP. The Bank is supporting a comprehensive program of sector reforms through the PRSC, specific investment loans (for the human development sectors and public administration reform), and a program of economic and sector work. The Bank program focuses on strengthening sector management to improve the Government's ability to develop, monitor, and evaluate an effective policy agenda. The social sector conditionality is fully incorporated within the Bank supported PRSC program, with the Fund also monitoring the budgetary impacts of social sector reform as a part of its regular dialogue with the Government. The Bank has completed a comprehensive SSNS (Social Safety Net Study) in November 2004, and is finalizing a health sector note.

- *Public expenditure management*

Key challenges include: (i) ensuring that Government efforts to create a transparent budget decision making process become self-sustaining; (ii) improving the usefulness, quality, and timeliness of information upon which budget decisions are made; and (iii) enhancing budget execution transparency and accountability mechanisms, including treasury system, procurement and audit mechanisms. To meet these challenges, the Government has continued to make the MTBP the centerpiece of its budget formulation process to prioritize expenditures more efficiently and to strengthen the linkages between policy objectives and budget planning. As a first step in this process, and as part of the PRSC, the Government has linked the preparation of the NSSED with the preparation of the MTBP. More recently, the Government adopted a key decision to establish and implement a new Integrated Planning System (IPS), which aims at: a) ensuring greater consistency and integration among the various strategies (NSSED, Stabilisation and Association Process, Nato, MDGs..); b) strengthening and consolidating the linkages between the NSSED, the MTBP and the annual budget, and c) ensuring better donor coordination among donors and an alignment of donor's actions with the Government's strategic objectives.
As part of the PRSC program, the Government, , has undertaken a number of measures to further improve the public expenditure management process, strengthen budget systems and procedures, monitor budget outputs; and prepare procedures for recording disbursement and expenditures on all externally-financed projects, including those financed by grants. To improve transparency and accountability the Government will also take steps to improve financial reporting and audit functions. The Government has made progress towards developing a modern treasury system supported under the Public Administration Reform Project, as part of an integrated financial management system.

The PRGF-supported program complements the above-mentioned measures by focusing on fiscal management and control, payment discipline, and mobilizing adequate resources for expenditure priorities under the NSSED. In particular, strengthening tax and customs revenues, improving budget control of foreign-financed projects and state-owned enterprises are included in the program and deemed essential for safeguarding the programmed fiscal adjustment. Moreover, actions envisaged to regularize inter-enterprise and external arrears help address the issues of contingent budget liabilities as well as ongoing payment discipline and improved debt management. In the view of Bank staff, these measures will help maintain fiscal sustainability, and together with monetary and exchange rate policy of the PRGF-supported program, will help ensure a sound macroeconomic environment for sustainable growth.

Prepared by World Bank staff. Questions may be addressed to Ms. Alia Moubayed at 473-0250 or Mr. Timothy Gilbo at 458-2449.

ALBANIA: STATISTICAL ISSUES

Albania has made significant progress in improving its statistical database, with extensive technical assistance, including technical assistance from the Fund. The multisector statistics mission of February 1999 secured the agreement of the authorities on an action plan for each of the major statistical areas, identifying the concrete steps and a timetable for improving Albania's macroeconomic statistics. This mission was followed by several other missions in areas identified as priority. The authorities have thus far made progress in implementing the action plan agreed with the multisector statistics mission as well as the recommendations of follow-up missions. The Council of Statistics has been established and its constitution and functions have been ratified. However, much still remains to be done, in particular as regards the medium-term objective of improving the compilation of the national accounts. To this end, a five-year master plan for statistical development has been prepared. However, its submission to Parliament has been delayed owing to the tight legislative agenda and to technical issues raised by line ministries.

Albania was selected as a pilot country for the preparation of the data dissemination module of the Report on the Observance of Standards and Codes (ROSC), and the ROSC was published on the Funds' website in May 2000.[1] Albania participates in the General Data Dissemination System (GDDS). A complete set of GDDS metadata for the external, financial, fiscal, and real sectors, as well as for the socio-demographic indicators is posted and regularly updated on the Fund's Dissemination Standards Bulletin Board (http://dsbb.imf.org). The metadata also include a comprehensive summary of plans for improving data compilation and dissemination across all statistical sectors, including socio-demographic indicators.

A. Real Sector

Price statistics

STA has provided considerable technical assistance to Albania on price statistics. Data on consumer price index (CPI) are reported regularly for publication in the Albania page in *International Financial Statistics (IFS)*. In 2001, a revision of CPI weights was initiated by INSTAT based on a new household budget survey and a revised CPI was finalized in February 2002. The compilation of the CPI generally follows international standards, and the estimation of imputed rent within the CPI was improved in 2003. As regards the producer price index (PPI), STA missions of May 2000 and January 2002 assisted INSTAT in finalizing the development of this index. The official monthly PPI has been published quarterly since March 2002.

[1] Albania's ROSC (data module) was undertaken before the formal adoption of the Data Quality Assessment Framework.

National accounts

Until recently, and in the absence of official national accounts aggregates since 1990, Fund staff relied on their own estimates prepared in consultation with the authorities. These estimates were based on partial data on (gross) agricultural output, activity in state industrial production, and extremely limited information on private sector activity. With technical assistance from STA, consisting of a resident advisor in 1999 and follow-up missions in 2001 and 2002, INSTAT published in January 2003 the first official GDP estimates for 1996-2000 and later in the year preliminary estimates for 2001 GDP. Preliminary estimates for the 2002 GDP and revised estimates for the 2001 GDP were published in September 2004. However, the estimates continue to be hampered by weaknesses in basic data sources and incomplete coverage of the private sector.

STA formulated a technical assistance project for which the Italian government agreed to commit $500,000 from its sub account with the IMF over a period of two years (November 2003–November 2005). The project is aimed at further improving the national accounts estimates and basic source data. The Italian National Institute of Statistics (Istat) and the National Statistics Office of Finland (Statistics Finland) are providing technical assistance to INSTAT following the project contract.

A STA statistical mission visited Albania in November 2004 and in March 2005 to assist the authorities in improving the timeliness of the national accounts data. The authorities agreed with the proposed approaches for compiling and disseminating early annual estimates and experimental quarterly estimates..

External trade

The compilation and dissemination of foreign trade data has been improving in recent years, following disruptions in the late 1990s. One important factor is the implementation of the Automated System of Customs Data (ASYCUDA), supported by the EU. Further progress is expected in the area of trade in services as a result of the implementation of surveys, with the support of STA.

B. Government Finance

Albania reported fiscal data (for 1995) for the first time in 1996 for publication in the 1996 *Government Finance Statistics Yearbook* and *IFS*. In March 1998, the authorities started to publish a new quarterly bulletin of government finance statistics. The STA multisector statistics mission in 1999 assisted in upgrading the quality of the data reported in this publication to *GFSM 1986* standards and developing a system for the regular and timely reporting of data to the Fund for publication. However, only data for 1997 and 1998 and for 2002 have since been reported for inclusion in the *GFS Yearbook*. These data are based on a cash accounting system and have been converted to the *GFSM 2001* framework by staff. Albania currently does not report data for inclusion in the *IFS*. Some improvement in the collection of data on disbursement of foreign loans and grants has been achieved following technical assistance provided by UNCTAD. A foreign debt database has been established and is nearly operational, requiring only auditing for final implementation. Nonetheless, further improvements are urgently required regarding the accuracy and timeliness of information on foreign financed capital expenditures specifically, and fiscal data in general.

C. Monetary Accounts

The existing data compilation framework conforms to the methodology recommended in the *Monetary and Financial Statistics Manual*, and data are compiled on a timely basis. Following the multisector statistics mission's recommendation to expand coverage of monetary statistics to include the accounts of the savings and credit associations (SCAs), in 2002, Parliament passed a law providing the necessary authority to the Bank of Albania (BoA) to request the required data from the SCAs. There are currently about 130 SCAs throughout the country and they report data to the BoA using a simplified report form.

The new plan of accounts for the commercial banks has been implemented. The commercial banks started reporting balance sheet data to the BoA in June 1999 on revised reporting forms prepared by the BoA. The money and banking statistics mission of November 1999 assisted the BoA in revising the reporting forms with a view to reducing the reporting burden of the commercial banks and ensuring consistency of the data reported to the various departments of the BoA. Efforts were being made to extend the time series of monetary data on a consistent basis.

The authorities have revised the monetary accounts of the BoA, the commercial banks, and the monetary survey from February 2001 onward to properly record the repurchase and reverse repurchase agreements. The revised data were first published in the October 2002 issue of *IFS*. The authorities are also making efforts to revise the historical data.

In January 2005, the BoA reported to STA, monetary data for a test period using the new Standardized Report Forms. This will facilitate the implementation of an integrated monetary database to be used for both publication in *IFS* and for operational needs of EUR.

D. Balance of Payments

The data compiled by the BoA are methodologically sound, although some of the estimates need to be refined. The BoA has established data compilation procedures based on the classification system of the fifth edition of the *Balance of Payments Manual*. The BoA reports quarterly data to STA on a regular and timely basis. It has revised the methodology for the measurement of tourism services, principally through the introduction of surveys of travelers.

While this should improve the measurement of tourism services, further refinements are required. More generally, problems remain in the areas of service transactions and remittances, and in the monitoring of financial account transactions, foreign assistance, and external debt. These problems could be addressed by strengthening existing data sources and improving estimation methods. The November 2004 technical assistance mission noted that the coverage and accuracy of the data should be improved through the strengthening of the legal framework and the use of the banks reporting system to verify data from enterprises surveys. It also recommended incorporating the results of the direct investment survey as well as investigation and follow up of the net errors and omissions observed at the level of individual reporting banks. The Albanian authorities have not yet initiated compiling data on foreign currency liquidity in line with the Data Template on International Reserves and Foreign Currency Liquidity. While the definition of data on official reserve assets in principle is consistent with that of the data Template, the data may not be adequate for monitoring the economy because other foreign currency assets and currency drains are not included.

E. External Debt and Grant Statistics

External debt statistics for government and government-guaranteed debt are compiled by the Ministry of Finance. These data are generally of good quality. The external debt database, developed with technical assistance from UNCTAD, became fully operational in mid-2000. The external debt database ensures timely and accurate reporting of external government debt (including commitments of state-owned enterprises). However, the coverage of external debt data could be improved. There have been some irregularities in the presentation and recording of old external arrears. The External Debt Committee needs to improve inter-agency coordination to ensure the timely and accurate reporting of the stock of external arrears and changes resulting from rescheduling agreements. The authorities made an attempt to collect data on private sector external debt but coverage is limited to foreign direct investment. The collection of data on grants has been deficient, with lags of several months frequent. In coordination with donors, the authorities are preparing a new framework to improve data collection and reporting, and they have already decided to devolve this responsibility to the Ministry of Finance.

ALBANIA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

AS OF JUNE 30, 2005

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]
Exchange Rates	6/30/05	6/30/05	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	6/30/05	6/30/05	D	D	M
Reserve/Base Money	May 2005	Jun 2005	M	M	M
Broad Money	Apr 2005	Jun 2005	M	M	M
Central Bank Balance Sheet	May 2005	Jun 2005	M	M	M
Consolidated Balance Sheet of the Banking System	Apr 2005	Jun 2005	M	M	M
Interest Rates[2]	6/21/05	6/27/05	W	W	W
Consumer Price Index	May 2005	Jun 2005	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	May 2005	6/17/05	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	May 2005	6/17/05	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec 2004	Feb 2005	Q	Q	A
External Current Account Balance	Dec 2004	May 2005	Q	I	I
Exports and Imports of Goods and Services	April 2005	June 2005	M	Q	Q
GDP/GNP	2002	Sept 2004	A	A	A
Gross External Debt	March 2005	May 2005	Q	I	NA

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, 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.
[5] Including currency and maturity composition.
[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

Tirana, July 22, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato:

The three-year period of our Poverty Reduction and Growth Facility (PRGF) arrangement, which was approved in June 2002, is now approaching its expiration in November 2005. This arrangement has contributed to the good performance of the Albanian economy over the period and its main objectives have been successfully achieved. For the sixth and last review under the program, all quantitative performance criteria (PC) have been observed. Structural PCs were also observed with the exception of the PC requiring the implementation of the risk assessment module of the ASYCUDA system in five customs houses—largely due to delays in the necessary technical and financial external assistance. However, this assistance is now in place and we implemented the system in the Durrës and Tirana customs houses as a prior action for completion of this review. As these two customs houses represent more than 60 percent of customs traffic in Albania, and as we intend to implement the module in other customs houses over the course of 2005, we are requesting a waiver for the non-observance of this PC. We request completion of the sixth and final review as well as the financing assurances review under the arrangement.

We intend to initiate discussions for a successor arrangement with the IMF as soon as possible, as indicated at the February 28, 2005 meeting of the Executive Board. Until a new program is in place, we will maintain the current macroeconomic policy stance and continue ongoing structural measures. This will enable us to maintain macroeconomic stability and the pace of reform, thus providing an appropriate base, going forward, for the anticipated new arrangement. The attached supplementary Memorandum of Economic and Financial Policies (MEFP) therefore describes not just our economic policies up to the end of the program period, but also our policy intentions and specific targets for the remainder of 2005. These policies are consistent with our November 2001 National Strategy for Socio-Economic Development (NSSED) and the Annual Progress Reports of May 2003 and May 2004.

We believe that the policies set forth in the attached MEFP are adequate to achieve the objectives of the program, but we will take any further measures that may become appropriate for this purpose. Albania will consult with the IMF prior to the adoption of any such measures and of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultations.

After the end of this arrangement, and while Albania has outstanding financial obligations to the IMF arising from loan disbursements under the present arrangement, Albania will consult with the IMF from time to time on economic and financial policies, at the initiative of the government or the Bank of Albania or whenever the Managing Director of the IMF requests such consultation. These consultations may include correspondence and visits of officials of the IMF to Albania or of representatives of Albania to the IMF. In continuing with our policy of transparency, we consent to the publication of this letter, the attached MEFP, and the accompanying Executive Board documents on the IMF's website.

Sincerely yours,

/s/	/s/	/s/
Fatos Nano	Arben Malaj	Ardian Fullani
Prime Minister	Minister of Finance	Governor, Bank of Albania

Supplementary Memorandum on Economic and Financial Policies (MEFP) for Albania

I. Background

1. **This memorandum reviews the implementation of the PRGF-supported program, and lays out our policies for the remainder of the program period and our policy intentions following the expiration of the program through end-2005**. It is consistent with the November 2001 National Strategy for Socio-Economic Development (NSSED) and the May 2003 and May 2004 Progress Reports; and supplements the June 2002, January 2003, June 2003, January 2004, July 2004, and February 2005 MEFPs.

2. **The Albanian economy has delivered an impressive macroeconomic performance over the span of the program, including a prolonged period of rapid, non-inflationary growth**. Confidence in the monetary framework has been enhanced and inflation expectations anchored to the 2-4 percent target of the Bank of Albania (BoA). This has strengthened the lek and allowed the BoA to continue a prudent easing of the monetary policy stance while maintaining inflation generally within the target range and reserves at comfortable levels. On the fiscal front, current expenditure, the deficit, and domestic borrowing have been curtailed, and the 2005 budget is on track to deliver the first surplus on current operations since the beginning of the transition process. The public debt burden has been considerably reduced, reflecting fiscal consolidation, rapid economic growth, and the allocation of half the proceeds of large privatizations to redeem domestic debt. The debt to GDP ratio declined to 55½ percent of GDP at end-2004—a reduction of 9 percentage points of GDP since end-2002, with a further reduction of about ¾ percentage points of GDP expected by the end of 2005.

3. **Albania has also made progress in structural reform over the course of the program period**. This has been most pronounced in the banking sector. In 2004, the privatization of the Savings Bank placed all commercial banks under private management. The banking system is now displaying increased levels of dynamism and competitiveness—including through significantly greater provision of services and credit volumes—and is poised to play a more pivotal role in economic development. Complementing these developments, the completion of the real-time gross settlement system and significant progress in switching public sector salary payments from cash to the banking system are encouraging the use of banks for normal economic transactions. We expect this process to accelerate following completion of a bulk settlement system, currently in an advanced state of development. In the fiscal area, with assistance from the IMF, and the EU and other donors, the process of reforming and modernizing our customs and tax administrations has advanced—with key actions covered by program conditionality. Adoption of realistic revenue projections and other reforms to the budget process—including greater parliamentary oversight—have brought greater transparency to our fiscal expenditure and budget processes. Substantial reforms have been carried out in the electricity sector, allowing the elimination of the electricity import subsidy in the 2005 budget. Most public concerns have either been privatized, granted under long-term management concessions, or are presently being offered for sale—including Albtelecom, the sale of which we expect to finalize this year. We also improved our statistical capacity, albeit from a low base, and

began publishing national accounts—which are now being produced with a decreasing lag. Over the program period, some key poverty indicators have improved—notably absolute poverty, and child and maternal mortality—but the advances are not uniform and a few indicators such as enrollment ratios for education need improvement. External arrears left over from before the transition have been greatly reduced.

4. **Since the time of the last review, the structural reform process has continued, including those reforms covered by program conditionality**. These actions included the extension of the ASYCUDA system to six customs houses (exceeding the end-March 2005 PC) and related procedural reform in the customs administration; and the implementation of the ASYCUDA system risk assessment module for conducting inspections (originally a PC for end March 2005 in five customs houses and completed in the two main customs houses as prior action for this review). We implemented a quick VAT refund system for exporters (PC; end-June 2005); and progressed as planned towards eliminating the stock of VAT refund arrears (SB; ongoing)—improving the actual and perceived efficiency and equity of the tax system. Additionally, we have studied the recommendations of the February 2005 FAD technical assistance mission and are developing an action plan for their implementation. In other areas, we exceeded the program target of extending salary payment through the banking system to 25,000 government employees by end-March (PC); 50,000 by end-June (PC); reaching over 60,000 employees by end-June. In the statistical area, we completed, on a preliminary basis, the 2003 national accounts (SB; end-March 2005). However, submission to Parliament of the five-year statistical plan (SB; end-March 2005) has been delayed owing to the tight legislative agenda in the run-up to the July 2005 elections and to technical objections raised by line ministries. We will submit it to the new Parliament once it has been appropriately revised in consultation with STA. We maintained compliance with our other ongoing structural benchmarks, including the implementation of our action plan for removing administrative barriers to investment.

A. Policies for the Remainder of 2005

5. **We intend to initiate discussions with the Fund for a successor arrangement that will fully articulate the Government's medium-term economic and financial policy priorities**. In the interim period between the expiration of conditionality under the PRGF arrangement and the conclusion of these negotiations, we intend to stay the course of the macroeconomic policies and ongoing structural reform initiatives implemented under the current program, as detailed below.

6. **Budget policy will retain its emphasis on achieving greater fiscal consolidation and debt reduction, and will remain consistent with the fiscal stance agreed with the IMF, including the targets specified in Table 1**. We project that tax revenue collection at end-2005 will reach its budgeted level. However, there are indications of possible shortfalls in privatization revenue (as the budgeted privatization of ARMO encountered weak market interest) and in external budget support, which together could reach ½ a percentage point of GDP. In order to address this possible shortfall and meet our targeted level of net domestic borrowing we are freezing the budgeted Lek 2 billion contingency fund (about ¼ of a percentage point of GDP) and will offset fully any further lack of budgetary resources

through expenditure curtailment, preferably in current outlays. We will, therefore, keep our end-year target for net domestic credit to the government consistent with the budget target of Lek 23.4 billion—a reduction of almost ½ percentage point of GDP from the 2004 outturn (after abstracting from the effects of the 2004 Savings Bank privatization). Consequently, we expect a decline of ¾ percentage points of GDP in the level of public debt during 2005. Within these parameters, we intend to achieve the first surplus on current budget operations since the beginning of the transition, thus allowing for increased investment expenditure. We are considering the external financing on commercial terms of a railway line, a project which we may start implementing in 2006. If this goes ahead, we are committed to make offsetting reductions over the period of implementation of the project in net domestic credit to the government by amounts equal to the associated disbursements of nonconcessional financing as they occur—so as to avoid deviating from our intended debt consolidation plan. We will inform and consult with the IMF prior to making any changes to the 2005 budget.

7. **We will continue ongoing reform initiatives in our revenue administrations**. With respect to the General Directorate of Customs (GDC) we will extend the ASYCUDA computer system to a total of 10 customs houses by end-December 2005. This will leave only small customs houses outside the system which handle a negligible fraction of our external trade. Also, we will extend the related system of risk assessment-based selection for inspections to six customs houses over the same time frame. With respect to the General Directorate of Taxation (GDT), we intend to strengthen implementation capacity, with the goal of raising efficiency and ultimately the rate of revenue mobilization. In this regard, we will implement reforms to strengthen the effectiveness of the large taxpayer unit (LTU) and, more generally, of our manpower resources through internal performance assessments and training, particularly on auditing procedures. To this latter end, we have already initiated training of tax officers in a newly created tax administration training center, and established a system of linking employment tenure to successful completion of a series of structured exams. By end-December 2005, we expect to have vetted the entire audit staff and top management of GDT in this manner. Measures to improve the LTU will include establishing and making operational by end-September 2005 a new set of clear and objective criteria for inclusion of taxpayers under the LTU—permitting no exceptions—and concentrating control of these taxpayers within the LTU in Tirana. By September 2005, we will implement a program in the Durrës tax office for selecting taxpayers for 80 percent of all fiscal visits on the basis of an objective, computer-based, risk assessment system. We intend to extend this program subsequently to all tax offices. We plan to maintain and improve the newly introduced quick VAT refund system for exporters. In this connection, we will provide quarterly reports to the IMF of total VAT refunds requested, accepted, refused, and paid; as well as of progress in clearing VAT refund arrears incurred prior to the current system. We will refrain from granting contractual corporate income tax holidays or special tax treatments to individual companies.

8. **We will continue to direct monetary policy towards maintaining price stability and retain the flexible exchange rate regime, with foreign exchange interventions limited to smoothing fluctuations and keeping reserve cover at about four months of imports**. The REPO rate will remain our main policy instrument, supported by our reserve money program. Over the remainder of 2005, we anticipate a continuation of existing trends:

broadly stable money demand as a percent of GDP, rapid private sector credit growth from its current low level, and a trend decline in the ratio of currency in circulation to broad money, reflecting both increased confidence and financial intermediation.

9. **With IMF and World Bank assistance, we will pursue reforms to foster financial sector development based on the conclusions of the FSAP.** Our reforms will aim at improving the quality, breadth and depth of financial intermediation; reducing cash-based transactions and the informal economy; and maintaining and improving the efficiency of the financial system. Consistent with the FSAP recommendations, we will retain the treasury bill window at the BoA as a means for the public to gain access to the primary treasury bill market. The minimum threshold for accessing this window will remain unchanged and we will introduce a cost-recovery fee. We will extend the payment of salaries through the banking system to 70,000 government employees by end-September 2005. In addition, we will make every effort to extend this method of salary payment to the staff of public enterprises and to encourage payment of utility bills and tax obligations in this manner. We will complete and make operational the inter-bank bulk clearing system by end-September 2005. By end-2005, we will put in place the necessary regulations and legal framework for introducing a credit reporting bureau within the BoA. Also by end-2005, we will complete an analysis on the feasibility and modalities of extending deposit insurance to depositors in credit unions. We will ensure that the BoA retains its policy and operational autonomy, and we will take no legislative or regulatory action that weakens the full control over the bank's budget—including staff compensation levels—currently exercised by the BoA's Supervisory Board. We will refrain from creating any public financial institution, as well as from taking an equity stake, or issuing any explicit or implicit government guarantee to a financial institution. And we will press ahead with divesting our minority interest in two commercial banks by end-2005.

10. **We will continue implementing other ongoing structural measures**. We expect to finalize the sale of Albtelecom by the end of 2005; and remain committed to allocate its proceeds—as well as the proceeds of other future large privatizations—to priority investment projects and domestic debt redemption in equal parts. We expect to issue tenders for the sale of the government's stake in AMC and to prepare the privatization law for Albpetrol by end-September 2005; and plan to examine an alternative privatization strategy (including management or concession contracts) for ARMO in light of the weak market response to its recent tender. We will continue to implement our action plan to modernize KESH in collaboration with the World Bank. We remain committed to carry out independent feasibility studies for large projects funded by commercial non-concessional borrowing and to subject them to open tenders, except in exceptional circumstances foreseen in our legislation. We will provide to the Fund a quarterly listing and status report on all projects being considered for nonconcessional foreign financing; and will inform and consult with the Fund prior to contracting any additional nonconcessional external debt. In the area of national accounts, we will complete the advance GDP estimate for the first quarter of 2005 by end-September 2005 on a preliminary basis; and the preliminary 2004 GDP estimate by end-2005.

11. **We will continue to make good faith efforts to conclude the rescheduling of our arrears on inoperative payments agreements**. Currently we are engaged in negotiations that aim at advancing as much as feasible the clearance process with official creditors by the end of the program; and with private creditors by end-2006. However, despite the absence of formal disputes, in some cases protracted negotiations might require a longer time frame to finalize the clearance process.

12. For the remainder of the program period, Albania will not impose or intensify restrictions on the making of payments and transfers for current international transactions; or introduce multiple currency practices, or conclude bilateral payments agreements inconsistent with Article VIII, or impose or intensify import restrictions for balance of payments reasons.

Table 1. Albania: Policy Intentions for September-December 2005 1/

	End-Sep. 2005	End-Dec. 2005
	(In billions of lek)	
Ceiling on net domestic credit to the government 2/	17	23
Ceiling on net domestic assets of the BOA	-13	-12
Indicative total tax revenue targets 3/	289	336
	(In millions of US dollars)	
Floor for net international reserves of the BOA 4/	346	386
	(In millions of Euros)	
Nonaccumulation of new external payments arrears, excluding interest on pre-existing arrears 5/ 6/ 7/	0	0

1/ The policy intentions outlined in this table, and their adjustors, are defined in the Technical Memorandum of Understanding (TMU). Targets are defined as cummulative changes from end-2003, except where noted.

2/ Data is cumulative within 2005.

3/ Defined as all revenues collected by the GDT, GDC, and SSI. Aggregate revenue so defined includes all revenues collected on behalf of local governments, but excludes revenues collected by local governments directly.

4/ Valued using end-2003 exchange rates.

5/ As defined in the TMU.

6/ Cumulative changes as of end-December 2002.

7/ This policy intention applies on a continuous basis.

Table 2. Albania: Structural Policy Intentions under the PRGF Arrangement and Up to the End of 2005.

	Proposed test date
A. Key Policy Intentions	
1. Deployment of the ASYCUDA system in 10 customs houses.	End-December 2005
2. Implement the risk assessment module of the ASYCUDA system in 6 customs houses to perform inspections.	End-December 2005
3. The salaries of 70,000 employees of budgetary institutions to be paid through the banking system.	End-September 2005
B. Other	
4. Establish and implement a set of clear and objective criteria for inclusion of taxpayers in the large taxpayers unit of the General Directorate for Taxes.	End-September 2005
5. Concentrate control of large taxpayers in the large taxpayers unit in Tirana..	End-September 2005
6. Implement in the Durrës tax office a program for selecting taxpayers for 80 percent of all fiscal visits on the basis of an objective, computer-based risk assessment system.	End-September 2005
8. Prepare advance GDP estimates for the first quarter of 2005.	End-September 2005
9. Complete the preliminary 2004 national accounts.	End-December 2005
10. Complete and make operational the inter-bank bulk clearing system at the Bank of Albania.	End-September 2005
11. Prepare quarterly reports (within one month of the end of each quarter) on the stock of external arrears.	Ongoing
12. Clear overdue VAT refunds originated prior to June 2004 by allocating to this end 1 percent of VAT gross revenue on a quarterly basis.	Ongoing
13. Prepare quarterly reports on the aggregate amounts of the VAT refunds requested, refunds paid and refunds rejected.	Ongoing
13. Safeguard the efficient use of nonconcessional foreign project loans through:	
(i) Conducting an independent feasibility study for any large project (as defined in the TMU) financed through non-concessional commercial borrowing.	Ongoing
(ii) Provide a quarterly listing and status report on all projects being considered for nonconcessional foreign financing.	Ongoing

Table 3. Albania: Quantitative Performance Criteria and Indicative Targets, 2004–05 1/

	End-Mar. 2004 2/			End-Jun. 2004			End-Sep. 2004 2/			End-Dec. 2004			End-Mar. 2005 2/			End-Jun. 2005
	Actual	Prog.	Prog. (Adj.)	Actual	Prog.	Prog. (Adj.)	Actual	Prog.	Prog. (Adj.)	Actual	Prog.	Prog. (Adj.)	Actual	Prog.	Prog. (Adj.)	Prog.
								(In billions of lek)								
Ceiling on net domestic credit to the government 3/	6	6	6	-5	12	1	3	11	13	18	16	18	2	6	7	12
Ceiling on net domestic assets of the BOA 4/	-24	-7	-7	-38	-5	-15	-17	2	3	-11	7	9	-19	-13	-13	-12
Indicative total tax revenue targets, millions of Lek 5/	36	36	36	74	76	76	116	116	116	160	161	161	199	199	199	244
								(In millions of US dollars)								
Floor for net international reserves of the BOA 4/ 6/	104	57	57	182	71	141	212	71	62	273	83	69	275	240	240	254
								(In millions of Euros)								
Ceiling on contracting or guaranteeing of public and publicly-guaranteed non-concessional external debt 7/ 8/	19	120	120	46	141	141	46	155	155	126	171	171	126	240	240	280
of which: 1-5 years	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Ceiling on public and publicly-guaranteed external debt with original maturities up to and including 1 year 7/ 8/ 9/	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Nonaccumulation of new external payments arrears, excluding interest on pre-existing arrears 7/ 8/ 9/	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

1/ The performance criteria and indicative targets envisaged under the program, and their adjustors, are defined in the Technical Memorandum of Understanding (TMU). Targets for September 2004 and beyond are defined as cummulative changes from end-2003, except where noted. Targets prior to March 2005 refer to targets set during the fourth and previous reviews.
2/ Data in this column are performance criteria, except for revenue targets. Data in all other columns are indicative targets.
3/ Data is cumulative within each calendar year.
4/ For end-March and end-June 2004, targets are defined as cumulative changes as of end-December 2002.
5/ All revenues collected by the GDT, GDC, and SSI. Includes all revenues collected on behalf of local governments, but excludes revenues collected by local governments directly.
6/ Up to end-June 2004, valued using end-December 2001 exchange rates. After end-June 2004, valued using end-2003 exchange rates.
7/ This performance criterion applies to the contracting or guaranteeing by the central government or the Bank of Albania as specified in the TMU.
8/ Cumulative changes as of end-December 2002.
9/ These performance criteria apply on a continuous basis.

Table 4. Albania: Performance Criteria and Structural Benchmarks under the PRGF Arrangement

	Test-date	Status
A. Prior Actions for the Sixth Review		
1. Implement the risk assessment module of the ASYCUDA system in the Tirana and Durrës customs houses to perform inspections.		Completed
B. Performance Criteria for the Sixth Review		
1. Deployment of the ASYCUDA system in 5 customs houses.	End-March 2005	Met
2. Implement the risk assessment module of the ASYCUDA system in 5 customs houses to perform inspections.	End-March 2005	Not Met. 1/
3. The salaries of 25,000 employees of budgetary institutions to be paid through the banking system.	End-March 2005	Met
4. The salaries of 50,000 employees of budgetary institutions to be paid through the banking system.	End-June 2005	Met
5. Implement a system of quick VAT refunds with audits carried out ex post based on risk assessment selection for qualified taxpayers.	End-June 2005	Met
C. Structural Benchmarks under the Sixth Review		
1. Presentation to Parliament of 5-year Statistical Program.	End-March 2005	Not Met 2/
2. Completion of preliminary 2003 national accounts.	End-March 2005	Met
3. Government of Albania's to continue to implement its action plan for removing administrative barriers to investment (NSSED chapter 7, Section on Ministry of the Economy).	Ongoing	Met
4. Prepare quarterly reports (within one month of the end of each quarter) on the stock of external arrears.	Ongoing	Met
5. Clear overdue VAT refunds originated prior to June 2004 by allocating to this end 1 percent of VAT gross revenue on a quarterly basis.	Ongoing	Met
6. Prepare quarterly reports on the aggregate amounts of the VAT refunds requested, refunds paid and refunds rejected.	Ongoing	Met
7. Safeguard the efficient use of nonconcessional foreign project loans through:		Met
(i) Conducting an independent feasibility study for any large project (as defined in the TMU) financed through non-concessional borrowing.	Ongoing	Met
(ii) Provide a quarterly listing and status report on all projects being considered for nonconcessional foreign financing.	Ongoing	Met

1/ A waiver is being requested (paragraph 1 of the Letter of Intent). The actions specified under this performance criterion were partially carried out subsequently as a prior action for this review.
2/ As discussed in paragraph 4 of the MEFP.

ALBANIA

TECHNICAL MEMORANDUM OF UNDERSTANDING

This memorandum defines the quantitative benchmarks and performance criteria established in the Memorandum of Economic and Financial Policies (MEFP) for end-June 2004–end-March 2005.

A. Net Domestic Credit to the Central Government

1. For the purposes of the program, the **central government** covers the State Budget, the Social Security Institute (SSI), and the Health Insurance Institute (HII).

2. **Net domestic credit to the central government** (NCG) is defined as gross domestic credit in lek and in foreign currency extended to the central government (as defined above) by the banking system, savings and loan institutions (SLIs), and other domestic lenders;[1] less the sum of central government financial assets held in the banking system and in the SLIs.

3. The following definitions apply to **gross domestic credit to the central government**:

(i) **Gross domestic credit in lek and in foreign currency extended to the central government includes**: (a) securities (including treasury bills and bonds) issued by the central government and held by the Bank of Albania (BoA), deposit money banks (DMBs), SLIs, and other domestic lenders; (b) loans and advances extended to the central government by BoA, DMBs, SLIs, and other domestic lenders; and (c) negative balances in government deposits with BoA, DMBs and SLIs.

(ii) **Gross domestic credit in lek and in foreign currency extended to the central government excludes** (a) the onlending of foreign project loans to all parts of central government; and (b) advances on profit transfers by the BoA. The value of the stock of gross domestic credit to government will also exclude the claims held by the units of central government as defined above (in particular, the SSI and the HII).

(iii) The stock of gross domestic credit extended to the central government and held by the BoA and DMBs in the form of treasury bills will be valued at issue price. The stock of gross domestic credit extended to the central government and held by the BoA in the form of other securities and direct loans to government will be valued excluding accrued interest. The stock of

[1] Other domestic lenders comprise both firms (including insurance companies) and households. For small lenders, treasury bill windows are available at the central bank and at selected Albapost offices throughout the country.

gross domestic credit extended to the central government and held by the DMBs in the form of fixed and variable income securities will be valued at face value. The stock of all gross domestic credit extended to the central government and held by SLIs and other domestic lenders will be valued at face value[2].

4. The following definitions apply to **central government financial assets held in the banking system and in the SLIs**:

(i) **Central government financial assets held at the Bank of Albania include**: (a) transferable deposits in domestic and foreign currency; (b) lek deposits held in BoA for projects; and (c) standard gold deposits of the central government. For the purposes of program monitoring, standard gold deposits will be valued at the program price of gold (SDR 280.6 per ounce)[3].

(ii) **Central government financial assets held at the Bank of Albania exclude**: (a) foreign currency deposits related to foreign financed projects; and (b) deposits serving as the counterpart for non-standard gold and other precious metals owned by the central government.

(iii) **Central government financial assets held at the DMBs** include: (a) all deposits of central government in domestic and foreign currency; (b) all loans extended by central government to commercial banks; and (c) payable amounts owed by the DMB to central government.

(iv) **Central government financial assets held at the SLIs** include all deposits of central government held at the SLIs.

5. **For the purposes of program monitoring**, central government financial assets in foreign currency will be converted from Lek to SDRs at the end-of period Lek/SDR exchange rate prevailing on the test date; and then converted to Lek at the end-December 2003 Lek/SDR exchange rate of Lek158.1/SDR.

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[2] Under current reporting standards, the following data is only available at face value: (i) the stock of gross domestic credit extended to the central government and held by the DMBs in the form of fixed and variable income securities; and (ii) the stock of all gross domestic credit extended to the central government and held by the SLIs and other domestic lenders.

[3] The lek value of standard gold deposits will be (a) converted to US dollars using the current end-of-period lek/US dollar exchange rate; (b) then converted to ounces of gold using the current US dollar market price of gold; (c) then converted to SDRs at the program price of gold (SDR 280.6 per ounce); and (d) then converted to Lek at the program Lek/SDR exchange rate of Lek 158.1104/SDR.

6. The breakdown of the categories of net domestic credit to the central government as defined above is given in Attachment Table 1.

7. The limits on the change in net domestic credit to the government will be cumulative from end-December 2004.

B. Net Domestic Assets

8. The stock of **net domestic assets (NDA) of the Bank of Albania** are defined as the difference between reserve money—defined as the sum of currency issue (less lek notes and coins held by the Bank of Albania) and commercial bank reserves held at the BoA—less the net international reserves of the Bank of Albania (Section C), with all foreign currency assets and liabilities valued in local currency for program monitoring purposes at an exchange rate at end-December 2003. Under this definition, the level of the NDA was Lek 72 billion as of end-December 2003. The NDA limits will be cumulative changes from end-December 2003 and will be monitored from the accounts of the Bank of Albania.

C. Net International Reserves

9. **Net international reserves (NIR)** are defined as reserve assets minus reserve liabilities of the Bank of Albania. **Reserve assets** are readily available claims of the Bank of Albania on nonresidents denominated in foreign convertible currencies, and held for the purpose of meeting balance of payments financing needs, intervention in exchange markets, and other purposes. They include Bank of Albania holdings of monetary gold, SDRs, Albania's reserve position in the IMF, foreign currency cash, and deposits abroad. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered; claims on residents; precious metals other than monetary gold; assets in nonconvertible currencies; illiquid assets; and claims on foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options). **Reserve liabilities** shall be defined as foreign exchange liabilities to residents and nonresidents of the Bank of Albania, irrespective of their maturity. They include: foreign currency reserves of commercial banks held at the Bank of Albania; all credit outstanding from the IMF; commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options); and all arrears on principal or interest payments to commercial banks, suppliers, or official export credit agencies. Excluded from reserve liabilities are the government's foreign currency deposits at the Bank of Albania.[4] Reserve assets and reserve liabilities will both be expressed in U.S. dollars.

10. During this program, for monitoring purposes, the exchange rates of the SDR and non-dollar currencies will be kept at their end-December 2003 levels and holdings of

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[4] This exclusion is justified by current procedures in Albania, whereby the government's foreign currency receipts are deposited in a blocked account at the Bank of Albania and the funds are transferred to the government's lek account before being spent. A change in this procedure, would require revisiting the NIR definition.

monetary gold will be valued at SDR 280.6 per ounce. Excluded from gross international reserves are holdings of nonconvertible currencies, claims on nonresident financial institutions denominated in nonconvertible currencies, and other claims which are not readily available. Under this definition, the level of NIR was US$832.7 million at end-2003.

D. Adjusters for NCG, NDA, and NIR

11. The NCG and NDA ceilings and the NIR floor are defined on the assumption that total privatization proceeds (privatization proceeds received in foreign currency) will amount, on a cumulative basis, from January 1, 2004, to:

End-September 2005	Lek 15.3 billion, (US$144.6 million).
End-December 2005	Lek 15.7 billion, (US$148.4 million).

The NIR floor will be adjusted upward (downward) and the NDA ceiling adjusted downward (upward) by half of any excess (shortfall) in the receipt of privatization proceeds in foreign currency from these assumed values. The NCG ceiling will be adjusted downward (upward) by half the amount of any excess (shortfall) in the receipt of total privatization proceeds from these assumed values.

12. The ceilings on NCG and NDA, and the floor on NIR are defined based on the assumption that **foreign budgetary and/or balance of payments loan financing** (excluding IMF financing, project and commodity loans, and macro-financial assistance from the EU) will amount, on a cumulative basis, from January 1, 2004, to:

End-September 2005	US$ 20.0 million.
End-December 2005	US$ 20.0 million.

In cases where total foreign loan financing exceeds this projection, the ceilings on NCG to the government and NDA of the Bank of Albania will be adjusted downward, and the floor on NIR will be adjusted upward by the amount of the excess[5].

13. The NDA ceilings will be also adjusted to reflect the impact of any change in the required reserve ratio of commercial banks with the Bank of Albania.

E. External Debt and Arrears

14. As set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274–00/85) August 24, 2000), the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets

[5] For the NCG adjuster, the lek equivalent of deviations from the programmed amounts in terms of dollars is converted at an exchange rate of Lek 106.5 per U.S. dollar**.**

(including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property. Arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

15. The limit on medium- and long-term external debt **applies to** the contracting or guaranteeing by the central government or the Bank of Albania, of new nonconcessional external debt with an original maturity of more than one year, **with sub-limits** on external debt with an original maturity of more than one year and up to and including five years. It applies not only to debt as defined in paragraph 14 of this memorandum, but also to commitments contracted or guaranteed for which value has not been received. External debt will be considered to have been contracted at the point the loan agreement or guarantee is ratified by the Albanian parliament. **Excluded** from the limits are refinancing credits and rescheduling operations (including the deferral of interest on commercial debt), credits extended by the IMF, and credits on concessional terms defined as those with a grant element of at least 35 percent. The grant element is to be calculated using the OECD Commercial Interest Reference Rates (CIRRs): for maturities of less than 15 years, the grant element will be calculated based on six-month averages of CIRRs; and for maturities longer than 15 years, the grant element will be calculated based on ten-year averages. Debt falling within the limit shall be valued in U.S. dollars at the exchange rate prevailing at the time the contract or guarantee becomes effective.

16. The limit on **short-term external debt applies** on a continuous basis to the stock of short-term external debt owed or guaranteed by the central government or the Bank of Albania, with an original maturity of up to and including one year. It applies to debt as defined in paragraph 14 of this memorandum. **Excluded** from the limit are rescheduling operations (including the deferral of interest on commercial debt) and normal import-related credits. Debt falling within the limit shall be valued in U.S. dollars at the exchange rate prevailing at the time the contract or guarantee becomes effective.

17. A continuous performance criterion applies to the non-accumulation of new **external payments arrears** on external debt contracted or guaranteed by the central government or the Bank of Albania. External payment arrears consist of external debt service obligations (principal and interest) falling due after March 31, 2002 and that have not been paid at the time they are due, as specified in the contractual agreements. **Excluded** from the prohibition on the accumulation of new arrears are: (i) arrears arising from interest on the stock of arrears outstanding as of March 31, 2002; and (ii) external arrears that are subject to debt rescheduling agreements or negotiations.

18. **Large projects** (as referred to in MEFP paragraph 21 and Table 2) financed by nonconcessional foreign borrowing are defined as those projects involving total nonconcessional foreign borrowing in excess of US$25 million.

F. Tax Revenues

19. Collection of total tax revenue by the Tax and Customs Departments and social insurance contributions will be monitored on the basis of quarterly indicative floors. These indicative floors will include all revenues collected by the GDT, GDC, and SSI (including revenues collected on behalf of local governments), but exclude revenues collected by local governments directly.

G. Monitoring and Reporting Requirements

Performance under the program will be monitored from information supplied monthly to the Fund by the Bank of Albania, the Ministry of Finance, the General Directorate of Taxation (GTD), the General Directorate of Customs (GDC), and the Ministry of Economy. This information will include the following, which will be supplied monthly (except where noted) and on a timely basis:

The Bank of Albania will supply to the Fund:

(i) The balance sheets of the Bank of Albania;
(ii) The consolidated accounts of the commercial banks and (separately) the SLIs;
(iii) The monetary survey;
(iv) Banking sector prudential indicators;
(v) Net domestic credit to the government (in the form outlined in Appendix Table 1);
(vi) The net foreign assets of the Bank of Albania;
(vii) The foreign exchange cashflow of the Bank of Albania, including the level of NIR;
(viii) Daily average exchange rates;
(ix) Trade flows;
(x) Periodic updates of balance of payments estimates.

The Ministry of Finance will supply to the Fund:

(i) The summary fiscal table, including the overall budget deficit, on a cash basis;
(ii) Issuance of treasury bills by the MOF, including gross value and cash received;

(iii) Privatization receipts;
(iv) Information on the contracting and guaranteeing of new debt;
(v) Information on the stock of short-, medium- and long-term debt;
(vi) Information on all overdue payments on short-, medium- and long-term debt (with assistance from the Bank of Albania).
(vii) Information on the stock of VAT refunds claimed and refunds paid out every month.

The General Directorate of Customs will supply to the Fund:

(i) Detailed monthly data on customs revenues collected; and
(ii) Quarterly reports on corrective measures taken to deal with problems identified by the internal audit function.

The General Directorate of Taxation will supply to the Fund:

(i) Detailed monthly data on tax revenues collected.

The Ministry of Economy will either report quarterly to the Fund or publish quarterly:

(i) All instances of nonpayment on the agreed memorandums of understanding for the repayment of the stock of end-December 2001 inter-enterprise arrears.
(ii) A description of remedial actions undertaken by the ministry in the event of non-payment on the agreed MOUs for the repayment of the stock of end-December 2001 inter-enterprise arrears.

Table 1. Albania: Calculation of Net Domestic Credit to Central Government for Program Monitoring Purposes, December 2003–March 2005
(In billions of lek)

		Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05
1.	**Treasury bills held outside central government**	**271.4**	**277.1**	**271.9**	**277.3**	**279.7**	**279.9**
Of which:							
1. (i)	Held by Bank of Albania 1/	70.4	66.2	62.9	62.9	62.8	63.0
1. (ii)	Held by deposit money banks 1/	184.2	192.4	188.9	192.7	193.1	191.5
1. (iii)	Held by savings and loan institutions 2/	0.0	0.0	0.0	0.0	0.0	0.0
1. (iv)	Held by other domestic lenders (excluding holdings of HHI and SSI) 2/	16.8	18.5	20.0	21.6	23.7	25.4
	Of which:						
1. (iv) (i)	INSIG	1.5	1.5	1.5	1.5	1.6	1.8
1. (iv) (ii)	Individuals and firms	15.3	17.0	18.6	20.1	22.2	23.7
1. (iv) (ii) (i)	Of which: BoA window	9.5	10.4	11.4	12.5	13.8	15.1
Plus:							
2.	**Other central government debt held outside central government (millions of lek)**	**6.4**	**6.8**	**11.8**	**11.0**	**14.5**	**18.8**
Of which:							
2. (i)	Held by Bank of Albania 3/	1.4	1.0	4.4	1.0	1.0	1.0
2. (i) (i)	Other securities 3/	1.4	1.0	1.0	1.0	1.0	1.0
2. (i) (ii)	Short-term direct loans to government 3/	0.0	0.0	3.4	0.0	0.0	0.0
2. (ii)	Held by deposit money banks 4/	5.0	5.8	7.4	10.0	13.5	17.8
2. (ii) (i)	Fixed income securities 4/	5.0	5.8	7.4	10.0	13.5	17.8
2. (ii) (ii)	Variable income securities 4/	0.0	0.0	0.0	0.0	0.0	0.0
2. (iii)	Held by savings and loan institutions 5/	0.0	0.0	0.0	0.0	0.0	0.0
2. (iv)	Held by other domestic lenders 5/	0.0	0.0	0.0	0.0	0.0	0.0
Equals gross domestic credit to government:		**277.9**	**283.9**	**283.6**	**288.2**	**294.1**	**298.7**
Less:							
3.	**Assets of central government (excluding HHI and SSI)**	**7.5**	**7.2**	**18.1**	**14.0**	**6.4**	**8.7**
Of which:							
3. (i)	Deposits held at Bank of Albania 6/	4.9	4.5	14.9	11.5	4.9	5.1
3. (i) (i)	In domestic currency	3.3	2.9	3.0	3.0	3.3	3.4
3. (i) (i) (i)	Transferable deposits in lek	2.9	2.5	2.3	2.5	2.8	2.9
3. (i) (i) (ii)	Deposits in lek for projects	0.4	0.4	0.6	0.5	0.5	0.5
3. (i) (ii)	In foreign currency at program exchange rates and program price of gold 7/ 8/	1.6	1.6	12.0	8.6	1.7	1.7
3. (i) (ii) (i)	In foreign currency evaluated at current exchange rates	1.6	1.6	10.6	8.1	1.5	1.6
3. (i) (ii) (i) (i)	Transferable deposits in foreign currency evaluated at program exchange rate 7/	0.0	0.0	9.7	7.0	0.0	0.1
3. (i) (ii) (i) (i) (i)	Transferable deposits in foreign currency evaluated at current exchange rate 9/	0.0	0.0	9.1	6.5	0.0	0.1
3. (i) (ii) (i) (ii)	Standard gold deposits of government evaluated at fixed exchange rate and gold price (Lek mns.) 8/	1.6	1.6	2.3	1.6	1.7	1.7
3. (i) (ii) (i) (ii) (i)	Standard gold deposits of government at current exchange rate and gold price (Lek mns.) 8/	1.6	1.6	1.5	1.5	1.5	1.5
3. (i) (ii) (i) (ii) (i) (i)	Number of ounces of gold equivalent	36.5	36.4	51.1	36.4	37.3	37.3
3. (ii)	Assets held at deposit money banks	2.6	2.7	3.1	2.4	1.5	3.6
3. (ii) (i)	Deposits 10/	1.8	1.6	1.4	1.2	1.4	1.6
3. (ii) (i) (i)	Deposits in domestic currency	0.1	0.3	0.1	0.2	0.2	0.3
3. (ii) (i) (i) (i)	Transferable deposits in domestic currency	0.1	0.3	0.1	0.2	0.2	0.3
3. (ii) (i) (i) (ii)	Other deposits in domestic currency	0.0	0.0	0.0	0.0	0.0	0.0
3. (ii) (i) (ii)	Deposits in foreign currency evaluated at program exchange rates	1.7	1.4	1.3	0.9	1.2	1.3
3. (ii) (i) (ii) (i)	In foreign currency evaluated at current exchange rates 7/	1.7	1.3	1.2	0.9	1.1	1.2
3. (ii) (i) (ii) (i) (i)	Transferable deposits in foreign currency evaluated at current exchange rates	1.7	1.3	1.2	0.9	1.1	1.2
3. (ii) (i) (ii) (i) (ii)	Other deposits in foreign currency evaluated at current exchange rates	0.0	0.0	0.0	0.0	0.0	0.0
3. (ii) (ii)	Loans from government to DMBs	0.5	0.5	0.4	0.4	0.4	0.4
3. (ii) (iii)	DMB payables to government	0.4	0.6	1.3	0.9	-0.3	1.7
3. (iii)	Held at savings and loan institutions 10/	0.0	0.0	0.0	0.0	0.0	0.0
Less:							
4.	**Deposits of HHI and SSI**	**2.2**	**2.8**	**2.6**	**2.7**	**2.1**	**2.1**
Equals:							
5.	**Stock of Net domestic credit to central government (1+2-3-4)**	**268.1**	**273.9**	**263.0**	**271.5**	**285.7**	**287.8**
5. (i)	Change since December 2003	...	5.8	-5.1	3.4	17.6	19.7
5. (ii)	Change since December 2004	...	...	...	...	...	2.1
6.	Memorandum items:						
6. (i)	Current exchange rate (Lek/SDR, eop)	158.1	157.5	148.8	148.7	143.9	146.8
6. (ii)	Current exchange rate (Lek/US dollar, eop)	106.4	106.4	101.5	101.2	92.7	97.2
6. (ii)	Program exchange rate (Lek/SDR, eop) 12/	158.1	158.1	158.1	158.1	158.1	158.1
6. (iv)	Program price of gold (price in SDRs dollars per ounce as at end-December 2003)	280.6	280.6	280.6	280.6	280.6	280.6
6. (v)	Market price of gold (price in US dollars per ounce)	417.0	423.0	280.6	412.4	437.1	427.3
6. (vi)	Current exchange rate (US dollar per SDR, eop)	1.49	1.48	1.47	1.47	1.55	1.51

1/ Evaluated at issue price.
2/ Evaluated at face value (data on treasury bill holdings of SLAs and other domestic lenders are currently available only at face value).
3/ Excludes accrued interest.
4/ Valued at face value (data on fixed and variable income securities held by DMBs are currently available only at face value).
5/ Includes accrued interest.
6/ Includes transferable deposits of government in domestic and foreign currency, lek deposits of central government for projects; and standard gold deposits of government. Excludes all non-standard gold deposits; and excludes all nongold precious metal deposits of government; and excludes government deposits in foreign currency for projects.
7/ The reported lek value of foreign currency denominated assets of government will be converted to SDRs using the current end-of-period lek/SDR exchange rate; and then converted back to lek using the program Lek/SDR exchange rate of Lek 158.1104/SDR.
8/ Standard gold deposits are usable by government and therefore included in the definition of government assets. The lek value of standard gold deposits will be (a) converted to US dollars using the current end-of-period lek/US dollar exchange rate; (b) then converted to ounces of gold using the current market price of gold; then (c) converted to SDRs at the program price of gold of SDR280.6 per ounce; and then (d) converted to lek at the program Lek/SDR exchange rate of Lek 158.1104/SDR.
9/ Including account set up to hold the Savings Bank privatization revenue (Account No: 11.2.2.1.4)
10/ Includes all deposits of central government.
11/ Equals 50 percent of shortfall in privatization revenue.
12/ The program Lek/SDR exchange rate is the value of this rate at end-December 2003 (Lek 158.1104/SDR).

INTERNATIONAL MONETARY FUND

ALBANIA

Supplementary Information for the Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for a Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review

Prepared by the European Department
(In consultation with other departments)

Approved by Ajai Chopra and Donal J. Donovan

July 28, 2005

1. This supplement provides information on developments since the staff report was issued.

2. **The authorities have recently provided data regarding the Bank of Albania's (BoA) balance sheet at end-June 2005 (Table 1).** These data indicate that the end-June indicative target floor on net international reserves of the BoA (NIR) was observed, but the indicative target ceiling on net domestic assets of the BoA (NDA) was exceeded by lek 3.4 billion (1.9 percent of reserve money at end-2004). While corresponding commercial banks' balance sheet data are not yet available, the authorities indicated that this unexpected jump in NDA was due to an earlier-than-expected increase in the demand for cash associated with the summer vacation season—which banks have satisfied by drawing down their balances at the BoA's (reverse) repo facility, prompting an increase in reserve money.

3. **This unprogrammed expansion in NDA does not change the thrust of the staff's appraisal, but it warrants close monitoring and, if persistent, may require a policy tightening.** Monetary policy is focused on keeping inflation within the 2–4 percent BoA's target band, and available evidence indicates that inflationary pressures remain subdued. The 12-month inflation rate was 2.9 percent in June (after four months below the lower end of the range) and food prices (a key component of the CPI) have fallen in recent months owing to increased supply. The lek has continued its appreciating trend, strengthening vis-à-vis the euro by 3.8 percent since January 1, 2005, and by 2.4 percent since the July 3, 2005 elections. Thus, the unexpected expansion of liquidity may represent a temporary shock (perhaps reinforced by uncertainties in the run-up to the elections) that could unwind over the summer season. The authorities, however, agree that it calls for a detailed follow-up and that, if reinforced by other indicators of inflation risks, could require an upward move in the policy interest rate.

4. **Staff continues to support the authorities request for completion of the sixth review of Albania's three-year arrangement under the Poverty Reduction and Growth Facility.**

Table 1. Albania: Bank of Albania's Balance Sheet, Selected Items
(Stocks at end of period, in billions of leks, except when indicated)

	December 2004 Act.	March 2005 Act.	June 2005 Act. (A)	June 2005 Prg. (B)	Difference (A-B)
	(At current values)				
Reserve money	178.6	171.2	180.4	174.3	6.1
Currency	141.6	133.5	140.0	135.4	4.6
Deposit Money Banks Deposits	36.9	37.7	40.4	38.9	1.5
Net international reserves (NIR)	105.7	108.5	109.7	103.5	6.2
Net international reserves (NIR, in US$ million)	1,141.2	1,116.5	1,067.8	1,101.9	-34.1
Net domestic assets (NDA)	72.9	62.7	70.7	70.8	-0.1
Memorandum:					
Net foreign assets of the Bank of Albania (in US$ million)	1,279.8	1,257.9	1,216.1	1,236.5	-20.4
Reverse repo position of commercial banks at the Bank of Albania	2.3	10.9	1.1	...	...
	(Valued at program's accounting conventions 1/)				
Reserve money	178.6	171.2	180.4	174.3	6.1
Currency	141.6	133.5	140.0	135.4	4.6
Deposit Money Banks Deposits	36.9	37.7	40.4	38.9	1.5
Net international reserves (NIR)	117.8	118.0	117.0	114.3	2.7
Net international reserves (NIR, in US$ million)	1,105.2	1,107.4	1,098.0	1,086.7	11.3
Net domestic assets (NDA)	60.8	53.1	63.4	60.0	3.4

Sources: Bank of Albania; and staff estimates.
1/ Evaluated at program exchange rates and program price of gold and based on definitions contained in the Technical Memorandum of Understanding for the fifth review of the PRGF arrangement (IMF Country Report No. 5/89).

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth Review Under a PRGF Arrangement with Albania and Approves US$5.8 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the sixth review of Albania's performance under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review will enable the release of an amount equivalent to SDR 4.0 million (about US$5.8 million), which will bring the total disbursement under the program to SDR 28.0 million (about US$40.5 million).

In completing the review, the Board approved the authorities' request for a waiver for the nonobservance of the performance criterion pertaining to the implementation of the risk assessment module of the ASYCUDA computer system for customs inspections.

The three-year arrangement was approved on June 21, 2002 (see News Brief No. 02/52) for a total of SDR 28.0 million (about US$40.5 million).