

## International Monetary Fund

[Albania](#) and the IMF

**Albania:** Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

**Press Release:**

[IMF Executive Board  
Completes Eighth  
Review under  
Albania's Extended  
Fund Facility and  
Approves €35.9  
Million Disbursement](#)

August 31, 2016

August 15, 2016

The following item is a Letter of Intent of the government of Albania, which describes the policies that Albania intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Albania, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

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# Albania: Letter of Intent

August 15, 2016

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

Dear Ms. Lagarde:

- 1.** The Extended Arrangement approved by the Executive Board of the International Monetary Fund (IMF) in February 2014 remains the anchor of our economic policies. The attached Memorandum of Economic and Financial policies (MEFP) reviews progress in implementing the program and outlines the policies that the government and the Bank of Albania (BoA) will pursue over the remainder of the program.
- 2.** Performance under the program has been strong. All end-April and continuous performance criteria were met. However, the lower outer band under the Inflation Consultation Clause was missed at end-April, as were two indicative targets (ITs), namely, the indicative targets on distribution losses in the electricity sector and the accumulation of new arrears. An inflation consultation was completed at the time of the Seventh Review, and the government is implementing remedial measures for the missed ITs.
- 3.** Six structural benchmarks were implemented, though three were implemented with a delay, and three were missed, of which two are proposed to be rescheduled. The first quarterly survey of local government arrears was delayed, due to weaknesses in the reporting framework. The full staffing of the new fiscal risks unit at the Ministry of Finance (MoF) was delayed till September, due to problems with recruitment. The publication of the quarterly financial statements of the state-owned electricity companies was delayed by one week, while the removal of 35 kV consumers from the regulated tariff system has been postponed to September, due to implementation delays in setting up infrastructure and negotiating supply contracts. The restructuring of the tax administration's Large Taxpayer Office was postponed till early August, due to delays in the adoption of the overall implementation plan for the headquarters restructuring, and delays in verifying the arrears of the Regional Development Fund led to a postponement of the publication of the central government arrears survey.
- 4.** Our policy priorities over the next twelve months are to continue pursuing fiscal consolidation, safeguard financial sector stability, revive credit growth, and implement growth-enhancing reforms. In particular, we will persist with ambitious reforms in revenue administration,

public financial management, and the electricity sector.

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

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

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

Sincerely,

/s/  
Arben Ahmetaj  
Minister of Finance

/s/  
Gent Sejko  
Governor, Bank of Albania

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

## Attachment I. Memorandum of Economic and Financial Policies

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

### Recent Economic Developments

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

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

### Outlook

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

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

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

## Program Implementation

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

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

- In the area of public financial management, the regular report on the accumulation of new central government arrears was extended to three additional ministries and the Regional Development Fund, and was published with a slight delay. The first quarterly survey of local government arrears was also delayed, due to weaknesses in the reporting framework. The new treasury IT system (AGFIS) was successfully rolled out to 15 budget institutions in May. The staffing of the new fiscal risks unit at MoF was delayed till September, due to problems with recruitment.
- In the area of tax administration, the Large Taxpayer Office at the General Directorate of Taxation (GDT) was restructured, with specialization according to business sectors, in early August, as a prior action.
- In the financial sector, in June we submitted a new Bankruptcy Law to Parliament, which simplifies existing procedures and incorporates best international practices.
- In the electricity sector, we prepared the regular quarterly survey of the consolidated arrears of state-owned enterprises in the electricity sector to the private sector. We also published the Q2 financial statements of KESh, OST, and OShEE, the state-owned generation, transmission, and distribution companies, with a slight delay. Finally, the removal of the 35 kV medium-voltage consumers from the regulated tariff system has been postponed to September, due to delays in setting up infrastructure and negotiating contracts.

## Economic Policies for 2016 and the Medium Term

### A. Fiscal Policy

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

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

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

- Our reform effort against tax evasion, non-compliance, and informality is refocusing on high-risk, high-value segments, in line with our compliance risk management strategy. In parallel, we plan to amend our tax procedures law, in order to make it more business-friendly but also strengthen compliance incentives. We remain prudent in projecting the revenue gains from our reform efforts in 2016. We have also frozen 2.5 billion lek in capital expenditure and have made it contingent on additional revenues from our reform effort.
- The new fiscal policy unit at MoF has taken the lead on addressing weaknesses in revenue forecasting and monitoring. The unit will update our survey of tax expenditures annually. With help from Fund TA, we will expand the survey to incorporate exemptions administered by the GDT, and we will broaden the definition of tax expenditures to include preferential tax rates. The survey will also include a rationale and, eventually, an efficiency assessment for each tax expenditure.
- We commit not to grant any further tax exemptions or preferential tax rates, without consulting with the IMF. This complements our efforts aimed at broadening the tax base, simplifying tax administration, and creating a more level playing field.

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

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

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

- *Local government reform:* We are pursuing an ambitious fiscal decentralization strategy, by devolving certain functions, transferring personnel, and providing new financing sources for local governments. Our survey of local government arrears revealed a stock of around 12 billion lek of arrears at end-December 2015, mostly inherited from the old local government units prior to the 2015 territorial reform. We will require local governments to prepare action plans by end-September 2016, which will provide for the clearance of the legacy stock of arrears, out of their own resources, in a comprehensive and transparent way, with external auditors ensuring the integrity of the process. With help from USAID and the World Bank, we are preparing a new law on local finances that will improve reporting requirements, tighten monitoring, and provide mechanisms for dealing with local government that fall into financial trouble. Fund TA will continue to support our efforts to strengthen local public financial management.
- *Capital expenditure:* Outstanding unbudgeted investment projects continue to exceed the government's ability to absorb them in its Medium-Term Budget Framework (MTBF). We have made public the total cost and sunk cost of each outstanding project. The Ministry of Finance (MoF) will publish a list of all projects that the 2016 revised budget will support, consistent with the MTBF, in order to signal our intention to implement only projects included in the list. Going forward, our National Investment Committee will review all outstanding unbudgeted investment projects. As a prior action, we have issued a Ministry of Finance order (i) ensuring that projects not included in the MTBF can only be funded following an approval by the Strategic Planning Committee; and (ii) authorizing the continuation of only a specified list of projects, based on transparent criteria, that can be accommodated in the MTBF.
- *Arrears prevention:* We are reinforcing public financial management to prevent the accumulation of new arrears at all levels of government. We have now extended our new treasury IT system (AGFIS) to 15 budget institutions (accounting for 84 percent of the budget) and one local government. We will extend AGFIS further, so that it covers 50 budget institutions by 2018 and

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

- *Public Private Partnerships (PPPs)*: We recently amended the Budget Law in order to limit the total stock of PPPs, integrate PPPs into the budgetary process, and strengthen MoF's role in the *ex ante* assessment of PPP proposals and their subsequent monitoring. We plan additional steps to strengthen our PPP framework:
  - (i) By end-September 2016, we will clarify the PPP Law by adopting an official legal opinion and bylaws in order to strengthen MoF oversight, integrate PPPs into the broader public investment monitoring framework, and ensure consistency with the Procurement Law and the amendments to the Budget Law. We will also prepare a standard PPP contract which will clarify mechanisms for dispute resolution, including international arbitration.
  - (ii) To limit fiscal risks from PPPs, MoF's new fiscal risks unit will be fully staffed by end-September 2016 and will ensure that they follow international best practice and that their related fiscal costs and contingent liabilities are transparently accounted for in the fiscal accounts and debt statistics. Towards this objective, we will work on improving the capacity of an autonomous public entity to record PPP contracts in accordance with ESA and eventually IPSAS.
  - (iii) By end-2016, we will launch a public register of all active PPP projects and will also publish summaries of all PPP contracts as well as the contracts themselves (excluding confidential or protected information), to ensure transparency for the commitments made by the government.
  - (iv) Based on the amended Organic Budget Law, all PPP proposals will be subject to a proper feasibility study and value-for-money analysis which will be prepared by a PPP committee and approved by MoF. By end-2016, the fiscal risks unit will start evaluating fiscal risks, proposing measures to mitigate them, and providing risk assessments to be included in budget documents submitted to Parliament. We will also clarify the institutional arrangements for monitoring PPPs at the Ministries of Finance and the Economy.
- *Property compensation claims*: The European Court of Human Rights (ECHR) in Strasbourg is continuing to process cases brought against the Albanian government by property owners expropriated under the communist regime. We have budgeted 3 billion lek in the 2016 budget for property compensation claims. We will ensure that sufficient contingency reserves will be set aside as a reserve against potential ECHR compensation decisions.

## B. Medium-term Fiscal Structural Reforms

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

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

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

**16.** *Medium-Term Budget Framework.* We have taken important steps to shore up the credibility of our MTBF, including by amending the Organic Budget Law in early June. Starting with the 2016 budget, the MTBF now contains the total approved cost, the sunk cost so far, and remaining cost

beyond the three-year window of the MTBF for all projects. In 2016, MoF will strengthen the costing of sectoral strategies for distinguishing core allocations from new policy initiatives in the MTBF, in order to focus attention on the costing of new policies and prevent them from squeezing existing ones for resources. Starting with the 2017 budget, the MTBF will begin to make that distinction at the sectoral and program level. We are committed to lowering public debt every year, in line with the requirements of the amended Organic Budget Law. To achieve this objective, we will ensure that multi-year quantitative fiscal targets for the duration of its mandate are specified in the program of the government.

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

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

## C. Monetary and Exchange Rate Policy

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

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

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

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

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

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

#### **D. Safeguarding Financial Sector Stability**

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

**25.** Given delays in external debt issuance caused by financial turmoil in Greece in 2015, the BoA undertook temporary measures to avoid disruption in the government debt market. In particular, the central bank reduced the risk weights on Albanian government securities issued in foreign currency from 100 to 50 percent. The BoA will gradually roll back this measure by 2021 and ensure

that any additional investments by banks in such securities, compared to the levels in December 2015, will be risk-weighted at 100 percent.

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

- In March 2016, the BoA revised the terminology on write-offs, changed the time limit for holding repossessed collateral on banks' books, and improved the regulatory framework for NPL sales.
- We have prepared an action plan for handling the 35 largest holders of NPLs, and we are currently implementing it by coordinating creditors, sharing information, and monitoring progress. In addition, Parliament approved amendments to the Law on the Registration of Immovable Properties in March 2016 and we submitted to Parliament amendments to the Law on Securing Charges in May 2016, in order to better protect financial collateral and to increase the legal certainty of security rights over real estate.
- In April 2016, the Credit Register was upgraded to incorporate ongoing legal cases and restructured loans. The BoA, with support from EBRD, is preparing the methodology to incorporate credit scoring in the register.
- With technical assistance from the World Bank and the IMF, we prepared and submitted a new Bankruptcy Law to Parliament in early June 2016. It incorporates best international practices, simplifies the existing framework, allows for expedited approval of reorganization plans, and protects the economic and governance rights of secured and unsecured creditors. Also in June 2016, we submitted to Parliament, amendments to the Private Bailiffs Law, in order to increase the efficiency of foreclosure procedures and debt collection. MoF and the Ministry of Justice will set up a working group which will draft the bylaws that implement the amendments to the Bankruptcy Law and the Private Bailiffs Law by end-2016. By end-September 2016, we will submit to Parliament amendments to the Civil Procedure Code in order to increase the efficiency of litigation and foreclosure procedures.
- In June 2016, we set up a coordination mechanism between BoA and the GDT to integrate the tax authority into the collateral execution process. To further facilitate this process, the BoA will coordinate with MoF to streamline the tax treatment of NPLs, NPL sales, and collateral recovered in judicial procedures.
- Finally, by end-December 2016, with help from Fund TA, we will adopt measures to accelerate the reduction of NPLs through the use of out-of-court debt restructuring, and will also amend regulations to require banks to grant loans based on companies' fiscal declarations, starting in January 2018.

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

## **E. Structural Reforms**

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

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

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

## **F. Statistics**

**31.** INSTAT will continue with its efforts to improve the quality of macroeconomic statistics. We will submit a revised Law on Statistics to Parliament, in order to strengthen INSTAT's institutional independence and provide adequate legal support for more effective cooperation and coordination

among INSTAT, MoF, and BoA. By end-2016, the three institutions will establish a Memorandum of Understanding detailing processes and responsibilities for data sharing, source data collection, and statistical compilation.

### **Program Monitoring**

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

**Table 1. Albania: Quantitative Performance Criteria and Indicative Targets for 2014–16**  
(In billions of leks, unless otherwise indicated)

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

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

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

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

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

4/ Indicative target through December 2014.

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

6/ General government for March 2014.

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

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

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

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

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

## Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) defines the indicators used to monitor the program, and reflects the understandings between the Albanian authorities and the IMF. The TMU also defines the associated reporting requirements.
2. The exchange rates for the purposes of the program are set at lek 140.25 = €1, lek 103.17 = \$1, and lek 158.05 = SDR 1. The gold price is set at €920.18 = 1 oz. These were the rates shown on the Bank of Albania's website as of November 30, 2013.
3. For the purpose of the program, the central government includes extra-budgetary funds. The general government includes the central government, local governments, the Social Security Institute (SSI), and the Health Insurance Institute (HII).
4. The fiscal year starts on January 1 and ends on December 31.

### Quantitative Performance Criteria

#### A. Floor on Net International Reserves of the BoA

##### Definition

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

##### Reporting

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

## B. Cumulative Floor on General Government Primary Modified Cash Balance

### Definition

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

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

9. In determining the primary modified cash balance, the following considerations will apply:<sup>1</sup>

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

<sup>1</sup> Cash balance data come from the Treasury, the Debt Office, and the BoA.

- Principal repayments include only principal paid by the government and not that by the actual borrower. In case a borrower repays the Ministry of Finance (MoF) at a later point in time, principal is recorded under “on-loan principal.”
  - Foreign borrowing is reported on a gross basis and using the residency criterion. It covers disbursements by international financial institutions, bank loans, securities issued, overdraft accounts, and other debt instruments.
  - “Change of statistical account” covers funds disbursed but not yet withdrawn and held by nonresidents in financial institutions for project-related spending.
  - “Repayments” refers to all payments to nonresidents related to disbursements or guarantees by international financial institutions, bank loans, securities, overdraft accounts, and other debt instruments.
- 10.** The primary modified cash balance will also include all new issuances of general government guarantees (excluding rollover) for the energy and non-energy sectors, as well as net policy lending.
- 11.** Excluded from the calculation of the primary modified cash balance of the general government are any preliminary payments made to the Albanian Government by Bankers Petroleum Ltd. in the context of the December 2015 agreement between the two sides regarding a \$57 million tax dispute. These payments will only be recorded as revenue, in whole or in part, at the time of the conclusion of the dispute resolution process and the domestic legal process.
- 12.** Included in the calculation of the primary modified cash balance of the general government are the outstanding amounts on letters of credit and local governments’ savings and carryover.

### Reporting

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

### Adjustors

- 14.** The **floor on the primary modified cash balance** of the general government will be adjusted upward (downward):
- the shortfall (excess) of new energy guarantees, excluding rollover, issued during the course of the year, up to a maximum of the annual budgeted allocation. The adjustor will not apply to December targets. Energy guarantees are defined as guarantees issued by the general government for the benefit of the electricity operators KESH, OST, and OSHEE.
- 15.** The **floor on the primary modified cash balance** of the general government will be adjusted downward by:

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

## C. Cumulative Ceiling on General Government Primary Expenditure

### Definition

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

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

### Reporting

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

### Adjustors

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

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

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

- 50 percent of privatization receipts, up to total privatization receipts of lek 15 billion in a given year.
- the excess of total non-grant revenues (both tax and non-tax) over programmed amounts, up to a maximum of lek 2.5 billion in 2016. Excluded from the calculation of total non-grant revenues are any preliminary payments made to the Albanian Government by Bankers Petroleum Ltd. in the context of the December 2015 agreement between the two sides regarding a \$57 million tax dispute. These payments will only be recorded as revenue, in whole or in part, at the time of the conclusion of the dispute resolution process and the domestic legal process.
- the excess of project grants over the programmed amount.

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

### Definition

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

### Reporting

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

## Continuous Performance Criteria

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

### Definition

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

- **loans**, defined as advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
- **suppliers' credits**, defined as contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
- **leases**, defined as arrangements under which property is provided which the lessee has the right to use for one or more specified periods of time that are usually shorter than the total expected service life of the property. For the purpose of the program, the debt is the present value (at the

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<sup>2</sup> As defined in point 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 15688.

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

- 24.** Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.
- 25.** Under the definition of debt set out above, external payments arrears consist of arrears of external debt obligations (principal and interest) falling due after the due date and grace period, as specified in the contract, has passed. Arrears resulting from nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is being sought are excluded from this definition.
- 26.** The external arrears of the general government will be calculated based on the schedule of external payments obligations reported by the MoF. Data on external arrears will be reconciled with the relevant creditors, and any necessary adjustments will be incorporated in these targets as they occur.
- 27.** This performance criterion does not cover arrears on trade credits and will apply on a continuous basis.

### Reporting

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

## Inflation Consultation

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

## Indicative Targets

### F. Ceiling on Subsidies to the Energy Sector

#### Definition

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

### Reporting

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

## G. Ceiling on Average Distribution Losses by OSHEE

### Definition

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

### Reporting

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

## H. Ceiling on Accumulation of Central Government Domestic Arrears

### Definition

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

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

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

### Reporting

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

## Structural Benchmarks

38. **Publish a report on new arrears accumulation through end-August 2016 in fourteen key ministries, the Regional Development Fund, and the GDT on MoF's website.** The ministries covered are Transportation, Health, Education, Defense, Justice, Interior, Agriculture, Finance,

Economy, Social Welfare, Urban Development, Culture, Environment, and European Integration. The survey should be published within 75 days after the test date.

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

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

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

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

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

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

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

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

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

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

## **Monitoring and Reporting Requirements**

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

**The Bank of Albania will supply to the Fund:**

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

**The Ministry of Finance will supply to the Fund:**

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

**The General Directorate of Customs will supply to the Fund:**

- (i) detailed data on customs revenues collected.

**The General Directorate of Taxation will supply to the Fund:**

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

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

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

- (i) the consumer price index (CPI) at the aggregate level and for each individual item;
- (ii) the producer price index;
- (iii) the construction cost index;
- (iv) all short term indicators as they become available, as defined in INSTAT's quarterly publication "Conjuncture"; and
- (v) preliminary estimates for quarterly GDP and preliminary estimates for annual GDP disaggregated by 35 sectors and distinguishing between the observed and unobserved economy.