

**Table 1. Albania: Policy Framework Paper Matrix**

Policy Area and Objectives	Specific Area	Strategies and Measures	Implementation	TA Requirements
<b>Tax Reforms</b>  Improve tax collection, administration and enforcement.	Custom Department	Revise and implement customs code to strengthen penalties for smuggling and corruption and to give greater powers to the customs authority to investigate fraud.	1999	EU
		Train customs officials in application of customs code.	1999–2000	
		Improve valuation of imported goods by applying market oriented prices and seek assistance for valuation information from other countries.	1999–2001	
		Implement fully the reference valuation file in the major customs clearance houses.	1999	EU
		Strengthen personnel management in customs administration through foreign involvement in recruitment and training of customs officials.	1999–2001	EU
		Implement anti-smuggling strategy.	1999	EU
		Strengthen border police.	1999–2001	
		Collect customs duty debt.	1999	
	Tax Department	Implement new tax code.	1999	
		Strengthen operations of large taxpayer office.	1999–2001	WB
		Increase direct revenues through enforcing compliance with the personal income tax law and explore ways to enhance social security contributions.	1999–2001	
		Implement land taxation.	2000–2001	
<b>Public Expenditure Management</b>  Strengthen the budgetary, treasury and local government functions of the Ministry of Finance.		Complete Public Expenditure Review.	2000	WB
		Prepare a short- and medium-term PEM reform agenda with timetable for implementation.	1999	IMF, WB
		Implement treasury system.	2000	IMF, WB
		Strengthen budget preparation and control.	1999–2000	IMF, WB
		Integrate investment planning into the budget process.	1999	IMF, WB
		Improve cash management system in treasury department	1999	
		Improve domestic debt management through better coordination between the Bank of Albania and the Ministry of Finance in the Joint Committee for Coordinating Monetary and Debt Management Procedures.	1999	
		Implement budget controls for spending by local authorities in view of fiscal decentralization.	1999	
<b>Financial Sector</b>  Prevent illegal activities and strengthen functioning of formal sector.	Regulation and Supervision	Ensure implementation of new accounting plan for banks.	1999	
		Issue guidelines for banks on credit risk management, internal controls and internal audit.	1999	IMF
		Establish capital requirements for market risks.	1999	IMF
		Issue new regulations on liquidity management.	1999	IMF
		Strengthen banking supervision capacity through; (i) a training program for on-site and off-site inspections; (ii) a review and strengthening of licensing requirements for banks; and (iii) a review of the supervisory reporting framework to take fully into account market risks other than credit risk.	1999–2001	IMF, WB
		Increase number of supervisors and supervisor salaries relative to private sector.	1999–2001	
		Enact Money Laundering Law.	1999	IMF
		Improve enforcement of bankruptcy law.	1999–2001	
		Submit to parliament Secured Transactions Law.	1999	
		Start operations of the credit information bureau.	1999	

**Table 1 (concluded). Albania: Policy Framework Paper Matrix**

Policy Area and Objectives	Specific Area	Strategies and Measures	Implementation	TA Requirements
	Bank Restructuring	Privatize NCB.	1999	WB
		Liquidate disposable assets of remaining pyramid scheme companies and make initial distribution to depositors.	1999	Major donors
		Implement Savings Bank governance contract fully.	1999	
		Privatize Savings Bank.	2000	WB
		Improve operational efficiency and effectiveness of LCA.	1999	WB
	Payments and Transactions	Design and implement a real-time gross settlement system.	2000–2001	IMF, WB
		Implement fully regulations for low cost transfer of financial remittances from abroad.	1999	
	Monetary Policy	Abolish credit ceilings and other direct monetary policy instruments.	1999–2000	
		Establish fully-functioning auction market for treasury bills.	1999	
		Allow individuals and corporations to sell T-bills through other than the primary dealer through which the original purchase was made.	1999	IMF
		Allow credit institutions to trade T-bills amongst themselves without having to provide details on the transaction to the stock exchange.	1999–2000	
<b>Security and Public Order</b> Strengthen public security and promote trust in public authority and rule of law	Strengthen police force, including through transparent hiring procedures, review of wage structure, and training.	1999–2001	WEU/CoE/EU/ bilateral donors	
	Adopt measures to control the number of weapons held privately (in accordance with the UN weapons collection plan).	1999–2001		
	Improve further security at border crossing points.	1999–2001	EU/Italy	
<b>Judiciary</b>  Develop an independent judiciary and strengthen judicial implementation capacity.	Internal Administration and Control	Develop regulation for preparation of court budget.	1999	
		Train judges and judicial administration staff on court administration.	1999–2000	
		Implement recommendations of court administration study in High Court and two lower courts.	1999	
		Make judicial inspection office fully operational.	1999	
		Prepare and adopt action program to improve enforcement of court decisions.	1999	
		Define responsibilities of prosecutor's office in legislation and ensure compliance.	1999	
	Legal Framework	Enact and implement rules for publication and dissemination of all laws and regulations.	1999–2000	
		Implement legal basis for out of court mediation and arbitration.	1999	
		Establish Law Reform Commission.	1999	
	Human Resources	Fully implement legislation providing explicit criteria for appointment and dismissal of judges and limiting executive authority over the judiciary.	1999	CoE/EU/Italy
		Implement one-time examination of first instance judges and prosecutors appointed less than ten years ago.	1999	
		Review salary structure of judges.	1999	
		Strengthen Magistrates School to organize education programs for existing judges.	1999	
Adopt reform agenda for Tirana Law School.		1999		
<b>Public Administration</b>	Functional Reviews	Complete functional reviews for at least five ministries.	1999	WB
	Governance	Complete functional reviews in all major ministries.	2001	WB

		Implement Anti-Corruption Plan.	1999–2001	WB
		Revise Civil Service Law and issue subsidiary legislation, guidelines, standards, and procedures for its implementation.	1999	WB
		Issue decree redefining role and functions of Department of Public Administration.	1999	WB
		Establish Civil Service Commission	1999	WB
		Establish an inter-ministerial committee for and public administration reform.	1999	WB
		Develop and adopt a medium term public administration reform strategy including action plan.	1999	WB
	Human Resources	Reform pay structure by decompression of wages.	1999–2001	WB
		Reduce budgetary employment to 130,000.	1999	
		Implement transparent recruitment procedures and merit based promotion and compensation to acquire and retain competent and qualified civil servants.	1999	WB
		Make operational a central database to monitor employment and authorized posts in the budgetary sector.	1999	WB
	Audit and Control	Strengthen external audit capacities within the Supreme Audit Institute.	1999–2000	EU
		Implement and strengthen monitoring mechanism for the Anti-Corruption Action Plan.	1999	WB
		Introduce and enforce court procedures for corrupt officials.	1999	EU
		Improve implementation of Public Procurement Law.	1999	EU
	Population Census	Conduct census.	2001	
<b>Social Safety Net</b>	Pensions	Develop pension reform strategy based on actuarial policy model.	2000	
		Terminate crediting transfers from the budget to finance the pension deficit in lieu of insurance contributions by farmers.	2000	
	Social assistance	Improve targeting, transparency, and financing of social assistance program.	1999-2001	
		Implement data base for recipients of social assistance.	1999	
		Establish guidelines for NGO involvement in launching foster parenting and home care for the sick and elderly to avoid institutionalization of these groups.	1999	
		Develop community-based social services for vulnerable groups.	2000-2001	
	Conduct poverty assessment.	2000		
<b>Health Sector</b> Match better the services offered with the needs of the population & improve capacities at all levels of the health sector.		Decentralize health planning and management to local levels. Develop the Tirana Health Authority and evaluate the potential for its adaptation to other parts of Albania.	1999-2001	WB
		Strengthen planning and management capacities at all levels of the health system.	1999-2001	WB
		Improve management and planning capacity at the health insurance fund. Extend coverage gradually if PER shows evidence of increased revenues.	1999-2001	WB
		Complete studies of National Health Account, hospital sector management, public understanding of the health sector. Develop a plan for increased autonomy for hospitals and privatization of general practice/primary care. Introduce more autonomous/private services.	1999-2001	WB
		Restructure public expenditures on health based on health sector financing study and PER.	1999-2001	WB
<b>Education Sector</b>  Repair damages and address deficiencies in the education sector.		Repair buildings and replace equipment and furniture. Focus school rehabilitation efforts on urban schools.	1999–2001	Major donors

		Review governance and financing of education and levels of management between the Ministry of Education and the schools, and propose areas of decentralization to eliminate duplicate layers and to clarify responsibilities and authorities.	1999-2000	WB
		Formulate the strategy of education development at all levels, including teacher development, targeted enrollment rates, measures to improve quality of teaching, and the role of the private sector.	1999	WB and Major donors
		Undertake a school mapping exercise and based on the formulated strategy consolidate schools to improve efficiency.	1999-2000	WB and Major donors
		Review expenditures in education and evaluate potentials for efficiency gains, including better use of teachers, schools, and the required teaching obligations of teaching. Explore the potential for downsizing the number of public employees in the education sector.	1999-2000	WB
<b>Employment Creation</b>		Expand micro credit schemes.	1999-2001	Major donors
Reduce unemployment.		Continue and expand equity funds.	1999-2001	American-Albanian Investment Fund, EBRD/WB
<b>Agriculture and Land Market</b>	Support for Development of Agriculture	Disclose the full audit report of the 1998 audit for GDSR, and prepare an action plan on implementation of the audit recommendation.	2000	
Pursue agricultural reforms and establish a functioning land market.		Continue selling general food aid imports through the use of auction and transfer the proceeds to the central budget.		
		Ensure adequate provision of veterinary support.	1999-2000	
	Land Market	Target 500 land transactions per quarter in the first half of 1999 and 1000 land transactions per quarter in the second half.	1999	
		Complete registration in 150 cadastral zones each quarter.	1999	USAID/EU
		Approve Extended Land Market Action Program for first time registration of agricultural land.	1999	USAID
		Increase office space for land registries.	1999	
		Re-establish District Land Commissions to provide tapis (land use certificates) where these were not issued.	1999	USAID
		Prepare institutional development plan of the Registrar Office.	1999	USAID
		Prepare and present to parliament legislation and procedures for establishing cadastre zone boundaries in forest and pasture land.	1999	USAID
		Allocate land refused in distribution process to individual users or communes.	1999-2000	USAID
		Prepare a plan and draft legislation aiming to resolve pending land compensation of former owners.	1999	USAID
		Complete restitution process for forest and pasture land and compensation process for agricultural land.	2000	USAID
<b>Infrastructure</b>		Remedy pre-crisis deficiencies by implementing projects to develop transport, power, telecommunications, and water.	1999-2001	EU/WB/Major donors
Repair damages, ensure adequate availability, and improve management of enterprises.		Prepare a financial forecast for the electricity utility, KESH.	1999	WB
		Introduce measures to improve collection and reduce theft, including through an incentive-based foreign governance contract, installation of meters and meter boxes, disconnection of customers in arrears, and measures to facilitate payment of bills.	1999	WB/Major donors

		Formulate a plan to address bill collection, theft, and cost recovery problems in the water companies.	1999	WB
		Strengthen cost control by reducing over staffing and improving management in public utilities.	1999–2001	WB
		Clear arrears of public enterprises.	1999	WB
		Enhance cost recovery by enforcing billing and collection, preventing theft, and ensuring the public sector pays bills on time.	1999–2001	WB
<b>Privatization</b>  Complete privatization of state enterprises	Public Utilities	Set up regulatory board for water industry.	1999	WB
		Privatize or agree on management contracts for, or contract out services of, water and power distribution companies.	1999–2000	WB
		Develop plan for privatizing utilities.	1999	
		Settle outstanding restitution claims.	1999	
	Public Enterprises	Privatize or liquidate small copper and chrome mines and formulate a plan for privatization or liquidation of core copper and chrome mines.	1999	WB
		Complete sale of all SMEs.	1999	
		Privatize Albanian Mobile Communications.	1999	WB
		Privatize Albanian Telecom.	1999	WB/EBRD/other donors
		Privatize or liquidate core copper and chrome mines.	2000	WB
		Privatize Albpetrol.	2000	WB
		Privatize Durres port operations.	1999–2001	
<b>Trade Reform</b>  Establish liberal and non-distortionary trade regime.		Reduce average tariff rate through a combination of reductions in the level, number, and dispersion of rates.	1999–2001	
		Reduce top customs duty rate to 15 percent.	1999–2001	
		Abolish the export ban on skins and hides.	1999	
		Abolish the export ban on the remaining scrap metal.	1999	
		Make licensing of exports of wood and wood products automatic.	1999	
<b>External Debt and Aid Management</b>  Create unified data bases for foreign debt and aid.		Develop operational debt and aid databases.	1999	UNCTAD/ UNDP
		Formalize procedural, institutional and legal framework for monitoring and servicing external credits and grants.	1999	UNDP
		Evaluate operation of data bases. Develop time-bound action plan for further improvements and changes needed.	1999	UNCTAD/ UNDP
<b>Environment</b>  Protect the environment.		Prepare and publish a national environmental action plan.	1999	WB
		Implement forestry conservation programs.	1999–2001	WB
		Reduce air pollution caused by increased use of automobiles.	1999–2000	WB

Table 2. Albania: Basic Indicators and Macroeconomic Framework, 1993-2002

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
						Est.		Projections		
	(Percent change)									
Real GDP	9.6	9.4	8.9	9.1	-7.0	8.0	8.0	8.0	8.0	8.0
Retail prices (period average)	85.0	22.6	7.8	12.7	32.1	20.9	7.1	5.5	4.0	3.0
Retail prices (during period)	30.9	15.8	6.0	17.4	42.1	8.7	7.0	5.0	3.0	3.0
	(In percent of GDP)									
Saving-investment balance										
Foreign saving 1/	28.7	14.3	9.7	11.5	14.3	8.3	13.5	10.1	8.6	7.5
Domestic saving	-15.5	3.6	8.3	4.0	1.7	7.7	3.3	8.9	12.4	14.5
Public 2/	-14.1	-10.6	-6.7	-8.6	-10.8	-8.1	-11.4	-5.9	-4.2	-3.2
Private	-1.5	14.2	15.0	12.6	12.4	15.9	14.8	14.8	16.5	17.7
Investment	13.2	17.9	18.0	15.5	16.0	16.0	16.8	19.0	21.0	22.0
Public	9.5	8.6	8.2	4.5	4.0	5.2	6.0	6.0	6.1	6.1
Private	3.7	9.3	9.8	11.0	12.0	10.8	10.8	13.0	14.9	15.9
Fiscal sector										
Revenues	25.7	24.5	24.1	18.6	16.9	20.3	20.9	21.3	21.7	22.3
Tax revenue	...	...	13.5	10.7	9.7	12.3	13.6	14.6	15.5	16.2
Other revenue	...	...	10.5	7.9	7.2	8.0	7.2	6.8	6.2	6.1
Expenditures	40.2	36.3	34.3	30.3	29.4	30.7	34.7	29.7	28.5	28.0
non-interest current	28.4	25.4	23.9	22.7	19.9	17.7	21.9	18.0	17.7	17.7
interest 3/	2.3	2.3	2.2	3.1	5.5	7.8	6.8	5.7	4.7	4.2
Overall deficit	14.4	12.4	10.3	11.7	12.6	10.4	13.8	8.0	6.8	5.7
Domestically financed deficit	9.1	7.0	6.6	10.6	10.8	6.4	5.5	4.3	3.3	2.5
Public debt	...	...	55.5	59.9	71.3	59.4	61.2	63.0	62.2	60.5
domestic 3/	...	...	25.1	30.7	35.8	32.9	32.9	33.1	32.4	31.6
external	...	52.5	30.4	29.2	35.6	26.5	28.2	29.9	29.7	28.9
Monetary indicators										
Broad money growth (in percent)	75.0	40.6	51.8	43.8	28.4	19.9	15.2	12.1	10.6	10.9
Growth in private sector credit (in percent)	...	61.4	15.9	30.5	19.0	15.8	50.5	41.1	34.4	32.1
Broad money/quart. GDP	3.68	2.83	2.22	1.97	1.92	1.94	1.93	1.91	1.91	1.91
Interest rate (3 months deposits)	14.0	7.0	10.0	18.5	26.0	16.5	...	...	...	...
	(In millions of U.S. dollars)									
External sector										
Current account balance 4/	-45	-118	-58	-168	-199	-90	-355	-255	-251	-234
(in percent of GDP)	-3.7	-5.9	-2.4	-6.2	-8.7	-3.0	-9.4	-6.2	-5.5	-4.6
Official transfers 4/	320	161	118	77	77	97	95	80	81	76
(in percent of GDP)	26.1	8.1	4.9	2.9	3.4	3.2	2.5	1.9	1.8	1.5
Current account balance 4/ 5/	-365	-279	-176	-245	-276	-187	-450	-356	-332	-310
(in percent of GDP)	-29.7	-14.1	-7.3	-9.1	-12.1	-6.1	-11.9	-8.6	-7.2	-6.1
Trade balance 4/	-490	-460	-474	-692	-519	-621	-826	-798	-847	-902
(in percent of GDP)	-39.9	-23.2	-19.6	-25.7	-22.7	-20.4	-21.9	-19.4	-18.5	-17.7
Gross international reserves	147	204	240	275	306	384	375	390	415	440
(in months of imports of goods and nonfactor services)	2.3	3.2	3.5	3.1	4.5	4.7	3.7	3.8	3.6	3.5
(relative to external debt service)	4.6	4.6	31.6	13.2	14.0	21.8	13.9	9.8	9.2	8.2
(in percent of broad money)	21.4	30.9	22.3	17.0	12.9	15.8	14.8	13.6	13.1	12.5
Memorandum items:										
Nominal GDP (in millions of leks)	125,340	187,891	224,745	280,998	341,716	460,631	542,461	613,034	688,195	765,094
Nominal GDP (in millions of U.S. dollars)	1,228	1,984	2,422	2,689	2,284	3,047	3,774	4,121	4,588	5,101

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

1/ Current account excluding net factor services and official transfers.

2/ Revenue (excluding grants) minus current expenditure.

3/ Including bonds for bank restructuring.

4/ For 1999 excluding imports of direct humanitarian aid related to the Kosovo crisis.

5/ Excluding official transfers.

Table 3. Albania: Financing Requirement, 1994-2003  
(In millions of U.S. dollars)

	1994	1995	1996	1997 (H1)	1997 (H2)	1997	1998 Est.	1999	2000	2001	2002	2003	First-year ESAF period	Second-year ESAF period
								Projections						
Current account 1/	278	176	245	65	211	276	186	450	356	332	310	293	339	459
Amortization	6	2	13	8	8	15	11	16	24	27	35	33	7	18
<i>Of which: IMF</i>	0	1	8	4	4	8	1	4	8	15	15	10	2	5
Change in reserves (increase = +)	57	36	35	-17	47	31	78	-9	15	25	25	35	56	-3
Reduction in arrears 2/ 3/	83	454	-1	0	0	0	145	0	0	0	0	0	145	0
Total financing requirement	424	667	292	56	266	323	419	457	395	384	370	360	546	474
Available financing	295	254	280	56	253	309	221	239	293	326	322	316	374	209
Official grants	161	118	77	25	52	77	89	95	80	81	76	70	172	79
Foreign direct investment	65	89	97	25	16	42	45	43	100	133	138	154	47	32
Short-term private financing flows	-98	-87	-120	-135	54	-81	-88	-3	0	0	0	0	-74	-2
Official medium- and long-term loans	60	82	119	14	39	53	62	95	113	112	107	91	71	99
Multilateral	15	32	42	8	8	16	31	40	46	47	47	42	34	42
Bilateral	45	50	77	6	31	37	31	55	67	65	61	49	37	58
Other loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0
IMF disbursements	22	11	0	0	12	12	8	8	0	0	0	0	16	0
Other	85	41	107	127	80	206	105	0	0	0	0	0	141	0
Financing gap = I-II	130	414	13	0	13	13	199	218	102	58	49	45	173	265
Debt relief	109	393	0	0	0	0	145	0	0	0	0	0	145	0
Balance of payments support	20	21	13	0	14	14	54	16	0	0	0	0	28	0
Multilateral	20	18	2	0	5	5	37	0	0	0	0	0	7	0
Bilateral	0	3	11	0	9	9	17	16	0	0	0	0	21	0
Remaining gap	0	0	0	0	0	0	0	202	102	58	49	45	0	265
<i>Identified financing (provisional)</i>	0	0	0	0	0	0	0	158	50	13	0	0	0	205
Unfinanced gap	0	0	0	0	0	0	0	44	52	45	49	45	0	60

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

1/ Excluding official transfers, except those corresponding to the Kosovo-related humanitarian aid imports.

2/ The figure for 1994 includes the elimination of arrears on medium-term debt to Paris Club creditors and the settlement of bilateral clearing account arrears (to GDR) with Germany.

3/ The figure for 1998 corresponds to the clearance of arrears to Russia and Italy as a result of the rescheduling of Paris Club debt in July 1998. The stock of arrears is subject to reconciliation with Russia and Italy.

**Table 4. Albania: Social Indicators**

	Latest single year			Same region/income group	
	1971-76	1981-86	1991-96	Europe & Central Asia	Low-income
<b>Population</b>					
Total population, mid-year (millions)	2.5	3.0	3.3	477.9	3,236.2
Growth rate (percent annual average)	2.2	2.0	1.1	0.1	1.7
Urban population (percent of population)	33.0	35.0	37.6	66.4	29.1
Total fertility rate (births per woman)	4.7	3.2	2.6	1.8	3.2
<b>Poverty (percent of population)</b>					
National headcount index	...	...	19.6	...	...
<b>Income</b>					
GNP per capita (Atlas method, U.S. dollars)	...	...	820	2,200	490
Consumer price index (1990=100)	108	105	1397	...	...
Food price index (1990=100)	...	...	1201	...	...
<b>Social indicators</b>					
Public expenditure (percent of GDP)					
Health	...	...	2.1	...	...
Education	...	...	3.4	...	...
Social security and welfare	...	...	9.5	...	...
Access to safe water (percent of population)					
Total	...	96.6	...	...	...
Urban	...	100.0	...	...	...
Rural	...	95.0	...	...	...
Immunization rate (percent under 12 months)					
Measles	...	96	91	83	76
DPT	...	96	97	87	79
Life expectancy at birth (years)					
Total	67	71	72	68	63
Male	65	68	69	64	62
Female	69	74	75	73	64
Mortality					
Infant (per thousand live births)	58	35	37	24	68
Under 5 (per thousand live births)	...	...	40	30	93
Adult (15-59)	...	...	...	...	...
Male (per 1,000 population)	...	...	122	304	231
Female (per 1,000 population)	...	...	65	128	206
Maternal (per 100,000 live births)	...	...	23	...	...

Source: World Development Indicators and staff estimates.